



28 September 2017

Market Announcements Office
Australian Securities Exchange

ELECTRONIC LODGEMENT

Dear Sir or Madam

Murray Goulburn Co-operative Co. Limited (Murray Goulburn) – Annual Report 2017

In accordance with the Listing Rules, attached is a copy of Murray Goulburn's Annual Report 2017, for release to the market.

This information is being released given that unitholders of the MG Unit Trust have an economic exposure to Murray Goulburn.

Yours faithfully

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

Amy Alston
Company Secretary



Devondale Murray Goulburn

Annual Report 2017

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Devondale Murray Goulburn⁽¹⁾ (MG) produces a full range of dairy foods, ingredients and nutritional products. In 2016/17 (FY17), the Company received approximately 2.73 billion litres⁽²⁾, or almost 30.3 percent⁽³⁾, of Australia's milk, generating sales revenue of approximately \$2.5 billion.

(1) Devondale Murray Goulburn (also MG, the Company or the Co-operative) includes Murray Goulburn Co-operative Co. Limited ABN 23 004 277 089 and subsidiaries. Murray Goulburn's Annual Report can be viewed or downloaded from the Company's website www.mgc.com.au.

(2) Includes the Southern Milk Pool, NSW/Sydney region and MG's wholly owned subsidiary Tasmanian Dairy Products Co Pty Ltd.

(3) Source: revised Dairy Australia milk collection data released in August 2017.

Message from the Chairman

With a new team in place, we are acting swiftly and decisively to address the difficulties of the past 18 months and turn the business around.



In my first annual report as Chairman, I would like to acknowledge the great privilege it is to lead this historic Australian organisation.

By any measure it has been another hard year for MG and our suppliers. Throughout FY17, global issues continued to converge to drive down commodity prices. While international dairy markets have shown signs of improvement, they still remain below historic average levels. I am acutely aware of the many challenges our suppliers have faced over the past 18 months, some of which have arisen due to previous decisions made by the Company. On behalf of MG, I sincerely apologise for this.

Our results, summarised in the CEO message, were reflected in a disappointing FY17 farmgate milk price (FMP)⁽¹⁾ of \$4.95 per kilogram of milk solids (kg MS), supported by 35 cents from the balance sheet, with an underlying FY17 FMP of \$4.60/kg MS. With our milk intake down 22 percent in FY17, the Board and management team remain resolute in doing everything we can to provide suppliers with the best price we can to rebuild their trust in MG.

When I assumed the role of Chairman in April, I did so with my assessment that MG's problems of the past were solvable over a manageable period of time. I accepted the role based on my confidence in the challenge of addressing any residual issues and turning the business around.

I am delighted with the progress that has been made, including the appointment of our new CEO, Ari Mervis, and his subsequent appointment of a refreshed Executive Leadership Team. Ari and the team have delivered an extraordinary amount of work over the past six months to ensure swift and decisive action was taken to address MG's current challenges. This has included the difficult, yet necessary, review of MG's assets and footprint, and a full review of the way the business operates.

As a result of that review, we announced the staged closures of our manufacturing facilities at Edith Creek, Rochester and Kiewa. We also announced the forgiveness of the Milk Supply Support Package in response to supplier feedback, with the intent of rebuilding trust in MG.

However, further transformation is required to ensure the Co-operative is the appropriate size and structure to meet the realities of our milk intake and market opportunities. Accordingly, a full strategic review is underway to provide a firmer base and more profitable position for MG. More details about this will be provided at our Annual General Meeting (AGM) on 27 October.

The Board's focus remains solely on best representing the needs of shareholders and unitholders and I am committed to integrating the pivotal work of the management team with the objectives of the Board. We will welcome new Directors to the Board following the AGM. I would like to thank Mike Ihlein, Ken Jones and Graham Munzel who will retire from the Board at the AGM, as well as Natalie Akers who will not seek re-election.

While FY17 was undoubtedly a difficult year, as I have travelled around each of the regions and met with many of our suppliers I have been extremely encouraged by their support of the Co-operative and I would like to extend my sincere gratitude for their loyalty.

For more than 60 years, MG has been a vital part of the Australian dairy industry. A strong MG is fundamentally important and we will continue to do everything we can to restore our competitive position for the future.

A handwritten signature in black ink, appearing to read 'John Spark'. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

John Spark
Chairman

(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.

Chief Executive Officer and Managing Director's Message

The management team are taking the necessary steps to rebuild Murray Goulburn in order to deliver the highest value to our shareholders and unitholders. MG has changed substantially over the past 18 months and the immediate focus is to ensure that we have the most appropriate operating model, structure and commercial arrangements to support our current business.



FY17 has been a difficult year for everyone associated with MG, which is reflected in the results outlined in this report. During FY17, milk intake was 22 percent below the prior year, resulting in 2.7 billion litres of milk being received. Revenue of \$2.5 billion was down 10 percent and underlying Net Profit After Tax (NPAT)⁽¹⁾ of \$34.7 million was 15 percent below the prior year. Reported net loss after tax was \$370.8 million, which was impacted by significant deviations from the Profit Sharing Mechanism including the forgiveness of the Milk Supply Support Package which was not effective in the way that it had originally been contemplated. This and other one-off costs totalled \$405 million after tax. MG encouragingly delivered a positive cash flow before financing of \$52.2 million and through focused discipline on working capital and capital management, reduced year end net debt to \$445 million from \$480 million in FY16.

In order to mitigate the impact of the reduction of the milk intake on full year results, difficult and decisive steps were taken to achieve greater operational efficiencies and improve performance. In conjunction with this, cost reduction initiatives were introduced including headcount reductions and lowering the cost of key inputs such as packaging, energy, repairs and maintenance.

A holistic asset and footprint review was concluded, which resulted in the announcement of the staged closures of processing and manufacturing facilities at Edith Creek, Rochester and Kiewa. These were difficult decisions to make as we are acutely aware of the impact that these closures will have on our employees as well as the communities in which they are located. They were, however, necessary steps to ensure the ongoing strength and competitiveness of MG into the future. Furthermore, MG could also no longer justify the planned investments in new UHT and nutritional facilities and accordingly, these major projects were cancelled.

During the year, MG commenced commercial production at the new consumer cheese plant in Cobram, and also completed the implementation of a new SAP operating system.

While the decisions taken following the asset and footprint review were necessary, they alone are insufficient to improve the business' performance. In order to enhance our competitiveness and to improve our position, a comprehensive strategic review has commenced which is covering all aspects of our corporate strategy and structure. The strategic review will ensure that we have the most appropriate operating model, corporate structure and commercial arrangements in place. The scope of the review includes all operational aspects relating to improved margin delivery and cost reductions, while also addressing access to capital and ensuring commercial flexibility.

Following my appointment in February, I have also selected a new Executive Leadership Team to lead the business into the future. I am most fortunate to have leaders with the appropriate levels of experience and expertise to help address the current challenges facing MG.

I would also like to acknowledge David Mallinson, our CFO, who fulfilled the role of interim CEO through the very challenging first half of the financial year. Our people too have also shown incredible resilience and loyalty to our business and for that I am most grateful.

Finally, I would like to thank our suppliers for their support and I am confident that we are taking the right steps for MG, and we remain determined to deliver a more competitive farmgate milk price.

A handwritten signature in black ink, appearing to read 'Ari Mervis'.

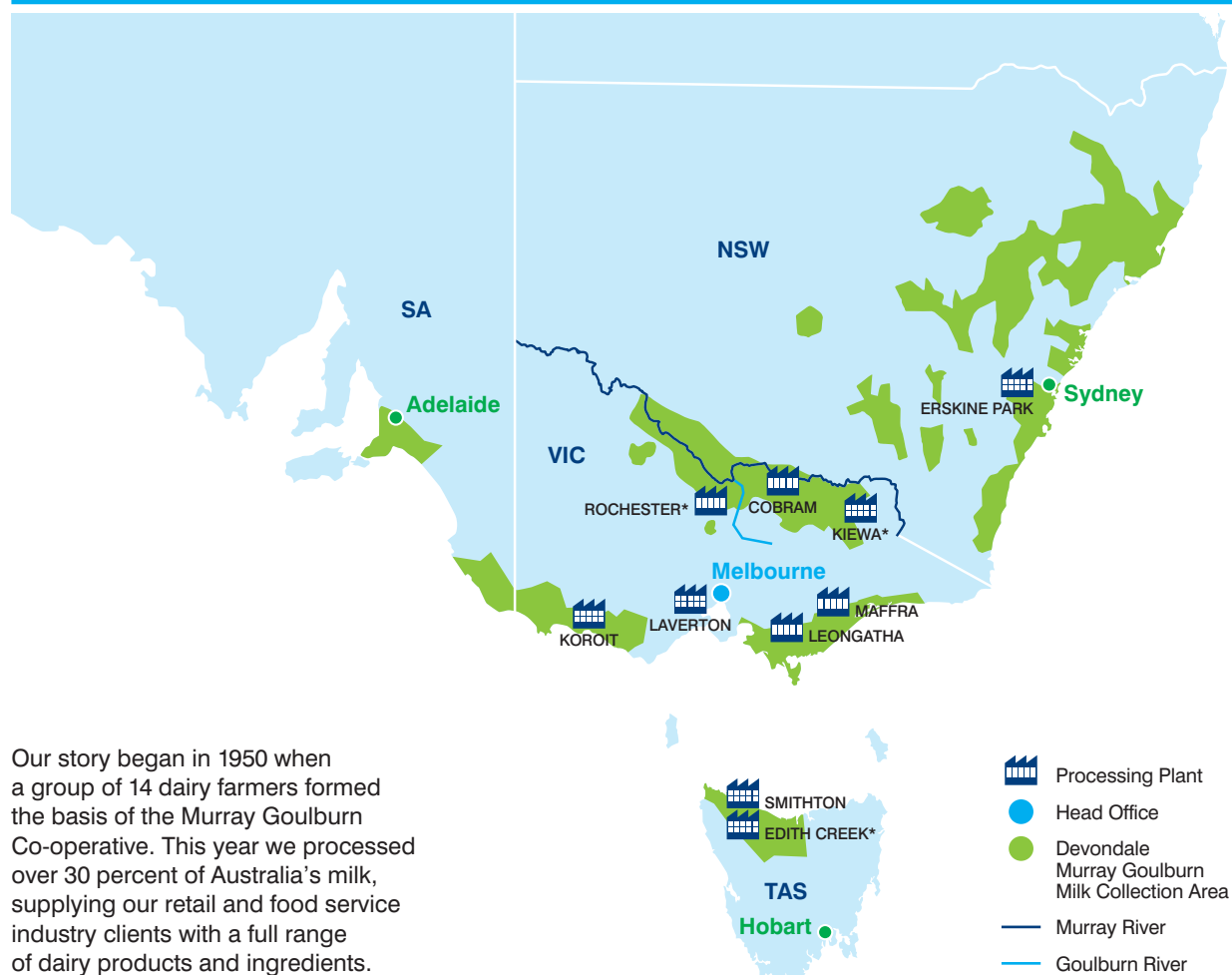
Ari Mervis
*Chief Executive Officer
and Managing Director*

(1) 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.

About Devondale Murray Goulburn

We've been supplying dairy products and ingredients to Australia and the world for 67 years.

Dairy regions and processing plants*



Our business segments

Dairy Foods

Our Dairy Foods business segment encompasses all consumer and food service sales, in both domestic and international markets.

The business supplies large retail grocery chains and food service distributors with dairy foods such as dairy beverages (chilled and UHT milk), cheese, butter, cream and consumer milk powder.

Ingredients and Nutritionals

Our Ingredients and Nutritionals business is a globally recognised supplier of bulk and customised dairy ingredients and infant nutrition products.

Working closely with our customers, we produce ingredients designed to meet the functional and nutritional requirements of their products.

Other

We operate a number of wholly owned businesses and subsidiaries. These include MG Trading, a commercial milk broking business, ProviCo and a joint venture with global French food company Danone.

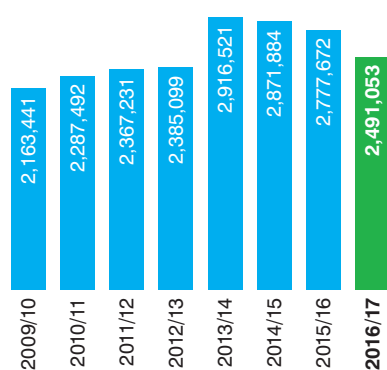
* On 2 May 2017, MG announced the closure of Edith Creek, Rochester and Kiewa facilities. Edith Creek will close by Q2 FY18, Rochester by Q3 FY18 and Kiewa by Q1 FY19.



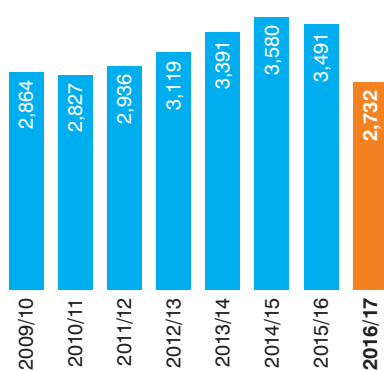
Financial overview

	Year ended 30 June 2017	Year ended 30 June 2016
Sales revenue (\$ million)	2,491	2,778
Consolidated statutory net profit after tax (\$ million)	(370.8)	39.8
Net profit after tax attributable to shareholders and unitholders (\$ million)	(370.8)	40.6
Final available milk price (\$/kgms)	4.95	4.80
Dividend/distribution – per share/unit (cents)	1.70	7.41
Dividend/distribution – total value (\$ million)	9.4	41.1

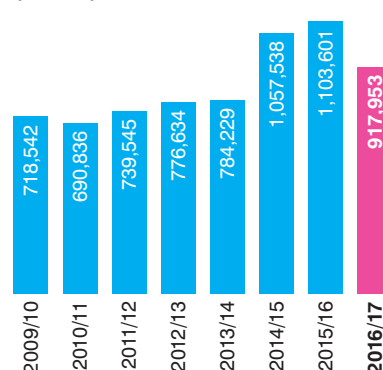
Sales revenue
(A\$ '000)



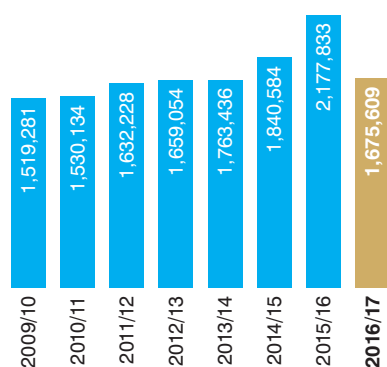
Milk intake
(million litres)



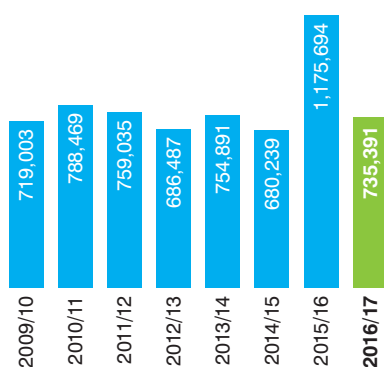
Production
(tonnes)



Total assets
(A\$ '000)

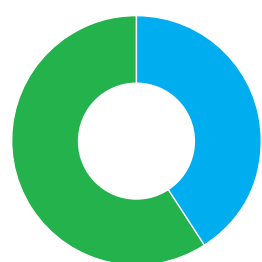


Equity
(A\$ '000)



2016/17 Sales revenue

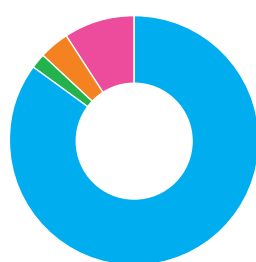
FY17 \$2.5 billion
(including MG Trading stores)



● International 41% ● Domestic 59%

2016/17 Export volume

Total volume
FY17 286,724 tonnes



● Asia 85% ● Middle East/Africa 2%
● The Americas 4% ● Other 9%

Year in review

MG Dairy Foods

Our retail brands are an important and growing area of our business.

MG's Dairy Foods business encompasses consumer and food service sales in both domestic and international markets. We supply large retail grocery chains and food service distributors with dairy foods, including dairy beverages (chilled and UHT milk), cheese, butter, cream and adult milk powders.

MG's Other segment contributed revenue of \$320.8 million for the year. While this is down 28.4 percent on the previous year, both MG Trading fertiliser margin and commercial milk trading volume reported growth.

Dairy Foods Australia

Dairy Foods Australia net sales revenue declined by 13 percent with domestic trading conditions continuing to be challenging. Revenue was underpinned by increased fresh milk distribution in our route business, and firm butter pricing and demand. Overall, volume reduced due to lower milk intake and the need to manage volume accordingly. This primarily impacted on the domestic food service ingredients business. Fresh milk demand was also adversely impacted by the consumer shift away from private label products, which make up a significant proportion of our overall fresh milk volumes.

Highlights in FY17 include:

- our Devondale brand benefitted from the launch of a new 750g Extra Soft Spread, as well as participation in Masterchef Australia and related successful sales and marketing campaigns;
- an increased retail cheese cut and wrap capability with the completion of a new retail cheese line in Cobram. This facility underscores our capability to provide higher value retail formats of cheese including innovative new formats, such as Devondale standup bags for shredded cheese and resealable pocket bags for block cheese.

Our ongoing commitment to product quality and excellence was also recognised at the Dairy Industry Association of Australia Awards of Excellence with our Devondale Unsalted Butter winning a Gold award.

Dairy Foods International

Our Dairy Foods International net sales revenue declined 29.5 percent over the period, primarily reflecting the need to adjust supply due to the lower milk intake.

The competitive landscape remained challenging, particularly during the first half, where sales of adult milk powder in China declined off the peak of FY16 volumes. Second half sales reflected restored pricing and volumes as overstocked positions in the trade cleared. UHT also remained largely constrained by a flood of European imported brands into China which saw consequent pricing and volume pressure.

Our focus for the period, particularly given the constrained milk supply environment, has been to develop our Chinese market presence, which remains a significant overall contributor to our value delivery. We have invested in developing our Devondale branded products through our e-commerce capability and continue to see our presence and engagement in this important sales channel grow. In the second half of the year, online sales of Adult Milk Powder (AMP), our biggest category, grew by 17 percent (YoY) allowing us to become the market leader in e-commerce.

In addition to our online progress, we continued to strengthen our general trade coverage through closer distributor management and supply chain improvements. We successfully listed our products in key retailers including Carrefour, Vanguard, Walmart, RT-Mart, Auchan and Sam's Club.

Sales of Infant Formula in China remains relatively small. The introduction of revised registration requirements has meant that gaining market traction has been challenging. MG is seeking registration to meet the new requirements, which come into effect from 1 January 2018.

Our strategy in the remainder of South-east Asia is to partner with distributors to access markets profitably. Our focus is to simplify our offering and ensure adequate value return, within our supply constraints, with distributors being serviced from Australia.



Year in review

Ingredients and Nutritionals

We work closely with our customers to create ingredients that meet the functional and nutritional requirements of their products.

MG's Ingredients and Nutritionals business is a globally recognised supplier of bulk and customised dairy ingredients and infant nutrition products.

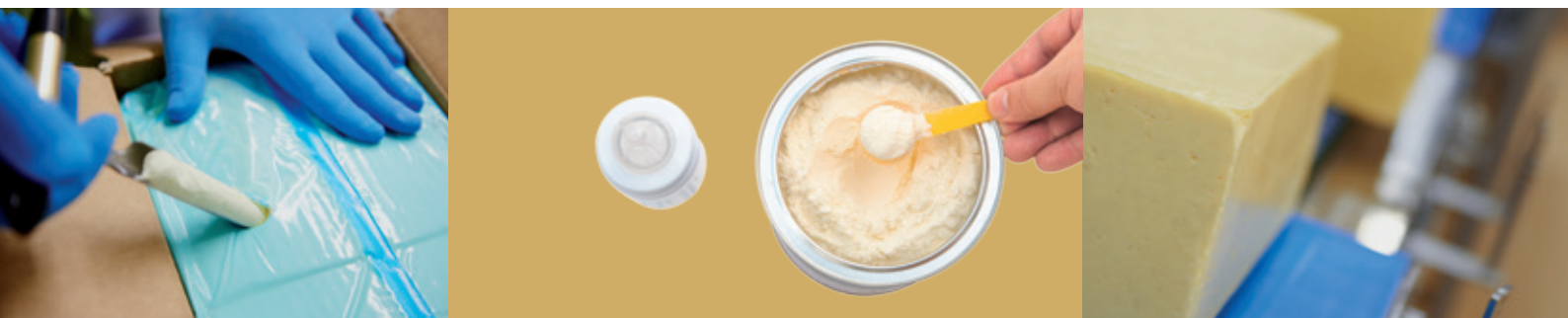
Working closely with our customers, we produce ingredients designed to meet the functional and nutritional requirements of their products. We continue to evolve our ingredients over time to adapt and meet the changing needs of our customers.

MG Ingredients is our global food ingredients brand. Our key focus is providing value-added dairy product solutions to a range of industrial food service manufacturers or suppliers, mainly across Asia and Australia. We extract the best value for MG's milk solids by optimising the product mix and balancing core customer requirements.

Our bulk dairy commodities and specialised ingredients are marketed for use in the preparation of a wide range of food applications. These quality dairy products are supplied to leading global and local brands in 48 countries.

In FY17, market conditions continued to be challenging. While commodity prices improved in the first half, this was followed by mixed results in the second half. The exception was butter where a significant global shortage caused prices to rise beyond market expectation and reach record highs. Global sales of MG ingredients declined by 16 percent in line with a reduction in the availability of product. This was due to tight raw milk supply and consequent product mix changes implemented to maximise the value of milk solids.

MG Nutritionals is a specialised segment of our dairy foods business which manufactures nutritional base powders and finished canned infant nutrition powders for a number of nutritionals customers. Our customers are located in the Asia-Pacific region including New Zealand, Indonesia, Malaysia, Thailand, China and Bangladesh.



Year in review

Other business segment

MG Trading provides our suppliers and other rural customers with competitively priced farm inputs and on-farm services to help farm businesses operate more effectively and efficiently.

In addition to our Dairy Foods and Ingredients and Nutritionals business segments, MG operates a number of wholly owned businesses and subsidiaries. These include MG Trading, ProviCo, a commercial milk broking business, and a joint venture with global French food company Danone.

MG's Other segment contributed revenue of \$320.8 million for the year. While this is down 28.4 percent on the previous year, both MG Trading fertiliser margin and commercial milk trading volume reported growth.

MG Trading

MG Trading operates a rural retail network of 25 stores, eight fertiliser depots and a feed business across Australia's south-east dairy regions, including Tasmania.

While active in a range of segments including livestock, cropping and hardware, our primary focus is to support the needs of dairy businesses, particularly MG suppliers, with competitively priced farm inputs and on-farm services. MG Trading is a one-stop-shop for dairy businesses, offering a wide range of rural inputs including general merchandise, fertiliser, feed, fuel and dairy equipment. We provide a range of services to our suppliers, including agronomic advice, on-farm delivery of merchandise, fertiliser spreading, and bulk feed supply. A bulk fuel-delivery service is also supported in partnership with regional BP distributors.

In FY17, MG Trading experienced a challenging year however, through structural changes and a focus on cost reduction, the business has continued to contribute profitably. Highlights for the year included strong growth in the fertiliser business with the expansion into Koroit, Yarram and Orbost areas experiencing strong support, and a good performance in the silage segment with significant production of on-farm fodder.

The Smithton business is set to operate from a newly developed site in FY18, which will continue to consolidate the MG Trading business in Tasmania.

ProviCo

ProviCo animal nutrition products are formulated to cater for the special dietary and nutritional requirements of young animals. Quality ingredients are selected to support their performance-oriented and cost-effective range of nutritional and healthcare products, to rear strong and healthy animals.

ProviCo performed strongly in FY17, due to a portfolio expansion, which saw the introduction of a range of new biosecurity products and feed ingredients. Further product launches are expected, which will increase the range of cost-effective nutritional and feed options for dairy farmers.

Commercial milk sales

With a geographic processing footprint across key dairy regions, we provide a commercial milk broking service, buying and selling milk to other dairy processors in Victoria, South Australia, Tasmania and New South Wales.

Each year, the volume of milk traded will vary, primarily due to seasonal conditions and customer needs. In FY17, the volumes of milk traded increased by seven percent on the previous year. Profitability reduced with increased competition in the marketplace.

Joint venture partnerships

MG maintains an ownership interest in a joint venture partnership with French food company Danone, marketing yoghurt and dairy desserts throughout Australia.



Year in review

Safety

Our GoalZero vision is to continually improve health and safety and prevent workplace injuries and illnesses.

At MG, the safety and wellbeing of our people, suppliers, contractors and visitors is our priority. Our safety vision is GoalZero, which aims to eliminate injury from our workplaces by building a robust safety culture, setting clear expectations around safety, and backing this up with investment to build safer workplaces. We will continue to provide our people with the training, tools and information they need to fully integrate health and safety into all aspects of our work.

As we enter the fifth year of our GoalZero journey, we have made considerable progress, reducing our total recordable injury frequency rate (TRIFR) from 50.2 to 10.66, a reduction of almost 80 percent since 2012. Despite good progress, we will continue to prioritise and focus on further improving our safety record until we achieve our vision.

We are committed to five leading Safety Principles:

1. Everyone is responsible for leading safety.
2. All injuries are preventable.
3. Working safely is a condition of employment.
4. Employee involvement is a must.
5. Training of all employees to work safely is essential.

During FY17, MG continued to implement a number of key safety initiatives. These included:

- introduction of a hazard identification and control program to identify categories of fatal risk and align with critical control measures and design improvement;
- embedding daily safety work process and employee ownership through workplace Take 5 hazard identification, safety conversations and frontline task observations;
- continuing to maintain our focus on a systematic approach to eliminating hazardous manual handling across the business with a marked reduction in incidents.

Our ongoing program of safety investment, training and process improvements continues to support our vision of GoalZero. During the year, this program included:

- developing and implementing our internal health and safety assurance program supported by a specific audit and workplace inspection plan;
- centralisation of WorkCover injury claims management and delivery of frontline leadership training to support injury management and return to work;
- alignment with the global harmonised system for classification and labelling of chemicals, including improvement for storage, handling and use;
- delivery of an injury reduction program through a targeted slip, trip and falls safety awareness campaign;
- undertaking compliance training requirements such as safety induction, ammonia awareness, defibrillation cardiopulmonary resuscitation, warden responsibilities, clearance to work, emergency evacuation, first aid training, incident reporting and investigation, OHS hazard identification and risk assessment, and manual handling.

We will continue to support on-farm safety programs, delivering safety information to suppliers via regular communication channels, and ensuring MG employees can access each farm safely.



Year in review

People

Our people are employed at our sites in south-eastern Australia, China, and in sales offices across Asia.

Our People team develop and deliver people practices which underpin our vision and strategy, and maintain a focus on operational excellence and innovation.

As we continued to face an increasingly challenging environment throughout FY17, a process was commenced to realise additional cost efficiencies. This work identified opportunities to reduce overheads across all areas of the business by focusing on the critical work we need to do and ceasing work that was not aligned to our business strategy. As a result of this process, we reduced more than 200 roles from our headcount, predominantly at our head office. This included existing vacancies not filled, resignations not replaced, conclusion of contracts and redundancies.

We also announced the closure of our Edith Creek, Rochester and Kiewa facilities, impacting approximately 360 employees. These closures will occur in a staged process over the coming 18 months.

During FY17, we reached agreement with our Milk Collection employees and the Transport Workers Union for the 2016 Enterprise Agreement.

Our primary focus in FY18 will be on:

- supporting the strategic review;
- continuing to negotiate our largest collective agreement (covering approximately 800 employees in production, warehousing and logistics);
- renegotiating our Reliability agreement (covering approximately 100 maintenance employees);
- launching the MG Talent program; and
- supporting the consultation process and roll-out of our drug and alcohol testing program.



Year in review

Our farmer/suppliers

We aim to be the primary partner to Australia's dairy farmers.

FY17 proved a challenging year for MG and our supplier shareholders.

Seasonal conditions were mixed across the collection areas. While Northern Victoria and Tasmania endured a very wet winter and spring resulting in lower than expected milk production, Gippsland and Western districts experienced a very wet winter followed by an ideal spring, mild summer and early autumn break. Combined with lower input costs, such as water and bought-in feed, most suppliers improved production costs relative to the previous year.

Continuing tough market conditions, lower than expected farmgate milk prices and uncertainty around the Milk Supply Support Package (MSSP) resulted in a reduced number of cows being milked, increased retirements and milk loss to other processors. Milk supply to MG represented 30.3 percent of Australia's total milk production, with a total of 2.732 billion litres collected off farm.

MG's field services team continued to focus on supporting suppliers in the areas of finance and budgeting, milk quality, and auditing to the MG Milkcare standards. More than 11,600 farm visits occurred during the 2016/17 year.

Supplier meetings are also key to engaging with our suppliers and facilitating two-way communication. In FY17, 79 supplier meetings were held across our regions.

Milk payment review

A review of the milk payment system for FY18 was completed in May 2017. This included a survey of suppliers, with direct feedback received from 611 suppliers. Changes to the system included expanding the Flat Milk Incentive (FMI) bands, removing the need to elect to participate in the FMI and removing any FMI deductions. A larger proportion of our milk supply will now qualify for the FMI in 2017/18.

From 1 July 2017, a milk rewards program was applied through the milk payment system. The Growth Incentive was also discontinued.

Supporting a strong dairy industry

The Next Generation Dairy Rebate (Next Gen) assists new and established MG suppliers across all our supply regions to take advantage of business opportunities. Next Gen provides financial support through a rebate on-farm investment. This leads to growth in milk production.

During FY17, Next Gen agreements supported new on-farm investment of more than \$13.5 million and an existing level of investment of \$120 million.

We also support our farmer suppliers through MG Trading and access to on-farm agronomic technical experts.

MG supplier portal

Significant progress has been made towards a new supplier portal, MG Milkroom. The new site will replace MG Farm and will provide suppliers with access to real time information on production, quality and communications. Suppliers will also have the ability to register third parties, including employees and consultants. This will drive further value across their operations.



Year in review

Sustainability

We are committed to delivering on our sustainability outcomes.

A shared commitment to sustainability

Throughout FY17, we worked with key stakeholders across our industry to drive awareness and build a shared commitment to sustainability.

- As a member of the Australian Dairy Industry's Sustainability Framework Steering Committee, we continued to play an active role in improving the performance of our industry and ensuring our industry remains current, relevant and accountable within the context of changing global and domestic conditions and expectations.
- We also collaborated and shared information with our customers through the Carbon Disclosure Project (CDP) as well as the Supplier Ethical Data Exchange (SEDEX), a secure online database for managing and reporting on ethical and responsible practices in our supply chain. This includes information on labour standards, health and safety, the environment, and business ethics.

Improving environmental performance across our industry

At an industry level, we are working to improve the environmental performance of dairy manufacturing through our membership of the Dairy Manufacturers Sustainability Council. We also support the Forest Stewardship Council (FSC®) through environmentally appropriate, socially beneficial and economically viable packaging procured through Tetra Pak®. This paperboard packaging is used for our UHT products. As a signatory to the Australian Packaging Covenant (APC) for many years, we also reported on our APC Action Plan to minimise packaging waste.

Minimising our environmental impact

We operate an Environmental Management System which includes risk assessment, incident management, monitoring and internal reporting. Ultimate oversight is provided by our Board.

We monitor and report on our annual energy use and greenhouse gas emissions under the National Greenhouse and Energy Reporting Act 2007. We also report on the annual environmental performance at our licensed sites through requirements outlined by state-based environment regulations.

Over recent years, we have seen significant improvements in our key impact areas:

- our carbon intensity⁽¹⁾ reduced in FY16 by 4.2 percent compared to FY15, and reduced by 23.1 percent compared to FY09 levels;
- non-compliance events in our manufacturing site EPA licences reduced by 43 percent compared to FY14 levels;
- waste to landfill levels are steadily reducing with increased segregation and continual tracking and reporting of waste generation;
- approximately 256 million FSC®-labelled packs used representing an increase of 15 percent on the previous year.

We also support our farmers in understanding their environmental impact. We completed the three-year 'More from Less' program with funding received from the Federal Government's 'Carbon Farming Futures Extension and Outreach Program'. Key outcomes of the program included:

- over 100 MG supplier farms calculating their carbon emissions;
- Farm Carbon Action Plans developed by over 100 MG supplier farms;
- 60 percent of participants altering activities to reduction carbon emissions during the program, with a further 20 percent planning to implement improvements. These improvements include changes to fertilisers used, the development of nutrient plans, and installation of energy saving devices.



(1) Scope 1 and Scope 2 carbon emissions per million litres of milk collected, audited by RSM.

Board of Directors



John Spark
BComm, FCA, MAICD

John was appointed Chairman of the Board of Murray Goulburn in April 2017. He is a member of the Human Resources Committee.

John brings extensive Board and management experience from across a range of large and complex businesses, including the agricultural industry. Previously, he was a Director of Ridley Corporation (2008–2015) and served as Chairman from 2010. He is a Non-Executive Director (since September 2007) and Chair of the Audit and Risk Committee at Newcrest Mining Limited and has served on the Boards of ANL Limited, Baxter Group Limited and MacArthur Coal Limited.

John holds a Bachelor of Commerce from the University of Melbourne. He is a Chartered Accountant and a member of the Australian Institute of Company Directors.



Natalie Akers
BPPM (Hons), BA, GAICD

Natalie was elected to the Board in November 2011. She is a member of the Health, Safety and Compliance Committee and Supplier Relations Committee.

Natalie's career in agriculture includes water policy, dairy research and development. She holds a Bachelor of Public Policy and Management with honours, a Bachelor of Arts, and has completed the Fairley Leadership Program. She is a graduate member of the Australian Institute of Company Directors.

Natalie is a dairy farmer, milking 700 cows at Tallygaroopna, northern Victoria.



William Bodman
BSc (Ag), GAICD

William (Bill) was elected to the Board in November 2009. He is Chairman of the Supplier Relations Committee and a member of the Health, Safety and Compliance Committee and Human Resources Committee.

Bill holds a Bachelor of Agricultural Science Degree from La Trobe University and is a graduate member of the Australian Institute of Company Directors.

Bill is a dairy farmer milking 420 cows on two farms at Won Wron in Gippsland, Victoria.



Mark Clark
BComm (Ec & Mktg), MAICD

Mark was appointed to the Board in November 2016 as a Special Director. He is Chairman of the Health, Safety and Compliance Committee and a member of the Human Resources Committee.

Mark has extensive Board and senior management experience, including directorships with companies based in Asia, Australia and Europe. He was previously Group General Manager with Pacific Brands Limited and spent more than 30 years with Coca-Cola Amatil Limited, including as Managing Director Australasia and President, Coca-Cola Bottlers in Korea.

Mark holds a Bachelor of Commerce (Economics and Marketing) from the University of New South Wales and is a member of the Australian Institute of Company Directors. He is also Non-Executive Director of Guardian Early Learning (since May 2016).



Craig Dwyer
MAICD

Craig was elected to the Board in October 2016 and is a member of the Health, Safety and Compliance Committee and Supplier Relations Committee.

Craig has almost 20 years' experience in dairy farming. Previously, he operated exploration drill rigs in Western Australia and Malaysia. He is a member of the Australian Institute of Company Directors.

Craig is a dairy farmer milking 240 cows near Cobden, western Victoria.



Lisa Dwyer AdvDip (Agr.),
Grad. Cert. Agribus., GAICD, FARLP

Lisa was elected to the Board in October 2016 and is a member of the Finance, Risk and Audit Committee, Human Resources Committee and Supplier Relations Committee.

Lisa's career spans 20 years including roles in finance, sales, marketing and business development and she is currently responsible for the operation of a dairy/beef enterprise. She is an experienced non-executive director serving with the Australian Livestock Export Corporation Limited (since October 2013) and previously, Dairy Australia Limited (2014–2016).

Lisa holds a Graduate Certificate in Agribusiness from the University of Melbourne and an Advanced Diploma in Agriculture. She is also a graduate member of the Australian Institute of Company Directors and a fellow of the Australian Rural Leadership Foundation.

Lisa is a dairy farmer milking 300 cows in Hawkesdale, western Victoria.



Michael Ihlein

BBus (Acc), FCPA, FAICD, F Fin

Michael (Mike) was elected to the Board in October 2012 as a Special Director. He is Chairman of the Finance, Risk and Audit Committee and a member of the Human Resources Committee.

Mike is a highly experienced international business and finance executive. His previous roles include senior leadership roles at Brambles Ltd (Executive Director and Chief Executive Officer) and Coca-Cola Amatil Limited (Executive Director and Chief Financial Officer).

He is currently a director of Scentre Group (since June 2014), CSR Limited (since July 2011), Snowy Hydro Limited (since August 2012) and Kilfinan Australia Limited (since November 2016).

Mike holds a Bachelor of Business from the University of Technology and is a Fellow of CPA Australia, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.



Kelvin Jackson

MAICD

Kelvin was elected to the Board in October 2016. He is a member of the Health, Safety and Compliance Committee and Supplier Relations Committee.

Kelvin brings significant board experience, including directorships with Dairy Australia Limited (2006–2015), Bonlac Foods Limited (1999–2006) and Bonlac Supply Company (2000–2008). He is a member of the Australian Institute of Company Directors.

Kelvin is a dairy farmer milking 400 cows in Hazel Park in Gippsland, Victoria.



Kenneth Jones

Adv. Dip. Ag, MAICD

Kenneth (Ken) was elected to the Board in November 2008 holding the position of Deputy Chairman from 2011 to 2016. He is Chairman of the Human Resources Committee and a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

Ken was formerly a director of Murray Dairy and member of Murray Goulburn's Executive Leadership Team. He has an Advanced Diploma in Agriculture and is a member of the Australian Institute of Company Directors.

Ken is a dairy farmer milking 430 cows at Kergunyah, north-east Victoria.



(George) Harper Kilpatrick

BSc (Ag), MBA, FCA, GAICD

Harper was elected to the Board in October 2016. He is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

Harper is a Chartered Accountant with 20 years' experience in senior management roles in the red meat, dairy and FMCG sectors. He is currently a director of the Australian Dairy Conference Pty Ltd (since February 2015).

He holds a Bachelor of Science in Agriculture, with Honours from the University of Reading, and a Master of Business Administration from the University of Ulster. Harper is also a Fellow of the Institute of Chartered Accountants in Ireland and a graduate member of the Australian Institute of Company Directors.

Harper is a dairy farmer milking 750 cows near Koroit in western Victoria.



Graham Munzel

FAICD

Graham was elected to the Board in November 2008. He is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

Graham is a fellow of the Australian Institute of Company Directors.

Graham is a dairy farmer milking 290 cows at Gunbower in northern Victoria.

Executive Leadership Team



Ari Mervis

BCom

Chief Executive Officer and Managing Director

Ari joined MG in February 2017 as Chief Executive Officer and Managing Director.

Ari has over 27 years' experience in the beverage industry. He was previously Managing Director SABMiller, Asia Pacific and Chief Executive Officer, Carlton & United Breweries with responsibility for overseeing operations in China, India, Vietnam, South Korea and Australia.

He holds a Bachelor of Commerce from the University of the Witwatersrand, South Africa. Since 2012 Ari has been a Non-Executive Director of the Melbourne Business School.



David Mallinson

MBA, GAICD

Chief Financial Officer

David was appointed Chief Financial Officer in 2017.

He joined MG in 2013 and has held a number of senior positions including Chief Executive Officer (Interim) and Executive General Manager Business Operations. Prior to joining MG, David was Chief Financial Officer at Fonterra Australia/New Zealand. He has also held senior roles in Bonlac Foods Ltd and United Milk Tasmania, and previously worked for ANZ and Cadbury Schweppes.

David holds a Master of Business Administration from Monash University and completed the Executive Development Program at Stanford University (US) in 2004. His professional memberships include Fellow of CPA Australia and a graduate member of the Australian Institute of Company Directors. He was appointed to the Board of Dairy Australia in November 2015.



Amy Alston

LLB/BCom (Hons), Grad Dip Applied Finance and Investment (FINSIA), GAICD
General Counsel and Corporate Affairs Director

Amy joined MG in 2013 and has held the role of General Counsel since October 2015. She was appointed Company Secretary in November 2016.

Prior to joining MG, Amy was Senior Corporate Counsel at Deutsche Bank. Her extensive commercial law experience spans 18 years and includes roles with Standard Bank London and Optus.

Amy holds a Bachelor of Law/Bachelor of Commerce (Hons) from the University of Melbourne, a Graduate Diploma in Applied Finance and Investment from FINSIA and is a graduate member of the Australian Institute of Company Directors.



Chris Diaz

MBus

Operations Director

Chris joined MG in 2014 and was appointed Operations Director in 2016. He is responsible for Business Operations including regional manufacturing, operational excellence, quality and environment.

Prior to joining MG, Chris was General Manager Operations at Fonterra Australia and has held senior roles at Foster, Balfours and Goodman Fielder in the areas of manufacturing, technical, continuous improvement and logistics.

Chris holds a Graduate Diploma and Master of Business and Technology from the University of NSW, as well as a Graduate Certificate of Management from Deakin University. Chris has also completed professional certificates in food management, food processing and lean systems (Lean Operational Excellence).



Roz Lever

BSocSc

Human Resources & Safety Director

Roz joined MG in 2014 and was appointed Human Resources and Safety Director in 2016.

Prior to her current role, Roz held senior positions at MG, including General Manager Health and Safety and Head of Business Partnering Business Operations. She brings over 15 years' experience in Human Resource management and 12 years in the dairy industry.

Roz has a Bachelor of Social Science Psychology and a Graduate Certificate in Human Resource Management from Swinburne University.



Bruce Linke

BE (Civil) (Hon), LLB, Grad. Dip. Eng (Construction Management), Grad. Dip. Legal Practice
Transformation Director

Bruce joined MG in 2015 and was appointed Transformation Director in 2017 overseeing procurement and the planning and execution of capital projects.

Bruce was previously the General Manager Major Capital Projects. Prior to joining MG in 2015, he consulted on project structuring, documentation and delivery, and was a Partner in the Finance and Projects team of global law firm DLA Piper. Bruce has also worked as civil engineer and project manager on construction and mining projects in Australia and Asia.

Bruce holds a Bachelor of Engineering (Civil) (Hons) and a Graduate Diploma in Engineering (Construction Management) from Swinburne University. Bruce also has a Bachelor of Laws from Deakin University and a Graduate Diploma in Legal Practice from the Australian National University.



Cameron Smith
BAppSc
Supplier Relations Director

Cameron joined MG in 2017 and was appointed as the Supplier Relations Director in 2017, leading our Field Services, Supplier Services and MG Trading store teams.

Cameron has extensive experience in the dairy industry having held roles with the Department of Agriculture (Victoria), Murray Goulburn and most recently as a Farm Management Consultant with Farmanco Pty Ltd.

Cameron has a Bachelor of Applied Science in Agriculture, a Diploma of Business (Human Resources) and is a Member of the Australian Institute of Agricultural Science and Technology. He is also a past Board Member of Murray Dairy (2004–2010).



Anton van Heerden
BCom (Accounting)
Supply and Logistics Director

Anton joined MG in 2017 as Supply and Logistics Director and is responsible for all inbound and outbound logistics, warehousing and sales and operations planning.

Anton was previously VP Logistics and Operational Integration for APAC South at AB InBev. He has extensive experience in both finance and supply chain.

Anton holds a Bachelor of Commerce (Accounting) and post-graduate Diploma in Accounting from the University of Cape Town, South Africa. He is a qualified Chartered Accountant.



Mike Walsh
BCom, MBA
Commercial Director

Mike joined MG in 2017 as Commercial Director and is responsible for all domestic and international sales, marketing and innovation teams.

Previously, Mike was Chief Operating Officer at Carlton & United Breweries. His extensive experience in the FMCG industry includes 23 years with SABMiller across various roles.

Mike has a Bachelor of Commerce from Rhodes University, South Africa, an MBA from Manchester University Business School and is a qualified Chartered Accountant.

Corporate Governance and Risk Management

We are committed to good corporate governance, transparency in corporate reporting and effective risk management.

The Company's Corporate Governance Statement outlines the key aspects of the Company's corporate governance framework and practices for the year ended 30 June 2017, together with key governance charters, codes and policies. These are available on the Company's website: www.mgc.com.au/investor-centre/governance.

There are various risks that could have a material impact on the achievement of the Company's strategies and future prospects. The Company is committed to the effective

management of risk to reduce uncertainty in the Company's business outcomes and to protect and enhance shareholder and unitholder value.

The Board has adopted the Risk Management Policy which sets out the Company's objectives regarding risk management and outlines the approach to managing risks. Key risks and mitigation activities associated with the Company's objectives are set out below:

Risk description	Mitigation action
Dairy commodity prices	<ul style="list-style-type: none">• Delivery of our strategic initiatives focused on shifting to value added products to reduce exposure to commodity prices.• Commodity price fluctuations will be managed through our commodity risk management policy.
Exchange rate fluctuations	<ul style="list-style-type: none">• Foreign exchange fluctuations will continue to be managed through our hedging policy.
People safety	<ul style="list-style-type: none">• Ongoing focus on delivering our GoalZero safety program through active identification and management of safety hazards.• Continued capital investment to mitigate safety hazards.
Product quality and safety	<ul style="list-style-type: none">• Continue to deliver our food quality and safety program with absolute commitment to meeting or exceeding all food safety requirements.• Continued capital investment to mitigate safety hazards and support the production of quality products.
Attraction, retention and succession of key roles	<ul style="list-style-type: none">• Succession plans and talent management plans in place for key roles.• Renewed experienced leadership team (including CEO and Chairman) in place to deliver key strategic initiatives.
Environmentally sustainable business practices	<ul style="list-style-type: none">• Mechanisms in place to identify, manage and monitor compliance with key environmental requirements across the business.• Focus on reducing our environmental footprint through effective management of our emissions.• Significant investments being made to increase the operational effectiveness and efficiency of our productive assets.
Milk supply	<ul style="list-style-type: none">• Focus on adjusting the operational footprint of the business to support payment of a competitive milk price.• Delivery of key cost saving initiatives.• Delivery of a comprehensive strategic review.
Profitable growth	<ul style="list-style-type: none">• Focused allocation of milk to maximise the profitability of the product portfolio.• Continued investment in delivering our growth strategies into the Asian market.• Optimisation of the existing product portfolio.



Financial Statements

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Directors' Report 2017

The Directors of Murray Goulburn Co-operative Co. Limited (Murray Goulburn or the Company) present their report together with the financial report of the Company and its controlled entities (Group) for the financial year ended 30 June 2017 and the accompanying auditor's report.

Directors

The Directors of the Company at any time during or since the financial year up to the date of this report are:

Director	Directorship period
J Spark	Appointed on 24 March 2017
A Mervis (Chief Executive Officer)	Appointed on 13 February 2017
M Clark	Appointed on 23 November 2016
CJ Dwyer	Appointed on 28 October 2016
LM Dwyer	Appointed on 28 October 2016
KD Jackson	Appointed on 28 October 2016
GH Kilpatrick	Appointed on 28 October 2016
MF Ihlein	Director since 2012
N Akers	Director since 2011
WT Bodman	Director since 2009
KW Jones	Director since 2008
GN Munzel	Director since 2008
PW Tracy	Retired on 31 March 2017
PJO Hawkins	Retired on 23 November 2016
JP Pye	Retired on 28 October 2016
MJ Van de Wouw	Retired on 28 October 2016

Particulars of the Directors' qualifications, experience and Board Committee responsibilities are detailed in the Board of Directors' section of the 2017 Annual Report.

Company Secretaries

Amy Alston (LLB/BCom (Hons), Grad Dip Applied Finance and Investment (FINSIA), GAICD) was appointed as Company Secretary of Murray Goulburn on 23 November 2016 and remains in this role up to the date of this report.

Fiona Smith (BSC/LLB, Grad Dip Applied Governance, FGIA) was Company Secretary up until 23 November 2016.

Natalie McKaig (LLB, Grad Dip Company Secretarial Practice, AGIA) was an additional Company Secretary until 6 January 2017.

Principal Activities

The principal activities of the Group involved the processing of the whole milk of its shareholder suppliers and the manufacture, marketing and distribution of dairy products and the operation of retail stores as a service to the suppliers. No significant change in the nature of these activities occurred during the year.

Dividends Paid or Recommended

Dividends paid or declared by the Company to members during the financial year ended 30 June 2017 are set out in the notes to the Financial Statements. No final dividend has been proposed for the year ended 30 June 2017, which is consistent with the Company's announcement on 2 May 2017 that dividend payments would be suspended to generate additional capital to support the Company's financial position.

Directors' Report 2017 continued

Review of Operations

The Group reported a net loss after income tax of \$370.8 million (2016: \$39.8 million profit) for the financial year ended 30 June 2017. The net profit after tax after applying the Profit Sharing Mechanism (PSM) was \$34.7 million. The 2017 result was impacted by a number of non-recurring items which arose as a result of the asset and footprint review announced on 2 May 2017 which was conducted in response to reduced milk intake across the business. This included the rationalisation of the Group's milk processing footprint, forgiveness of the Milk Supply Support Package, cessation of a number of capital projects and other one-off costs.

Consolidated sales revenue was \$2,491 million (2016: \$2,778 million) for the financial year ended 30 June 2017, a decrease of 10% on the prior year. Sales revenue was impacted by a reduction in milk intake of 21.8% as a result of climatic conditions during the first half of the year which adversely impacted industry milk production as a whole, as well as an aggressive competitive environment which resulted in milk loss to competitors. This was partially offset by a gradual improvement in global dairy commodity prices which began to flow through during the second half of the year.

Future Developments

On 6 June 2017, Murray Goulburn announced the commencement of the strategic review. This review will look at all aspects of Murray Goulburn's strategy including corporate structure, the profit sharing mechanism and capital structure. This review is progressing and is ongoing at this stage.

Disclosure of further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations are likely to result in unreasonable prejudice to the Group. Accordingly, further information has not been disclosed in this Report.

Significant Changes in the State of Affairs

On 5 December 2016, Murray Goulburn announced the mutual agreement to terminate a framework agreement with Mead Johnson Nutrition (MJN) relating to a proposed alliance for the supply of nutritional products.

On 13 February 2017, Mr Ari Mervis commenced as Chief Executive Officer and Managing Director of Murray Goulburn and MG Responsible Entity Limited. Mr Mervis has over 27 years' experience in the beverage industry and held a number of senior management roles with SABMiller, the world's second-largest brewer, including Managing Director of businesses in Swaziland, Russia, Asia and Australia. Mr David Mallinson performed the Chief Executive Officer role on an interim basis from April 2016 until Mr Mervis' commencement.

On 1 April 2017, Mr John Spark was appointed as Chairman of Murray Goulburn, replacing Mr Philip Tracy who retired from the Board on 31 March 2017. Mr Spark has extensive Board experience across a range of large and complex businesses, including the agriculture industry.

On 2 May 2017, the Company announced the outcome of its asset and footprint review which was conducted as an appropriate response to reduced milk intake across the network. These decisions were a continuation of efforts to address Murray Goulburn's cost base, improve efficiencies and ultimately increase earnings and farmgate milk pricing and included:

- closure of manufacturing facilities at Edith Creek in Tasmania and Rochester and Kiewa in Victoria;
- forgiveness of the Milk Supply Support Package;
- cessation of certain proposed capital investments in Dairy Beverages and Nutritionals;
- a commitment to payment of Farmgate Milk Price of \$4.95 per kilogram milk solids for the 2017 financial year; and
- suspension of dividends and a review of the dividend payout ratio.

To enable the Company to implement these initiatives without impacting the FY17 forecast Farmgate Milk Price of \$4.95 per kilogram milk solids, the Company resolved to deviate from the Profit Sharing Mechanism by an amount of up to \$410 million (pre-tax). This was in addition to the announcement in October 2016 of a one-off deviation from the PSM of \$81.8m (pre-tax). Based on the finalisation of results for the year, the final deviation under the Profit Sharing Mechanism was \$487.2 million (pre-tax).

On 1 June 2017, Mr David Mallinson was appointed Chief Financial Officer. Mr Mallinson had previously held various senior positions across the Company since joining in 2013, including Chief Executive Officer (Interim), Executive General Manager Sales and Marketing (Interim) and Executive General Manager Business Operations. Mr Mallinson replaced Mr Alan Tilley, who fulfilled the Chief Financial Officer role on an interim basis for the year up until Mr Mallinson's appointment.

During the year, the Company's new state-of-the-art consumer cheese plant at Cobram commenced production.

No other significant changes in the state of affairs of the Group occurred during the financial year.

Events Subsequent to Balance Date

On 24 July 2017, the Group announced that milk intake for FY18 is expected to be approximately 2.3 billion litres, prior to any significant upside or downside seasonal impact. Murray Goulburn now expects total FY18 milk intake to be approximately 2.0 billion litres. Despite this further reduction in expected milk intake and the continued strength of the Australian dollar, Murray Goulburn confirms that it is maintaining a FY18 opening Southern Milk Region farmgate milk price of \$5.20 per kilogram of milk solids.

A final FMP above \$5.20 per kilogram of milk solids remains under review and is subject to factors including favourable movements in exchange rates and/or dairy commodity prices over the remaining 10 months. Murray Goulburn continues to implement its cost reduction initiatives which will deliver ongoing FMP benefits.

To the extent required to pay a FY18 FMP of at least \$5.20/kg MS, the Board of Directors has agreed that Murray Goulburn will deviate from the Profit Sharing Mechanism by providing access to up to \$100 million to support milk payments. As required by the PSM 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.

The strategic review being supported by Deutsche Bank AG, has been accelerated, and the Group and Deutsche Bank have received a number of unsolicited confidential indicative proposals from third parties. The Board has requested Deutsche Bank to seek more detailed proposals from these and other relevant parties to enable the Group to evaluate the merits of such proposals.

There have been no other matters or circumstances which have arisen between 30 June 2017 and the date of this report that have significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Environmental Regulations

The Company continues to actively track proposed changes to environmental legislation and regulation and incorporates compliance with these changes within its internal processes. In line with environmental legislation, the Company reports on its annual energy use and greenhouse gas emissions under the *National Greenhouse and Energy Reporting Act 2007*. The Company also reports on the annual environmental performance at its licensed sites through requirements outlined by the various state-based environment regulations.

During the financial year, the Victorian Environment Protection Authority (EPA) served an Official Warning on the Company related to a wastewater spill at the Cobram site. Furthermore the Department of Planning and Environment (NSW) issued an Official Caution, Penalty Notice (with associated \$15,000 fine) and Warning Letter related to the Company's non-compliances against the Development Consent of the Erskine Park site. The Company has enacted processes to promptly rectify all instances of non-compliance.

Remuneration

The Remuneration Report containing the remuneration of key management personnel (KMP) is provided on pages 25 to 36.

Insurance of Officers

During the financial year, the Company insured its current and former Directors and Officers against liability to third parties and for costs incurred in defending any civil or criminal proceedings that may be brought against them in their capacity as Directors or Officers of Murray Goulburn Co-operative Co. Limited. This excludes a liability that arises out of wilful breach of duty or improper use of inside information. The premium also insures the Company for relevant indemnity payments it may make to its Directors and Officers in respect of costs and liabilities incurred. Disclosure of the premium payable is prohibited under the conditions of the policy.

Auditor's Independence Declaration

Our auditors have 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 80 of this financial report.

Rounding of Amounts to the Nearest Thousand Dollars

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000), unless otherwise indicated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

This report is made on 22 August 2017 in accordance with a resolution of the Directors.



J Spark
Chairman



A Mervis
Chief Executive Officer
and Managing Director

22 August 2017

Directors' Report 2017 continued

Directors Meetings

Each Director's attendance at meetings held during the year is set out in the table below.

	Board		Finance, Risk & Audit		Compliance*		Remuneration & Nominations*		Supplier Relations	
Scheduled meetings	33		5		4		12		6	
	A	B	A	B	A	B	A	B	A	B
J Spark	7	7	–	–	–	–	7	7	4	4
A Mervis (MD & CEO)	11	11	–	–	–	–	–	–	–	–
M Clark	15	15	–	–	2	2	7	7	–	–
CJ Dwyer	19	19	–	–	2	2	–	–	4	4
LM Dwyer	19	19	3	3	–	–	2	2	4	4
KD Jackson	18	19	–	–	2	2	–	–	4	4
GH Kilpatrick	19	19	3	3	–	–	–	–	4	4
MF Ihlein	29	33	5	5	2	2	12	12	–	–
N Akers	33	33	2	2	2	2	–	–	6	6
WT Bodman	33	33	–	–	4	4	7	7	6	6
KW Jones	33	33	5	5	–	–	12	12	6	6
GN Munzel	33	33	3	3	2	2	–	–	6	6
PW Tracy	25	25	–	–	–	–	7	7	4	4
PJO Hawkins	16	18	2	2	–	–	5	5	–	–
JP Pye	14	14	2	2	–	–	5	5	2	2
MJ Van de Wouw	13	13	–	–	2	2	–	–	2	2

A: Number of meetings attended

B: Number of meetings held during the time the Director held office or was a member of the committee during the year

The MD & CEO has a standing invitation to attend all Board Committee meetings.

* The Compliance Committee became the Health, Safety & Compliance Committee and the Remuneration & Nominations Committee became the Human Resources Committee, from 21 June 2017.

Remuneration Report 2017

This report sets out the remuneration arrangements for Directors and other key management personnel (KMP) of Murray Goulburn for the year ended 30 June 2017 (FY17). Companies that are disclosing entities by virtue of having a wide base of shareholders, but which are not listed, are not required to report on the remuneration of their KMP under section 300A of the Corporations Act. The Board of Murray Goulburn is issuing this Remuneration Report as a voluntary disclosure to enhance transparency and communication with stakeholders in relation to the Company's remuneration practices.

The report covers the following:

Section	What it covers	Page
1. Remuneration snapshot		
1.1. Key points	Provides a summary of the remuneration outcomes for FY17.	26
1.2. Key changes during FY17	Details the key remuneration changes in FY17.	26
1.3. Key Management Personnel	Lists the names and roles of the KMP whose remuneration details are disclosed in this report.	26
2. Setting senior executive remuneration		
2.1. Remuneration governance and strategy	Explains Murray Goulburn's remuneration policy and strategy, and how the Board and Remuneration Committee make decisions, including the use of external consultants.	27
2.2. Remuneration components	Shows how executive remuneration is structured to support business objectives and explains the executive remuneration mix.	27
2.3. FY17 Short Term Incentive Plan (STIP)	Provides details of the FY17 STIP.	29
2.4. FY17 Long Term Incentive Plan (LTIP)	Provides details of the FY17 LTIP.	30
3. Executive remuneration outcomes		
3.1. Financial performance	Provides a breakdown of Murray Goulburn's performance over the past five years.	32
3.2. Short Term Incentive Plan (STIP) outcomes	Details the STIP outcomes for FY17.	32
3.3. Long Term Incentive Plan (LTIP) outcomes	Details the LTIP outcomes for the plan with a performance test at 30 June 2017.	33
3.4. KMP contract details	Lists the key contract terms governing the employment of KMP (including termination entitlements where relevant).	33
4. Non-Executive Director remuneration outcomes		
4.1. Remuneration structure	Provides details of the fee structure for Board and Committee roles.	33
5. Remuneration tables		
5.1. KMP remuneration	Provides the remuneration tables for KMP.	34
5.2. Non-executive Director remuneration	Provides the remuneration tables for the non-executive Directors.	35
5.3. Shareholdings	Outlines the shareholdings of Directors.	36

Remuneration Report 2017 continued

1. Remuneration Snapshot

1.1 Key points

The Group reported a net loss after income tax of \$370.8 million (2016: \$39.8 million profit) for the financial year ended 30 June 2017. The 2017 result was impacted by a number of non-recurring items which arose as a result of the asset and footprint review as announced on 2 May 2017 which was conducted in response to reduced milk intake across the business. This included the rationalisation of the Group's milk processing footprint, forgiveness of the Milk Supply Support Package, cessation of a number of capital projects and other one-off costs.

Consolidated sales revenue was \$2,491 million (2016: \$2,778 million) for the financial year ended 30 June 2017, a decrease of 10% on the prior year. Sales revenue was impacted by a reduction in milk intake of 21.8% as a result of climatic conditions during the first half of the year which adversely impacted industry milk production as a whole, as well as an aggressive competitive environment which resulted in milk loss to competitors. This was partially offset by a gradual improvement in global dairy commodity prices which began to flow through during the second half of the year.

Outcomes for the FY17 year include:

Short Term Incentive Plan Outcomes	The FY17 Short Term Incentive Plan (STIP) outcome for the Chief Financial Officer (CFO) was 21.7 percent of the maximum opportunity based on the assessment of Company and individual performance. A separate STIP was agreed for the CEO (CEO STIP), acknowledging the limited ability for the new CEO to impact performance against the FY17 STIP and to focus incentive reward on key priorities for the Board which were to be achieved within the first 100 days.
Long Term Incentive Plan Outcomes	The Board determined that no LTIP payment would be awarded for the FY15 Long Term Incentive Plan (LTIP).

1.2 Key changes during FY17

During the year there were significant changes to our Executive Leadership Team (ELT), with the appointment of a new Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with a number of other senior executive appointments.

The Board reviewed the design of the Short Term Incentive Plan and replaced the Company and individual mix to an Individual Performance Factor (IPF) mechanism to reward individual performance.

1.3 Key Management Personnel

KMP comprise the Directors of the Company and selected members of the Executive Leadership Team having authority and responsibility for planning, directing and controlling the activities of the Company.

The KMP disclosed in this report are:

Name	Position
Non-executive Director	
J Spark	Chairman [appointed on 24 March 2017]
M Clark	Special Director (Non-executive) [appointed on 23 November 2016]
CJ Dwyer	Non-executive Director [appointed on 28 October 2016]
LM Dwyer	Non-executive Director [appointed on 28 October 2016]
KD Jackson	Non-executive Director [appointed on 28 October 2016]
GH Kilpatrick	Non-executive Director [appointed on 28 October 2016]
MF Ihlein	Special Director (Non-executive)
N Akers	Non-executive Director
WT Bodman	Non-executive Director
KW Jones	Non-executive Director
GN Munzel	Non-executive Director
PW Tracy	Former Chairman [retired on 31 March 2017]
PJO Hawkins	Special Director (Non-executive) [retired on 23 November 2016]
JP Pye	Non-executive Director [retired on 28 October 2016]
M Van de Wouw	Non-executive Director [retired on 28 October 2016]
Executive Director	
A Mervis	Chief Executive Officer (from 13 February 2017)
Executive	
D Mallinson	Interim Chief Executive Officer (until 12 February 2017); Executive General Manager Sales, Marketing and Innovation (from 13 February until 31 May 2017); Chief Financial Officer (from 1 June to 30 June 2017)
F Smith	Chief Operating Officer and Company Secretary (until 28 February 2017)

The report incorporates the disclosure requirements of Australian Accounting Standard AASB 124 *Related Party Disclosures*, as well as those prescribed by the *Corporations Act 2001*. The information provided in this Remuneration Report has been audited as required by the *Corporations Act 2001*. The remuneration reported is for the period that the individual served in the relevant capacity during the year.

2. Setting Senior Executive Remuneration

2.1 Remuneration governance and strategy

The Board has the overall responsibility for approving the remuneration policy of the Company and ensuring that the Company's remuneration arrangements are appropriate and align with the interests of shareholders and unitholders. To assist it in its role, the Board's Human Resources Committee oversees the Company's remuneration policy and framework with particular reference to its application to the Chief Executive Officer and their direct reports. The remuneration arrangements for all other executives are determined by the Chief Executive Officer or relevant managers within the Remuneration Framework approved by the Board. The Board, through the Human Resources Committee, seeks and considers advice from remuneration consultants who are independent of management. No remuneration recommendations as defined in Section 9B of the *Corporations Act 2001* were obtained during the financial year ended 30 June 2017.

The Board recognises that to deliver transformational change the Company needs to be able to attract, motivate and retain high-quality employees and executives. The objective of the executive remuneration strategy is to motivate and reward outstanding performance and align executives' with shareholders' and unitholders' interests. The overall objective of the remuneration policy is to provide remuneration that:

- creates and enhances sustainable long-term value by maximising returns for all shareholders and unitholders;
- provides market competitive and equitable remuneration;
- recognises and rewards high-performing individuals;
- encourages behaviours that support a high-performing organisation.

The Human Resources Committee Charter was reviewed and endorsed by the Board on 21 June 2017.

2.2 Remuneration components

KMP covered by this report are rewarded based on the following remuneration components:

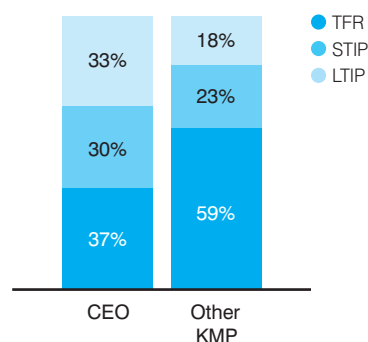
Remuneration Component	Purpose
Total Fixed Remuneration (TFR)	Fixed remuneration rewards the day-to-day accountabilities of the position and is made up of base salary (including salary sacrifice benefits and applicable fringe benefits), fixed allowances and Company contributions to superannuation (paid at the legislative minimum).
Short Term Incentive Plan (STIP)	The STIP is an annual at-risk cash component of remuneration and is performance based. Performance is assessed on the achievement of approved key performance indicators (KPIs).
Long Term Incentive Plan (LTIP)	The LTIP is an at-risk cash component of remuneration and is based on superior performance over a three-year period. Performance is rewarded depending on the Company's achievement of approved three-year performance targets in distributable milk pool and relative total shareholder return. Performance is measured subsequent to the three-year period and any payment made within five months.

Remuneration Report 2017 continued

Our remuneration structure (detailed below) is designed to support our remuneration strategy and is consistent between the Chief Executive Officer and other executives in the KMP group.

Objective	Attract and retain top talent	Motivate and reward outstanding performance	Align executive with shareholder and unitholder wealth
Remuneration	Fixed Remuneration	At-risk Remuneration	
Remuneration Components	Base salary (including salary sacrifice benefits and applicable fringe benefits), fixed allowances and company contributions to superannuation (paid at the legislative minimum).	Short Term Incentive Annual cash bonus	Long Term Incentive Three-year cash plan
Focus	Pay for role size, responsibility and competence	Pay for annual performance against company and individual goals	Pay for longer term performance against Distributable Milk Pool per KG solids and Relative Total Shareholder Return

The graph below shows the FY17 remuneration mix ('At target' STIP and LTIP) for executives in the KMP group as at 30 June 2017. The remuneration structure of the CEO and other KMP comprises both fixed and at-risk remuneration.



2.3 FY17 Short Term Incentive Plan (STIP)

The STIP is an annual, cash based plan aimed at rewarding participants for the achievement of Company and individual performance goals.

The size of the annual Company STIP pool available for distribution to eligible participants is determined by the Board. The pool is based on performance relative to financial and non-financial outcomes.

Participants in the FY17 STIP are determined based on Murray Goulburn's Remuneration Framework and includes ELT members and senior managers.

Any payment under the FY17 STIP is subject to achievement of a gateway requirement. For FY17, milk price was set as the gateway requirement for any payment under the FY17 STIP.

The Board has overriding discretion in relation to all STIP payments.

There are different target STI percentage opportunities applied, which are outlined in the table below:

Role	At Target Opportunity of Fixed Remuneration
Chief Executive Officer	80%
Executive Leadership Team	40%

The Board selected the following Company goals based on their strategic importance.

Performance Measure	Description
Financial – milk price performance	The target closing milk price is set by the Board.
Financial – cost savings an annualised run rate	Deliver the strongest possible farmgate milk price to our suppliers.
Financial – working capital days	Reducing working capital to release cash and offset interest costs.
Safety	The reduction in the Total Recordable Injury Frequency Rate (TRIFR) is a key measure of success for the Company. Each year, the Board sets a percentage reduction that is challenging to achieve.
Quality	To meet the Quality performance conditions, the Company must achieve a target of Complaints per Million Units sold and savings against budgeted write-offs resulting from milk solid losses (yield), downgrades and finished product losses of an amount set by the Board at the start of each financial year.
People	To meet the People performance condition, the Company must implement the operating model according to plan.
Individual KPIs	Individual KPIs are set for all participants in the STIP. The Board approves individual KPIs for the KMP and other members of the Executive Leadership Team KPIs. All individual KPIs are linked to the delivery of the business strategy of the Company.

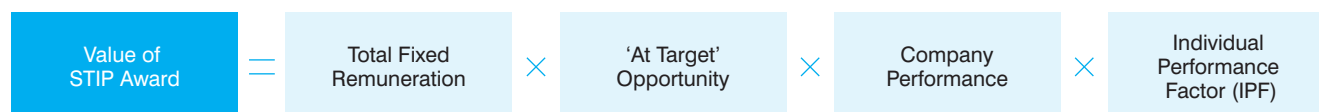
Under the FY17 STIP, STI outcomes are subject to the Company meeting a Southern Region Available Farmgate Milk Price before any STI payments are made. If this 'gateway' is not met, as determined by the Board in its absolute discretion, no employee will receive an STI payment for FY17.

Each Company performance measure has a threshold, target and stretch level of performance. Where threshold performance is not achieved, there is no payment for that component of the incentive.

Performance against Company goals is assessed by the Human Resources Committee. With the exception of the Executive Leadership Team, individual performance is assessed by the employee's manager and confirmed by the Executive Leadership Team. The individual performance of the Executive Leadership Team is determined by the Board and an Individual Performance Factor (IPF) applied. IPFs are generally in the range of 0.8 to 1.2, however in case of under-performance the IPF may be zero and in exceptional circumstances the IPF may be as high as 1.5.

Remuneration Report 2017 continued

STIP Awards are calculated as follows:



As part of the appointment of Mr Mervis as CEO in February 2017 it was agreed a separate short-term incentive plan for the CEO would apply for the remainder of FY17. This was in recognition of the limited ability to impact performance against the FY17 STIP and to focus incentive reward on key priorities for the Board which were to be achieved by June 30 2017, specifically:

- approval and commencement of the asset and footprint review;
- approval and implementation of the changes to the Milk Supply Support Package (MSSP);
- improving stakeholder engagement;
- approval of a new Executive Leadership Team structure and finalisation of new appointments.

For each equally-weighted goal a threshold, target and stretch performance level were set. The minimum goal contribution was 0% and the maximum goal contribution 150%. The CEO's performance is determined by the Board.

For the FY18 STIP the Board intends that the CEO will participate in the same plan as ELT members and senior managers. Details of the FY18 STIP will be reported in the 2018 Annual Report.

2.4 FY17 Long Term Incentive Plan (LTIP)

The LTIP is a three-year cash based plan aimed at rewarding the CEO and ELT members for delivering sustained performance.

The LTIP is made up of the following elements:

Element	Description
Award	Conditional rights to receive cash payment subject to meeting pre-determined performance hurdles. The LTIP is based on two independent performance hurdles being: <ul style="list-style-type: none"> • Distributable Milk Pool (DMP) (50 per cent weighting) • Relative Total Shareholder Return (RTSR) (50 per cent weighting)
Vehicle	<ul style="list-style-type: none"> • Cash linked to unit price movement
Quantum opportunity	Quantum is based on a percentage of fixed remuneration as determined by the Board. The quantum opportunities are based on achieving varying levels of performance with opportunities also available for achieving performance between levels: <p>Chief Executive Officer</p> <p>Threshold performance: 45 per cent of fixed remuneration Target performance: 90 per cent of fixed remuneration Stretch performance: 135 per cent of fixed remuneration</p> <p>Executive Leadership Team</p> <p>Threshold performance: 15 per cent of fixed remuneration Target performance: 30 per cent of fixed remuneration Stretch performance: 60 per cent of fixed remuneration</p>
Performance period	Three-year performance period from 1 July 2016 to 30 June 2019 with no retesting opportunity available at the end of the performance period.
DMP hurdle and target	<ul style="list-style-type: none"> • The purpose of the DMP hurdle is to focus LTIP participants on driving alignment between shareholders and unit holders. • Targets are set by determining a performance hurdle to be achieved by the end of the three-year period, using the year prior to the grant year as the base year. For example, the current grant performance will be assessed on the DMP from FY16 over a three-year period by comparing the actual result in FY19 to the FY16 amount. • The hurdles and related components within the hurdle are based on forecasted levels of financial performance, including forecasted inflation (wage, energy/utilities, and transport) and Company initiatives. This is then normalised to remove the impact of commodity prices and exchange rates. • Three levels of growth targets are set – threshold (80% of target), target (100% of target) and stretch (110% of target). In order for any amount to be payable, at least 80% of the forecast increase in the DMP needs to be achieved over the three-year period.

Element	Description																								
RTSR hurdle and target	<ul style="list-style-type: none"> The purpose of the RTSR hurdle is to ensure that the interests of the executives are closely aligned with those of the Company's shareholders over the long term and to incentivise outperformance of the Company relative to its peers. The RTSR is assessed against the relative performance over the relevant vesting period as measured against a comparator group. 																								
Vesting schedule	<p>Vesting (or entitlement to payment) occurs according to the following schedule for proportion of the LTIP award (subject to each performance measure).</p> <p>Distributable Milk Pool</p> <table> <tr> <td>Achievement of Hurdle</td><td>Proportion of LTIP award (for the 50% related to the DMP Hurdle) that is made available</td></tr> <tr> <td>Below threshold</td><td>0%</td></tr> <tr> <td>Threshold (80% of target)</td><td>50%</td></tr> <tr> <td>Between threshold and target</td><td>Straight line correlation between 50% and 100% of LTIP award opportunity</td></tr> <tr> <td>Target (100% of target)</td><td>100%</td></tr> <tr> <td>Between target and stretch</td><td>Straight line correlation between 100% and 200% of LTIP award opportunity</td></tr> <tr> <td>Stretch (110% of target)</td><td>200%</td></tr> </table> <p>Relative Total Shareholder Return</p> <table> <tr> <td>Achievement of Hurdle</td><td>Proportion of LTIP award (for the 50% related to the RTSR Hurdle) that is made available</td></tr> <tr> <td>Below 50th percentile</td><td>0%</td></tr> <tr> <td>Target (at the 50th percentile)</td><td>100%</td></tr> <tr> <td>Above the 50th but below the 75th percentile</td><td>Straight line correlation between 100% and 200% of LTIP award opportunity</td></tr> <tr> <td>Stretch (equal to or above the 75th percentile)</td><td>200%</td></tr> </table>	Achievement of Hurdle	Proportion of LTIP award (for the 50% related to the DMP Hurdle) that is made available	Below threshold	0%	Threshold (80% of target)	50%	Between threshold and target	Straight line correlation between 50% and 100% of LTIP award opportunity	Target (100% of target)	100%	Between target and stretch	Straight line correlation between 100% and 200% of LTIP award opportunity	Stretch (110% of target)	200%	Achievement of Hurdle	Proportion of LTIP award (for the 50% related to the RTSR Hurdle) that is made available	Below 50th percentile	0%	Target (at the 50th percentile)	100%	Above the 50th but below the 75th percentile	Straight line correlation between 100% and 200% of LTIP award opportunity	Stretch (equal to or above the 75th percentile)	200%
Achievement of Hurdle	Proportion of LTIP award (for the 50% related to the DMP Hurdle) that is made available																								
Below threshold	0%																								
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Above the 50th but below the 75th percentile	Straight line correlation between 100% and 200% of LTIP award opportunity																								
Stretch (equal to or above the 75th percentile)	200%																								
Adjustments to performance hurdles	Performance hurdles can be amended at the discretion of the Board during the performance period but only following a change to the target setting approach and/or assessment methodology as agreed by the Board or to prevent the participant from receiving an inappropriate benefit in certain circumstances.																								
Adjustments to LTIP award outcomes	Following the end of a performance period, the Board may take into account certain items or factors that may have assisted or hindered the participant in achieving the performance hurdles (beyond those already factored into the forecasted targets). The Board has the discretion to adjust the outcome either upwards or downwards to account for such items or factors or to prevent the participants receiving an inappropriate benefit in certain circumstances. The Board will also give consideration to the Company's performance against that of its competitors.																								
Cessation of employment	On leaving the Company by reason of resignation or termination for cause, all unvested LTI Awards will lapse. Where employment ceases for any other reason a participant's LTI Award will continue on foot and vest subject to performance against existing hurdles, subject to Board discretion.																								

Summary of FY17 LTIP Grant

Element	Description
Grant date	1 July 2016
Performance hurdle	DMP and RTSR
DMP assessment	The hurdle will not be assessed for vesting until the three-year performance period is completed (30 June 2019)
RTSR assessment	The hurdle will not be assessed for vesting until the three-year performance period is completed (30 June 2019)
Payment date	Any payment will be made by 30 November 2019

Remuneration Report 2017 continued

3. Executive remuneration outcomes

3.1 Financial performance

Details of Murray Goulburn's past five-year earnings and dividends are summarised in the table below:

Performance Measure	FY17 \$/kgms	FY16 \$/kgms	FY15 \$/kgms	FY14 \$/kgms	FY13 \$/kgms
Available Milk Price	\$4.95	\$4.80 ⁽ⁱ⁾	\$6.02	\$6.81	\$4.97
	\$m	\$m	\$m	\$m	\$m
Net Sales Revenue	2,491	2,778	2,872	2,917	2,385
Profit (Loss) After Tax	(370.8)	39.8	21.2	29.3	34.9
Dividends ⁽ⁱⁱ⁾	9.4	41.1	32.3	28.0	25.1

(i) The reported FY16 Available Milk Price is before the Milk Supply Support (MSSP) package provided to suppliers.

(ii) All amounts reflect dividends declared in the period.

3.2 Short Term Incentive Plan (STIP) outcomes

At the end of FY17, the Board reviewed Murray Goulburn's audited financial results and the results of other performance measures. The Board has assessed performance against each measure and determined the percentage of STIP that was payable. In line with 2.3 the Board has overriding discretion in relation to all STIP payments.

The table below summarises the outcomes of the performance measures for FY17:

Area of Focus	Typical Achievements Required	Company Performance
Financial	Achievement of milk price performance	At Threshold
Financial	Achievement of cost savings	Between Threshold and Target
Financial	Achievement of annualised run rate	Between Target and Stretch
Financial	Achievement of working capital days targets	Below Threshold
Safety	Percentage reduction in TRIFR on previous year	Between Target and Stretch
Quality	Reduction in Complaints per million units sold	Between Target and Stretch
Quality	Reduce operational cost of quality	Between Threshold and Target
People	Implement the operating model according to plan	At Target

The table below shows the percentage of STI payments awarded and forfeited for each KMP.

Name	Short Term Incentive	
	Percentage of Maximum STI Awarded %	Percentage of Maximum STI Forfeited %
Chief Executive Officer		
A Mervis	91.7	8.3
Chief Financial Officer		
D Mallinson	21.4	78.6

3.3 Long Term Incentive Plan (LTIP) outcomes

The performance period for the FY15 LTIP concluded on 30 June 2017. The only participant in this plan is the CFO.

The Board has determined that the vesting outcomes are in accordance with the results and the LTIP rules. Vesting outcomes for both Implied Milk Price Growth and Return on Capital Employed are detailed below:

Test date	Long Term Incentive	
	Performance Measure	% of Total Plan Vested (Max)
30 June 2017	Implied Milk Price Growth	0% of max
	Return on Capital Employed	0% of max

3.4 KMP contract details

The Company has entered into employment contracts with executives in the KMP group. The employment contracts have no fixed term and outline the components of remuneration to be paid. The employment contracts are capable of termination by the Company or the KMP on either six months' written notice (for the Chief Executive Officer) or three months' notice (for other KMP). The Company may terminate employment immediately by providing payment in lieu of notice. Any termination payment is calculated on fixed remuneration as at the date of termination. The details of those contracts with the relevant KMP can be seen in the table below:

Name	Title	Date of Appointment
A Mervis	Chief Executive Officer	13 February 2017
D Mallinson	Chief Financial Officer	1 June 2017

F Smith employment ended on 28 February 2017.

4. Non-executive Director Remuneration Outcomes

4.1 Remuneration structure

Non-executive Director remuneration is dealt with separately from executive remuneration and is determined with regard for the need of the Company to have appropriately experienced and qualified Board members. It also takes into account the considerable amount of time that the Directors are required to devote.

The Murray Goulburn Board and Committee fee structure (inclusive of superannuation) during FY17 was:

Chairman fee	\$325,000
Director base fee	\$130,000
Plus additional fees for:	
Deputy Chairman fee	\$40,000
Finance, Risk & Audit Chair fee	\$30,000
Other Committee Chair fee	\$20,000
> 1 Committee membership fee	\$10,000

The total fees (exclusive of non-monetary and post-termination benefits) for Non-executive Directors for FY17 was \$1,765,201.

Table 5.2 provides full details of Non-executive Director Remuneration for FY17.

Remuneration Report 2017 continued

5. Remuneration Tables

5.1 KMP remuneration

	Short Term Benefits				Leave Benefits			Long Term Benefits	Post-Employment Benefits		Proportion of Remuneration Performance Related %
	Salary and Allowances \$	STI Cash Bonus \$	Non-Monetary ⁽ⁱ⁾ \$	Subtotal \$	Annual Leave Accrued (taken) \$	Long Service Leave Accrued (taken/ forfeited) \$	Subtotal of Leave Benefits \$	LTI Cash Incentives ⁽ⁱⁱ⁾ \$	Super-annuation \$	Total \$	
Executive Officers											
2017											
Current											
A Mervis ⁽ⁱⁱⁱ⁾	567,480	550,000	–	1,117,480	37,361	9,323	46,684	166,667	8,173	1,339,004	53.5
D Mallinson ^(iv)	1,429,236	116,139	–	1,545,375	(18,284)	11,255	(7,029)	(13,260)	19,616	1,544,702	6.7
Former											
F Smith ^(v)	1,194,738	79,522	–	1,274,260	(44,172)	(51,894)	(96,066)	(296,862)	14,712	896,044	(24.3)
Total	3,191,454	745,661	–	3,937,115	(25,095)	(31,316)	(56,411)	(143,455)	42,501	3,779,748	
2016 ^(vi)											
D Mallinson	671,891	–	–	671,891	45,791	12,256	58,047	4,929	19,308	754,175	0.7
G Helou	2,714,463	–	130,732	2,845,195	(262,489)	(104,194)	(366,683)	(494,000)	18,659	2,003,171	–
F Smith	603,934	–	–	603,934	4,498	19,577	24,075	8,433	19,308	655,750	1.3
A Moncau	792,531	–	–	792,531	8,081	9,696	17,777	–	19,308	829,616	–
B Hingle	625,657	–	–	625,657	12,904	10,303	23,207	(138,875)	19,308	529,297	–
Total	5,408,476	–	130,732	5,539,208	(191,215)	(52,362)	(243,577)	(619,513)	95,891	4,772,009	

Remuneration disclosed relates to the period during which each executive officer qualifies as KMP.

- (i) Non-monetary compensation includes the provision of motor vehicle.
- (ii) This table has been prepared in accordance with the requirements of the Corporations Act and the relevant Australian Accounting Standards. The figures provided under the long term benefits column are based on accounting values and do not reflect actual payments received by executives in FY17.
- (iii) A Mervis commenced as CEO on 13 February 2017.
- (iv) D Mallinson received an additional payment during his appointment as Interim CEO until 12 February 2017 and a retention payment to facilitate the transition to the new CEO.
- (v) F Smith employment ended on 28 February 2017. She was paid statutory annual leave entitlements, notice and a termination payment.
- (vi) G Helou, A Moncau and B Hingle ceased being KMP in 2016. Refer to 2016 Murray Goulburn Annual Report for details.

5.2 Non-executive Director remuneration

	Short Term		Post-Employment	
	Fees & Salary \$	Non-Monetary \$	Super-annuation \$	Total \$
Non-executive Directors				
2017				
J Spark ⁽ⁱ⁾	78,927	–	5,149	84,076
M Clark ⁽ⁱⁱ⁾	88,556	–	8,413	96,969
CJ Dwyer ⁽ⁱⁱⁱ⁾	85,486	–	8,121	93,607
LM Dwyer ^(iv)	85,486	–	8,121	93,607
KD Jackson ^(v)	85,486	–	8,121	93,607
GH Kilpatrick ^(vi)	85,485	–	8,121	93,606
M Ihlein	167,205	–	15,884	183,089
N Akers	127,853	–	12,146	139,999
WT Bodman	138,646	–	13,171	151,817
KW Jones	152,062	–	14,446	166,508
GN Munzel	127,853	–	12,146	139,999
PW Tracy ^(vii)	254,458	27,572	14,712	296,742
PJO Hawkins ^(viii)	69,012	–	6,556	75,568
JP Pye ^(ix)	176,576	966	4,572	182,114
M Van de Wouw ^(x)	42,110	966	4,001	47,077
Total	1,765,201	29,504	143,680	1,938,385
2016				
PW Tracy	269,743	28,213	16,090	314,046
N Akers	106,544	–	10,122	116,666
WT Bodman	106,544	–	10,122	116,666
PJO Hawkins	158,890	–	14,443	173,333
MF Ihlein	151,063	–	13,937	165,000
ML Jelbart	107,029	–	10,168	117,197
KW Jones	136,986	–	13,014	150,000
K Grant	16,815	–	1,597	18,412
ED Morris	109,450	–	10,398	119,848
GN Munzel	106,544	–	10,122	116,666
JP Pye	121,765	–	11,568	133,333
M Van de Wouw	106,544	–	10,122	116,666
Total	1,497,917	28,213	131,703	1,657,833

(i) J Spark appointed on 24 March 2017.

(ii) M Clark appointed on 23 November 2016.

(iii) C Dwyer appointed on 28 October 2016.

(iv) L Dwyer appointed on 28 October 2016.

(v) K Jackson appointed on 28 October 2016.

(vi) G Kilpatrick appointed on 28 October 2016.

(vii) P Tracy retired on 31 March 2017. Non-monetary compensation includes provision of a motor vehicle.

(viii) P Hawkins retired on 23 November 2016.

(ix) J Pye retired on 28 October 2016.

(x) M Van de Wouw retired on 28 October 2016.

Remuneration Report 2017 continued

5.3 Shareholdings

Direct and indirect shareholdings of Directors in the parent entity	Shares held at 30 June 2016 Ordinary No.	Shares held at 28 October 2016 Ordinary No. ⁽ⁱ⁾	Acquired Shares Ordinary No. ⁽ⁱⁱ⁾	Shares held at 30 June 2017 Ordinary No. ⁽ⁱⁱⁱ⁾
PW Tracy	1,673,135	–	–	–
N Akers	375,133	–	29,877	405,010
WT Bodman	212,793	–	572	213,365
CJ Dwyer	–	123,308	–	123,308
LM Dwyer	–	299,971	–	299,971
KD Jackson	–	222,187	14,668	236,855
KW Jones	278,154	–	8,282	286,436
GH Kilpatrick	–	438,704	–	438,704
GN Munzel	256,740	–	–	256,740
JP Pye	314,418	–	–	–
MJ Van de Wouw	418,862	–	–	–
	3,529,235	1,084,170	53,399	2,260,389

Direct and indirect holdings of Directors and KMP in MG Unit Trust	Units held at 30 June 2016	Units held at 28 October 2016 ⁽ⁱ⁾	Acquired Units ^(iv)	Units held at 30 June 2017 ⁽ⁱⁱⁱ⁾
PW Tracy	47,619	–	–	–
N Akers	30,884	–	–	30,884
WT Bodman	–	–	–	–
CJ Dwyer	–	–	–	–
LM Dwyer	–	193,758	–	193,758
KD Jackson	–	–	–	–
KW Jones	28,571	–	1,434	30,005
GH Kilpatrick	–	–	74,763	74,763
D Mallinson	31,904	–	–	31,904
A Mervis	–	–	107,000	107,000
GN Munzel	27,619	–	–	27,619
JP Pye	15,000	–	–	–
F Smith	4,761	–	–	–
MJ Van de Wouw	47,619	–	–	–
	233,977	193,758	183,197	495,933

(i) CJ Dwyer, LM Dwyer, KD Jackson and GH Kilpatrick shareholdings and/or unitholdings as at 28 October 2016, being the date of their appointment.

(ii) Shares acquired either as a result of the Dividend Reinvestment Plan or by participation in the monthly Supplier Offtake Program.

(iii) PW Tracy, JP Pye and MJ Van de Wouw retired from the office of Director during the current financial year and accordingly their shareholdings and/or unitholdings at 30 June 2017 are not disclosed. F Smith's employment ended on 28 February 2017 and accordingly her unitholdings at 30 June 2017 are not disclosed.

(iv) MG Units either acquired as a result of the Distribution Reinvestment Plan or via on-market purchases.

Under the Securities Dealing Policy, Special Directors (external Directors) should not acquire Units in the MG Unit Trust (to avoid any perception of conflict of interest) – it is noted J Spark, M Clark and MF Ihlein do not hold Units.

Consolidated Statement of Profit or Loss

for the financial year ended 30 June 2017

	Note	2017 \$000	2016 \$000
Sales revenue	4	2,491,053	2,777,672
Cost of sales		(2,169,224)	(2,366,640)
Gross profit		321,829	411,032
Other income	4	9,413	23,621
Share of associates' losses	13	(642)	(1,648)
Distribution expenses		(167,357)	(194,299)
Selling and marketing expenses		(83,792)	(93,084)
Administration expenses		(119,310)	(59,707)
Finance costs	5	(24,882)	(23,445)
Other expenses		(355,847)	(4,928)
Profit/(Loss) before income tax		(420,588)	57,542
Income tax benefit/(expense)	6	49,788	(17,694)
Profit/(Loss) for the year		(370,800)	39,848
Attributable to:			
Equity holders of the parent	24	(370,800)	40,577
Non-controlling interest		–	(729)
Profit/(Loss) for the year		(370,800)	39,848

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the financial year ended 30 June 2017

	Note	2017 \$000	2016 \$000
Profit/(Loss) for the year		(370,800)	39,848
Other comprehensive income			
Items that will not be classified subsequently to profit or loss:			
Increment (Decrement) on revaluation of land and buildings	23	(67,157)	21,080
Net change in fair value of equity instruments measured at fair value through other comprehensive income	23	26	43
Income tax relating to items that will not be reclassified subsequently	6	20,139	(6,337)
Items that may be reclassified subsequently to profit or loss:			
Transfer to income statement on cash flow hedges	23	3,706	238
Gain (Loss) on cash flow hedges taken to equity	23	10,859	(8,600)
Exchange differences arising on translation of foreign operations	23	(1,588)	(753)
Income tax relating to items that may be reclassified subsequently	6	(4,370)	2,509
Total comprehensive (loss) income for the year		(409,185)	48,028
Attributable to:			
Equity holders of the parent		(409,185)	48,757
Non-controlling interest		–	(729)
Total comprehensive (loss) income for the year		(409,185)	48,028

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 30 June 2017

	Note	2017 \$000	2016 \$000
Current assets			
Cash	29(A)	19,368	27,276
Receivables	9	281,824	352,558
Inventories	10	464,532	568,660
Other assets	11	13,969	62,702
Derivative financial instruments	18	3,147	555
Total current assets		782,840	1,011,751
Non-current assets			
Investments accounted for using the equity method	13	4,511	7,649
Property, plant and equipment	14	759,060	932,170
Intangible assets	15	100,148	103,501
Deferred tax assets	6	24,225	2,165
Other assets	11	4,825	120,597
Total non-current assets		892,769	1,166,082
Total assets		1,675,609	2,177,833
Current liabilities			
Payables	16	375,483	386,305
Borrowings	17	–	90,224
Current tax payable		–	6,866
Provisions	19	80,777	48,121
Derivative financial instruments	18	45	–
Total current liabilities		456,305	531,516
Non-current liabilities			
Payables	16	783	1,000
Borrowings	17	463,910	417,428
Provisions	19	19,220	10,726
Deferred tax liabilities	20	–	41,469
Total non-current liabilities		483,913	470,623
Total liabilities		940,218	1,002,139
Net assets		735,391	1,175,694
Equity			
Issued capital	22	730,116	730,116
Reserves	23	139,592	178,046
Retained earnings	24	(134,317)	267,532
Parent entity interest		735,391	1,175,694
Non-controlling interest		–	–
Total equity		735,391	1,175,694

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the financial year ended 30 June 2017

	Issued Capital \$000	Capital Reserve \$000	Asset Revaluation Reserve \$000
	Note 22	Note 23	Note 23
Balance as at 1 July 2015	229,059	36,916	130,100
Profit (loss) for the year	–	–	–
Other comprehensive income	–	–	14,756
Total comprehensive income	–	–	14,756
Payment of dividends	–	–	–
Issue of ordinary shares/units to investors	501,576	–	–
Transferred to retained earnings (net of tax)	–	–	–
Capital raising costs	(519)	–	–
Difference on acquisition of interest in subsidiary	–	–	–
Transferred to retained earnings (net of tax)	–	–	–
Balance as at 30 June 2016	730,116	36,916	144,856
Profit (loss) for the year	–	–	–
Other comprehensive income	–	–	(47,010)
Total comprehensive income	–	–	(47,010)
Payment of dividends	–	–	–
Transferred to retained earnings (net of tax)	–	–	–
Balance as at 30 June 2017	730,116	36,916	97,846

General Reserve \$000	Hedge Reserve \$000	Investment Revaluation Reserve \$000	Transactions with Non-controlling Interests Reserve \$000	Foreign Currency Translation Reserve \$000	Retained Earnings \$000	Attributable to Owners of the Parent \$000	Non-Controlling Interests \$000	Total \$000
Note 23	Note 23	Note 23	Note 23	Note 23	Note 24			
5,257	(12,771)	21	(1,403)	10,343	280,780	678,302	1,937	680,239
–	–	–	–	–	40,577	40,577	(729)	39,848
–	(5,853)	30	–	(753)	–	8,180	–	8,180
–	(5,853)	30	–	(753)	40,577	48,757	(729)	48,028
–	–	–	–	–	(44,700)	(44,700)	–	(44,700)
–	–	–	–	–	–	501,576	–	501,576
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	(519)	–	(519)
–	–	–	(4,370)	–	(3,352)	(7,722)	(1,208)	(8,930)
–	–	–	5,773	–	(5,773)	–	–	–
5,257	(18,624)	51	–	9,590	267,532	1,175,694	–	1,175,694
–	–	–	–	–	(370,800)	(370,800)	–	(370,800)
–	10,195	18	–	(1,588)	–	(38,385)	–	(38,385)
–	10,195	18	–	(1,588)	(370,800)	(409,185)	–	(409,185)
–	–	–	–	–	(31,118)	(31,118)	–	(31,118)
–	–	(69)	–	–	69	–	–	–
5,257	(8,429)	–	–	8,002	(134,317)	735,391	–	735,391

Consolidated Statement of Cash Flows

for the financial year ended 30 June 2017

	Note	2017 \$000	2016 \$000
Cash flows from operating activities			
Receipts from customers		2,612,319	2,901,269
Payments to suppliers and employees		(2,427,256)	(2,784,121)
		185,063	117,148
Dividends received		2,075	3,995
Interest received		1,281	3,009
Interest paid		(24,585)	(21,838)
Income taxes paid		(4,912)	(16,670)
Net cash inflow from operating activities	29(B)	158,922	85,644
Cash flows from investing activities			
Payments for property, plant and equipment		(96,209)	(139,943)
Payments to acquire intangible software assets		(11,687)	(45,403)
Payments to acquire intangible brand name assets		–	(1,000)
Proceeds from the sale of property, plant and equipment		873	2,058
Proceeds from sale of financial assets		–	18,599
Milk supplier support amounts repaid (advanced)		315	(183,334)
Payments for investments in subsidiaries		–	(5,578)
Net cash (outflow) from investing activities		(106,708)	(354,601)
Cash flows from financing activities			
Dividends paid	8	(31,118)	(44,700)
Proceeds from the issue of ordinary shares		–	500,000
Payment of capital raising costs		–	(21,546)
Proceeds from borrowings		345,000	670,670
Repayment of borrowings		(374,658)	(811,524)
Net cash (outflow) inflow from financing activities		(60,776)	292,900
Net (decrease) increase in cash		(8,562)	23,943
Cash at the beginning of the year		27,276	3,802
Effect of exchange rate fluctuations on cash held		654	(469)
Cash at the end of the year	29(A)	19,368	27,276

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for the financial year ended 30 June 2017

Note 1: Summary of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'), which ensure that the consolidated financial statements and accompanying notes comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 22 August 2017. The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. The Group is a for-profit entity.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000), unless otherwise indicated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

In applying the Group's accounting policies, below, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions.

Certain comparative information has been reclassified to align with current year expense classification. This amendment has no effect on the profit before income tax or the total comprehensive income for the year attributable to equity holders of the parent or the non-controlling interests.

A) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Murray Goulburn Co-operative Co. Limited ('Company') as at 30 June 2017 and the results of all controlled entities for the year then ended from the date on which the Company obtained control. The effects of all transactions between entities in the Group are eliminated in full. The Company and its controlled entities together are referred to in this financial report as the Group.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to the Statement of Profit or Loss in the period of acquisition.

The interest of non-controlling shareholders in the equity of controlled entities is shown separately in the consolidated balance sheet.

The Group recognises non-controlling interests in an acquired entity as the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

B) Income tax

Current tax

Current tax represents income taxes payable or recoverable in respect of the taxable profit or loss for the period. Current tax is recognised in the income statement, except when it relates to items credited or debited directly to equity, and is calculated based on tax rates and tax laws current as at reporting date.

Deferred tax

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Deferred tax is recognised in the income statement except (i) when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or (ii) where it relates to items arising from the initial recognition of assets and liabilities, other than as a result of business combinations, which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets relating to deductible temporary differences and unused tax losses are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the rate of income tax expected to apply in the period in which the benefit will be received or the liability will become payable based on applicable tax rates and tax laws.

Offsetting deferred tax balances

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset and when the deferred tax balances relate to the same taxation authority and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 1: Summary of Significant Accounting Policies continued

Tax consolidation

The Company and certain of its wholly owned Australian entities are part of a tax consolidated group. Murray Goulburn Co-operative Co. Limited, (head entity in the tax consolidated group) and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. Each entity in the tax consolidated group measures these tax amounts using the group allocation approach. Under the group allocation approach, the tax effect of intercompany transactions is recognised within each wholly owned and controlled entity.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity).

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement.

Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period the difference is recognised as a contribution from (or distribution to) equity participants.

C) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange and interest rate risk, including forward exchange contracts, currency options and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 27.

Derivatives are initially recognised at fair value at the time of entering a derivative contract and are subsequently remeasured to fair value at each reporting date. The fair value calculation of derivative financial instruments is measured by using valuation techniques based on observable market prices or rates. The resulting gain or loss is recognised in the Consolidated Statement of Profit or Loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either fair value hedges when they hedge the exposure to changes in the fair value of recognised assets, liabilities or firm commitments or cash flow hedges when they hedge exposure to variability in cash flows of highly probable forecast transactions.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised in the Consolidated Statement of Profit or Loss. Amounts deferred in equity are transferred to profit or loss in the period when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, no longer qualifies for hedge accounting or the Group revokes the hedge relationship. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the Consolidated Statement of Profit or Loss.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Consolidated Statement of Profit or Loss.

D) Foreign currencies

Foreign currency transactions during the year are converted to Australian currency at the exchange rate ruling at the date of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Exchange differences are recognised in the income statement in the period in which they arise except for differences on transactions entered into to hedge certain foreign currency risks – refer Note 1(c) above.

E) Property, plant and equipment

Land and buildings are measured at fair value. Plant and equipment are included at cost being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition less impairment. The cost of fixed assets constructed within the Group includes the cost of materials and direct labour. All fixed assets including buildings and capitalised leasehold assets, but excluding freehold land, are depreciated over their estimated useful lives commencing from the time the asset is held ready for use.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the Consolidated Statement of Profit or Loss, in which case the increase is credited to the Consolidated Statement of Profit or Loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in the Consolidated Statement of Profit or Loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Note 1: Summary of Significant Accounting Policies continued

When an item of land and buildings is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount.

The gain or loss on disposal of all fixed assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the income statement of the group in the year of disposal. Any realised revaluation increment relating to the disposed asset that is included in the asset revaluation reserve is transferred to retained earnings.

F) Depreciation of property, plant and equipment

Depreciation is calculated using the straight line method (2016: straight line method) to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the Group.

The expected useful lives are as follows:

- Buildings – 25 to 50 years
- Plant and equipment – 5 to 25 years
- Vehicles – 3 to 8 years
- Tankers – 10 to 20 years
- Software – 3 to 10 years

G) Impairment of assets

The carrying amount of assets is reviewed each balance date to identify any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses are recognised in the income statement unless the asset is carried at valuation, in which case the impairment loss is recognised as a revaluation decrease to the extent of any previous increase.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised in the Consolidated Statement of Profit or Loss immediately.

H) Milk Supply Support Package (MSSP)

At 30 June 2016, the Milk Supply Support Package (MSSP) was recorded as the aggregate amount advanced to each supplier, less an impairment provision for suppliers retiring or transferring to a competitor. The advances were interest bearing with the finance component recognised in finance income over the life of the advance.

The recoupment of the MSSP advances occurred 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 \$49.3 million. Of the \$34.8 million, \$31.8 million formed part of the deviation from the Profit Sharing Mechanism.

On 2 May 2017, the Group announced that all outstanding advances under the MSSP would be forgiven. As a result, the impairment provision of \$49.3 million previously raised was reversed and MSSP advances totalling \$179.8 million have been derecognised from the Consolidated Statement of Financial Position, with the forgiveness recognised in the Consolidated Statement of Profit or Loss.

I) Financial assets

Trade receivables, loans and other receivables are recorded at amortised cost, using the effective interest method, less impairment through the allowance account.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including fees and transaction costs) through the expected life of the financial asset or, where appropriate, a shorter period.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 1: Summary of Significant Accounting Policies continued

Listed shares held by the Group that are traded in an active market are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the investment is disposed of the cumulative gain or loss previously accumulated in the investments revaluation reserve is transferred to retained earnings. Dividends are recognised in the Consolidated Statement of Profit or Loss when the Group's right to receive the dividends is established.

J) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority. In this case the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities that is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

K) Intangible assets

Intangible assets are recorded at cost less impairment. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

L) Leases

Leased assets classified as finance leases are capitalised as fixed assets. A finance lease effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of the leased asset. The amount initially brought to account is the fair value or, if lower, the present value of minimum lease payments.

Capitalised leased assets are amortised on a reducing balance basis over the estimated useful life of the asset. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Profit or Loss on a straight line basis over the term of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term.

M) Inventories

Dairy produce stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour, maturation costs and an allocation of manufacturing overheads. Cost of direct materials include a fresh milk component, which is based on the final outcome for the actual weighted Southern Milk Region farmgate milk price under the PSM, which is based on the final, full year audited financial results of the Group. Stores, packing materials and Murray Goulburn Trading stocks have been valued at the lower of cost and net realisable value.

Net realisable value represents the estimated selling price less selling, marketing and distribution costs.

N) Investment in associates

The Group's investment in its associates (investees) is initially recorded at cost and subsequently accounted for using the equity method. The carrying amount of the investment is adjusted to recognise changes in the Group's interest in the net assets of the investees. Dividends received from the investees are recognised as a reduction in the carrying amount of the investment. Goodwill relating to the investees is included in the carrying amount of the investment and is assessed for impairment as part of that investment.

The Group's share of the results of the investees is reported in the Consolidated Statement of Profit or Loss and its share of movements in other comprehensive income is recognised in other comprehensive income. Changes in the Group's share of the net assets of the investees, due to dilution caused by an issue of equity by the investees, are recognised in the Consolidated Statement of Profit or Loss as a gain or loss.

Investments in investees are reviewed for impairment at least annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment review compares the net carrying value with the recoverable amount, where the recoverable amount is the higher of the value in use calculated as the present value of the Group's share of the associate's future cash flows and its fair value less costs of disposal.

O) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the assets and liabilities acquired, is recognised as an asset and, for the purpose of impairment testing, is allocated to the cash generating unit to which it relates. Goodwill is tested for impairment annually or where an indicator of impairment is identified. Goodwill is not amortised, however, any impairment is recognised immediately in the Consolidated Statement of Profit or Loss.

P) Accounts payable

Trade payables and other accounts payable are all classified as financial liabilities held at amortised cost. Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which were unpaid at the end of the financial year and these amounts are unsecured. The carrying value of trade and other payables is considered to approximate fair value due to the short-term nature of the payables.

Note 1: Summary of Significant Accounting Policies continued

Q) Provisions

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

The Group also recognises provisions under the following circumstances:

- Redundancy and restructuring – When the Group has a detailed formal restructuring plan and the restructuring has either commenced or has been publicly announced, including discussions with affected personnel, with employee-related costs recognised over the period of any required further service. Future operating costs in relation to the restructuring are not provided for.
- Decommissioning and environmental remediation – When the Group has a legal or constructive obligation to restore a site on which an asset is located, including taking into account environmental laws and regulations. The provision is measured based on the present value of the estimated costs of restoring the site.
- Onerous contracts – When the Group no longer expects to receive economic benefit from contractual arrangements. The provision is measured based on the unavoidable cost of meeting the contractual obligations where economic benefits are no longer expected to be received.

R) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions are measured at their nominal values using the remuneration rate expected to apply at the time of settlement where they are expected to be settled within 12 months. Provisions not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows in respect of services provided up to balance date.

S) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Consolidated Statement of Profit or Loss over the period of the borrowing using the effective interest method.

T) Borrowing costs

Interest expense is recognised using the effective interest method. Borrowing costs attributable to qualifying assets are capitalised as part of the cost of those assets.

U) Revenue recognition

The Group recognises revenue relating to sales of goods across its core segments being Ingredients and Nutritionals, Dairy Foods and Other (principally Farming Supplies). Sales are made under a variety of different customer terms and conditions and there are a number of factors which impact the timing and value of revenue recognised, including:

- a range of shipping terms;
- various pricing mechanisms, including rise and fall arrangements, commodity price true-ups, cost plus and discounts and rebates; and
- contract packaging, consignment and other arrangements that require determination of which party is the primary seller and who is acting as agent.

Revenue from the sale of goods and disposal of assets is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue is disclosed net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Interest revenue is recognised on a time proportion basis using the effective interest method. Dividend revenue is recognised when the Group's right to receive the dividends is established.

V) Parent entity disclosures

The financial information for the parent entity, Murray Goulburn Co-Operative Co. Limited, as disclosed in Note 30, has been prepared on the same basis as the consolidated financial statements except for investments in subsidiaries and associates which are accounted for at cost in the financial statements of Murray Goulburn Co-Operative Co. Limited. Dividends received from associates are recognised in the parent entity's Statement of Profit or Loss when the right to receive the dividend is established.

W) Capital structure

The Group established the MG Unit Trust, a special-purpose funding vehicle, which is listed on the Australian Stock Exchange. The exposure of the MG Unit Trust, and therefore Unitholders, to Murray Goulburn is only economic.

The MG Unit Trust is a managed investment scheme registered under the *Corporations Act 2001*. It is managed by MG Responsible Entity Limited which is a wholly owned subsidiary of Murray Goulburn Co-operative Co. Limited. MG Responsible Entity Limited's powers, rights and liabilities in relation to MG Unit Trust are governed by the *Corporations Act 2001*, the Trust Constitution dated 1 May 2015, the Continuous Disclosure Deed Poll, the Relationship Deed dated 18 May 2015, the Profit Sharing Mechanism Deed dated 25 May 2015, the Note Terms per Appendix B of the MG Unit Trust Product Disclosure Statement dated 29 May 2015 and the Convertible Preference Share Terms per Appendix C of the MG Unit Trust Product Disclosure Statement dated 29 May 2015. MG Responsible Entity Limited is required to act in the interest of unit holders and does not receive any fees for its role as the Responsible Entity of the MG Unit Trust. The Issued Capital in these financial statements include the parent entity shares and the units on issue by MG Unit Trust.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 1: Summary of Significant Accounting Policies continued

X) Profit Sharing Mechanism

The Profit Sharing Mechanism (PSM) determines the percentage of the milk pool to be allocated to net profit after tax (NPAT) each year within specified ranges for the Actual Weighted Average Southern Milk Region FMP, with the remainder being allocated to milk payments and income tax.

The final outcomes for actual weighted Southern Milk Region FMP and NPAT under the PSM for each financial year is based on the final, full year audited financial results of Murray Goulburn. The administration of the PSM is overseen by the Board of Murray Goulburn, who ultimately determines the final allocation of the milk pool to milk payments, income tax and NPAT each financial year, with reference to the PSM. The Board has discretion to set the level of allocation of the milk pool to NPAT within the allocation bands.

Y) Critical accounting estimates and judgements

The following are critical estimates and judgements made by the Group in the process of applying the accounting policies:

Asset and footprint review (Note 10, 14, 15 and 19) –

The Group conducted an asset and footprint review in response to reduced milk intake. This resulted in the planned closure of three operating facilities located at Edith Creek in Tasmania and Rochester and Kiewa in Victoria as well as the cessation of major capital investments in Dairy Beverages and Nutritionals. This required a number of critical accounting estimates and judgements including the estimation of:

- restructuring costs including employee redundancy costs, environmental remediation and decommissioning, onerous contracts;
- recoverable amount of property, plant and equipment at the facilities based on management's plans;
- net realisable value of spare parts and packaging; and
- recoverable amount of related intangible assets.

Impairment testing of non-current assets including property, plant and equipment, goodwill and brand names (Note 14) – the Group performed a value-in-use calculation to determine whether any impairment existed at 30 June 2017. The value-in-use calculation includes a number of key assumptions including:

- future cash inflows based on current market conditions, including an estimate of loss of milk intake, expectations on sales performance,
- commodity price movements and foreign exchange rates;
- estimated cost of milk correlated with commodity prices;
- capital expenditure and other costs incurred;
- expected long-term growth rate used to extrapolate cash flows beyond the five-year period; and
- discount rate, being the weighted average cost of capital determined by market inputs and adjusted for specific risks.

Inventories (Note 10) – Inventories are carried at the lower of cost or net realisable value. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell. The net realisable value of inventory is reviewed semi-annually. The determination of key assumptions used in calculating the net realisable value involves a high degree of management judgement, including:

- future sales channel mix (retail, food service, ingredients or nutritionals);
- future selling price including global commodity prices which can be particularly volatile;
- foreign exchange rates; and
- impact of product quality, expiring stock and stock approaching minimum life on receipt dates, which arise from time to time.

Milk Supply Support Package (Note 11) – During the 2017 financial year, the Group forgave the Milk Supply Support Package (MSSP), which resulted in the derecognition of all outstanding MSSP balances. While the decision to forgive the MSSP removed the level of judgement involved in determining the MSSP impairment provision, up until this decision there was significant judgement required to estimate any impairment.

Land and buildings at fair value (Note 14) – From time to time, the Group engages independent valuers to ascertain the fair value of land and building assets. Key assumptions made by these experts in the determination of fair value include: the estimated selling price for similar assets where a market is likely to exist, the likely replacement value of other assets where a market may not exist and the net present value of cash flows, which the assets may generate over their useful lives. In determining net present values, judgement is required in respect to adopting a discount rate and in the estimation of gross cash flows over periods of time.

Debt funding (Note 27) – The Group has assessed its peak debt requirements for the business for the 12 months from the date of signing the year-end financial statements. The assessment of peak debt is based on cash flow forecasts which take into account forecast commodity prices, sales volumes, foreign exchange, milk price, milk intake, production requirements and overheads. The cash flow forecast is sensitive to the peak spring dairy season which occurs between October and December and when working capital requirements, and in particular inventory holdings, are at their peak. The cash flow forecast covers the 12-month period from the date of signing the 30 June 2017 financial statements.

The Group has considered the forecast in relation to compliance with financial covenants under its banking facilities, in particular compliance with interest cover and gearing ratios. Based on the forecast, the Directors believe the Group will continue to trade within the limits of the committed banking facilities and comply with its financial covenants. However, the Directors acknowledge there are business risks and uncertainties which could result in forecast earnings and cash flows not being achieved.

Note 1: Summary of Significant Accounting Policies continued

At 30 June 2017, the Group has \$917.9 million in available financing facilities, of which \$463.9 million was drawn down (refer Note 27C). Based on the cash flow forecast, at all times during the 14-month period from 1 July 2017, the Group maintains minimum unused available committed facilities, including at the peak of the spring dairy season. In addition, at 30 June 2017, none of MG's drawn down facilities are due for repayment/refinancing within twelve months.

The Directors have prepared the accounts on a going concern basis, taking into consideration the judgements above, and are confident the Group will meet its working capital requirements over the forecast period based on the strategy of the current Board and management.

Z) Segment information

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided and the class of customer to which they are delivered or provided. The Directors of the Company have chosen to organise the Group around differences in products and services. The Dairy Foods reportable segment was arrived at by aggregating two operating segments which supply the same types of products, manufactured in the same plants using identical manufacturing processes, to the same class of customers in two geographical regions.

Specifically, the Group's reportable segments under AASB 8 are as follows:

- Ingredients & Nutritionals
- Dairy Foods
- Other

The Ingredients & Nutritionals segment manufactures and supplies bulk and customised dairy ingredients and nutritional milk powders, primarily in the key markets of North Asia, South East Asia, Australia, Sri Lanka, China and USA.

The Dairy Foods segment manufactures and supplies dairy products such as fresh milk, UHT milk, cheese, and butter in markets throughout Australia, China, South East Asia, the Middle East and the Pacific. Other operations include trading stores which sell farm supplies and services to farmers and milk broking services.

AA) Adoption of new and revised standards

All new and amended Australian Accounting Standards and Interpretations mandatory as at 1 July 2016 to the Group have been adopted, including:

- AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation* (AASB 116 and AASB 138)
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle* (AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB 110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 & AASB 140)
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* (AASB 7, AASB 101, AASB 134 & AASB 1049)

The adoption of the amending standards has not resulted in a change to the financial performance or position of the Group, and has not resulted in any additional disclosures upon adoption.

AASB 15 Revenue from Contracts with Customers

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

AASB 15 replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and Interpretation 13 *Customer Loyalty Programs*. The core principle of AASB 15 is that revenue is recognised when control of a good or service transfers to a customer at the transaction price. The standard becomes applicable for the financial year ending 30 June 2019.

The Group has conducted a high-level assessment of the impact of the new standard and, while further work is required by management to quantify the specific impacts, there is not expected to be a material impact on the financial performance or position of the Group.

AASB 16 Leases

AASB 16 replaces the current dual operating/finance lease accounting model for lessees under AASB 117 *Leases* and the guidance contained in Interpretation 4 *Determining whether an Arrangement contains a Lease*. The new standard introduces a single, on-balance sheet accounting model, similar to the current finance lease accounting. The standard becomes applicable for the financial year ending 30 June 2020.

Under the new standard the Group will be required to recognise a 'right-of-use' asset and a lease liability for all identified leased assets in the Statement of Financial Position. The current operating lease expense will be replaced with a depreciation and finance charge.

The Group is currently assessing the impact of the new standard on the income statement and balance sheet. While there is not expected to be a material impact on overall cash flows and net profit or loss, the quantification of such impacts cannot be reliably measured until further work is performed.

AASB 9 Financial Instruments

AASB 9 is the new principal standard that consolidates requirements for the classification and measurement of financial assets and liabilities, hedge accounting and impairment of financial assets. The standard becomes applicable for the financial year ending 30 June 2019.

The Group early adopted the classification, measurement and hedge accounting components in previous financial years. The impairment component introduces a new expected-loss impairment model that will require entities to account for expected credit losses at the time or recognising the asset. The Group is currently assessing the potential impact of the new impairment model on the financial results.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 2: Segment revenues and results

	Ingredients and Nutritionals \$000	Dairy Foods \$000	Other \$000	Intersegment Eliminations \$000	Total \$000
Segment Income Statement					
2017					
External revenue	950,239	1,220,099	320,715	–	2,491,053
Inter-segment revenue	8,024	1,298	122	(9,444)	–
Revenue from sale of goods	958,263	1,221,397	320,837	(9,444)	2,491,053
Segment contribution to profit/(loss) ⁽ⁱ⁾	(32,453)	84,172	6,115	–	57,834
Other income					9,413
Share of profit (loss) of associates					(642)
Operating expenses					(46,751)
MSSP forgiveness					(179,788)
Rationalisation of manufacturing facilities					(130,740)
Write-down of other assets					(63,656)
Working capital write-downs					(14,917)
Non-recurring costs					(26,459)
Finance costs					(24,882)
Profit/(Loss) before tax					(420,588)
Segment Income Statement					
2016					
External revenue	1,084,857	1,325,157	367,658	–	2,777,672
Inter-segment revenue	7,616	1,345	80,682	(89,643)	–
Revenue from sale of goods	1,092,473	1,326,502	448,340	(89,643)	2,777,672
Segment contribution to profit	(81,548)	164,467	20,610	–	103,529
Other income					3,032
Net gain on sale of non-current assets					17,298
Share of profit (loss) of associates					(1,648)
Operating expenses					(41,224)
Finance costs					(23,445)
Profit before tax					57,542

(i) Segment contribution to profit/(loss) includes \$50 million relating to additional milk payments which are included in the overall PSM deviation.

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/(loss) represents the profit/(loss) 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. Current year segment results also exclude the impact of the deviations from the Profit Sharing Mechanism except for the additional milk payment amount which supports the payment of \$4.95 per kilogram milk solids. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Note 2: Segment revenues and results continued

Revenue from major products

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

	2017 \$000	2016 \$000
Dairy products and ingredients	2,270,770	2,512,798
Farming supplies	220,283	264,874
Revenue from sale of goods	2,491,053	2,777,672

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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Australia	1,477,412	1,664,711	873,127	1,135,160
Other countries	1,013,641	1,112,961	19,642	30,922
Total	2,491,053	2,777,672	892,769	1,166,082

Information about major customers

Included in revenues arising from direct sales of Dairy Foods of \$1,220 million (2016: \$1,325 million) are revenues of approximately \$314 million (2016: \$313 million) which arose from sales to the Group's largest customer, and revenues of approximately \$306 million (2016: \$267 million) which arose from sales to the Group's second-largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2017 and 2016.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 3: Profit Sharing Mechanism

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

	2017 \$000	2016 \$000
Distributable Milk Pool	991,180	1,156,639
Milk Payments (Southern Milk Region)	(946,207)	(1,098,368)
Non-controlling interests	–	(729)
Profit Before Tax – Profit Sharing Mechanism	44,973	57,542
Income Tax	(10,282)	(17,694)
Add back: Non-controlling interests	–	729
NPAT – Shareholders and Unitholders – PSM	34,691	40,577
Deviations from PSM net of tax		
MSSP forgiveness	(125,852)	–
Rationalisation of manufacturing facilities	(91,505)	–
Write-down of other assets	(46,167)	–
Write-down of working capital assets	(10,443)	–
Non-recurring costs	(18,521)	–
Additional milk payment	(35,000)	–
Write-down of tax assets	(78,003)	–
NPAT attributable to equity holders of the parent	(370,800)	40,577

Additional amounts of \$50.0 million pre tax (\$35.0 million net of tax) for debt funded step-ups and \$21.1 million pre-tax (\$14.8 million net of tax) for one-off costs relate to items included in the Distributable Milk Pool to support the \$4.95 per kilogram milk solids payment.

Under the PSM Deed, in certain circumstances the Board may choose to deviate from the PSM when allocating the Distributable Milk Pool (DMP), including certain circumstances determined by the Board with approval by the majority of the Board and the unanimous consent of the Special Directors supported by an opinion provided by an independent expert, that the deviation is in the overall interests of Supplier Shareholders and Unitholders. Refer Note 1X for further information on the PSM.

During the financial year ending 30 June 2017, the Board decided that, in the interests of all stakeholders, the PSM should be deviated from when allocating the DMP to milk payments, income tax and NPAT. In October 2016, the Group announced a deviation of \$81.8 million (pre-tax) while a further announcement was made in May 2017 resulting in a further deviation from the PSM of up to \$410 million (pre-tax). The deviations from the PSM were approved by the majority of the Board and by each of the Special Directors. The deviations from the PSM were also supported by opinions, provided by independent expert, Grant Samuel & Associates Pty Limited, that the deviations were in the overall interests of Supplier Shareholders and Unitholders.

Note 4: Revenue

	2017 \$000	2016 \$000
Revenue		
Sales revenue	2,491,053	2,777,672
Other income		
Interest income	6,057	3,029
Rent received	3,353	3,291
Dividends received from other corporations	3	3
Net gain on sale of shareholding in Dairy Technical Services Ltd	–	17,298
	9,413	23,621
Sales revenue and other income	2,500,466	2,801,293

Note 5: Expenses

Profit/(Loss) before income tax expense/(benefit) has been determined after charging/(crediting) the Consolidated Statement of Profit or Loss as follows:

	2017 \$000	2016 \$000
Finance costs:		
Interest expense	24,882	23,445
	24,882	23,445
Depreciation or amortisation of:		
• Depreciation – buildings	9,242	11,343
• Depreciation – plant and equipment and vehicles	39,619	43,449
• Amortisation – software intangibles	10,505	2,031
	59,366	56,823

Operating expenses for the year ended 30 June 2017 include the following amounts that represent deviations from the Profit Sharing Mechanism (PSM):

	2017 \$000	2016 \$000
Deviations from the PSM, pre-tax		
MSSP forgiveness	179,788	–
Rationalisation of manufacturing facilities ⁽ⁱ⁾	130,740	–
Write-down of other assets ⁽ⁱⁱ⁾	63,656	–
Working capital write-downs ⁽ⁱⁱⁱ⁾	14,917	–
Non-recurring costs	26,459	–
Additional milk payment	50,000	–
Total pre-tax	465,560	–
Income tax expense impact ^(iv)	(60,070)	–
Total deviations from PSM (post-tax)	405,490	–

- (i) Costs associated with closure of three operating facilities, including impairment of property, plant and equipment and provisions for restructuring, redundancy, decommissioning, environmental remediation and onerous contracts.
- (ii) Write-down of capitalised value of certain capital projects and goodwill.
- (iii) Write-down of certain working capital balances including inventory and receivables.
- (iv) Includes derecognition of tax losses totalling \$76.8 million.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 5: Expenses continued

Other expenses charged/(credited) to the Consolidated Statement of Profit or Loss:

	2017 \$000	2016 \$000
Impairment (reversal) of property, plant and equipment	(17)	1,896
Impairment (reversal) of investments in associated companies	–	(952)
Net loss (gain) on sale and scrapping of non-current assets	(288)	3,116
Loss (gain) on sale of investment in associated entity	–	(17,298)
Write down of inventories to net realisable value	15,331	22,262
Rental expense on operating leases	69,196	66,146
Research and development expenditure	811	2,135
Employee benefits including redundancy costs	272,386	279,507

Note 6: Income Tax Expense

A) Income Tax Recognised in Consolidated Statement of Profit or Loss

	2017 \$000	2016 \$000
Tax expense/(benefit) comprises:		
Current tax expense/(benefit)	95	24,744
Deferred tax/(benefit)	(49,883)	(7,050)
Income tax expense/(benefit)	(49,788)	17,694
The prima facie income tax expense/(benefit) on pre-tax accounting profit/(loss) reconciles to the income tax expense in the financial statements as follows:		
Profit/(Loss) before income tax expense	(420,588)	57,542
Income tax calculated at the Australian statutory tax rate of 30%	(126,176)	17,263
Effect of tax rates in foreign jurisdictions	1,397	(16)
Equity accounted loss/(profit)	192	494
Tax losses for which no deferred tax asset was recognised	76,785	1,905
Previously unrecognised tax losses now recouped to reduce current tax expense	–	(2,094)
Non assessable capital gain	–	(422)
Goodwill impairment	1,608	–
Sundry items	(250)	564
Under (over) provision for income tax in prior year	(3,344)	–
Income tax expense/(benefit)	(49,788)	17,694

Note 6: Income Tax Expense continued

B) Deferred income tax at 30 June relates to the following:

	Opening Balance \$000	Charged to Income \$000	Charged to Retained Earnings on Acquisition \$000	Transfer from Equity to Income \$000	Charged to Equity \$000	Closing Balance \$000
2017						
Gross deferred tax liabilities						
Property, plant and equipment	(78,661)	42,993	–	–	20,147	(15,521)
Consumables	(7,634)	1,957	–	–	–	(5,677)
Investments	(22)	–	–	–	22	–
Other	(1,296)	1,296	–	–	–	–
	(87,613)	46,246	–	–	20,169	(21,198)
Gross deferred tax assets						
Provisions	22,329	11,381	–	–	–	33,710
Tax losses	5,029	(5,029)	–	–	–	–
Cash flow hedges	7,982	–	–	(1,112)	(3,258)	3,612
Capital raising costs	6,261	–	–	(2,153)	–	4,108
Other	6,708	(2,715)	–	–	–	3,993
	48,309	3,637	–	(3,265)	(3,258)	45,423
Net deferred tax asset	(39,304)	49,883	–	(3,265)	16,911	24,225
2016						
Gross deferred tax liabilities						
Property, plant and equipment	(72,036)	3,123	(3,424)	–	(6,324)	(78,661)
Consumables	(6,842)	(792)	–	–	–	(7,634)
Investments	(9)	–	–	–	(13)	(22)
Other	(335)	(961)	–	–	–	(1,296)
	(79,222)	1,370	(3,424)	–	(6,337)	(87,613)
Gross deferred tax assets						
Provisions	16,315	5,942	72	–	–	22,329
Tax losses	4,327	702	–	–	–	5,029
Cash flow hedges	5,473	–	–	(71)	2,580	7,982
Capital raising costs	8,414	–	–	(2,153)	–	6,261
Other	7,672	(964)	–	–	–	6,708
	42,201	5,680	72	(2,224)	2,580	48,309
Net deferred tax liability	(37,021)	7,050	(3,352)	(2,224)	(3,757)	(39,304)

The net deferred tax asset attributable to entities operating in Australia is \$24.2 million (2016: \$41.5 million liability). The net deferred tax asset attributable to entities operating overseas is \$nil (2016: \$2.2 million). The Group has unused tax losses of \$262.1 million (Australian tax benefit at effective tax rate of 30% of \$67.6 million and China tax benefit at effective tax rate of 25% of \$9.2 million) available to carry forward at 30 June 2017 for which no deferred tax asset has been recognised.

MG has not recognised tax assets relating to its asset and footprint review. This has been approved as a deviation to the Profit Sharing Mechanism by the Directors. An independent expert's opinion has been provided as it is consistent with the deviation approved in May 2017 relating to the asset and footprint review. This tax asset does, however, remain available for MG's future use.

All operating entities within the Australian tax consolidated group have entered into a tax-funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax-funding arrangement, each of the entities in the Australian tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the Australian tax consolidated group.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 7: Remuneration of Auditors

	2017 \$	2016 \$
(a) Auditor of the parent entity – PwC Australia:		
• audit and review of the financial report	1,826,510	637,085
• other assurance services	40,000	40,000
• other consulting services	–	18,000
	1,866,510	695,085
(b) Network firms of PwC Australia		
• audit and review the financial report	65,990	47,914
Total remuneration of auditors	1,932,500	742,999

Note 8: Dividends Paid or Proposed

	Note	Cents per Share/Unit	2017 \$000	2016 \$000
Declared and paid during the period				
For the year ended 30 June 2017				
Final dividend for 2016 (fully franked)		3.91	13,679	
Final distribution for 2016 (fully franked)		3.91	8,013	
Interim dividend for 2017 (fully franked)		1.70	5,986	
Interim distribution for 2017 (fully franked)		1.70	3,440	
For the year ended 30 June 2016				
Final dividend for 2015 (unfranked)		9.00		25,286
Interim dividend for 2016 (fully franked)		3.50		12,198
Interim distribution for 2016 (fully franked)		3.50		7,216
Total dividends recognised	24		31,118	44,700
Proposed and unrecognised at year end				
For the year ended 30 June 2017				
Final dividend for 2017		nil	–	–
Final distribution for 2017		nil	–	–
For the year ended 30 June 2016				
Final dividend for 2016 (fully franked)		3.91		13,679
Final distribution for 2016 (fully franked)		3.91		8,008
			–	21,687
Franking account balance			3,034	7,396

In May 2017, the Group announced the suspension of dividends and therefore a final dividend for the 2017 financial year has not been proposed. Final dividends in respect to the prior financial year were not recognised in the balance sheet at that year end as they were declared subsequent to the conclusion of the financial year.

The adjusted franking account balance has been calculated after taking into account franking credits that arise from the settlement post 30 June 2016 of tax liabilities referable to the Australian tax group and for franking debits that arose upon payment of the fully franked final dividend in respect to the years ended 30 June 2016 and 2015 respectively.

No units were on issue as at 30 June 2015, therefore dividends paid in respect to the 2015 and earlier years were payable on shares on issue only.

Note 9: Receivables

	2017 \$000	2016 \$000
Current		
Trade receivables	264,310	316,305
Less: provision for impairment of trade receivables	(10,774)	(2,129)
	253,536	314,176
Other receivables	28,288	38,382
	281,824	352,558

All receivables are recorded at amortised cost less provision for impairment.

Credit risk associated with trade receivables is addressed in Note 27(B). The fair value of receivables is documented in Note 27(D). The Group reviews the recoverability of receivables by reference to internal credit assessment and historical and ongoing customer payment trends. Trade receivables of \$10.8 million (2016: \$2.1 million) in the Group have been assessed as impaired and provided for in the provision for impairment of receivables, of which \$5.8 million was included as part of the deviation from the Profit Sharing Mechanism.

	2017 \$000	2016 \$000
Movements in the provision for impairment of receivables:		
Balance at the beginning of the year	2,129	1,373
Impairment losses recognised on receivables	11,405	2,783
Impairment losses reversed	(2,357)	(849)
Amounts written off as uncollectible	(403)	(1,178)
Provision for impairment – trade receivables	10,774	2,129

Trade receivables of customers past due but considered recoverable are not provided for in the provision for impairment of trade receivables. The Group does not hold any collateral over these balances. Ageing of past due but not impaired trade receivables:

	2017 \$000	2016 \$000
0 – 30 days	10,357	16,826
30 – 60 days	2,642	2,588
60 – 90 days	960	4,467
90+ days	476	23
	14,435	23,904

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 10: Inventories

	2017 \$000	2016 \$000
Finished goods		
• at cost	315,508	420,861
• at net realisable value	65,324	85,837
Packaging and manufacturing materials	83,700	61,962
	464,532	568,660
Amounts recognised in consolidated statement of profit or loss		
Inventories recognised as expense	2,169,224	2,366,640
Inventories recognised as expense were included in cost of goods sold.		
Write-downs of inventories to net realisable value	26,516	22,262

These write-downs were recognised as an expense during the year ended 30 June 2017 and are also included in cost of sales.

Note 11: Other Assets

	2017 \$000	2016 \$000
Current		
Milk Supply Support Package advance	–	58,876
Provision for impairment – Milk Supply Support Package advance	–	(4,648)
	–	54,228
Prepayments	13,969	8,474
	13,969	62,702
Non-current		
Milk Supply Support Package advance	–	124,458
Provision for impairment – Milk Supply Support Package advance	–	(9,826)
	–	114,632
Other	4,825	5,965
	4,825	120,597

Refer Note 1H for further information on the Milk Supply Support Package and Note 5.

Note 12: Controlled Entities

The Group's principal subsidiaries are set out below.

	% Ownership Interest & Voting Rights		Place of Incorporation	Class of Share/Unit
	2017	2016		
Parent entity				
Murray Goulburn Co-operative Co. Limited ^{(i) (iii)}	N/A	N/A	Australia	Ordinary
Controlled entities of Murray Goulburn Co-operative Co. Limited:				
Murray Goulburn Trading Pty Ltd ^{(ii) (iii)}	100	100	Australia	Ordinary
Murray Goulburn Dairy (Qingdao) Co. Ltd	100	100	China	N/A
Tasmanian Dairy Products Co Ltd ^{(ii) (iii)}	100	100	Australia	Ordinary
Provico Pty Ltd ^{(ii) (iii)}	100	100	Australia	Ordinary
MG Unit Trust	100	100	Australia	Ordinary
MG Responsible Entity Limited ⁽ⁱⁱ⁾	100	100	Australia	Ordinary

(i) Murray Goulburn Co-operative Co. Limited is the head entity within the tax consolidated group.

(ii) These wholly owned entities are members of the Australian tax consolidated group.

(iii) These entities are parties to a deed of cross guarantee.

The consolidated income statement of entities which are party to the deed of cross guarantee is set out below:

	2017 \$000	2016 \$000
Statement of profit and loss		
Sales revenue	2,458,644	2,767,817
Cost of sales	(2,124,310)	(2,348,397)
Gross profit	334,335	419,420
Other income	9,413	15,047
Distribution expenses	(166,448)	(193,605)
Selling and marketing expenses	(79,157)	(86,871)
Administration expenses	(124,065)	(60,375)
Finance costs	(24,882)	(23,445)
Other expenses	(354,319)	(1,637)
Profit/(loss) before income tax	(405,123)	68,534
Income tax expense/(benefit)	53,088	(20,649)
Profit/(Loss) for the year	(352,035)	47,885
Statement of comprehensive income		
Profit/(Loss) for the year	(352,035)	47,885
Other comprehensive income		
Items that will not be classified subsequently in profit and loss		
Net increment (decrement) on revaluation of land and buildings	(67,115)	21,297
Net change in fair value of equity instruments measured at fair value	26	43
Income tax relating to items that will not be reclassified subsequently	20,127	(6,402)
Items that may be reclassified subsequently through profit or loss		
Transfer to income statement on cash flow hedges	3,705	238
Gain (loss) on cash flow hedges taken to equity	10,859	(8,600)
Income tax relating to items that may be reclassified subsequently	(4,369)	2,509
Total comprehensive (loss) income for the year	(388,803)	56,970

The statement of profit or loss above includes the impact of deviations from the Profit Sharing Mechanism to the extent the deviations relate to entities that are party to the deed. Refer Note 5 for further details on the deviations.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 12: Controlled Entities continued

The Consolidated Statement of Financial Position of entities which are party to the deed of cross guarantee is set out below:

	2017 \$000	2016 \$000
Statement of financial position		
Current assets		
Cash	9,398	6,658
Receivables	308,379	389,095
Inventories	456,779	550,380
Other assets	13,969	62,702
Derivative financial instruments	3,147	555
Total current assets	791,672	1,009,390
Non-current assets		
Investments accounted for using the equity method	4,511	7,649
Investment in subsidiaries	17,842	27,531
Receivables from other Group entities	3,407	3,407
Property, plant and equipment	742,930	902,292
Intangible assets	94,944	96,839
Deferred tax assets	22,644	–
Other assets	1	115,423
Total non-current assets	886,279	1,153,141
Total assets	1,677,951	2,162,531
Current liabilities		
Payables	373,493	380,694
Borrowings	–	234,288
Current tax payable	–	7,533
Provisions	80,777	48,124
Derivative financial instruments	45	–
Total current liabilities	454,315	670,639

Note 12: Controlled Entities continued

	2017 \$000	2016 \$000
Non-current liabilities		
Payables	783	1,000
Borrowings	463,910	276,280
Provisions	19,220	10,726
Deferred tax liabilities	–	44,243
Total non-current liabilities	483,913	332,249
Total liabilities	938,228	1,002,888
Net assets	739,723	1,159,643
Equity		
Issued capital	730,116	730,116
Reserves	84,930	121,766
Retained earnings	(75,323)	307,761
Total equity	739,723	1,159,643
Movement in retained earnings		
Balance at the beginning of the financial year	307,761	328,260
Balance at the beginning of the financial year – entities who joined the group during 2016 ⁽ⁱ⁾	–	(30,410)
Transfer to/(from) reserves	69	6,726
Net profit/(loss)	(352,035)	47,885
Dividends provided for or paid	(31,118)	(44,700)
Balance at the end of the financial year	(75,323)	307,761

- (i) During the year ended 30 June 2016, Tasmanian Dairy Products Co. Pty Ltd and Provico Pty Ltd joined Murray Goulburn Dairy Co-Operative Co. Ltd and Murray Goulburn Trading Pty Ltd as entities subject to a deed of cross guarantee.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 13: Investments Accounted for Using the Equity Method

	2017 \$000	2016 \$000
Investments in associated companies	4,511	7,649

Name of Associate	Principal Activity	Ownership 2017 %	Ownership 2016 %
Intermix Australia Pty Ltd	Food ingredient processing	33	33
Nedfarm	Milk production – dairy cattle	40	40
Danone Murray Goulburn Pty Ltd	Retail of dairy products	50	50

All associates are incorporated in Australia.

During the year ended 30 June 2016, the Group sold its investment in Dairy Technical Services Ltd which resulted in a gain on sale of \$17.3 million in the Statement of Profit or Loss for the year ended 30 June 2016.

Movement in Investments in Associated Companies	2017 \$000	2016 \$000
Equity accounted amount at the beginning of the financial year	7,649	13,105
Acquisition/(disposal) of interests in associates	–	(768)
Recognition of (impairment)/reversal of impairment	(425)	952
Share of (loss)/profit after income tax	(642)	(1,648)
Dividends received from associates	(2,071)	(3,992)
Equity accounted amount at the end of the financial year	4,511	7,649
Aggregate amounts with respect to associate entities are:		
Assets of associates	56,218	59,488
Liabilities of associates	55,024	49,494
Revenue of associates	62,174	69,490
Profit/(loss) of associates	(1,250)	(3,603)
Contingent liabilities	–	–

Note 14: Property, Plant and Equipment

	2017 \$000	2016 \$000
Land and buildings		
Freehold land at fair value ⁽ⁱ⁾ (iii)	76,603	77,126
Buildings at fair value ⁽ⁱ⁾ (iii)	282,145	309,948
less accumulated depreciation and impairment losses	(53,578)	(4,654)
	228,567	305,294
Total land and buildings	305,170	382,420
Plant and equipment		
At cost	1,148,671	1,223,416
less accumulated depreciation and impairment losses ⁽ⁱ⁾	(780,593)	(821,407)
Total plant and equipment	368,078	402,009
Vehicles		
At cost	13,013	24,208
less accumulated depreciation	(10,858)	(17,110)
Total vehicles	2,155	7,098
In the course of construction ⁽ⁱ⁾	83,657	140,643
Total property, plant and equipment⁽ⁱⁱⁱ⁾ (iv)	759,060	932,170

(i) Valuation of property, plant and equipment impacted by the Asset and footprint review

During the year ended 30 June 2017, the Group announced the planned closure of three operating facilities located at Edith Creek in Tasmania and Rochester and Kiewa in Victoria as well as the cessation of certain capital investment projects. The impact of this announcement on the carrying value of property, plant and equipment in the consolidated financial statements was as follows:

Land and buildings – In 2016, the Group engaged an independent certified practising valuer to determine the recoverable amounts of the land and buildings. The valuation was determined based on the underlying land value (assumed to be vacant and cleared) with reference to sales prices of comparable unimproved land in close proximity to each location. For buildings, the valuation was based on the depreciated replacement cost of improvements where the buildings are perceived to be marketable. The 2016 valuation was considered to materially represent the 2017 fair values on a 'vacant possession' basis.

Plant and equipment – In 2017, the Group engaged an independent certified valuer, with relevant experience in the Fast Moving Consumer Goods sector, to determine the recoverable amounts of the plant and equipment at the three facilities. The recoverable amounts were determined based on an orderly liquidation valuation approach using a combination of a market approach, which derives a value by comparing the asset with identical or similar assets for which price information is available, and the income approach, which provides a value by converting future cash flows to a single current capital value.

In the course of construction – The Group announced that it would not proceed with major capital investments in Dairy Beverages and Nutritionals as well as other projects. The carrying value of these projects has been fully written down.

The total impairment recognised in the Consolidated Statement of Profit or Loss as a result of the closure of these facilities was \$91.4 million and forms part of the rationalisation of manufacturing facilities category in the deviations from the Profit Sharing Mechanism as presented in Note 5.

(ii) Valuation of Land and Buildings associated with ongoing operations

The basis of the valuation of land and buildings associated with ongoing operations is fair value, being market value for existing use of all freehold land and buildings. Land and building assets at fair value are considered to be Level 3 non-financial assets. The Group adheres to a policy of revaluing property progressively to ensure that the carrying value of land and buildings assets does not differ materially from their fair value.

The Group obtained a valuation of the land and buildings from an independent, certified practising valuer as at 30 June 2016 in order to determine the fair value to be recognised. The following valuation approach was adopted:

Land – Fair value was derived using the sales comparison approach based on sales prices of comparable unimproved land in close proximity to the Group's land assets, adjusted for differences in key attributes such as property size and property improvements.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 14: Property, Plant and Equipment continued

Buildings – For certain building assets, most particularly largely generic warehousing facilities, valuations were determined by reference to a capitalisation of market-based rental yields for comparable premises adjusted for key attributes such as available storage space measured in square metres. In respect to certain other building assets, fair value was determined using a depreciated replacement cost methodology.

In the opinion of the Directors, the 2016 valuations approximate the fair values of land and buildings associated with ongoing operations as at 30 June 2017.

(iii) Asset revaluation reserve

For the year ended 30 June 2017, revaluation increments of \$1.3 million (2016: \$37.6 million) in relation to land were recognised and credited to the asset revaluation reserve. Similarly, certain assets were found to be stated in excess of their recoverable amount and were written down by \$210.7 million (2016: \$18.4 million), of which \$68.5 million (2016: \$16.5 million) was reflected as a reduction in the asset revaluation reserve (pre-tax) whilst \$142.2 million (2016: \$1.9 million) was expensed through the Consolidated Statement of Profit or Loss.

(iv) Capitalisation of interest

Interest of \$1.6 million (2016: \$1.7 million) was capitalised in respect to the acquisition of qualifying assets.

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below.

Consolidated	Land and Buildings \$000	Plant and Equipment \$000	Vehicles \$000	In Course of Construction \$000	Total \$000
Carrying amount at 30 June 2015	357,450	376,142	4,848	90,576	829,016
Additions (including transfers from capital work in progress)	18,406	70,519	4,943	50,665	144,533
Revaluation increments recognised in the asset revaluation reserve	37,601	–	–	–	37,601
Revaluation decrements recognised in the asset revaluation reserve	(16,521)	–	–	–	(16,521)
Impairment loss of non-current assets	(1,896)	–	–	–	(1,896)
Transfers between asset classes	1,391	(926)	75	(540)	–
Disposals	(2,075)	(2,035)	(749)	(35)	(4,894)
Depreciation	(11,343)	(41,430)	(2,019)	–	(54,792)
Effect of movement in exchange rates	(593)	(261)	–	(23)	(877)
Carrying amount at 30 June 2016	382,420	402,009	7,098	140,643	932,170
Additions (including transfers from capital work in progress)	30,658	101,056	150	(41,472)	90,392
Revaluation increments recognised in the asset revaluation reserve	1,300	–	–	–	1,300
Revaluation decrements recognised in the asset revaluation reserve	(68,457)	–	–	–	(68,457)
Impairment loss of non-current assets ⁽ⁱ⁾	(29,439)	(93,846)	(3,414)	(15,505)	(142,204)
Transfers between asset classes	(1,127)	(1,730)	16	(8)	(2,849)
Disposals	(16)	(496)	(578)	–	(1,090)
Depreciation	(9,242)	(38,502)	(1,117)	–	(48,861)
Effect of movement in exchange rates	(927)	(413)	–	(1)	(1,341)
Carrying amount at 30 June 2017	305,170	368,078	2,155	83,657	759,060

(i) Impairment recognised was included as part of the deviation from the Profit Sharing Mechanism.

Note 14: Property, Plant and Equipment continued

Impairment tests for Murray Goulburn Co-Operative Co. Limited

As a result of the operating model of the business, impairment testing is carried out at the Murray Goulburn Co-operative Co. Limited level. The recoverable amount of the 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 current market conditions 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 Provico Pty Ltd. At 30 June 2017, 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 the key assumptions utilised in the cash flow projections for MGC:

Assumption	Rate		Approach used to determining values
	2017	2016	
Milk cost for the purposes of the impairment modelling	\$5.32 – \$5.50	\$5.00 – \$5.50	Estimated cost of milk, correlated with commodity prices over the forecast period. Milk cost for the purposes of impairment modelling was \$5.32 for years 1 to 4 and \$5.50 in the terminal year.
Long Term growth rate (%)	2.5	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 2017 Deloitte Access Economics Business Outlook.
Pre-tax discount rate (%)	12.9	12.1	Reflects the specific risks related to the group.

Other key assumptions used in the cash flow were the level of milk intake, expectations on sales performance, commodity price movements, capital expenditure and foreign exchange. An estimate of milk loss was built into the milk intake assumption that formed part of the cash flow projection.

During the year ended 30 June 2017, an impairment of property, plant and equipment was recorded relating to the impairment testing of Murray Goulburn Co-operative cash generating unit. This impairment is over and above the impairment recorded as a result of the asset and footprint review. Property, plant and equipment was impaired by \$142.2 million and a further \$68.5 million was recorded as a decrement to the asset revaluation reserve.

Significant estimate: Impact of possible change in key assumptions

If forecast net cash flows were to decrease by 10% in the fifth year of the forecast, a further impairment of property, plant and equipment of \$36 million would be required. Likewise, if forecast net cash flows were to increase by 10%, there would be \$101 million in additional headroom when comparing the recoverable amount of MCC to the carrying value of MGC's assets.

Note 15: Intangible Assets

	2017 \$000	2016 \$000
Goodwill ⁽ⁱ⁾	6,762	12,121
Brand names ⁽ⁱⁱ⁾	15,293	15,293
Software ⁽ⁱⁱⁱ⁾	75,885	12,275
Software under development ⁽ⁱⁱⁱ⁾	2,208	63,812
Total intangible assets	100,148	103,501

(i) Goodwill and brand name intangible assets are stated at cost and have an indefinite useful life.

(ii) Software assets are amortised on a straight line basis over a period of up to 10 years.

(iii) Software under development is transferred to software once the asset is ready for use in its intended form.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 15: Intangible Assets continued

Reconciliations

Reconciliations of the carrying amounts of each class of intangible asset are set out below.

	Goodwill	Brand names	Software	Software Under Development	Total
Carrying amount at 30 June 2015	12,121	15,293	6,102	26,062	59,578
Additions	–	–	8,204	37,750	45,954
Amortisation	–	–	(2,031)	–	(2,031)
Carrying amount at 30 June 2016	12,121	15,293	12,275	63,812	103,501
Additions	–	–	26	9,699	9,725
Transfers between categories	–	–	74,152	(71,303)	2,849
Amortisation	–	–	(10,505)	–	(10,505)
Impairment ⁽ⁱ⁾	(5,359)	–	(63)	–	(5,422)
Carrying amount at 30 June 2017	6,762	15,293	75,885	2,208	100,148

(i) Impairment recognised was included as part of the deviation from the Profit Sharing Mechanism.

Note 16: Payables

	2017 \$000	2016 \$000
Current		
Trade payables	96,133	104,532
Payable to farmer suppliers	147,261	145,795
Sundry payables and accrued expenses	132,089	135,978
	375,483	386,305
Non-current		
Other	783	1,000
	783	1,000

All payables are recorded at amortised cost. The fair value of payables is documented in Note 27(D).

Note 17: Borrowings

	2017 \$000	2016 \$000
Current		
Bank loans	–	67,331
Private placement senior notes	–	22,893
	–	90,224
Non-current		
Bank loans	200,000	144,064
Private placement senior notes	263,910	273,364
	463,910	417,428

The bank loans and private placement senior notes are covered by negative pledge agreements between the parent entity and its financiers. All borrowings are recorded at amortised cost. Private placement notes are designated as effective cash flow hedges which is consistent with prior period. The fair value of borrowings is documented in Note 27(D).

Note 18: Derivative Financial Instruments

	2017 \$000	2016 \$000
Foreign currency derivatives assets	3,147	555
Foreign currency derivatives liabilities	45	–

Foreign currency derivatives represent unrealised gains and losses on foreign exchange contracts that are hedges against sales. Unrealised gains and losses on foreign currency hedge contracts are deferred in equity or recognised in profit or loss as appropriate. Foreign currency derivatives are Level 2 financial instruments recorded at fair value using observable market inputs.

Note 19: Provisions

	2017 \$000	2016 \$000
Current		
Manufacturing rationalisation provisions ⁽ⁱ⁾	31,052	–
Employee benefits ⁽ⁱⁱ⁾	49,725	48,121
	80,777	48,121
Non-current		
Manufacturing rationalisation provisions ⁽ⁱ⁾	7,411	–
Employee benefits	11,809	10,726
	19,220	10,726

- (i) During the year ended 30 June 2017, the Group announced the planned closure of three operating facilities located at Edith Creek in Tasmania and Rochester and Kiewa in Victoria. The impact of this announcement on provisions recognised in the consolidated financial statements is as follows:
- Redundancy – Estimated redundancy payments to impacted employees at the operating facilities based on a detailed plan which is expected to be carried out over the next 18 months.
- Restructuring – Estimated costs associated with implementing the Group's detailed restructuring plans to close the three operating facilities.
- Decommissioning and environmental remediation – Assessment of the costs to dismantle and remove certain site infrastructure and equipment and to restore each site to the condition required by environmental laws and regulations.
- Onerous contracts – Estimated unavoidable costs associated with meeting the Group's obligations under certain contracts with suppliers and customers where economic benefits are no longer expected to be received due to closure of the operating facilities.
- (ii) The current provision for employee benefits includes annual and long service leave referable to unconditional, vested entitlements. The entitlements are presented as current liabilities albeit the Group does not expect to settle the full amount of accrued leave within the next 12 months. Current leave obligations expected to be settled after 12 months is \$22.4 million (2016: \$21.1 million).

Reconciliation of movements of each class of provision are set out below.

	Employee benefits \$000	Manufacturing rationalisation \$000	Total \$000
Balance at 30 June 2016	58,847	–	58,847
Provisions made during the year	23,215	40,048	63,263
Provisions used during the year	(20,528)	(1,585)	(22,113)
Balance at 30 June 2017	61,534	38,463	99,997

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 20: Deferred Taxes

	Note	2017 \$000	2016 \$000
Deferred tax asset	6	24,225	2,165
Deferred tax liability	6	–	41,469

Note 21: Contingent Liabilities

Other than the matters referred to below, there are no other matters giving rise to material contingent liabilities in the context of the Group.

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 class action proceeding had been filed against them and a number of current and former Directors in the Supreme Court of Victoria. The class action was transferred to the Federal Court in May 2017.

The statement of claim (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 amend the statement of claim which amongst other things seeks to expand the Claim to also include unitholders who purchased units during the period from 29 February 2016 to 2 May 2017. The Court has yet to determine this application. The companies are vigorously defending the proceedings.

Regulatory Investigations

MG and MG RE are also currently the subject of an investigation which is being undertaken by the Australian Securities and Investments Commission ('ASIC') in relation to potential breaches of the Corporations Act. The companies are fully co-operating with ASIC. In addition, the Australian Competition and Consumer Commission (ACCC) commenced legal proceedings on 28 April 2016 against MG in relation to potential breaches of the Competition and Consumer Act. The ACCC has confirmed that it is not seeking a pecuniary penalty against the company. The proceeding is in the early stages.

The ACCC is also 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 22: Issued Capital and Equity Instruments

	2017 \$000	2016 \$000
Issued capital and equity instruments	730,116	730,116
i) Movements in issued capital		
Balance at the beginning of the financial year	730,116	229,059
Issue of ordinary shares to milk suppliers	–	62,256
Capital raised on issue of units by MG Unit Trust	–	439,320
Capital raising costs net of tax	–	(519)
Balance at the end of the financial year	730,116	730,116

Note 22: Issued Capital and Equity Instruments continued

ii) Number of equity instruments

Movements in equity instruments on issue	Ordinary Shares ^(a)	Units ^(b)	Preference Shares ^(c)	Total
Balance at 30 June 2015	281,266,561	–	25,547,481	306,814,042
Conversion of preference shares to ordinary shares	15,207,280	–	(15,207,280)	–
Preference cancellation	–	–	(10,340,201)	(10,340,201)
Ordinary shares issued by Murray Goulburn Co-operative Co. Ltd				
– Supplier share offer	42,953,396	–	–	42,953,396
– Supplier priority share offer	6,039,820	–	–	6,039,820
Units issued by MG Unit Trust				
– Friends of MG offer	–	4,492,102	–	4,492,102
– Institutional offer	–	203,957,134	–	203,957,134
– Employee offer	–	749,345	–	749,345
Rebalancing between shares and units for market transactions	4,421,276	(4,421,276)	–	–
Convertible preference shares created using ordinary shares	(44,367)	44,367	–	–
Balance at 30 June 2016	349,843,966	204,821,672	–	554,665,638
Rebalancing between shares and units for market transactions	2,323,213	(2,323,213)	–	–
Ordinary shares created using convertible preference shares	(2,641,941)	2,641,941	–	–
Balance at 30 June 2017	349,525,238	205,140,400	–	554,665,638

(a) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

(b) Units

Units on issue by the MG Unit Trust equal the aggregate number of perpetual, redeemable, unsecured, subordinated, non-cumulative notes and convertible preference shares issued for the purposes of rebalancing transactions issued by Murray Goulburn Co-operative Co. Limited to the MG Unit Trust. Each unit has the same economic characteristics as a share and receives distributions equivalent to dividends paid to shareholders and do not hold any voting rights.

(c) Preference Shares

Preference shares on hand at 3 July 2015 were converted to non-voting shares.

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital and ensure access to adequate capital to sustain future development.

In order to maintain or adjust the capital structure, the Group may adjust the amount of share equity milk deductions, adjust the level of dividends paid to shareholders, issue new shares or sell assets to reduce debt. Management continually monitors the capital structure by reference to the Group's gearing ratio. The gearing ratio is calculated as net debt divided by total capital where net debt is borrowings less cash and total capital is equity, including minority interest, plus net debt.

	2017 \$000	2016 \$000
Total borrowings	463,910	507,652
Less cash	(19,368)	(27,276)
Net debt	444,542	480,376
Total equity	735,391	1,175,694
Total capital	1,179,933	1,656,070
Gearing ratio	38%	29%

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 23: Reserves

	2017 \$000	2016 \$000
Capital reserve	36,916	36,916
Asset revaluation reserve	97,846	144,856
General reserve	5,257	5,257
Hedge reserve	(8,429)	(18,624)
Investment revaluation reserve	–	51
Foreign currency translation reserve	8,002	9,590
	139,592	178,046

Nature and purpose of reserves

Capital reserve

The capital reserve is used to accumulate realised capital profits.

Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

General reserve

The general reserve is used from time to time to transfer profits from retained earnings. There is no policy of regular transfer.

Hedge reserve

The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges.

The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the Consolidated Statement of Profit or Loss.

Investment revaluation reserve

The investment revaluation reserve represents accumulated gains and losses arising on the revaluation of investments that have been recognised through other comprehensive income.

Transactions within the non-controlling interests reserve

This reserve is used to account for transactions involving non-controlling interests in accordance with accounting standards.

Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars.

Note 23: Reserves continued

	Note	2017 \$000	2016 \$000
Movements in reserves			
Asset revaluation reserve			
Balance at the beginning of the financial year		144,856	130,100
Revaluation increments	14	1,300	37,601
Related income tax	6	(390)	(11,280)
Revaluation decrements	14	(68,457)	(16,521)
Related income tax	6	20,537	4,956
		97,846	144,856
Hedge reserve			
Balance at the beginning of the financial year		(18,624)	(12,771)
Transferred to income statement		3,706	238
Related income tax	6	(1,112)	(71)
Gains (losses) on cash flow hedges		10,859	(8,600)
Related income tax	6	(3,258)	2,580
Balance at the end of the financial year		(8,429)	(18,624)
Investment revaluation reserve			
Balance at the beginning of the financial year		51	21
Net change in fair value of equity instruments measured at fair value through other comprehensive income		26	43
Related income tax	6	(8)	(13)
Transferred to retained earnings (net of tax)		(69)	–
Balance at the end of the financial year		–	51
Transactions within the non-controlling interests reserve			
Balance at the beginning of the financial year		–	(1,403)
Difference on acquisition of Tasmanian Dairy Products Co Ltd		–	(4,370)
Transferred to retained earnings (net of tax)		–	5,773
Balance at the end of the financial year		–	–
Foreign currency translation reserve			
Balance at the beginning of the financial year		9,590	10,343
Translation of foreign operations		(1,588)	(753)
Balance at the end of the financial year		8,002	9,590

There were no movements in the capital reserve or general reserve throughout the year ending 30 June 2017 and the prior comparative period.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 24: Retained Earnings

	Note	2017 \$000	2016 \$000
Balance at the beginning of the financial year		267,532	280,780
Net profit/(loss) attributable to members of the parent entity		(370,800)	40,577
Dividends provided for or paid	8	(31,118)	(44,700)
Transfer from reserves (net of tax)		69	(9,125)
Balance at the end of the financial year		(134,317)	267,532

Note 25: Capital and Leasing Commitments

	2017 \$000	2016 \$000
a) Operating lease commitments		
• Due within 1 year	66,972	73,865
• Due within 1–5 years	133,117	167,058
• Due longer than 5 years	154,676	153,001
	354,765	393,924
Less sub-lease rental income	(14,168)	(16,222)
	340,597	377,702
<p>Operating leases relate to factories, trading stores, warehousing facilities, office space, and vehicles, with lease terms of between one and 30 years. Some leases have an option to extend the lease term. The Group does not have an option to purchase the leased assets at expiry of the lease period.</p>		
b) Capital expenditure commitments		
Contracted capital expenditure commitments due within one year	8,283	67,333

Note 26: Events Subsequent to Balance Date

On 24 July 2017, the Group announced that expected milk intake for FY18 is expected to be approximately 2.3 billion litres, prior to any significant upside or downside seasonal impact. Murray Goulburn now expects total FY18 milk intake to be approximately 2.0 billion litres. Despite this further reduction in expected milk intake and the continued strengthening of the Australian dollar, Murray Goulburn confirms that it is maintaining a FY18 opening Southern Milk Region farmgate milk price of \$5.20 per kilogram of milk solids. A final FMP above \$5.20 per kilogram of milk solids remains under review and is subject to factors including favourable movements in exchange rates and/or dairy commodity prices over the remaining 10 months. Murray Goulburn continues to implement its cost reduction initiatives which will deliver ongoing FMP benefits.

To the extent required to pay a FY18 FMP of at least \$5.20/kg MS, the Board of Directors has agreed that Murray Goulburn will deviate from the Profit Sharing Mechanism by providing access to up to \$100 million to support milk payments. As required by the PSM 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.

The strategic review being supported by Deutsche Bank AG has been accelerated, and the Group and Deutsche Bank have received a number of unsolicited confidential indicative proposals from third parties. The Board has requested Deutsche Bank to seek more detailed proposals from these and other relevant parties to enable the Group to evaluate the merits of such proposals.

There have been no other matters or circumstances which have arisen between 30 June 2017 and the date of this report that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Note 27: Financial Risk Management

Risk management is carried out by the Group's Treasury Department under policies approved by the Board for managing each of the risks including principles and procedures with respect to risk tolerance, delegated levels of authority on the type and use of derivative financial instruments and the reporting of these exposures. Compliance with policy and exposure limits is reviewed continuously by senior management and by the Board of Directors. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

A) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency and interest rate risk, including forward foreign currency and foreign currency option contracts to hedge the exchange rate risk arising on the sale of exported dairy goods in US\$ (US dollars).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of financial instruments are disclosed in Note 1 to the financial statements and below.

Foreign exchange risk

The Group operates internationally and is therefore exposed to currency risk arising from movements in foreign currency rates, primarily with respect to the sale of exported goods in US\$ (US dollar) and US dollar-denominated Private Placement senior notes. Exchange rate exposures are managed within approved policy parameters which may include utilising a variety of derivative financial instruments, including forward foreign exchange contracts.

Translation risks

To limit translation risk exposure, the Group's borrowings are generally denominated in currencies that match the cash flows generated by the underlying operations, which are primarily Australian and US dollars.

Loan repayments due under the 2009 and 2014 US dollar Private Placement are designated as cash flow hedges, hedging highly probable forecast sales denominated in US dollars which are likely to be invoiced at the time of each loan repayment. The effective portion of changes in the fair value of these cash flow hedges due to foreign currency changes is recognised directly in equity via the hedge reserve.

Transaction risks

The Group maintains a policy of matching anticipated future cash flows in foreign currencies, i.e. highly probable sales, for cash flow hedge accounting purposes, with forward foreign exchange contracts in the same currency and with closely corresponding settlement dates.

At balance date, the Group had US\$60.0 million (2016: US\$40 million) in outstanding forward foreign exchange contracts to sell Australian dollars in return for US dollars. These contracts have maturity dates not exceeding one year and hedge future sales transactions. In addition, at balance date, the Group had US\$1.4 million (2016: US\$8 million), Euro 0.4 million (2016: Euro 3.8 million) and NZ\$0.5 million (2016: \$2.1 million) in outstanding forward exchange contracts to sell A\$ as a hedge over future interest expense and property, plant and equipment purchases. The net fair value of all forward exchange contracts at balance date is a gain of \$3.1 million (2016: gain of \$0.6 million).

Unrealised gains or losses at year end on specific hedges in the form of forward exchange contracts relating to unsettled sales transactions are deferred and recognised in the hedge reserve to match against the underlying hedge transaction. Forward exchange contracts are classified as Level 2 financial instruments, as their fair value measurement is derived from inputs other than quoted prices that are observable for the asset or liability.

Foreign currency sensitivity

The Group is exposed to US dollars. The following table details the Group's sensitivity to a one per cent increase and decrease in the Australian dollar against the US dollar as at balance date. The sensitivity includes outstanding foreign currency derivatives and foreign currency denominated monetary items and adjusts their translation at the period end for a one per cent change in foreign currency rates.

		2017 \$000	2016 \$000
Other equity	A\$ strengthens 1% – increase (decrease)	1,841	2,182
	A\$ weakens 1% – increase (decrease)	(1,878)	(2,226)
Profit or loss	A\$ strengthens 1% – increase (decrease)	549	54
	A\$ weakens 1% – increase (decrease)	(538)	(55)

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 27: Financial Risk Management continued

Interest rate risk

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates. Trade and other receivables, trade payables and accruals and loans from the State Government of Victoria are non-interest bearing. The A\$ overdraft bears interest at a floating rate based on the bank's corporate overdraft reference rate. The US\$ bank overdraft bears interest at a floating rate based on the Federal Reserve's Target Rate. US\$ cash on hand yields interest at the US Interbank Bid Rate. A\$ cash on hand bears interest at a floating rate based on the targeted cash rate of the Reserve Bank of Australia.

Bank loans consist of short-term and long-term US\$ and A\$ revolving loan facilities, on which interest is payable at floating rates. Rates on US\$ loans are based on London Interbank Offer Rate (LIBOR). Rates on A\$ loans are based on a Bank Bill Rate (BBR), as defined in the facility agreement.

The US Private Placements will be repaid and bear interest at the following fixed rates:

	Interest Rate	Repayment Date
2009 Private Placement (US\$120.0 million)		
US\$17.0 million	5.44%	Repaid 29 October 2016
US\$89.0 million	5.81%	29 October 2019
US\$14.0 million	5.96%	29 October 2021
2014 Private Placement (US\$100.0 million)		
US\$20.0 million	3.37%	29 October 2020
US\$30.0 million	3.61%	29 October 2021
US\$15.0 million	3.73%	29 October 2022
US\$35.0 million	3.85%	29 October 2023

An analysis of borrowings by maturities is provided in paragraph (C) below.

Interest rate sensitivity

The Group's sensitivity to a 50 basis point increase or decrease, representing management's assessment of the possible change in interest rates applicable to debt facilities subject to variable rates, holding all other variables constant would be a decrease/increase in net profit of \$1.0 million (2016: \$1.06 million decrease/increase).

B) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's receivables from customers, cash and cash equivalents held with financial institutions and in-the-money derivatives. The Group has adopted a policy of dealing with creditworthy counterparties assessed by reference to their financial position, internal and external credit assessment and historical trading experience. Concentrations of credit risk are minimised by undertaking transactions with a large number of customers and counterparties in various countries. The Group also has counterparty credit limits with financial institutions.

The maximum exposure to credit risk at balance date in relation to financial assets is the carrying amount, net of any allowances, of those assets as presented in the Statement of Financial Position.

C) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by the Treasury Department and involves maintaining available funding and ensuring the Group has access to adequate amounts of committed credit facilities. The following key risk management strategies are used to manage liquidity risk:

- Maintaining a minimum liquidity reserve and undrawn committed liquidity facilities that can be drawn at short notice.
- Regularly performing a comprehensive analysis of all cash inflows and outflows in relation to operational, investing and financial activities.
- Managing credit risk relating to financial assets including trade debtors.
- Managing the profile of maturing debt.
- Only investing cash with major investment grade financial institutions.
- Monitoring of current and projected compliance with the Group's debt covenant obligations.
- Internal reporting to the Board and senior management on the Group's compliance with Treasury policies on a regular basis.

Note 27: Financial Risk Management continued

Available financing facilities

At 30 June 2017, the Group had access to the following financing facilities:

- bank overdraft facility repayable at call;
- various short-term working capital facilities;
- a \$265 million facility through a syndicate of domestic financial institutions;
- US\$203 million Private Placement, maturing between 2019 and 2024.

During the year ending 30 June 2017, the Group successfully renewed Tranche A of the syndicated loan facility out to 16 December 2019 and increased the limit to \$265 million from \$250 million.

The Group has complied with the financial covenants of its borrowing facilities at all times during both the current and comparative reporting period.

Total finance facilities available to the Group and the extent to which they are utilised at balance date are set out below:

	2017 \$000	2016 \$000
Committed credit facilities		
Committed credit facilities	778,911	746,256
Amount utilised	463,910	460,520
Available committed credit facilities at year end	315,001	285,736
Uncommitted credit facilities		
Uncommitted credit facilities	139,001	240,399
Amount utilised	–	47,132
Available uncommitted credit facilities at year end	139,001	193,267
Total available committed and uncommitted credit facilities at year end	454,002	479,003

Maturity of financial liabilities

The following table analyses the Group's non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows including future interest payments:

	0–12 Months \$000	1–2 Years \$000	2–5 Years \$000	5+ Years \$000	Total Contractual Cash Flows \$000	Carrying Amount \$000
At 30 June 2017						
Non-interest bearing	375,483	–	–	–	375,483	375,483
Variable rate	–	160,432	56,000	–	216,432	200,000
Fixed rate	12,571	12,571	217,253	67,993	310,388	263,911
Consolidated	388,054	173,003	273,253	67,993	902,303	839,394
At 30 June 2016						
Non-interest bearing	386,305	1,000	–	–	387,305	387,305
Variable rate	67,675	–	151,894	–	219,569	211,405
Fixed rate	36,539	13,022	174,957	133,520	358,038	296,247
Consolidated	490,519	14,022	326,851	133,520	964,912	894,957

D) Fair value

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.

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 27: Financial Risk Management continued

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, 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 \$290.8 million (2016: \$342.4 million).

Note 28: Related Parties

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

A) Associated companies

Transactions between the parent entity and its associates include the sale of goods, the purchase of goods and the provision of technical and consultancy services by the parent entity. Transactions are on normal commercial terms and conditions.

B) Directors of the parent entity

Directors of the parent entity supply milk to the Group, are able to purchase goods at Murray Goulburn Trading Pty Ltd stores at commercial prices and can obtain loans from the Group in the same manner as all other supplier shareholders.

Directors who supply milk to the Group participated in the Milk Supply Support Package on normal terms and conditions and in the same manner as all other suppliers. Aggregate of advances to Directors under the Milk Supply Support Package (MSSP) of \$1,442,644 were forgiven during year ended 30 June 2017 (2016: nil) based on the Group's decision to forgive all outstanding advances under the MSSP, in the same manner as all other supplier shareholders. The Group paid interest of \$6,730 to Directors in relation to MSSP amounts that were paid to the Group prior to the Group's decision to forgive all MSSP advances. This was consistent with the Group's treatment for all other suppliers.

Total purchases of goods and services from Murray Goulburn Trading Pty Ltd by Directors and their related entities was \$1,718,999 (2016: \$2,450,532) and the balance outstanding as at 30 June 2017 was \$306,687 (2016: \$430,678). All transactions are on the same terms and conditions available to other supplier shareholders.

PW Tracy, who resigned as a Director on 31 March 2017, held an interest in Southern Stockfeeds, which provided products to Murray Goulburn Trading Pty Ltd on normal commercial terms and conditions. Up until the date of PW Tracy's resignation, the total amount purchased was \$743,104 (2016: \$1,223,983). Further, up until PW Tracy's resignation, Southern Stockfeeds paid \$15,437 (2016: \$21,997) to the Group for services provided in collecting Southern Stockfeeds accounts receivable.

Aggregate of loans to 3 (2016: 3) Directors as at financial year end: \$144,615 (2016: \$23,794). Total interest paid by Directors: \$6,832 (2016: \$5,718). There were no loans outstanding at the reporting date to Directors and their related parties, where the individual's aggregate loan balance exceeded \$100,000 at any time during the financial year end (2016: nil).

PJO Hawkins, who was a Director of the Group until 23 November 2016, was a director of Westpac Banking Corporation, which is one of the banks on the Group's banking panel. All transactions with Westpac Banking Corporation are on normal terms and conditions.

C) Key management personnel

Key Management Personnel (KMP) consists of the Group's Non-executive Directors, Chief Executive Officer and the Chief Financial Officer. Detailed remuneration disclosures are provided in the Remuneration Report section of the Directors' Report. Summarised Key Management Personnel compensation is as follows:

	2017 \$000	2016 \$000
Total short-term employee benefits (excluding annual leave)	5,731,820	7,065,339
Total annual and long service leave benefits ⁽ⁱ⁾	(56,411)	(243,578)
Total long-term employee benefits ⁽ⁱⁱ⁾	(143,455)	(619,513)
Total post-employment employee benefits	186,181	227,592
Total remuneration	5,718,135	6,429,840

- (i) Negative annual and long service leave benefits reflect the excess of amounts paid on settlement of leave entitlements owing and the reversal of non-vesting entitlements for key management personnel whose employment ceased during the financial year.
- (ii) Negative long-term employee benefits reflect the excess of the reversal of non-vesting long-term incentive amounts which will not be paid to key management personnel whose employment ceased during the financial year.

Note 29: Notes to the Statement of Cash Flows

	2017 \$000	2016 \$000
A) Reconciliation of cash		
For the purposes of the statement of cash flows, cash includes cash on hand, deposits on call and investments in money market instruments, net of bank overdrafts.		
Cash at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash per statement of financial position ⁽ⁱ⁾	19,368	27,276
Cash per statement of cash flows	19,368	27,276
(i) MG Responsible Entity Limited is required to hold \$5 million in cash and therefore the consolidated group is restricted from utilising this cash for any other purpose.		
B) Reconciliation of profit for the period to net cash flow from operating activities		
Profit/(loss) for the period	(370,800)	39,848
Depreciation and amortisation	59,366	56,823
Movement in impaired receivables provision	8,645	15,018
Forgiveness of MSSP	179,788	–
Finance costs capitalised on acquisition of qualifying assets	(1,595)	(1,695)
Unrealised foreign exchange losses	4,409	1,238
Impairment recognised (reversed) attributable to non-current assets	143,197	1,896
Impairment recognised (reversed) attributable to current assets	5,427	–
Loss (gain) on disposal of fixed assets	(288)	3,116
Share of (profit) loss of associated company	642	1,648
Associate entity dividends	2,072	3,992
Loss (gain) on disposal of investment in associate	–	(17,298)
Impairment recognised (reversed) on investments in associated companies	425	(952)
Impairment of goodwill	5,359	1,575
Change in operating assets and liabilities		
Decrease (increase) in trade receivables	53,084	50,732
Decrease (increase) in prepayments	(9,131)	(2,663)
Decrease (increase) in inventories	98,701	(60,885)
Increase (decrease) in trade payables and amounts due to suppliers	(6,913)	(11,626)
Increase (decrease) in provisions	41,150	3,580
Increase (decrease) in current tax payable	(6,866)	6,193
Increase (decrease) in deferred tax liability	(47,750)	(4,896)
Net cash inflow (outflow) from operating activities	158,922	85,644
C) Non-cash financing and investing activities		
Nil.		

Notes to the Financial Statements continued

for the financial year ended 30 June 2017

Note 30: Parent Entity Disclosures

	2017 \$000	2016 \$000
A) Financial position		
Total current assets	711,845	964,185
Total non-current assets	897,344	1,192,023
Total assets	1,609,189	2,156,208
Total current liabilities	417,946	679,167
Total non-current liabilities	471,573	344,290
Total liabilities	889,519	1,023,457
Net assets	719,670	1,132,751
Issued capital	730,116	730,116
Retained (losses) earnings	(345,127)	288,687
Retained earnings profits reserve ⁽ⁱ⁾	257,569	–
Reserves		
Capital reserve	24,290	24,290
Asset revaluation reserve	58,604	105,583
General reserve	2,648	2,648
Hedge reserve	(8,430)	(18,624)
Investment revaluation reserve	–	51
Total equity	719,670	1,132,751
(i) Represents an appropriation of amounts from retained earnings for the payment of future dividends. On consolidation, this reserve is included as part of the Group's retained earnings.		
B) Financial performance for the year		
Profit/(Loss) for the year	(345,127)	46,987
Total comprehensive income (loss)	(36,836)	3,330
C) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries		
Guarantee provided under the deed of cross guarantee	36,133	30,740
D) Contingent liabilities		
Other than the matters referred to in Note 21 and the contingent liability exposures which could arise therefrom, there are no other matters giving rise to material contingent liabilities in the context of the parent entity.		
E) Commitments for the acquisition of property, plant and equipment and intangible assets		
Plant and equipment and software intangible assets	8,283	66,625

Note 31: Additional Information

Murray Goulburn Co-operative Co. Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

Freshwater Place, Level 15
2 Southbank Boulevard
Southbank, Victoria, 3006

Directors' Declaration

In the opinion of the Directors of Murray Goulburn Co-operative Co. Limited (Company):

- (a) the financial statements and notes, and the Remuneration Report within the Directors' Report, are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2017 and its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) Within the notes to the financial statements it is confirmed that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.
- (d) At the date of this declaration, there are reasonable grounds to believe that the Company and the consolidated entities identified in Note 12 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those consolidated entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

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



J Spark
Chairman



A Mervis
Chief Executive Officer
and Managing Director

Melbourne
22 August 2017

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of Murray Goulburn Co-operative Co. Limited for the year ended 30 June 2017, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink that reads 'Lisa Harker'.

Lisa Harker
Partner
PricewaterhouseCoopers

Melbourne
22 August 2017

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Independent Auditor's Report to the Members of Murray Goulburn Co-operative Co. Limited



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

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Murray Goulburn Co-operative Co. Limited (the Company) and its controlled entities (together, the Group or Murray Goulburn) is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group's financial report comprises:

- the consolidated statement of profit or loss for the financial year ended 30 June 2017
- the consolidated statement of comprehensive income for the financial year ended 30 June 2017
- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of cash flows for the financial year ended 30 June 2017
- the consolidated statement of changes in equity for the financial year ended 30 June 2017
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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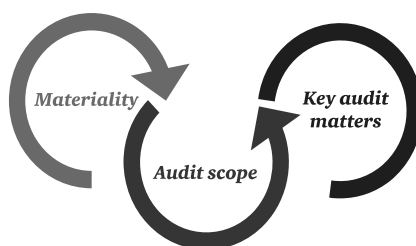
Independent Auditor's Report to the Members of Murray Goulburn Co-operative Co. Limited continued



Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole.



Materiality

- Overall group materiality: \$15.5 million, which represents approximately 0.6% of the Group's revenue from the sale of goods.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose revenue as the benchmark upon which to determine materiality because, in our view, revenue is a relevant measure for users to assess the performance of the Group.
- As a cross check, we compared overall group materiality to an equivalent materiality derived from the distributable milk pool, and found it to be within an acceptable range.
- In our view, profit before tax is not the most appropriate benchmark upon which to determine materiality, because profit before tax is a function of the actual weighted average southern milk region farmgate milk price and the application of the profit sharing mechanism in the financial report. Reference should be made to Note 1: Summary of significant accounting policies for an explanation of how the distributable milk pool is allocated between milk payments, income tax and net profit after tax, within the relevant farmgate milk price band, to derive profit before tax.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant estimates involving assumptions and inherently uncertain future events.
- The Group engagement team undertook audit procedures relating to Murray Goulburn's Australian operations, which are largely situated in Victoria. A component audit team staffed from PwC offices in Shanghai and Qingdao in China performed certain audit procedures under the instruction of the Group engagement team, in relation to Murray Goulburn's subsidiary Murray Goulburn Dairy (Qingdao) Co. Ltd.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key audit matter

Impairment of non-current assets including property, plant and equipment and intangible assets

Refer: note 1 (g) Summary of significant accounting policies, 1 (y) Critical accounting estimates and judgements, note 14 Property, plant and equipment and note 15 Intangible assets.

Murray Goulburn recognised property, plant and equipment totalling \$759.1 million, goodwill of \$6.8 million and brand names of \$15.3 million at 30 June 2017.

At 30 June 2017, the implied market capitalisation of the Group was below the carrying value of the net assets, an indication of impairment for the Murray Goulburn Co-operative cash generating unit. A value-in-use impairment test was carried out by the Group for the cash generating unit. The Group prepared a discounted cash flow model (the model) to estimate the recoverable amount of the assets to determine whether an impairment should be recognised.

The most significant areas of judgement in determining the recoverable amount of the assets by the Group included the estimation of:

- Future cash inflows based on current market conditions, including an estimate of loss of milk intake, expectations on sales performance, commodity price movements and foreign exchange rates.
- Estimated cost of milk in the context of commodity prices.
- Capital expenditure and other costs incurred.
- Expected long term growth rate used to extrapolate cash flows beyond the five year period.
- Discount rate, being the weighted average cost of capital determined by market inputs and adjusted for specific risks.

Impairment of non-current assets was a key audit matter due to:

- The significance of the carrying value of these assets and the impairment recognised, to the financial position of the group, and
- The judgements involved in determining the key assumptions used by the Group to assess impairment.

Property, plant and equipment and intangible assets impacted by the asset and footprint review are considered in the following key audit matter.

How our audit addressed the key audit matter

To evaluate the model used to assess impairment of the Group's non-current assets, we performed the following audit procedures, amongst others:

- Assessed whether the model included all assets, liabilities and cash flows directly attributable to the Murray Goulburn Co-operative cash generating unit and whether the model was a value-in-use model in accordance with Australian Accounting Standards.
- Compared forecast commodity prices to historical long term average and actual global dairy ingredients commodity prices and forecast milk costs to the actual cost of milk paid by Australian dairy processors and also considered the historical relationship between the two.
- Assessed the forecast future cash inflows in the forecast period including consideration of current market conditions.
- Considered the impact of reductions in milk intake announced by the Group subsequent to year end and the estimate of milk loss built into the model.
- With the assistance of PwC valuation experts, considered the discount rate used in the model by independently recalculating it and compared the expected long term growth rate projected in the model to long term inflation estimates.
- Tested key mathematical calculations within the model.
- Checked the calculation of the impairment of property, plant and equipment in the model to that recorded by the Group.
- Performed independent sensitivity calculations to evaluate the impact of changes in key assumptions that we considered reasonably possible.
- Checked that the disclosures made in the financial report were in accordance with Australian Accounting Standards.

Independent Auditor's Report to the Members of Murray Goulburn Co-operative Co. Limited continued



Key audit matter

Asset and footprint review

Refer to note 1 (g) Summary of significant accounting policies, 1 (y) Critical accounting estimates and judgements, note 3 Profit sharing mechanism, note 5 Expenses, note 9 Receivables, note 10 Inventories, note 14 Property, plant and equipment, note 15 Intangible assets and note 19 Provisions.

During the financial year Murray Goulburn announced the closure of three operating facilities, located at Edith Creek in Tasmania and Rochester and Kiewa in Victoria, as well as the cessation of major capital investments in dairy beverages and nutritionals. As a result significant asset impairments and provisions were recorded in the consolidated statement of profit or loss.

In recognising asset impairments and provisions, the most significant judgements by the Group included the estimation of:

- Recoverable amount of property, plant and equipment and related intangible assets.
- Net realisable value of redundant spare parts and packaging materials.
- Costs to be incurred relating to restructuring, employee redundancy, environmental remediation and decommissioning and onerous contracts.

The asset and footprint review was a key audit matter due to:

- The significance of the impairments and provisions raised, and
- The judgements made by the Group in estimating the written down value of assets and the extent of provisioning required.

Property, plant and equipment and intangible assets impacted by the asset and footprint review were assessed separately from impairment testing undertaken by the Group at the Murray Goulburn Co-operative level – this was considered in the previous key audit matter.

How our audit addressed the key audit matter

For asset impairments recorded during the financial year, we have performed the following audit procedures, amongst others, on a sample basis:

- Tested the Group's determination of recoverable amount by examining independent valuations of the assets obtained by the Group.
- Tested that impairment losses were recorded where the recoverable amount of the assets were less than their carrying amount.
- Checked that impairment losses were offset against the asset revaluation reserve to the extent there was one, and any remaining impairment loss was recognised as an expense in the consolidated statement of profit or loss.
- For inventory and receivables related items, we evaluated the Group's estimate and checked they were carried at the estimate.

For restructuring, employee redundancy, environmental remediation and decommissioning and onerous contract provisions, we have performed the following audit procedures, amongst others, on a sample basis:

- Evaluated the employee redundancy calculation for completeness in relation to the impacted employees.
- Traced the key elements of the redundancy calculations back to employee records and other supporting information.
- Tested the Group's assumptions relating to restructuring, environmental remediation and decommissioning and onerous contracts, by comparing them to tenders or quotes received or other supporting documentation.
- Evaluated whether the costs met the criteria for recognition as a liability and assessed the adequacy of disclosures within the financial report in accordance with Australian Accounting Standards.



Key audit matter

How our audit addressed the key audit matter

Valuation of dairy inventories

Refer to note 1 (m) Summary of significant accounting policies, 1 (y) Critical accounting estimates and judgements and note 9 Inventories.

Murray Goulburn recognised inventories totalling \$464.5m at 30 June 2017, the majority of which relates to dairy inventories. Inventories are recognised at the lower of cost and net realisable value.

The cost of dairy inventories includes a fresh milk component, which is based on the final outcome for actual weighted average southern milk region farmgate milk price and net profit after tax under the profit sharing mechanism, which is based on the final, full year financial results of the Group.

The net realisable value of dairy inventories is the estimated selling price less estimated costs to sell. Estimation of net realisable value involves a high degree of judgement by the Group, including estimating:

- Future sales channel mix (retail, food service, ingredients or nutritional).
- Future selling price, including global commodity prices for dairy ingredients, which can be particularly volatile.
- Foreign exchange rates.
- The extent of issues relating to product quality, obsolescence, expiring stock and stock approaching minimum life on receipt dates.

The valuation of dairy inventories was a key audit matter due to:

- Dairy inventories being a significant asset of the Group, and
- The complexity involved in valuing dairy inventories, including determination by the Group of the cost of the fresh milk component and net realisable value.

In relation to the fresh milk component of the cost of dairy inventories, we tested that it was calculated based on the actual weighted average southern milk region farmgate milk price, after the application of the profit sharing mechanism and excluding deviations from the profit sharing mechanism.

In relation to the valuation of dairy inventories at the lower of cost and net realisable value, we have performed the following audit procedures, amongst others, on a sample basis:

- For finished goods subject to committed orders, compared the lower of cost and net realisable value, as determined by Murray Goulburn, to sales prices as per customer sales orders.
- For finished goods not subject to committed orders, compared net realisable value to external sources including: actual global dairy commodity prices for dairy ingredients as per the Global Dairy Trade website and sales pricing achieved by Murray Goulburn over the 2017 financial year.
- Considered whether provisioning was required for products that generated negative gross margins in selected periods subsequent to 30 June 2017.
- Assessed the extent to which stock was regraded and written down in accordance with downgrade specifications and carried at the lower of cost and net realisable value.
- Evaluated the inventory sell-through analysis performed by Murray Goulburn to identify potential unsaleable inventory.

Independent Auditor's Report to the Members of Murray Goulburn Co-operative Co. Limited continued



Key audit matter

Forgiveness of the milk supply support package

Refer to note 1 (h) Summary of significant accounting policies, 1 (y) Critical accounting estimates and judgements, note 3 Profit sharing mechanism, note 5 Expenses.

At 30 June 2016 the milk supply support package was allocated against each individual Murray Goulburn supplier as an advance. An impairment provision was recorded for any supplier who had ceased to supply milk to the Group either as a result of retirement or transferring to a competitor (known as milk losses) as they were no longer required to repay the advance.

During the 2017 financial year, the Company forgave all outstanding milk supply support advances. All future obligations for repayment of the milk supply support advances ended. As a result, for the year ended 30 June 2017, the Group derecognised the milk supply support package asset. Impairment provisions previously raised for known milk losses and estimated future milk losses were reversed and were included in the total forgiveness expense recognised in the consolidated statement of profit or loss.

Given the significant impact of forgiving the MSSP, the accounting for and disclosure of the forgiveness of the MSSP were considered to be a key audit matter.

How our audit addressed the key audit matter

In relation to the forgiveness of the asset, we have performed the following audit procedures, amongst others:

- Recalculated the movements in the asset from 1 July 2016 to 2 May 2017 and checked that the asset was fully derecognised.
- With the assistance of PwC accounting technical team, we considered how to account for the forgiveness of the MSSP including whether it met the criteria for derecognition under Australian Accounting Standards.
- Checked the disclosures made in the financial report with Australian Accounting Standard requirements and agreed key inputs of the derecognition expense calculation to supporting documentation.

Key audit matter

Classification of borrowings

Refer note 1 (y) Critical accounting estimates and judgements, note 17 Borrowings, note 27 Financial risk management.

The asset and footprint review and forgiveness of the MSSP, have impacted the financial position of Murray Goulburn for the year ended 30 June 2017.

Murray Goulburn's borrowings recognised were \$463.9 million at 30 June 2017 and the Group has available financing facilities of \$917.9 million at 30 June 2017, of which \$778.9 million was committed. The gap between borrowings and available financing facilities narrows considerably at times of peak debt.

Given the financial significance of the borrowings and the impact the asset and footprint review and forgiveness of the MSSP have had on the financial position of Murray Goulburn, we considered compliance with the conditions associated with the financing facilities to be a key audit matter.

How our audit addressed the key audit matter

For the classification of borrowings, we have performed the following audit procedures, amongst others:

- Tested the appropriateness of the Group's classification of borrowings as non-current based on their maturity and other specific conditions within the respective borrowing agreements.
- Evaluated the Group's forecast financial position for twelve months from 22 August 2017 (date of signing the auditor's report) and considered forecast available capacity in the facilities throughout the twelve month period, including at times of peak debt. This included ensuring the financial forecast was consistently prepared with the Murray Goulburn Co-operative impairment model and that allowance was made for potential future milk losses.
- Assessed the adequacy of disclosures within the financial report in accordance with Australian Accounting Standards.



Other information

The directors are responsible for the other information. The other information received comprises the directors' report included in the Group's financial report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon. The other information expected to be made available to us after the date of this auditor's report includes the financial year in review and the corporate governance statement.

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the financial year in review and the corporate governance statement, if, we conclude that there is a material misstatement of this other information, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of Murray Goulburn Co-operative Co. Limited continued



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 25 to 36 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Murray Goulburn Co-operative Co. Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'Lisa Harker'.

Lisa Harker
Partner

Melbourne
22 August 2017

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