



7 February 2018

Financial results for the half year ended 31 December 2017

Dear Suppliers

Thank you for your valued support. Today I would like to update you on the first half performance of Murray Goulburn Co-operative Co Limited (MG) for the 2017/18 financial year (FY18).

Consolidated statement of profit and loss (\$ million)	1H18	1H17	Change %
Revenue	1,116	1,176	(5.1)
Statutory NPAT	(27.5)	(31.9)	13.5
Normalised EBIT ¹	47.7	23.2	105.6
Normalised Profit before tax ¹	35.1	11.2	213.6
Normalised NPAT ¹	14.4	9.4	53.2
Half year dividend / distribution per share or unit (cents)	0.00	1.70	nm
Net debt	474	677	30.1
<i>Gearing ratio</i>	38.8%	37.8%	(1pp)

Key points

- Subject to completion of the Saputo transaction, MG maintains a forecast FY18 Full Year FMP² of \$5.60 per kilogram milk solids (kgms), a \$0.40 per kgms increase on the underlying \$5.20 per kgms FMP.
- An additional \$0.40 per kgms retention payment will be made for FY18 milk to qualifying MG suppliers, subject to completion of the Saputo transaction. This payment is currently contemplated to be made on 15 August 2018.
- This retention payment and the \$5.60 per kgms FMP will result in qualifying MG suppliers receiving an effective FY18 milk price of \$6.00 per kgms.
- MG expects milk intake of approximately 1.91 billion litres for the full year, in line with the forecast provided at the AGM.
- 1H18 milk intake of 1.1 billion litres was 29.9 percent below 1H17 and was impacted by MG's inability to pay a competitive farmgate milk price.
- Statutory net loss after tax of (\$27.5) million including \$62.7 million non-cash tax adjustments to comply with accounting standards relating to the announced Saputo transaction.
- Commercial and Business Improvement programs progressing as anticipated.
- \$240 million of available facilities are classified as current and expire during 2018, of which \$181 million is undrawn.

¹ Normalised EBIT and normalised NPAT 1H18 excludes \$41.9 million (post tax) deviation from the Profit Sharing Mechanism relating to tax adjustments for de-recognition of deferred tax assets and liabilities as a result of the pending Saputo transaction. See note 3 in MG's interim financial report for the half year ended 31 December 2017 for further detail.

² All references to FMP refer to Available weighted average Southern Milk Region Farmgate Milk Price. For the purposes of the Profit Sharing Mechanism the Actual Weighted Average Southern Milk Region FMP for 1H18 of \$4.92 kgms is used. The Actual Weighted Average Southern Milk Region FMP does not include the add-back of quality adjustments accrued from the supply of non-premium milk.

- Net debt at 31 December 2017 was \$474 million, with gearing ratio of 38.8 percent.
- Dividends remain suspended.

The full market announcement with details of our financial results and half year position is included at the end of this letter.

Update on Saputo transaction

The Saputo transaction continues to progress as anticipated. MG continues to work with Saputo towards completion of the transaction, including obtaining all required approvals.

The Explanatory Memorandum and Notice of Meeting (EM) relating to the Saputo transaction will be issued to Shareholders once there is clarity on both the ACCC and FIRB approval processes. Shareholders will be given at least 21 days' notice of the Extraordinary General Meeting to vote on the transaction. At this stage, the EM is expected to be distributed in March/April 2018. Completion of the transaction is expected by 30 June 2018.

Outlook

Our announced FMP outlook is subject to the successful completion of the Saputo transaction before 30 June 2018, there being no further material deterioration in milk intake, dairy commodity prices, AUD:USD exchange rate remaining broadly in-line with current rates, continued implementation of the commercial review and business improvements and no adverse changes in trading conditions or regulatory environments in key markets.

While the transaction continues to progress as anticipated, if it does not proceed and, in the absence of an alternative transaction, MG may not be able to pay a competitive farmgate milk price. Further losses of milk flow may trigger an impairment to MG's assets that could breach banking covenants and result in potential withdrawal of creditors' support and an increased risk to MG's ability to refinance its expiring debt facilities. The successful completion of the transaction remains a priority focus and MG will continue to work closely with Saputo to achieve completion as soon as possible.

Conclusion

The first half of this financial year has continued to be challenging for MG. The inability to pay a competitive milk price has resulted in a substantial loss of milk. While management initiatives continue to address the cost base and commercial performance, the business remains exposed to competitive pressures and future refinancing requirements.

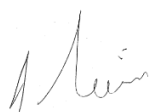
The step-up announced in October 2017 as a consequence of the agreement reached with Saputo has assisted in stabilising milk intake. Successful completion of the Saputo transaction is expected to result in a favourable outcome for stakeholders, including ensuring value for shareholders and unitholders and a competitive milk price and milk collection commitment for suppliers.

You are invited to listen to a webcast of an analyst presentation discussing these financial results at 11am AEDT today. To register: <https://edge.media-server.com/m6/p/fywx7mo>

I look forward to visiting MG's regions to discuss the Saputo transaction and details of the EM. A schedule for these meetings will be provided when more clarity is available on the EM release date.

I would like to thank you all for your ongoing support and commitment.

Yours sincerely,



Ari Mervis
Chief Executive Officer

News release



7 February 2018

ASX announcement

Murray Goulburn Announces First Half 2018 Results

Murray Goulburn Co-operative Co. Limited (MG) today announced financial results for the half year ended 31 December 2017 (1H18).

Consolidated statement of profit and loss (\$ million)	1H18	1H17	Change %
Revenue	1,116	1,176	(5.1)
Statutory NPAT	(27.5)	(31.9)	13.5
Normalised EBIT ¹	47.7	23.2	105.6
Normalised Profit before tax ¹	35.1	11.2	213.6
Normalised NPAT ¹	14.4	9.4	53.2
Half year dividend / distribution per share or unit (cents)	0.00	1.70	<i>nm</i>
Net debt	474	677	30.1
Gearing ratio	38.8%	37.8%	(1pp)

Financial summary

- Milk intake of 1.1 billion litres, 29.9 percent below 1H17, impacted by inability to pay a competitive farmgate milk price
- Revenue of \$1.1 billion, down 5.1 percent compared to 1H17, driven by reduced milk intake but offset by higher commodity pricing and inventory sell down
- Statutory net loss after tax of (\$27.5) million including \$62.7 million non-cash tax adjustments to comply with accounting standards relating to the announced Saputo transaction
- Normalised Net Profit After Tax (NPAT¹) of \$14.4 million excluding non-cash tax adjustments
- Net debt at 31 December 2017 of \$474 million with gearing ratio of 38.8 percent
- Subject to completion of the Saputo transaction, MG maintains a forecast FY18 Full Year FMP² of \$5.60 per kilogram milk solids (kgms)
- \$41.9 million (post tax) of approved deviation from Profit Sharing Mechanism utilised to maintain an underlying FMP of \$5.20 per kgms
- Dividends and distributions remain suspended

¹ Normalised EBIT and normalised NPAT 1H18 excludes \$41.9 million (post tax) deviation from the Profit Sharing Mechanism relating to tax adjustments for de-recognition of deferred tax assets and liabilities as a result of the pending Saputo transaction. See note 3 in MG's interim financial report for the half year ended 31 December 2017 for further detail.

² All references to FMP refer to Available weighted average Southern Milk Region Farmgate Milk Price. For the purposes of the Profit Sharing Mechanism the Actual Weighted Average Southern Milk Region FMP for 1H18 of \$4.92 per kgms is used. The Actual Weighted Average Southern Milk Region FMP does not include the add-back of quality adjustments accrued from the supply of non-premium milk.

Detailed commentary

Dairy Foods

Revenue from MG's Dairy Foods segment rose 10.7 percent to \$617 million in 1H18, resulting in an improvement in segment contribution of 36.8 percent to \$56.0 million. In the domestic market, improved commodity prices have begun to flow through to contracts with pricing linked to rolling average commodity prices. Strategies to reduce product lines and to focus on driving improved margins are beginning to assist in improving performance. International contribution increased by \$10.3 million in 1H18, driven by growth in adult milk powder and UHT sales in China.

Ingredients and Nutritionals

MG's Ingredients and Nutritionals business continued to be impacted by reduced milk intake, with segment revenue of \$357 million, 25.9 percent below 1H17. The contribution of the Ingredients business has improved as a result of less milk allocated to lower returning ingredients and improved commodity prices.

Other segment

Revenues from MG Trading and Milk Broking were \$147 million. MG Trading performance improved in 1H18, while Milk Broking was substantially down given lower milk intake.

Balance sheet and debt position

Net debt at 31 December 2017 closed at \$474 million, broadly flat with net debt at 30 June 2017, and well down on net debt of \$677 million at 31 December 2016. Gearing ratio at 31 December 2017 was 38.8 percent. This improved net debt position reflects MG's falling working capital requirement as milk intake reduces, and a significant reduction in capital expenditure. However, gearing increased by 1 percentage point after including the impact of writedowns and impairments announced in May 2017. MG continues to focus on prudently managing working capital and capital expenditure and expects closing FY18 net debt to be lower than FY17 year-end net debt. MG has \$240 million of available facilities classified as current and which expires during 2018, of which \$181 million is undrawn.

Dividends/distributions

Under the Profit Sharing Mechanism MG's normalised 1H18 NPAT is \$14.4 million³. MG's dividend suspension remains in place and the Directors have not declared a dividend.

Update on Saputo transaction

On 27 October 2017, MG announced the sale of its operating assets and operating liabilities to Saputo for \$1,310 million⁴. The transaction is subject to an ordinary resolution of MG's voting shareholders⁵ and other customary conditions including ACCC and FIRB approvals. MG continues to work with Saputo towards completion of the transaction, including obtaining all required approvals.

The ACCC has recently revised its provisional date for announcement of the outcome of its review to 1 March 2018. A decision from FIRB is expected following the final ACCC decision.

The Explanatory Memorandum and Notice of Meeting (EM) relating to the Saputo transaction will be issued to Shareholders once there is clarity on both the ACCC and FIRB processes. Shareholders will be given at least 21 days' notice of the Extraordinary General Meeting to vote on the transaction. At this stage, the EM is expected to be distributed in March/April 2018 with completion of the transaction expected by 30 June 2018.

³ Refer to footnote 1.

⁴ Subject to completion adjustments including for movements in working capital in the business.

⁵ For an ordinary resolution to be passed, it requires more than 50% of the votes cast to be in favour of the resolution.

Outlook

MG anticipates FY18 milk intake of approximately 1.91 billion litres equating to 143 million kgms.

Subject to completion of the Saputo transaction, MG maintains a forecast FY18 Full Year FMP of \$5.60 per kgms, a \$0.40 per kgms increase on the underlying \$5.20 per kgms FMP. The FMP of \$5.20 per kgms utilises \$41.9 million of the approved PSM deviation⁶ in relation to non-cash tax adjustments required as a result of the announced Saputo transaction.

This outlook is subject to the successful completion of the Saputo transaction before 30 June 2018, there being no further material deterioration in milk intake or dairy commodity prices, the AUD:USD exchange rate remaining broadly in-line with current rates, continued implementation of the commercial review and business improvement initiatives and no adverse changes in trading conditions or regulatory environments in key markets.

While the transaction continues to progress as anticipated, if it does not proceed, and in the absence of an alternative transaction, MG may not be able to pay a competitive farmgate milk price. Further losses of milk flow may trigger an impairment to MG's assets that could breach banking covenants and result in potential withdrawal of creditors' support and an increased risk to MG's ability to refinance its expiring debt facilities. The successful completion of the transaction remains a priority focus and MG will continue to work closely with Saputo to achieve completion as soon as possible.

Comments from MG's Chief Executive Officer

MG's Chief Executive Officer, Ari Mervis, said:

"The first half of this financial year has continued to be challenging for MG. The inability to pay a competitive milk price has resulted in a substantial loss of milk. While management initiatives continue to address the cost base and commercial performance, the business remains exposed to competitive pressures and future refinancing requirements.

The step-up announced in October 2017 as a consequence of the agreement reached with Saputo has assisted in stabilising milk intake. Successful completion of the Saputo transaction is expected to result in a favourable outcome for stakeholders, including ensuring value for shareholders and unitholders and a competitive milk price and milk collection commitment for suppliers.

I would like to thank our continuing suppliers, for their ongoing support and commitment."

- ENDS -

Results webcast

A webcast of the financial results for the half year ended 31 December 2017 will be held at 11.00am (AEDT) today. Webcast details are as follows:

Date: Wednesday 7 February 2018

Time: 11.00am

To register: <https://edge.media-server.com/m6/p/fywx7mo>

The presentation will also be archived on the MG website at www.mgc.com.au for viewing after the webcast.

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About the MG Unit Trust

The MG Unit Trust (ASX:MGC) is a special purpose funding vehicle which provides its unitholders with an economic exposure to the business of Murray Goulburn Co-operative Co. Limited (Murray Goulburn). The Responsible Entity of the MG Unit Trust is MG Responsible Entity Limited, a wholly-owned subsidiary of Murray Goulburn.

⁶ As announced on 22 August 2017