



Supplier Meetings – Northern Region, Western Region & Gippsland

Post-session Q&A summary

The following is a summary of key questions asked by MG suppliers at supplier meetings between 24-30 August in Kiewa, Cobram, Heywood, Koroit, Cobden, Maffra, Leongatha, Cohuna and Rochester.

1. What is the purpose of the strategic review?

MG's performance remains below expectations and we are undertaking a strategic review of MG's strategy and corporate structure as a fundamental next step to strengthen the business for the future. Although the difficult decision to close three processing sites was taken in response to reduced milk intake and to improve our operating efficiency, these changes alone are insufficient to move the business forward. Given the timeframes associated with the site closures, the expected financial benefits will not be fully realised by MG until next season. We are therefore focused on improving MG's commercial performance and optimising efficiency across the business relative to milk intake.

In order to provide a sustainably higher farmgate milk price for suppliers, the strategic review has three key components:

- A commercial review to restore MG's competitiveness, by ensuring that MG's milk supply is allocated to the best returning product lines and sales channels. This aspect of the review is being managed internally by Commercial Director Mike Walsh.
- A business improvement program to ensure optimum efficiency across MG's cost base relative to milk intake. This aspect of the review is being managed internally by Chief Financial Officer David Mallinson.
- A structural review of strategy, corporate structure and capital structure to strengthen MG for the future and ensure we have the right structure to efficiently access capital. This aspect of the review is being supported by our financial advisor Deutsche Bank.

We intend to provide a further update on the progress of these important initiatives at our Annual General Meeting.

2. Is it inevitable that MG will be sold as part of the strategic review?

There is no pre-determined outcome to the strategic review and all options are on the table. Since announcing this review, MG and its financial advisor have received a range of proposals from third parties. It is the duty of MG's directors to consider whether any bona fide propositions tabled are in the best interest of MG's shareholders. The Board has asked our advisor to now review any formal proposals received to determine how they might add value to MG's suppliers, shareholders, and unitholders including:

- The ability to pay a higher farmgate milk price on a sustainable basis.
- Value implications for shareholders and unitholders.
- The ability for MG to access capital as required into the future.
- The impact on co-operative principles.

3. Who will decide the outcome of the strategic review?

Our current suppliers control the future of MG. MG's group structure includes both shareholders (voting and non-voting) and unitholders (who have an economic interest in MG but no voting rights in respect of MG). Under MG's Constitution, for a party to acquire more than 0.5% of MG's shares, it would require the amendment of MG's constitution and this can only occur with the approval of 90% of

MG's supplier shareholders who vote on the amendment. However not all activity requires shareholder approval. For instance, we recently sold a cheese processing line from the Leitchville factory and some other assets which was able to be authorised by the Board.

4. What is the current and long term vision of MG and what are our strengths in terms of products and services?

These issues are key considerations of the strategic review. Part of the strategic review involves a commercial review to restore the long term competitive profile of MG's business, by ensuring that MG's milk supply is allocated to the best returning product lines and sales channels. As part of this process, we are reviewing individual product lines and sales channels to ensure that the most appropriate returns are achieved. We intend to provide a further update on the progress of these important initiatives at our Annual General Meeting.

5. How are suppliers' shares and units viewed and what rights do each type of share and unit have i.e. wet/dry and/or over share standard?

Holder Type	Voting Rights	Entitlement to Dividend	Entitlement to Distribution
Suppliers (Current)	Yes, up to share standard (shares above the share standard become non-voting)	Yes	No
Former Suppliers (Ceased – gone to another processor)	No (all non-voting shares)	Yes	No
Former Suppliers (Retired)	No (all non-voting shares)	Yes	No
Unitholders	No (cannot vote at an MG meeting)	No	Yes (equal to dividend amount)

Notes:

- (1) Unitholders have an economic exposure to MG equivalent to the economic exposure of the holders of Shares. The PDS describes the rights of unitholders in detail.
- (2) Apart from the voting entitlements referred to above, all MG ordinary shares are ranked equally.

6. Is MG still viable given the reduction in milk supply?

The loss of milk supply is clearly a concern and we are working hard to retain our current intake, as well as closely monitoring the impact of milk loss on our manufacturing operations and production commitments. In addition to the intended closure of three processing sites, we have a business improvement program underway to optimise efficiency across MG's cost base relative to milk intake. Despite the loss of milk, MG remains one of Australia's largest dairy processors and has a leading dairy foods business with good market share in key dairy categories both domestically and in a number of international markets. Scale is not an end in itself - there are numerous small processors which are very profitable. We are not focused on the size of MG, but our efficiency and viability. You can be a small, efficient processor and you can deliver very good farmgate milk prices to your suppliers, you can also be large and inefficient.

7. Will the loss of milk supply result in the closure of other MG processing sites?

MG continues to monitor milk supply relative to our manufacturing assets to ensure utilisation is optimised. We haven't made any decisions, or come to any conclusions, regarding any of our factories. We do not intend to mothball assets for the sake of it and will be looking at everything on a commercial basis.

8. What is MG going to do about milk tankers sitting idle at processing sites? Why are we still employing contractors in IBL?

We are assessing the capacity requirements of our Inbound Logistics (IBL) team relative to the reduction in our milk supply and our long term milk collection needs.

9. Is MG struggling to meet commercial contracts due to reduced milk supply?

We are working with our commercial partners to minimise the impact of lower milk intake. MG will discontinue a number of low returning product lines as a result of the intended staged closure of three processing sites. The commercial review we are currently progressing (as part of the strategic review) is looking at milk allocation in individual product lines and sales channels, to ensure that sufficient returns are being made.

10. Why isn't Devondale milk being sold in Northern Victoria?

Fresh milk, flavoured milk and cream produced at our Kiewa processing facility and all products manufactured by MG under the Kiewa Country brand were discontinued at the end of July as part of the announced staged closure of this site. This decision has impacted on the availability of products previously manufactured by MG in Northern Victoria. MG does not have a route distribution business for our ongoing fresh milk processing sites. We did have a route distribution business associated with our Kiewa facility, but the requirement for this channel ceased after fresh milk production was discontinued.

11. What is the reason for the large loss reported by MG in full year 2017 (FY17)?

MG achieved revenue of \$2.5 billion in FY17, down 10.3 percent on the previous year, but recorded a net loss after tax of \$370.8 million after taking into account \$405 million of post-tax one-off costs including the de-recognition of the Milk Supply Support Package, footprint rationalisation and other associated costs. Without the impact of these items, MG's underlying net profit after tax was \$34.7 million, down from \$40.6 million the previous year.

12. What are the components of the \$405 million post-tax one-off costs in FY17?

- MSSP de-recognition \$125.9 million
- Rationalisation of manufacturing facilities \$91.5 million
- Write-down of assets \$124.2 million
- Working capital write-downs \$10.4 million
- One-off costs \$18.5 million
- Debt funded step-ups \$35 million

13. If Murray Goulburn was being created today, how would the board be structured?

MG's Board's structure and composition was recently reviewed, after a range of views were expressed and suggestions put forward regarding the most appropriate Board structure to serve the co-op in the future. The outcome of this review, announced in May, was to reduce the number of Supplier Directors from nine to seven, which has been achieved by electing two candidates for the Northern Region and by not filling a vacancy in the Gippsland region. This change ensures that Supplier Directors continue to comprise a majority of the Board, while the reduction in roles assists in reducing Board costs and increases the efficiency of decision making. Our Supplier Directors continue to be nominated for election by specific supply regions. While MG's Board structure reflects our status as a farmer controlled co-operative, the agricultural expertise of Supplier Directors is balanced with other business experience through the appointment of Special Directors. There are currently three Special Directors, comprising John Spark, Mike Ihlein and Mark Clark, with Ari Mervis serving as Managing Director.

14. Why aren't individual votes for candidates in Director elections made public?

MG does not disclose details of votes received in the regional ballots conducted to select candidates for Director elections, in line with standard practice for ballots in these circumstances. The main reason is out of courtesy to the candidates who put themselves forward for secret ballots. The final voting numbers issued by Computershare were provided to each of the candidates who participated in the recent Northern Region ballot. As is usual practice, the voting in resolutions seeking shareholder approval of the election of candidates at the Annual General Meeting will be published.

15. How do we ensure that we have the best candidates for election as Directors? Do we need to have criteria that to be a director of Murray Goulburn you must pass the assessment process to see that election to the board is skills based and not a popularity contest?

MG has a candidate assessment process which was introduced at the request of suppliers. It is voluntary and the Board respects the right of candidates to participate or not. Ultimately the election of candidates is a matter for our supplier shareholders.

16. Why should suppliers remain with MG – what's in it for the stayers?

Suppliers can expect a committed management team that is doing everything it can to restore MG's farmgate milk price. Unfortunately the issues affecting MG cannot be solved overnight. We need to work through them thoroughly and believe that there is still enormous potential in MG's business. In addition to the commercial review, we also have a business improvement program underway to reshape our operations relative to milk intake and optimise efficiency in every aspect of the business. These initiatives will in time make a significant improvement to MG's competitive profile. With the continued milk supply and ongoing support of our suppliers, we as managers of the business are doing everything in our control to provide a competitive and sustainable milk price.

17. Why isn't MG able to match the farmgate milk price of other processors?

We can't comment on competitors other than to note that we have different business models. Reduced milk intake has impacted on our business performance. MG has the largest exposure of any Australian processor to global commodity prices, which are recovering from a prolonged downturn. Some benefit from higher commodity prices has been offset by recent adverse currency impacts. 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 further developing sales channels.

18. Under what terms should suppliers who leave MG be allowed to return to the co-op?

This is a difficult issue to resolve and it is regularly discussed by MG's Board and management. While we obviously consider how loyalty can be rewarded in our supply base, it is also the case that most suppliers are uncontracted and free to leave MG whenever they choose. We also provide standard terms and conditions to suppliers. Under the reward program announced as part of our milk payment review and introduced this season, current continuing suppliers will receive an additional \$0.10/kg MS and new suppliers who have not supplied MG within the last five years will receive an additional \$0.05/kg MS. Returning suppliers are not eligible for this incentive.

19. What can MG do to improve its communications with suppliers?

MG devotes a great deal of resources to communicating with suppliers. In the past six months over 60 supplier meetings have been held across MG's regions, 23 letters have been sent to suppliers and supplier handbooks have been prepared for our Southern Milk Region and NSW-Sydney Market Region. Supplier communications are made available via a Supplier Information Centre section of the MG website and we use social media like Twitter to circulate communications. Our monthly newspaper the Devondaler is also an important channel for news and views and we are highlighting an increased amount of content from the Devondaler via Twitter. The first stage of the current round of supplier meetings held in August were attended by approximately 650 suppliers at nine venues. These suppliers received a presentation on MG's full year 2017 results, an update on the strategic review and were provided with time for Q&A with Board Directors and senior management. MG continues to listen supplier feedback on this important issue and make improvements in communications as required.

20. Suppliers are regularly told about cost savings and efficiency programs, but we never seem to see any benefit in our milk price?

Suppliers often ask about a target of \$150 million of savings identified some years ago, whether these savings were achieved and why excess costs have come back into the business that require removal again. These savings were achieved and have supported the profitability of MG's business, particularly during the downturn in global dairy commodity prices. However cost reduction is an ongoing process and there are a number of cost reduction programs currently underway at MG that will collectively make a significant impact on MG's profitability when they are fully realised. The approximate metric is that each \$1.5 million of savings or additional margin adds \$0.01 on MG's farmgate milk price. This is an overview of current cost reduction initiatives underway at MG:

- Cost efficiency program: In August 2016 at the time of our full year 2016 results we announced a cost reduction program of between \$50-60 million on an annualised basis. This was focused primarily on reduced headcount (including approximately 200 roles associated with head office), procurement benefits and systems improvement. In line with its target, MG has delivered approximately \$10-15 million of these savings in financial year 2017 and we are on track to deliver the full annualised target savings this year.

- Asset and footprint review: The outcomes of this review announced in May 2017 include the intended closure of three processing sites and are expected to deliver an additional annualised net financial benefit of \$40-50 million in FY19, with approximately \$15 million of financial benefit being realised this season. The closures of three processing sites are expected to impact approximately 360 employees.
- The business improvement program underway as part of the strategic review announced in June 2017 has the objective of reshaping MG's overall operations relative to milk intake and to optimise efficiency in every aspect of our business. Although the business improvement program does not yet have specific savings targets, it will fundamentally change MG's cost base.

21. How can MG Trading and Field services offer better outcomes for co-op members and the co-op in general?

MG Trading provides an important farm services business in rural communities, offering a wide range of dairy inputs, competitive pricing and credit options to eligible customers. Along with all aspects of MG's business, MG Trading is included in the current review of our activities, to ensure it is providing maximum value to the co-operative. As with most dairy retail businesses, MG Trading experienced a reduction in on farm spending last year, while cost savings were achieved through headcount reduction and the sale of Dairy Services. MG Trading provides discounted prices for MG suppliers and also provides a return to them by delivering a profit back to the co-operative. Following a review, the decision has been made to amend the reward program to focus on dairy specific products, aiming to reward all items in a limited range, but retaining the quarterly account credit payment method. This will be complimented by increased marketing support of the program, helping to raise awareness of the program and ensuring that MG suppliers understand their preferential position for those products.

Our Field Services team continues to support suppliers with both the productivity and financial operation of their dairy businesses. Overall we resource the Supplier Relations team appropriately relative to the needs of our suppliers e.g. we recently reduced our dedicated agronomy and nutritional staff in some areas following a decision that we could provide a similar level of advisory expertise by other means.

22. Why was the final step-up to a FY17 Southern Milk Region farmgate milk price of \$4.95/kg MS equivalent to \$0.06/kg MS rather than the previously estimated \$0.03/kg MS?

At the time of announcing our half year 2017 results MG indicated a current milk price of \$4.92/kg MS and a full year farmgate milk price of \$4.95/ kg MS. In our full year 2017 results we have confirmed an increase in the 2016/17 season Southern Milk Region farmgate milk price 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/kg MS, an increase on the previously estimated \$0.03/kg MS. The change in the quantum of the final step-up was impacted by the actual value of incentives paid out compared to budget and the actual size of the qualifying milk solids pool compared to budget.

23. Why did Ari Mervis receive such a high salary for 5 months work, given MG's poor performance?

A significant proportion of Ari Mervis' salary is 'at risk' and dependent on his achieving specific performance targets agreed with the Board. As Ari joined MG with only five months of the financial year remaining, a short term incentive plan was agreed based on his ability to achieve four priorities for the Board by 30 June 2017:

- Approval and commencement of the asset and footprint review.
- Approval and implementation of changes to the MSSP.
- Improving stakeholder engagement.
- Approval of a new ELT structure and finalisation of new appointments.

The incentivised component of Ari's pay (above and beyond his fixed salary) reflects the Board's assessment of his achievement of these targets. Further information can be found via this [link](#) to in the remuneration report in MG's financial statements and reports for the year ended 30 June 2017.

24. The \$700M in equity that wet shareholders have in the company, does that include debt?

Shareholders equity in MG of \$735,391 million does not include debt. It comprises:

- Issued capital \$730,116 million
- Reserves \$139,592 million
- Retained earnings -\$134,317 million

A full breakdown of this information can be found in Notes 22, 23 & 24 of MG's financial statements and reports for the year ended 30 June 2017 via this [link](#).

25. Of the \$500M raised through unit trust, how much has been spent and on what?

External equity funding from the IPO of the MG Unit Trust raised approximately \$460 million from unitholders net of costs. These proceeds have provided a number of benefits to MG, in particular the paying down of debt which has significantly reduced MG's gearing and supported the distributable milk pool. Post this there have been some major items of expenditure including:

- ~\$90 million on the new consumer cheese plant.
- ~\$70 million on SAP technology investment.
- ~\$180 on milk supply support package.

26. How has MG managed to control its debt position given the issues affecting the co-op?

Despite difficult trading conditions, at year end MG had reduced net debt after cash by \$35 million to \$445 million. This was the result of:

- Reduced net debt was driven by a net \$164 million improvement in working capital, offset by capital investment of \$108 million including consumer cheese plant and SAP implementation.
- Lower inventory holdings in FY17 115,000 MT versus 153,200 MT in FY16.
- Lower receivables driven by strong collections.
- Equity reduced as a result of asset write-downs relating to business review and footprint rationalisation.

27. Can MG give more time to farmers whose milk has high 'bacto' levels to fix the issue rather than re-testing the next day?

Bactoscan tests and Thermoduric tests are conducted randomly once per 10-day period. If a result falls outside of the premium range (i.e. greater than 71,000 for Bactoscan or greater than 2,000 for Thermoduric) a retest is automatically triggered on the next available milk sample. For example, a farm that is on skip-a-day collection will have a retest conducted in two days' time. The retest will occur sooner for a farm that is on daily or twice-daily pickup. The retest result is the official result for the 10-day period and is used to determine the purchase price for the milk supplied during that 10-day period. The retesting system is described in Section 5.5 of the 2017/2018 Supplier Handbook. The purpose of the retest is to confirm the original result, it is not performed to give suppliers a chance to remedy the problem.