24 February 2017 **ASX announcement**

Murray Goulburn Announces First Half 2017 Results

Murray Goulburn Co-operative Co. Limited (MG) today announced financial results for the half year ended 31 December 2016 (1H17).

Consolidated statement of profit and loss *($ million)*	**1H17**	**1H16**	***Change %***
Revenue	1,176	1,379	*(14.8%)*
NPAT – attributable to shareholders and unitholders	**(31.9)**	**10.0**	***nm***
Normalised EBIT[1]	23.2	27.0	*(14.1%)*
Normalised Profit before tax[1]	11.2	15.6	*(28.2%)*
Normalised NPAT[1]	9.4	10.0	*(6.0%)*
Half year dividend / distribution (cents)	1.7	3.5	*(51.4%)*
Net debt	677	393	*72.3%*
Gearing	37.8%	25.6%	*(12.2pp)*

Financial summary

- 1.6 billion litres of milk received, down 20.6 percent compared to 1H16, driven by aggressive market competitiveness for milk supply and seasonal conditions
- Revenue of $1.2 billion, down 14.8 percent compared to 1H16
- Net loss after tax attributable to shareholders/unitholders of ($31.9) million
- Normalised Net Profit After Tax (NPAT)[1] of $9.4 million, excluding one-off items after tax of $41.3 million, down 6.0% compared with 1H16
- Net debt for 1H17 of $677 million with gearing of 37.8%
- Expect FY17 year-end debt to be broadly in-line with FY16 year-end
- Refinance of $265 million syndicated facility completed in December 2016
- Cost efficiency programs on track
- New consumer cheese plant at Cobram, Victoria in commercial production
- MG maintains forecast FY17 Farmgate Milk Price (FMP)[2] of $4.95[3] per kilogram milk solids (kgms)
- As a result of changed supplier milk flows, the current Available Weighted Average Southern Milk Region FMP has risen from $4.86 per kgms to $4.92 per kgms. The remaining potential step-up is therefore $0.03 per kgms.
- Fully franked interim dividend/distribution of 1.7 cents per share/unit

[1] Normalised EBIT and normalised NPAT exclude one off costs related to MSSP impairment and debt funded milk pool support (as announced on 27 October 2016). Included in financials at the half year, MG records inventory holding adjustments of $15.2 million in 1H16 and $7.4 million in 1H17. See note 3 in MG's interim financial report for the half year ended 31 December 2016 for further detail.
[2] 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 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.
[3] See MG announcement on 27 October 2016 regarding $50 million in debt funded cash payments to suppliers outside of the Distributable Milk Pool.

Detailed commentary

Dairy Foods

Revenue from MG's Dairy Foods segment fell 19.7 percent to $558 million in 1H17, while segment contribution fell 17.2 percent to $54.5 million. Lower cross-border sales had a significant impact on Dairy Foods as the channel stabilised after a peak in 1H16, particularly in sales of adult milk powder.

In domestic markets, the extended period of very low commodity prices impacted on contracts with reference pricing linked to rolling average commodity prices. These contracts are expected to benefit from rising commodity prices in the second half of the year. An active decision was made to cease some low returning bulk products. Sales for Dairy Foods International were down 10.8 percent.

Ingredients and Nutritionals

MG's Ingredients business continued to be impacted by the low commodity price environment in the early months of 1H17. Business as usual forward selling meant 1H17 sales occurred before a majority of commodity price rises. Segment revenue of $481 million reduced 7.0 percent from 1H16. MG's Ingredients sales revenue fell 9.1 percent, driven by lower milk allocation, however ongoing reductions in working capital supported revenue. MG's Nutritionals business was broadly in line with 1H16.

Other segment

Revenues from MG Trading and Milk Broking were $141 million. Conditions for MG Trading remain challenging, while Milk Broking was broadly flat with 1H16.

Capital Projects

MG's new state-of-the-art Consumer Cheese cut and wrap plant at Cobram, Victoria is now in commercial production and work continues to enable MG to exit the legacy consumer cheese plant. Commercial trials of MG's new packaging formats are progressing well.

MG remains committed to the strategy of adding value in Nutritionals and Dairy Beverages. As previously announced, planned investments in these areas remain under review as we assess the recent changes in the relevant underlying product markets. In particular, the regulatory environment in China for infant formula remains fluid as further details of potential regulatory impacts continue to emerge. Capital will not be expended until the opportunity is clearer and MG will continue to update stakeholders as these reviews are completed.

Balance sheet and debt position

Net debt as at 31 December 2016 closed at $677 million, up from $480 million at 30 June 2016. Gearing as at 31 December 2016 was 37.8%. The debt position reflects MG's seasonal inventory build, which peaks each year around December. Debt has increased from 1H16 due to Milk Supply Support Package (MSSP) and growth capital projects. During the period, MG invested $44.6 million in its new Consumer Cheese plant, SAP system and other projects. MG continues to be focused on reducing working capital and prudent capital expenditure and expects closing FY17 net debt to be broadly in-line with closing FY16 net debt.

In December 2016, MG refinanced a $265 million syndicated debt facility, with existing syndicate members, and on substantially the same terms as the maturing facility.

Dividends/distributions

In accordance with the Profit Sharing Mechanism, MG's normalised 1H17 NPAT is $9.4 million[4]. The Board has declared a fully franked interim dividend/distribution of 1.7 cents per share/unit. The dividend/distribution is to be paid on 30 March 2017 to registered shareholders/unitholders, with a record date of 6 March 2017. Dividend/Distribution Reinvestment Plans apply.

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[4] Normalised NPAT excludes one off costs related to MSSP impairment and milk pool support (as announced 27 October 2016). NPAT at the half year includes inventory holding adjustments of $15.2 million in 1H16 and $7.4 million in 1H17. See note 3 in MG's interim financial report for the half year ended 31 December 2016 for further detail.

Update on cost efficiencies

In August 2016, MG announced a series of decisive actions to address market conditions and improve milk price competitiveness. This included an intention to sustainably reduce working capital by approximately $150 million to $160 million and a review of MG's overheads to generate cost efficiencies of between $50 million to $60 million on an annualised basis.

Good progress has been made on working capital reductions. Inventory holdings are 15 percent lower at 31 December 2016 than at 31 December 2015. MG continues to target a cash release from working capital of $100 million to $110 million by end of FY17.

MG has successfully implemented a headcount reduction and other cost reductions, principally in procurement. These initiatives are on track to deliver $10 million to $15 million of these savings in FY17 (net of costs) and $50 million to $60 million annualised from FY18.

Finally, significant advances have been made on a business review of our assets and distribution network, which if progressed may deliver further efficiencies and value into the milk pool in the future. The review is focussed on aligning our organisational capacity and capabilities with future milk intake. We will continue to provide updates on review outcomes as appropriate.

Outlook

MG maintains a forecast Full Year Available Weighted Average Southern Milk Region FMP of $4.95[5] per kgms, based on Southern Milk Region milk intake of approximately 190 million kgms. As a result of changed supplier milk flows, the current Available Weighted Average Southern Milk Region FMP has risen from $4.86 per kgms to $4.92 kgms. The remaining potential step-up is therefore $0.03 per kgms.

This is subject to there being no further material deterioration in milk intake, dairy commodity prices and AUD:USD exchange rate remaining broadly in-line with current spot as well as no adverse change in trading conditions or regulatory environments in key markets.

A number of factors give MG confidence for the outlook beyond this financial year. Improved seasonal conditions, current commodity pricing and the realisation of planned cost reduction initiatives indicate improved milk prices for suppliers. In addition, any production growth has the potential to provide further manufacturing efficiency gains.

Board update and milk price review

Following confirmation of Philip Tracy's intention to stand down from the Board, MG is progressing the task of appointing a new Chair. All outcomes are being considered including the option of appointing a non-supplier Chair. A review of Board structure and composition also continues.

MG's work to review the best approach to farmgate milk pricing transparency is ongoing. This review will require input from suppliers and consultation on this topic will commence in the coming weeks.

Comments from MG's Chief Executive Officer

Commenting on the results, MG's recently appointed Chief Executive Officer, Ari Mervis, said:

"The first half of this financial year has been a particularly challenging time for MG. Record rainfalls and high levels of competitor activity have reduced our milk intake, impacting revenue and our ability to fully recover fixed costs and overheads. In addition, although the recent increases in the global prices of dairy commodities are welcome, they have not recovered in time to impact on MG's first half sales volume.

"I am pleased with progress on cost and working capital initiatives, which remain a priority. The release of cash from working capital and continued improvement in cost efficiencies will be a key focus in the second half of this financial year."

[5] Including $50 million in debt funded step ups as announced on 27 October 2016.

“I would like to thank our valued suppliers, who continue to be the foundation of our business. I have prioritised time to travel through MG’s regions in an effort to personally meet as many stakeholders as is possible and I look forward to that opportunity in the coming weeks and months.”

- ENDS –

Results webcast

A webcast of the financial results for the half year ended 31 December 2016 will be held at 11.00am (AEDT) today. Webcast details are as follows:

Date: Friday 24 February 2017
Time: 11.00am
To register: http://edge.media-server.com/m/p/7o2hpkop

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 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 MG Unit Trust invests in notes and convertible preference shares issued by Murray Goulburn. The Responsible Entity of the MG Unit Trust is MG Responsible Entity Limited, a wholly-owned subsidiary of Murray Goulburn. Unitholders are entitled to receive distributions equivalent to any dividends paid to the ordinary shareholders of Murray Goulburn. Dividends paid on ordinary shares will be determined by Murray Goulburn in accordance with the Profit Sharing Mechanism described in Section 6 of the Product Disclosure Statement dated 29 May 2015. Units do not confer a direct interest in Murray Goulburn.

Murray Goulburn is Australia’s largest dairy foods company and one of Australia’s largest food and beverage companies with annual turnover of approximately $2.5 billion. Through its co-operative structure, Murray Goulburn has more than 2,200 supplier shareholders. Murray Goulburn manufactures and markets a full range of dairy and nutritional products such as cheese, milk powder, butter and fat, drinking milk and liquid milk products, nutritionals and value-added products, such as infant formula. Murray Goulburn supplies the grocery, foodservice and ingredients channels domestically and around the world, particularly in Asia, with its flagship Devondale, Liddells and Murray Goulburn Ingredients brands.