22 August 2017 **ASX announcement**

Murray Goulburn announces results for the year ended 30 June 2017

Murray Goulburn Co-operative Co. Limited (MG) today announced financial results for the full year ended 30 June 2017 (FY17).

- 2.7 billion litres of milk received, down 21.8 percent compared to FY16
- Revenue of $2.5 billion, down 10.3 percent compared to FY16
- FMP[1] of $4.95/kg MS, including $0.35/kg MS of balance sheet support
- Net loss after tax of $370.8 million, after 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 percent below FY16
- No final dividend
- Strategic review commenced

Consolidated financial information *($ million)*	**FY17**	**FY16**
Revenue	2,491	2,778
Profit (loss) for the year	**(370.8)**	**39.8**
Underlying NPAT	34.7	40.6
Final FY17 dividends/distributions (cents per share/unit) FY17	0.0	3.91
Net debt	445	480
Cash flow before financing[3]	52.2	(269)
Gearing	37.7%	29.0%

[1]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 of $4.92/kg MS 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.
[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.
[3] See page 20 of MG's financial report for the year ended 30 June 2017 for further detail.

Review of financial results

Commenting on the result MG's Chief Executive Officer, Ari Mervis, said:

"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. These include implementing the manufacturing footprint review, de-recognising the contentious Milk Supply Support Package (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."

Segment performance

Revenue in MG's Dairy Foods segment declined by 8.0 percent to $1,221 million. This result was largely driven by lower adult milk powder (AMP) sales, which declined by $93 million, compared with FY16 when cross border sales for this product grew significantly. Lower AMP sales also resulted in MG recording lower Devondale branded sales, which were down 14 percent to $502 million.

MG's Ingredients business benefited from improved commodity prices in FY17 with average sales per tonne up 10.5 percent, net of the impact from a higher average exchange rate. However, total Ingredient and Nutritional sales were $958 million, down 12 percent. MG's Ingredients sales fell 7.0 percent, and Nutritionals sales contracted by 34.5 percent as a key international customer increasingly self-sufficient.

Balance sheet and debt position

Despite difficult trading conditions, at year end MG had reduced net debt after cash by $35 million to $445 million. MG's gearing level at year end was 37.7 percent, up from 29 percent in FY16 as a result of material impairments due to MG's business and footprint review, including the MSSP de-recognition. The strong focus on working capital resulted in a 31 percent reduction in closing net working capital, releasing $164 million in cash.

MG has not recognised $68 million of tax assets relating to its asset and footprint review. This tax asset does however, remain available for MG's future use. This has been approved by the Directors as a deviation to the Profit Sharing Mechanism. An independent expert's opinion has been obtained concluding that this further FY17 deviation is in the overall interests of supplier shareholders and unitholders as it is consistent with the deviation relating to the asset and footprint review approved in May 2017.

Dividends/distributions

As previously announced, the Board has suspended dividend payments, and hence no final dividend has been declared.

Business update and outlook

Following further milk losses after the recent payment of all FY17 growth incentives, MG now expects 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.

A final FMP above $5.20/kg MS remains under review and is subject to various factors including favourable movements in exchange rates[4] and dairy commodity prices over the balance of the financial year, as well as retaining appropriate levels of milk intake.

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. 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.

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

A summary of this opinion is attached to this announcement.

Update on strategic review

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 Murray Goulburn

In conclusion, Ari Mervis commented: "The FY17 year 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 the hands of its suppliers, and with their support MG looks forward to a constructive year."

- ENDS -

Results webcast:

A webcast of the financial results for the full year ended 30 June 2017 will be held at 11.00am (AEST) today. Webcast details are as follows:

Date: Tuesday 22 August 2017
Time: 11.00am
To register: https://edge.media-server.com/m6/p/372igw5g

The webcast will also be archived at www.mgc.com.au/news 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.

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The Directors
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Dear Directors

Possible Deviation

1 Introduction

On 22 June 2017 Murray Goulburn Co-operative Co. Limited ("Murray Goulburn") announced an increase in its forecast FY18[1] farmgate milk price to a price in the range $5.20-$5.50/kg MS[2], and an increase in its opening price to $5.20, the bottom end of the range.

On the basis of its current budget, Murray Goulburn believes that it will be able to fund this milk price out of current year earnings. However, Murray Goulburn remains vulnerable to a potential shortfall in profitability to the extent that (amongst other factors) it suffers material further reductions in milk supply.

In that circumstance, the Board of Murray Goulburn would consider debt funding milk price payments by up to $100 million ("Additional Milk Payment"). This would require that the profit and loss impact of any Additional Milk Payment be excluded from the calculation of the Distributable Milk Pool for the year ending 30 June 2018, which would represent a deviation from the terms of the Profit Sharing Mechanism Deed. The terms of the Profit Sharing Mechanism Deed require (inter alia) that the Board of Murray Goulburn commission independent expert advice in relation to any such deviation.

While it is uncertain if any Additional Milk Payment will be required, the Directors of Murray Goulburn have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare written advice in relation to a potential deviation of up to $100 million ("Deviation"). This letter sets out Grant Samuel's opinion as to whether:

(a) Murray Goulburn's circumstances would warrant Board approval of a Deviation to protect Murray Goulburn's milk supply and profitability and to support its supplier base; and
(b) the Deviation would be in the overall interests of suppliers (both as suppliers of milk and as shareholders in Murray Goulburn ("Shareholders")) and holders of units in the MG Unit Trust ("Unitholders").

2 Summary of Opinion

A combination of events and circumstances since the announcement of Murray Goulburn's Milk Supply Support Package in April 2016 has resulted in a material fall in Murray Goulburn's milk supply. The impact of this loss of milk supply has been compounded by other factors:

- although Murray Goulburn is operating comfortably within its Bank covenants (in terms of both book value gearing and interest cover), its effective economic gearing has increased considerably. In addition, it faces the need to progressively redeem US private placement notes, with the next tranche of US$89 million due to be repaid in October 2019; and

- the fall in the MG Unit Trust unit price (from $2.14 to around $0.65) and the complexities and potential conflicts of interest inherent in the Profit Sharing Mechanism that have become apparent mean that there is now little or no prospect of raising any meaningful new equity through the MG Unit Trust. Similarly, Murray Goulburn cannot expect to raise any significant new equity from its supplier Shareholders.

[1] FY18 refers to the financial year ending 30 June 2018. In general, FYXX refers to the financial year ending 30 June 20XX.

[2] Kg MS = kilogram of milk solids

In this context, maintenance of milk supply (or minimisation of any loss of milk supply) is vitally important for Murray Goulburn. Loss of milk supply will (other things being equal) reduce profitability and Murray Goulburn's ongoing ability to pay a competitive milk price.

If Murray Goulburn's competitors paid milk prices across FY18 consistent with their current announced prices and Murray Goulburn failed to pay (at a minimum) a milk price of $5.20/kg MS, Murray Goulburn would not be paying a competitive milk price (or the gap between its milk price and the industry price would likely be considered unacceptably wide by Murray Goulburn's suppliers).

The outcome, in Grant Samuel's view, would be a material risk of further significant loss of milk supply.

Given Murray Goulburn's current position, any further significant milk loss would clearly not be in Murray Goulburn's best interests. In Grant Samuel's opinion, it is critically important that Murray Goulburn deliver (at a minimum) the $5.20/kg MS milk price at the bottom end of the forecast range for FY18, to minimise the risk of any further significant milk loss and the consequences that could follow.

In assessing a prospective Deviation, there is a need to balance the interests of suppliers and the interests of Unitholders. Any Additional Milk Payment will in some sense prejudice the position of Unitholders (and all equity holders), as it will result in increased debt or a reduction in the funds otherwise available to strengthen Murray Goulburn's balance sheet (whilst recognising that suppliers rather than equity holders will in any event be funding the vast majority of any consequential increase in interest cost).

On the other hand, reductions in milk supply will ultimately result in a reduction in equity value, particularly given Murray Goulburn's current position. Unitholders will only see a recovery of their equity value if Murray Goulburn can stabilise milk supply and deliver increased profitability. Accordingly, in Grant Samuel's view the interests of Unitholders and the interests of suppliers are largely aligned in the current circumstances.

Murray Goulburn's analysis shows the Additional Milk Payments could be funded within Murray Goulburn's total debt facility limits.

On that basis, in Grant Samuel's view:

(a) if Murray Goulburn was otherwise unable to pay a milk price for the year of at least $5.20/kg MS, such circumstances would warrant Board approval of a Deviation to protect MG's milk supply and profitability and to support its supplier base; and
(b) the Deviation would be in the overall interests of suppliers (both as suppliers of milk and as Shareholders) and Unitholders.

This opinion is provided subject to Murray Goulburn's confirmation at the time of the proposed Deviation that the relevant Additional Milk Payment could be made without jeopardising Murray Goulburn's ability to continue to operate within its debt facility limits and covenants, or otherwise jeopardising Murray Goulburn's financial position.

3 Other Matters

Any Deviation would be the responsibility of the Directors of Murray Goulburn. Grant Samuel's role is limited to the expression of the opinion set out in this letter and is expressed purely for the benefit of the Directors of Murray Goulburn in their consideration of the Deviation. Grant Samuel does not accept any responsibility to any other party or for any other purpose. In particular, Grant Samuel is not responsible for any consequence that may follow a decision of the Directors of Murray Goulburn in relation to a possible Deviation.

The impact of any Deviation will depend on multiple factors, including the competitive response of other industry participants and other external factors (commodity prices, weather, etc). To the extent that these issues are capable of being managed or controlled, such management and control is the responsibility of the Directors and management of Murray Goulburn and Grant Samuel accepts no responsibility in this regard. This opinion does not extend to a judgement as to whether the payment of a milk price of $5.20/kg MS will be sufficient to allow Murray Goulburn to be competitive from a milk price perspective or to avoid any material milk losses. Such a judgement is the responsibility of the Directors and management of Murray Goulburn.

This letter has been prepared without taking into account the objectives, financial situation or needs of individual suppliers, Shareholders or Unitholders. It is a matter for individual Unitholders as to whether to buy, hold or sell units in the MG Unit Trust and for individual Shareholders as to whether to increase or reduce their shareholdings in Murray Goulburn. These are investment decisions upon which Grant Samuel does not offer an opinion. Grant Samuel takes no responsibility for any decisions made by Unitholders or Shareholders in relation to these investment decisions. Unitholders and Shareholders should consult their own professional advisers in this regard. Similarly, decisions in relation to the supply of milk to Murray Goulburn are matters for suppliers and potential suppliers. Grant Samuel does not offer any opinion in relation to these decisions and takes no responsibility for any such milk supply decisions.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates