

February 2013

# Quarterly Update



Gary Helou  
Managing Director



I provide my third Quarterly Update for 2012/13 against a backdrop of a hot summer, lower international milk prices, higher feed prices and a very high Australian dollar. The Murray Goulburn Board and senior management team understand that the current conditions are some of the toughest farm conditions that businesses and families have faced. Whilst many of these challenges are due to external influences that are well outside our control, we are very focussed on driving harder in areas under our control.

## **Improving MG's business performance is the factor within our control and we will continue to focus on generating efficiencies in our operations and value in our markets.**

Increasing farm-gate returns is the best remedy to ease the current pain on farms. We were pleased to deliver a third step-up for 2012/13 to be paid on March 15. This step-up takes MG's weighted-average, available price to \$4.90 per kilogram milk solids.

We continue to strive to further increase the current farm gate price of \$4.90 per kilogram milk solids but suppliers need to be aware any potential further increase is subject to key external factors outside MG's control.

It is important to note that our latest step up is the result of improved MG business performance and not a fundamental improvement in current dairy market prices. Our big efforts during the last 12 months to lower

our headcount and strip out \$100m in operating costs is enabling us to generate the operational savings to fund this step up during a hostile market environment.

To assist suppliers experiencing tight cash flow, I also announced that we will give suppliers the option of suspending their share equity off-take from 1 February 2013 until 30 June 2013. This means that the equivalent of 0.65 cents per litre will be paid as cash not shares until the end of this financial year. Please complete and return a consent form (available from MG Field Services) if you wish to take up this option.

Notwithstanding the current tough conditions, MG has not wavered in its optimism about the future of the dairy industry and the strong demand for our products. The dairy market outlook continues to enjoy strong fundamentals for growth despite the short term challenges of New Zealand's supply pressure and a high Australian dollar.

## **Market Update and price outlook**

This year's dairy products trading environment has been set by two significant factors. A strong Australian dollar and a very strong NZ supply pipeline. Given the ongoing strong market demand in the emerging markets, limited supply quantities due to difficult seasonal conditions in Australia and the low export volumes out of the EU and the US - a rational trading market should reflect a stronger and healthier price response. Unfortunately, the strong supply position in New Zealand following a record 10% growth last year, complimented by a strong first half dairying season, meant that NZ continued to set a subdued response to a more limited supply landscape elsewhere.

The NZ set GDT auction prices continue to plod along sideways, interrupted by minor ups and downs over the last six months. Any small price increases get eaten up by a

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strengthening Australian currency. The dairy international trade is truly set by two uncontrollable factors: the NZ supply machine and the strengthening A\$.

On an optimistic note, the supply growth in the EU looks to be more subdued due to higher feed costs and the quickly vanishing intervention stocks should bode well for a price rally over the next 12 months. This should translate to better market prices during the early part of next financial year.

## Controlling our destiny

MG has adopted a strong strategic focus on lowering costs and improving market returns. We have reduced our workforce significantly and streamlined our operations over the past 12 months and we will deliver our targeted \$100 million in savings by the end of FY13. At the same time we looked at growing our markets both domestically and internationally. Our strengthened presence in Asia and the Middle East will deliver the value add needed to ride over the negative commodity cycles. I continue to see a very strong future for dairy if we properly integrate our marketing supply chains into the vast middle classes of our Asian neighbours. MG is focussed on this strategic task.

The fundamentals for MG and the Victorian dairy industry are strong and exciting - notwithstanding the current short term bump of high currency, excessive NZ supply and high grain prices

## Supporting farmers through a tough year

I understand that maximising the milk price is MG's primary goal and that 2012/13 is a tough year in this regard. However outside milk price we will continue to do all we can to support our suppliers with other services.

MG Finance is available to suppliers and we continue to provide funds to farmers who need to address cash-flow pressures subject to our usual credit terms. This includes an interest-free component if required. Our Field Service team are there to assist with additional finance or to adjust your current terms to reduce cash flow pressure.

MG Trading has reduced prices on key farm items and we will continue this strategy year-in-year-out. I particularly note the electricity pricing that we have made available in partnership with Momentum Energy. Approximately 800 MG suppliers have now signed on with an average saving of \$5,000 per annum. Over the three years of this program MG and Momentum will deliver \$12 million in savings exclusively to MG suppliers.

Despite the tough conditions MG will be seeking supply growth next year. We want this growth to come primarily from current suppliers. Please discuss your future plans with our staff as we aim to develop programs that support your business growth.

To better service suppliers and customers MG Trading has also increased trading hours to all day Saturday in all stores. We are also opening on Sunday in Cobram with selected stores to follow in the coming months.

## Milk Payment System Review

MG is well progressed in its comprehensive review of its milk pricing system. More than 600 suppliers completed the on-line survey and approximately 500 attended workshops across our supply regions.

The outcomes of the first component of the review are now under consideration by management and

the Board and we look forward to sharing key findings at our March round of supplier meetings.

## Successful move of MG head office

I can report that after more than 30 years at Brunswick we have successfully moved the co-operative's head office to Freshwater Place. Our new address is Level 15, 2 Southbank Boulevard, Southbank 3006. Our telephone number is 03 9040 5000.

The new office premises is leased and provides a much more suitable environment for our staff and visitors including our customers.

## March Supplier Meetings

I look forward to seeing you all at Supplier Meetings in March (see dates below – venues TBC).

Sincerely

**Gary Helou**

<b>Wednesday 13 March</b>	
11.00am – 1.00pm	<b>Maffra Supplier Meeting</b>
<b>Thursday 14 March</b>	
11.00am – 1.00pm	<b>Leongatha Supplier Meeting</b>
<b>Monday 18 March</b>	
12 noon – 2.00pm	<b>Cobram Supplier Meeting</b>
<b>Tuesday 19 March</b>	
11.00am – 1.00pm	<b>Cohuna Supplier Meeting</b>
7.00pm – 9.00pm	<b>Simpson Supplier Meeting</b>
<b>Wednesday 20 March</b>	
12.30pm – 2.30pm	<b>Heywood Supplier Meeting</b>