

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

ACN 004 277 089

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2014**

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED
(ABN 23 004 277 089)
Directors' Report

Your directors present the following report for the financial half year ended 31 December 2014.

Directors

The names of the directors of the company during or since the end of the half year are:

PW Tracy (Chairman)	G Helou (Managing Director)
KW Jones (Deputy Chairman)	N Akers
WT Bodman	PJO Hawkins
ML Jelbart	MF Ihlein
GN Munzel	ED Morris
MJ Van de Wouw	JP Pye

Review of Operations

The consolidated entity reported a profit after income tax of \$12,914,000 (2013: \$60,780,000) for the half year ended 31 December 2014.

The profit after income tax has been determined using the expected committed milk price as at 31 December 2014 adjusted for the milk payment curve. Murray Goulburn Co-operative Limited (MGC) has forecast a full year milk price of \$6.00 per kilogram of milk solids.

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

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

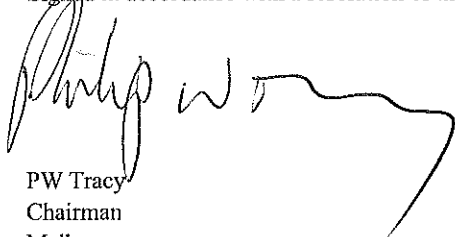
Auditor's Independence Declaration

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 12 of this half year 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.

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



PW Tracy
Chairman
Melbourne
27 February 2015

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

**Consolidated Statement of Profit or Loss
for the Half Year ended 31 December 2014**

		Consolidated	
		Dec	Dec
	Note	2014	2013
		\$000	\$000
Sales revenue		1,330,112	1,339,269
Cost of sales		(1,141,290)	(1,112,408)
Gross profit		188,822	226,861
Other income	5	1,155	29,074
Share of (loss) / profit of associates		(850)	(3,691)
Distribution expenses		(81,969)	(71,610)
Marketing expenses		(41,458)	(47,678)
Administration expenses		(28,862)	(25,907)
Finance costs		(14,273)	(15,422)
Other expenses		(9,003)	(14,535)
Profit before income tax		13,562	77,092
Income tax expense	6	(648)	(16,312)
Profit for the period		12,914	60,780
Attributable to:			
Equity holders of the parent		15,182	60,024
Minority interests		(2,268)	756
		12,914	60,780

The accompanying Notes form part of these Financial Statements

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

**Consolidated Statement of Comprehensive Income
for the Half Year ended 31 December 2014**

	Consolidated	
	Dec 2014 \$000	Dec 2013 \$000
Profit for the period	12,914	60,780
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Transfer to income statement on cash flow hedges	(1,033)	31,410
Gain / (loss) on cashflow hedges taken to equity	(27,533)	(12,978)
Exchange differences arising on translation of foreign operations	4,776	1,929
Income tax relating to items that may be reclassified subsequently	7,137	(6,110)
Items that will not be classified subsequently to profit or loss:		
Net change in fair value of equity instruments measured at fair value through other comprehensive income	9	52,938
Income tax relating to items that will not be reclassified subsequently	(3)	(14,871)
Total comprehensive income for the period	(3,733)	113,098
Attributable to:		
Members of the parent entity	(1,465)	112,342
Minority interests	(2,268)	756
	(3,733)	113,098

The accompanying Notes form part of these Financial Statements

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED
Consolidated Balance Sheet as at 31 December 2014

	Dec 2014 \$000	Consolidated Jun 2014 \$000	Dec 2013 \$000
Current assets			
Cash	31,092	13,858	48,334
Receivables	454,695	536,252	460,294
Inventories	633,451	366,512	516,179
Current Tax Receivable	-	1,700	-
Other	9,261	8,652	7,663
Derivative Financial Instruments	1,058	1,736	293
Total current assets	1,129,557	928,710	1,032,763
Non current assets			
Receivables	-	-	-
Investments accounted for using the equity method	15,841	16,994	24,717
Other financial assets	170	161	91,601
Property, plant & equipment	816,390	796,044	762,440
Intangible assets	18,087	16,121	16,121
Other	9,030	5,406	5,943
Total non current assets	859,518	834,726	900,822
Total assets	1,989,075	1,763,436	1,933,585
Current liabilities			
Payables	373,508	371,196	412,327
Borrowings	394,027	149,886	330,181
Current tax payable	8,032	363	1,078
Provisions	47,040	46,415	44,718
Derivative Financial Instruments	12,503	36	12,673
Total current liabilities	835,110	567,896	800,977
Non current liabilities			
Payables	2,224	1,921	1,000
Borrowings	376,727	380,893	270,983
Provisions	7,879	7,933	7,780
Deferred tax liabilities	40,455	58,902	66,244
Total non current liabilities	427,285	449,649	346,007
Total liabilities	1,262,395	1,017,545	1,146,984
Net assets	726,680	745,891	786,601
Equity			
Issued capital	272,651	268,741	270,769
Reserves	171,785	183,215	217,605
Retained earnings	277,666	287,089	286,227
Parent entity interest	722,102	739,045	774,601
Minority interests	4,578	6,846	12,000
Total equity	726,680	745,891	786,601

The accompanying Notes form part of these Financial Statements

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

**Consolidated Cash Flow Statement
for the Half Year ended 31 December 2014**

	Consolidated	
	Dec 2014 \$000	Dec 2013 \$000
Cash flows from operating activities		
Receipts from customers	1,428,161	1,342,015
Payments to suppliers and employees	(1,540,937)	(1,391,269)
	(112,776)	(49,254)
Dividends received	301	200
Interest received	1,155	1,548
Interest paid	(8,559)	(16,057)
Income taxes paid	(648)	(1,331)
Net cash outflow from operating activities	(120,527)	(64,894)
Cash flows from investing activities		
Payments for plant, equipment and vehicles	(45,978)	(22,333)
Investment in associated companies	-	(8,000)
Payments to acquire trademarks	(1,966)	-
Payments to acquire financial assets	-	(1,752)
Proceeds from the sale of property, plant, equipment and vehicles	2,977	93,467
Net cash inflow / (outflow) from investing activities	(44,967)	61,382
Cash flows from financing activities		
Dividends paid, net of reinvestment	(24,605)	(21,494)
Capital raising costs	(2,041)	-
Proceeds from the issue of ordinary and non-redeemable preference shares	16,388	4,340
Buyback of shares in minority interests	-	-
Proceeds from borrowings	340,074	106,000
Repayment of borrowings	(149,624)	(52,275)
Net cash inflow from financing activities	180,192	36,571
Net increase in cash	14,698	33,059
Cash and cash equivalents at the beginning of the half year	13,858	3,663
Cash and cash equivalents at the end of the half year	28,556	36,722
Reconciliation to cash		
Cash at bank and cash on hand	31,092	48,334
Bank overdraft	(2,536)	(11,612)
Cash and cash equivalents at the end of the half year	28,556	36,722

The accompanying Notes form part of these Financial Statements

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

Consolidated Statement of Changes in Equity for the half year ended 31 December 2014

	Issued Capital \$000	Capital Reserve \$000	Asset Revaluation Reserve \$000	General Reserve \$000	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	Non- Controlling Interests \$000	TOTAL \$000
Balance at 1 July 2013	262,677	36,916	153,883	5,257	(20,739)	(3,369)	1,957	2,101	3,490	233,915	676,088	10,399	686,487
Profit for the period	-	-	-	-	-	-	-	-	-	60,024	60,024	756	60,780
Other comprehensive income	-	-	-	-	12,902	38,067	-	-	1,349	-	52,318	-	52,318
Total comprehensive income	-	-	-	-	12,902	38,067	-	-	1,349	60,024	112,342	756	113,098
Payment of dividends	-	-	-	-	-	-	-	-	-	(25,284)	(25,284)	-	(25,284)
Issue of ordinary shares to milk suppliers	4,340	-	-	-	-	-	-	-	-	-	4,340	-	4,340
Dividend reinvestment plan issues	3,752	-	-	-	-	-	-	-	-	-	3,752	-	3,752
Transferred to retained earnings (net of tax)	-	-	(17,572)	-	-	-	-	-	-	17,572	-	-	-
Shares bought back and cancelled	-	-	-	-	-	-	-	-	-	-	-	-	-
Allotment of shares to suppliers	-	-	-	-	-	-	(1,957)	-	-	-	(1,957)	-	(1,957)
Shares to be issued in lieu of milk payments	-	-	-	-	-	-	5,320	-	-	-	5,320	709	6,029
Other	-	-	-	-	-	-	-	-	-	-	-	136	136
Balance at 31 December 2013	270,769	36,916	136,311	5,257	(7,837)	34,698	5,320	2,101	4,839	286,227	774,601	12,000	786,601
Balance at 1 July 2014	268,741	36,916	135,451	5,257	3,529	33	-	(785)	2,814	287,089	739,045	6,846	745,891
Profit for the period	-	-	-	-	-	-	-	-	-	15,182	15,182	(2,268)	12,914
Other comprehensive income	-	-	-	-	(19,997)	6	-	-	3,344	-	(16,647)	-	(16,647)
Total comprehensive income	-	-	-	-	(19,997)	6	-	-	3,344	15,182	(1,465)	(2,268)	(3,733)
Payment of dividends	-	-	-	-	-	-	-	-	-	(24,605)	(24,605)	-	(24,605)
Issue of ordinary shares to milk suppliers	3,910	-	-	-	-	-	-	-	-	-	3,910	-	3,910
Dividend reinvestment plan issues	-	-	-	-	-	-	-	-	-	-	-	-	-
Transferred to retained earnings (net of tax)	-	-	-	-	-	-	-	-	-	-	-	-	-
Allotment of shares to suppliers	-	-	-	-	-	-	5,835	-	-	-	5,835	-	5,835
Shares to be issued in lieu of milk payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	(618)	-	-	(618)	-	(618)
Balance at 31 December 2014	272,651	36,916	135,451	5,257	(16,466)	39	5,835	(1,403)	6,158	277,666	722,102	4,578	726,680

The accompanying Notes form part of these Financial Statements

1. Summary of significant accounting policies

This half year financial report has been prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. This half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the 2014 annual financial report.

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

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's 2014 annual financial report for the financial year ended 30 June 2014, other than the early adoption of AASB 9 as detailed below.

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

The half year is treated as a discrete reporting period. The result from ordinary activities is determined after recognising adjustments to the milk price based on the co-operative's best estimate of its obligation to milk suppliers for deliveries during the first half to 31 December. The amount of the adjustment is determined in accordance with the co-operative's practice of maximising the returns to its milk suppliers and making profits in each financial year sufficient to meet its dividends and funding needs. The milk price adjustment is recorded either as a liability or as an asset.

Early adoption of accounting standard AASB 9 Financial Instruments

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model. The standard is not applicable until 1 January 2018 but is available for early adoption.

Having early adopted the classification, measurement and derecognition aspects of AASB 9 in the financial year ended 30 June 2013, the consolidated entity has elected to early adopt the hedging components of AASB9 from 1 July 2014.

Adoption of the hedging component of AASB9 allows the consolidated entity to align its hedge accounting more closely with its risk management practices and enables a change to the accounting for the time value component of options to better reflect the underlying economics of the transaction. AASB9 allows an option's intrinsic value to be designated as the hedging instrument, with the change in time value recognised in other comprehensive income rather than in profit or loss.

AASB9 also requires retrospective application to option instruments, on first time application. However, the consolidated entity did not utilise option instruments in the comparative periods and as such no restatement of comparative information has been required.

The consolidated entity has not yet assessed how any impairment provisions would be affected by the new rules, and it has not yet decided whether it should adopt those rules before their mandatory date.

2. Subsequent events

On 28 January 2015, the parent entity, Murray Goulburn Co-operative Co. Ltd bought back and cancelled 5,931,974 B Class preference shares and 21,958,600 C Class preference shares at \$1.25 per share and totaling \$34,863,225.

No other matters or circumstances have arisen since the end of the half year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity subsequent to the financial half year ended 31 December 2014.

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

Notes to the Financial Statements for the half year ended 31 December 2014

3. Borrowing

During the half year the company renegotiated the terms and conditions and extended the maturity date of its various short term working capital debt and also of its \$420m Syndicated Facility. These facilities are used to meet the company's working capital funding requirements and bear interest at market floating rates.

In addition, the company also obtained US\$100m in new, long term debt funding from the US Private Placement market. Principal repayments are due within a range of 6 to 9 years from facility inception. The debt tranches under this facility are subject to fixed rates of interest ranging from 3.37% to 3.85% which vary according to the term to maturity.

4. Dividends

During the half year ended 31 December 2014, the following dividends were declared and paid in relation to the 2014 financial year (not recognised as at 30 June 2014):

	<u>\$000</u>
Fully Paid Ordinary Shares	
Final dividend of 8 cents per share unfranked	22,212
Fully Paid B Class Non Cumulative Non-Redeemable Preference Shares	
Final dividend of 5 cents per share unfranked	550
Fully Paid C Class Non Cumulative Non-Redeemable Preference Shares	
Final dividend of 5 cents per share unfranked	<u>1,843</u>
	<u>24,605</u>

During the half year ended 31 December 2013, the following dividends were declared and paid in relation to the 2013 financial year (not recognised as at 30 June 2013):

	<u>\$000</u>
Fully Paid Ordinary Shares	
Final dividend of 8 cents per share unfranked	21,027
Fully Paid A Class Non Cumulative Non-Redeemable Preference Shares	
Final dividend of 8 cents per share unfranked	1,179
Fully Paid B Class Non Cumulative Non-Redeemable Preference Shares	
Final dividend of 5 cents per share unfranked	486
Fully Paid C Class Non Cumulative Non-Redeemable Preference Shares	
Final dividend of 8 cents per share unfranked	<u>2,592</u>
	<u>25,284</u>

5. Other income

Other income reported in the half year ended 31 December 2014 represents interest income. Other income in the half year ended 31 December 2013 included a \$26.5 million profit on sale and leaseback of the distribution centre.

6. Income tax

In accordance with AASB 134 Interim Financial Reporting, interim period income tax expense for the co-operative is accrued using the estimated tax rate that would be applicable to expected total annual earnings.

MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

Notes to the Financial Statements for the half year ended 31 December 2014

7. Fair value measurement of financial instruments

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

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

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

At 31 December 2014	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Assets				
Shares in quoted corporations	170	-	-	170
Foreign currency derivatives	-	1,058	-	1,058
Total assets	170	1,058	-	1,228
Liabilities				
Foreign currency derivatives	-	12,503	-	12,503
Total liabilities	-	12,503	-	12,503

At 30 June 2014	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Assets				
Shares in quoted corporations	161	-	-	161
Foreign currency derivatives	-	1,736	-	1,736
Total assets	161	1,736	-	1,897
Liabilities				
Foreign currency derivatives	-	36	-	36
Total liabilities	-	36	-	36

There were no transfers between levels 1, 2 and 3 during the financial half year ended 31 December 2014.

To calculate the fair value of derivative instruments, third party valuations have been obtained which use discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

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

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

The fair value of the Private Placement at balance date is \$310.8 million (30 June 2014: \$186.2 million). The fair value of a government loan of \$1.0 million at balance date is \$0.9 million (30 June 2014: \$0.9 million).

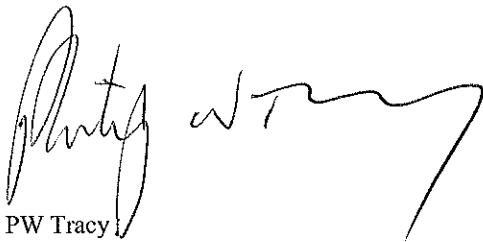
MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

Directors' Declaration

In the directors' opinion:

- a) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- b) The attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards; and
- c) The attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and performance for the financial half year ended on that date.

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

A handwritten signature in black ink, appearing to read 'PW Tracy', is written over the printed name.

PW Tracy
Chairman
Melbourne
27 February 2015



Auditor's Independence Declaration

As lead auditor for the review of Murray Goulburn Co-operative Co. Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Lisa Harker
Partner
PricewaterhouseCoopers

Melbourne
27 February 2015



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Murray Goulburn Co-operative Co. Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2014, the consolidated statement of profit or loss and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, selected explanatory notes and the directors' declaration for Murray Goulburn Co-operative Co. Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Murray Goulburn Co-operative Co. Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Lisa Harker

Lisa Harker
Partner

Melbourne
27 February 2015