22 August 2017

FY17 full year results

Dear Suppliers

Today I would like to update you on the FY17 results and certain developments at Murray Goulburn.

In spite of a significant reduction in milk intake, your Board and management have you, as existing suppliers, as our priority area of focus. We will continue to do everything that is practical to improve the performance of MG and deliver an improved farmgate milk price (FMP).

Summary of key points

Farmgate milk price	• Southern Milk Region Farmgate Milk Price[1] of $4.95/kg MS, including $0.35/kg MS of balance sheet support • 2.7 billion litres of milk received, down 21.8% compared to FY16 • Increase in the 2016/17 season Southern Milk Region FMP of 4c/kg fat and 8 c/kg protein on all Qualifying Milk Solids that are of Premium or Acceptable quality. This is equivalent to $0.06 per kilogram of milk solids (kg MS). In accordance with the 2016/17 Standard Milk Payment Terms, the step-up will be paid as back pay to current suppliers on the payment date and will be paid with August milk proceeds which are expected to be paid on 15 September 2017.
Financial performance	• Revenue of $2.5 billion, down 10.3% compared to FY16 • Net loss after tax of $370.8 million, after Milk Supply Support Package (MSSP) de-recognition, footprint rationalisation and other one-off costs announced on 2 May 2017 • Underlying net profit after tax (NPAT[2]) of $34.7 million • Year-end net debt of $445 million, 7.5% below FY16 • As previously announced, the Board has suspended dividend payments and hence no final dividend has been declared
Operational performance	• Strategic review commenced • New management structure in place • Significant progress on key initiatives including footprint, consumer cheese, cost out and MSSP de-recognition

Initiatives to offset the impact of lower milk intake

MG has experienced a difficult year as a result of the significant reduction in milk intake and adverse seasonal conditions. In order to mitigate the resulting impact, a number of important initiatives have been undertaken including implementing the manufacturing footprint review, removing the contentious MSSP and delivering on previously announced cost out initiatives.

Furthermore, a new management team is now in place and a comprehensive strategic review covering all aspects of MG's strategy and corporate structure, including the Profit Sharing Mechanism and capital structure, is accelerating. These are all necessary steps to strengthen and improve the performance of MG.

Outlook

Following further milk losses after the recent payment of all FY17 growth incentives, we now expect total FY18 milk intake to be approximately 2 billion litres. MG however confirms that it is maintaining an FY18 opening Southern Milk Region FMP of $5.20/kg MS.

The Board of Directors has agreed that MG has the ability to deviate if necessary from the Profit Sharing Mechanism to the extent required to pay an FY18 FMP of $5.20/kg MS, by providing access to up to $100 million.

[1] All references to FMP refer to Available weighted average Southern Milk Region Farmgate Milk Price which includes the add-back of quality adjustments accrued from the supply of non-premium milk. .
[2] Underlying NPAT excludes deviations from the Profit Sharing Mechanism. See note 3 in MG's financial report for the year ended 30 June 2017 for further detail

As required by the Profit Sharing Mechanism Deed, an independent expert's opinion has been obtained concluding that this deviation, if required, is in the overall interests of supplier shareholders and unitholders. A summary of this opinion can be found in today's ASX announcement which is available at www.mgc.com.au/news.

A final FMP above $5.20/kg MS remains under review and is subject to various factors including favourable movements in exchange rates[3] and dairy commodity prices over the balance of the financial year, as well as retaining appropriate levels of milk intake.

Strategic review and business improvement program will support higher FMP

The Board of Directors and management remain focused on restoring the strength of MG. A comprehensive commercial review and a business improvement program have commenced, and many elements have recently been accelerated. These initiatives include further cost reduction and efficiency improvements, as well as margin improvement initiatives including deleting unprofitable product lines and enhancing distribution channels. A company-wide freeze on discretionary expenditure has also been implemented.

Since announcing the strategic review in June 2017, MG and its advisor Deutsche Bank AG, have received a number of confidential unsolicited indicative proposals from third parties. These proposals have ranged from concepts around certain non-core assets to larger proposals including whole of company transactions.

The Board has requested Deutsche Bank to seek more detailed proposals from these and other relevant parties so as to enable MG to assess the merits of such proposals. MG will consider any such proposals having regard to the overall interests of MG's business and its suppliers, shareholders, and unitholders including:

- the ability to pay a higher FMP on a sustainable basis;
- value implications for shareholders and unitholders;
- the ability for MG to access capital as required into the future; and
- the impact on co-operative principles.

Strength and support of MG

FY17 has tested the strength and resolve of Murray Goulburn and its suppliers. The coming months will be pivotal for the future of the business as the Board and management finalise substantial business improvement programs and third parties are given an opportunity to submit formal proposals to the company. MG's FY18 milk intake remains firmly in your hands and with your support, MG looks forward to a constructive year.

A webcast discussing today's financial results will be held at 11am (AEST). Access is available via https://edge.media-server.com/m6/p/372igw5g and pre-registration is encouraged.

Reminders for the supplier meetings commencing on Thursday will continue to be sent and I look forward to speaking with many of you in the coming weeks.

Thank you for your ongoing supply during these difficult times. We sincerely appreciate your support and milk, which will always remain MG's most important asset.

Kind regards,

Ari Mervis
Chief Executive Officer

[3] MG is assuming an average AUD:USD exchange rate of 77 cents throughout FY18.