DEVONDALE
THE AUSSIE FARMER CO-OP

We love dairy foods

MURRAY GOULBURN ANNUAL REPORT 2013

MURRAY GOULBURN

Devondale
MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

DEVONDALE

THE AUSSIE FARMER CO-OP

MURRAY GOULBURN

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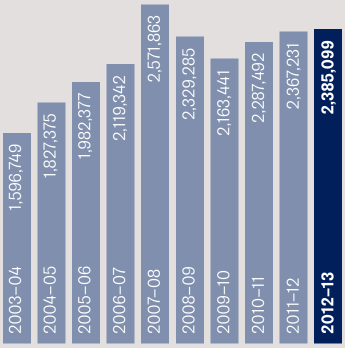
Murray Goulburn Co-operative Co. Limited ABN 23 004 277 089. Registered office: Level 15, Freshwater Place, 2 Southbank Boulevard, Southbank, Victoria 3006

Murray Goulburn Co-operative Co. Limited (Murray Goulburn) is Australia's largest dairy company and is 100 per cent controlled by its dairy farmer suppliers. Accordingly, Murray Goulburn holds a unique leadership position in the Australian dairy industry across the supply chain. A rich mix of dairy ingredients, consumer products, food service and farm trading stores provides Murray Goulburn with a balanced portfolio of products that we can proudly sell to Australia and the world.

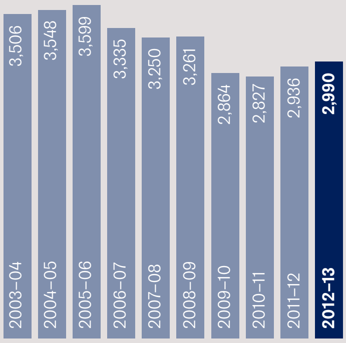
Performance overview

We made good progress on our journey to return Murray Goulburn to growth, despite a difficult global market for milk throughout most of 2012–13.

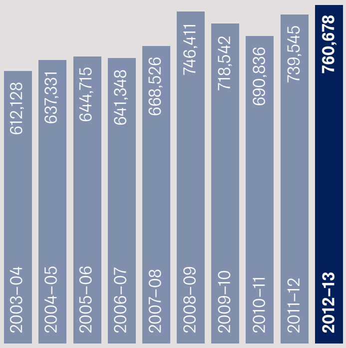
	YEAR ENDED 30 JUNE 2013	YEAR ENDED 30 JUNE 2012	CHANGE (%)
SALES REVENUE ($ million)	**2,385**	2,367	0.8
REPORTED STATUTORY NET PROFIT AFTER TAX ($ million)	**34.9**	14.5	140.7
FINAL AVERAGE MILK PRICE ($/kg MS)	**4.97**	5.44	(8.6)
ORDINARY DIVIDEND DECLARED OR PAID – PER SHARE (cents)	**8**	12	(33.3)
ORDINARY DIVIDEND DECLARED OR PAID – TOTAL VALUE ($ million)	**21.1**	27.4	(23.0)



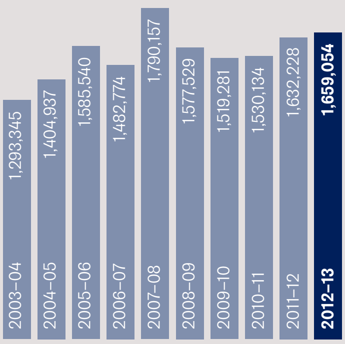
SALES REVENUE (A$ 000)



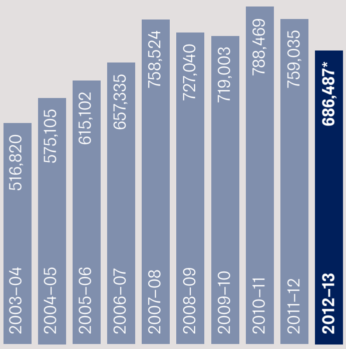
MILK INTAKE (million litres)



PRODUCTION (tonnes)

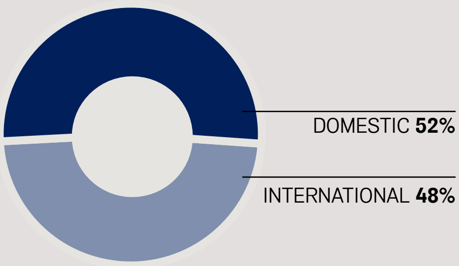


TOTAL ASSETS (A$ 000)

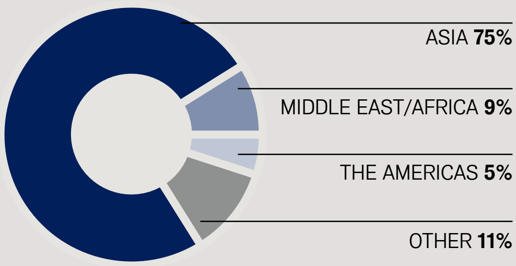


EQUITY (A$ 000)

2012–2013 SALES REVENUE
Total revenue
$2.4 billion (including MG Trading stores)



2012–2013 EXPORT VOLUME
Total volume
336,000 tonnes



* The decline in equity in 2012–13 is principally related to the closure of the employee profits participation scheme represented by employees' minority interests in a related entity of Murray Goulburn Co-operative Co. Limited. Total equity held by members of Murray Goulburn Co-operate Co. Limited, however, increased by $15 million, or 2.3 per cent.

From the Chairman

‘Overall, dairy foods remains an attractive business sector, underpinned by significant growth in emerging markets around the globe. Asia and the Middle East, in particular, are driving demand for dairy with their large and growing populations, higher incomes and changing diets.’

For Murray Goulburn (also MG or the Company), the past year has been a tale of two halves. We started the year with the combined impact of higher global milk production, lower international milk prices, a high Australian dollar and difficult seasonal conditions – all factors beyond our control. By autumn, however, the markets had turned in our favour, with improved seasonal conditions, tight global milk supply, higher world dairy prices and the Australian dollar easing.

Unfortunately, this turnaround in circumstances happened too late to have any meaningful impact on the year’s closing milk price, but it did see us end the year with much reason for optimism.

The final milk price for 2012–13 was $4.97 per kilogram of milk solids on a weighted average basis, down from $5.44 per kilogram of milk solids last year. Without the savings made within the business, the farmgate milk price would have been significantly lower.

MG’s milk supply ex-farm grew by 1.8 per cent in 2012–13 to 2.99 billion litres, up slightly from 2.94 billion litres last year. Milk volumes were most affected in western Victoria, South Australia and Gippsland as a result of the particularly difficult season experienced in those regions. This was partially offset by continued strong recovery in northern Victoria and the Riverina, in New South Wales (NSW), which recorded 6.7 per cent growth year on year in milk volume. MG was also able to further offset the dip in milk volumes through strong milk procurement in our western region. In Tasmania, we processed a further 175 million litres through the Tasmanian Dairy Products Co. Ltd joint venture and our Edith Creek facility.

Our profit before tax was $39.1 million and we have declared a dividend of eight per cent.

A fairer milk payment system

During the year, the MG Board completed the most comprehensive review of milk payments ever undertaken by an Australian dairy company. The primary objective of the review was to recommend a milk pricing system that is based on fairness and profitability for suppliers/shareholders overall, across a range of farm systems and regions.

The Board commissioned a leading corporate advisory firm to undertake the review, which involved extensive consultation with suppliers and other MG stakeholders. In particular, I want to thank the many hundreds of MG suppliers who participated in the review, through supplier meetings or the farmer survey.

The outcome of the review has resulted in MG moving to a new simpler pricing system for the 2013–14 season, with a single base price, supported by incentives. The Board believes this is a fairer milk payment system that better reflects milk returns across the year and justifies the levels of incentives and charges.

Driving improved performance

MG continues to work hard to improve performance in areas we can control. Last year, we announced a change initiative to lead the Company back to growth through cost leadership, innovation and increasing our focus on key customers. By generating operational efficiencies and finding value in our markets, we can deliver higher farmgate returns.

This involved a keen focus on achieving operational excellence and cost competitiveness across the business, as well as significant investment in future growth.

The focus on improving our operational performance and capability will deliver $100 million in savings. These savings are now flowing to our suppliers through improved farmgate milk prices.

The Company has also seen a marked improvement in its safety performance, thanks to a strong focus across the business on keeping MG people safe. This focus is ongoing, with more work to be done in the year ahead to continuously improve our safety performance.

Investing for the future

We are also actively investing in our business to build scale and innovate to meet changing consumer needs, delivering new products to premium domestic and international markets.

Most significantly, during the year, we announced a landmark 10-year supply agreement with Coles, which will see the Company supply private label daily pasteurised milk to Coles until 2024. As part of the agreement, Devondale branded daily pasteurised milk will also be available in Coles’ Victorian and NSW

supermarkets, and Devondale cheese returned to Coles shelves nationally for the first time in nine years. This agreement is an outstanding achievement for the Company and will help drive significant growth in sales for our core Devondale milk and cheese brands in the years ahead.

To support the new agreement with Coles, we are investing $120 million in two state of the art milk processing plants in Melbourne and Sydney – a significant investment for the dairy industry. Work has commenced on both facilities and they are expected to be fully operational in 2014.

Across our existing processing facilities we continue to work towards ensuring we remain efficient, competitive and ready to adapt to changing consumer and customer needs. In the past year, we announced:

- $19.1 million to establish world class UHT facilities, incorporating one-step milk processing, automation, high speed lines and a variety of milk pack formats at Leongatha;
- $5 million towards a new butter packing line at our Koroit plant; and
- approximately $5 million for an automated cheese cut and wrap facility at Cobram.

Overall, dairy foods remains an attractive business sector, underpinned by significant growth in emerging markets. Asia and the Middle East, in particular, are driving demand for dairy, with their large and growing populations, higher incomes and changing diets.

The Australian dairy industry is well placed to prosper in this environment, and MG is working to capitalise on these opportunities. This year, we opened offices in Dubai, Singapore and Vietnam – locations that give us direct access to growth markets.

In China, we moved in March to 100 per cent ownership of Murray Goulburn Dairy (Qingdao) Co. Ltd (MG Qingdao), our China joint venture operation. We believe there is enormous potential for growth in the dairy food and nutritions categories in China, and capturing our share of this growth is best achieved through 100 per cent ownership of our business there.

After a year of significant change, it is important that we acknowledge and thank those who have worked so hard in challenging circumstances to support our change agenda and achieve so much for the Company.

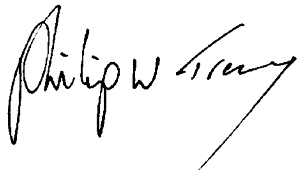
Thank you to the team behind MG, led by our Managing Director, Gary Helou, for their extraordinary efforts this year.

I would also like to pay tribute to your Directors for their ongoing support.

During the year, we announced a number of changes at Board level. We welcomed two new Directors – Mike Ihlein and Max Jelbart to the Board. We will also farewell Don Howard, who steps down from the Board at the forthcoming Annual General Meeting (AGM) in November 2013 after 16 years of service. During his tenure, Don has overseen significant change at MG and across our industry. He has been a strong advocate for change within MG and has made an enormous contribution over this time. We are all indebted to his service.

Finally, I thank you, our suppliers/shareholders, for your ongoing support as we work to revitalise our co-operative and position the Company for the future. As Australia's largest and most important dairy company, we play a critical role in leading the industry to growth. We have a big future and, as MG shareholders, we have much to celebrate.

I look forward to welcoming you to the AGM on 22 November.



Philip Tracy
Chairman

Managing Director's Message

'Over the past two years, we have implemented an exciting change program to cement our position as an industry leader and return our business – and the Australian dairy industry – to growth. While we have made good progress, the journey has just begun and there is much more to do.'

MG is uniquely placed to lead the Australian dairy industry back to profitable growth. With its rich mix of consumer branded dairy foods, food service solutions, dairy ingredients, nutritional foods and farm trading stores, Australia's largest dairy company boasts a strong and balanced portfolio of dairy food products that we can proudly market to Australia and the world.

Over the past two years, we have implemented an exciting change program to cement our position as an industry leader and return our business – and the Australian dairy industry – to growth. While we have made good progress, the journey has just begun and there is much more to do.

In line with our goal to build a first choice dairy foods company on the solid foundations of operating excellence and innovation, we have continued our focus on balancing our business portfolio, lowering costs, simplifying our organisational structure and upgrading our people's skills.

Despite a tough year on the farm and low international dairy prices compounded by a very high Australian dollar, our strategic and structural change program is starting to reap rewards.

Sales revenue for the year increased by one per cent, from $2.37 billion to $2.39 billion, despite slightly higher milk intake but significantly lower export commodity prices compounded by an appreciating Australian dollar during the financial year.

The final weighted average milk price for the 2012–13 season was $4.97 per kilogram of milk solids. While the final price was disappointing, it reflected what was a very difficult global market for most of the season.

The net profit after tax was $34.9 million, up from $14.5 million in the prior year. Our balance sheet continues to remain strong, with total assets of $1.66 billion and total equity at 30 June 2013 of $686 million. This strength of the MG business model, with its balanced portfolio of domestic and export products that provide some protection from volatile movements in commodity prices, was further highlighted during the year with reduced revenues in our ingredients business as a result of lower international dairy commodity prices offset by increased sales volumes and revenue in the domestic consumer and nutritionals businesses.

Our achievements

During 2012–13, the MG team continued to lay down the strong foundations we need to capitalise on the outstanding growth opportunities for dairy foods in our key markets. Operating excellence and innovation remain the central pillars driving our growth agenda.

Our operational excellence program will deliver $100 million in operational savings in the form of lower operating costs and higher efficiencies. These savings are already flowing through to support a higher farmgate milk price. We have also continued our investment program to help us deliver world class dairy foods processing and supply chain capabilities.

MG's significant portfolio of ingredients and dairy foods exported to the rapidly growing Asian and Middle East region have greatly benefited from the increasing consumer demand and focused investment in capability and reach in key markets such as China, Japan, South East Asia and the United Arab Emirates. Our 100 per cent acquisition of MG Qingdao will enable us to further expand our business footprint across China. Our offices in Singapore, Vietnam and Dubai will provide us with better connectivity with the customers and consumers of these high growth dairy markets.

Dairy foods innovation is a key driver in delivering value growth in the domestic market, which continues to see erosion of share in favour of house brands. Our Devondale brand has seen the benefits of increased investment in consumer insights research and product innovation. Last September, we unveiled a contemporary new look for the Devondale brand, including a new logo and product launches and consumer communications.

In April, we announced MG's strategic entry into the daily pasteurised milk market by entering into a landmark 10-year supply deal with Coles for its private label brands in Victoria and NSW. The same agreement will see Devondale-branded daily pasteurised milk in fridges in Victoria and NSW and has resulted in Devondale cheese returning to Coles shelves after a nine-year absence. This agreement locks in premium returns for MG, with 100 per cent of the profits returned to farmer shareholders through higher farmgate returns.

MG will invest approximately $120 million in the construction of two state of the art milk processing plants in Melbourne and Sydney, which are due to commence operations in July 2014. This is the most significant investment in dairy processing technology since the dairy industry was deregulated in 2000.

In September 2012, we also welcomed the successful commissioning of Tasmanian Dairy Products Co. Ltd (TDP), a $75 million dairy processing joint venture with Mitsubishi Corporation in northwest Tasmania. TDP has the capacity to process approximately 250 million litres of milk into high-quality dairy food ingredients to supply the rapidly growing dairy markets in Asia and the Middle East.

As part of our ongoing commitment to ensuring that all of our farmers receive the fairest and best possible return from their co-operative, the Company completed the most comprehensive review of milk payments ever undertaken by an Australian dairy company.

The milk pricing review involved a farmer survey, with 580 responses, 16 farmer meetings and consultation with leading farm advisers. Its findings led to changes to our milk payment system, including the introduction of a simpler single base price system and seasonal incentives to improve cash flow during peak months.

Another major project focused on our supplier group was the launch of the Next Generation package, a suite of initiatives designed to assist our suppliers to manage sustainable businesses by making the most of opportunities and tackling challenges. Exclusive to our suppliers, the package includes a new range of trading loans and workforce support, and provisions for young farmers, farming families and new entrants. Finance initiatives also support suppliers during tough business conditions, such as those faced by many this season.

Our people and safety

Building a performance based operating culture is a key driver behind MG's transformation to a world class dairy foods company. We need strong organisational capabilities if we are to uncover and capitalise on business opportunities in a rapidly changing world.

As such, we are committed to investing heavily in the development and training of our employees as we strive to align our people with the Company's strategy and foster an enterprising, growth culture.

Across the business, we continue to invest in building a number of processes and systems to support our people. An important, Company-wide initiative over the past year has been our highly visible and passionate focus on our Goal ZERO safety vision and strategy.

We remain absolutely committed to doing whatever we can – from farm, to factory and marketplace – to ensure our people get home safely every day.

This commitment to safety is delivering and has led to a significant reduction in lost time injury frequency rates and lost time injuries year on year. While this represents a step change improvement in our safety performance, our work will not be done until we have achieved zero lost time injuries. In the year ahead, ensuring the safety of our people will remain our highest priority.

Our future

MG is one of the biggest and most exciting Australian-owned food businesses. Our dairy foods business is underpinned by great growth opportunities. Our strategic focus lies in our immediate regions of South East Asia, China, the Pacific and the Middle East, where large populations continue to increase their per capita consumption of dairy foods.

We have the strategy and the people to harness the enormous potential for growth and prosperity in domestic and international markets. Given our unique industry position, the strength of our brands and our relationship in key markets, our future is bright and promising.

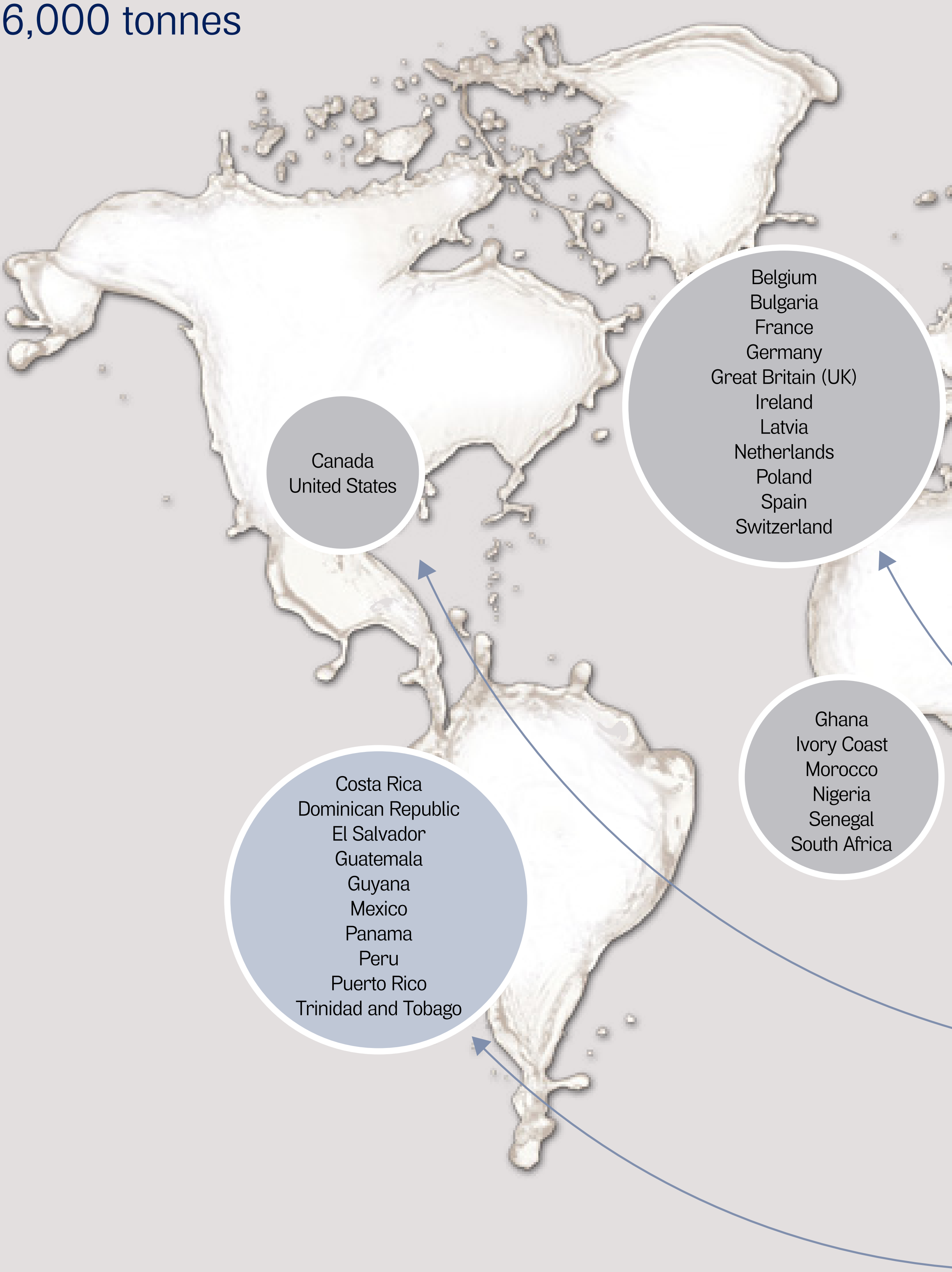
I sincerely thank my Chairman, Phil Tracy, and our Board of Directors for their leadership and support. I also want to extend my thanks to my executive management team and all MG employees for their commitment and hard work.

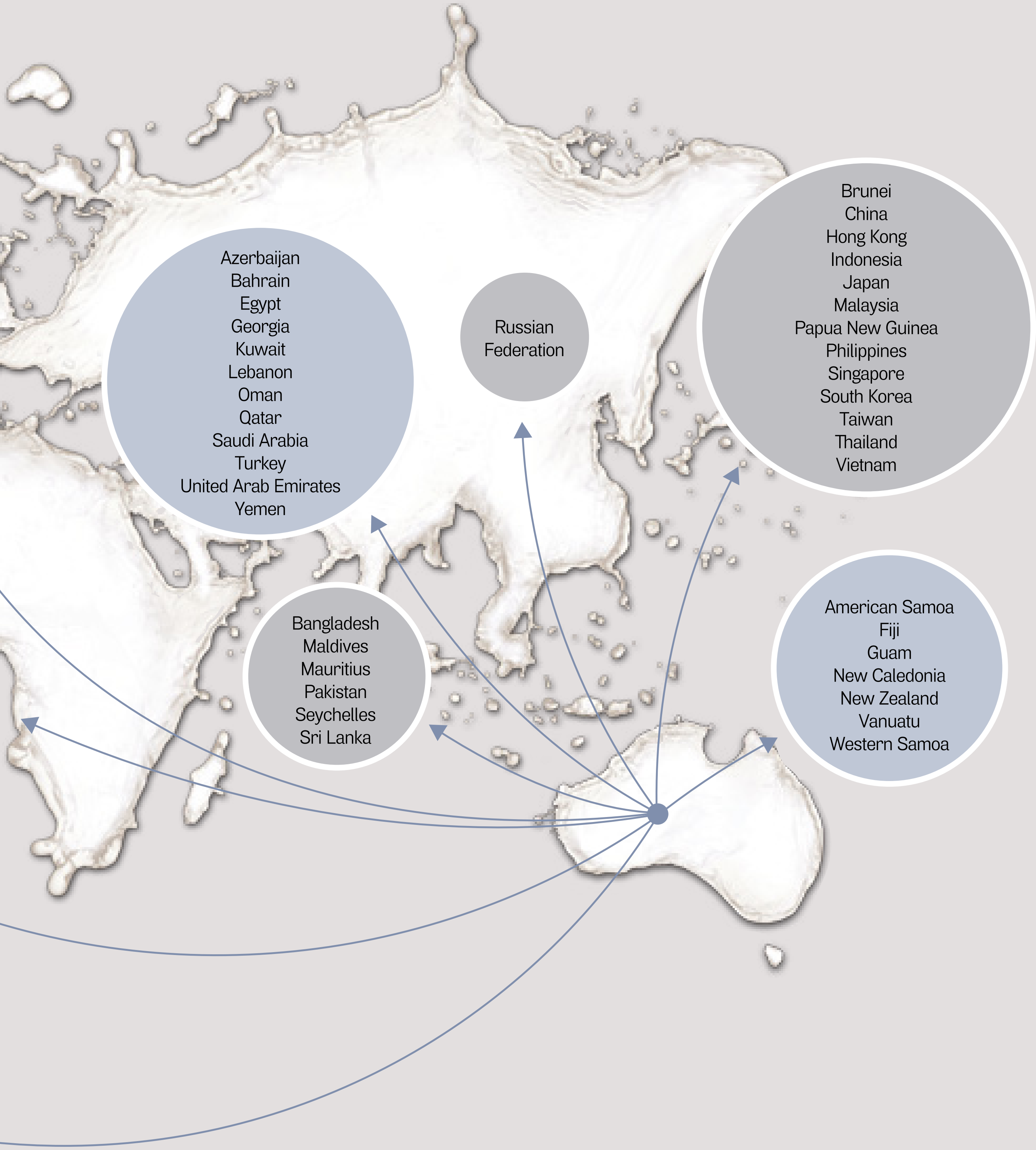
Thanks to you all, MG is well placed to take advantage of an exciting future.

Gary Helou
Managing Director

Taking our products to the world

In 2012–13 Murray Goulburn exported 336,000 tonnes of product.




Azerbaijan
Bahrain
Egypt
Georgia
Kuwait
Lebanon
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Qatar
Saudi Arabia
Turkey
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Yemen
Russian Federation
Brunei
China
Hong Kong
Indonesia
Japan
Malaysia
Papua New Guinea
Philippines
Singapore
South Korea
Taiwan
Thailand
Vietnam
Bangladesh
Maldives
Mauritius
Pakistan
Seychelles
Sri Lanka
American Samoa
Fiji
Guam
New Caledonia
New Zealand
Vanuatu
Western Samoa

Milking it!

Our Barista's Own milk is specially for frothing. It delivers a consistent smooth creamy froth to your favourite coffees and hot drinks.


DEVONDALE
-THE AUSSIE FARMER CO-OP-
Barista's Own
frothing
milk

Year in review

Across Murray Goulburn we continued to focus on achieving operational excellence and cost leadership while at the same time investing in opportunities for future growth.

Retail and Food Service

Domestic Retail and Food Service

The Domestic Retail and Food Service business unit represents a significant part of Company sales and offers a wide range of products for Australian customers and consumers.

Trading conditions were competitive in 2012–13, particularly in grocery, as all dairy suppliers fought to grow their business in a flat market. MG grew volume by 8 per cent in very difficult trading conditions.

In addition to the Devondale rebranding, MG launched several consumer products, including Devondale seasonal lines, Devondale Fast Start breakfast drinks, Liddells chocolate milk, Liddells yoghurt and Devondale shingle slices, and relaunched cheese with a new tasty all-rounder. Our lactose free Liddells products continued to grow at double digit rates.

The Food Service division supplies restaurant kitchens and food outlets throughout Australia. In the past year, Food Service invested time with key customers and engaged in targeted selling activity. The recruitment of new leadership and a team with food service expertise significantly improved our sales competency and delivered strong sales growth.

MG manufactures and distributes private label products to all major supermarket chains in Australia. This is a growing and important segment of MG's manufacturing footprint.

Dairy Foods International

MG established Dairy Foods International as a separate business unit in 2012–13 to grow sales of consumer products in international retail and food service channels. This is a change in the Company's strategic direction and a major focus for our growth. The new approach is designed to build a branded business in these regions to capture higher margins and reduce the volatility driven by the fluctuations in global commodity prices.

8%
Growth in Domestic Retail and Food Service volume

21%
Growth in Domestic Food Service volume

Devondale
rebranded

42%
Revenue growth for Dairy Foods International

3 NEW
international offices opened

In its first year, Dairy Foods International recorded 42 per cent revenue growth year on year.

MG exports consumer products to approximately 25 countries, including China, Vietnam, Singapore, Hong Kong, Malaysia, Indonesia, United Arab Emirates, Saudi Arabia, Japan and Papua New Guinea. Our geographic focus is in Asia, China and the Middle East, where large populations are exercising growing spending power, including an increase in per capita consumption of dairy foods.

Liquid milk and dairy foods consumption in Asia and the Middle East is growing strongly and these markets rely heavily on imported dairy foods. Demand for premium Australian milk and dairy products, and Devondale's positioning as 'Australia's No. 1 dairy company', places us in a strong position in these regions.

Much of the year was spent building the foundations of the new business unit. The establishment of regional offices in Dubai (to support the Middle East), Vietnam and Singapore (to support South East Asia) was important to build our local presence and engage customers and consumers in these markets. As well as looking at immediate business opportunities, these offices are exploring the dairy categories and developing plans to support growth.

We are extending the product range in food service and retail channels to support MG's goal to build a wide dairy foods portfolio.

Ingredients and Nutritionals

MG has been committed to its role as a global supplier of dairy food ingredients since the Company was established in 1950. Today, food ingredients represent the single largest contribution to our annual revenue and we are the second largest supplier of dairy ingredients in the world. Our ingredients portfolio includes milk powders, cheeses, milk protein concentrate, milk fat products, specialty proteins, caseinates and whey products.

Net sales revenue for Ingredients and Nutritionals in 2012–13 was $1.28 billion, a decrease of five per cent compared to last year and sales volume was 387,000 tonnes, seven per cent up on last year. During the year, bulk nutritionals sales (which include infant formula, follow on formula, base powders and growing up milk powders) were absorbed into the Ingredients business unit. There was a 26 per cent increase in Nutritionals sales volume and a 33 per cent increase in Ingredients value add sales volume.

The year began with relatively low commodity prices following a significant increase in milk production from major countries involved in global dairy trade, however price recovery accelerated after weather events changed the supply–demand balance. These included dry conditions in the US, a long cold winter in Europe and a harsh dry spell in New Zealand, which led to a dramatic decline in milk production.

The season ended with global commodity prices well above average levels, but the benefit was largely offset by the strong Australian dollar and lower than forecast milk volume for Ingredients.

The Nutritionals category grew by 26 per cent on the previous year providing a solid platform for sustainable growth into the future. The business has developed partnerships with strong, reliable customers and worked to create a cost efficient supply chain. We also are focused on building sustainable growth for our product range and customer/market mix.

Highlights for Nutritionals in 2012–13 include the move to 100 per cent ownership of MG Qingdao, our China infant formula joint venture. This move represents an important step in driving growth in China.

$1.28 billion
Revenue

33%
Increase in value add Ingredients sales volume

26%
Increase in Nutritionals sales volume

Disappointingly, there has been no tangible progress on new Australian free trade agreements. New Zealand continues to build favourable trading conditions with China and has signed an agreement with Taiwan. The US is leveraging its free trade agreement with Korea, putting pressure on our market share in the cheese category. This makes our trade with these countries more difficult. Our diversified portfolio and our push to rapidly increase value add categories somewhat mitigates the risk, but we need some successes in free trade to bring better balance and to level the trade playing field.

The focus of the Ingredients and Nutritionals business unit will be on continued growth in the value add categories. Leading the charge will be strong and sustainable growth in nutritionals.

Two challenges will emerge in the medium term. Increased price volatility evident since 2007 continues to place pressure on customers and suppliers and it is important to identify viable strategies to mitigate risk associated with this volatility. The Company could also face a challenge with the removal of milk supply quotas and subsidies in Europe after 2015, which will change the milk production landscape in Europe and we must prepare for the impact of additional supply. At this early stage we believe the net increase in milk production will be manageable as the dairy foods market has ongoing growth potential. Despite these challenges, MG anticipates a favourable outlook for Ingredients and Nutritionals in the medium to long term, with forecast growth in consumption in developing and emerging markets expected to easily soak up increases in global milk supply.

Marketing and Innovation

In the past year, MG's Marketing function has worked hard to make the brand more relevant to Australian families.

Marketing also refreshed the packaging for Devondale's UHT, spreads, cheese and cream ranges to ensure our products stand out on the shelf.

MG's Innovation function understands that the best way to meet the demands of global customers and consumers is to develop new and improved ingredients and products to add value to existing ranges.

In 2012–13, the Company launched several new products to meet changing consumer needs.

Devondale All-Rounder cheese is a versatile all-rounder with a smooth flavour, not too much bite for kids, but enough flavour for adults. The cheese was selling overseas and had won awards in the UK. After launching this range in Australia, the Company now offers natural cut cheese slices in a shingle pack, which prevents slices sticking together and breaking.

The range of Devondale one litre long life milk also was expanded to include coffee and strawberry flavours. We launched one litre UHT Barista's Own frothing milk and Christmas one litre UHT seasonal products in eggnog and a brandy custard. MG supported the Barista's Own launch with a marketing campaign, including national sampling in supermarkets, magazine and TV advertisements.

17%

Increase in Liddell's gross sales

In early 2013 we launched Devondale Fast Start (in 250ml chocolate, coffee and vanilla flavours) into the competitive breakfast drink category. Gross sales for January to June 2013 were $3.3 million. Unlike the market leader, Fast Start has a great dairy taste. The launch was supported with a major marketing campaign, which told consumers to 'Stop the soy aftertaste face'. Our advertisements were shown nationally, generated a huge online response and won a prestigious Cannes Lion advertising award.

There has also been activity for Liddells, with a new logo and packaging, in-store displays and the launch of block and shred cheese, yoghurt and the successful one litre and 250ml chocolate flavoured milks.

Say 'cheese'!

Our master cheese makers have combined their knowledge with our advanced manufacturing technology to continue to produce great tasting products.


COBRAM
PREMIUM VINTAGE CHEDDAR

Operations

MG's Operations function is responsible for ensuring that MG's workplaces are safe, the quality of our product is high and our environmental practices are world class.

Safety

At MG we manage quality, environment and safety performance using management frameworks in line with international and Australian standards.

Our most important asset is our people and our top priority must always be to keep our people safe. In 2012–13, we continued our cultural transformation in occupational health and safety and improved safety leadership across our operations.

In May, every MG workplace 'stopped for safety' for one hour to launch our new safety vision 'Goal ZERO' and to discuss safety in our workplaces. This Company-wide event marked the start of a major and enduring employee engagement initiative to deliver and sustain improvement in our safety thinking and safety performance.

This strong commitment to making our workplace safe has delivered significant reductions in lost time injury frequency rates and lost time injuries. While this represents a significant improvement in our safety record compared to last year, there is more work to do. When it comes to the safety of our people, contractors and visitors, zero is our only acceptable goal.

GOAL ZERO

Significant
improvement in our safety record

$100 million
in operational savings being delivered

$34 million
being reduced in procurement-related spending

Management systems framework

Building on existing management frameworks, we worked to improve performance by developing and implementing an integrated approach to quality, environment and safety management. A key initiative to drive this is Project QUEST, an IT system that will provide information and trends on all aspects across quality, environment and safety. This will enable us to drive continuous improvement in these areas of our business.

Quality

Quality is crucial to MG achieving its strategic goals.

A priority is to define a 'Murray Goulburn way' for how we approach quality. This will impact on all of our people and will ensure we are the first choice in dairy foods, delivering the best possible service to customers.

Importantly, using a farm-to-customer approach, the Company is applying more rigour to raw milk quality. We also are conducting a milk quality review in conjunction with field services employees, a key initiative given the importance of milk quality and its impact on our products.

Environment

MG maintains a strong commitment to improving environmental performance to ensure compliance with legislation and long term environmental sustainability.

During 2012–13 this commitment was formalised in a Business Activities Environment Strategy, which sets environmental performance objectives, targets and includes a rolling three-year plan. The strategy focuses on deeper analysis of the environmental risks posed by our activities and the actions required to minimise those risks.

Some of our environmental commitments bring financial savings to the business. For example, the Energy Blitz program, has enabled us to reduce operating costs and carbon emissions.

Manufacturing and Transport

The Manufacturing and Transport function is responsible for all manufacturing plants and bulk milk transport.

In the past year, Manufacturing and Transport focused on increased productivity, new product development, safety and quality assurance.

This includes investing in boosting MG's UHT capacity, automation of cheese case packing and filling at Cobram, our infant nutrition capability at Koroit, and product launches, such as Fast Start, at Edith Creek. We also enhanced our flexibility to adapt to varying UHT milk formats and pack sizes at Leongatha.

Manufacturing increased its focus on product quality to build a 'right first time' culture. The function also met the requirements of product launches in UHT milk, cheese and ingredients.

Logistics

In 2012–13, Murray Goulburn merged the management of the Integrated Logistics Centre (ILC) and Global Distribution Centre (GDC), increasing efficiency and reducing costs.

In the past year, Logistics successfully managed the changeover of products resulting from the Devondale rebranding and implemented changes to support increased UHT output at Leongatha and the launch of products such as Devondale Fast Start.

Also this year, the export and documentation team moved from Brunswick to Freshwater Place without disrupting this essential support function. It was a busy year for the team, which also managed the changing requirements for product testing and certification for exports to China.

New high-density racking with automated pallet carriers is being installed at the ILC to treble storage and handling capacity for UHT milk from Leongatha. As well as eliminating manual handling, the new racking system will reduce costs and improve quality by minimising the risk of damage in transit.

Procurement

The restructured Procurement function is reducing spending across MG by $34 million, making significant savings in areas such as UHT, rigid and flexible packaging, electrical costs and caustic soda.

The introduction of the SAP business management system has helped the function to streamline its process and deliver significant savings. Procurement has worked in a challenging environment to establish standardised, clear procurement procedures and documents for goods, services and capital expenditure, establish contracts and renegotiate agreements with major procurement-related suppliers.

This will continue in 2013–14 with employees now aligned to procurement categories, the creation of standard supplier contracts and forms, clear procurement role definition and by working with sites to resolve procurement-related supplier management issues.

Shareholder Relations

Shareholder Relations

MG's Shareholder Relations function oversees milk supply, commercial raw milk sales and purchases, MG Trading, shareholder services and corporate affairs. In 2012–13 the function was responsible for $1.3 billion in milk payments and MG Trading store revenues.

Milk supply

Milk supply received ex-farm increased by 1.8 per cent in 2012–13 to 2.99 billion litres. Milk supply in northern Victoria and southern Riverina grew 6.7 per cent compared with last year. Poor seasonal conditions placed pressure on supply in Gippsland and western Victoria and South Australia, but procurement strategies helped MG to growth of 6.03 per cent in the western region.

Milk payment review

The Shareholder Relations team led a comprehensive review of MG's milk payment system, aimed at recommending a milk pricing system based on fairness and profitability for all suppliers across farm systems and regions.

The review considered supplier opinions, farm production costs, seasonality of milk supply and the Company's supply needs, the net return to the Company of its products across months, competitor pricing and product mix.

Outcomes from the review provided comprehensive analysis of how to best distribute milk proceeds and to establish incentives and charges. From 2013-14, MG will implement a simpler milk payment system, moving from three base prices to a single base price. Monthly pricing systems will be amended and incentives and charges adjusted.

Next Generation package

During 2012–13, MG released the Next Generation package, a suite of initiatives to support our suppliers and help them overcome barriers to opportunity. The package provides financial and business support to help suppliers realise their business goals, including getting established as a dairy operator, growing the family business, workforce development and improved profitability.

2.99 billion litres
of milk supplied ex-farm

$1.3 billion
in milk payments and MG Trading store revenues

It includes:

- significant financial support for young farmers, farming families and new entrants seeking to grow their business or enter the industry;
- access to employment and immigration resources to address labour market shortages;
- leasing partnerships through MG's preferred investment providers; and
- short and medium term loans to assist with cash flow management and business sustainability, including longer term credit lines at MG Trading stores.

MG Trading

MG Trading stores delivered sales growth of seven per cent on last year with revenues totalling $200 million. Sales margins were tighter as customers reduced their discretionary spending and competition drove retail prices down.

The Cobram store was refurbished as the working example of a best-in-class store and refurbished stores were opened at Foster, Wonthaggi and Eskdale. MG Trading's fertiliser service grew with a fourth depot opened in Katunga.

Services were also introduced to reduce our suppliers' costs. Approximately 1,000 MG suppliers entered a joint electricity supply arrangement via MG Trading and Momentum Energy, with total savings for those farm businesses estimated at $3.75 million in the first year under the agreement.

People and Culture

People and Culture is responsible for ensuring the leadership, governance and the implementation of our people initiatives and growth agenda. Since it was established in 2011, the function has delivered critical requirements to support MG's rapidly growing and changing business.

To enable business growth, People and Culture has provided extensive training and support for managers during the significant restructure of business units and the recruitment of many new employees. The establishment of a panel of preferred suppliers for recruitment will help to significantly reduce recruitment costs and maximise the success of our recruitment initiatives. People and Culture also introduced and led the implementation of our comprehensive Company-wide performance review and remuneration process.

Over the next year, People and Culture will move out of its start up phase and will focus strongly on assisting to build business value with a comprehensive suite of business aligned initiatives. These will include learning and development frameworks, as well as talent and succession plans.

People and Culture will maintain its commitment to providing operational excellence support, and will drive and encourage MG's managers and employees to continuously improve our high performance capability and culture. This focus will ensure a strong platform of employee engagement is in place to support the successful delivery of our business aspirations.

Our farming families

Our products are made by the co-op, which is 100 per cent controlled by our dairy farmer suppliers.





Board of Directors

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1. Philip W. Tracy

BEc/BComm, CA, SIA, GAICD

Philip was elected to the Board in 2009 and elected Chairman in 2011. He is also Chairman of the Remuneration and Nominations Committee and a member of the Supplier Relations Committee.

Philip is a dairy farmer, milking 800 cows at Yanakie in Gippsland, Victoria. He is a Chartered Accountant and has a Bachelor of Economics and Commerce and is a graduate of the Australian Institute of Company Directors.

2. Gary Helou

BE (Hons), MComm, FAICD, FAIM

Gary was appointed as Managing Director in October 2011.

Gary brings experience from a broad range of roles encompassing the international and domestic food and agricultural industries. Prior to joining Murray Goulburn, he was Chief Executive Officer of SunRice for 11 years. Gary held senior leadership roles in Hong Kong, Singapore and Indonesia with Pacific Brands Food Group and Indofood. He has a Chemical Engineering Degree and a Master of Commerce (Marketing) from the University of New South Wales.

3. Kenneth W. Jones

Adv. Dip. Ag., MAICD

Kenneth (Ken) was elected to the Board in 2008 and elected Deputy Chairman in 2011. He is a member of the Finance, Risk and Audit Committee, Supplier Relations Committee and Remuneration and Nominations Committee.

Ken is a dairy farmer, milking 340 cows at Kergunyah in north east Victoria. He has an Advanced Diploma in Agriculture and is a member of the Australian Institute of Company Directors.

4. Natalie Akers

BPPM (Hons), BA, GAICD

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

Natalie is a dairy farmer, milking 650 cows at Tallygaroopna in northern Victoria. She has a Bachelor of Public Policy and Management with honours, a Bachelor of Arts and has completed the Fairley Leadership Program. Natalie was the Chief Executive Officer of Murray Dairy from 2008 to 2010 and is a graduate of the Australian Institute of Company Directors.

5. William T. Bodman

BSc (Ag), GAICD

William (Bill) was elected to the Board in 2009 and was joint Deputy Chairman from 2011 to November 2012. He is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

Bill is a dairy farmer, milking 420 cows on two farms at Won Wron in Gippsland, Victoria. He has a Bachelor of Agricultural Science Degree from La Trobe University and is a graduate of the Australian Institute of Company Directors.

6. Peter J.O. Hawkins

BCA (Hons), FAICD, SFFin, FAIM, ACA (NZ)

Peter was elected to the Board in 2009 as a Special Director. He is Chairman of the Finance, Risk and Audit Committee and a member of the Remuneration and Nominations Committee.

Peter has had a 41-year career in the banking and financial services industry in Australia and overseas at both the highest levels of management and directorship of major organisations. He held various senior management and directorship positions with Australia and New Zealand Banking Group Limited from 1971 to 2005, including Managing Director of ANZ Banking Group (NZ) Ltd from 1992 to 1995 and was also a director of BHP (NZ) Steel Limited from 1990 to 1991, ING Australia Limited from 2002 to 2005 and Esanda Finance Corporation from 2002 to 2005.

He is currently a director of Westpac Banking Corporation, Mirvac Limited Group, Liberty Financial Pty Limited, Treasury Corporation of Victoria and Clayton Utz.


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7. Donald F. Howard

Dip. Company Directors, MAICD

Donald (Don) was elected to the Board in 1997. He is a member of the Compliance Committee and Supplier Relations Committee.

Don is a dairy farmer, milking 330 cows at Tandarook in western Victoria. He has a Diploma from Company Directors (ANU) and is a member of the Australian Institute of Company Directors. He is also a director of Cobden & Districts Community Finance Limited.

8. Michael F. Ihlein

BBus (Acc), FCPA, MAICD, F Fin (Finsia)

Michael (Mike) was elected to the Board in 2012 as a Special Director. He is Chairman of the Compliance Committee and a member of the Remuneration and Nominations Committee.

Mike is a highly experienced international executive with extensive knowledge of international business and finance. He held senior management and directorship positions with Brambles Limited from 2004 to 2009, including Executive Director and Chief Executive Officer (2007 to 2009) and Executive Director and Chief Financial Officer (2004 to 2007). Mike also held various senior management and directorship positions with Coca-Cola Amatil Limited, including Executive Director and Chief Financial Officer (1997 to 2004) and Managing Director, Poland (1995 to 1997).

He is currently a director of Westfield Retail Trust, CSR Limited and Snowy Hydro Limited and Chair of the Australian Theatre for Young People.

9. Maxwell Jelbart

Maxwell (Max) was elected to the Board in 2012. He is a member of the Compliance Committee and Supplier Relations Committee.

Max is a dairy farmer, milking 1,000 cows at Leongatha South and 350 cows at Caldermeade in Gippsland. He is a Nuffield Farming Scholar, a member of the Australian Dairy Farmers Board Audit and Risk Committee and a board member of Marcus Oldham College.

10. Graham N. Munzel

GAICD

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

Graham is a dairy farmer, milking 270 cows at Gunbower in northern Victoria. He is a graduate of the Australian Institute of Company Directors.

11. John P. Pye

Adv. Dip. Ag., MAICD

John was elected to the Board in 2005. He is Chairman of the Supplier Relations Committee and a member of the Compliance Committee.

John is a dairy farmer, milking 400 cows at Bessiebelle in western Victoria. He has an Advanced Diploma of Agriculture and is a member of the Australian Institute of Company Directors. He is a member of Powercor's Customer Consultative Committee and a former Director of Southern Rural Water Authority (2002 to 2010).

12. Martin J. Van de Wouw

MAICD

Martin was elected to the Board in 2010. He is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

Martin is a dairy farmer, milking 280 cows at Princetown in western Victoria. He has supplied Murray Goulburn for 37 years. He has completed numerous farm management courses and is involved with the West Vic Dairy Board and United Dairy Farmers of Victoria. He is also a member of the Australian Institute of Company Directors.

Executive team

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1. Gary Helou
BE (Hons), MComm, FAICD, FAIM

Managing Director

Gary Helou was appointed as Managing Director in October 2011. Gary brings experience from a broad range of roles encompassing the international and domestic food and agricultural industries.

Prior to joining Murray Goulburn, he was Chief Executive Officer of SunRice for 11 years. Gary held senior leadership roles in Hong Kong, Singapore and Indonesia with Pacific Brands Food Group and Indofood. He has a Chemical Engineering Degree and a Master of Commerce (Marketing) from the University of New South Wales.

2. Mal Beniston
General Manager Ingredients

Mal Beniston was appointed General Manager Ingredients in December 2011. He joined Murray Goulburn in 2006 as General Manager International Sales and Marketing.

Mal has more than 30 years' experience in senior sales and marketing roles in dairy ingredients. He started his dairy career with the New Zealand Dairy Board (Fonterra) in New Zealand and in this role travelled extensively in Japan and South East Asia, North America and Europe. Mal lived and worked in the United States for five years with general management responsibility for dairy ingredients initially in Latin America, and finally heading New Zealand Milk Products with responsibility for protein and nutritional sales.

3. Suzanne Douglas
Dip Tchg, BEd, BComm

General Manager Marketing, Innovation and Special Projects

Suzanne Douglas was appointed to the position of General Manager, Marketing, Innovation and Special Projects in February 2012.

Prior to joining Murray Goulburn, Suzanne worked for the HJ Heinz Company for eight years, most recently in the role of Managing Director – Australia. Other roles with Heinz included General Manager of Marketing Australia, and Chief Marketing Officer – UK and Ireland. Previous roles, which included sales, marketing and innovation, were held at Pacific Brands Food Group, Kraft and the VDIA. Suzanne was also General Manager – Consumer Products at Bonlac Foods.

4. Keith Mentiplay
Dip Dairy Tech, MBA

General Manager Operations

Keith Mentiplay was appointed General Manager Operations in December 2011.

Prior to joining Murray Goulburn, Keith spent 14 years at National Foods in a variety of general management, national and international operations roles with eight years as an executive team member.

Before National Foods he worked with Nestle, Pacific Dunlop, Dairy Farmers Milk Co-operative and Southern Farmers. Keith has worked in the Australian dairy industry for over 35 years and over that time has been active in industry representation.

He attained an MBA from Macquarie University in 1992.

5. David Noonan
BEc, ACA

Chief Financial Officer

David Noonan was appointed Chief Financial Officer in March 2012.

Prior to joining Murray Goulburn, David was the Chief Financial Officer of the Laminex Group within Fletcher Building. David also held senior finance roles at OneSteel, Smorgon Steel and Amcor.

David started his career at Price Waterhouse where he worked for seven years, including a two-year secondment in Philadelphia, US. David is a member of the Institute of Chartered Accountants.


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6. Robert Poole

BAgSci, MBL

General Manager Shareholder Relations

Robert Poole was appointed General Manager Shareholder Relations in November 2011. Prior to this appointment Robert was Murray Goulburn's General Manager Industry and Government Affairs for three years. Robert has held a number of senior roles throughout his career including Deputy Chief Executive Officer of Australian Dairy Farmers' Federation, General Manager of the Australian Dairy Herd Improvement Scheme and a Regional Manager with Rural Finance Corporation.

In 2011–12 Robert also held leadership roles within the dairy industry including President of the Australian Dairy Products Federation and Deputy Chairman of the Australian Dairy Industry Council. Robert studied science (Agriculture) at Melbourne University and was inducted as a Master of Business Leadership at RMIT University in 2004.

7. Peter Scott

BComm, ACA, ACIS, DipCM

General Manager Sales, Consumer Brands

Peter Scott joined Murray Goulburn in April 2012 and was appointed General Manager Sales, Consumer Brands.

Prior to joining Murray Goulburn, Peter spent 12 years at Cadbury Schweppes. His last role was Sales Director for Schweppes. Other roles included general management of sales channels across confectionery and beverages, strategic business development and Asia Pacific mergers and acquisitions. Peter previously spent 15 years working within the Coca-Cola system in over 20 countries and across four continents.

Peter has a Bachelor of Commerce from Melbourne University, is an Associate of the Institute of Chartered Accountants and Corporate Institute Secretaries and has completed a Diploma of Corporate Management.

8. Fiona Smith

BSc, LLB, GDipGov, FCIS

Company Secretary and General Counsel

Fiona Smith was appointed Company Secretary and General Counsel in January 2012.

Prior to joining Murray Goulburn, Fiona was Deputy Company Secretary at BHP Billiton Limited for four years. She has also been employed as General Counsel/Company Secretary of Gasnet Australia, an ASX listed company, for seven years and has held a number of senior legal positions including principal solicitor with the Australian Government Solicitor. She has over 25 years' legal experience and is a Fellow of the Institute of Chartered Secretaries.

9. Aditya Swarup

BA (Hons)/Economics, MBA

General Manager Strategy and Corporate Development

Aditya Swarup was appointed General Manager Strategy and Corporate Development in 2012.

Aditya has broad experience in strategy consulting and corporate roles within a broad range of industries including food, agribusiness, manufacturing and resources across Australia and Asia.

Prior to joining Murray Goulburn, Aditya spent six years at SunRice as General Manager of Corporate Strategy. Before SunRice, Aditya spent over eight years in strategy consulting roles, including Monitor Group and Accenture, advising several large Australian corporates. Aditya has an MBA from Melbourne Business School, University of Melbourne (1997) and a Bachelor of Arts (with Honours) and Economics from the University of Delhi (1991).

Corporate governance statement

This section of the Annual Report outlines Murray Goulburn's governance framework.

1. Introduction

Murray Goulburn remains committed to ensuring that its policies and practices reflect a high standard of corporate governance. The Board considers that Murray Goulburn's governance framework and adherence to that framework are fundamental in demonstrating that the Directors are accountable to shareholders and are appropriately overseeing the management of risk and the future direction of the Company.

As an unlisted company, Murray Goulburn is not required to comply with the ASX Corporate Governance Principles and Recommendations, however the Board voluntarily issues a Corporate Governance Statement to enhance transparency and communication with stakeholders in relation to the Company's corporate governance practices.

Murray Goulburn's key governance documents, including the Constitution, Board and Board Committee Charters and key policies are available on the Company's website at www.mgc.com.au/index.php/about-us/corporate-structure.

2. Role and Responsibilities of the Board

BOARD

The role of the Board is to represent shareholders, as a whole, and promote and protect the interests of the Company. Its principal objective is to create and enhance shareholder value but in a manner that is consistent with the co-operative objective of maximising supplier returns. The Board is accountable to the shareholders for the Company's performance and governance.

The Board has adopted a Board Charter, which sets out its key responsibilities, the matters it has reserved for its own consideration and decision making and the authority it has delegated to the Managing Director. The Board's responsibilities, as set out in the Board Charter, include:

- the appointment, remuneration and succession planning of the Managing Director and the Managing Director's direct reports;
- approval of the corporate strategy, including setting corporate objectives, performance objectives and approving the annual operating budget;
- overseeing risk management, internal controls and ethical and legal compliance, which includes reviewing procedures to identify the main risks associated with the Company's businesses and the implementation of appropriate systems to manage these risks;
- monitoring corporate performance and implementation of corporate objectives, strategy and policy;
- approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting;
- developing and reviewing the Company's corporate governance principles and policies; and
- performing such other functions as are prescribed by law.

In addition, the Board has specifically reserved certain matters for its decision, including those set out in the approved delegations of authority.

DELEGATION TO MANAGEMENT

The Board has delegated to the Managing Director and, through the Managing Director, to other senior executives, responsibility for the day-to-day management of the Company's affairs and implementation of the corporate objectives, strategy and policy initiatives. The Managing Director and the broader management team are required to operate in accordance with Board approved policies and delegations of authority.

The Managing Director remains accountable to the Board for the exercise of authority that is delegated. The Board monitors the decisions and actions of the Managing Director and the performance of the Company to gain assurance that progress is being made towards the approved corporate objectives, and the delegations of authority are being complied with. The Managing Director, with the support of management, provides regular reports to the Board and its Committees to enable them to discharge their duties effectively. Senior executives also attend all scheduled Board meetings, by invitation, where they present, discuss and provide input on their respective areas of responsibility.

INDEPENDENT PROFESSIONAL ADVICE

The Board and its Committees may access independent experts and professional counsel for advice where appropriate and may invite any person from time to time to attend meetings of the Board.

ACTIVITIES DURING THE YEAR

A key activity of the Board during the year has been governing the Company through challenging conditions with the combined impact of high global milk production, lower international milk prices, a higher Australian dollar and difficult seasonal conditions, focusing on the principal objectives of creating and enhancing shareholder value and maximising supplier returns. Despite these conditions, progress has been made towards the goals of building profitable growth, operational excellence and innovation. Within this context, the Board approved various matters, including:

- changes to the milk payment system, including the introduction of a single base price system and seasonal incentives to improve supplier cash flow during peak months;
- a 10-year partnership to supply Coles with daily pasteurised milk for its private label brands in Victoria and NSW from July 2014, including the investment of $120 million in the construction of two state of the art milk processing plants in Melbourne and Sydney;
- four step ups in the milk price paid by the Company throughout the year;
- the opening milk price, including a subsequent increase in that price, and a special step up for financial year 2014;
- the investment of $19.1 million to install two leading edge production lines at the Leongatha site to increase its UHT manufacturing output; and
- the increase of the Company's share in MG Qingdao (joint venture in China) from 51 per cent to 100 per cent.

3. Structure of the Board

MEMBERSHIP AND MEETINGS

The Board currently has 12 Directors. Of these, nine (including the Chairman) are elected from the shareholder base (Supplier Directors), one is the Managing Director and two are Special Directors.

The Supplier Directors must be current suppliers to the Company and each must hold at least 10,000 ordinary shares to be eligible for election.

The Special Directors are selected by taking into account the skills and competencies that the Board considers are necessary to augment the direct industry knowledge and other expertise provided by the Supplier Directors.

During the year, Max Jelbart joined the Board as a Supplier Director following the annual Director election process undertaken in accordance with the Company's Constitution. In effect, Mr Jelbart replaced Mr John Vardy, who retired from the Board after 15 years as a Supplier Director.

The composition of the Board also changed during the year with the appointment of Mike Ihlein as the Company's second Special Director. Mr Ihlein's appointment was the result of the process undertaken by the Remuneration and Nominations Committee (with the assistance of an external recruitment consultant) to identify potential candidates, and the Board's assessment of the skills and experience that would best complement those held by the existing Directors. The skills and experience sought by the Board for the additional Special Director position included: a successful Chief Executive Officer or Chief Operations Officer of a large manufacturing or marketing company, ideally in the food, agribusiness or comparable sectors; a strong commercial background in both domestic and international retail markets; experience in capital raisings and mergers and acquisitions; and strong financial acumen. Mr Ihlein's skills and experience are in alignment with these requirements.

At the 2012 Annual General Meeting, shareholders approved various amendments to the Constitution to predominantly reflect updates to corporate governance and commercial practices and to facilitate the efficient operation and administration of the Company. The amendments also included an increase in the maximum number of Special Directors, giving the Board the capacity to appoint a third Special Director. The Board will consider this further during financial year 2014.

The Chairman is Philip Tracy and the Deputy Chairman is Ken Jones. The Chairman and Deputy Chairman are both Supplier Directors who the Board considers to be independent, having regard to the guidelines adopted by the Board to assist in considering independence (as described in Section 4 of this Corporate Governance Statement).

The Directors of the Company and their biographical details are set out on pages 24 to 25.

The Board met 18 times during the year. Details of the number of meetings attended by each Director are set out in the Directors' Report on page 38.

The Board meeting format was enhanced during the year with the inclusion of a closed session (attended by Non-executive Directors only) at the commencement of each meeting. Closed sessions provide Non-executive Directors with an opportunity to raise particular issues in the absence of management.

COMMITTEES

To assist the Board to carry out its responsibilities, the Board has established a Finance, Risk and Audit Committee, a Remuneration and Nominations Committee, a Compliance Committee and a Supplier Relations Committee. Other committees are established from time to time to deal with specific matters.

Each of the permanent Committees has a Charter, which sets out the membership structure, roles and responsibilities and meeting procedures.

Generally, these Committees review matters on behalf of the Board and, as determined by the relevant Charter:

- refer matters to the Board for decision, with a recommendation from the Committee; or
- determine matters (where the Committee acts with delegated authority), which the Committee then reports to the Board.

The Company Secretary provides secretarial support for each Committee.

There were a number of changes made to the membership of each Committee during the year as a result of the review undertaken by the Board in November 2012, which coincided with the changes in the Board composition.

FINANCE, RISK AND AUDIT COMMITTEE

Role and responsibilities

The role of the Finance, Risk and Audit Committee is to assist the Board in fulfilling its responsibilities in respect of the Company's external audit functions, internal audit functions, risk management and identification, preparation of financial statements and reporting systems, and internal accounting and control systems.

The Committee's key responsibilities and functions are:

- the appointment, independence and remuneration of the Internal and External Auditors;
- to oversee the internal audit functions generally and approve the annual internal audit plan;
- to assist the Board in relation to the reporting of financial information;
- to assist the Board in relation to the approval, application and amendment of accounting policies;
- to manage the process of identification and management of material risk;
- to review the draft annual budget before it is submitted to the Board for approval; and
- to oversee any other financial review matters delegated to the Committee by the Board from time to time.

Membership and meetings

The Committee consists of:

- a minimum of three members of the Board, all of whom are Non-executive Directors;
- a majority of independent Directors (as defined in the Board Charter); and
- an independent Director as Chairman, who is not Chairman of the Board.

The members of the Finance, Risk and Audit Committee during the year were:

Name	Membership status for FY2013
Peter Hawkins (Chairman)	Member for the entire period
Bill Bodman	Member since 19 December 2012
Ken Jones	Member for the entire period
Graham Munzel	Member for the entire period
Martin Van de Wouw	Member for the entire period
John Vardy	Member until 28 November 2012

Non-Committee members, including members of management and the External Auditor, may attend meetings of the Committee at the invitation of the Committee Chairman.

The Finance, Risk and Audit Committee met six times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 38.

Activities during the year

The key activities undertaken by the Finance, Risk and Audit Committee during the year include:

- reviewing the scope of the annual internal and external audit plans and overseeing the work performed by the auditors;
- reviewing significant accounting, financial reporting and related issues raised by management, the Internal Auditor and the External Auditor;
- adopting a policy on the engagement of the External Auditor for non-audit related services to ensure that those services are approved at an appropriate level and do not impair the independence of the External Auditor;
- regularly reviewing the Company's key risks and risk management program;
- reviewing and monitoring improvements to the Company's internal control and accounting practices;
- reviewing and recommending to the Board the approval of the Company's half year and annual financial statements; and
- reviewing the performance, tenure and independence of the External Auditor, together with their assurances that all applicable independence requirements were met.

Internal audit

Ernst and Young (EY) has been engaged to carry out the Company's internal audit function. EY's role as the Company's Internal Auditor is to determine, independently of the External Auditor, whether adequate and effective systems of risk management and internal control are in place. The Finance, Risk and Audit Committee reviews the Internal Auditor's scope of work, including the annual internal audit plan, to ensure it is appropriate, having regard to the Company's key risks. The Internal Auditor reports to the Committee at each meeting and is given an opportunity to raise issues with the Committee in the absence of management.

Risk management

The Board has adopted the Risk Management Policy, which sets out the objectives regarding risk management and outlines the approach to managing risks.

The Policy recognises that the effective identification and management of risk reduces the uncertainty associated in executing the Company's business strategies. The Board plays a key role in the oversight of key risks by providing strategic guidance on all aspects of risk management across the Company, approving annually the Company risk profile, reviewing, ratifying and monitoring systems of risk management and setting the risk management tone and expectations across the Company.

The Board is supported in this role by the Finance, Risk and Audit Committee, which reviews the ongoing risk management program, procedures, auditing and operational risk management as well as evaluating the adequacy and effectiveness of the management reporting and control systems associated with financial and operational risk management.

To facilitate the Finance, Risk and Audit Committee's oversight of the Company's risk management program, management reports to the Committee in an open and transparent manner, including the provision of quarterly business risk reports, which set out new and emerging risks, an overview of incidents and events, and an update on key risks. Further, the Managing Director and the Chief Financial Officer make representations to the Board as to the adequacy of the internal control structure to facilitate the preparation of reliable half year and annual financial reports.

During the year, the Company's risk management program was strengthened with the implementation of the following initiatives:

- documented Company-wide mandatory requirements for risk identification, assessment (in accordance with the risk rating matrix), response, monitoring and reporting; and
- documented Company-wide mandatory requirements for incident management, which include classification in accordance with the incident rating matrix (aligned with the risk rating matrix) and timely notification of incidents to appropriate internal stakeholders.

REMUNERATION AND NOMINATIONS COMMITTEE

Role and responsibilities

The primary role of the Remuneration and Nominations Committee is to represent the Board and assist the Board to perform its functions in relation to all key management personnel remuneration issues and the Company's human resources strategy generally.

The Committee also has a secondary role in relation to the process for identifying and selecting Special Directors, as well as the director induction and training programs.

The Committee's key responsibilities and functions are to:

- oversee the Company's remuneration, recruitment, retention and termination policy and procedures, its application to the Managing Director and the Managing Director's direct reports, and its general application to all Company employees;
- assess the performance of the Managing Director and assist the Chairman with reviews of the Managing Director's performance;
- review and recommend arrangements for the executive directors and the Managing Director's direct reports, including contract terms, annual remuneration and participation in the Company's short and long term incentive plans;
- review and recommend to the Board executive succession plans, including the succession of the Managing Director;
- oversee the Company's human resources strategy with a view to confirming to the Board that appropriately talented and trained people are available to achieve the corporate objectives;
- make recommendations to the Board regarding the appointment of Special Directors from time to time, including the identification and selection of potential candidates; and
- oversee the director induction and training programs.

Membership and meetings

The Committee consists of:

- a minimum of three members of the Board, all of whom are Non-executive Directors;
- a majority of independent Directors (as defined in the Board Charter); and
- an independent Director as Chairman.

The members of the Committee during this period were:

Name	Membership status for FY2013
Philip Tracy (Chairman)	Member for the entire period
Bill Bodman	Member until 19 December 2012
Peter Hawkins	Member for the entire period
Mike Ihlein	Member since 19 December 2012
Ken Jones	Member for the entire period

Non-Committee members, including members of management, may attend meetings of the Committee at the invitation of the Committee Chairman.

The Remuneration and Nominations Committee met eight times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 38.

Activities during the year

The activities undertaken by the Committee during the period in relation to the Company's remuneration framework are reflected in the Remuneration Report on pages 39 to 50.

The Committee also facilitated the appointment of a Special Director, Mike Ihlein, during the year by working with an external recruitment consultant to identify potential candidates for the Board's consideration.

COMPLIANCE COMMITTEE

Role and responsibilities

The role of the Compliance Committee is to assist the Board to oversee and monitor the performance of the procedures and processes implemented by management to ensure the Company's compliance with key legislative and regulatory requirements relevant to the Company's operations and business.

The Committee's key responsibilities and functions include:

- reviewing, assessing and monitoring the Company's activities and overall performance having regard to the Company's compliance with key legislative and regulatory requirements;
- overseeing and monitoring management's implementation of procedures and processes to ensure the Company's compliance with key legislative and regulatory requirements relevant to the Company's operations and business; and
- advising the Board and the Finance, Risk and Audit Committee on the overall performance of the Company having regard to the Company's compliance with key legislative and regulatory requirements.

Membership and meetings

The Committee consists of:

- a minimum of three members of the Board, all of whom are Non-executive Directors;
- a majority of independent Directors (as defined in the Board Charter); and
- an independent Director as Chairman, who is not Chairman of the Board.

The members of the Committee during this period were:

Name	Membership status for FY2013
Mike Ihlein (Chairman)	Member since 28 November 2012
Natalie Akers	Member for the entire period
Bill Bodman	Member until 19 December 2012
Don Howard (former Chairman)	Member for the entire period
Max Jelbart	Member since 19 December 2012
John Pye	Member for the entire period

Non-Committee members, including members of management and the External Auditor, may attend meetings of the Committee at the invitation of the Committee Chairman.

The Compliance Committee met six times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 38.

Activities during the year

The key activities undertaken by the Compliance Committee during the year include:

- reviewing the procedures, policies, systems and processes in place to ensure compliance with laws and regulations, through regular detailed reports from management particularly in relation to occupational health and safety, environment and food quality;
- receiving reports on significant occupational health and safety, environment and food quality incidents, including investigation outcomes and remedial and preventative actions taken by management;
- overseeing the matters considered and discussed by the Executive Safety Leadership Committee by receiving reports from members of that committee (including the Managing Director, who is the Chairman) and reviewing minutes of its meetings; and
- reviewing the culture with respect to the observance of appropriate ethical standards, including receiving reports on matters raised by employees and contractors via the Ethics Hotline.

SUPPLIER RELATIONS COMMITTEE

Role and responsibilities

The primary role of the Supplier Relations Committee is to review and monitor the Company's effectiveness in engaging with suppliers and its relationship with suppliers generally, and to provide advice and guidance for management with regard to the Company's communication strategy with suppliers, including the provision of regular updates of major Company developments.

The Committee's key responsibilities include:

- approving the overall strategy for communication with shareholders developed by management;
- reviewing and monitoring the interface between the Company and suppliers and reviewing matters that are likely to affect that interface, including significant corporate communications;
- reviewing the standard terms and conditions for the supply of milk to the Company and making recommendations to management or the Board as appropriate;
- reviewing parameters for the variation by management of the standard terms and conditions for the supply of milk to the Company and making recommendations to the Board;
- where information relating to suppliers or milk supply is to be materially relied upon by the Board, considering and advising the Board on the reasonableness of this information;

- receiving and considering reports from the Field Services team in relation to their interactions with and services provided to suppliers;
- receiving and considering reports relating to MG Trading stores and their interactions with and services provided to suppliers;
- reviewing any proposed amendments to Company policies or procedures that could affect the Company's relationship with its suppliers, and making recommendations to the Board;
- providing advice and guidance for management with regard to management's processes for managing questions and complaints lodged with the Company by suppliers; and
- providing advice and guidance for management in relation to any complaints lodged by suppliers.

Membership and meetings

All Supplier Directors are members of the Committee, as follows:

Name	Membership status for FY2013
John Pye (Chairman)	Member for the entire period
Natalie Akers	Member for the entire period
Bill Bodman	Member for the entire period
Don Howard	Member for the entire period
Max Jelbart	Member since 19 December 2012
Ken Jones	Member for the entire period
Graham Munzel	Member for the entire period
Philip Tracy	Member for the entire period
Martin Van de Wouw	Member for the entire period
John Vardy	Member until 28 November 2012

The Special Directors and Managing Director have a standing invitation to join each meeting of the Committee. Members of management and the External Auditor may also attend meetings at the invitation of the Committee Chairman.

The Supplier Relations Committee met six times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 38.

Activities during the year

The key activities undertaken by the Supplier Relations Committee during the year include:

- considering the proposed changes to the milk payment system following the review by the external consultant and making a recommendation to the Board;
- considering and providing feedback in relation to the Next Generation package and the corresponding communications to suppliers;
- receiving and considering regular reports from management on the activities undertaken by the Field Services team, including in relation to milk supply, the MG Partnerships program and MilkCare;
- receiving and considering regular reports from management in relation to the activities undertaken by the MG Trading team, including in relation to trading stores and the corresponding property portfolio;
- providing input into the format and agenda, and giving feedback on supplier meetings;
- receiving reports on the Supplier Development Program; and
- receiving reports on the activities of the Supplier Consultative Groups.

4. Independence, Performance Evaluation and Remuneration

INDEPENDENCE AND CONFLICTS OF INTEREST

As all Supplier Directors have a supply relationship with the Company, they will generally not be classified as independent if the usual best practice definitions are applied. The Board has, however, adopted guidelines, similar to an ASX listed company, to assist in considering independence. The Board only considers Directors to be independent of management where they are free from any business or other relationship that can materially interfere with, or could reasonably be perceived to interfere with, the exercise of unfettered and independent judgement. A copy of the guidelines can be found at Attachment 1 to the Board Charter at www.mgc.com.au/index.php/about-us/corporate-structure.

Under the *Corporations Act 2001* and general law, Directors must avoid situations where their interests and those of the Company conflict. The Board has adopted the Related Party and Conflicts of Interest Policy to provide guidelines to Directors in complying with their obligations.

As Supplier Directors are constitutionally required to be suppliers of the Company, there is an acknowledged inherent conflict of interest when the Board is required to consider setting the milk price. To manage this particular conflict, the Board has adopted a set of protocols, which include:

- each Director acknowledging that the interests of the Company as a whole must take priority over any personal interest they have and they must not favour one group of suppliers over another group unless to do so is fair and in the best interests of the Company as a whole;
- proposals for both the opening milk price and changes to that milk price are to be initiated and developed by management, who then submit the proposals to the full Board for approval;
- such proposals are only submitted to the Board if management is of the opinion that the proposal is in the best interests of the Company as a whole (recognising the co-operative objectives of the Company) and management must include the rationale for supporting the proposal; and
- to avoid perceived or actual interference by Directors in management's initiation and development of milk price proposals:
  - Directors refrain from discussing the milk price with management outside formal Board processes;
  - all queries from suppliers in relation to milk price are directed to management within Shareholder Relations; and
  - Directors refrain from discussing with suppliers any proposals to change the milk price.

PERFORMANCE EVALUATION

This year, an internal review of the performance of the Board and its Committees was conducted, with the Board analysing the matters considered throughout the year in light of their respective roles and responsibilities. The review highlighted a number of improvement opportunities, which will be considered for implementation during financial year 2014. During the year, an informal evaluation of individual Directors was also undertaken through a discussion between each Director and the Chairman. It is expected that an externally facilitated evaluation of the Board will be undertaken for financial year 2014.

REMUNERATION

Details of the Company's remuneration policy and practices and the remuneration paid to Directors and key management personnel are set out in the Remuneration Report on pages 39 to 50 of this Annual Report.

5. Conduct and ethics

MG has in place a Code of Conduct, which applies to all Directors, employees, contractors, agents and representatives of the Company.

The key values underpinning the Code of Conduct are:

- actions must be governed by the highest standards of integrity and fairness;
- all decisions must be made in accordance with the spirit and letter of applicable law; and
- business must be conducted honestly and ethically, with skill and the best judgement, and for the benefit of customers, employees, shareholders and the Company alike.

The Code of Conduct provides clear direction and advice on general workplace behaviour and how to conduct business both domestically and internationally, interacting with shareholders, business partners and the communities in which we operate.

6. Continuous disclosure and communications with shareholders

The Company appreciates the importance of timely and adequate disclosure to its shareholders, and is committed to making timely and balanced disclosure of all material matters and effective communication with its shareholders so as to give them ready access to balanced and clear information.

As an unlisted public company, Murray Goulburn has continuous disclosure obligations under the *Corporations Act 2001* and has put in place mechanisms designed to ensure compliance with those requirements, including the Public Disclosure Policy adopted by the Board. These mechanisms also ensure accountability at a senior executive level for that compliance.

One of the key communication tools is the Company website. The website contains details of the Company's Constitution, Board and Board Committee Charters, core governance policies, press announcements and communications to shareholders and the Company's financial information. All shareholders are encouraged to access the website on a regular basis and provide relevant feedback.

In addition, the Company regularly communicates with its shareholders through quarterly updates and through supplier meetings that are held throughout south eastern Australia twice a year.

Suppliers are encouraged to make their views known and raise any issues directly with management.

7. Diversity

The Company submitted its annual public report on gender equality performance to the Workplace Gender Equality Agency in 2013, which included the following results:

- Board – one of the 12 Directors (or 8.33 per cent) is a woman;
- Senior executives – two of the nine senior executives (or 22.22 per cent) are women; and
- Employees – 560 of the 2,301 Company employees (or 24.38 per cent) are women.

The Board intends to implement a formal diversity policy during financial year 2014 and establish measurable objectives for achieving diversity at Murray Goulburn. The policy, the objectives and progress towards achieving them will be reported next year.

Financial Statements

CONTENTS

Directors' Report

Your Directors present the following report for the financial year ended 30 June 2013.

Directors

The Directors listed on page 38 each held office as a Director of the Company during or since the end of the financial year except for:

- MF Ihlein – appointed 30 October 2012
- ML Jelbart – appointed 28 November 2012
- JT Vardy – resigned 28 November 2012

Company Secretaries

F Smith (BSC/LLB, Grad Dip Applied Governance, FCIS), Company Secretary, joined the Company in January 2012. She has experience in company secretarial roles arising from time spent in such roles in listed companies.

D Page (B. Bus., CA), Company Secretary, joined the Company in 2003.

Principal Activities

The principal activities of the consolidated entity constituted by the Company and the entities it controlled during the year have been:

- the processing of the whole milk of its shareholder suppliers and the manufacture, marketing and distribution of dairy products;
- 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

The following dividends were paid or recommended during or since the financial year end:

	$000
a) In respect of the financial year ended 30 June 2012 as paid or recommended in the 2012 financial report:	
Final dividend paid in October 2012	
On Ordinary Shares at $0.12 per share unfranked	27,551
On A Class Preference Shares at $0.08 per share unfranked	1,208
On B Class Preference Shares at $0.05 per share unfranked	514
On C Class Preference Shares at $0.08 per share unfranked	2,252
	31,525
b) In respect of the financial year ended 30 June 2013:	
Final dividend recommended for payment during September 2013	
(Dividends declared subsequent to 30 June 2013 and therefore not recognised)	
On Ordinary Shares at $0.08 per share unfranked	21,081
On A Class Preference Shares at $0.08 per share unfranked	1,183
On B Class Preference Shares at $0.05 per share unfranked	454
On C Class Preference Shares at $0.08 per share unfranked	2,378
	25,096

Review of Operations

The consolidated entity reported profit after income tax of $34,904,000 (2012: $14,467,000 profit) for the financial year ended 30 June 2013.

The underlying net profit after tax[i] of the consolidated entity is $37,843,000 (2012: $37,655,000) for the financial year ended 30 June 2013. This financial information is provided to assist readers to better understand the financial performance of the underlying business.

	Note	2013 $000	2012 $000
Reported profit after tax		34,904	14,467
Restructuring costs	1	4,199	18,419
Non-current asset impairments and inventory write downs	2	–	10,631
Provisioning for historical environmental liabilities	3	–	4,076
Income tax relating to components above		(1,260)	(9,938)
UNDERLYING PROFIT AFTER TAX		**37,843**	**37,655**

(i) The use of the terms 'reported' refers to IFRS financial information and 'underlying' to non-IFRS financial information. Underlying earnings are categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 – Disclosing non-IFRS financial information, issued in December 2011. Underlying adjustments have been adjusted from the reported information to assist readers to better understand the financial performance of the underlying business in each financial year. The non-IFRS financial information, while not subject to an audit or review, has been extracted from the financial report, which has been subject to audit by our external auditors.

Underlying adjustments have been adjusted from the reported information to assist readers to better understand the financial performance of the underlying business in each financial year:

1. Restructuring costs reflect redundancy costs resulting from the announced cost reduction program.
2. Non-current asset impairments in 2012 related to the write down in value of land and buildings and plant and equipment to their estimated fair value. These assets are not currently, or expected to be, utilised in the operations of the business. Inventories and spares associated with assets impaired have also been written off.
3. Reflected provisioning for historical environmental remediation costs at Murray Goulburn manufacturing sites.

Future Developments

Disclosure of 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 consolidated entity. Accordingly, this information has not been disclosed in this Report.

Significant Changes in the State of Affairs

No significant change in the state of affairs of the consolidated entity occurred during the financial year.

Events Subsequent to Balance Date

With the exception of the declaration of dividends detailed in Note 7 'Unrecognised Amounts', no matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in financial years subsequent to the financial year ended 30 June 2013.

Environmental Regulations

Murray Goulburn maintains a strong focus on improving environmental performance to ensure compliance with legislative requirements as well as ensuring longer term environmental sustainability. In support of this focus, a business activities environment strategy was developed during 2012–13 and its implementation commenced. The strategy guides the business to do the right thing by the environment and the communities in which we operate.

During the financial year ended 30 June 2013 three minor incidents occurred that resulted in the Victorian Environment Protection Authority serving various statutory notices including a Penalty Infringement Notice for $7,042 at the Kiewa site following the overflow of a waste storage tanker into a nearby waterway. We complied with all notices and have instituted corrective measures to address these issues.

Murray Goulburn continues to comply with federal environmental reporting requirements including our annual energy use and greenhouse gas emissions under the *National Greenhouse and Energy Reporting Act 2007*, energy efficiency opportunities under the *Energy Efficiencies Opportunities Act 2006* and more recently our direct carbon cost liability under the *Clean Energy Act 2011*.

Remuneration

The Remuneration Report containing the remuneration of key management personnel (KMP) is provided on pages 39 to 50.

Insurance of Officers

During the financial year the Company paid a premium to insure the Directors and senior managers of the Company. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the consolidated entity.

Directors' Report continued

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 92 of this financial report.

Rounding of Amounts to the Nearest Thousand Dollars

The Company is of the kind referred to in ASIC Class Order 98/0100 dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' report and the financial report have been rounded off to the nearest thousand dollars.

		Meetings Attended				
			Meetings of Committees			
		Full Meetings of Directors 18 held	Finance, Risk & Audit 6 held	Compliance 6 held	Remuneration & Nominations 8 held	Supplier Relations 6 held
Director and location	Qualifications and Experience	Meetings Attended (Meetings held while a member of the Board/Committee)				
PW Tracy Chairman Foster	Dairy Farmer B. Ec & Comm, CA, SIA, GAICD, Director since 2009	18	*	*	8	6
G Helou Managing Director Sydney	BE (Hons) MComm, FAICD, FAIM, Director since 2011	18	*	*	*	*
KW Jones Deputy Chairman Gundowring	Dairy Farmer Advanced Diploma Agr., MAICD, Director since 2008	18	6	*	8	6
N Akers Tallygaroopna	Dairy Farmer B (Hons) Public Policy and Mgt, B. Arts, GAICD, Director since 2011	18	*	6	*	6
WT Bodman Won Wron	Dairy Farmer B. Agr. SC., GAICD, Director since 2009	18	3 (3)	3 (3)	3 (3)	6
PJO Hawkins Melbourne	Special Director BCA (Hons), FAICD, SFFIN, FAIM, ACA (NZ), Director since 2009	17 (18)	6	*	8	*
DF Howard Camperdown	Dairy Farmer Dip. Company Directors (ANU), MAICD, Director since 1997	18	*	6	*	6
MF Ihlein Sydney	Special Director BBus (Acc), FCPA, MAICD, F Fin (Finsia), Director since 2012	12 (12)	*	4 (4)	3 (5)	*
ML Jelbart Leongatha	Dairy Farmer Director since 2012	10 (10)	*	3 (3)	*	4 (4)
GN Munzel Gunbower	Dairy Farmer GAICD, Director since 2008	18	6	*	*	6
JP Pye Bessiebelle	Dairy Farmer Advanced Diploma Agr., MAICD, Director since 2005	18	*	6	*	6
MJ Van de Wouw Timboon	Dairy Farmer MAICD, Director since 2010	17 (18)	5 (6)	*	*	6
JT Vardy Maffra	Dairy Farmer Dip. Company Directors (ANU), Director since 1998	7 (8)	3 (3)	*	*	2 (2)

* Not a member of the relevant committee.

The Managing Director attends all of the Board Committee meetings by invitation.

Remuneration Report 2013

This Remuneration Report provides an outline of the Board's policy for determining the nature and amount of remuneration of the key management personnel (KMP) of the Company and the relationship between this remuneration policy and the Company's performance.

The report covers the following:

1. Introduction to Remuneration
2. Remuneration Governance
3. Key Management Personnel
4. Executive Remuneration Strategy
5. Executive Remuneration Structure
6. Short Term Incentive Plan and Link to Performance
7. Long Term Incentive Plan and Link to Performance
8. Remuneration Summary Table
9. Executive Contracts
10. Non-executive Director Remuneration

1. Introduction to Remuneration

2013 saw a number of changes in the remuneration framework of the Company. The most significant of these was the review of the Managing Director's remuneration structure, which resulted in the introduction of the Long Term Incentive Plan (LTIP) for the first time in the Company's history. As the Company has a stated strategic intention of targeting a significant increase in farmgate prices, the Board considered it important to align the Managing Director's interests with those of shareholders by introducing an at-risk component to his remuneration, which rewards sustainable long term value growth for both shareholders and the Company. A more detailed explanation of the LTIP can be found in Section 7 of this Report.

Another change was the introduction of an aggregate fee pool approach to Director remuneration. This change was approved by shareholders at the Annual General Meeting in November 2012, resulting in increased transparency of the Directors' fee structure and better alignment of the Company's remuneration governance with market practice.

FINANCIAL YEAR 2013 REMUNERATION OVERVIEW

Financial year 2013 was a challenging year in that the Company faced a high Australian dollar, and a surplus supply of commodities in world markets compounded by fluctuating commodity prices. In addition, milk supply was impacted by tough farmer conditions. Despite these challenges, management stayed focused on lowering internal costs and growing our markets, in particular entering the fresh milk market with the 10-year deal to supply Coles with its private label milk in Victoria and New South Wales from 1 July 2014. As a result, this performance has resulted in payments under the Short Term Incentive Plan (STIP) for executives covered by this Report.

2. Remuneration Governance

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. To assist it in its role, the Board has established the Remuneration and Nominations Committee whose role is to oversee the Company's remuneration policy and framework with particular reference to its application to the Managing Director and his direct reports. The remuneration arrangements for all other executives are determined by the Managing Director or relevant managers.

In performing its function in this area, the Board through the Remuneration and Nominations Committee seeks and considers advice from remuneration consultants who are independent of management. As part of its review of the Managing Director's overall remuneration package, including consideration of the LTIP, the Committee obtained the advice of Ernst and Young (EY). EY was engaged by the Board and reported directly to the Committee. During the year, EY provided advice in the following areas:

- benchmarking the Managing Director's total remuneration package against comparable companies;
- the introduction of an LTIP for the Managing Director; and
- provision of information and commentary on the design of the LTIP.

As part of its role with regard to the LTIP, EY provided remuneration recommendations to the Committee during the year. EY has provided a declaration that its work on the LTIP was free from undue influence from KMP. On the basis of the processes put in place to engage EY and the protocols put in place for EY to report directly to the Committee, the Board is satisfied that the remuneration recommendations received from EY were made free from any undue influence by any members of KMP to whom the recommendations related. Total fees paid to EY for the remuneration recommendation related services for the period 1 July 2012 to 30 June 2013 were $377,000. In addition, during the period, EY also provided other remuneration, tax and internal audit services to the Company for which it was paid $890,000.

Remuneration Report 2013 continued

3. Key Management Personnel

Murray Goulburn has determined KMP to be the Non-executive Directors, Managing Director and selected members of the executive team. The 2013 financial year KMP disclosed in this Report are:

Name	Position
Non-executive Director	
PW Tracy	Chairman
KW Jones	Deputy Chairman
N Akers	Non-executive Director
WT Bodman	Non-executive Director
PJO Hawkins	Special Director (Non-executive)
DF Howard	Non-executive Director
MF Ihlein	Special Director (Non-executive)
ML Jelbart	Non-executive Director
GN Munzel	Non-executive Director
JP Pye	Non-executive Director
M Van de Wouw	Non-executive Director
JT Vardy	Non-executive Director
Executive Director	
G Helou	Managing Director
Executive	
M Beniston	General Manager Ingredients
K Mentiplay	General Manager Operations
D Noonan	Chief Financial Officer
R Poole	General Manager Shareholder Relations
F Smith	Company Secretary/General Counsel

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*.

4. Executive Remuneration Strategy

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' and shareholders' 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;
- provides market competitive and equitable remuneration;
- recognises and rewards high performing individuals; and
- encourages behaviours that support a high performing organisation.

The remuneration framework for all those covered by this Report contains a mix of fixed remuneration and variable at-risk pay to reward performance.

The Company's remuneration policy for executives targets the median position for total remuneration of the relevant market. In undertaking the review of the Managing Director's remuneration, this year the Board considered the relative market comparator group to be companies within the ASX 100 with similar revenue bases while also taking into account the Company is an unlisted public company.

5. Executive Remuneration Structure

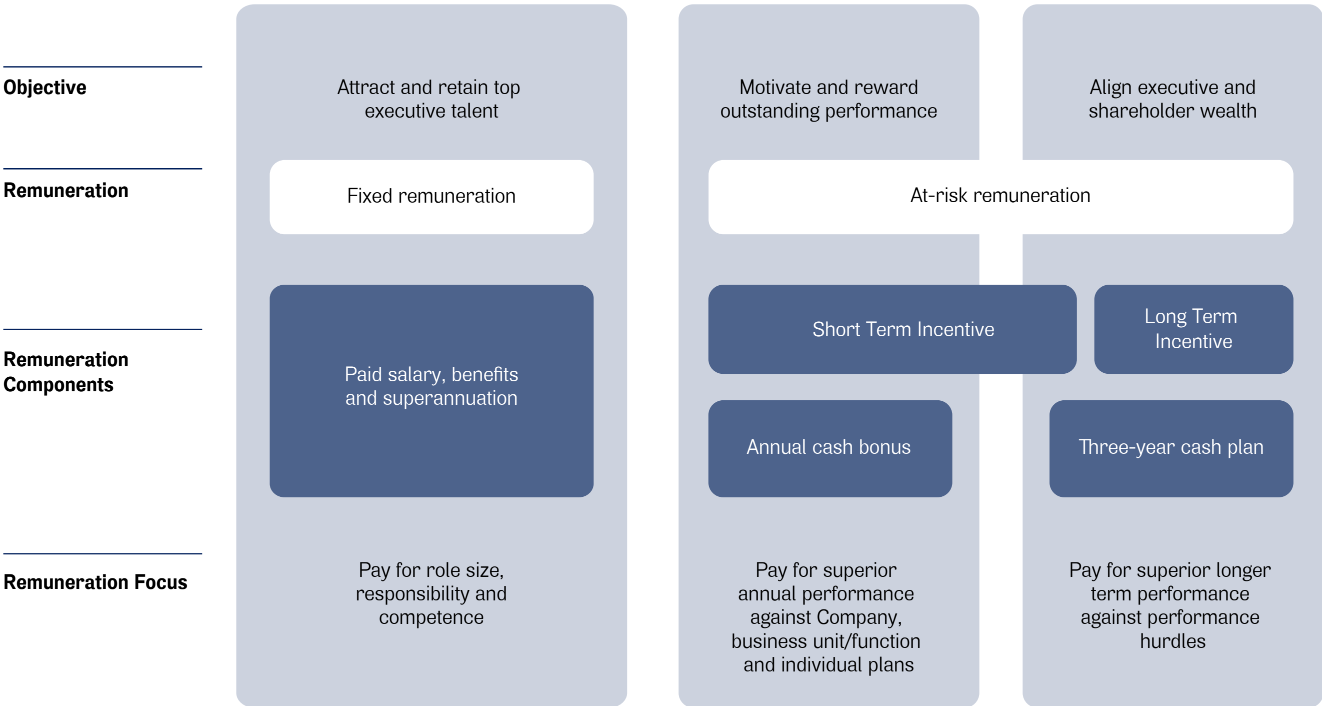
Executives covered by this Report are rewarded based on the following remuneration components:

Remuneration Component	Purpose
Fixed Remuneration	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 (for example, motor vehicle) and Company contributions to superannuation (paid at the legislative minimum).
Short Term Incentive (STI)	STI 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 (LTI)	LTI is an at-risk cash component of remuneration and is based on superior performance over a three-year period. The Managing Director's performance is rewarded depending on the Company's achievement of approved three-year performance targets in milk price growth and on return on capital employed. Performance is measured and any payment made at the end of the three-year period. Only the Managing Director participates in the LTIP.

2013 EXECUTIVE PAY MIX

Executives have a different mix for their remuneration that is fixed and variable. This year the Board approved the introduction of the LTIP for the Managing Director only – further details on the LTIP can be found in Section 7 of this Report.

As shown in the diagram below, the Managing Director's total remuneration mix is made up of 50 per cent fixed remuneration and a maximum of 50 per cent at-risk remuneration. Of the at-risk remuneration, 40 per cent is STI and 60 per cent is LTI. For all other executives covered by this Report, total remuneration mix is made up of 75 per cent fixed remuneration and 25 per cent at-risk remuneration, which is based on STI only.



Remuneration Report 2013 continued

6. Short Term Incentive Plan and Link to Performance

The STIP is an annual cash based plan aimed at rewarding executives for the achievement of Company, business unit/function and individual performance plans.

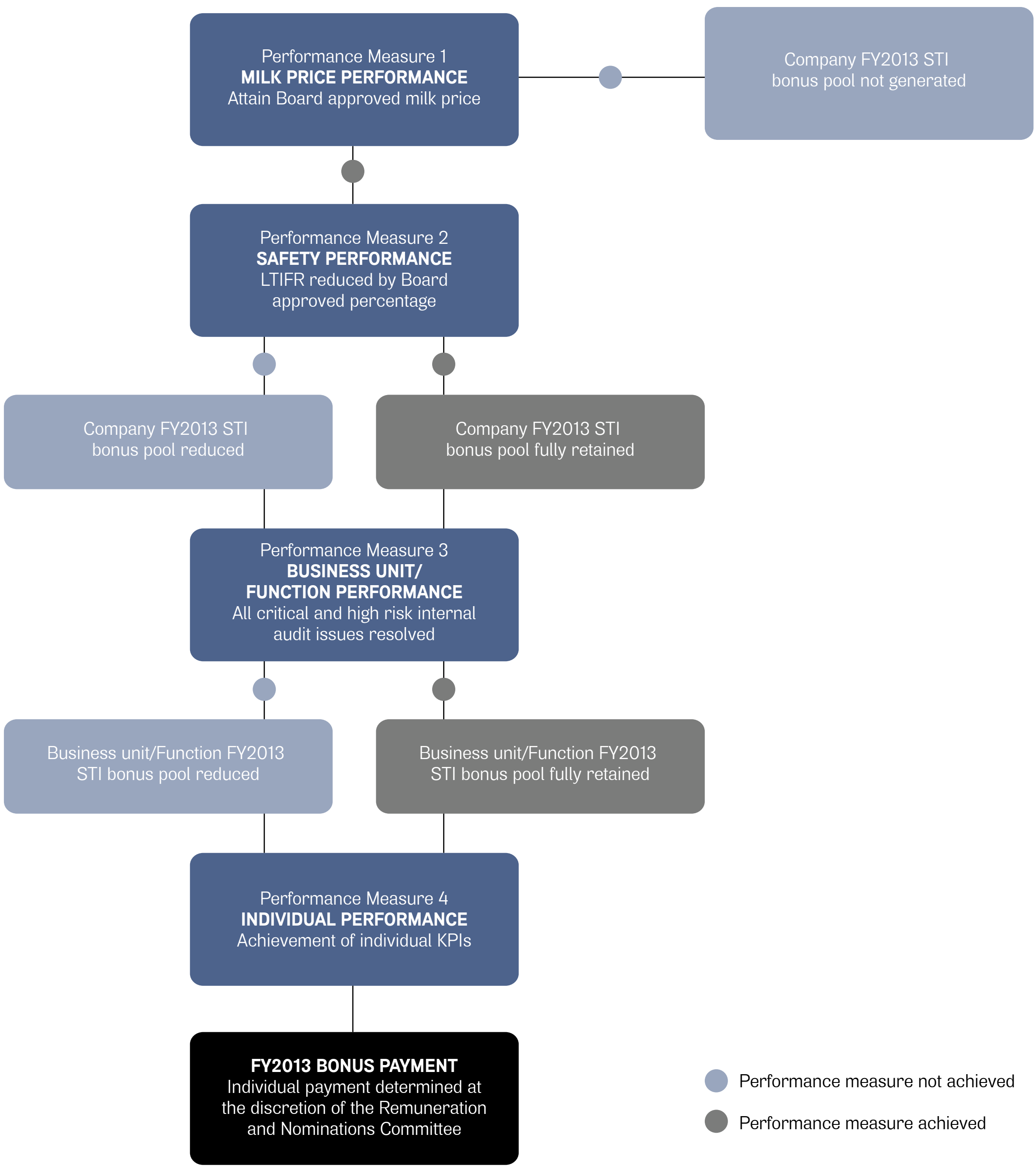
STI POOL FUNDING

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

PERFORMANCE MEASURES

Awards are determined by the achievement of four categories of financial and non-financial performance measures with STI targets agreed with the Board at the beginning of the financial year.

The achievement of the milk price budget is a 'gateway', which means that if the milk price budget is not attained then, subject to the Board exercising its discretion, the STI pool does not open to any participant. Both the safety measure and the internal audit measures are sequential 'modifiers' in that if they are not achieved, there is a reduction in the available STI pool. The following diagram shows how these performance measures interact with each other.



6. Short Term Incentive Plan and Link to Performance continued

The Board selected these performance measures as it believes they align the executives' interests with the Company's performance and management values. Performance against each performance measure is assessed by the Remuneration and Nominations Committee for the Managing Director and by the Managing Director for his direct reports. Once performance measures have been assessed, the Board approves the amount of STI payable. The Board believes the method of assessment is rigorous and provides a balanced evaluation of the executives. STI cash awards for the 2013 financial year were granted on 19 December 2012 and were paid in September 2013.

Performance Measure	Application	Description
Financial – milk price performance	Gateway	As the most critical performance measure, attaining milk price budget acts as a gateway to the payment of any STI for the Company. If the milk price budget is not achieved, no STI will be payable. Milk price budget is set by the Board at the beginning of the financial year. It includes both the attainment of a Board set milk price within the budget and the payment of a dividend out of profit, not retained earnings.
Safety	Modifier	The reduction in the Lost Time Injury Frequency Rate (LTIFR) is a key measure of success for the Company. Each year, the Board sets a percentage reduction that is challenging to achieve. If the Company does not achieve the target, the STI pool is reduced.
Internal audit	Modifier	Internal audit reviews the performance of pre-agreed processes and reports these reviews to the Finance, Risk and Audit Committee, which in turn reports its findings to the Board. All findings are allocated a rating and management provides an agreed rectification time frame. For any items that have been identified as 'critical' or 'high risk', the responsible business unit/function needs to resolve these issues within the agreed time frame. If they remain unresolved, the responsible business unit/function STI pools are reduced.
Individual KPIs	Modifier	Individual KPIs are set for all participants in the STIP and all executives covered by this Report have their KPIs approved by the Board. All individual KPIs are linked to the delivery of business strategy of the Company and typically include financial, operational excellence, strategy and leadership objectives. The final amount the executive is paid is determined by their performance against these KPIs, taking into account whether their available amount has been reduced as a result of failure to achieve safety targets or addressing internal audit recommendations as described above.

Performance for Short Term Incentive for 2013 Financial Year:

The table below summarises the outcomes of the performance measures for 2013.

Area of Focus	Typical Achievements Required	Company Performance
Financial	Achieve milk price performance	Exceeded
Safety	Percentage reduction in LTIFR on previous year	Exceeded
Internal Audit	Resolve any critical or high risk recommendations in agreed time frame	Met in the majority of cases

Further details on the achievements during the year are as follows:

FINANCIAL

- Despite the challenging conditions of a high Australian dollar and fluctuating commodity prices, the final milk price of $4.97 per kilogram of milk solids outperformed the milk price budget by 1.4 per cent.
- Overall profit after tax finished above budget due to a continued focus by the executive team on delivering cost savings and driving value.

As required by the *Corporations Act 2001*, the following table summarises the Company's five-year earnings and dividends.

	Net Sales Revenue $000	Profit After Tax $000	Dividends $000
Financial year ended 30 June 2013	2,385,099	34,904	25,096
Financial year ended 30 June 2012	2,367,231	14,467	31,525
Financial year ended 30 June 2011	2,287,492	36,319	29,937
Financial year ended 30 June 2010	2,163,441	28,041	26,077
Financial year ended 30 June 2009	2,329,285	1,050	17,813

All shares in the Company are traded at a fixed $1.00 per share. A bonus issue of one for every 10 shares held by members holding Ordinary Shares was made during the financial years ended 30 June 2008, 30 June 2011 and 30 June 2013.

6. Short Term Incentive Plan and Link to Performance continued

SAFETY

- This year had a renewed focus on safety and the executive team showed strong leadership in driving a step change in safety throughout the business with a continuous focus on safety, the introduction of a new safety vision, Goal ZERO, and the 'stop for safety' initiative where all employees stopped for one hour to discuss safety in our workplace.
- The Company achieved a 34 per cent reduction in the LTIFR and a 41 per cent reduction in lost time injuries.

INTERNAL AUDIT

- 2012 saw the appointment of EY as the Internal Auditor and the introduction of a formal internal audit function for the first time within the Company. At the end of the financial year, the Internal Auditor undertook a review of all outstanding high risk finding recommendations and management actions taken to close out these findings.
- Of the high risk findings that were to be completed by 30 June 2013, approximately 50 per cent had been implemented and approximately 10 per cent remained to be implemented. Of the remaining high risk findings, sufficient implementation had occurred to reduce the risk rating from high.
- In line with the STIP there was a reduction in the available STI pool for those business units/functions impacted.

SHORT TERM INCENTIVE OUTCOMES

The STI payments for 2013 reflect the strong achievements by the Company and of individual executives against the applicable performance measures. The table below shows the percentage of STI payments awarded and forfeited for KMP.

	Short Term Incentive	
Name	Percentage of Available STI Awarded	Percentage of Available STI Forfeited
Managing Director		
G Helou	95	5
Executive		
M Beniston	70	30
K Mentiplay	100	0
D Noonan	75	25
R Poole	60	40
F Smith	100	0

7. Long Term Incentive Plan and Link to Performance

The LTIP was introduced this year following a benchmarking exercise undertaken by EY in which the Managing Director's previous total remuneration mix was compared against peers within a comparator group of ASX 100 companies within a 50 to 200 per cent revenue range of the Company. This comparator group was chosen on the basis that they represent companies of similar operational size and business complexity to MG. As a result, an opportunity was identified to introduce a long term incentive for the Managing Director to better align his current remuneration structure and quantum with the comparator group. The Board agreed to the introduction of the LTIP for the Managing Director during 2013. Only the Managing Director participates in the LTIP.

In designing the LTIP the Board considered the overall objective of the remuneration policy, which is to support the Company to deliver the business strategy. Subsequently, the LTIP was designed to ensure related costs are sustainable and aligned with business performance and supplier/shareholder and executives expectations. The LTIP guiding principles are:

LTIP Design Principle	Description
Shareholder alignment	Promotes a focus on economic value growth and an alignment to the long term interests of shareholders
Simplicity and transparency	Clear and easy for individuals to understand the plan mechanics, and linkages between performance and reward outcomes
Performance linked	Opportunities and payments are explicitly linked to the successful and predetermined long term performance outcomes of the Company
Valued	Complements the total remuneration framework and encourages the correct long term behaviours
Market competitive	Design reflects contemporary market practice and delivers competitive remuneration aiding employee attraction and retention
Governance	Aligned to regulatory and legislative requirements and operated within a prudent risk management framework
Affordability	Related costs are sustainable for the Company and aligned to the financial performance of the business and supported by shareholders

The LTIP is designed to provide a longer term focus on economic value growth and alignment to the business strategy and the interests of suppliers/shareholders.

PERFORMANCE MEASURES

The Company's stated business objective is to significantly increase the farmgate milk price. The LTIP has two equally weighted and independently assessed performance measures that are both focused on achieving this return to suppliers/shareholders through measuring and rewarding increases in the underlying milk price, and at the same time ensuring that capital employed in achieving this increase is used in the most efficient form.

The LTIP is made up of the following elements:

Element	Description
Award	Conditional rights to receive cash payment subject to meeting predetermined performance hurdles. The LTIP is based on two independent and separately assessed performance hurdles being: • Implied Milk Price Growth (IMPG) hurdle (50 per cent weighting). • Return on Capital Employed (ROCE) hurdle (50 per cent weighting).
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: • Threshold performance: 15 per cent of fixed remuneration ($118,125). • Target performance: 30 per cent of fixed remuneration ($236,250). • Stretch performance: 60 per cent of fixed remuneration ($472,500). Quantum opportunities also exist for performance achieved between the performance hurdles stated above. As there are two independent and separately assessed performance hurdles, the maximum total opportunity available is $945,000 – to achieve this amount, both hurdles will need to be achieved at the stretch level of performance. The minimum total value available is nil.
Performance period	Three-year performance period from 1 July 2012 to 30 June 2015 with no retesting opportunity available at the end of the performance period.

7. Long Term Incentive Plan and Link to Performance continued

Element	Description
IMPG hurdle	• The purpose of the IMPG hurdle is to focus the Managing Director on delivering an optimal return to suppliers/shareholders through an increase in underlying milk price, while also making sure that there are sufficient funds available for reinvestment back into the business. • In order to measure an increase in underlying milk price, rather than using the available milk price paid to suppliers each year, an implied milk price is used, which is based on forecasted available milk price targets plus the value of annual dividends. The available milk price targets are normalised for the movements in dairy commodity prices, foreign exchange and impacts of inflation as well as other one off items such as opening inventory. • In order to ensure there are sufficient funds available for reinvestment back into the business, increases or decreases in retained earnings are translated into adjustments to the implied milk price.
IMPG target setting	• 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 IMPG from financial year 2012 over a three-year period by comparing the actual result in financial year 2015 to the financial year 2012 amount. • The performance hurdle is formed on the basis of three annual notional targets that in aggregate, equal the three-year performance hurdle. • The hurdles and related components within the hurdle are based on forecasted levels of financial performance, including forecasted inflation (wage, energy/utilities, 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 per cent of target), target (100 per cent of target) and stretch (110 per cent of target). In order for any amount to be payable, at least 80 per cent of the forecast increase in implied milk price needs to be achieved over the three-year period.
ROCE hurdle	• The purpose of the ROCE hurdle is to focus the Managing Director on achieving the maximum return to suppliers/shareholders by incentivising the most cost efficient use of capital. • In order to achieve the growth in milk price, significant capital will need to be employed. The Board considers that it is important to focus management's attention on the most efficient use of this capital. • The ROCE hurdle is measured by calculating the total return to shareholders (based on total payments for milk plus dividends paid in that financial year) as a percentage of the three-year rolling average of annual capital employed.
ROCE target setting	• ROCE hurdle is determined by the Board based on the anticipated levels of capital employed to deliver the significant increase in milk price. • In setting the ROCE hurdle, the Board looks at the forecasted levels of financial performance including forecasted inflation performance, which is then normalised for currency movements and commodity price fluctuations. • Three levels of ROCE targets are set – threshold (96 per cent of target), target (100 per cent of target) and stretch (104 per cent of target). In order for any amount to be payable, at least 96 per cent of the ROCE hurdle needs to be achieved over the three-year period.

7. Long Term Incentive Plan and Link to Performance continued

Element	Description
Vesting schedule	Vesting (or entitlement to payment) occurs according to the following schedule for a proportion of the LTIP award (subject to each performance measure):

Implied Milk Price Growth

Achievement of hurdle	Proportion of LTIP award (for the 50 per cent related to the IMPG hurdle) that is made available
Below threshold	0 per cent
Threshold (80 per cent of target)	50 per cent ($118,125)
Between threshold and target	Straight line correlation between 50 per cent and 100 per cent of LTIP award opportunity
Target (100 per cent of target)	100 per cent ($236,250)
Between target and stretch	Straight line correlation between 100 per cent and 200 per cent of LTIP award opportunity
Stretch (110 per cent of target)	200 per cent ($472,500)

Return on Capital Employed

Achievement of hurdle	Proportion of LTIP award (for the 50 per cent related to the ROCE hurdle) that is made available
Below threshold	0 per cent
Threshold (96 per cent of target)	50 per cent ($118,125)
Between threshold and target	Straight line correlation between 50 per cent and 100 per cent of LTIP award opportunity
Target (100 per cent of target)	100 per cent ($236,250)
Between target and stretch	Straight line correlation between 100 per cent and 200 per cent of LTIP award opportunity
Stretch (104 per cent of target)	200 per cent ($472,500)

Element	Description
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 Managing Director from receiving an inappropriate benefit in certain clawback 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 e.g. adjustments for retained earnings in the implied milk price). The Board has the discretion to adjust the outcome either upwards or downwards to account for such items or factors or to prevent the Managing Director from receiving an inappropriate benefit in certain clawback circumstances. The Board will also take into account the Company's performance against that of its competitors.
Cessation of employment	On leaving the Company, rights awarded under the plan vest as follows: • Resignation/termination with cause – all rights are forfeited, subject to Board discretion. • Resignation for any other reason – rights will remain on foot and vest subject to performance against existing hurdles, subject to Board discretion.

Summary of LTIP 2012–13 Grant

Grant date	28 June 2013.
Performance hurdle	IMPG and ROCE.
IMPG assessment	The hurdle will not be assessed for vesting until the three-year performance period is completed (30 June 2015).
ROCE assessment	The hurdle will not be assessed for vesting until the three-year performance period is completed (30 June 2015).
Payment date	Any payment will be made by 30 November 2015.

8. Remuneration Summary Table

	Short Term Benefits			Long Term Benefits		Post Employment			
Executive Officer	Salary and Allowances $	STI Cash Bonus $	Non-monetary[xi] $	Long Service Leave Accrued $	LTI Cash Incentives[xii] $	Super-annuation $	Termination Benefit[xiii] $	Total $	Proportion of Remuneration Performance Related %
2013									
G Helou	1,664,254	598,500	220,361	25,640	315,000	16,470	–	2,840,225	32.2
M Beniston	348,044	66,997	24,129	11,915	–	16,470	–	467,555	14.3
K Mentiplay	565,911	142,789	12,477	9,369	–	16,470	–	747,016	19.1
D Noonan	451,256	84,375	–	7,222	–	16,470	–	559,323	15.1
R Poole	360,581	54,257	22,299	12,812	–	16,470	–	466,419	11.6
F Smith	484,943	128,835	–	9,223	–	16,470	–	639,471	20.1
TOTAL	**3,874,989**	**1,075,753**	**279,266**	**76,181**	**315,000**	**98,820**	**–**	**5,720,009**	
2012									
G Helou[i]	1,227,063	226,500	–	17,311	–	11,832	–	1,482,706	15.3
K Mentiplay[ii]	266,494	58,969	–	4,423	–	9,860	–	339,746	17.4
D Noonan[iii]	118,424	–	–	1,979	–	5,258	–	125,661	–
N Longstaff[iv][x]	491,564	60,759	20,736	25,053	–	156,216	–	754,328	8.1
R Poole[v]	172,992	52,958	9,507	2,736	–	12,158	–	250,351	21.2
F Smith[vi]	184,835	50,000	–	3,045	–	7,888	–	245,768	20.3
D Page[vii]	110,228	11,475	6,454	1,837	–	4,526	–	134,520	8.5
SJ O'Rourke[viii][x]	146,585	–	11,326	2,344	–	–	93,551	253,806	–
P Kerr[ix][x]	236,111	–	36,785	3,479	–	10,205	470,000	756,580	–
TOTAL	**2,954,296**	**460,661**	**84,808**	**62,207**	**–**	**217,943**	**563,551**	**4,343,466**	

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

(i) G Helou was appointed Managing Director on 3 October 2011.
(ii) K Mentiplay was appointed General Manager Operations on 12 December 2011.
(iii) D Noonan was appointed Chief Financial Officer on 23 March 2012.
(iv) N Longstaff held the position of General Manager Retail, Marketing, Sales until appointed General Manager Commercial Group on 30 November 2011. He also held the position of Acting Chief Executive Officer for the period from 1 August 2011 to 2 October 2011. He resigned effective 31 August 2012, but ceased to be a member of KMP by 1 July 2012.
(v) R Poole was appointed General Manager Shareholder Relations on 16 November 2011.
(vi) F Smith was appointed Company Secretary and General Counsel on 9 January 2012.
(vii) D Page was appointed Acting Chief Financial Officer on 9 December 2011 and ceased in this role on 22 March 2012.
(viii) SJ O'Rourke resigned as Managing Director on 31 July 2011.
(ix) P Kerr resigned as Chief Operating Officer on 16 December 2011.
(x) N Longstaff, SJ O'Rourke and P Kerr were all members of the Defined Benefit Superannuation Plan (refer to Note 27).
(xi) Non-monetary compensation includes the provision of a motor vehicle, health insurance, and notional interest on interest free loans provided to employees participating in the Employees Profits Participation Scheme as disclosed in Note 31(C).
(xii) LTIP cash incentives reflects financial year 2013 year one accrual, based on an anticipated maximum performance of $945,000 LTIP opportunity (i.e. $945,000/three years = $315,000 per annual accrual).
(xiii) Termination benefits do not include payments of superannuation entitlements to KMP from the Defined Benefits Superannuation Plan. Refer to Note 27 for further information in relation to the Defined Benefits Superannuation Plan.

9. Executive Contracts

The Company has entered into employment contracts with the Managing Director and all executives. The employment contracts have no fixed term (except for the General Manager Ingredients, which is a fixed term contract with an end date of 3 July 2015) and outline the components of remuneration to be paid. All employment contracts are capable of termination by the Company or the executive on either six months' written notice (for the Managing Director) or three months' notice (for other executives). 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 Contract
G Helou	Managing Director	3 October 2011
K Mentiplay	General Manager Operations	12 December 2011
D Noonan	Chief Financial Officer	23 March 2012
F Smith	Company Secretary/General Counsel	9 January 2012
R Poole	General Manager Shareholder Relations	16 November 2011
M Beniston	General Manager Ingredients	13 February 2013

10. Non-executive Director Remuneration

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 Board reviews Non-executive Director remuneration on a regular basis and in 2012 sought independent advice from EY regarding improving Non-executive Director remuneration. As a result of that review, the Board obtained shareholder approval to amend the Constitution to move to a maximum aggregate fee pool, rather than the previously approved approach that paid a base fee plus additional payments, such as retirement benefits and superannuation. The Board also obtained shareholder approval to set the aggregate pool at $1.3 million.

On 19 December 2012 the Board approved the following Director fee structure (inclusive of superannuation contributions):

Chairman's remuneration	$240,000
Base Annual Fee	$85,000
Plus additional fees for:	
Deputy Chairman Fee	$40,000
Committee Chair:	
Finance, Audit and Risk Committee	$15,000
Compliance Committee	$15,000
Supplier Relations Committee	$15,000
TOTAL FEES	**$1,177,500**

Remuneration Report 2013 continued

For those Directors that had an entitlement in the retirement plan at the time of closure those entitlements were frozen and will be paid on their retirement. The following table lists those Directors who have accrued retirement benefits:

	Short Term			Post Employment			
Non-executive Director	Fees and Salary $	STI Cash Bonus $	Non-monetary[vi] $	Retirement Benefit $	Super-annuation $	Total $	Proportion of Remuneration Performance Related %
2013							
PW Tracy	191,080	–	23,784	–	17,197	232,061	–
N Akers	71,025	–	–	–	6,392	77,417	–
WT Bodman	78,338	–	–	–	7,050	85,388	–
PJO Hawkins	82,112	–	–	–	7,390	89,502	–
DF Howard	74,740	–	–	–	6,727	81,467	–
MF Ihlein[i]	61,826	–	1,127	–	5,564	68,517	–
ML Jelbart[ii]	46,375	–	–	–	4,174	50,549	–
KW Jones	97,997	–	–	–	8,820	106,817	–
GN Munzel	71,025	–	–	–	6,392	77,417	–
JP Pye	82,112	–	–	–	7,390	89,502	–
JT Vardy[iii]	26,250	–	–	–	2,363	28,613	–
M Van de Wouw	71,025	–	–	–	6,392	77,417	–
TOTAL	**953,905**	**–**	**24,911**	**–**	**85,851**	**1,064,667**	
2012							
PW Tracy	116,875	–	1,673	–	10,519	129,067	–
GJ Davies[iv]	62,500	–	3,371	–	5,625	71,496	–
N Akers[v]	36,989	–	–	–	3,329	40,318	–
WT Bodman	70,938	–	–	–	6,384	77,322	–
PJO Hawkins	66,417	–	–	–	5,978	72,395	–
DF Howard	66,417	–	–	18,500	5,978	90,895	–
KW Jones	70,938	–	–	–	6,384	77,322	–
ST Mills[iv]	25,000	–	–	–	2,250	27,250	–
GN Munzel	61,750	–	–	–	5,558	67,308	–
JP Pye	66,417	–	–	29,450	5,978	101,845	–
JT Vardy	74,250	–	–	10,500	6,683	91,433	–
M Van de Wouw	61,750	–	–	–	5,558	67,308	–
TOTAL	**780,241**	**–**	**5,044**	**58,450**	**70,224**	**913,959**	

(i) MF Ihlein was appointed to the Board of Directors on 30 October 2012.
(ii) ML Jelbart was appointed to the Board of Directors on 28 November 2012.
(iii) JT Vardy resigned from the Board of Directors on 28 November 2012.
(iv) GJ Davies and ST Mills resigned from the Board of Directors on 30 November 2011.
(v) N Akers was appointed to the Board of Directors on 30 November 2011.
(vi) Non-monetary compensation includes provision of a motor vehicle to the Chairman and travel related costs.

Signed in accordance with a resolution of the Board of Directors

Philip W Tracy

PW Tracy
Director
Melbourne, 23 September 2013

Consolidated Statement of Profit or Loss

for the financial year ended 30 June 2013

	Note	2013 $000	2012 $000
Sales revenue	2	2,385,099	2,367,231
Cost of sales		(2,067,009)	(2,074,043)
Gross profit		318,090	293,188
Other income	2	4,336	4,451
Share of profit of associates	13	837	(4,660)
Distribution expenses		(143,522)	(127,777)
Marketing expenses		(25,042)	(23,194)
Administration expenses		(73,037)	(66,859)
Finance costs	3	(28,022)	(25,623)
Other expenses		(14,587)	(41,424)
Profit before income tax		39,053	8,102
Income tax (expense) benefit	4	(4,149)	6,365
PROFIT FOR THE YEAR		**34,904**	**14,467**
Attributable to:			
Equity holders of the parent	24	29,396	11,085
Minority interest		5,508	3,382
PROFIT FOR THE YEAR		**34,904**	**14,467**

The accompanying Notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the financial year ended 30 June 2013

	Note	2013 $000	2012 $000
Profit for the year		34,904	14,467
Other comprehensive income			
Items that will not be classified subsequently to profit or loss:			
Increment (decrement) on revaluation of land and buildings	23	54,833	–
Net change in fair value of equity instruments measured at fair value through other comprehensive income	23	541	(7,531)
Income tax relating to items that will not be reclassified subsequently	4	(16,450)	–
Items that may be reclassified subsequently to profit or loss:			
Transfer to income statement on cash flow hedges	23	(11,008)	(19,168)
Gain (loss) on cash flow hedges taken to equity	23	(43,566)	(4,132)
Exchange differences arising on translation of foreign operations	23	4,553	412
Income tax relating to items that may be reclassified subsequently	4	15,006	7,952
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR		**38,813**	**(8,000)**
Attributable to:			
Equity holders of the parent		33,305	(11,382)
Minority interest		5,508	3,382
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR		**38,813**	**(8,000)**

The accompanying Notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 30 June 2013

	Note	2013 $000	2012 $000
Current assets			
Cash		11,809	34,193
Receivables	8	442,186	396,778
Inventories	9	291,207	364,893
Other	10	3,636	5,207
Total current assets		748,838	801,071
Non-current assets			
Receivables	8	–	35,795
Investments accounted for using the equity method	13	20,607	14,316
Other financial assets	11	35,876	22,268
Property, plant and equipment	14	832,005	736,164
Intangible assets	15	16,121	16,121
Other	10	5,607	6,493
Total non-current assets		910,216	831,157
Total assets		1,659,054	1,632,228
Current liabilities			
Payables	16	357,519	329,479
Borrowings	17	205,496	114,013
Current tax payable	18	727	832
Provisions	19	44,394	41,993
Total current liabilities		608,136	486,317
Non-current liabilities			
Payables	16	1,425	5,503
Borrowings	17	324,475	343,639
Provisions	19	7,852	7,712
Deferred tax liabilities	20	30,679	30,022
Total non-current liabilities		364,431	386,876
Total liabilities		972,567	873,193
NET ASSETS		**686,487**	**759,035**
Equity			
Issued capital	22	262,677	248,271
Reserves	23	179,496	179,174
Retained earnings	24	233,915	233,724
Parent entity interest		676,088	661,169
Minority interest	25	10,399	97,866
TOTAL EQUITY		**686,487**	**759,035**

The accompanying Notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the financial year ended 30 June 2013

	Issued Capital $000	Capital Reserve $000	Asset Revaluation Reserve $000	General Reserve $000
Balance at 1 July 2011	235,240	36,916	118,199	5,257
Profit or (Loss) for the year	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Payment of dividends	–	–	–	–
Issue of ordinary shares to milk suppliers	8,745	–	–	–
Dividend reinvestment plan issues	4,286	–	–	–
Establishment of share buy-back reserve	–	–	–	–
Transferred to retained earnings (net of tax)	–	–	(379)	–
Allotment of shares to suppliers	–	–	–	–
Shares to be issued in lieu of milk payments	–	–	–	–
Minority interest in subsidiaries disposed	–	–	–	–
Sale of investment in subsidiary to minority interest	–	–	–	–
Other	–	–	–	–
BALANCE AT 30 JUNE 2012	**248,271**	**36,916**	**117,820**	**5,257**
Profit or (Loss) for the year	–	–	–	–
Other comprehensive income	–	–	38,383	–
Total comprehensive income	–	–	38,383	–
Payment of dividends	–	–	–	–
Issue of ordinary shares to milk suppliers	9,993	–	–	–
Dividend reinvestment plan issues	4,413	–	–	–
Establishment of share buy-back reserve	–	–	–	–
Transferred to retained earnings (net of tax)	–	–	(2,320)	–
Allotment of shares to suppliers	–	–	–	–
Shares to be issued in lieu of milk payments	–	–	–	–
Minority interest in subsidiaries acquired	–	–	–	–
Shares bought back and cancelled	–	–	–	–
Difference on acquisition of interest in subsidiary	–	–	–	–
Other	–	–	–	–
BALANCE AT 30 JUNE 2013	**262,677**	**36,916**	**153,883**	**5,257**

The accompanying Notes form part of these financial statements.

Hedge Reserve $000	Investment Revaluation Reserve $000	Share Allotment Reserve $000	Transactions with Minority Interests Reserve $000	Foreign Currency Translation Reserve $000	Retained Earnings $000	Attributable to Owners of the Parent $000	Minority Interests $000	Total $000
33,773	2,535	3,712	–	15	252,197	687,844	100,625	788,469
–	–	–	–	–	11,085	11,085	3,382	14,467
(16,310)	(6,445)	–	–	288	–	(22,467)	–	(22,467)
(16,310)	(6,445)	–	–	288	11,085	(11,382)	3,382	(8,000)
–	–	–	–	–	(29,937)	(29,937)	–	(29,937)
–	–	–	–	–	–	8,745	–	8,745
–	–	–	–	–	–	4,286	–	4,286
–	–	–	–	–	–	–	(21,019)	(21,019)
–	–	–	–	–	379	–	–	–
–	–	(3,712)	–	–	–	(3,712)	–	(3,712)
–	–	2,971	–	–	–	2,971	–	2,971
–	–	–	–	–	–	–	14,917	14,917
–	–	–	2,354	–	–	2,354	–	2,354
–	–	–	–	–	–	–	(39)	(39)
17,463	**(3,910)**	**2,971**	**2,354**	**303**	**233,724**	**661,169**	**97,866**	**759,035**
–	–	–	–	–	29,396	29,396	5,508	34,904
(38,202)	541	–	–	3,187	–	3,909	–	3,909
(38,202)	541	–	–	3,187	29,396	33,305	5,508	38,813
–	–	–	–	–	(31,525)	(31,525)	–	(31,525)
–	–	–	–	–	–	9,993	–	9,993
–	–	–	–	–	–	4,413	–	4,413
–	–	–	–	–	–	–	–	–
–	–	–	–	–	2,320	–	–	–
–	–	(2,971)	–	–	–	(2,971)	–	(2,971)
–	–	1,957	–	–	–	1,957	–	1,957
–	–	–	–	–	–	–	(8,454)	(8,454)
–	–	–	–	–	–	–	(84,492)	(84,492)
–	–	–	(253)	–	–	(253)	–	(253)
–	–	–	–	–	–	–	(29)	(29)
(20,739)	**(3,369)**	**1,957**	**2,101**	**3,490**	**233,915**	**676,088**	**10,399**	**686,487**

Consolidated Statement of Cash Flows

for the financial year ended 30 June 2013

	Note	2013 $000	2012 $000
Cash flows from operating activities			
Receipts from customers		2,426,267	2,389,271
Payments to suppliers and employees		(2,280,948)	(2,264,197)
		145,319	125,074
Dividends received		1,267	1,360
Interest received		3,781	3,428
Interest paid		(27,750)	(26,381)
Income taxes paid		(5,040)	(845)
Net cash inflow from operating activities	32(B)	117,577	102,636
Cash flows from investing activities			
Payments for property, plant and equipment		(99,885)	(134,138)
Investment in associated company	13	(6,000)	(4,000)
Payments to acquire financial assets		(13,067)	–
Proceeds from the sale of property, plant and equipment		3,633	2,050
Payments for investments in subsidiaries		(8,775)	–
Proceeds on disposal of partial interest in a subsidiary		–	10,509
Net cash (outflow) from investing activities		(124,094)	(125,579)
Cash flows from financing activities			
Buy-back of shares in minority interests		(40,675)	(8,252)
Dividends paid		(27,112)	(25,651)
Proceeds from the issue of ordinary shares		9,993	8,745
Proceeds from borrowings		173,347	106,597
Repayment of borrowings		(131,420)	(30,000)
Net cash (outflow) inflow from financing activities		(15,867)	51,439
Net (decrease) increase in cash		(22,384)	28,496
Cash at the beginning of the year		34,193	5,697
CASH AT THE END OF THE YEAR	32(A)	**11,809**	**34,193**

The accompanying Notes form part of these financial statements.

Notes to the Financial Statements

for the financial year ended 30 June 2013

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 23 September 2013.

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 consolidated entity 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 Class Order 98/0100, which does apply to the consolidated entity.

In applying the consolidated entity'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 consolidated entity. 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.

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 2013 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 consolidated entity are eliminated in full. The Company and its controlled entities together are referred to in this financial report as the consolidated entity.

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 profit and loss in the period of acquisition.

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

B) INCOME 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 is accounted for using the comprehensive balance sheet 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 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 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.

Deferred tax assets and liabilities are offset as the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

The Company and its wholly owned entities are part of a tax consolidated group. Murray Goulburn Co-operative Co. Limited is the head entity in the tax consolidated group. Tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using a 'group allocation' approach. Under this approach each entity prepares a notional taxable income or loss as if it were a taxpayer in its own right except that distributions made and received, capital gains and losses, gains or losses from intra-group debt forgiveness and similar items arising on transactions within the tax consolidated group are treated as having no tax consequence. The tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group is allocated to each entity with reference to the individual entities notional tax calculation.

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 in the tax consolidated group).

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. Further information about the tax funding arrangement is detailed in Note 4 to the financial statements.

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.

Notes to the Financial Statements continued

for the financial year ended 30 June 2013

NOTE 1: Summary of Significant Accounting Policies continued

C) DERIVATIVE FINANCIAL INSTRUMENTS

The consolidated entity 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 30.

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 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 consolidated entity 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.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, no longer qualifies for hedge accounting or the consolidated entity revokes the hedge relationship. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash Flow Hedge

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 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 consolidated entity 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 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 profit or loss.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in 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 consolidated entity 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 profit or loss, in which case the increase is credited to the income statement 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 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.

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, which 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 (2012: 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 consolidated entity.

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

NOTE 1: Summary of Significant Accounting Policies continued

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 consolidated entity 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 profit or loss immediately.

H) FINANCIAL ASSETS

Investments in associated companies are accounted for under the equity method in the consolidated financial statements.

Trade receivables, loans and other receivables are recorded at amortised cost, using the effective interest method, less impairment through the allowance account. The adjustment to employee loans has been capitalised as an asset to the extent that it relates to future employee services.

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.

Listed shares held by the consolidated entity 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 profit or loss when the consolidated entity's right to receive the dividends is established.

I) 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 which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

J) 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.

K) LEASED ASSETS

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.

Operating lease payments are recognised as an expense in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

L) 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.

Stores, packing materials and Murray Goulburn Trading stocks, have been valued at the lower of cost and net realisable value. Costs have been allocated on the first in first out basis.

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

NOTE 1: Summary of Significant Accounting Policies continued

M) INVESTMENT IN ASSOCIATES

An associate is an entity over which the consolidated entity has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but has no control or joint control over those policies. The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the consolidated entity's share of the net assets of the associate, less any impairment in the value of individual investments. Any excess of the cost of acquisition over the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the consolidated entity's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

N) 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 profit or loss.

O) ACCOUNTS PAYABLE

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. Payables are initially measured at fair value and subsequent to initial recognition are measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

P) PROVISIONS

Provisions are recognised when the consolidated entity 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.

Q) 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.

For defined benefit superannuation plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised immediately in profit or loss in the year in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The defined benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

R) 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 profit and loss over the period of the borrowing using the effective interest method.

S) 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.

T) REVENUE RECOGNITION

Revenue from the sale of goods and disposal of assets is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods. Interest revenue is recognised on a time proportion basis using the effective interest method. Dividend revenue is recognised when the consolidated entity's right to receive the dividends is established.

U) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The following are critical estimates and judgements made by management in the process of applying the consolidated entity's accounting policies:

Inventories – the net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell. Key assumptions, including the expected selling price, require the use of management judgement and are reviewed semi-annually.

NOTE 1: Summary of Significant Accounting Policies continued

V) ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the consolidated entity adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board effective for the current annual reporting period. The adoption of these new and revised standards and interpretations did not have any material impact on the financial statements of the consolidated entity. However, the application of AASB 2011-9 has resulted in changes to the Group's presentation of, or disclosure in, its financial statements. AASB 2011-9 requires the separate presentation of those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss and has been retrospectively applied.

The consolidated entity has elected to early adopt AASB 9 Financial Instruments, as issued in December 2009, from 1 July 2010. AASB 9 specifies the basis for classifying and measuring financial assets. Classification is determined based on the contractual cash flow characteristics of the consolidated entity's financial assets. Financial assets will be classified as either measured at amortised cost or fair value. AASB 9 replaces the classification and measurement requirements relating to financial assets in AASB 139 Financial Instruments: Recognition and Measurement. Under AASB 9 only equity instruments that are not held for trading are able to be classified as fair value through other comprehensive income rather than fair value through profit and loss. On disposal, in contrast to AASB 139, the cumulative gains or losses recognised in equity over the period the consolidated entity held the equity instrument are transferred directly to retained earnings and are not permitted to be recognised in profit and loss. The consolidated entity elected to designate its equity investments measured at fair value through other comprehensive income on adoption of AASB 9.

The adoption of this standard has not impacted on the consolidated entity's current financial statements or comparatives as the accounting outcomes on the consolidated entity are consistent with those previously recognised under AASB 139 (on the basis that any diminution in the value of investments held for sale are not significant or prolonged).

Except for AASB 9 Financial Instruments, which the consolidated entity early adopted from 1 July 2010, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the annual reporting period ended 30 June 2013.

In particular, the following relevant standards and interpretations were issued but not yet effective:

Effective for annual reporting periods beginning on or after 1 January 2013

- AASB 10 Consolidated Financial Statements
- AASB 11 Joint Arrangements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 19 Employee Benefits (2011)
- AASB 127 Separate Financial Statements (2011)
- AASB 128 Investments in Associates and Joint Ventures (2011)
- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

Effective for annual reporting periods beginning on or after 1 January 2014

- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

While the Directors are yet to finalise their assessment, the adoption of these Standards and Interpretations in future periods is not anticipated to have a material impact on the financial statements of the consolidated entity.

Notes to the Financial Statements continued

for the financial year ended 30 June 2013

NOTE 2: Revenue

	2013 $000	2012 $000
Revenue		
Sales revenue	2,385,099	2,367,231
	2,385,099	2,367,231
Other Income		
Interest received or receivable from:		
• other persons	3,615	3,469
Dividends received from other corporations	721	982
	4,336	4,451
SALES AND OTHER INCOME	**2,389,435**	**2,371,682**

NOTE 3: Profit from Operations before Income Tax Expense has been determined after:

	Note	2013 $000	2012 $000
Crediting/charging as gains and losses:			
Borrowing costs			
Interest paid or payable to:			
• other persons		28,022	25,623
		28,022	25,623
Depreciation of:			
• buildings		8,237	8,464
• plant and equipment and vehicles		45,813	44,399
	14	54,050	52,863
Impairment (reversal) of non-current property, plant and equipment		(1,261)	9,580
Net (gain) loss on sale and scrapping of non-current assets		(717)	(469)
Write down of inventories to net realisable value		1,207	14,576
Rental expense on operating leases		10,722	19,990
Research and development expenditure		6,813	3,731
Employee benefits (including restructuring costs, excluding impact of defined benefit in Note 27)		212,469	225,807
Environmental remediation expense		–	4,076

NOTE 4: Income Tax (Benefit) Expense

A) INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2013 $000	2012 $000
Tax (benefit) expense comprises:		
Current tax expense	4,936	683
Deferred tax expense (benefit)	(787)	(7,048)
INCOME TAX EXPENSE (BENEFIT)	**4,149**	**(6,365)**
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit (loss) before income tax expense	39,053	8,102
Income tax calculated at the Australian statutory tax rate of 30%	11,716	2,431
Dividends as a co-operative[(i)]	(9,457)	(8,981)
Effect of tax rates in foreign jurisdictions	(1,787)	(1,532)
Current year losses for which no deferred tax asset was recognised	3,776	–
Sundry items	42	1,559
Under (over) provision for income tax in prior year	(141)	158
INCOME TAX EXPENSE (BENEFIT)	**4,149**	**(6,365)**

(i) A tax deduction is obtained for unfranked dividends paid by the Company. This amount does not include the benefit of tax deductions for dividends declared but not recognised, as disclosed in Note 7 below (the tax benefit of approximately $7,529,000 (2012: $9,385,000) at the corporate tax rate of 30 per cent will be recognised in the financial year ending 30 June 2014 (30 June 2013)).

Notes to the Financial Statements continued

for the financial year ended 30 June 2013

NOTE 4: Income Tax (Benefit) Expense continued

B) DEFERRED INCOME TAX AT 30 JUNE RELATES TO THE FOLLOWING:

	Opening Balance $000	Charged to Income $000	Transfer from Equity to Income $000	Charged to Equity $000	Closing Balance $000
2013					
Gross deferred tax liabilities					
Property, plant and equipment	(59,609)	(2,584)	–	(16,450)	(78,643)
Consumables	(7,619)	204	–	–	(7,415)
Investments	–	–	–	–	–
Cash flow hedges	(7,485)	–	3,302	2,664	(1,519)
Other	(391)	255	–	(1,366)	(1,502)
	(75,104)	(2,125)	3,302	(15,152)	(89,079)
Gross deferred tax assets					
Provisions	18,900	(3,327)	–	–	15,573
Tax losses	25,502	1,276	–	–	26,778
Cash flow hedges	–	–	–	10,406	10,406
Other	680	4,963	–	–	5,643
	45,082	2,912	–	10,406	58,400
NET DEFERRED TAX LIABILITY	**(30,022)**	**787**	**3,302**	**(4,746)**	**(30,679)**
2012					
Gross deferred tax liabilities					
Property, plant and equipment	(61,661)	1,890	–	162	(59,609)
Consumables	(8,004)	385	–	–	(7,619)
Investments	(1,086)	–	–	1,086	–
Cash flow hedges	(14,475)	–	5,750	1,240	(7,485)
Other	(72)	(196)	–	(123)	(391)
	(85,298)	2,079	5,750	2,365	(75,104)
Gross deferred tax assets					
Provisions	15,930	2,970	–	–	18,900
Tax losses	22,720	2,782	–	–	25,502
Other	1,463	(783)	–	–	680
	40,113	4,969	–	–	45,082
NET DEFERRED TAX LIABILITY	**(45,185)**	**7,048**	**5,750**	**2,365**	**(30,022)**

All available tax losses have been brought to account and are included in the net deferred tax liability, except for:

- pre-tax consolidation losses of $215,715 ($64,715 tax effected); and
- carried forward losses of non-wholly owned controlled entities.

The Company and its wholly owned entities are part of a tax consolidated group. The head entity within the tax consolidated group is Murray Goulburn Co-operative Co. Limited. The members of the tax consolidated group are identified in Note 12.

All entities within the tax consolidated group, with the exception of MG Project Inverloch Pty Ltd and MG Project Inverloch (Finance) Pty Ltd, have entered into a tax funding arrangement and a tax sharing agreement with the head entity. MG Project Inverloch Pty Ltd and MG Project Inverloch (Finance) Pty Ltd will be added to the tax funding arrangement and tax sharing agreement prior to incurring any income tax liabilities.

Under the terms of the tax funding arrangement, each of the entities in the 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 tax consolidated group.

NOTE 5: Compensation of Key Management Personnel

Compensation of key management personnel is included in the Remuneration Report within the Directors' Report.

Total short term employee benefits for key management personnel of the consolidated entity is $6,208,824 (2012: $4,285,050).
Total long term employee benefits for key management personnel of the consolidated entity is $391,181 (2012: $62,207).
Total post employment employee benefits for key management personnel of the consolidated entity is $184,671 (2012: $346,617).
Total termination benefits for key management personnel of the consolidated entity is $nil (2012: $563,551).

NOTE 6: Remuneration of Auditors

	2013 $	2012 $
Auditor of the parent entity:		
• auditing or reviewing the financial reports	342,000	342,000
• corporate finance services	–	95,490
• assurance related	28,905	25,460
• other consulting services	250,700	133,860
	621,605	596,810
Related practice of the parent entity auditor		
• corporate finance services	90,480	235,953
	712,085	**832,763**

The auditor of the parent entity is Deloitte Touche Tohmatsu.

Notes to the Financial Statements continued

for the financial year ended 30 June 2013

NOTE 7: Dividends Paid or Proposed

	Note	2013 $000	2012 $000
Recognised amounts			
Dividends in relation to the 2012 financial year (2011 financial year)			
Fully Paid Ordinary Shares			
Final dividend of 12 cents (2011: 12 cents) per share unfranked		27,551	26,168
Fully Paid A Class Non-Cumulative, Non-Redeemable Preference Shares			
Final dividend of 8 cents (2011: 8 cents) per share unfranked		1,208	1,244
Fully Paid B Class Non-Cumulative, Non-Redeemable Preference Shares			
Final dividend of 5 cents (2011: 5 cents) per share unfranked		514	570
Fully Paid C Class Non-Cumulative, Non-Redeemable Preference Shares			
Final dividend of 8 cents (2011: 8 cents) per share unfranked		2,252	1,955
TOTAL DIVIDENDS RECOGNISED	24	**31,525**	**29,937**
Dividends recognised during the current year differ to unrecognised amounts in the prior year below due to movements in issued capital during the period between 30 June 2012 and the actual payment of the dividend.			
Unrecognised amounts			
Dividends in relation to the 2013 financial year (2012 financial year)			
Fully Paid Ordinary Shares			
Final dividend of 8 cents (2012: 12 cents) per share unfranked		21,081	27,447
Fully Paid A Class Non-Cumulative, Non-Redeemable Preference Shares			
Final dividend of 8 cents (2012: 8 cents) per share unfranked		1,183	1,214
Fully Paid B Class Non-Cumulative, Non-Redeemable Preference Shares			
Final dividend of 5 cents (2012: 5 cents) per share unfranked		454	505
Fully Paid C Class Non-Cumulative, Non-Redeemable Preference Shares			
Final dividend of 8 cents (2012: 8 cents) per share unfranked		2,378	2,116
		25,096	**31,282**
ADJUSTED FRANKING ACCOUNT BALANCE		**10,887**	**10,552**

The final dividends for Ordinary and A, B and C Class Preference Shares, in respect of the financial year, were declared by the Board subsequent to the financial year end and have therefore not been recognised as a liability at 30 June.

The value of the unrecognised dividends disclosed above are based on the respective dividend rates declared and the total of shares outstanding at 30 June and shares to be issued out of the share allotment reserve. The final value of the unrecognised dividends may change when paid, depending on movements in shareholdings between 30 June and the date of payment.

Unrecognised dividends are unfranked and therefore do not impact on the adjusted franking account balance.

NOTE 8: Receivables

	Note	2013 $000	2012 $000
Current			
Trade receivables		389,733	331,859
Less: allowance for doubtful debts		(1,762)	(1,643)
		387,971	330,216
Other receivables		54,166	61,866
Employee loans within MGEE	28	–	1,606
Foreign currency derivatives(i)		49	3,090
		442,186	**396,778**
Non-current			
Employee loans within MGEE	28	–	35,795
		–	**35,795**

(i) Foreign currency derivatives represent unrealised gains 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.

All receivables are recorded at amortised cost except for derivatives at (i), which are recorded at fair value.

Credit risk associated with these receivables is addressed in Note 30(C). The fair value of receivables is documented in Note 30(D).

The consolidated entity reviews the recoverability of receivables by reference to internal credit assessment and historical and ongoing customer payment trends. Trade receivables of $1,762,000 (2012: $1,643,000) in the consolidated entity have been assessed as impaired and provided for in the allowance for doubtful debts.

	2013 $000	2012 $000
Movements in the allowance for doubtful debts		
Balance at the beginning of the year	1,643	2,699
Impairment losses recognised on receivables	284	7
Impairment losses reversed	–	–
Amounts written off as uncollectible	(165)	(1,063)
	1,762	**1,643**
Trade receivables of customers past due but considered recoverable are not provided for in the allowance for doubtful debts. The consolidated entity does not hold any collateral over these balances		
Ageing of past due but not impaired trade receivables:		
0 – 30 days	8,914	10,304
30 – 60 days	10,394	4,243
60 – 90 days	3,778	3,493
90+ days	6,101	4,189
	29,187	**22,229**

NOTE 9: Inventories

	2013 $000	2012 $000
Finished goods		
• at cost	235,260	153,954
• at net realisable value	10,103	165,114
Raw materials and stores – at cost	45,844	45,825
	291,207	**364,893**

NOTE 10: Other Assets

	2013 $000	2012 $000
Current		
Prepayments	3,636	5,207
	3,636	**5,207**
Non-current		
Other	5,607	6,493
	5,607	**6,493**

NOTE 11: Other Non-current Financial Assets

	2013 $000	2012 $000
Investments		
Shares in quoted corporations at fair value	35,876	22,268
	35,876	**22,268**

Shares in quoted corporations are Level 1 financial instruments recorded at fair value using quoted prices.

The consolidated entity's sensitivity to a $0.50 increase or decrease to the share price in Warrnambool Cheese and Butter Factory Company Holdings Limited, representing management's assessment of the possible change in share price, holding all other variables constant would be an increase/decrease in other equity and net assets of $4,708,000 (2012: $3,275,000 increase/decrease).

NOTE 12: Controlled Entities

All controlled entities, except for Provico Pty Ltd, Tasmanian Dairy Products Co Ltd and MG Employees Equity Limited, are wholly owned.

Murray Goulburn Co-operative Co. Limited holds 51 per cent of all voting shares in Provico Pty Ltd.

Murray Goulburn Co-operative Co. Limited holds 56.1 per cent of all voting shares in Tasmanian Dairy Products Co Ltd.

Murray Goulburn Co-operative Co. Limited employs all MG Employees Equity Limited's directors and shareholders.

All controlled entities are incorporated in Victoria with the exception of Murray Goulburn Dairy (Qingdao) Co., Ltd (incorporated in China), Murray Goulburn Nutritional (Qingdao) Co., Ltd (incorporated in China), MG Asia Holding Company Pte Ltd (incorporated in Singapore), MG South East Asia Pte Ltd (incorporated in Singapore), MG Procurement Company Ltd (incorporated in Singapore) and Tasmanian Dairy Products Co Ltd (incorporated in Tasmania).

Murray Goulburn Nominees Pty Ltd is beneficially owned.

Entity	Class of Share
Parent Entity	
Murray Goulburn Co-operative Co. Limited[a]	
Controlled Entities of Murray Goulburn Co-operative Co. Limited	
Murray Goulburn Trading Pty Ltd[b][e]	Ordinary
Murray Goulburn Investment Limited	Ordinary
MG Nutritionals Pty Ltd[b][c]	Ordinary
Meiji-MGC Dairy Co Pty Ltd[b][c]	Ordinary
Lavery International Pty Ltd[b][c]	Ordinary
Classic Food Holdings Pty Ltd[b][c]	Ordinary
Murray Goulburn Dairy (Qingdao) Co., Ltd[d][h]	n/a
Murray Goulburn Nutritional (Qingdao) Co., Ltd.[d]	n/a
Provico Pty Ltd[c]	Ordinary
MG Agrilink Pty Ltd[b][c]	Ordinary
MG Transition Pty Ltd[b][c]	Ordinary
Murray Goulburn International Pty Ltd[b][c]	Ordinary
Tasmanian Dairy Products Co Ltd[c]	Ordinary
Devondale Foundation Limited[f]	n/a
MG Asia Holding Company Pte Ltd[g]	Ordinary
MG South East Asia Pte Ltd[g]	Ordinary
MG Procurement Company Ltd[g]	Ordinary
MG Project Inverloch Pty Ltd[b][c]	Ordinary
MG Project Inverloch (Finance) Pty Ltd[b][c]	Ordinary
Murray Goulburn Superannuation Pty Ltd[b][c]	Ordinary
MG Employees Equity Limited	Ordinary
Controlled Entities of Classic Food Holdings Pty Ltd	
Classic Foods Pty Ltd[b][c]	Ordinary

(a) Murray Goulburn Co-operative Co. Limited is the head entity within the tax consolidated group.
(b) These wholly owned entities are members of the tax consolidated group.
(c) These entities are small proprietary companies pursuant to the *Corporations Act 2001* and consequently are relieved from the requirement to prepare audited financial reports.
(d) Incorporated in China.
(e) This wholly owned entity has entered into a deed of cross guarantee with Murray Goulburn Co-operative Co. Limited pursuant to ASIC Class Order 98/1418 and is relieved from the requirement to prepare and lodge an audited financial report.
(f) This entity is a company limited by guarantee.
(g) Incorporated in Singapore.
(h) During the year, the consolidated entity acquired the remaining 49 per cent interest in Murray Goulburn Dairy (Qingdao) Co., Ltd, increasing its interest to 100 per cent. The cash consideration paid was $8,775,000, with the difference of $253,000 debited to Transactions with Minority Interests Reserve, Note 23.

Notes to the Financial Statements continued

for the financial year ended 30 June 2013

NOTE 12: Controlled Entities continued

The consolidated statement of financial position of entities, which is party to the deed of cross guarantee, is:

	2013 $000	2012 $000
STATEMENT OF FINANCIAL POSITION		
Current assets		
Cash	4,605	17,744
Receivables	450,145	397,015
Inventories	274,285	361,411
Other	3,434	3,301
Total current assets	732,469	779,471
Non-current assets		
Receivables	5,899	45,422
Other financial assets	109,954	78,816
Property, plant and equipment	727,046	658,814
Intangible assets	4,155	4,155
Other	–	6,415
Total non-current assets	847,054	793,622
Total assets	1,579,523	1,573,093
Current liabilities		
Payables	347,397	311,967
Borrowings	197,100	114,013
Provisions	44,279	41,955
Total current liabilities	588,776	467,935
Non-current liabilities		
Payables	1,000	4,631
Borrowings	286,646	412,155
Provisions	7,852	7,695
Deferred tax liabilities	30,798	30,420
Total non-current liabilities	326,296	454,901
Total liabilities	915,072	922,836
NET ASSETS	**664,451**	**650,257**
Equity		
Issued capital	262,677	248,271
Reserves	127,219	129,657
Retained earnings	274,555	272,329
TOTAL EQUITY	**664,451**	**650,257**
MOVEMENT IN RETAINED EARNINGS		
Balance at the beginning of the financial year	272,329	288,518
Net profit	31,430	13,369
Dividends provided for or paid	(31,525)	(29,937)
Transfer from asset revaluation reserve	2,321	379
BALANCE AT THE END OF THE FINANCIAL YEAR	**274,555**	**272,329**

NOTE 12: Controlled Entities continued

The consolidated income statement of entities, which is party to the deed of cross guarantee, is:

	2013 $000	2012 $000
STATEMENT OF PROFIT OR LOSS		
Sales revenue	2,367,701	2,346,789
Cost of sales	(2,057,377)	(2,069,587)
Gross profit	310,324	277,202
Other income	5,025	6,402
Distribution expenses	(140,893)	(127,627)
Marketing expenses	(21,525)	(16,023)
Administration expenses	(72,918)	(67,250)
Finance costs	(34,371)	(26,502)
Other expenses	(13,931)	(40,043)
Profit before income tax	31,711	6,159
Income tax (expense) benefit	(281)	7,210
PROFIT FOR THE YEAR	**31,430**	**13,369**
STATEMENT OF COMPREHENSIVE INCOME		
Profit for the year	31,430	13,369
Other comprehensive income		
Items that will not be classified subsequently to profit or loss:		
Increment (decrement) on revaluation of land and buildings	55,082	–
Net change in fair value of equity instruments measured at fair value through other comprehensive income	541	(7,531)
Income tax relating to items that will not be reclassified subsequently	(16,525)	–
Items that may be reclassified subsequently to profit or loss:		
Transfer to income statement on cash flow hedges	(11,008)	(19,168)
Gain (loss) on cash flow hedges taken to equity	(43,566)	(4,132)
Income tax relating to items that may be reclassified subsequently	16,373	8,077
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR	**32,327**	**(9,385)**

NOTE 13: Investments Accounted for Using the Equity Method

	2013 $000	2012 $000
Investments in associated companies	**20,607**	**14,316**

Name of Associate	Principal Activity	Ownership 2013 %	Ownership 2012 %
Intermix Australia Pty Ltd	Food ingredient processing	33.3	3.3
Dairy Technical Services Ltd	Dairy analytical and technical services	25.3	25.3
Australian Milk Products Pty Ltd	Exporter of dairy products	50.0	50.0
MGM (Aust) Pty Ltd	Retail of dairy products	50.0	50.0
Progenex Pty Ltd	Retail of dairy products	50.0	50.0
Nedfarm	Milk production – dairy cattle	40.0	40.0
Danone Murray Goulburn Pty Ltd	Retail of dairy products	50.0	50.0

All associates are incorporated in Australia.

Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting.

Movement in Investments in Associated Companies	2013 $000	2012 $000
Equity accounted amount at the beginning of the financial year	14,316	15,354
Acquisition of interests in associates	6,000	4,000
Share of (loss) profit after income tax	837	(4,660)
Dividends received from associates	(546)	(378)
EQUITY ACCOUNTED AMOUNT AT THE END OF THE FINANCIAL YEAR	**20,607**	**14,316**

The consolidated entity does not share any commitments or contingent liabilities of its associates.

Aggregate assets of associates is $111,532,000 (2012: $89,069,000).

Aggregate liabilities of associates is $70,733,000 (2012: $54,269,000).

Aggregate revenue of associates is $159,833,000 (2012: $155,297,000).

Aggregate profit (loss) of associates is $3,171,000 (2012: ($4,781,000)).

NOTE 14: Property, Plant and Equipment

	2013 $000	2012 $000
Land and buildings		
Freehold land at fair value(i)	76,971	73,255
Buildings at fair value(i)	328,978	264,169
less accumulated depreciation and impairment losses	(484)	(9,377)
	328,494	254,792
Total land and buildings	405,465	328,047
Plant and equipment		
At cost	1,128,704	1,075,468
less accumulated depreciation and impairment losses	(773,564)	(779,420)
Total plant and equipment	355,140	296,048
Vehicles		
At cost	53,924	60,012
less accumulated depreciation	(28,307)	(22,957)
Total vehicles	25,617	37,055
In the course of construction	45,783	75,014
TOTAL PROPERTY, PLANT AND EQUIPMENT	**832,005**	**736,164**

(i) Valuations of land and buildings
The basis of valuation of land and buildings is fair value being the market value for existing use of all freehold land and buildings. Directors have assessed the carrying value of land and buildings as at 30 June 2013 and are satisfied that it is not materially different from its fair value. Revaluations as at 30 June 2013 were based on independent assessments. This is in accordance with a policy of revaluing property progressively to ensure that the carrying value of land and buildings does not differ materially from their fair value.

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 1 July 2011	330,683	288,801	12,280	34,280	666,044
Additions (including transfers from capital work in progress)	7,187	56,497	29,726	40,734	134,144
Impairment of non-current assets(i)	(717)	(8,863)	–	–	(9,580)
Disposals	(642)	(143)	(796)	–	(1,581)
Depreciation	(8,464)	(40,244)	(4,155)	–	(52,863)
Carrying amount at 30 June 2012	328,047	296,048	37,055	75,014	736,164
Additions (including transfers from capital work in progress)	34,110	95,576	1,490	(31,291)	99,885
Net revaluations through asset revaluation reserve	54,833	–	–	–	54,833
Reversal of impairment loss of non-current assets(i)	1,273	(12)	–	–	1,261
Disposals	(4,561)	(1,005)	(3,109)	–	(8,675)
Depreciation	(8,237)	(35,994)	(9,819)	–	(54,050)
Effect of movement in exchange rates	–	527	–	2,060	2,587
CARRYING AMOUNT AT 30 JUNE 2013	**405,465**	**355,140**	**25,617**	**45,783**	**832,005**

(i) The impairment of non-current assets relates to the write down in value of assets to fair value less costs to sell. Impaired assets include assets that are not currently, or expected to be, utilised in the operations of the business. The fair value less costs to sell has been based on independent assessments by relevant experts.

Notes to the Financial Statements continued

for the financial year ended 30 June 2013

NOTE 15: Intangible Assets

	2013 $000	2012 $000
Goodwill at cost	12,121	12,121
Brand names at cost	4,000	4,000
TOTAL INTANGIBLE ASSETS	**16,121**	**16,121**

Intangible assets recognised by the consolidated entity have an indefinite useful life.

RECONCILIATIONS

In the prior year the consolidated entity acquired goodwill of $6,762,000 in relation to its investment in Tasmanian Dairy Products Co Ltd, refer Note 33. There was no movement in goodwill or brand names at cost during 2013 or 2012.

In considering impairment, management has considered relevant forecasted cash flow projections.

NOTE 16: Payables

	Note	2013 $000	2012 $000
Current			
Trade payables		98,793	112,760
Payable to suppliers		131,513	134,470
Sundry payables and accrued expenses		91,667	82,021
Foreign currency derivatives[(i)]		35,546	228
		357,519	**329,479**
Non-current			
Net defined benefit superannuation fund liability	27	–	3,631
Other		1,425	1,872
		1,425	**5,503**

(i) Foreign currency derivatives represent unrealised 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.

All payables are recorded at amortised cost except for derivatives at (i) and the net defined benefit superannuation fund liability, which are recorded at fair value.

The fair value of payables is documented in Note 30(D).

NOTE 17: Borrowings

	2013 $000	2012 $000
Current		
Bank loans	192,558	96,350
Private placement senior notes	12,938	17,663
	205,496	**114,013**
Non-current		
Bank loans	162,750	184,675
Private placement senior notes	161,725	158,964
	324,475	**343,639**

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 in effective cash flow hedge relationships with the exception of $53,908,000 (2012: $49,063,000).

The fair value of borrowings is documented in Note 30(D).

NOTE 18: Current Tax Payable

	2013 $000	2012 $000
Income tax payable	**727**	**832**

NOTE 19: Provisions

	2013 $000	2012 $000
Current		
Other	1	1
Employee benefits	44,393	41,992
	44,394	**41,993**
Non-current		
Employee benefits	7,852	7,712
	7,852	**7,712**

NOTE 20: Deferred Tax Liabilities

	Note	2013 $000	2012 $000
Deferred tax liability	4	**30,679**	**30,022**

NOTE 21: Contingent Liabilities

The consolidated entity is not aware of any contingent liabilities.

NOTE 22: Issued Capital

	2013 $000	2012 $000
Issued Capital	**262,677**	**248,271**

Movements in Issued Capital	Ordinary Shares[a]	A Class Preference Shares[b]	B Class Preference Shares[c]	C Class Preference Shares[d]	Total
	Number of Shares				
Balance at 30 June 2011	216,004,988	15,822,462	10,637,249	21,959,778	264,424,477
Shares issued	8,771,637	–	–	–	8,771,637
Dividend reinvestment plan issues	4,264,053	21,905	464	14	4,286,436
Transfers	(3,283,113)	(669,534)	(534,126)	4,486,773	–
Balance at 30 June 2012	225,757,565	15,174,833	10,103,587	26,446,565	277,482,550
Shares issued	9,992,219	–	–	–	9,992,219
Bonus shares issued	23,270,268	–	–	–	23,270,268
Dividend reinvestment plan issues	4,390,786	21,241	414	14	4,412,455
Transfers	(1,857,027)	(407,625)	(1,014,877)	3,279,529	–
BALANCE AT 30 JUNE 2013	**261,553,811**	**14,788,449**	**9,089,124**	**29,726,108**	**315,157,492**

Changes to the then Corporations Law abolished the par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value. All shares are fully paid.

(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. Upon ceasing supply of milk to the Company, shareholders' Ordinary Shares are converted into a class of non-cumulative, non-redeemable preference shares as determined by the Board.

(b) A Class eight per cent Non-Cumulative, Non-Redeemable Preference Shares
A Class eight per cent Non-Cumulative, Non-Redeemable Preference Shares entitle holders to receive, out of profits available for dividend, a preferential dividend at a rate of eight per cent per annum. These holders have no voting rights at a general meeting of the Company, but can convert their shares into ordinary shares, by resolution of the Directors, if any holder becomes a supplier to the Company.

(c) B Class Non-Cumulative, Non-Redeemable Preference Shares
B Class Non-Cumulative, Non-Redeemable Preference Shares entitle holders to receive, out of profits available for dividend, a preferential dividend at a variable rate. These holders have no voting rights at a general meeting of the Company, but can convert their shares into ordinary shares, by resolution of the Directors, if any holder becomes a supplier to the Company.

(d) C Class Non-Cumulative, Non-Redeemable Preference Shares
C Class Non-Cumulative, Non-Redeemable Preference Shares entitle holders to receive, out of profits available for dividend, a preferential dividend at a variable rate. These holders have no voting rights at a general meeting of the Company, but can convert their shares into ordinary shares, by resolution of the Directors, if any holder becomes a supplier to the Company.

CAPITAL RISK MANAGEMENT

The consolidated entity 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 consolidated entity 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 consolidated entity'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.

The consolidated entity's strategy is to maintain its gearing ratio within 30 to 60 per cent.

NOTE 22: Issued Capital continued

	2013 $000	2012 $000
Total borrowings	529,971	457,652
less cash	(11,809)	(34,193)
Net debt	518,162	423,459
Total equity	686,487	759,035
Total capital	1,204,649	1,182,494
Gearing ratio	43.0%	35.8%

NOTE 23: Reserves

	Note	2013 $000	2012 $000
Capital reserve[i]		36,916	36,916
Asset revaluation reserve		153,883	117,820
General reserve[i]		5,257	5,257
Hedge reserve		(20,739)	17,463
Investment revaluation reserve		(3,369)	(3,910)
Share allotment reserve		1,957	2,971
Transactions with minority interests reserve		2,101	2,354
Foreign currency translation reserve		3,490	303
		179,496	**179,174**

(i) There have been no movements in the capital reserve or general reserve in the current or prior years.

MOVEMENTS IN RESERVES

	Note	2013 $000	2012 $000
Asset revaluation reserve			
Balance at the beginning of the financial year		117,820	118,199
Increment (decrement) on revaluation of land and buildings	14	54,833	–
Related income tax	4	(16,450)	–
Transfer to retained earnings		(3,315)	(541)
Related income tax	4	995	162
BALANCE AT THE END OF THE FINANCIAL YEAR		**153,883**	**117,820**
Hedge reserve			
Balance at the beginning of the financial year		17,463	33,773
Transferred to income statement		(11,008)	(19,168)
Related income tax	4	3,302	5,750
Gains (losses) on cash flow hedges		(43,566)	(4,132)
Related income tax	4	13,070	1,240
BALANCE AT THE END OF THE FINANCIAL YEAR		**(20,739)**	**17,463**
Investment revaluation reserve			
Balance at the beginning of the financial year		(3,910)	2,535
Net change in fair value of equity instruments measured at fair value through other comprehensive income		541	(7,531)
Related income tax	4	–	1,086
BALANCE AT THE END OF THE FINANCIAL YEAR		**(3,369)**	**(3,910)**

NOTE 23: Reserves continued

	Note	2013 $000	2012 $000
Share allotment reserve			
Balance at the beginning of the financial year		2,971	3,712
Allotment of shares to suppliers		(2,971)	(3,712)
Shares to be issued in lieu of milk payments		1,957	2,971
BALANCE AT THE END OF THE FINANCIAL YEAR		**1,957**	**2,971**

At 30 June 2013, an amount of $1,957,000 (2012: $2,971,000) was due to suppliers, being deductions made from milk payments during the year. This will be satisfied by the allotment of fully paid shares in September 2013 (2012: allotted September 2012).

	Note	2013 $000	2012 $000
Transactions with minority interests reserve			
Balance at the beginning of the financial year		2,354	–
Sale of investment in subsidiary to minority interest		–	2,354
Difference on acquisition of interest in Murray Goulburn Dairy (Qingdao) Co., Ltd	12(h)	(253)	–
BALANCE AT THE END OF THE FINANCIAL YEAR		**2,101**	**2,354**
Foreign currency translation reserve			
Balance at the beginning of the financial year		303	15
Translation of foreign operations		4,553	412
Related income tax	4	(1,366)	(124)
BALANCE AT THE END OF THE FINANCIAL YEAR		**3,490**	**303**

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 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.

Share allotment reserve
The share allotment reserve reflects the value of shares to be allotted to suppliers. The allotments arise from deductions made from milk payments during the year.

Transactions with minority interests reserve
This reserve is used to account for transactions with minority 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 24: Retained Earnings

	Note	2013 $000	2012 $000
Balance at the beginning of the financial year		233,724	252,197
Net profit attributable to members of the parent entity		29,396	11,085
Dividends provided for or paid	7	(31,525)	(29,937)
Transfer from reserves (net of tax)	23	2,320	379
BALANCE AT THE END OF THE FINANCIAL YEAR		**233,915**	**233,724**

NOTE 25: Minority Interests

	Note	2013 $000	2012 $000
Minority interests comprises:			
Nil fully paid Employees Profits Participation Units (2012: 99,264,468) and 5 (2012: 5) fully paid ordinary shares in MG Employees Equity Limited	28	–	78,245
Nil ordinary shares in Murray Goulburn Dairy (Qingdao) Co., Ltd (2012: 980,000)		–	3,895
49 ordinary shares in Provico Pty Ltd (2012: 49)		1,004	806
221 ordinary shares in Tasmanian Dairy Products Co Ltd (2012: 221)		9,395	14,920
		10,399	**97,866**

NOTE 26: Capital and Leasing Commitments

	2013 $000	2012 $000
a) Operating lease commitments		
– Due within 1 year	9,999	6,372
– Due within 1–5 years	21,283	15,918
– Due longer than 5 years	11,172	13,073
	42,454	**35,363**

Operating leases relates to trading stores, warehousing facilities, office space and vehicles, with lease terms of between 1 to 31 years.

Some leases have an option to extend the lease term. The consolidated entity does not have an option to purchase the leased assets at the expiry of the lease period.

b) Capital expenditure commitments

	2013 $000	2012 $000
Contracted capital expenditure commitments due within one year	**157,468**	**61,066**

Notes to the Financial Statements continued

for the financial year ended 30 June 2013

NOTE 27: Defined Benefit Superannuation Plan

During the year the Company wound up the Defined Benefit Superannuation section of the plan and transferred all employee entitlements to an accumulation fund.

Contributions were made by employees and the consolidated entity as percentages of salary. The consolidated entity was obliged to make contributions as specified in the rules of the fund.

	2013 $000	2012 $000
Reconciliation of the fair value of plan assets		
Fair value of plan assets at beginning of the year	11,324	28,829
Expected return on plan assets	594	1,130
Actuarial gains (losses)	(195)	(2,273)
Employer contributions	2,268	954
Contributions by plan participants	128	221
Benefits paid	–	(17,320)
Taxes, premiums and expenses paid	(509)	(217)
Settlements	(13,610)	–
Transfers (out) in	–	–
Fair value of plan assets at end of the year	–	11,324
The fair value of plan assets does not include amounts relating to any of the consolidated entity's own financial instruments, or any property occupied by, or other assets used by, the consolidated entity.		
The actual gain on plan assets was $399,000 (2012: $1,143,000 loss on plan assets).		
Reconciliation of the present value of the defined benefit obligation		
Present value of the defined benefit obligations at beginning of the year	14,955	29,528
Current service cost	508	819
Interest cost	255	724
Contributions by plan participants	128	221
Actuarial (gains) losses	123	1,200
Benefits paid	–	(17,320)
Taxes, premiums and expenses paid	(509)	(217)
Curtailments	(1,874)	–
Settlements	(13,610)	–
Conversion cost	24	–
Transfers (out) in	–	–
Present value of the defined benefit obligations at end of the year	–	14,955
Net superannuation (liability) asset included in Other non-current payables/assets	–	(3,631)
Expense recognised in income statement		
Service cost	508	819
Interest cost	255	724
Expected return on assets	(594)	(1,130)
Actuarial loss	318	3,473
Effect of curtailments/settlements	(1,874)	–
Conversion cost	24	–
Superannuation expense (income)	(1,363)	3,886
Superannuation expense is allocated to cost of sales (70 per cent) and administration expenses (30 per cent)		
Historical information		
Experience adjustments (gain) loss on plan assets	195	2,273
Experience adjustments (gain) loss on plan liabilities	123	(101)

NOTE 27: Defined Benefit Superannuation Plan continued

	2013 %	2012 %
Principal actuarial assumptions used:		
Discount rate	–	2.3
Expected rate of return on plan assets	–	6.8
Expected salary increase rate	–	4.0
The percentage invested in each asset class at the balance date:		
Australian equity	0	25
International equity	0	29
Fixed income	0	18
Property	0	16
Other	0	12

In determining the expected rate of return on assets, the actuary has considered the expected future investment returns for each major asset class net of investment tax and investment fees.

	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000
The history of experience adjustments are as follows:					
Fair value of plan assets at end of the year	–	11,324	28,829	27,018	25,570
Present value of the defined benefit obligations at end of the year	–	14,955	29,528	29,470	30,606
Surplus (deficit)	–	(3,631)	(699)	(2,452)	(5,036)
Experience adjustments (gain) loss on plan assets	195	2,273	(154)	(467)	5,713
Experience adjustments (gain) loss on plan liabilities	123	(101)	3,022	(359)	840

NOTE 28: Murray Goulburn Group Employees Profits Participation Scheme

In 1993 Murray Goulburn established an Employees Profits Participation Scheme under which employees of the Murray Goulburn Group with 12 months or more work experience could choose to invest in Employees Profits Participation Units in MG Employees Equity Limited ('MGEE'). MGEE invests the employees' contributions in A Class Participating Non-Cumulative, Non-Redeemable Preference Shares in Murray Goulburn Investment Limited.

Eligible employees must borrow all monies required to pay for the MGEE Employees Profits Participation Units either from MGEE or Murray Goulburn. The maximum amount each employee is entitled to borrow is equivalent to one year's salary, rounded up to the nearest $10,000. MGEE funds the employee loans by borrowing from Murray Goulburn. All borrowings are interest free and employees repay their loans at 3 per cent per annum or in full on withdrawal from the scheme. Loans receivable from employees are recorded at amortised cost.

The adjustment to employee loans has been capitalised as an asset to the extent that it relates to future employee services.

Loans receivable from employees are effectively secured by the Employees Profits Participation Units held by the employees.

The value of Employees Profits Participation Units issued by MG Employees Equity Limited to employees of the consolidated entity is recognised as a Minority Interest. Loans owing by employees are included in other receivables in Note 8 above.

On 15 May 2013, Murray Goulburn advised all members of MG Employees Equity Limited that the MG Employees Equity share scheme would close and, as a result, a compulsory repurchase of all Employee Profits Participation Units occurred during June 2013.

During June 2013, MG Employees Equity Limited disposed of all of its investments and completed the compulsory repurchase and cancellation of all Employees Profits Participation Units in conjunction with the settlement of all loans receivable from participants and the settlement of all loans payable to Murray Goulburn.

At 30 June 2013, no employees held Employees Profits Participation Units.

Amounts recognised are as follows:

	2013 $000	2012 $000
Minority interest	–	78,245
Employee loans (current and non-current)	–	37,401

NOTE 29: Events Subsequent to Balance Date

With the exception of the declaration of dividends detailed in Note 7 'Unrecognised Amounts', no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in financial years subsequent to the financial year ended 30 June 2013.

NOTE 30: Financial Instruments

Risk management is carried out by the treasury and finance departments under policies approved by the Board of Directors.

Financial risks are managed in accordance with written policies overseen by the Board.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policy approved by the Board of Directors, which provides written principles on the use of financial derivatives. Compliance with policy and exposure limits is reviewed continuously by senior management and by the Board of Directors on a quarterly basis.

A) MARKET RISK

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity 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 dollar); and
- interest rate swaps to hedge the fair value risk associated with fluctuating interest rates.

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 currency risk management

The group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and foreign exchange options.

Forward foreign exchange contracts

The consolidated entity 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 exchange contracts in the same currency and with closely corresponding settlement dates.

At balance date, the entity has US$420 million (2012: US$320 million) forward exchange contracts outstanding with maturity dates not exceeding one year, of which US$27 million (2012: US$39 million) relate to receivables at balance date and US$393 million (2012: US$281 million) to future transactions. The fair value of these contracts at balance date is a loss of $35.5 million (2012: gain of $2.9 million).

Unrealised gains or losses at year end on specific hedges in the form of forward exchange contracts, in respect of 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.

Currency options

During the year the consolidated entity entered into a range of US$ currency options with varying maturities and strike rates.

By simultaneously purchasing and selling options in barrier type structures, the entity has effectively capped an exchange rate should the A$ (Australian dollar) strengthen while maintaining the flexibility to improve the exchange rate should the A$ trade at more favourable levels.

At balance date, there were $nil currency options outstanding (2012: $nil).

Private placement senior notes

The private placement is designated in a cash flow hedge relationship and is hedging highly probable forecast sales denominated in US$ to be invoiced at the time of each loan repayment. The effective portion of changes in the fair value of the private placement due to foreign currency changes is recognised directly in equity via the hedge reserve.

NOTE 30: Financial Instruments continued

Foreign currency sensitivity

The consolidated entity is exposed to US dollars (US$). The following table details the consolidated entity's sensitivity to a one per cent increase and decrease in the Australian dollar (A$) against the US$ 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.

		2013 $000	2012 $000
Other equity	A$ strengthens 1% – increase (decrease)	3,774	2,794
	A$ weakens 1% – increase (decrease)	(3,850)	(2,850)
Profit or loss	A$ strengthens 1% – increase (decrease)	16	32
	A$ weakens 1% – increase (decrease)	(16)	(33)

B) INTEREST RATE RISK

Trade and other receivables, trade payables and accruals and loans from the State Government of Victoria are non-interest bearing.

The A$ bank overdraft bears interest at a floating rate based on the targeted cash rate of the Reserve Bank of Australia. The US$ bank overdraft bears interest at a floating rate based on the London Interbank Offered 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 LIBOR. Rates on A$ loans are based on BBR.

The 2003 private placement bears interest at a fixed rate of 4.98 per cent. The private placement will be repaid as follows:
- US$12.0 million (18 October 2013).

The 2009 private placement will be repaid as follows and bears interest at the following fixed rates:
- US$30.0 million, 4.83 per cent (29 October 2014),
- US$17.0 million, 5.44 per cent (29 October 2016),
- US$89.0 million, 5.81 per cent (29 October 2019),
- US$14.0 million, 5.96 per cent (29 October 2021).

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

Interest rate sensitivity

The consolidated entity's sensitivity to a 50 basis point increase or decrease, representing management's assessment of the possible change in interest rates, holding all other variables constant would be a decrease/increase in net profit of $1,244,000 (2012: $984,000 decrease/increase).

C) CREDIT RISK EXPOSURES

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 indicated in the statement of financial position. The consolidated entity 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.

Other receivables current includes amounts receivable from suppliers and from GST paid.

Other receivables non-current represents loans to employees and are effectively secured by employees' minority interest.

NOTE 30: Financial Instruments continued

D) FAIR VALUE

The fair value of other financial assets and financial liabilities, excluding derivative instruments, is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

To calculate the fair value of derivative instruments, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

The carrying amount recorded in the financial statements represents the fair value of all assets and liabilities, determined in accordance with the accounting policies in Note 1 to the financial statements, 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 non-current other receivables at balance date is $nil (2012: $35.7 million).

The fair value of the private placement at balance date is $203.4 million (2012: $218.1 million).

The fair value of a government loan of $1.0 million at balance date is $0.8 million (2012: $0.8 million).

E) LIQUIDITY RISK MANAGEMENT

Liquidity risk is managed by maintaining adequate borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 32(C) is a listing of additional undrawn facilities that are available to reduce liquidity risk.

The following table analyses the consolidated entity's non-derivative financial liabilities. The amounts disclosed in the table are the contractual cash flows:

	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 2013						
Non-interest bearing	357,519	–	1,000	–	358,519	358,519
Variable rate	203,753	124,521	17,548	32,947	378,769	355,308
Fixed rate	22,187	40,338	39,082	121,483	223,090	174,663
CONSOLIDATED	**583,459**	**164,859**	**57,630**	**154,430**	**960,378**	**888,490**
at 30 June 2012						
Non-interest bearing	329,479	–	–	1,000	330,479	330,479
Variable rate	106,974	10,201	174,504	16,655	308,334	281,025
Fixed rate	26,765	20,192	66,389	116,457	229,803	176,627
CONSOLIDATED	**463,218**	**30,393**	**240,893**	**134,112**	**868,616**	**788,131**

NOTE 31: Related Parties

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

Balances and transactions with related parties:

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

Direct and indirect shareholdings of Directors in the parent entity, allotted to them in their capacity as suppliers of milk to the Company:

	Shares Held at 1 July 2011 Ordinary No.	Acquired Ordinary No.	Shares Held at 30 June 2012 Ordinary No.	Shares Held at 1 July 2012 Ordinary No.	Acquired Ordinary No.	Shares Held at 30 June 2013 Ordinary No.
PW Tracy	1,153,608	88,888	1,242,496	1,242,496	102,779	1,345,275
N Akers	180,591	23,742	204,333	204,333	48,355	252,688
WT Bodman	122,322	16,201	138,523	138,523	26,912	165,435
GJ Davies	537,637	11,498	(i)	(i)	(i)	(i)
DF Howard	544,042	8,927	552,969	552,969	64,101	617,070
ML Jelbart	(iii)	(iii)	(iii)	1,148,977	191,901	1,340,878
KW Jones	159,498	34,299	193,797	193,797	56,854	250,651
ST Mills	298,201	43,710	(i)	(i)	(i)	(i)
GN Munzel	183,615	12,656	196,271	196,271	33,083	229,354
JP Pye	226,671	6,770	233,441	233,441	34,903	268,344
MJ Van de Wouw	359,040	7,418	366,458	366,458	41,862	408,320
JT Vardy	841,332	43,088	884,420	884,420	108,055	(ii)
	4,606,557	**297,197**	**4,012,708**	**5,161,685**	**708,805**	**4,878,015**

(i) GJ Davies and ST Mills resigned from the office of Director during the previous financial year and accordingly their shareholdings at 30 June 2012 are not disclosed.
(ii) JT Vardy resigned from the office of Director during the current financial year and accordingly his shareholdings at 30 June 2013 are not disclosed.
(iii) ML Jelbart was appointed to the office of Director during the current financial year and accordingly his shareholdings prior to 1 July 2012 are not disclosed.

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

Total purchases of goods and services from Murray Goulburn Trading Pty Ltd by Directors and their related entities was $3,786,832 (2012: $2,650,405) and the balance outstanding as at 30 June 2013 was $1,553,947 (2012: $825,298). All transactions are on the same terms and conditions available to other supplier shareholders.

PW Tracy holds an interest in Southern Stockfeeds, which has provided products to Murray Goulburn Trading Pty Ltd at normal commercial terms and conditions. The total amount purchased was $531,976 (2012: $523,201), with a balance outstanding at financial year end of $15,754 (2012: $34,296). Further, during the year, Southern Stockfeeds paid $10,693 (2012: $9,706) to the consolidated entity for services provided in collecting Southern Stockfeeds accounts receivable.

Aggregate of loans to four (2012: four) Directors as at financial year end: $120,080 (2012: $189,291).

Total interest paid by Directors: $2,739 (2012: $4,947).

Details regarding 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 in the reporting period, are as follows:

- ST Mills: total loan at financial year end: $nil (2012: $nil); peak loan balance during the year while a Director: $nil (2012: $114,932); interest paid: $nil (2012: $3,831).
- GJ Davies: total loan at financial year end: $nil (2012: $45,500); peak loan balance during the year while a Director: $nil (2012: $112,569); interest paid: $nil (2012: $nil).
- JT Vardy: total loan at financial year end: $nil (2012: $131,759); peak loan balance during the year while a Director: $146,059 (2012: $302,987); interest paid: $681 (2012: $nil).
- ML Jelbart: total loan at financial year end: $nil; peak loan balance since appointment as a Director during the year: $101,697; interest paid: $nil.

NOTE 31: Related Parties continued

PJO Hawkins is a director of Westpac Banking Corporation, which is one of the banks on the consolidated entity's banking panel.

All transactions with Westpac Banking Corporation are on normal terms and conditions.

SJ O'Rourke received $174,000 during the previous financial year for consultancy and transitioning services provided after the termination of his employment on 31 July 2011. Those services ceased prior to the end of the previous year.

C) KEY MANAGEMENT PERSONNEL

Key management personnel of the consolidated entity participate in the Employees Profits Participation Scheme under the same terms and conditions available to all employees (refer Note 28). All loans are interest free and repayable at three per cent per annum.

Key management personnel hold the following number of Employees Profits Participation Units in MG Employees Equity Limited:

	Shares Held 1 July 2011 No.	Net Other Change No.	Shares Held 30 June 2012 No.	Shares Held 1 July 2012 No.	Net Other Change No.	Shares Held 30 June 2013 No.
SJ O'Rourke	2,761,894	(2,761,894)	–	–	–	–
P Kerr	791,950	(791,950)	–	–	–	–
N Longstaff	453,323	–	453,323	(ii)	(ii)	–
M Beniston	(i)	(i)	(i)	356,759	(356,759)	–

Interest free loans to key management personnel, the terms of which are disclosed in Note 28, via the Employees Profits Participation Scheme:

	Balance at 1 July 2011 $	Balance at 30 June 2012 $	Balance at 30 June 2013 $	Highest in Period 2012 $	Highest in Period 2013 $	Notional Interest 2012 $	Notional Interest 2013 $
SJ O'Rourke	1,272,650	–	–	1,272,650	–	5,435	–
P Kerr	341,825	–	–	341,825	–	7,917	–
N Longstaff	199,200	191,100	–	199,200	(ii)	9,855	(ii)
M Beniston	277,800	(i)	–	(i)	268,800	(i)	11,504

(i) M Beniston qualified as a key management person in 2013, but not 2012, and accordingly his unit holdings and interest free loan for the previous financial year are not disclosed.
(ii) N Longstaff did not qualify as a key management person in 2013 and accordingly his unit holdings and interest free loan for the current financial year are not disclosed.

Notional interest is included in non-monetary compensation of key management personnel.

SJ O'Rourke and P Kerr resigned during the 2012 financial year. N Longstaff resigned during the 2013 financial year.

R Poole holds an interest in 54,312 (2012: 62,098) ordinary shares in the Company. During the current financial year, he has relinquished beneficial interests in entities holding 7,786 shares (2012: acquired 3,336).

D Page was a key management person during the period 11 December 2011 to 22 March 2012. During this period he held 290,210 shares with a highest loan balance of $188,000 and notional interest of $2,716.

NOTE 32: Notes to the Statement of Cash Flows

	2013 $000	2012 $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	11,809	34,193
Cash per statement of cash flows	11,809	34,193
B) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	34,904	14,467
Depreciation	54,050	52,863
Movement in doubtful debts provision	119	(1,057)
Impairment of non-current assets	(1,261)	9,580
Loss (gain) on disposal of fixed assets	717	(469)
Share of (profit) loss of associated company	(291)	5,039
(Gain) loss from defined benefit superannuation fund	(3,631)	2,932
Change in operating assets and liabilities		
Decrease (increase) in trade receivables	(52,024)	(38,291)
Decrease (increase) in other receivables and prepayments	15,383	(1,486)
Decrease (increase) in inventories	73,685	24,265
Increase (decrease) in trade payables and amounts due to suppliers	(5,723)	40,671
Increase (decrease) in provisions	2,436	1,332
Increase (decrease) in deferred tax liability	(787)	(7,210)
NET CASH INFLOW FROM OPERATING ACTIVITIES	**117,577**	**102,636**
C) FINANCING ARRANGEMENTS		
Credit facility	682,345	584,437
Amount utilised	304,351	281,025
UNUSED CREDIT FACILITY	**377,994**	**303,412**

The major facilities consist of a bank overdraft facility repayable at call, and loan facilities which are subject to yearly review to ensure that the required financial ratios are met.

D) NON-CASH FINANCING AND INVESTING ACTIVITIES

Nil.

Notes to the Financial Statements continued

for the financial year ended 30 June 2013

NOTE 33: Business Combinations

In respect of the financial year ended 30 June 2013 there were no business combinations.

In respect of the financial year ended 30 June 2012:

- Tasmanian Dairy Products Co Ltd ('TDP') was established to facilitate the construction of a new milk processing facility in Smithton northwest Tasmania for the sale of manufactured dairy products.
- On 5 September 2011, the Company injected $34,000,000 after acquisition related costs into TDP as consideration for 403 ordinary shares. The investment in TDP represented 80.1 per cent of total share capital in TDP immediately following the issue and receipt of the 403 ordinary shares. At the time of investment, TDP's revenue was $nil with the company in an establishment phase.

The fair value of the identifiable assets and liabilities at the date of investment:

	$000
Cash	95
Cash injected by the Company	34,000
Property, plant and equipment	844
Trade and other payables	(841)
Net identifiable assets	34,098
less non-controlling interest (19.9% of net assets)	(6,860)
Net assets attributable to the Company	27,238
Consideration paid by the Company	34,000
GOODWILL RECOGNISED	**6,762**

In June 2012, the Company subsequently sold 121 ordinary shares, or 24.0 per cent shareholding, in TDP for $10,509,000 treated as an equity transaction. The Company continues to maintain control of TDP with a 56.1 per cent shareholding. The consolidated entity incorporates the results of TDP from 5 September 2011, the date on which the Company obtained control.

NOTE 34: Parent Entity Disclosures

	2013 $000	2012 $000
A) FINANCIAL POSITION		
Total current assets	690,431	742,318
Total non-current assets	840,959	789,382
Total assets	1,531,390	1,531,700
Total current liabilities	562,198	441,291
Total non-current liabilities	343,499	476,116
Total liabilities	905,697	917,407
NET ASSETS	**625,693**	**614,293**
Issued capital	262,677	248,271
Retained earnings	238,323	238,919
Reserves		
Capital reserve	24,290	24,290
Asset revaluation reserve	119,906	83,641
General reserve	2,648	2,648
Hedge reserve	(20,739)	17,462
Investment revaluation reserve	(3,369)	(3,910)
Share allotment reserve	1,957	2,972
TOTAL EQUITY	**625,693**	**614,293**
B) FINANCIAL PERFORMANCE FOR THE YEAR		
Profit for the year	28,608	10,122
Total comprehensive income	29,532	(12,634)
C) GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES		
Guarantee provided under the deed of cross guarantee	25,955	26,018
D) CONTINGENT LIABILITIES		
The Company is not aware of any contingent liabilities.		
E) COMMITMENTS FOR THE ACQUISITION OF PROPERTY PLANT AND EQUIPMENT		
Plant and equipment	156,673	31,389

NOTE 35: 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 Directors' opinion:

a) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b) The attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements;

c) The attached financial statements and Notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards; and

d) The attached financial statements and Notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2013 and performance for the financial year ended on that date.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 12 to the financial statements, will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

PW Tracy
Director

Melbourne
23 September 2013

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report

to the members of Murray Goulburn Co-operative Co. Limited

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Murray Goulburn Co-operative Co. Limited, which comprises the consolidated balance sheet as at 30 June 2013, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 51 to 90.

Directors' responsibility 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 Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the Company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's independence declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Murray Goulburn Co-operative Co. Limited, would be in the same terms if given to the Directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Murray Goulburn Co-operative Co. Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the remuneration report included in pages 39 to 50 of the Directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion the remuneration report of Murray Goulburn Co-operative Co. Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner

Chartered Accountants
Melbourne, 23 September 2013

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Auditor's Declaration of Independence

The Board of Directors
Murray Goulburn Co-operative Co. Limited
Freshwater Place, Level 15
2 Southbank Boulevard
SOUTHBANK VIC 3006

23 September 2013

Dear Board Members

Murray Goulburn Co-operative Co. Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Murray Goulburn Co-operative Co. Limited.

As lead audit partner for the audit of the financial statements of Murray Goulburn Co-operative Co. Limited for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner

Chartered Accountants

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Devondale
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