



24 February 2017

Market Announcements Office
Australian Securities Exchange

ELECTRONIC LODGEMENT

Dear Sir or Madam

Murray Goulburn Co-operative Co. Limited (Murray Goulburn) – Financial statements and reports for the half-year ended 31 December 2016

In accordance with the Listing Rules, attached is a copy of Murray Goulburn's financial statements and reports for the half-year ended 31 December 2016, for immediate release to the market.

This information is being released given that unitholders of the MG Unit Trust have an economic exposure to Murray Goulburn. In particular, unitholders have the opportunity to earn returns based on the performance of Murray Goulburn and are entitled to receive distributions equivalent to any dividend paid to Murray Goulburn's shareholders.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Amy Alston'.

Amy Alston
Company Secretary

Murray Goulburn Co-operative Co. Limited
(ACN 004 277 089)

Interim Financial Report for the half year ended
31 December 2016

Murray Goulburn Co-Operative Co. Limited

(ABN 23 004 277 089)

Directors' Report

Your Directors present the following report for the financial half year ended 31 December 2016.

Directors

PW Tracy (Chairman)

N Akers

WT Bodman

M Clark (appointed 23 November 2016)

CJ Dwyer (appointed 28 October 2016)

LM Dwyer (appointed 28 October 2016)

PJO Hawkins (retired 23 November 2016)

MF Ihlein

KD Jackson (appointed 28 October 2016)

KW Jones

GH Kilpatrick (appointed 28 October 2016)

A Mervis (appointed 13 February 2017)

GN Munzel

JP Pye (retired 28 October 2016)

MJ Van de Wouw (resigned 28 October 2016)

Review of Operations

The consolidated entity reported a loss after income tax of \$31,867,371 (2015: profit \$9,279,000) for the half year ended 31 December 2016.

The loss after tax has been determined using a milk price calculated in accordance with the Profit Sharing Mechanism Deed (PSMD) issued by MG Unit Trust on 29 May 2015 and adjusted in accordance with the Deed by the deviation announced on 27 October 2016.

The seasonality of the business, which is primarily influenced by the timing of milk intake, results in higher levels of inventory and generally in the ordinary course higher debt at the half year. Inventories are then sold down during the second half of the year.

The current half year has been impacted by a reduction in the milk intake as a result of suppliers retiring or ceasing to supply Murray Goulburn, as well as the impact of very wet conditions in the Southern Milk Region during August and September. In response, and to support suppliers as well as underpin ongoing milk supply, the Board undertook a review of the Milk Supply Support Package (MSSP) and approved a deviation from the PSMD of \$81.8 million (\$57.3 million post tax) comprising a \$31.8 million impairment of the MSSP; and \$50.0 million in step-up payments to suppliers for the full year ended 30 June 2017. Grant Samuel and Associates Pty Limited provided an independent expert's opinion which concluded that the deviation was in the overall interests of suppliers (both as suppliers of milk and as shareholders) and unitholders. The loss for the half year ended 31 December 2016 includes \$34.8 million impairment (\$31.8 million approved deviation component) and the half-year impact of the step-up payments to suppliers of \$27.2 million.

The result for the half year is therefore not an accurate indication of the result expected for the second half of the year.

During the six months ended 31 December 2016 the consolidated entity renewed Tranche A of its syndicated loan facility out to 16 December 2019 and increased the limit to \$265.0 million from \$250.0 million.

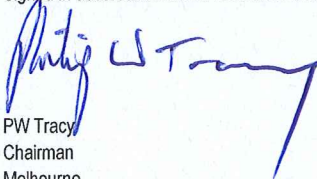
Auditor's Independence Declaration

Our auditor has provided the Board of Directors with a signed Independence Declaration in accordance with section 307C of the Corporations Act 2001. This declaration is included at page 15 of this financial report.

Rounding of amounts to the nearest thousand dollars

The Company is of the kind referred to in ASIC Corporations (Rounding in Financial Directors' Reports) Instrument 2016/191, and in accordance with that Instrument amounts in the Directors' report and the financial report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.



PW Tracy

Chairman

Melbourne

24 February 2017

Consolidated Statement of Profit or Loss

for the six months ended 31 December 2016

		December 2016 \$'000	December 2015 \$'000
	Note		
Sales revenue	4	1,175,842	1,379,341
Cost of sales		(1,009,044)	(1,178,161)
Gross profit		166,798	201,180
Other income	4	5,498	3,794
Share of profit (loss) of associates		(195)	(365)
Distribution expenses		(71,872)	(92,717)
Selling and marketing expenses		(42,411)	(48,699)
Administration expenses		(44,680)	(34,185)
Finance costs		(12,034)	(11,371)
Other expenses	5	(48,915)	(2,038)
Profit (loss) before income tax		(47,811)	15,599
Income tax benefit/(expense)		15,944	(6,320)
Profit (loss) for the year		(31,867)	9,279
Attributable to:			
Equity holders of the parent	3	(31,867)	10,008
Non-controlling interest		-	(729)
Profit (loss) for the year		(31,867)	9,279

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2016

	December 2016 \$000	December 2015 \$000
Profit (loss) for the year	(31,867)	9,279
Other comprehensive income		
Items that will not be classified subsequently to profit or loss:		
Increment (decrement) on revaluation of land and buildings	-	(1,899)
Net change in fair value of equity instruments measured at fair value through other comprehensive income	(46)	100
Income tax relating to items that will not be reclassified subsequently	14	540
Items that may be reclassified subsequently to profit or loss:		
Transfer to income statement on cash flow hedges	3,706	(238)
Loss on cash flow hedges taken to equity	(16,295)	(15,348)
Exchange differences arising on translation of foreign operations	(724)	346
Income tax relating to items that may be reclassified subsequently	3,777	4,676
Total comprehensive income for the year	(41,435)	(2,544)
Attributable to:		
Equity holders of the parent	(41,435)	(1,815)
Non-controlling interest	-	(729)
Total comprehensive income for the year	(41,435)	(2,544)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2016

	December 2016 \$000	June 2016 \$000	December 2015 \$000
Note			
Current assets			
Cash	21,083	27,276	33,821
Receivables	336,870	352,558	350,527
Inventories	605,981	568,660	683,074
Current tax receivable	8,783	-	-
Other	39,861	62,702	11,214
Derivative financial instruments	223	555	1,018
Total current assets	1,012,801	1,011,751	1,079,654
Non-current assets			
Investments accounted for using the equity method	6,600	7,649	12,437
Other financial assets	140	186	244
Property, plant and equipment	958,033	932,170	849,554
Intangible assets	108,090	103,501	77,638
Deferred tax assets	4,731	2,165	-
Other	122,866	120,411	5,443
Total non-current assets	1,200,460	1,166,082	945,316
Total assets	2,213,261	2,177,833	2,024,970
Current liabilities			
Payables	306,122	386,305	364,021
Borrowings	52,828	90,224	148,448
Current tax payable	-	6,866	4,477
Provisions	48,576	48,121	48,201
Derivative financial instruments	7,227	-	517
Total current liabilities	414,753	531,516	565,664
Non-current liabilities			
Payables	-	1,000	1,000
Borrowings	645,560	417,428	277,854
Provisions	10,996	10,726	10,618
Deferred tax liabilities	29,381	41,469	27,946
Total non-current liabilities	685,937	470,623	317,418
Total liabilities	1,100,690	1,002,139	883,082
Net assets	1,112,571	1,175,694	1,141,888
Equity			
Issued capital	8	730,116	730,116
Reserves		168,478	178,046
Retained earnings		213,977	253,729
Total equity		1,112,571	1,175,694

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the half year ended 31 December 2016

	Transactions										Total	
	Issued Capital	Capital Reserve	Asset Revaluation Reserve	General Reserve	Cash Flow Hedge Reserve	Investment Revaluation Reserve	Non-controlling Interests Reserve	Foreign Currency Translation Reserve	Retained Earnings	Attributable to Owners of the Parent		Non-controlling Interests
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance as at 1 July 2015	229,059	36,916	130,100	5,257	(12,771)	21	(1,403)	10,343	280,780	678,302	1,937	680,239
Profit (loss) for the year	-	-	-	-	-	-	-	-	10,008	10,008	(729)	9,279
Other comprehensive income	-	-	(1,329)	-	(10,910)	70	-	346	-	(11,823)	-	(11,823)
Total comprehensive income	-	-	(1,329)	-	(10,910)	70	-	346	10,008	(1,815)	(729)	(2,544)
Payment of dividends	-	-	-	-	-	-	-	-	(25,286)	(25,286)	-	(25,286)
Issue of ordinary shares and units	501,576	-	-	-	-	-	-	-	-	501,576	-	501,576
Capital raising costs	(519)	-	-	-	-	-	-	-	-	(519)	-	(519)
Difference on acquisition of interest in subsidiary	-	-	-	-	-	-	(4,370)	-	(6,000)	(10,370)	(1,208)	(11,578)
Transferred to retained earnings (net of tax)	-	-	-	-	-	-	5,773	-	(5,773)	-	-	-
Balance as at 31 December 2015	730,116	36,916	128,771	5,257	(23,681)	91	-	10,689	253,729	1,141,888	-	1,141,888
Balance as at 1 July 2016	730,116	36,916	144,856	5,257	(18,624)	51	-	9,590	267,532	1,175,694	-	1,175,694
Profit (loss) for the year	-	-	-	-	-	-	-	-	(31,867)	(31,867)	-	(31,867)
Other comprehensive income	-	-	-	-	(8,812)	(32)	-	(724)	-	(9,568)	-	(9,568)
Total comprehensive income	-	-	-	-	(8,812)	(32)	-	(724)	(31,867)	(41,435)	-	(41,435)
Payment of dividends	-	-	-	-	-	-	-	-	(21,688)	(21,688)	-	(21,688)
Issue of ordinary shares and units	-	-	-	-	-	-	-	-	-	-	-	-
Capital raising costs	-	-	-	-	-	-	-	-	-	-	-	-
Difference on acquisition of interest in subsidiary	-	-	-	-	-	-	-	-	-	-	-	-
Transferred to retained earnings (net of tax)	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	730,116	36,916	144,856	5,257	(27,436)	19	-	8,866	213,977	1,112,571	-	1,112,571

Consolidated Statement of Cash Flows

for the six months ended 31 December 2016

	December 2016 \$000	December 2015 \$000
Cash flows from operating activities		
Receipts from customers	1,207,694	1,452,471
Payments to suppliers and employees	(1,283,299)	(1,556,002)
	(75,605)	(103,531)
Dividends received	502	304
Interest received	835	2,196
Interest paid	(11,483)	(11,609)
Income taxes paid	(10,652)	(12,713)
Net cash inflow (outflow) from operating activities	(96,403)	(125,353)
Cash flows from investing activities		
Payments for property, plant and equipment	(65,214)	(54,390)
Payments to acquire intangible software assets	(5,636)	(17,482)
Payments to acquire intangible brandname assets	-	(1,000)
Proceeds from the sale of property, plant and equipment & financial assets	756	-
Payments for investments in subsidiaries	-	(4,800)
Milk supplier support amounts refunded	(5,626)	-
Milk supplier support amounts recouped	6,504	-
Net cash inflow (outflow) from investing activities	(69,216)	(77,672)
Cash flows from financing activities		
Dividends paid	(21,688)	(25,286)
Proceeds from the issue equity instruments (ordinary shares and units)	-	500,000
Payment of capital raising costs	-	(14,687)
Proceeds from borrowings	1,208,053	688,843
Repayment of borrowings	(1,028,711)	(915,911)
Net cash inflow (outflow) from financing activities	157,654	232,959
Net increase (decrease) in cash	(7,965)	29,934
Cash at the beginning of the half year	27,276	3,802
Effect of exchange rate fluctuations on cash held	(56)	85
Cash at the end of the half year	19,255	33,821
Reconciliation to cash		
Cash at bank and cash on hand	21,083	33,821
Bank overdraft	(1,828)	-
Cash at the end of the half year	19,255	33,821

The accompanying notes form part of these financial statements.

1. Summary of significant accounting policies

This half year financial report has been prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. This half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the 2016 annual financial report.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's 2016 annual financial report for the financial year ended 30 June 2016 other than outlined below.

The consolidated entity has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current period except as outlined below. The adoption of the other new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no material effect on the amounts reported for the current or prior half years. Where appropriate, comparative information has been restated to provide consistent classification with the current period. These changes have not impacted profit for the period, total comprehensive income for the period or net assets.

The half year is treated as a discrete reporting period. The result from ordinary activities is determined after recognising adjustments to the milk price based on the co-operative's best estimate of its obligation to milk suppliers for deliveries during the first half to 31 December. The amount of the adjustment is determined in accordance with the co-operative's practice of maximising the returns to its milk suppliers and making profits in each financial year sufficient to meet its dividends and funding needs. The milk price adjustment is recorded either as a liability or as an asset. The current half year includes a deviation to the Profit Sharing Mechanism as announced on 27 October 2016 related to an impairment of the MSSP and a 2 cents/litre step-up payment to suppliers.

Milk Supply Support Package (MSSP)

The MSSP is recorded as the aggregate of the amount advanced to each supplier at 30 June 2016, less an impairment provision for suppliers retiring or transferring to a competitor. The advances are interest bearing with the finance component recognised in finance income over the life of the advance. The recoupment of the MSSP advances occurs by Murray Goulburn withholding an amount from milk payments to suppliers. On 20 October 2016 the recoupment of MSSP from 1 October 2016 to 30 June 2017 was suspended due to climatic conditions and the low FY17 farmgate milk price. On 27 October 2016 the MSSP recoupment period was extended from three years to six years ending 30 June 2022. Also subsequent to 30 June 2016, as a result of the above circumstances, a change in accounting policy was made to change the basis of measurement of the impairment of the MSSP. It was amended from being based on actual milk losses to also including an estimate of future milk losses. Given the changes made to the MSSP, it was considered that the change in accounting policy provided more reliable and relevant information to the users of the financial statements. If this accounting policy had been applied at 30 June 2016, the impact would have been immaterial to the financial statements as reported at that date and therefore no adjustment has been made to the prior period. The MSSP impairment provision increased by \$34.8 million in the six months ended 31 December 2016, to a total of \$49.3million. Of the \$34.8 million, \$31.8 million formed part of the deviation from the Profit Sharing Mechanism.

Critical Accounting Estimates and Judgements

The MSSP has been recognised as an other asset on the basis that it does not entitle Murray Goulburn to receive cash or another financial asset, a requirement for recognition as a financial asset. It is considered an other asset as it is probable future economic benefits will be received as the asset is recouped from amounts paid to existing suppliers for the milk supplied to Murray Goulburn. An impairment provision is estimated based on suppliers who have retired or transferred their milk supply to a competitor as well as an estimate for future milk losses based on an expected churn rate. The churn rate is the significant estimate in calculating the impairment to be recognised.

Testing non-current assets including property, plant and equipment, goodwill and brand names for impairment:

- future cash flows based on management's latest forecast and following four year forecast, reflecting expectations of sales growth, commodity prices, sales channels and foreign exchange rates
- estimated supplier production costs inclusive of an appropriate level of supplier returns
- capital expenditure, taxation and other cost incurred
- the expected long term growth rate used to extrapolate cash flows beyond the five year period, the growth rate consistent with long term average consumer price index data
- pre-tax discount rate, being the weighted average cost of capital determined using market inputs and adjusted for the risks specific to the cash generating unit
- expected milk intake

Accounting standards available for early adoption

The following new or amended accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) have been identified as those that may have a material impact on the Group in the period of initial application.

AASB 9 Financial Instruments

In December 2014, AASB issued the final version of AASB 9: "Financial Instruments" (AASB 9 (2014)), including consequential amendments to other standards. AASB 9 (2014) is the final version of a new principal standard that consolidates requirements for the classification and measurement of financial assets and liabilities, hedge accounting and impairment of financial assets. AASB 9 (2014) supersedes all previously issued and amended versions of AASB 9. The standard is not applicable until 1 January 2018 but early adoption is available.

The consolidated entity early adopted the classification, measurement and hedge accounting components in previous financial years (AASB 9 (2013)) as well as the consequential amendments introduced to other numerous Australian Accounting Standards. This version of the standard excluded the impairment section, which replaces the incurred loss impairment model used today with an expected credit losses model for impairment financial assets. The consolidated entity is currently assessing the potential impact of the new impairment model on the financial results.

AASB 15 Revenue from Contracts with Customers

AASB 15, issued by the AASB, is relevant to the current operations, and may impact, the consolidated entity in the period of initial application. The standard is available for early adoption but it has not been applied in preparing this interim financial report.

AASB 15 replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and Interpretation 13 Customer Loyalty Programs. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control under AASB 15 replaces the existing notion of risks and rewards under current accounting standards. The standard is applicable from 1 January 2018 with early adoption permitted. The consolidated entity is currently assessing the potential impact of the new standard and at this stage is unable to estimate the financial impact upon adoption.

AASB 16 Leases

On 13 January 2016 the International Accounting Standards Board (IASB) issued IFRS 16 Leases. The equivalent AASB 16 *Leases* was issued on 23 February 2016.

AASB 16 replaces AASB 117 *Leases* and eliminates the classification between operating and finance leases and introduces a single lessee accounting model. The new model requires:

- the recognition of a leased asset, and its corresponding lease liability, for all leases that have a term of more than 12 months, unless the underlying asset is of low value; and
- the separate recognition of the depreciation charge on the leased asset from the interest expense on the lease liability.

The standard is applicable from 1 January 2019 with early adoption permitted if, and only if, AASB 15 *Revenue from Contracts with Customers* is also early adopted. The application of AASB 16 will impact the financial results and position of the consolidated entity to the extent that leases currently classified as operating leases will need to be brought on balance sheet. In addition, the current operating lease expense recognised in the income statement will be replaced with a depreciation and finance charge. The consolidated entity is currently assessing the potential impact of the new standard and at this stage is unable to estimate the financial impact upon adoption.

NOTE 2: Segment revenues and results

	Ingredients & Nutritionals \$000	Dairy Foods \$000	Other \$000	Intersegment Eliminations \$000	Total \$000
Segment Income Statement					
Half year ended 31 December 2016					
External revenue	477,909	556,927	141,006	-	1,175,842
Inter-segment revenue	3,529	710	60	(4,299)	-
Revenue from sale of goods	481,438	557,637	141,066	(4,299)	1,175,842
Segment contribution to profit	(25,484)	40,943	2,144	-	17,603
Other income					5,498
Share of profit (loss) of associates					(195)
Operating expenses					(23,883)
MSSP impairment					(34,800)
Finance costs					(12,034)
Profit (loss) before tax					(47,811)

	Ingredients & Nutritionals \$000	Dairy Foods \$000	Other \$000	Intersegment Eliminations \$000	Total \$000
Segment Income Statement					
Half year ended 31 December 2015					
External revenue	475,103	694,035	210,203	-	1,379,341
Inter-segment revenue	41,928	675	40,092	(82,695)	-
Revenue from sale of goods	517,031	694,710	250,295	(82,695)	1,379,341
Segment contribution to profit	(25,430)	65,811	9,618	-	49,999
Other income					3,794
Share of profit (loss) of associates					(365)
Operating expenses					(26,458)
Finance costs					(11,371)
Profit before tax					15,599

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Reported segment contribution to profit represents the profit before tax earned by each segment without allocation of central operating expenses, administration costs and directors' salaries, share of profit/(loss) of associates, other income, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Revenue from major products

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	December 2016 \$000	December 2015 \$000
Dairy products and ingredients	1,074,046	1,255,269
Farming supplies	101,796	124,072
Revenue from sale of goods	1,175,842	1,379,341

Information about geographic segments

The Group operates in six principal geographical areas – Australia (country of domicile), North Asia, South East Asia, USA, the Middle East and the Pacific. The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers		Non-current assets	
	December 2016 \$000	December 2015 \$000	December 2016 \$000	June 2016 \$000
Australia	708,234	874,980	1,171,100	1,135,160
Other countries	467,608	504,361	29,360	30,922
Total	1,175,842	1,379,341	1,200,460	1,166,082

NOTE 3: Profit Sharing Mechanism

Below is a reconciliation of the Profit Sharing Mechanism (PSM) to Net Profit After Tax (NPAT)

	December 2016 \$000	December 2015 \$000
Allocation of Distributable Milk Pool:		
Distributable Milk Pool	480,465	701,702
Milk Payments (Southern Milk Region)	(458,730)	(663,709)
Non-controlling interests	-	(726)
Profit Before Tax - Profit Sharing Mechanism	21,736	37,267
Income Tax	(4,919)	(12,817)
Add back: Non-controlling interests	-	726
NPAT - Shareholders and Unitholders - PSM	16,816	25,176
Post Tax Adjustments:		
Milk Payments Deviation	(19,009)	-
Milk Supply Support Package Impairment Deviation	(22,260)	-
Inventory Valuation Adjustment	(7,414)	(15,168)
NPAT attributable to equity holders of the parent	(31,867)	10,008

Refer to MG Unit Trust Product Disclosure Statement issued on 29 May 2015 (available on Murray Goulburn's website (<http://www.mgc.com.au>) for further explanation of the Distributable Milk Pool and Profit Sharing Mechanism.

NOTE 4: Revenue

	December 2016 \$000	December 2015 \$000
Revenue		
Sales revenue	1,175,842	1,379,341
Other income		
Interest received or receivable from:		
• other persons	3,712	2,196
Rent received	1,785	1,597
Dividends received from other corporations	1	1
	5,498	3,794
Sales and other income	1,181,340	1,383,135

NOTE 5: Other Expenses

	December 2016 \$000	December 2015 \$000
Other Expenses		
MSSP impairment	34,800	-
All other items	14,115	2,038
Total Other Expenses	48,915	2,038

All other items include expenses principally of a non recurring nature including legal fees associated with current legal actions and advisory fees associated with special projects.

NOTE 6: Dividends Paid

Subsequent to the conclusion of the half year ended 31 December 2016 and on 24 February 2017 a dividend of 1.7 cents per share, fully franked, was declared. This dividend has not been recognised as a liability as at 31 December 2016. The dividend is expected to be paid on 31 March 2017. Subsequent to the conclusion of the prior half year ended 31 December 2015 and on 29 February 2016 a dividend of 3.5 cents per share, fully franked, was declared. This dividend was not recognised as a liability as at 31 December 2015. The dividend was paid on 31 March 2016.

During the half year ended 31 December 2016 the following dividends were declared and paid in relation to the 2016 financial year (these dividends were not recognised as at 30 June 2016):

	December 2016 \$000	December 2015 \$000
Fully Paid Ordinary Shares/Units		
Final dividend of 3.91 cents per share fully franked (2015: 9 cents per share unfranked)	13,679	25,286
Final dividend of 3.91 cents per unit fully franked (2015: nil as there were no units)	8,009	-
Total dividends recognised	21,688	25,286

NOTE 7: Impairment Test**Impairment Tests For Murray Goulburn Co-operative Co. Limited**

As a result of the operating model of the business, impairment testing of goodwill and brand names is carried out at the Murray Goulburn Co-operative Co. Limited level. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial projections approved by management covering a five year period. The CGU is Murray Goulburn Co-operative Co. Limited (MGC) and excludes Murray Goulburn Dairy (Qingdao) Co. Ltd, Murray Goulburn Trading Pty Ltd and Proviso Pty Ltd. At 31 December 2016 the implied market capitalisation of the group was below the carrying value of the net assets thereby indicating a potential impairment of assets. Accordingly an impairment assessment was carried out at the MGC level.

The following table sets out a number of key assumptions utilised in the cash flow projections for MGC which are the same as applied at 30 June 2016:

Assumption	Rate	Approach used to determining values
Milk Cost	\$5.00 to \$5.50	An estimate of Supplier cost of production
Long Term growth rate (%)	2.5	This is the growth rate in the terminal year and is consistent with the long term Consumer Price Index rate included in the June 2016 Deloitte Access Economics Business Outlook.
Pre-tax discount rate (%)	12.1	Reflects the specific risks related to the group.

NOTE 8: Issued capital and equity instruments**i. Movement in equity instruments on issue**

	Number of equity instruments		Total
	Ordinary Shares	Units	
Balance at 30 June 2016	349,843,966	204,821,672	554,665,638
Rebalancing between shares and units for market transactions	950,023	(950,023)	-
Ordinary shares created using convertible preference shares	44,367	(44,367)	-
Balance as at 31 December 2016	350,838,356	203,827,282	554,665,638

ii. Movements in issued capital

	Total \$000s
Balance of issued capital as at 30 June 2016	730,116
Issue of ordinary shares to milk suppliers	-
Balance of issued capital as at 31 December 2016	730,116

NOTE 9: Borrowings

The consolidated entity's borrowings comprise bank loans and private placement senior notes, all of which are covered by negative pledge agreements between the parent entity and its financiers. All borrowings are recorded at amortised cost.

The consolidated entity's borrowings include two private placement facilities, each of which is denominated in US\$. Each facility is designated as a hedge over future sales. Accordingly, all exchange losses arising on the revaluation of those borrowings into Australian dollars are deferred to the cash flow hedge reserve.

During the six months ended 31 December 2016 the consolidated entity renewed Tranche A of its syndicated loan facility out to 16 December 2019 and increased the limit to \$265.0 million from \$250.0 million.

NOTE 10: Fair value measurement of financial instruments

AASB 13 requires disclosure of the fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices in active markets for identical assets and liabilities (Level 1).
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2).
- inputs for the asset or liability that are not based on observable market data (Level 3).

The following table presents financial assets and liabilities at fair value:

	Level 1	Level 2	Level 3	Total
	\$000	\$000	\$000	\$000
At 31 December 2016				
Assets				
Shares in quoted corporations	140	-	-	140
Foreign currency derivatives	-	223	-	223
	<u>140</u>	<u>223</u>	<u>-</u>	<u>363</u>
Liabilities				
Foreign currency derivatives	-	7,042	-	7,042
Commodity hedges	-	185	-	185
	<u>-</u>	<u>7,227</u>	<u>-</u>	<u>7,227</u>
At 30 June 2016				
Assets				
Shares in quoted corporations	186	-	-	186
Foreign currency derivatives	-	555	-	555
	<u>186</u>	<u>555</u>	<u>-</u>	<u>741</u>
Liabilities				
Foreign currency derivatives	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Land and buildings at fair value are considered to be level 3 non financial assets.

There were no transfers between Levels 1, 2 and 3 during the half year ended 31 December 2016.

To calculate the fair value of derivative instruments, third party valuations have been obtained which use discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

The fair value of other financial assets and financial liabilities, excluding derivative instruments, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. To calculate the fair value of derivative instruments, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

The carrying amount recorded in the financial statements represents the fair value of all assets and liabilities, determined in accordance with the accounting policies in Note 1 to the financial statements for the financial year ended 30 June 2016 issued on 24 August 2016, except for those mentioned below. The fair value is derived by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

The fair value of the private placement at balance date is \$313.7 million (30 June 2016: \$342.2 million).

NOTE 11: Contingent Liabilities

There are no matters giving rise to material contingent liabilities in the context of the consolidated entity except for those described below.

Class Action

On 17 May 2016, Murray Goulburn Co-operative Co. Limited (MG) and MG Responsible Entity Limited, as responsible entity of the MG Unit Trust (MG RE), were notified that a group proceeding had been filed against them and a number of current and former directors in the Supreme Court of Victoria.

The statement of claim alleges contraventions of the Corporations Act through allegedly misleading or deceptive statements made in a Product Disclosure Statement issued on 29 May 2015 (PDS), and in subsequent market announcements. The proceeding is brought by the lead plaintiff on behalf of unitholders who purchased units pursuant to the PDS and/or in the period "on or after 3 July 2015 and prior to the commencement of trading on 29 February 2016" and who held any of those units at the commencement of trading on 27 April 2016. The lead plaintiff has made an application to expand the claim to include unitholders who purchased units on or after 27 April 2016 and who continue to hold any of those units. The Court has yet to determine this application. The information usually required by AASB 137 Provisions, Contingencies and Contingent Liabilities is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The companies strongly deny that there is a proper basis for the claim and are vigorously defending the proceedings.

NOTE 11: Contingent Liabilities continued

Regulatory Investigations

MG and MG RE are also currently the subject of investigations which are being undertaken by:

- the Australian Securities and Investments Commission in relation to potential breaches of the Corporations Act; and
- the Australian Competition and Consumer Commission (ACCC) in relation to potential breaches of the Competition and Consumer Act.

The companies are fully co-operating with both government agencies to resolve the issues. To date no adverse findings have been notified to either company in relation to these investigations.

The ACCC is conducting an inquiry into the competitiveness of prices, trading practices and the supply chain of the Australian dairy industry. MG is required to participate in this industry wide inquiry and will fully co-operate with the information requests of the ACCC. The inquiry is not expected to be completed until November 2017.

NOTE 12: Events Subsequent to Balance Date

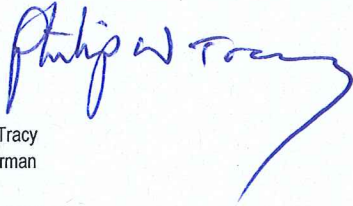
With the exception of the declaration of dividends on 24 February 2017 as set out in note 6, no matters or circumstances have arisen since the end of the half year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in financial years subsequent to the half year ended 31 December 2016.

Directors' Declaration

In the Directors' opinion:

- a) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) The attached financial statements and Notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards; and
- c) The attached financial statements and Notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and performance for the half financial year ended on that date.

This declaration is made in accordance with a resolution of the Directors.

A handwritten signature in blue ink, appearing to read "Philip W. Tracy". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

PW Tracy
Chairman

Melbourne
24 February 2017



Auditor's Independence Declaration

As lead auditor for the review of Murray Goulburn Co-Operative Co. Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Murray Goulburn Co-Operative Co. Limited and the entities it controlled during the period.

Lisa Harker

Lisa Harker
Partner
PricewaterhouseCoopers

Melbourne
24 February 2017

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Independent auditor's review report to the members of Murray Goulburn Co-Operative Co. Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Murray Goulburn Co-Operative Co. Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Murray Goulburn Co-Operative Co. Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Murray Goulburn Co-Operative Co. Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Murray Goulburn Co-Operative Co. Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Lisa Harker

Lisa Harker
Partner

Melbourne
24 February 2017