



29 September 2016

Market Announcements Office  
Australian Securities Exchange  
Level 4  
North Tower, Rialto  
525 Collins Street  
Melbourne VIC 3000

## **ELECTRONIC LODGEMENT**

Dear Sir or Madam

### **Murray Goulburn Co-operative Co. Limited (Murray Goulburn) Annual Report 2016**

In accordance with the Listing Rules, I attach a copy of the Murray Goulburn Annual Report 2016 for release to the market.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Fiona Smith', is shown within a light green rectangular box.

**Fiona Smith**  
Company Secretary



**Devondale Murray Goulburn**  
Annual Report 2016



**In this Annual Report**

From the Chairman	2
Interim Chief Executive Officer’s Message	4
Our vision and strategy	5
Financial overview	7
About Devondale Murray Goulburn	8
Investing for the future	11
Year in review	15
Board of Directors	24
Executive Leadership Team	26
Corporate Governance Statement	29
Financial Statements	40



Devondale Murray Goulburn<sup>(1)</sup> (MG) is Australia's largest dairy foods company. In 2015/16 (FY16), the Company received approximately 3.5 billion litres<sup>(2)</sup> or 36.6 percent<sup>(3)</sup> of Australia's milk and generated sales revenue of approximately \$2.8 billion. MG was formed in 1950 and remains 100 percent dairy farmer controlled by approximately 2,200 farmer/suppliers. As Australia's largest dairy foods exporter, we sell to the major markets of Asia, the Middle East and North Africa, and the Americas. We produce a full range of dairy foods, including drinking milk, milk powder, cheese, butter and dairy beverages, and a range of ingredient and nutritional products, such as infant formula. We supply the retail and food service industries globally with our flagship Devondale, Liddells and Murray Goulburn Ingredients brands.



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

(2) Includes the southern milk pool, NSW/Sydney region and MG's wholly-owned subsidiary Tasmanian Dairy Products Co Pty Ltd.

(3) Source: Revised Dairy Australia milk collection data released in July 2016.



# From the Chairman



Philip Tracy

There can be no doubt FY16 was one of the most challenging on record for the Co-operative and the April 2016 farmgate price revision had an immense impact on suppliers placing you in a difficult position late in the season.

## Global issues converge to create a 'perfect storm'

It has been an extraordinary year for the dairy industry on many fronts with macro factors and geo-political issues affecting farmgate returns globally. During FY16, a surge in European dairy production following the removal of dairy quotas for the first time in 30 years, a continuation of Russian trade bans and a slowdown in demand out of China converged to create a 'perfect storm', driving commodity prices down to historic low levels, where they have remained for a longer period than anyone expected or predicted.

Dairy returns are continuing to be affected by global over supply, which is estimated to be in excess of six billion litres of milk<sup>(1)</sup>. While as farmers we know that based on history these conditions are cyclical and there will be a return to better prices, MG expects this will take some time. When they do, the Board is committed to being vigilant in ensuring any upside is passed through to suppliers as soon as it materialises.

## Making difficult decisions

In April 2016, the Board took the very difficult decision to revise down the farmgate milk price (FMP) forecast for FY16 and introduce the Milk Supply Support Package (MSSP) to help offset the impact on southern milk region suppliers.

At last year's AGM, we noted risk factors affecting the FMP, and at the time of our half year results, advised that the Ingredients business segment was materially underperforming due to low global dairy commodity prices, but that this was being offset by strong growth in the value-add Dairy Foods business segment. At the time of the half year results, we continued to expect to be able to maintain the opening FMP of \$5.60 per kilogram of milk solids<sup>(2)</sup> (kgms) provided there was no further material deterioration in dairy commodity prices or unfavourable foreign exchange changes.

However, in April, when the sales results for the trading quarter ended 31 March were available, the Board was concerned that those sales volumes may not be adequate to meet the forecast FMP and we immediately initiated further investigation and analysis of the expected performance of the business for the balance of FY16. Following that review, the Board determined that the forecast FMP could not be met in light of sales volumes expected in the last quarter and therefore the Board immediately took decisive action.

I remain resolute in the belief that your Board acted as soon as was reasonable in the circumstances, and that we acted appropriately on the information put before us and in the best interests of the suppliers/shareholders at all times.

## Financial performance

In the end, MG delivered an average cash price for milk to suppliers of \$5.53 per kgms in FY16, made up of the final FMP of \$4.80 per kgms and \$0.73 cents of MSSP support.

The total MSSP support provided in FY16 was \$183 million<sup>(3)</sup>, and is the largest supplier support package ever initiated by the co-op. While I understand the criticism that has been levelled at the MSSP, in our view, passing on the full impact of a step-down in the months of May and June would have been catastrophic for many of our farmer-suppliers. Since that time, however, it has become clear to the Board that the MSSP has not achieved the purpose for which it was intended, and we are actively looking at what can be done to address this and find a better solution for suppliers. In addition, management is focusing on doing everything it can to mitigate the impact of the MSSP. The announcement of between \$50 million to \$60 million in identified annualised cost efficiencies is just one of the ways that will reduce the impact of the MSSP on future milk payments.

Net Profit After Tax (NPAT) attributable to shareholders and unitholders was \$40.6 million, and the Board declared a fully franked dividend/distribution of 7.41 cents for the year. We maintained our 100 percent NPAT payout ratio, with approximately two-thirds going to MG supplier/shareholders and the balance to unitholders.

When combining the dividend with FY16 FMP and MSSP, total payments delivered to an eligible shared-up supplier were on average \$5.604 per kgms.

Revenue was \$2.8 billion, down 3.3 percent compared with last year, reflecting the impact of the very low commodity price environment affecting MG's Ingredients business in FY16. Pleasingly, MG's Dairy Foods business performed strongly, delivering another year of double-digit revenue growth.

(1) Rabobank. Estimated excess global inventories of four billion litres Liquid Milk Equivalent (LME) plus EU intervention stock of approximately two billion litres LME.

(2) Available Southern Milk Region FMP.

(3) Net of \$7 million from suppliers who elected to take up the early MSSP pre-payment option.

Milk intake was 2.5 percent lower for the year and in line with our expectations given the difficult seasonal conditions suppliers faced during the year.

Importantly, despite the challenges of the past year, MG moves forward with a strong balance sheet and low debt levels, with gearing at 29 percent, down from 48.3 percent in FY15.

### Investing for the future

Despite the challenges faced during the year, the successful completion of the capital restructure in July 2015, giving MG access to \$500 million in new capital to invest in world-class dairy infrastructure, was a significant milestone achievement. While it is still a few years before the full benefit of the investments MG plans to make will be realised, there is no doubt they will deliver a 'step-change' in terms of MG's competitiveness in domestic and global dairy markets.

The first of the key capital investments to be completed will be the new consumer cheese processing facility at Cobram. The new plant is a highly automated, low-cost, cheese cut and wrap facility with increased innovation capability in product formats and packaging. It will lift the bar for cheese processing and packaging in Australia and open up new opportunities for export. At Koroit, planning and approvals progress has been made in readiness for MG to construct a new nutritionals plant.

While our proposed dairy beverages investment will ensure MG remains a low-cost manufacturer of high quality UHT and other dairy beverages, in FY16 we saw a global over supply develop in fluid milk products, in particular, UHT products, and as a result, pricing in MG's key export markets for UHT reached very low levels. As a consequence, financial returns for a greenfields dairy beverages project are currently below an acceptable level and we have made the decision to delay this investment whilst we continue to monitor export dairy beverage markets. MG has identified opportunities to modernise our existing UHT manufacturing footprint, which will further reduce our cost base and modestly increase our capacity.

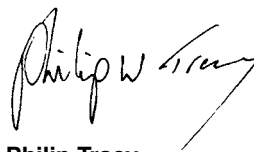
### The MG team

It has been a challenging year for everyone in our industry. To our MG employees, thank you for executing on a considerable agenda throughout the year in difficult circumstances. During the year, we announced a number of departures and new appointments to the leadership team. Following the trading update and departure of Managing Director Gary Helou, David Mallinson was appointed interim Chief Executive Officer with a number of additional leadership appointments also made over subsequent weeks. David has made excellent progress in continuing to execute our strategy with discipline and rigour as the Board undertakes an international search for a permanent appointment.

I want to acknowledge and thank my fellow Directors for their ongoing support and dedication to MG during a challenging period for the co-op. During the year, a number of Directors announced their resignations, and on behalf of the Board, I thank each one for their commitment and service to the co-op and our industry. In particular, I would like to acknowledge the passing of former Director Max Jelbart. He was a passionate co-op member and Board contributor. He is greatly missed as a colleague and a friend.

### Outlook

As we look to the year ahead, we know that faith in the Co-operative has been tested, but we are committed to rebuilding that trust. MG remains a strong company with a bright future. The Co-operative is continuing to work through an extraordinarily difficult and protracted period of global dairy supply and demand imbalance. When the market ultimately readjusts, MG will have made the necessary investments in its manufacturing infrastructure to emerge stronger and better positioned to capitalise on the new opportunities.



**Philip Tracy**  
Chairman

# Interim Chief Executive Officer's Message



David Mallinson

In the face of these exceptionally tough market conditions and their impact on the farmgate milk price, it was paramount that the MG team maintained focus on the things within its control to achieve efficiencies and deliver on business critical projects and initiatives.

The last year has been challenging on many fronts for the dairy industry in Australia and around the world. Weak dairy commodity prices have persisted for longer than anyone expected due to a global over supply mainly from the European Union post quotas being removed in April 2015, compounded by ongoing Russian trade bans. Competition in the domestic market has also remained intense.

A key requirement of the Board following the April trading update, was that Management focus on identifying and removing cost from the business. Since then, we have examined every area of MG's operations and after the close of the year, announced that we identified a program of cost efficiencies to deliver an additional \$50 million to \$60 million per annum during FY18, with \$10 million to \$15 million of this amount to be delivered in FY17. At the same time we also focused on reducing our working capital, removing \$51 million in FY16 with a further \$100 million to be removed in FY17.

MG has now also completed the successful implementation of SAP, a world-class fully integrated software system that provides increased control and processes that will deliver significant efficiencies to the business. This new system also allows for the streamlining of a number of existing systems. This project was a significant undertaking for MG and is a key enabler of our strategy moving forward.

In October 2015 we moved to 100 percent ownership of Tasmanian Dairy Products Co Pty Ltd (TDP), consolidating MG's strong presence in this important dairy region. Our Tasmanian footprint is already contributing to MG's strategy shift away from commodity products into value-added dairy foods, with locally produced Devondale Milkshakes and 8 Bar iced coffee drinks achieving good market positions since their launch in November 2015. These products are now also available in petrol and convenience stores, which are new markets for MG and important for our future growth.

In 2016, our overall Devondale range of products made real headway. Global revenue in FY16 exceeded \$580 million, which was 46 percent higher than FY15. This increase was driven by sales of adult milk powders to China and consumer support for branded milk and dairy products in the second half. Our production excellence was also recognised when Devondale won the 2016 Canstar Blue Most Satisfied Customers Award for Fresh Milk, a ringing endorsement for a product first launched in 2014.

In February, we were awarded a five-year national private label contract to supply Coles brand Australian cheese, underpinning a \$91 million investment in our new production facility at Cobram. Revenues will more than offset those lost after Woolworths selected alternative providers for some of their private label products in July 2016. The facility will also provide significantly enhanced flexibility to produce tailored dairy foods products for all our markets. With the increased volumes from Coles, the plant will be close to full capacity, although the building has been constructed with room for additional lines.

MG now has 12 regional distributors as part of an improved regional distribution strategy in China, adding to our online channels. This represents a greater presence for MG in the traditional sales channel to provide greater certainty and quality of distribution.

MG made a profitable divestment of its 25.26 percent stake in food testing business Dairy Technical Services Limited while securing a commercially competitive testing contract. We also signed a framework agreement for an alliance with global nutritional leader Mead Johnson Nutrition with both parties working towards a final supply agreement, and secured an offtake agreement with Indonesia's Kalbe Nutritional, both of which support our intended Nutritional plant investment.

These developments have underpinned a solid financial performance by the business in FY16. Our final farmgate milk price<sup>(1)</sup> of \$4.80 per kilogram of milk solids reflected the difficult trading environment. Inevitably, this impacted our net profit after tax attributable to shareholders and unitholders of \$40.6 million, although this was supported by our focus on value-added products and strong revenues in our Dairy Foods business of \$1.3 billion, up 17.2 percent compared with FY15. Our Ingredients business continues to be impacted by weak commodity prices, with revenues down 18.5 percent compared with the prior year. Our Nutritionals business demonstrated strong growth with sales up 50 percent compared with the prior year.

I remain absolutely focused on driving our value-add strategy and achieving cost efficiencies across our business, which can support a higher farmgate milk price for our suppliers. By doing so, we will do everything we can to ensure MG remains financially strong and competitive on milk price.

A handwritten signature in black ink, appearing to read 'DM', with a stylized flourish extending from the end.

**David Mallinson**  
Interim Chief Executive Officer

(1) Available Southern Milk Region Farmgate Milk Price.

## Our vision and strategy

MG's vision is to be a 'first choice dairy foods company' for farmers, customers and consumers.

### Our strategy focuses on two key areas

**Operational excellence** – invest in modern, flexible and globally competitive dairy foods manufacturing and supply chain infrastructure to deliver and sustain business efficiency and cost leadership.

**Innovation** – drive the ongoing shift to value-added products in the key growth categories of nutritional powders, consumer cheese and dairy beverages.

In response to difficult market conditions that persisted throughout FY16, MG refocused our strategy on ensuring we are generating better efficiencies from our business, both from a cost and working capital perspective. This includes capturing benefits from our recent investments across new systems and manufacturing facilities.

We announced a series of cost initiatives, in particular an initiative to remove \$50 million to \$60 million of overhead costs, along with a focus on ensuring recent investments deliver sustainable benefits to our Co-operative. As part of this, pay for senior executives was frozen, and 'at risk' components of MG's executive remuneration for FY16 was not paid.

We have also announced an initiative to reduce working capital by \$150 million to \$160 million by the conclusion of FY17, \$51 million of which was achieved during FY16. This initiative will release cash and offset interest cost.

A number of significant investments were substantially completed in FY16, including our new consumer cheese cut and wrap facility in Cobram, and a new organisation wide SAP system, which will progressively roll-out over FY17. These are substantial investments designed to deliver efficiencies to the business, which will remain a key focus for FY17.

Our export markets were also a key focus in FY16, particularly China. MG experienced strong growth in the China market across our consumer offering, predominantly through cross-border and online channels. Continued improvements to offline distribution in China are expected to deliver a stable platform to continue growth in this market. We now have 12 regional distributors as part of an improved regional distribution strategy and these efforts will continue in FY17.

**\$50–60 million**

Overhead efficiency program

**\$72 million**

Successful SAP implementation

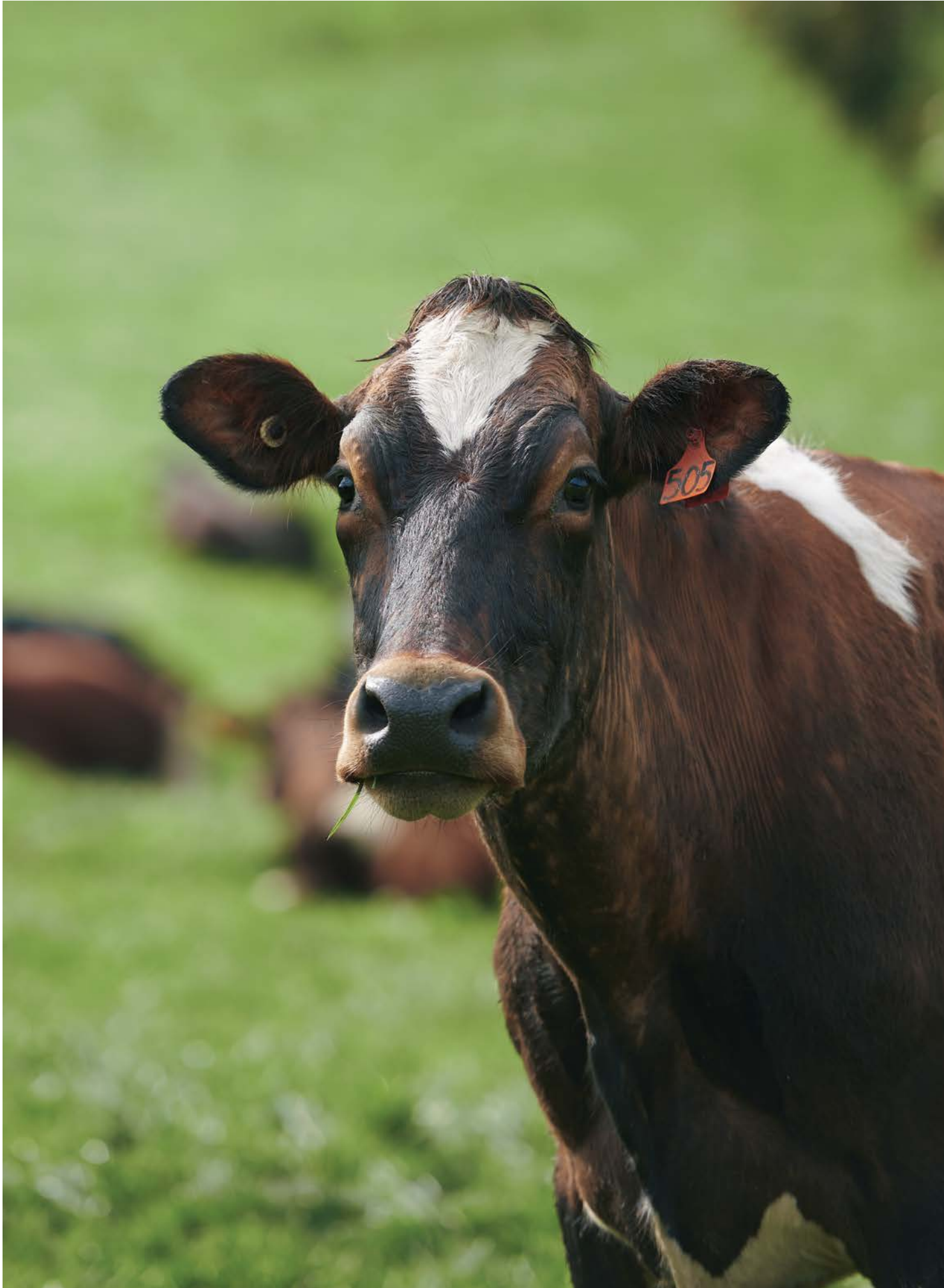
**\$150–160 million**

Sustainable working capital reduction

**\$91 million**

Completed consumer cheese plant

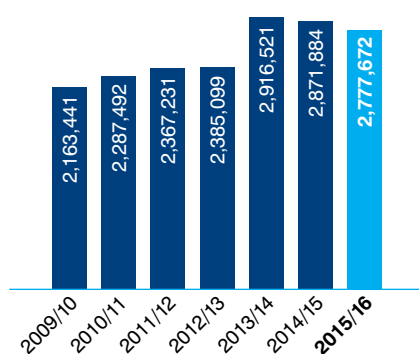




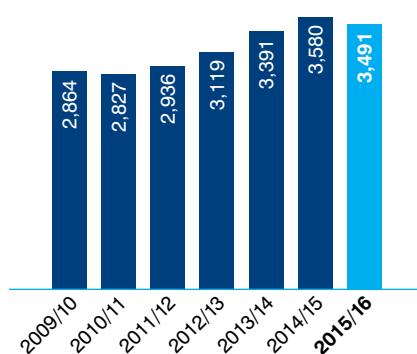
# Financial overview

	Year ended 30 June 2016	Year ended 30 June 2015	Change (%)
Sales revenue (\$ million)	2,778	2,872	(3.3)
Consolidated statutory net profit after tax (\$ million)	39.8	21.2	87.6
Net profit after tax attributable to shareholders and unitholders (\$ million)	40.6	25.2	61.2
Final available milk price (\$/kgms)	4.80	6.02	(20.3)
Dividend/distribution – per share/unit (cents)	7.41	n/a	n/a
Dividend/distribution – total value (\$ million)	41.1	n/a	n/a

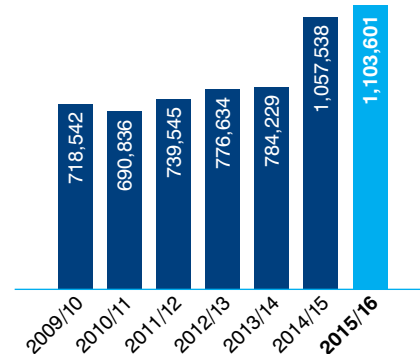
**Sales revenue**  
(A\$ 000)



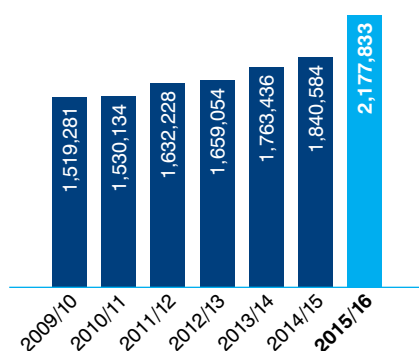
**Milk intake**  
(million litres)



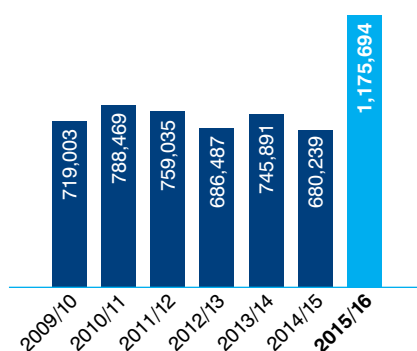
**Production**  
(tonnes)



**Total assets**  
(A\$ 000)

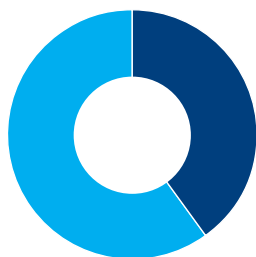


**Equity**  
(A\$ 000)



**2015/16 Sales revenue**

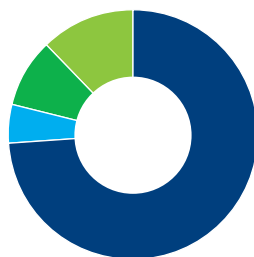
FY16 \$2.8 billion  
(including MG Trading stores)



● International 40% ● Domestic 60%

**2015/16 Export volume**

Total volume  
FY16 338,159 tonnes



● Asia 74% ● Middle East/Africa 5%  
● The Americas 9% ● Other 12%

# About Devondale Murray Goulburn

For over 60 years our Co-operative has supplied dairy products and ingredients to Australia and throughout the world.

## Our story

MG's story began in 1950 when a group of 14 dairy farmers formed the basis of the MG Co-operative. Today, we are Australia's largest dairy foods company employing more than 2,600 people in Australia and overseas and processing over one-third of Australia's milk supply. We are also 100 percent farmer-controlled with approximately 2,200 dairy farmer shareholders. This is our defining attribute and what makes us a unique and important player in the Australian dairy industry.

## Our business segments

Dairy Foods	Ingredients and Nutritionals	Other
<p>Our Dairy Foods business segment encompasses all consumer and food service sales, in both domestic and international markets.</p> <p>The business supplies large retail grocery chains and food service distributors with dairy foods such as dairy beverages (chilled and UHT milk), cheese, butter, cream and consumer milk powder.</p>	<p>Our Ingredients and Nutritionals business is a globally recognised supplier of bulk and customised dairy ingredients and infant nutrition products to the key markets of North Asia, South East Asia, Australia, Sri Lanka and USA. With a long-established presence as Australia's leading dairy supplier, MG's ingredients and nutritionals products are well known and trusted in the global market.</p>	<p>We also operate a number of wholly-owned businesses and subsidiaries. These include MG Trading, a commercial milk broking business, ProviCo and a number of joint ventures.</p>

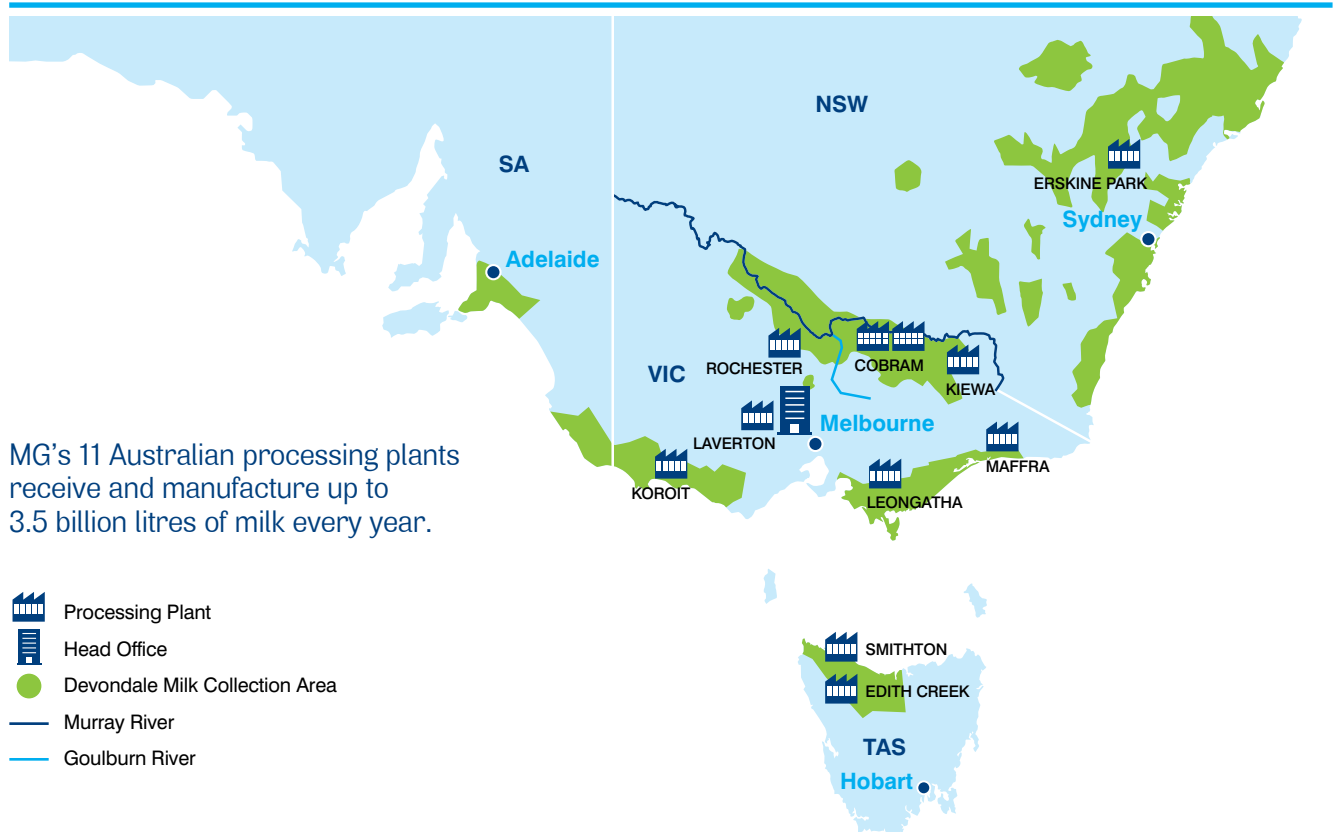
Staff of the Cudgewa Dairy Co outside the second Corryong factory c. 1930.\*

\* Photograph courtesy of The Man from Snowy River Museum.





## Dairy regions and processing plants







# Investing for the future

Our current investments are focused on three key dairy growth categories: consumer cheese, nutritional powders and dairy beverages.



To better meet the needs of domestic and international customers, we continue to consider investment in new manufacturing and supply chain capabilities to ensure Murray Goulburn continually improves our manufacturing efficiency and our innovation capabilities.

Murray Goulburn is focused on ensuring any investment generates acceptable returns, and will not proceed with an investment if this is not achievable. In light of the global environment for dairy products, we are retesting our investment cases to ensure capital is deployed appropriately.

## Consumer cheese

Our new world-class consumer cheese processing facility at Cobram will lift the bar for cheese processing and packaging in Australia. The plant is a highly automated, low conversion cost, cheese cut and wrap facility with improved yield and increased innovation capability in product formats and packaging. The plant has been optimised to meet supply obligations under the new Coles' cheese contract which begins at the end of January 2017. When combined with our other customer commitments, including our Devondale branded products, these volumes will ensure the plant is highly utilised from the outset.

In FY16, good progress continued to be made on the delivery of the facility with the building complete and new major equipment items installed on site. The 12-week commissioning phase commenced in August. Following ramp up, the plant is expected to deliver savings of approximately \$10 million per annum. As mentioned above the plant will be highly utilised once operational and has been constructed with capability to add two further lines to increase capacity in the future. Final budget is expected to be \$91 million, compared with \$86 million previously announced, which includes additional spend in relation to optimising the plant for Coles.

## Nutritional powders

We continue to invest in our nutritional powders capability by developing a leading infant nutrition facility which will produce highly formulated infant formula, 'follow-on' powders, 'growing-up' milk powders, nutritional base powders and premium whole milk powders across a range of customer specifications. This facility will allow us to meet the needs of our global nutritional customers and ensure the supply of Devondale NatraStart infant formula to key markets.

In March 2016, we entered a supply agreement with Indonesia's Kalbe Nutritionals and a framework agreement with Mead Johnson Nutrition. These offtake arrangements gave MG sufficient confidence to formally proceed with development plans for the plant, subject to formalising final terms with Mead Johnson Nutrition, and Board and regulatory approvals. The plant design continues to be refined to align with product specifications from our customers and expected demand forecasts.

Focus in early FY17 is on the regulatory process, with final design and pricing work now commenced. We are currently optimising the production of our three dryers currently running nutritional powders and expect construction of the new dryer to commence during 2017, subject to Board and regulatory approval.





### Dairy beverages

Our proposed dairy beverages UHT investment of \$165 million to \$190 million will ensure we remain a low-cost manufacturer of high quality UHT. Murray Goulburn is a regional leader in UHT, and it remains core to our business strategy.

However, FY16 saw a global over supply develop, in particular, for UHT products. Pricing in Murray Goulburn's key export markets for UHT has reached very low levels. As a consequence, financial returns for a greenfields project will be subdued at the current time and we have made the decision to delay this investment whilst we continue to monitor export beverage markets.

Despite very competitive pricing for export beverage product, we continue to experience strong export growth in demand for our UHT product across South East Asia, including China. Murray Goulburn also remains Australia's leading UHT manufacturer, with significant domestic market share. We have identified opportunities to modernise our existing UHT manufacturing footprint, which will further reduce our cost base and modestly increase our capacity. We are currently reviewing the optimal approach to this brownfields investment, and will be in a position to report on our findings in the coming months.

The \$14 million investment to construct a small-format cup and bottle filling line to support delivery of a range of dairy beverage products for consumer markets is complete and now delivering innovative products to the market, including the award-winning Devondale Milkshakes range.<sup>(1)</sup>

### Key risks

Commodity prices and their impacts on value-added product pricing (such as UHT), are the largest external influence on our performance. As Australia's largest dairy exporter, we are more exposed to movements in global dairy commodity prices and exchange rates than any other Australian processor.

Like the rest of the global dairy industry in FY16, Australian processors and farmers experienced the effects of unprecedented lows for commodity prices, which also impacted the pricing of value-added products such as UHT. This was the result of the collapse of global commodity markets to record lows, a volatile Australian dollar and an unexpected drop in demand for adult milk powder.

Further information in relation to general and financial risks is included in the MG Unit Trust Product Disclosure Statement, which can be accessed via the investor centre on MG's website: [www.mgc.com.au/investor-centre](http://www.mgc.com.au/investor-centre).

<sup>(1)</sup> Devondale Milkshakes was awarded the 2016 DIAA Australian Dairy Product Competition 'Most Innovative Product' and the World Packaging Organisation 'WorldStars Packaging Award' in the beverage category.









# Year in review

## MG Dairy Foods

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



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

In 2015/16, Dairy Foods delivered another year of growth with net revenue up 17.2 percent to \$1.3 billion and a segment contribution to gross profit of \$164.5 million.

### Dairy Foods Australia

Dairy Foods Australia delivered double-digit net sales revenue growth, despite domestic trading conditions continuing to be very challenging and increased competition between retailers during a period of price deflation. Our growth was underpinned by strong performance in the food service channel, a successful entry into the petrol and convenience market through Coles Express, and the launch of new and innovative products. Key growth drivers were Devondale Milkshakes, 8 Bar iced coffee, butter/butter blends, powders, shredded cheese and UHT milk.

Highlights in FY16 include: our Devondale butter brand achieved over one-third market share and became the number one brand in the butter blends segment; our Devondale NatraStart infant formula products were ranged in Coles and Costco; we were awarded a national contract to supply Woolworths Homebrand butter; we conducted a successful trial of Devondale UHT milk in Aldi; we reached agreement with Coles to expand our Devondale cheese range; and we won the 'Most successful launch of the year' award in Metcash for our Devondale Milkshakes.

Our ongoing commitment to product quality and excellence was also recognised by leading industry bodies during the year:

- Devondale Milkshakes was awarded the DIAA Australian Dairy Product Competition's 'Most Innovative Product'.
- Devondale Milkshakes received the World Packaging Organisation's 'WorldStars Packaging Award' in the beverage category.

### Dairy Foods International

Our Dairy Foods international consumer and food service business continued to grow profitably, experiencing double-digit sales growth despite strong competition and aggressive pricing on the back of a fall in global dairy commodity prices. The competitive landscape was further exacerbated by the ban on European trade in Russia leading to large flows of European dairy products into international markets, primarily Asia.

In the wake of these challenges, the international business focused on markets such as China, Hong Kong, Taiwan, Vietnam and the Pacific Islands, delivering strong outcomes. Sales of adult milk powders into China increased significantly via both traditional exports, the internet and cross-border channels. A regional deal for Devondale branded retail products was signed with the fastest growing retail chain in the Middle East, and new customer relationships were activated in Iran, Pakistan, Tanzania, Sri Lanka and the Indian Ocean islands.

Our food service business in Asia continued to grow impressively by 40 percent with new product launches such as cream cheese, UHT cream and butter. New private label contracts also helped fuel the growth.

A solid foundation is in place for delivering sustained performance going forward in international dairy food markets.

### Ingredients and Nutritionals

---

Many of the world's leading brands depend on the high quality ingredients we supply to key domestic and international markets.



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

We work closely with our customers to create ingredients that meet the functional and nutritional requirements of their products. These ingredients continue to evolve over time as we innovate and adapt to the changing needs of our customers.

MG Ingredients is our global food ingredients brand and includes bulk dairy commodities and specialised ingredients marketed for use in the preparation of a wide range of food applications. The business extends to over 60 countries worldwide, supporting leading global and local brands with quality dairy products. Ingredients continue to extract the best value for MG's milk solids by optimising the product mix and balancing core customer requirements. Our key focus is growing customised and value-add product solutions.

The dairy industry was impacted by a global downturn for commodities due to a surplus of global milk production, a reduction in demand, price volatility and exchange rate fluctuations. This impacted our global sales which were down 26 percent on the previous year.

The decline in commodity prices for base dairy ingredients also had a flow-on effect to our Nutritionals business.

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

Despite the downward pressure on the market, and proposed changes to Chinese regulations which will limit the number of brands that can be sold in China and tightened import requirements, sales revenue increased by 50 percent. This was driven by the commercialisation and launch of 14 new products to existing and new clients.

To expand and grow our business, we also partnered with a number of leading nutritional companies to supply base powders and finished retail products under their brands. During the year, we signed a long-term supply agreement with Kalbe Nutritionals (a leading nutritional company in Indonesia) and a framework agreement to develop a long-term relationship with Mead Johnson Nutrition.

## Other business segment

MG Trading plays an important role in rural communities, stocking a wide range of rural inputs and providing access to agronomic, nutritional and dairy services advice.



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

MG's Other segment contributed revenue of \$448 million for the year, down 16.7 percent versus the prior period and segment contribution to profit of \$20.6 million. Segment contribution growth was driven primarily by a continued focus on cost management across MG's network of trading stores and improved margins in commercial milk sales.

### MG Trading

MG Trading operates a network of 25 stores, eight fertiliser depots and a feed business across Australia's south-east dairy regions, including Tasmania. In FY16, new retail premises were opened in Numurkah, Victoria, replacing the temporary store which has been in use since 2015.

This unique dairy-focused retail business provides our suppliers and other rural customers with competitively priced farm inputs and on-farm services to help them operate their businesses more effectively and efficiently. These include a wide range of rural inputs such as general merchandise, fertiliser, feed, fuel and dairy equipment, as well as providing access to competitive energy and insurance programs.

MG Trading also offers our suppliers access to expert technical agronomic and nutritional advice, dairy servicing, including milking machine maintenance and on-farm fuel delivery service in partnership with regional BP distributors.

MG Trading had another successful year with sales increasing year-on-year. The growth experienced in FY16 was largely driven by improvements to the feed business supported by a significant increase in feed demand in both Victoria and Tasmania. In addition, the new Tasmanian trading stores continued positive growth in sales and are now well established in the dairy segment. Seasonally, the business suffered from unusually dry conditions across all regions, which resulted in lower demands for cropping inputs, particularly fertiliser; however, this generated an increase in bought feed.

### ProviCo

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

ProviCo performed strongly in FY16 in a very competitive trading environment. The future forecast remains positive as the product portfolio expands, providing new nutritional and cost-effective feed options for dairy farmers.

### Commercial milk sales

As Australia's largest dairy foods company with a geographic processing footprint across key dairy regions, we provide a commercial milk broking service, buying and selling milk to other dairy processors in Victoria, South Australia, Tasmania and New South Wales.

Each year, the volume of milk traded will vary, primarily due to seasonal conditions and customer needs. In FY16, the volumes of milk traded decreased by 34 percent on the previous year. Although profitability remained at a similar level, increased competition in the marketplace has resulted in a reduction in volumes.

### Joint venture partnerships

MG maintains an ownership interest in a joint venture partnership with French food company Danone, to market yoghurt and other fresh dairy products throughout Australia.

In April 2016, MG signed an agreement to divest its 25.26 percent stake in the food testing business, Dairy Technical Services Limited. We also acquired Mitsubishi Corporation's stake in Tasmanian Dairy Products Co Pty Ltd (TDP), one of Tasmania's largest dairy companies, assuming 100 percent ownership in October 2015. TDP processes approximately 25 percent of Tasmania's milk.



### Safety

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



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

As we enter the fourth year of our GoalZero journey, we have made considerable progress, reducing our total recordable injury frequency rate (TRIFR) from 50.2 to 12.8, a reduction of almost 75 percent since 2012. Despite good progress, we will continue to prioritise and focus on further improving our safety record until we achieve our vision.

During FY16, MG continued to implement a number of key safety initiatives. These included:

- developing safety standards for major and capital projects in design and construction, from feasibility through to completion;
- introducing an online contractor management portal to verify insurances and licences and perform safety system assessments. Contractors 'pre-qualify' via the portal to perform work at MG;
- developing and implementing safe product storage and stacking standards; and
- maintaining our focus on a systematic approach to eliminating hazardous manual handling across the business with a marked reduction in incidents.

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

- maintaining safety system certification at Leongatha and MG's head office at Freshwater Place in Melbourne to AS4801 (Safety) certified management system;
- completing the fourth annual one-hour 'Stop for Safety' program, requiring everyone at MG to stop work and focus on GoalZero initiatives and concluding with workshop activities for 'Take 5' hazard identification and control;
- completing confined space task risk assessments to ensure safety is maintained at all times when entering a confined space; and
- undertaking compliance training requirements such as safety induction, ammonia awareness, defibrillation cardiopulmonary resuscitation, warden responsibilities, clearance to work, emergency evacuation, first aid training, incident reporting and investigation, OHS hazard identification and risk assessment, and manual handling.

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





### People

---

MG employs more than 2,600 people across 11 sites in south-eastern Australia, in Qingdao, China, and in sales offices across Asia and the Middle East.



Our People team develop and deliver people practices which underpin our vision and strategy, and maintain a focus on operational excellence and innovation. We support the creation of a work environment where leaders are confident in attracting, developing and retaining staff; employees are engaged and performing; and highly skilled, experienced and talented people want to work with us.

In 2015, we conducted a Company-wide employee engagement survey, *Your Say Your MG*, which provided our first baseline employee engagement measure. Based on the findings of that survey, in FY16 we:

- piloted a Frontline Management Program involving 19 cross-functional employees from Corporate, Operations and Supplier Relations. A business-wide implementation of the program is planned for FY17;
- established an employee engagement working group to identify key activities to improve employee engagement. These included communication, understanding our vision and strategy, and leadership skills. Teams across the business also conducted their own engagement workshops; and
- introduced the Set for Work framework, including the development of a formalised drug and alcohol testing program.

We also introduced a number of key people initiatives and programs which demonstrated operational excellence:

- Our recruitment process was automated eliminating manual paper-based processes and improving the experience for applicants and managers. Applicants can now apply for roles online and track progress with their applications.
- Online administration of compensation was introduced and will now be used as part of the annual remuneration review process.
- Electronic timesheets were introduced at MG Trading stores, replacing paper-based timesheets.

We reached agreement with our employees and the National Union of Workers for our Dairy Beverage Centre's Collective Agreement that covers our Laverton and Erskine Park facilities. We also reached agreement with the Australian Workers' Union and National Union of Workers for our Smithton facility in Tasmania. We are continuing to re-negotiate the collective agreement with our Milk Collection employees and the Transport Workers Union.

In FY17, our primary focus will be on supporting our Operating Model program of work, planning and renegotiating our largest collective agreement (covering approximately 900 employees in production, warehousing and logistics), and supporting the consultation process and roll-out of the drug and alcohol testing program.



## Our farmer/suppliers

---

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



FY16 was a very difficult year for our farmer/suppliers due to lower than expected farmgate milk prices, tough global conditions and below average rainfall.

MG represents 36.6 percent<sup>(1)</sup> of Australia's total milk supply. In FY16, milk supply received ex-farm from our Southern Milk Region, NSW–Sydney region and Tasmania, decreased by 2.5 percent to 3.5 billion litres.

In the northern and western regions of our Southern Milk Region, the decrease in milk supply was due primarily to very poor seasonal conditions.

Milk supply grew in Gippsland (Victoria), Tasmania and in our NSW–Sydney region.

Since the end of the financial year, milk supply contracted, which was driven by a range of factors, including retirements from the dairy industry, seasonal conditions and farm productivity. MG has clear plans to manage manufacturing costs in line with milk intake to best insulate FMP.

### Providing one-to-one farm support

Our aim is to be a primary partner to Australia's dairy farmers providing timely and relevant support services to our suppliers. To facilitate this, we employ a team of approximately 40 Field Services Officers (FSOs) throughout Victoria, Tasmania, New South Wales and South Australia. The role of our FSOs is to provide suppliers with support on a range of technical, financial and industry issues. By staying in touch with our suppliers, we can better understand the issues, challenges and opportunities our suppliers face. During FY16, FSOs made more than 12,000 visits to suppliers.

Supplier meetings are also a key way of engaging with our suppliers. In FY16, 50 meetings were held across our regions. We also consult regularly with our suppliers outside of these meetings, seeking input and feedback on our performance, strategy and initiatives.

### Supporting a strong dairy industry

The Next Generation package of initiatives, launched in March 2013, is designed to assist new and established MG suppliers meet key challenges and take advantage of business opportunities. These include establishing new dairy operations, developing a workforce, managing a sustainable business and succession of the family farm. While our primary focus is to deliver a higher farmgate milk price, we also recognise there are times when other forms of business support are needed. These periods are typically when dairy farmers enter the industry, experience tough business conditions or undertake a rapid growth phase. The Next Generation package is available to existing and prospective MG suppliers across all our supply regions. The package includes significant financial support, workforce support, leasing partnerships, medium and short-term finance to assist with cash flow management and business sustainability, and an option to open up longer-term credit lines at MG trading stores to purchase equipment that supports improved efficiency of farm operations. During FY16, 48 new Next Generation agreements were finalised supporting on-farm investment of more than \$71 million.

We also support our farmer supplier base through MG Trading, which has a number of technical experts in areas such as agronomy and nutrition.

### Helping suppliers understand our core business

Participants were selected from across our diverse supplier base to take part in our FY17 Supplier Development Program. The program is designed to give participants an in-depth understanding of our core business operations, and build leadership, collaboration and project management skills. The program includes: two residential components; site visits to our major facilities; and interactive discussions with key personnel from across our business on subjects such as company governance and strategy, finance and milk pricing, marketing and customers, field services, manufacturing and quality. In FY16, 21 suppliers (13 males, eight females) completed the program, while an additional 21 suppliers (11 males, 10 females) participated in the first residential component.

(1) Source: Revised Dairy Australia milk collection data released in July 2016.

### Sustainability

We are committed to building a sustainable business and continually looking for opportunities which minimise our environmental impact and reduce waste.



#### A shared commitment to sustainability

Throughout FY16, MG has worked with key stakeholders across our industry to drive awareness and build a shared commitment to sustainability.

At an industry level, we continue to participate in the Australian dairy industry's Sustainability Framework. This whole-of-industry approach was established in 2012 to enhance livelihoods, improve community and animal wellbeing, and reduce the environmental impact of our industry. As a member of the Steering Committee, we continue to play an active role in improving the industry's performance and ensuring our industry remains current, relevant and accountable within the context of the changing global and domestic conditions and expectations.

The Supplier Ethical Data Exchange (SEDEX) is a secure online global database for managing and reporting on ethical and responsible practices in our supply chain. Through SEDEX, we collaborate and share information with our customers, and ensure our suppliers continue to demonstrate ethical and responsible business practices in regard to labour standards, health and safety, and the environment.

We continued to support the Forest Stewardship Council (FSC®) through environmentally appropriate, socially beneficial and economically viable packaging procured through Tetra Pak®. Paperboard packaging is used for our UHT products and in FY16, approximately 256 million FSC-labelled packs were used. This was an increase of 17 percent from the previous year.

Since 2007, MG has been a signatory to the Australian Packaging Covenant (APC). The APC is a sustainable packaging initiative that aims to change the culture of businesses to design more sustainable packaging, increase recycling rates and reduce packaging litter. In 2016, MG were acknowledged as an APC High Performer at the APC Awards.

#### Making quality products today with minimal impact tomorrow

At MG, we operate using an Environmental Management System (EMS) which includes risk assessment, incident management, monitoring and reporting of our potential and actual environmental impacts. During FY16, our EMS was maintained at head office and our Leongatha milk processing site to the international standard ISO 14001.

MG has also decreased its energy use and greenhouse gas emissions. From 2009 (the year MG commenced reporting under the National Greenhouse and Energy Reporting Scheme) to 2015, MG's annual greenhouse gas emissions decreased by 17.1 percent, from 649,461 to 538,712 tCO<sub>2</sub>-e.<sup>(1)</sup> This trend is driven by our Operational Excellence program including both specific energy reduction projects and business efficiency changes to not only reduce our environmental impact but also operational costs.

During FY16, this trend continued through implementation of several energy efficiency activities including smarter management of compressed air and steam boilers, insulation of hot pipes and tanks, and capture and reuse of waste heat.

While we continued to improve our environmental performance on our existing facilities, MG has also implemented a program to adopt energy efficient standards and minimise environmental risks on all our capital projects from inception.

#### Complying with environmental regulations

MG continues to actively track modifications to environmental legislation and incorporates these changes within our internal processes.

In line with environmental legislation, we report on our annual energy use and greenhouse gas emissions under the *National Greenhouse and Energy Reporting Act 2007*. We also report on the annual environmental performance at our licensed sites through requirements outlined by the various state-based environment regulations.

During the financial year, the Victorian Environment Protection Authority (EPA) served two statutory notices on MG. Both related to underground wastewater pipeline integrity issues at our Rochester site. The first notice was resolved to the EPA's satisfaction during the financial year, while the second notice is due to be resolved in 2017.

(1) Source: MG's Annual National Greenhouse and Energy Reports 2009 and 2015 (verified by KPMG).





# Board of Directors

**Philip W. Tracy** BEc/BComm, CA, SIA, GAICD  
*Chairman, Supplier Director*

Philip W. Tracy 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 more than 2,000 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.



**Kenneth W. Jones** Adv. Dip. Ag., MAICD  
*Supplier Director*

Kenneth W. Jones 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. Kenneth (Ken) is a dairy farmer, milking 430 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.



**Natalie Akers** BPPM (Hons), BA, GAICD  
*Supplier Director*

Natalie Akers was elected to the Board in 2011. She is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee. Natalie is a dairy farmer, milking 700 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 has pursued a professional career in agriculture, including water policy and dairy research and development. Natalie is also a graduate of the Australian Institute of Company Directors.



**William T. Bodman** BSc (Ag), GAICD  
*Supplier Director*

William T. Bodman was elected to the Board in 2009 and was joint Deputy Chairman from 2011 to November 2012. He is a member of the Compliance Committee and Supplier Relations Committee. William (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.



**Peter J.O. Hawkins** BCA (Hons), FAICD, SF Fin, FAIM, ACA (NZ)  
*Special Director*

Peter J.O. Hawkins was elected to the Board of Murray Goulburn 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. He held various senior management and directorship positions with Australia and New Zealand Banking Group Limited from 1971 to 2005 and directorships with BHP (NZ) Steel Limited, ING Australia Limited and Esanda Finance Corporation. He is currently a non-executive director of Westpac Banking Corporation, Mirvac Limited Group, Liberty Financial Pty Limited, Clayton Utz and Minerva Financial Group Pty Ltd. Peter has a Bachelor of Commerce and Administration (Honours), is a Fellow of the Australian Institute of Company Directors, a Senior Fellow with the Financial Services Institution of Australasia, a Fellow of the Australian Institute of Management and a member of the Associated Chartered Accountant College (New Zealand).



**Michael F. Ihlein** BBus (Acc), FCPA, FAICD, F Fin  
*Special Director*

Michael F. Ihlein was elected to the Board of Murray Goulburn in 2012 as a Special Director. He is Chairman of the Compliance Committee and a member of the Finance, Risk and Audit Committee and Remuneration and Nominations Committee. Michael (Mike) is a highly experienced international executive with extensive knowledge of international business and finance. He held senior management (including Chief Executive Officer) and directorship positions with Brambles Limited from 2004 to 2009 and various senior management positions over his 26-year career with Coca-Cola Amatil Limited and was a director from 1997 to 2004. He is currently a non-executive director of Scentre Group, CSR Limited and Snowy Hydro Limited. Mike has a Bachelor of Business, majoring in Accounting and is a Fellow of each of CPA Australia, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.



---

**Graham N. Munzel** FAICD  
*Supplier Director*

Graham N. Munzel was elected to the Board in 2008. He is a member of the Compliance Committee and Supplier Relations Committee. Graham is a dairy farmer, milking 290 cows at Gunbower in Northern Victoria. He is a Fellow of the Australian Institute of Company Directors.



---

**John P. Pye** Adv. Dip. Ag., MAICD  
*Supplier Director*

John P. Pye was elected to the Board in 2005. He is Chairman of the Supplier Relations Committee and a member of the Finance, Risk and Audit Committee and Remuneration and Nominations Committee. John is a dairy farmer, milking 500 cows at Bessiebelle in Western Victoria. He has an Advanced Diploma in 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).



---

**Martin J. Van de Wouw** MAICD  
*Supplier Director*

Martin J. Van de Wouw was elected to the Board in 2010. He is a member of the Compliance Committee and Supplier Relations Committee. Martin is a dairy farmer, milking 280 cows at Princetown in Western Victoria. He has supplied Murray Goulburn for 38 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 Leadership Team

**David Mallinson** Dip Bus, PG Cert Finance, MBA, CPA, FNIA, GAICD  
*Interim Chief Executive Officer*

David Mallinson was appointed Interim Chief Executive Officer in April 2016. David was previously Executive General Manager Business Operations from April 2014 and General Manager Project Management Office and Capital Projects from October 2013. Prior to joining Murray Goulburn, David was Fonterra Australia/New Zealand's Chief Financial Officer for six years, having held various senior roles within the merged business and senior roles in Bonlac Foods Ltd and United Milk Tasmania. David has also previously worked for ANZ and Cadbury Schweppes. David holds various qualifications, including a Master of Business Administration from Monash University and he completed the Executive Development Program at Stanford University (USA) in 2004.



**Fiona Smith** BSc, LLB, GDipGov, FGIA  
*Chief Operating Officer*

Fiona Smith was appointed Chief Operating Officer in April 2016. Fiona was previously Executive General Manager Corporate Development and Reputation from October 2015 and Company Secretary and General Counsel from 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 more than 25 years' legal experience. Fiona has a Bachelor of Science and a Bachelor of Laws from the Australian National University and a Graduate Diploma in Applied Corporate Governance. Fiona is also a Fellow of the Governance Institute of Australia.



**Alan Tilley** B.Comm, ICAA, GAICD  
*Interim Chief Financial Officer*

Alan Tilley was appointed Interim Chief Financial Officer in June 2016. Prior to joining Murray Goulburn, Alan was Chief Financial Officer at NRMA Motoring and Service Group for eight years. He has held a number of senior roles at Brambles Industries Limited, Transfield Pty Limited as well as PricewaterhouseCoopers in Australia and Europe. Alan holds a Bachelor of Commerce from the University of New South Wales, is a qualified Chartered Accountant and graduated from the Australian Institute of Company Directors in 2014.



**Chris Diaz** GDipBusTech, MBT, GradCertMgt  
*Executive General Manager Operations and Supply Chain*

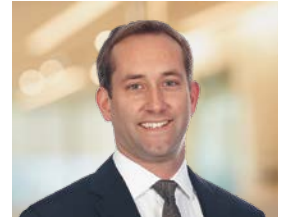
Chris Diaz was appointed Executive General Manager Operations in May 2016 and the position was expanded to include the Supply Chain function in June 2016. Prior to this appointment, Chris held senior positions with Murray Goulburn, including General Manager Manufacturing and Technical Excellence and Group Technical Manager. Prior to joining Murray Goulburn, Chris was General Manager Operations at Fonterra Australia. He has also held a number of prominent roles at Foster, Balfours and Goodman Fielder in the areas of manufacturing, technical, continuous improvement and logistics. Chris holds a Graduate Diploma and Master of Business and Technology from the University of New South Wales, as well as a Graduate Certificate of Management from Deakin University. Chris has also completed professional certificates in food management, food processing and lean systems (Lean Operational Excellence).





**Bruce Linke** BEng (Civil) (Hons), GDipEng (ConstMgt), LLB, GDipLegPrac  
*Executive General Manager Procurement and Capital Projects*

Bruce Linke was appointed Executive General Manager Capital Projects in May 2016 and the position was expanded to include the Procurement function in June 2016. Prior to this appointment, Bruce was Murray Goulburn's General Manager Major Capital Projects. Prior to joining Murray Goulburn, Bruce worked as a consultant to contractors, owners, lenders and law firms advising on project structuring, documentation and delivery issues during feasibility, implementation and close-out phases of the project lifecycle. Bruce was also a partner in the Finance and Projects team of global law firm DLA Piper advising on engineering and construction projects in Australia, Asia, Africa and the Middle East. Bruce also worked as a civil engineer and project manager for nine years on various construction and mining projects in Australia and Asia before qualifying as a lawyer. Bruce holds a Bachelor of Engineering (Civil) (Hons) and a Graduate Diploma in Engineering (Construction Management) from Swinburne University. Bruce also has a Bachelor of Laws from Deakin University and a Graduate Diploma in Legal Practice from the Australian National University.



---

**Robert Poole** BAgSci, MBL  
*Executive General Manager Supplier Relations*

Robert Poole was appointed Executive General Manager Supplier 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. Robert currently holds 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.



---

**Russell Abotomey** BBus  
*Executive General Manager Dairy Foods and Ingredients*

Russell Abotomey was appointed as Executive General Manager Dairy Foods and Ingredients in June 2016. Prior to this appointment, Russell held positions leading Murray Goulburn's International Sales and Supply Chain teams respectively. Prior to joining Murray Goulburn, Russell worked in senior management, sales and marketing positions in the food and beverage industry in Australia and overseas for over 35 years, including roles at CSR Sugar, New Zealand Dairy Board, Australian Dairy Corporation, Kraft Foods and ICI Australia. Russell has a Bachelor of Business Degree from Swinburne University and undertaken Leadership Programs at Northwestern University in Chicago and Harvard Business School in Shanghai.







# Corporate Governance Statement

## 1. Introduction

This section of the Annual Report outlines the governance framework of Murray Goulburn Co-operative Co. Limited and its controlled entities (**Murray Goulburn** or **Company**) for the year ended 30 June 2016.

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 Murray Goulburn's corporate governance practices. In light of the ASX listing of the MG Unit Trust (a special purpose funding vehicle which provides its unitholders with an economic exposure to Murray Goulburn Co-operative Co. Limited), the Board understands that Murray Goulburn's corporate governance practices will be of particular interest to unitholders of the MG Unit Trust.

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/investor-centre/governance](http://www.mgc.com.au/investor-centre/governance).

## 2. Role and Responsibilities of the Board

### Board

The role of the Board is to represent shareholders, as a whole, and to promote and protect the interests of Murray Goulburn. Its principal objective is to create and enhance shareholder and investor value. The Murray Goulburn 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/Chief Executive Officer (**MD/CEO**). The Board's responsibilities, as set out in the Board Charter, include:

- the appointment, remuneration and succession planning of the MD/CEO and the MD/CEO's direct reports;
- approval of the corporate strategy, including setting 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 and ensuring compliance with financial reporting requirements;
- approving financial reports, profit forecasts and other reports required at law;
- ensuring shareholders are kept informed of the Company's performance and major developments affecting its state of affairs;
- developing and reviewing the Company's values and corporate governance policies and monitoring corporate culture, setting the tone from the top; 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 MD/CEO (and to other officers to whom the management function is properly delegated by the MD/CEO) responsibility for the day-to-day management of the Company's affairs and implementation of the corporate objectives, strategy and policy initiatives. The MD/CEO and the management team are required to operate in accordance with Board approved policies and delegations of authority and management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. The MD/CEO and management team 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.

### Activities during the year

Following the implementation of the capital structure on 3 July 2015 (with the listing of the MG Unit Trust on the ASX and the raising of \$500 million to fund planned capital investments), the Board has continued to govern the Company through the execution of its strategy with a view to sustainably maximising farmgate milk prices and future earnings, albeit in the context of very low global dairy commodity prices and unfavourable foreign exchange movements.



## Corporate Governance Statement continued

The Board spent a significant amount of time throughout the year monitoring the Company's performance against the forecast financial information, including the Available Southern Milk Region Farmgate Milk Price (**FMP**), set out in the Prospectus and Product Disclosure Statement issued in May 2015, with the market kept informed in relation to the outlook. The review of the expected performance of the business in late April 2016 concluded that the Company would not be able to achieve the expected FMP for financial year 2016. This led to the trading update and revised outlook announcement on 27 April 2016, advising an expected reduction in the FMP from \$5.60 per kilogram milk solids to between \$4.75 and \$5.00 per kilogram milk solids.

Given the impact of this announcement on suppliers, the Board approved the Milk Supply Support Package to protect Murray Goulburn's milk supply in the long-term by providing a milk support payment so that suppliers would receive payments during financial year 2016 equivalent to an FMP of \$5.53 per kilogram of milk solids.

At that time, it was also agreed that the stewardship of Murray Goulburn would be best served under fresh leadership and therefore, following the trading update, Gary Helou departed as Managing Director and the Board appointed David Mallinson as Interim Chief Executive Officer.

The Board also approved various other matters during the year, including:

- the long-term nutritionals supply agreement with Kalbe Nutritional (Indonesia's leading consumer health and nutrition company) and the framework agreement to establish a strategic supply alliance with Mead Johnson Nutrition (leading global paediatric nutrition company), which underpin the capital expenditure in the new state-of-the-art nutritional powders plant at Koroit, Victoria;
- \$11 million in early-works capital expenditure for site preparation and functional engineering for the UHT dairy beverages centre of excellence at Laverton, Victoria;
- the divestment of the Company's 25.26 percent interest in food testing business, Dairy Technical Services Limited;
- the acquisition of Mitsubishi Corporation's remaining 24.1 percent interest in Tasmanian Dairy Products Co Pty Ltd;
- the Dividend Reinvestment Plan for shareholders;
- the net opening farmgate milk price for financial year 2017; and
- changes to the Executive Leadership Team, including the appointment of Alan Tilley as Interim Chief Financial Officer with effect from 14 June 2016.

### 3. Structure of the Board

#### Membership and meetings

The Board currently has nine Directors. Of these, seven, including the Chairman, are elected from the shareholder base (Supplier Directors) and two are Special Directors. There are currently four vacancies existing in the Board, with one Managing Director, one Special Director and two Supplier Director positions to be filled. Supplier Director nomination processes have recently been conducted in the Western and Gippsland regions, resulting in four new candidates being nominated for election to the Board. The election of these candidates will be presented to supplier/shareholders for approval of the Annual General Meeting (**AGM**) in October 2016, with two existing Supplier Directors to retire at the conclusion of the AGM.

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.

The annual Supplier Director election process was undertaken during the year in accordance with the Company's Constitution, with all three incumbent Gippsland region Supplier Directors (Philip Tracy, William (Bill) Bodman and Max Jelbart) re-elected to the Board. Each of the three Gippsland region Supplier Directors confirmed their acceptance of the re-appointment on the standard terms, which are available on the Company's website at [www.mgc.com.au/investor-centre/governance](http://www.mgc.com.au/investor-centre/governance). Max Jelbart resigned as a Supplier Director on 2 May 2016 due to ill health and, sadly, he passed away later that month.

During the year, the Remuneration and Nominations Committee (with the assistance of an external recruitment consultant) continued to identify potential candidates for the third Special Director position having regard to the skills and experience that would best complement those held by existing Directors. This process culminated in the appointment of Kiera Grant as a Special Director on 14 March 2016, however Ms Grant tendered her resignation on 3 May 2016.

The other vacancies in the Board arose due to the resignation of Gary Helou as Managing Director following the announcement of the trading update and revised outlook on 27 April 2016 and the resignation of Duncan Morris as a Supplier Director on 10 May 2016 to focus on his accounting practice and dairy farm business.

Murray Goulburn's Chairman is Philip Tracy and the Deputy Chairman is Ken Jones. The Chairman and Deputy Chairman are both Supplier Directors who the Board consider 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 Company Secretary, Fiona Smith, is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

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

The Board met 19 times during the year, with 9 scheduled meetings and 10 ad hoc meetings (many of which were to consider matters relating to the trading update and revised outlook in April 2016). During each scheduled monthly meeting, the Board holds a closed session (attended by Non-executive Directors only), which provides Non-executive Directors with an opportunity to raise issues in the absence of management. Details of the number of meetings attended by each Director are set out in the Directors' Report on page 44.

Directors also participated in eight training sessions during the year, which were designed to develop and maintain the skills and knowledge needed to perform their role as directors of the Company effectively.

## 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 four 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 in line with the Board's usual practice of periodically reviewing the composition of each Committee.

## 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 External Auditor;
- to review the scope of the annual external audit plan before it is submitted to the Board for approval;

- the appointment and objectivity of the head of the internal audit function;
- to oversee the internal audit function 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; 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 chair, who is not Chair of the Board.

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

Name	Membership status for FY16
Peter Hawkins (Chairman)	Member for the entire period
Natalie Akers	Member for the entire period
Bill Bodman	Member until 24 November 2015
Michael Ihlein	Member since 27 May 2016
Max Jelbart	Member from 24 November 2015 until 2 May 2016
Ken Jones	Member since 27 May 2016
Duncan Morris	Member until 10 May 2016
John Pye	Member for the entire period

The Chairman of the Committee has formal accounting qualifications and significant experience in the banking and financial services industry in Australia and overseas at both the highest levels of management and directorship of major organisations, including Australia and New Zealand Banking Group entities, BHP (NZ) Steel Limited, ING Australia Limited and Esanda Finance Corporation.

Duncan Morris (member until 10 May 2016) and Michael Ihlein (member since 27 May 2016) also have formal accounting qualifications and Mr Ihlein has significant experience in senior management and executive directorship roles with Brambles Limited and Coca-Cola Amatil Limited.

Non-committee members, including members of management and the External Auditor may attend meetings of the Committee at the invitation of the Committee Chair. All Board members are expected to attend the Finance, Risk and Audit Committee meetings at which the half-year and annual financial statements and reports are considered.

The Finance, Risk and Audit Committee met five times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 44.

# Corporate Governance Statement continued

## **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 for the period and overseeing the work performed by the auditors;
- reviewing significant accounting, financial reporting and related issues raised by management, the head of the internal audit function and 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 annual and half year financial statements, including the application of the Profit Sharing Mechanism;
- reviewing and monitoring the performance of MG Trading Store credit and supplier finance;
- reviewing and monitoring insurance related matters, including undertaking a preliminary review of the renewal insurance program prior to consideration by the Board;
- overseeing the change in head of the internal audit function, including the transition of responsibilities and the relationship with the internal audit service provider; and
- reviewing and monitoring claims, litigation and disputes involving the Company.

## **External Audit**

The Finance, Risk and Audit Committee reviews the External Auditor's scope of work, including the external audit plan, to ensure it is appropriate, having regard to the Company's key risks. The External Auditor reports to the Committee at each meeting and is given an opportunity to raise issues with the Committee in the absence of management. The Committee also reviews the performance and independence of the External Auditor on an annual basis. PricewaterhouseCoopers is the External Auditor.

The Committee has also adopted a policy on the provision of non-audit related services by the External Auditor which sets out Murray Goulburn's approach to engaging the External Auditor for the performance of non-audit related services with a view to ensuring their independence is maintained.

The External Auditor attends the Company's AGM and is available to answer questions from investors relevant to the audit.

## **Internal audit**

In 2015, the Finance, Risk and Audit Committee approved the move from a fully outsourced internal audit model to a co-sourced model, with KPMG LLP (**KPMG**) engaged to provide internal audit services under this model. Murray Goulburn's General Manager Governance, Risk and Compliance (formerly the Risk and Assurance Manager) is accountable to both the Committee and the MD/CEO for the performance of the internal audit function and manages the relationship with KPMG.

The internal audit function supports management efforts to:

- manage and control risks;
- improve the efficiency and effectiveness of key business processes and internal control systems;
- monitor compliance with company-wide requirements, policies and procedures; and
- provide the Committee with assurance on the operating effectiveness of controls.

The scope of internal audit work (including the annual internal audit plan) was prepared with a view to providing coverage of all major functional units and identified key risks and the Finance, Risk and Audit Committee reviewed the internal audit plan to ensure it was appropriate.

The General Manager Governance, Risk and Compliance/ Risk and Assurance Manager, together with KPMG representatives, reported directly to the Committee at each meeting on the progress against the internal audit plan, as well as detailed findings and corresponding management actions in relation to reviews undertaken in accordance with the internal audit plan. They also were given an opportunity to raise issues with the Committee in the absence of management, in a closed session held during each Committee meeting.

## **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, reviewing and approving annually (including in financial year 2016) the Company risk profile, reviewing, ratifying and monitoring systems of risk management and setting the risk management tone and expectations across the Company.

The dairy industry is going through a major period of change with a number of external factors (including commodity price and foreign exchange fluctuations) threatening the Company's ability to deliver on key aspects of its strategic priorities. In order to understand and manage this complex risk landscape, Murray Goulburn has implemented a robust enterprise risk management framework underpinned by regular risk assessments and monitoring key risk exposures.



Key risks and mitigation activities associated with the Company's objectives are set out below:

Risk	Mitigation activities
Dairy commodity prices	<ul style="list-style-type: none"> <li>• Delivery of our strategic initiatives focused on shifting to value added products to reduce exposure to commodity prices.</li> </ul>
Exchange rate fluctuations	<ul style="list-style-type: none"> <li>• Foreign exchange fluctuations will continue to be managed through our hedging policy and delivery of our value added product strategy.</li> </ul>
People safety	<ul style="list-style-type: none"> <li>• Relentless focus on delivering our Goal Zero safety program through active identification and management of safety hazards.</li> <li>• Continued capital investment made to mitigate safety hazards.</li> </ul>
Product safety	<ul style="list-style-type: none"> <li>• Continue to deliver our food safety program with absolute commitment to meeting or exceeding all food safety requirements.</li> <li>• Continuously improve our food quality program to improve customer experience.</li> </ul>
Attraction, retention and succession of key roles	<ul style="list-style-type: none"> <li>• Succession plans and talent management plans in place for key roles.</li> <li>• Experienced leadership team in place to deliver key strategic initiatives.</li> <li>• Focus on finalising recruitment for key roles, including MD/CEO and Chief Financial Officer.</li> </ul>
Environmentally sustainable business practices	<ul style="list-style-type: none"> <li>• Mechanisms in place to identify, manage and monitor compliance with key environmental requirements across the business.</li> <li>• Focus on reducing our environmental footprint through effective management of our emissions.</li> </ul>
Operational efficiency and innovation underpinning our competitive advantage	<ul style="list-style-type: none"> <li>• Significant investments are being made to increase the operational effectiveness and efficiency of our productive assets.</li> <li>• Delivery of strategic capital projects to support the future growth of the business through increased production of nutritionals, cheese and dairy beverages.</li> </ul>
Ability to penetrate growth markets	<ul style="list-style-type: none"> <li>• Continued investment in delivering our growth strategies into the Asian market.</li> <li>• Establishment of distribution channels to enhance sales in China.</li> <li>• Identification and management of regulatory changes in China that could impact Murray Goulburn's ability to grow in that market.</li> </ul>

Following the trading update and revised outlook announcement made in April 2016, it was acknowledged that the loss of milk would be an emerging risk for MG and this will be a focus area for FY17.

Murray Goulburn is committed to continuing to improve its enterprise risk management practices to protect and enhance shareholder value.

The Board is supported in its role of overseeing risk by the Finance, Risk and Audit Committee which reviews the ongoing risk management program, procedures, auditing and enterprise risk management as well as evaluating the adequacy and effectiveness of management reporting and control systems associated with financial and enterprise 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. These reports comprise information prepared in accordance with:

- company-wide mandatory requirements for risk identification, assessment (in accordance with the risk rating matrix), response, monitoring and reporting; and
- 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.

During the year, the Committee also oversaw the continued development of the internal controls framework, which is based on leading internal control practices. The key activities undertaken during the year include:

- renewal of company-wide mandatory requirements;
- development and implementation of a control self-assessment that supports the educational process of the business in relation to the operation of key controls as well as provides assurance from management over the effectiveness of key controls being operated across the business; and
- the internal audit function continuing to monitor the implementation of agreed management actions to enhance the existing internal controls system.

The MD/CEO and the Chief Financial Officer make representations to the Board in respect of the Company's half year and annual financial statements that, in their opinion, the financial records of the Company have been properly maintained, the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, and that the opinion has been formed on the basis of an adequate system of risk management and internal control which is operating effectively.

# Corporate Governance Statement continued

## Remuneration and Nominations Committee

### **Role and responsibilities**

The primary role of the Remuneration and Nominations Committee is to 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 to assist the Board in its consideration of the succession planning processes for the MD/CEO, Special Directors, Supplier Directors and the Chair and for overseeing 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 and 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 MD/CEO and assist the Chair with reviews of the MD/CEO's performance;
- review and recommend arrangements for the executive directors and the MD/CEO's direct reports, including contract terms, annual remuneration and participation in the Company's short-term and long-term incentive plans;
- review and recommend to the Board executive succession plans, including the succession of the MD/CEO;
- 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;
- oversee the succession planning processes for the identification of suitable Supplier Director and Special Director candidates for appointment to the Board;
- oversee and make recommendations to the Board in relation to the succession planning process for the role of the Chair of the Board; and
- oversee the director induction and training programs.

### **Membership and meetings**

The Committee must consist 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 chair.

The members of the Committee during this period were:

Name	Membership status for FY16
Philip Tracy (Chairman)	Member for the entire period
Peter Hawkins	Member for the entire period
Michael Ihlein	Member for the entire period
Ken Jones	Member for the entire period
John Pye	Member for the entire period

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

The Remuneration and Nominations Committee met five times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 44.

### **Activities during the year**

The key activities undertaken by the Committee during the period in relation to the Company's remuneration framework, the policies and practices regarding the remuneration of Directors, as well as the contractual arrangements, remuneration and performance evaluation of other members of Key Management Personnel, are reflected in the Remuneration Report on pages 45 to 56.

During the year, the Committee also:

- continued to identify (with assistance from an external recruitment consultant) potential candidates for the third Special Director, which culminated in the appointment of Kiera Grant as a Special Director on 14 March 2016 (who subsequently resigned on 3 May 2016);
- reviewed the individual talent plans for members of the Executive Leadership Team, as part of its oversight of executive succession planning;
- reviewed and recommended to the Board the grant of the Long Term Incentive Plan award for financial year 2016 (for the performance period 1 July 2015 to 30 June 2018), including the incorporation of a unit price movement for the calculation of the final cash payment with a view to aligning interests of senior executives with those of shareholders and unitholders;
- oversaw, and is continuing to oversee, the development of:
  - the Board skills matrix;
  - succession planning process for the role of the Chair of the Board; and
  - the succession planning process for Supplier Directors through the identification of suitable potential candidates and a proposed governance program to help potential candidates build the requisite skills and capabilities for a directorship with Murray Goulburn; and
- continued to review progress against the Company's diversity objectives and other activities undertaken in relation to diversity and recommended to the Board the Gender Diversity Plan for financial years 2017 and 2018 to 'build', 'support' and 'sustain' diversity across the Company, together with the targets for financial year 2017.

## 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 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 must consist 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 chair, who is not Chair of the Board.

The members of the Committee during this period were:

Name	Membership status for FY16
Michael Ihlein (Chairman)	Member for the entire period
Bill Bodman	Member since 24 November 2015
Max Jelbart	Member until 24 November 2015
Ken Jones	Member until 27 May 2016
Graham Munzel	Member for the entire period
Martin Van de Wouw	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 Chair.

The Compliance Committee met six times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 44.

### 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 applicable laws and regulations, through regular detailed reports from management, with a particular focus on the areas of quality and food safety, occupational health and safety and environment;
- receiving reports on significant quality and food safety, occupational health and safety and environment incidents, including outcomes of investigations and remedial and preventative actions taken by management; and

- overseeing the matters considered and discussed by management's Executive Safety Leadership Committee and Executive Quality Leadership Committee by reviewing minutes of meetings.

## 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 Company's provision of regular updates of major Company developments.

The Committee's key responsibilities include:

- approving the overall strategy for communication with suppliers developed by management;
- reviewing and monitoring the interface between the Company and suppliers and reviewing matters that are likely to affect that interface;
- 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 Group in relation to their interactions with and services provided to suppliers;
- receiving and considering reports relating to the MG Trading Stores in relation to their interactions with and services provided to suppliers;
- reviewing any proposed amendments to Company policies or procedures which could affect the Company's relationship with its suppliers, and making recommendations to the Board; and
- providing advice and guidance for management in relation to complaints lodged with the Company by suppliers.

### Membership and meetings

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

Name	Membership status for FY16
John Pye (Chairman)	Member for the entire period
Natalie Akers	Member for the entire period
Bill Bodman	Member for the entire period
Max Jelbart	Member until 2 May 2016
Ken Jones	Member for the entire period
Duncan Morris	Member until 10 May 2016
Graham Munzel	Member for the entire period
Philip Tracy	Member for the entire period
Martin Van de Wouw	Member for the entire period



## Corporate Governance Statement continued

The Special Directors and MD/CEO 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 Chair.

The Supplier Relations Committee met seven times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 44.

### **Activities during the year**

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

- receiving and considering regular reports from management on the activities undertaken by the Field Services team, including in relation to milk supply and the various services and programs available to suppliers;
- considering the milk payment arrangements for financial year 2017, together with corresponding changes to milk payment terms and conditions;
- receiving and considering regular reports from management in relation to the activities undertaken by the MG Trading team, including in relation to MG Trading Stores and related projects and initiatives;
- considering significant policy, industry and government issues relevant to Murray Goulburn's suppliers and its business;
- receiving and considering regular reports from management in relation to quality (farm to factory);
- considering updates in relation to supplier communications activities; and
- receiving regular reports on the Supplier Development Program and Consultative Group.

## **4. Independence, Performance Evaluation, Remuneration and Unit Ownership**

### **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 a Director to be independent where he or she is free of any interest, position, association or relationship that might influence, or might reasonably be perceived to influence, in a material respect his or her capacity to bring independent judgement to bear on issues before the Board and to act in the best interests of the Company and shareholders generally. A copy of the guidelines can be found at Attachment 1 to the Board Charter at [www.mgc.com.au/investor-centre/governance](http://www.mgc.com.au/investor-centre/governance). On this basis, all Non-executive Directors are considered to be independent.

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;
- Board discussion of a proposal to change the milk price will be chaired by a Special Director, and if there is an equality of votes on whether the change to the milk price should be adopted, that Special Director will have a casting vote; 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 the Supplier Relations team; and
  - Directors refrain from discussing with suppliers any proposals to change the milk price.

### **Performance Evaluation**

The Board conducts periodic evaluations of its performance, the performance of Board Committees, the Chairman, individual Directors and the governance processes that support the Board's work. This includes analysis of how the Board and its Directors are functioning, the time spent by the Board considering matters and whether the Charters of the Board and its Committees have been met. The Board assesses its performance through a combination of internal reviews and externally facilitated evaluation.

Early in the year, an internal review of the Board and its Committees was undertaken with the outcome being that the Board and its Committees are continuing to function effectively and in accordance with the respective Charters.

In June 2016, the Company commenced an externally facilitated evaluation of the Board, its Committees, the Chairman and individual Directors. While this evaluation is still in progress, the reports produced by the external service provider will be relied on by the Board and its Committees to determine whether they are continuing to function effectively and in accordance with the respective Charters and to consider any identified improvement opportunities.

## 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 45 to 56 of this Annual Report.

## Directors' Unit Ownership

The Board has adopted a policy in relation to Directors' ownership of units in the MG Unit Trust, which provides:

- Special Directors (as defined in the Company's Constitution) should not acquire units in the MG Unit Trust; and
- Directors other than Special Directors and the Managing Director are expected to acquire units in the MG Unit Trust over a three year period (at times when they are permitted to trade in accordance with the Securities Dealing Policy) until their unitholding is equivalent to one year's base fee and thereafter to maintain at least that level of unitholding throughout their tenure.

All dealings by Directors are subject to Murray Goulburn's Securities Dealing Policy and are notified to the ASX.

## 5. Conduct and ethics

### Code of Conduct

Murray Goulburn 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, investors 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 investors, business partners and the communities in which Murray Goulburn operates.

### Securities Dealing Policy and insider trading

The Board has adopted a Securities Dealing Policy that covers dealings by Directors and employees and complies with the ASX Listing Rule requirements for a trading policy. The Securities Dealing Policy, which is available at [www.mgc.com.au/investor-centre/governance](http://www.mgc.com.au/investor-centre/governance), restricts dealings by Directors and employees in Murray Goulburn securities (including units in the MG Unit Trust) during designated prohibited periods and at any time they are in possession of unpublished price sensitive information. The Securities Dealing Policy aims to ensure that public confidence is maintained in the reputation of Murray Goulburn, the reputation of its directors and employees and in the trading of Murray Goulburn securities.

## 6. Continuous Disclosure and Communications with Shareholders

### Market disclosure

Murray Goulburn is committed to making timely and balanced disclosure of all material matters and effective communication with its key stakeholders so as to give them ready access to clear and relevant information to assist them in making informed decisions.

As an unlisted public company and disclosing entity, Murray Goulburn Co-operative Co. Limited has significant continuous disclosure obligations under the *Corporations Act 2001*. Following the listing of the MG Unit Trust on the ASX on 3 July 2015, MG Responsible Entity Limited (a wholly owned subsidiary of Murray Goulburn Co-operative Co. Limited and responsible entity of the MG Unit Trust) also has significant continuous disclosure obligations under the *Corporations Act 2001* and the ASX Listing Rules.

Murray Goulburn Co-operative Co. Limited has entered into the Relationship Deed and Continuous Disclosure Deed Poll with MG Responsible Entity Limited in recognition that most of the information that will have a material effect on the price of units in the MG Unit Trust will relate to the performance and operations of the Company. The deeds provide that Murray Goulburn Co-operative Co. Limited and MG Responsible Entity Limited will coordinate their continuous disclosure functions and specify a process designed to enable MG Responsible Entity Limited to obtain information that is, or may be, information that would have a material effect on the price or value of units for the purpose of MG Responsible Entity Limited meeting its continuous disclosure obligations.

Murray Goulburn has established a Disclosure Committee, which manages compliance with market disclosure obligations. In order to ensure the timely flow of potentially disclosable information, disclosure officers have been appointed for each of the Company's key business units and functions. Disclosure officers are responsible for ensuring all material information relevant to their respective area is reported internally and, where necessary, the information will be referred to the Disclosure Committee for consideration from a continuous disclosure perspective. Further information regarding the mechanism in place in relation to market disclosure and stakeholder communication is set out in the Market Disclosure and Communications Policy which is available at [www.mgc.com.au/investor-centre/governance](http://www.mgc.com.au/investor-centre/governance).

# Corporate Governance Statement continued

## Communication with key stakeholders

The Company places a high priority on communication with shareholders, unitholders, market participants and other stakeholders and aims to ensure they are kept informed of all major developments affecting Murray Goulburn.

One of the key communication tools is Murray Goulburn's website. The website contains the key governance documents, market announcements, the Annual Report and half-yearly financial statements and other communications to key stakeholders. The website also contains a facility for shareholders to direct inquiries to the Company.

Shareholders are provided with an update on Murray Goulburn's performance at the Annual General Meeting, as well as an opportunity to vote on important matters affecting Murray Goulburn and ask questions of the Board and key members of management. Copies of the Chairman's speech and the meeting presentation are released to the ASX and posted to Murray Goulburn's website as the meeting commences. A summary of proceedings and outcome of voting on the items of business are also released to the ASX and posted to the website as soon as they are available after the meeting. The Company encourages shareholders to receive communications electronically. Shareholders may elect to receive all or some of their communications electronically. This election can be made directly with the Share Registry, Computershare Investor Services Pty Limited.

In addition to the Annual General Meeting, the Company regularly communicates with its shareholders through supplier meetings that are held throughout Victoria, South Australia and New South Wales at least twice a year.

## 7. Diversity

The Company submitted its annual public report on gender equality to the Workplace Gender Equality Agency (WGEA) in June 2016. The gender make-up of Murray Goulburn's Board, senior executives and employees as at 30 June 2016 is set out below:

	Male	Female	Female (percentage of total)
Board (Non-executive Directors)	10	1	9%
Senior executives*	5	2	28%
Managers and supervisors	287	109	28%
Non-managers	1,706	509	23%

\* Members of the Executive Leadership Team.

The Company has adopted a formal diversity statement that sets out the Company's commitment to an inclusive workplace that embraces and promotes diversity, where high performing people choose to work. It also outlines the underpinning principles, accountabilities and objectives in enhancing diversity at Murray Goulburn.

The Board has set measurable objectives to monitor progress in addressing any diversity imbalance issues. The objectives and the progress made towards the objectives during the year are set out below.

### 1. Supplier Development Program

#### Objective

To increase the rate of female participation each year.

#### Progress

Female participation rate was 48 percent for FY16, up from 38 percent in FY15. The goal is to achieve and maintain 50 percent.

### 2. Candidacy Attraction Rates

#### Objective

To increase females identified on long and short lists for all key leadership roles, including directorship positions.

#### Progress

Out of 13 senior leadership roles recruited for in FY16, four (30 percent) were filled by females. This is an improved position from our overall female population of 24 percent. Eight of the 13 (62 percent) senior leadership roles had females on the short list. Three of the roles that did not have females shortlisted were regional manufacturing/operational roles which are historically difficult to find viable female candidates for.

### 3. Employee Turnover/Retention Profiling

#### Objective

To assess rates and reasons by age, tenure and gender.

#### Progress

The outcomes of the assessment include:

- the overall turnover of permanent employees is 8.6 percent, which is well below the industry average of 16.2 percent;
- voluntary turnover for females (12 percent) is slightly higher than for males (8 percent). This trend is consistent with the industry average of 14.5 percent for females and 10.8 percent for males;
- the four key reasons given for females leaving were career change, limited career progression, role expectations and personal reasons (including travel, relocation and pregnancy); and
- the highest turnover relates to the Company's longest serving employees, that is those with 40 to 49 years' service. The next highest turnover is amongst employees with less than two years' service.

This Corporate Governance Statement has been approved by the Board of Directors.





# Financial Statements

## Contents

Directors' Report 2016	41
Remuneration Report 2016	45
Consolidated Statement of Profit or Loss	57
Consolidated Statement of Comprehensive Income	58
Consolidated Statement of Financial Position	59
Consolidated Statement of Changes in Equity	60
Consolidated Statement of Cash Flows	62
Notes to the Financial Statements	63
Directors' Declaration	101
Auditor's Independence Declaration	102
Auditor's Report	103

# Directors' Report 2016

Your Directors present the following report for the financial year ended 30 June 2016.

## Directors

The Directors listed on page 44 each held office as a Director of Murray Goulburn Co-operative Co. Limited (Murray Goulburn or the Company) at all times during or since the end of the financial year.

## Company Secretaries

Fiona Smith (BSc, LLB, GDipGov, FGIA) joined the Company and was appointed as a Company Secretary in January 2012. She has experience in company secretarial roles arising from time spent in such roles in listed companies.

Natalie McKaig (LLB, GDipCoSecPrac, AGIA) joined the Company in January 2013 and was appointed as a Company Secretary in August 2014.

## 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; and
- the operation of retail stores as a service to the suppliers.

No significant change in the nature of these activities occurred during the year.

## Dividends Paid or Recommended

The following dividends were paid or recommended in respect to:

\$000

### a) Dividends paid during 2015/2016 in respect to the financial year ended 30 June 2015:

Final dividend paid in September 2015

On Ordinary Shares at \$0.09 per share fully franked	25,286
	25,286

### b) Dividends/distributions paid during 2015/2016 in relation to the financial year ended 30 June 2016:

Interim dividend of \$0.035 per ordinary share fully franked	12,198
Interim distribution of \$0.035 per unit fully franked <sup>(i)</sup>	7,216
Total dividends paid during the financial year ended 30 June 2016	44,700

### c) Dividends/distributions proposed, but not yet paid, in respect to the financial year ended 30 June 2016:

Final dividend/distribution recommended for payment on 29 September 2016

(Dividends/distributions declared subsequent to 30 June 2016 and therefore not recognised)

On Ordinary Shares, with dividend record date of 6 September 2016, at \$0.0391 per share fully franked	13,679
On Units, with distribution record date of 6 September 2016, at \$0.0391 per unit fully franked <sup>(i)</sup>	8,008
	21,687

- (i) The payment of the distribution on units is paid by MG Unit Trust, Murray Goulburn pays distributions on Notes and Dividends on Convertible Preference Shares held by MG Unit Trust to the equivalent amount as distributed by MG Unit Trust on its units.



# Directors' Report 2016 continued

## Review of Operations

The consolidated entity reported profit after income tax of \$39.8 million (2015: \$21.2 million) for the financial year ended 30 June 2016.

Consolidated sales revenue was \$2,778 million (2015: \$2,872 million) for the financial year ended 30 June 2016, a decrease of 3.3 percent on the prior year. Consolidated profit after income tax of \$39.8 million (2015: \$21.2 million) for the financial year ended 30 June 2016 was 87.6 percent higher than the prior year. 2015 profit result did not include application of the profit sharing mechanism. Consolidated sales revenue was adversely impacted by the continued deterioration in commodity prices during the year, partly offset by increasing volumes and revenues in the Dairy Foods segment.

## Future Developments

Murray Goulburn has forecast the Available Southern Milk Region Farmgate Milk Price (FMP) for the year ending 30 June 2017 to be \$4.80 per kilogram milk solids (kgms), which includes the add-back of quality adjustments accrued from the supply of non-premium milk. The net opening FMP for financial year 2017 has been set at \$4.45 per kgms with \$0.14 per kgms to be applied to the recoupment of the Milk Supply Support Package (MSSP). Commodity prices remain the largest external influence on Murray Goulburn's financial performance. Global conditions remain subdued with key commodity prices remaining below US\$3,000 per tonne for almost two years, much longer than historical price downturns.

The forecast FMP for financial year 2017 reflects Murray Goulburn's view that commodity prices will continue to trade around current levels for the remainder of the 2016 calendar year with only a modest recovery in price of around 6 percent across Murray Goulburn's major commodities during the second half of financial year 2017. This prolonged environment of lower prices means Murray Goulburn expects to achieve lower average selling prices for commodities (Full Cream Milk Powder, Skim Milk Powder, Cheddar and Bulk Butter) throughout financial year 2017 when compared with financial year 2016, which will impact the Distributable Milk Pool by approximately \$95 million.

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

## Significant Changes in the State of Affairs

On 3 July 2015 MG Unit Trust listed on the Australian Securities Exchange which raised \$500 million to enable Murray Goulburn to invest in three key projects: Nutritional Powders, Dairy Beverages and Cheese. \$67 million has been invested this year to build a world-class retail cheese facility at Cobram and plans to commence construction of a new nutritional powders plant at Koroit have been announced.

On 1 February 2016 Murray Goulburn announced it had entered into a five-year national private label contract to supply Coles branded Australian cheese. The contract includes the supply of a range of Coles branded cheddar-style cheese including tasty, Colby, mild and light cheese in blocks, shreds and slices for Coles supermarkets across Australia. The national cheese contract will generate approximately \$130 million in additional sales per annum and deliver a stable stream of profits to Murray Goulburn over the life of the contract.

On 15 March 2016 Murray Goulburn announced a long-term nutritional supply agreement with Indonesia's leading consumer health and infant nutrition company, Kalbe Nutritional (KALBE) which supports obtaining sufficient offtake agreements to underwrite the planned \$260–\$300 million nutritional powders investment at Koroit. The new nutritional supply agreement between KALBE and Murray Goulburn builds on the existing supply partnership which has seen Murray Goulburn supply dairy powders for use in KALBE's range of nutritional products including infant and children nutrition brands. Under the long-term supply agreement, Murray Goulburn has committed to supply and KALBE has committed to purchase significant minimum annual volumes over time.

Also on 15 March 2016 Murray Goulburn announced it had entered into a framework agreement to establish a strategic supply alliance with leading global paediatric nutrition company Mead Johnson Nutrition (MJN). The signed framework agreement sets out key terms of a major long-term offtake arrangement, under which MJN commits to acquire certain volumes of nutritional powders from Murray Goulburn on an annual basis. As a result of these two arrangements, Murray Goulburn is in a position to proceed with its plans to build a state-of-the-art nutritional powders plant.

On 27 April 2016 Murray Goulburn issued a trading update and revised outlook for the remainder of the financial year 2016, and introduced the MSSP. It also announced that Gary Helou stepped down as Managing Director and was replaced by David Mallinson, previously Executive General Manager Business Operations, as Interim Chief Executive Officer. It was also announced that Brad Hingle, Chief Financial Officer, resigned. He was replaced on 14 June 2016 by Alan Tilley as Interim Chief Financial Officer. Permanent replacements of these roles have not been decided upon by the Board as at the date of this report.

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

### Events Subsequent to Balance Date

On 29 July 2016 Murray Goulburn announced that following a competitive tender process, Woolworths selected a new supplier to manufacture and pack a range of its private label products including cheese, UHT, adult milk powder and cream with the last cheese deliveries to Woolworths planned for mid-January 2017. Annualised revenue loss will be approximately \$108 million, however the financial impact on Murray Goulburn for financial year 2017 will be limited due to the timing of existing contracts completing. Further, Murray Goulburn will adjust future manufacturing planning to redirect this capacity to other markets, limiting future revenue and earnings impacts.

With the exception of the above announcement and the declaration of dividends post 30 June 2016 detailed in Note 8 'Unrecognised Amounts', no other 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 2016.

### Environmental Regulations

The Company continues to actively track modifications to environmental legislation and incorporates these changes within its internal processes.

In line with environmental legislation, the Company reports on its annual energy use and greenhouse gas emissions under the *National Greenhouse and Energy Reporting Act 2007*. Murray Goulburn also reports on the annual environmental performance at its licensed sites through requirements outlined by the various state-based environment regulations.

During the financial year, the Victorian Environment Protection Authority (EPA) served two statutory notices on the Company. Both related to underground wastewater pipeline integrity issues at the Rochester site. The first notice was resolved to the satisfaction of the EPA during the financial year while the second notice is due to be resolved in 2017.

### Remuneration

The Remuneration Report containing the remuneration of key management personnel (KMP) is provided on pages 45 to 56.

### Insurance of Officers

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

### Auditor's Independence Declaration

Our auditors have provided the Board of Directors with a signed Independence Declaration in accordance with section 307C of the *Corporations Act 2001*. This declaration is included at page 102 of this financial report.

### Rounding of Amounts to the Nearest Thousand Dollars

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

# Directors' Report 2016 continued

## Meeting Attendance by Directors

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

Director and Location	Qualifications and Experience	Committee meetings				
		Board of Directors 19 held	Finance, Risk & Audit 5 held	Compliance 6 held	Remuneration & Nominations 5 held	Supplier Relations 7 held
		Meetings attended (Meetings held whilst a member of the Board/Committee)				
PW Tracy Chairman Foster	Dairy Farmer BEc/BComm, CA, SIA, GAICD Director since 2009	18 (19) <sup>#</sup>	*	*	5	7
G Helou Managing Director Melbourne	BE (Hons) MComm, FAICD, FAIM Director from 2011 until 28 April 2016	13 (15) <sup>#</sup>	*	*	*	*
KW Jones Deputy Chairman Gundowring	Dairy Farmer Adv. Dip. Ag., MAICD Director since 2008	18 (19)	*	6	5	6 (7)
N Akers Tallygaroopna	Dairy Farmer BPPM (Hons), BA, GAICD Director since 2011	19	5	*	*	7
WT Bodman Won Wron	Dairy Farmer BSc (Ag), GAICD Director since 2009	18 (19) <sup>#</sup>	2 (2)	4 (4)	*	7
K Grant Sydney	B. Ec, FAICD Director from 14 March 2016 until 3 May 2016	5 (5)	*	*	*	*
PJO Hawkins Melbourne	BCA (Hons), FAICD, SF Fin, FAIM ACA (NZ) Special Director since 2009	18 (19)	5	*	5	*
MF Ihlein Sydney	BBus (Acc), FCPA, FAICD, F Fin Special Director since 2012	19	*	6	5	*
ML Jelbart Leongatha	Dairy Farmer Director from 2012 until 2 May 2016	10 (15) <sup>#</sup>	1 (2)	2 (2)	*	4 (6)
ED Morris Cobden	Accountant and Dairy Farmer Dip. Bus. Studies (Accounting), CPA GAICD Director from 2013 until 10 May 2016	16 (16)	4 (4)	*	*	6 (6)
GN Munzel Gunbower	Dairy Farmer FAICD Director since 2008	19	*	6	*	7
JP Pye Bessiebelle	Dairy Farmer Adv. Dip. Ag., MAICD Director since 2005	19	5	*	5	7
MJ Van de Wouw Timboon	Dairy Farmer MAICD, Director since 2010	19	*	6	*	7

\* Not a member of the relevant committee.

<sup>#</sup> Includes one Board meeting to which the member was not invited due to either consideration of Gippsland Region Supplier Director candidate assessments or a closed session of Non-executive Directors.

The Managing Director has a standing invitation to attend all Board Committee meetings.



# Remuneration Report 2016

This report sets out the remuneration arrangements for Directors and other key management personnel (KMP) of Murray Goulburn for the year ended 30 June 2016 (FY16). Companies that are disclosing entities by virtue of having a wide base of shareholders, but which are not listed, are not required to report on the remuneration of their KMP under section 300A of the Corporations Act. The Board of Murray Goulburn is issuing this Remuneration Report as a voluntary disclosure to enhance transparency and communication with stakeholders in relation to the Company's remuneration practices.

The report covers the following:

Section	What it covers	Page
<b>1. Remuneration snapshot</b>		
1.1. Key points	Provides a summary of the remuneration outcomes for FY16.	46
1.2. Key changes during FY16	Details the key remuneration changes in FY16.	46
1.3. Key Management Personnel	Lists the names and roles of the KMP whose remuneration details are disclosed in this report.	46
<b>2. Setting senior executive remuneration</b>		
2.1. Remuneration governance and strategy	Explains Murray Goulburn's remuneration policy and strategy, and how the Board and Remuneration Committee make decisions, including the use of external consultants.	47
2.2. Remuneration components	Shows how executive remuneration is structured to support business objectives and explains the executive remuneration mix.	47
2.3. FY16 Short Term Incentive Plan (STIP)	Provides details of the FY16 STIP.	49
2.4. FY16 Long Term Incentive Plan (LTIP)	Provides details of the FY16 LTIP.	50
<b>3. Executive remuneration outcomes</b>		
3.1. Financial performance	Provides a breakdown of Murray Goulburn's performance over the past five years.	52
3.2. Short Term Incentive Plan (STIP) outcomes	Details the STIP outcomes for FY16.	52
3.3. Long Term Incentive (LTIP) outcomes	Details the LTIP outcomes for the plan with a performance test at 30 June 2016.	52
3.4. KMP contract details	Lists the key contract terms governing the employment of KMP (including termination entitlements where relevant).	53
<b>4. Non-Executive Director remuneration outcomes</b>		
4.1. Remuneration structure	Provides details of the fee structure for Board and Committee roles.	53
<b>5. Remuneration tables</b>		
5.1. KMP remuneration	Provides the remuneration tables for KMP.	54
5.2. Non-executive Director remuneration	Provides the remuneration tables for the non-executive Directors.	55
5.3. Shareholdings	Outlines the shareholdings of Directors.	56

# Remuneration Report 2016 continued

## 1. Remuneration Snapshot

### 1.1. Key points

Sales revenue for FY16 was \$2.78 billion (this was 3.3 percent lower than the prior year). Murray Goulburn continued to minimise the impact of the significant reduction in dairy commodity prices experienced in FY16 by growing its Dairy Foods business which generated sales revenue of \$1.32 billion, a growth of 17.2 percent over FY15. The Ingredients and Nutritional segment revenue was lower by 18.5 percent. Despite strong growth in the Dairy Foods segment, the continued decrease in international commodity prices significantly impacted Available Milk Price. Growth in Dairy Foods could not fully counter the deterioration in the Ingredients and Nutritionals segment. Milk intake decreased by approximately 2.5 percent over FY15 volumes.

#### Outcomes for the FY16 year include:

Short Term Incentive Plan Outcomes	The Board determined that no STI payment would be awarded in FY16.
Long Term Incentive Plan Outcomes	The Board determined that no LTIP payment would be awarded for the FY14 LTIP.

### 1.2. Key changes during FY16

During the year there were significant changes to our Executive Leadership Team (ELT), with the resignation of the Managing Director (MD) and the Chief Financial Officer (CFO) and the appointment of an Interim Chief Executive Officer (CEO) and Interim CFO. The Executive General Manager Dairy Foods and Ingredients resigned on 30 June 2016.

The Board reviewed the design of the Long Term Incentive Plan and replaced Implied Milk Price Growth (IMPG) with Distributable Milk Pool (DMP) and Return on Capital Employed (ROCE) with Total Shareholder Return (TSR) for the LTIP awards for FY16. The Board also approved a mechanism to link LTIP cash payments to MG Unit price movement, providing additional alignment of key management personnel with shareholders and unitholders.

### 1.3. Key Management Personnel

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

The KMP disclosed in this report are:

Name	Position
<b>Non-executive Director</b>	
PW Tracy	Chairman
KW Jones	Deputy Chairman
N Akers	Non-executive Director
WT Bodman	Non-executive Director
K Grant	Special Director (Non-executive) Appointed 14 March 2016. Resigned 3 May 2016
PJO Hawkins	Special Director (Non-executive)
MF Ihlein	Special Director (Non-executive)
ML Jelbart	Non-executive Director Resigned 2 May 2016
ED Morris	Non-executive Director Resigned 10 May 2016
GN Munzel	Non-executive Director
JP Pye	Non-executive Director
M Van de Wouw	Non-executive Director
<b>Executive Director</b>	
G Helou	Managing Director Resigned 28 April 2016
<b>Executive</b>	
D Mallinson	Interim Chief Executive Officer
F Smith	Chief Operating Officer
B Hingle	Chief Financial Officer Resigned 26 April 2016
A Moncau	Executive General Manager Dairy Foods and Ingredients Resigned 30 June 2016

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

## 2. Setting Senior Executive Remuneration

### 2.1. Remuneration governance and strategy

The Board has the overall responsibility for approving the remuneration policy of the Company and ensuring that the Company's remuneration arrangements are appropriate and align with the interests of shareholders and unitholders. To assist it in its role, the Board's Remuneration and Nominations Committee oversees the Company's remuneration policy and framework with particular reference to its application to the Managing Director/interim Chief Executive Officer and their direct reports. The remuneration arrangements for all other executives are determined by the Managing Director/interim Chief Executive Officer or relevant managers within the Remuneration Framework approved by the Board. The Board, through the Remuneration and Nominations Committee, seeks and considers advice from remuneration consultants who are independent of management. In FY16, Ernst and Young (EY) were engaged by the Board and reported directly to the Committee.

To assess market competitiveness in FY16, the Committee engaged EY for the provision of market data but EY did not provide any remuneration recommendation.

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

- Creates and enhances sustainable long-term value by maximising returns for all shareholders and unitholders.
- Provides market competitive and equitable remuneration.
- Recognises and rewards high performing individuals.
- Encourages behaviours that support a high performing organisation.

### 2.2. Remuneration components

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

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

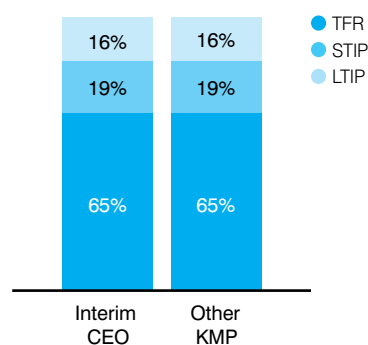


# Remuneration Report 2016 continued

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

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

The graph below shows the FY16 remuneration mix ('At target' STIP and LTIP) for executives in the KMP group as at 30 June 2016. The remuneration structure of the interim CEO and other KMP comprises both fixed and at-risk remuneration.



### 2.3. FY16 Short Term Incentive Plan (STIP)

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

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

Participants in the FY16 STIP are determined based on Murray Goulburn's Remuneration Framework and includes the Managing Director, ELT members and senior managers.

Any payment under the FY16 STIP is subject to achievement of a gateway requirement. For FY16, milk price and net profit after tax (NPAT) were set as gateway requirements for any payment under the FY16 STIP.

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

There are different target STI percentage opportunities and weightings applied for the achievement of company goals and individual performance. These are outlined in the table below:

Role	At Target Opportunity of Fixed Remuneration	Weighting	
		Company Goals	Individual Performance
Managing Director	40%	80%	20%
Interim Chief Executive Officer	30%	60%	40%
Executive Leadership Team	30%	60%	40%

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

Performance Measure	Description
Financial – milk price performance	The target closing milk price is set by the Board at the beginning of the financial year.
Financial – net profit after tax	NPAT measures bottom line growth and increases in earnings.
Safety	The reduction in the Total Recordable Injury Frequency Rate (TRIFR) is a key measure of success for the Company. Each year, the Board sets a percentage reduction that is challenging to achieve.
Quality	To meet the Quality performance condition, the Company must achieve savings against budgeted write-offs resulting from milk solid losses (yield), downgrades and finished product losses of an amount set by the Board at the start of each financial year.
People	To meet the People performance condition, the Company must provide quarterly updates on performance to corporate goals and key performance metrics, in an agreed time frame.
Transformation	'Program Evolution' is a strategic initiative to integrate and simplify business processes and systems across the business. To meet this performance condition, the Company must meet specific implementation timeframes.
Individual KPIs	Individual KPIs are set for all participants in the STIP. The Board approves individual KPIs for the KMP and other members of the Executive Leadership Team KPIs. All individual KPIs are linked to the delivery of the business strategy of the Company.

Under the FY16 STIP, STI outcomes are subject to the Company meeting both a Southern Region Available Farmgate Milk Price and Net Profit after Tax 'gateway' before any STI payments are made. If this 'gateway' is not met, as determined by the Board in its absolute discretion, no employee will receive an STI payment for FY16.

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

Performance against Company goals is assessed by the Remuneration and Nominations Committee. With the exception of the Managing Director, Interim CEO and Executive Leadership Team, individual performance is assessed by the employee's manager and confirmed by the Executive Leadership Team. The individual performance of the Managing Director and Executive Leadership Team is determined by the Board.

# Remuneration Report 2016 continued

## 2.4. FY16 Long Term Incentive Plan (LTIP)

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

The Board reviewed the design of the Long Term Incentive Plan and replaced Implied Milk Price Growth (IMPG) with Distributable Milk Pool (DMP) and Return on Capital Employed (ROCE) with Total Shareholder Return (TSR) for the LTIP awards for FY16. The Board also approved a mechanism to link LTIP cash payments to MG Unit price movement, providing additional alignment of key management personnel with shareholders and unitholders.

These changes achieve improved alignment between shareholders and unitholders and is more aligned with the Capital Structure. The adoption of TSR ensure that the interests of the executives are closely aligned with those of the Company's shareholders over the long term and to incentivise outperformance of the Company relative to its peers.

The LTIP is made up of the following elements:

Element	Description
Award	Conditional rights to receive cash payment subject to meeting pre-determined performance hurdles. The LTIP is based on two independent performance hurdles being: <ul style="list-style-type: none"> <li>• Distributable Milk Pool (DMP) (50 percent weighting)</li> <li>• Relative Total Shareholder Return (RTSR) (50 percent weighting)</li> </ul>
Vehicle	<ul style="list-style-type: none"> <li>• Cash linked to unit price movement</li> </ul>
Quantum opportunity	<p>Quantum is based on a percentage of fixed remuneration as determined by the Board. The quantum opportunities are based on achieving varying levels of performance with opportunities also available for achieving performance between levels:</p> <p><b>Managing Director</b></p> <p>Threshold performance: 15 percent of fixed remuneration  Target performance: 30 percent of fixed remuneration  Stretch performance: 60 percent of fixed remuneration</p> <p><b>Executive Leadership Team</b></p> <p>Threshold performance: 12.5 percent of fixed remuneration  Target performance: 25 percent of fixed remuneration  Stretch performance: 50 percent of fixed remuneration</p>
Performance period	Three-year performance period from 1 July 2015 to 30 June 2018 with no retesting opportunity available at the end of the performance period.
DMP hurdle and target	<ul style="list-style-type: none"> <li>• The purpose of the DMP hurdle is to focus LTIP participants on driving alignment between shareholders and unitholders.</li> <li>• Targets are set by determining a performance hurdle to be achieved by the end of the three-year period, using the year prior to the grant year as the base year. For example, the current grant performance will be assessed on the DMP from FY15 over a three-year period by comparing the actual result in FY18 to the FY15 amount.</li> <li>• The hurdles and related components within the hurdle are based on forecasted levels of financial performance, including forecasted inflation (wage, energy/utilities, and transport) and Company initiatives. This is then normalised to remove the impact of commodity prices and exchange rates.</li> <li>• Three levels of growth targets are set – threshold (80 percent of target), target (100 percent of target) and stretch (110 percent of target). In order for any amount to be payable, at least 80 percent of the forecast increase in the DMP needs to be achieved over the three-year period.</li> </ul>
RTSR hurdle and target	<ul style="list-style-type: none"> <li>• The purpose of the RTSR hurdle is to ensure that the interests of the executives are closely aligned with those of the Company's shareholders over the long term and to incentivise outperformance of the Company relative to its peers.</li> <li>• The RTSR is assessed against the relative performance over the relevant vesting period as measured against a comparator group.</li> </ul>



Element	Description																								
Vesting schedule	<p>Vesting (or entitlement to payment) occurs according to the following schedule for proportion of the LTIP award (subject to each performance measure).</p> <p><b>Distributable Milk Pool</b></p> <table> <tr> <th>Achievement of hurdle</th><th>Proportion of LTIP award (for the 50 percent related to the DMP hurdle) that is made available</th></tr> <tr> <td>Below threshold</td><td>0 percent</td></tr> <tr> <td>Threshold (80 percent of target)</td><td>50 percent</td></tr> <tr> <td>Between threshold and target</td><td>Straight line correlation between 50 percent and 100 percent of LTIP award opportunity</td></tr> <tr> <td>Target (100 percent of target)</td><td>100 percent</td></tr> <tr> <td>Between target and stretch</td><td>Straight line correlation between 100 percent and 200 percent of LTIP award opportunity</td></tr> <tr> <td>Stretch (110 percent of target)</td><td>200 percent</td></tr> </table> <p><b>Relative Total Shareholder Return</b></p> <table> <tr> <th>Achievement of hurdle</th><th>Proportion of LTIP award (for the 50 percent related to the RTSR hurdle) that is made available</th></tr> <tr> <td>Below 50th percentile</td><td>0 percent</td></tr> <tr> <td>Target (at the 50th percentile)</td><td>100 percent</td></tr> <tr> <td>Above the 50th but below the 75th percentile</td><td>Straight line correlation between 100 percent and 200 percent of LTIP award opportunity</td></tr> <tr> <td>Stretch (equal to or above the 75th percentile)</td><td>200 percent</td></tr> </table>	Achievement of hurdle	Proportion of LTIP award (for the 50 percent related to the DMP hurdle) that is made available	Below threshold	0 percent	Threshold (80 percent of target)	50 percent	Between threshold and target	Straight line correlation between 50 percent and 100 percent of LTIP award opportunity	Target (100 percent of target)	100 percent	Between target and stretch	Straight line correlation between 100 percent and 200 percent of LTIP award opportunity	Stretch (110 percent of target)	200 percent	Achievement of hurdle	Proportion of LTIP award (for the 50 percent related to the RTSR hurdle) that is made available	Below 50th percentile	0 percent	Target (at the 50th percentile)	100 percent	Above the 50th but below the 75th percentile	Straight line correlation between 100 percent and 200 percent of LTIP award opportunity	Stretch (equal to or above the 75th percentile)	200 percent
Achievement of hurdle	Proportion of LTIP award (for the 50 percent related to the DMP hurdle) that is made available																								
Below threshold	0 percent																								
Threshold (80 percent of target)	50 percent																								
Between threshold and target	Straight line correlation between 50 percent and 100 percent of LTIP award opportunity																								
Target (100 percent of target)	100 percent																								
Between target and stretch	Straight line correlation between 100 percent and 200 percent of LTIP award opportunity																								
Stretch (110 percent of target)	200 percent																								
Achievement of hurdle	Proportion of LTIP award (for the 50 percent related to the RTSR hurdle) that is made available																								
Below 50th percentile	0 percent																								
Target (at the 50th percentile)	100 percent																								
Above the 50th but below the 75th percentile	Straight line correlation between 100 percent and 200 percent of LTIP award opportunity																								
Stretch (equal to or above the 75th percentile)	200 percent																								
Adjustments to performance hurdles	Performance hurdles can be amended at the discretion of the Board during the performance period but only following a change to the target setting approach and/or assessment methodology as agreed by the Board or to prevent the participant from receiving an inappropriate benefit in certain circumstances.																								
Adjustments to LTIP award outcomes	Following the end of a performance period, the Board may take into account certain items or factors that may have assisted or hindered the participant in achieving the performance hurdles (beyond those already factored into the forecasted targets). The Board has the discretion to adjust the outcome either upwards or downwards to account for such items or factors or to prevent the participants receiving an inappropriate benefit in certain circumstances. The Board will also give consideration to the Company's performance against that of its competitors.																								
Cessation of employment	On leaving the Company by reason of resignation or termination for cause, all unvested LTI Awards will lapse. Where employment ceases for any other reason a participant's LTI Award will continue on foot and vest subject to performance against existing hurdles, subject to Board discretion.																								

### Summary of FY16 LTIP grant

Element	Description
Grant date	1 October 2015
Performance hurdle	DMP and RTSR
DMP assessment	The hurdle will not be assessed for vesting until the three-year performance period is completed (30 June 2018)
RTSR assessment	The hurdle will not be assessed for vesting until the three-year performance period is completed (30 June 2018)
Payment date	Any payment will be made by 30 November 2018

# Remuneration Report 2016 continued

## 3. Executive Remuneration Outcomes

### 3.1. Financial performance

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

Performance Measure	FY16 \$/kgms	FY15 \$/kgms	FY14 \$/kgms	FY13 \$/kgms	FY12 \$/kgms
Available Milk Price	\$4.80	\$6.02	\$6.81	\$4.97	\$5.44
	\$m	\$m	\$m	\$m	\$m
Net Sales Revenue	2.778	2.872	2.917	2.385	2.367
Profit After Tax	39.8	21.2	29.3	34.9	14.5
Dividends*	41.1	32.3	28.0	25.1	31.3

\* All amounts reflect dividends declared in the period.

### 3.2. Short Term Incentive Plan (STIP) outcomes

In May 2016 the Chairman informed shareholders that no executives are eligible for payments under the FY16 STIP.

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

Name	Short Term Incentive	
	Percentage of Available STI Awarded %	Percentage of Available STI Forfeited %
<b>Managing Director</b>		
G Helou	0	100
<b>Interim Chief Executive Officer</b>		
D Mallinson	0	100
<b>Executive</b>		
F Smith	0	100
B Hingle	0	100
A Moncau	0	100

### 3.3. Long Term Incentive Plan (LTIP) outcomes

The performance period for the FY14 LTIP concluded on 30 June 2016. The participants in this plan are the Managing Director, Chief Financial Officer and Chief Operating Officer.

The Board has determined that neither performance measure met the threshold level of performance and therefore no award will be made under the terms of the plan, as detailed below:

Test date	Long Term Incentive	
	Performance Measure	% of Total Plan Vested (Max)
30 June 2016	Implied Milk Price Growth	0% of max
	Return on Capital Employed	0% of max

### 3.4. KMP contract details

The Company has entered into employment contracts with executives in the KMP group. The employment contracts have no fixed term (except for the Interim CFO) and outline the components of remuneration to be paid. The employment contracts are capable of termination by the Company or the KMP on either six months' written notice (for the Managing Director) or three months' notice (for other KMP) (except for the Interim CFO who is on a fixed term contract). 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
D Mallinson	Interim Chief Executive Officer	3 April 2014
B Hingle	Chief Financial Officer	13 January 2014
F Smith	Chief Operating Officer	9 January 2012
A Moncau	Executive General Manager Dairy Foods and Ingredients	8 April 2015

G Helou resigned on 28 April 2016.

B Hingle resigned on 26 April 2016.

A Moncau resigned on 30 June 2016.

## 4. Non-Executive Director Remuneration Outcomes

### 4.1. Remuneration structure

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

The Murray Goulburn Board and Committee fee structure (inclusive of superannuation) during FY16 was:

Chairman fee	\$325,000
Director base fee	\$130,000
Deputy Chairman fee	\$40,000
FRAC Chair fee	\$30,000
Other Committee Chair fee	\$20,000
> 1 Committee membership fee	\$10,000
Total Fees	\$1,835,000

Table 5.2 provides full details of non-executive Director Remuneration for FY16.

# Remuneration Report 2016 continued

## 5. Remuneration Tables

### 5.1. KMP remuneration

	Short Term Benefits				Leave Benefits			Long Term Benefits	Post Employment Benefits	Total	Proportion of Remuneration Performance Related <sup>(iv)</sup>
	Salary and Allowances	STI Cash Bonus	Non-Monetary <sup>(i)</sup>	Subtotal	Annual Leave Accrued (taken) <sup>(ii)</sup>	Long Service Leave Accrued	Subtotal of Leave Benefits	LTI Cash Incentives <sup>(iii)</sup>	Super-annuation		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Executive Officers</b>											
<b>2016</b>											
D Mallinson <sup>(v)</sup>	671,891	–	–	671,891	45,791	12,256	58,047	4,929	19,308	754,175	0.7
G Helou <sup>(vi)</sup>	2,714,463	–	130,732	2,845,195	(262,489)	(104,194)	(366,683)	(494,000)	18,659	2,003,171	–
F Smith	603,934	–	–	603,934	4,498	19,577	24,075	8,433	19,308	655,750	1.3
A Moncau <sup>(vii)</sup>	792,531	–	–	792,531	8,081	9,696	17,777	–	19,308	829,616	–
B Hingle <sup>(viii)</sup>	625,657	–	–	625,657	12,904	10,303	23,207	(138,875)	19,308	529,297	–
<b>Total</b>	<b>5,408,476</b>	<b>–</b>	<b>130,732</b>	<b>5,539,208</b>	<b>(191,216)</b>	<b>(52,362)</b>	<b>(243,578)</b>	<b>(619,513)</b>	<b>95,891</b>	<b>4,772,009</b>	
<b>2015</b>											
G Helou	1,690,350	751,442	219,946	2,661,738	102,667	34,737	137,404	157,522	18,783	2,975,447	30.5
B Hingle	547,717	190,548	–	738,265	15,268	9,231	24,499	47,208	19,301	829,272	28.7
D Mallinson	639,267	223,007	–	862,274	552	10,884	11,436	55,250	18,783	947,743	29.4
F Smith	556,967	254,553	–	811,520	(16,576)	10,368	(6,208)	48,125	18,783	872,220	34.7
<b>Total</b>	<b>3,434,301</b>	<b>1,419,549</b>	<b>219,946</b>	<b>5,073,796</b>	<b>101,911</b>	<b>65,220</b>	<b>167,131</b>	<b>308,105</b>	<b>75,650</b>	<b>5,624,682</b>	

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

- (i) Non-monetary compensation includes the provision of motor vehicle and travel benefits.
- (ii) Annual Leave column represents the movement in the accrual in FY16.
- (iii) This table has been prepared in accordance with the requirements of the Corporations Act and the relevant Australian Accounting Standards. The figures provided under the long term benefits column are based on accounting values and do not reflect actual payments received by Executives in FY16.
- (iv) If you exclude the FY14 LTIP reversal, the proportion of remuneration performance related for D Mallinson is 13.1 percent and F Smith is 13.4 percent.
- (v) A higher duties allowance is included in the Salary and Allowances for the Interim CEO.
- (vi) G Helou resigned on 28 April 2016. He was paid his statutory annual leave entitlements and notice. The negative long service leave amount is due to the FY15 entitlement having been paid out in FY16 (this was included in previous year's long service leave benefit).
- (vii) A Moncau resigned on 30 June 2016. Salary and Allowances include notice payment.
- (viii) B Hingle resigned on 26 April 2016. Salary and Allowances include notice payment.



## 5.2. Non-executive Director remuneration

	Short Term Benefits		Post Employment	
	Fees & Salary \$	Non-Monetary <sup>(i)</sup> \$	Super-annuation \$	Total \$
<b>Non-executive Directors</b>				
<b>2016<sup>(ii)</sup></b>				
PW Tracy <sup>(iii)</sup>	269,743	28,213	16,090	314,046
N Akers	106,544	–	10,122	116,666
WT Bodman	106,544	–	10,122	116,666
PJO Hawkins <sup>(iii) (iv)</sup>	158,890	–	14,443	173,333
MF Ihlein <sup>(iii) (iv)</sup>	151,063	–	13,937	165,000
ML Jelbart <sup>(v)</sup>	107,029	–	10,168	117,197
KW Jones	136,986	–	13,014	150,000
K Grant <sup>(vi)</sup>	16,815	–	1,597	18,412
ED Morris <sup>(vii)</sup>	109,450	–	10,398	119,848
GN Munzel	106,544	–	10,122	116,666
JP Pye	121,765	–	11,568	133,333
M Van de Wouw	106,544	–	10,122	116,666
<b>Total</b>	<b>1,497,917</b>	<b>28,213</b>	<b>131,701</b>	<b>1,657,831</b>
<b>2015</b>				
PW Tracy	221,217	27,352	18,783	267,352
N Akers	77,626	–	7,425	85,051
WT Bodman	77,625	–	7,372	84,997
PJO Hawkins	91,324	–	8,746	100,070
MF Ihlein	91,324	–	8,676	100,000
ML Jelbart	77,626	–	7,374	85,000
KW Jones	114,155	–	10,967	125,122
ED Morris	77,625	–	7,374	84,999
GN Munzel	77,625	–	7,425	85,050
JP Pye	91,324	–	8,746	100,070
M Van de Wouw	77,625	–	7,425	85,050
<b>Total</b>	<b>1,075,095</b>	<b>27,352</b>	<b>100,315</b>	<b>1,202,762</b>

- (i) Non-monetary compensation includes provision of a motor vehicle to the Chairman and travel related costs.
- (ii) Directors waived their fees for the last two months of the financial year.
- (iii) Fees and salary include one off fee for participating in the Due Diligence Committee for the capital structure.
- (iv) Fees and salary include fee for acting as Responsible Managers of the responsible entity of the MG Unit Trust.
- (v) ML Jelbart resigned from the Board of Directors on 2 May 2016 due to ill health.
- (vi) K Grant was appointed to the Board of Directors on 14 March 2016 and resigned on 3 May 2016.
- (vii) ED Morris resigned from the Board of Directors on 10 May 2016.

# Remuneration Report 2016 continued

## 5.3. Shareholdings

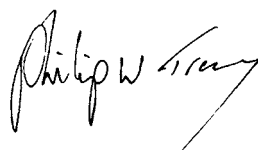
	Shares held at 30 June 2015	Acquired Ordinary No. <sup>(i)</sup>	Shares held at 30 June 2016
Direct and indirect shareholdings of Directors in the parent entity	Ordinary No.		Ordinary No.
PW Tracy	1,552,771	120,364	1,673,135
N Akers	307,060	68,073	375,133
WT Bodman	196,435	16,358	212,793
ML Jelbart	1,504,575	(ii)	–
KW Jones	275,469	2,685	278,154
ED Morris	37,476	(ii)	–
GN Munzel	256,740	–	256,740
JP Pye	303,226	11,192	314,418
MJ Van de Wouw	417,620	1,242	418,862
	4,851,372	219,914	3,529,235

	Units held at 30 June 2015	Acquired <sup>(iii)</sup>	Units held at 30 June 2016
Direct and indirect shareholdings of Directors in MG Unit Trust			
PW Tracy	–	47,619	47,619
N Akers	–	30,884	30,884
WT Bodman	–	–	–
ML Jelbart	–	–	–
KW Jones	–	28,571	28,571
ED Morris	–	–	–
GN Munzel	–	27,619	27,619
JP Pye	–	15,000	15,000
MJ Van de Wouw	–	47,619	47,619
		197,312	197,312

- (i) Shares acquired either as a result of the initial public offering, Dividend Reinvestment Plan or by participation in the monthly Supplier Offtake Program.
- (ii) ML Jelbart and ED Morris resigned from the office of Director during the current financial year and accordingly their shareholdings at 30 June 2016 are not disclosed.
- (iii) MG Units either acquired as a result of the initial public offering upon the Trust's listing on the ASX or subsequently via on market purchases.

This report is made on 24 August 2016 in accordance with a resolution of the Directors.



**Philip Tracy**  
Chairman

24 August 2016

# Consolidated Statement of Profit or Loss

for the financial year ended 30 June 2016

	Note	2016 \$000	2015 \$000
Sales revenue	3	2,777,672	2,871,884
Cost of sales		(2,366,640)	(2,508,387)
Gross profit		411,032	363,497
Other income	3	20,330	2,246
Share of associates losses	14	(1,648)	(1,038)
Distribution expenses		(194,299)	(172,993)
Selling and marketing expenses		(93,084)	(80,713)
Administration expenses		(59,707)	(51,445)
Finance costs	4	(23,445)	(28,530)
Other expenses		(1,637)	(8,040)
Profit before income tax		57,542	22,984
Income tax expense	5	(17,694)	(1,738)
<b>Profit for the year</b>		<b>39,848</b>	<b>21,246</b>
<b>Attributable to:</b>			
Equity holders of the parent	25	40,577	25,166
Non-controlling interest		(729)	(3,920)
<b>Profit for the year</b>		<b>39,848</b>	<b>21,246</b>

The accompanying notes form part of these financial statements.

# Consolidated Statement of Comprehensive Income

for the financial year ended 30 June 2016

	Note	2016 \$000	2015 \$000
<b>Profit for the year</b>		<b>39,848</b>	<b>21,246</b>
Other comprehensive income			
Items that will not be classified subsequently to profit or loss:			
Increment (decrement) on revaluation of land and buildings	24	21,080	(7,500)
Net change in fair value of equity instruments measured at fair value through other comprehensive income	24	43	(17)
Income tax relating to items that will not be reclassified subsequently	5	(6,337)	2,255
Items that may be reclassified subsequently to profit or loss:			
Transfer to income statement on cash flow hedges	24	238	(1,598)
Gain (loss) on cash flow hedges taken to equity	24	(8,600)	(21,688)
Exchange differences arising on translation of foreign operations	24	(753)	6,341
Income tax relating to items that may be reclassified subsequently	5	2,509	8,174
<b>Total comprehensive income for the year</b>		<b>48,028</b>	<b>7,213</b>
<b>Attributable to:</b>			
Equity holders of the parent		48,757	11,133
Non-controlling interest		(729)	(3,920)
<b>Total comprehensive income for the year</b>		<b>48,028</b>	<b>7,213</b>

The accompanying notes form part of these financial statements.



# Consolidated Statement of Financial Position

for the financial year ended 30 June 2016

	Note	2016 \$000	2015 \$000
<b>Current assets</b>			
Cash	31(A)	27,276	14,473
Receivables	9	352,558	404,114
Inventories	10	568,660	507,775
Other	11	62,702	6,113
Derivative financial instruments	19	555	790
<b>Total current assets</b>		<b>1,011,751</b>	<b>933,265</b>
<b>Non-current assets</b>			
Investments accounted for using the equity method	14	7,649	13,105
Other financial assets	12	186	143
Property, plant and equipment	15	932,170	829,016
Intangible assets	16	103,501	59,578
Deferred tax assets	5	2,165	–
Other	11	120,411	5,477
<b>Total non-current assets</b>		<b>1,166,082</b>	<b>907,319</b>
<b>Total assets</b>		<b>2,177,833</b>	<b>1,840,584</b>
<b>Current liabilities</b>			
Payables	17	386,305	415,977
Borrowings	18	90,224	195,321
Current tax payable		6,866	673
Provisions	20	48,121	46,359
Derivative financial instruments	19	–	1,028
<b>Total current liabilities</b>		<b>531,516</b>	<b>659,358</b>
<b>Non-current liabilities</b>			
Payables	17	1,000	1,000
Borrowings	18	417,428	454,058
Provisions	20	10,726	8,908
Deferred tax liabilities	21	41,469	37,021
<b>Total non-current liabilities</b>		<b>470,623</b>	<b>500,987</b>
<b>Total liabilities</b>		<b>1,002,139</b>	<b>1,160,345</b>
<b>Net assets</b>		<b>1,175,694</b>	<b>680,239</b>
<b>Equity</b>			
Issued capital	23	730,116	229,059
Reserves	24	178,046	168,463
Retained earnings	25	267,532	280,780
Parent entity interest		1,175,694	678,302
Non-controlling interest	26	–	1,937
<b>Total equity</b>		<b>1,175,694</b>	<b>680,239</b>

The accompanying notes form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the financial year ended 30 June 2016

	Issued Capital \$000	Capital Reserve \$000	Asset Revaluation Reserve \$000
	Note 23	Note 24	Note 24
Balance as at 1 July 2014	268,741	36,916	135,451
Profit (loss) for the year	–	–	–
Other comprehensive income	–	–	(5,250)
Total comprehensive income	–	–	(5,250)
Payment of dividends	–	–	–
Issue of ordinary shares to milk suppliers	13,463	–	–
Transferred to retained earnings (net of tax)	–	–	(101)
Capital raising costs	(25,255)	–	–
Shares bought back and cancelled	(27,890)	–	–
Difference on acquisition of interest in subsidiary	–	–	–
<b>Balance as at 30 June 2015</b>	<b>229,059</b>	<b>36,916</b>	<b>130,100</b>
Profit (loss) for the year	–	–	–
Other comprehensive income	–	–	14,756
Total comprehensive income	–	–	14,756
Payment of dividends	–	–	–
Issue of ordinary shares/units to investors	501,576	–	–
Capital raising costs	(519)	–	–
Difference on acquisition of interest in subsidiary	–	–	–
Transferred to retained earnings (net of tax)	–	–	–
<b>Balance as at 30 June 2016</b>	<b>730,116</b>	<b>36,916</b>	<b>144,856</b>

General Reserve \$000	Hedge Reserve \$000	Investment Revaluation Reserve \$000	Transactions with Non-controlling Interests Reserve \$000	Foreign Currency Translation Reserve \$000	Retained Earnings \$000	Attributable to Owners of the Parent \$000	Non-Controlling Interests \$000	Total \$000
Note 24	Note 24	Note 24	Note 24	Note 24	Note 25		Note 26	
5,257	3,529	33	(785)	2,814	287,089	739,045	6,846	745,891
–	–	–	–	–	25,166	25,166	(3,920)	21,246
–	(16,300)	(12)	–	7,529	–	(14,033)	–	(14,033)
–	(16,300)	(12)	–	7,529	25,166	11,133	(3,920)	7,213
–	–	–	–	–	(31,578)	(31,578)	–	(31,578)
–	–	–	–	–	–	13,463	–	13,463
–	–	–	–	–	103	2	–	2
–	–	–	–	–	–	(25,255)	–	(25,255)
–	–	–	–	–	–	(27,890)	–	(27,890)
–	–	–	(618)	–	–	(618)	(989)	(1,607)
<b>5,257</b>	<b>(12,771)</b>	<b>21</b>	<b>(1,403)</b>	<b>10,343</b>	<b>280,780</b>	<b>678,302</b>	<b>1,937</b>	<b>680,239</b>
–	–	–	–	–	40,577	40,577	(729)	39,848
–	(5,853)	30	–	(753)	–	8,180	–	8,180
–	(5,853)	30	–	(753)	40,577	48,757	(729)	48,028
–	–	–	–	–	(44,700)	(44,700)	–	(44,700)
–	–	–	–	–	–	501,576	–	501,576
–	–	–	–	–	–	(519)	–	(519)
–	–	–	(4,370)	–	(3,352)	(7,722)	(1,208)	(8,930)
–	–	–	5,773	–	(5,773)	–	–	–
<b>5,257</b>	<b>(18,624)</b>	<b>51</b>	<b>–</b>	<b>9,590</b>	<b>267,532</b>	<b>1,175,694</b>	<b>–</b>	<b>1,175,694</b>

# Consolidated Statement of Cash Flows

for the financial year ended 30 June 2016

	Note	2016 \$000	2015 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		2,901,269	3,086,394
Payments to suppliers and employees		(2,784,121)	(2,955,014)
		117,148	131,380
Dividends received		3,995	458
Interest received		3,009	2,243
Interest paid		(21,838)	(30,170)
Income taxes paid		(16,670)	(63)
Net cash inflow (outflow) from operating activities	31(B)	85,644	103,848
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(139,943)	(93,560)
Payments to acquire intangible software assets		(45,403)	(27,780)
Payments to acquire intangible brand name assets		(1,000)	(10,293)
Proceeds from the sale of property, plant and equipment		2,058	18,247
Proceeds from sale of financial assets		18,599	844
Milk supplier support amounts advanced		(183,334)	–
Payments for investments in subsidiaries		(5,578)	–
Net cash inflow (outflow) from investing activities		(354,601)	(112,542)
<b>Cash flows from financing activities</b>			
Dividends paid		(44,700)	(31,578)
Dividends paid to non-controlling interests		–	(989)
Proceeds from the issue of ordinary shares		500,000	25,941
Payment of capital raising costs		(21,546)	(11,606)
Payment for shares bought back		–	(27,890)
Proceeds from borrowings		670,670	406,803
Repayment of borrowings		(811,524)	(362,489)
Net cash outflow from financing activities		292,900	(1,808)
Net increase (decrease) in cash		23,943	(10,502)
Cash at the beginning of the year		3,802	13,858
Effect of exchange rate fluctuations on cash held		(469)	446
<b>Cash at the end of the year</b>	31(A)	<b>27,276</b>	<b>3,802</b>

The accompanying notes form part of these financial statements.



# Notes to the Financial Statements

for the financial year ended 30 June 2016

## 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 24 August 2016. 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

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.

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

### A) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Murray Goulburn Co-operative Co. Limited ('Company') as at 30 June 2016 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 non-controlling shareholders in the equity of controlled entities is shown separately in the consolidated balance sheet.

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

### B) Income tax

Current tax 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 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 certain of its wholly owned Australian 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 entity's notional tax calculation.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 1: Summary of Significant Accounting Policies continued

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 5 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.

### 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 29.

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.

## Note 1: Summary of Significant Accounting Policies continued

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

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

### F) Depreciation of property, plant and equipment

Depreciation is calculated using the straight line method (2015: 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

### 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.

The Milk Supply Support Package (MSSP) has been allocated to each individual supplier as an advance at 30 June 2016. An impairment provision is recorded for any supplier who ceases to provide milk to Murray Goulburn. At 30 June 2016 the impairment provision has been calculated based on suppliers who have retired or transferred their milk supply to a competitor during July and August 2016. Supplier movements will be monitored whilst the MSSP exists and impairments recorded as required.

### H) Milk Supply Support Package (MSSP)

The MSSP is recorded as the aggregate of the amount notionally advanced to each supplier, less an impairment provision for suppliers retiring or transferring to a competitor. The advances are interest bearing with the finance component recognised in finance income over the life of the advance. The repayment of the MSSP advances occurs by MG withholding an amount from milk payments to suppliers and is expected to be recovered over the next three financial years.

### I) 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 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.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 1: Summary of Significant Accounting Policies continued

### J) Goods and Services Tax

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

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

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

### K) Intangible assets

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

### L) Leases

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

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the consolidated entity as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit and loss on a straight line basis over the term of the lease.

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

### M) Inventories

Dairy produce stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour, maturation costs and an allocation of manufacturing overheads. Stores, packing materials and Murray Goulburn Trading stocks, have been valued at the lower of cost and net realisable value.

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

### N) Investment in associates

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 to not control or have 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 statement of financial position 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.

### O) Goodwill

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

### P) 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.



## Note 1: Summary of Significant Accounting Policies continued

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.

### Q) 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.

### R) Employee benefits

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

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

### S) Borrowings

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

### T) Borrowing costs

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

### U) 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. Revenue is disclosed net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Interest revenue is recognised on a time proportion basis using the effective interest method. Dividend revenue is recognised when the consolidated entity's right to receive the dividends is established.

### V) Parent entity disclosures

The financial information for the parent entity, Murray Goulburn Co-operative Co. Limited, as disclosed in Note 32, has been prepared on the same basis as the consolidated financial statements except as outlined below:

Investments in subsidiaries and associates – investments in subsidiaries and associates are accounted for at cost in the financial statements of Murray Goulburn Co-operative Co. Limited. Dividends received from associates are recognised in the parent entity's profit or loss when the right to receive the dividend is established.

### W) Capital structure

The key objectives of the Murray Goulburn capital structure is to:

- retain 100 percent supplier control of Murray Goulburn.
- reduce Murray Goulburn's reliance on debt funding;
- create a market value for shares through the operation of a Shareholder Trading Platform;
- strengthen suppliers' balance sheets by facilitating the recognition of the value of their shares as an asset;
- helping to fund Murray Goulburn's growth strategy of operational excellence and innovation to deliver a sustainably higher farmgate milk price; and
- ensure Murray Goulburn remains competitive with other processors, both domestically and internationally and becomes the first choice dairy foods company for its suppliers, customers and consumers.

To achieve these objectives Murray Goulburn established the MG Unit Trust, a special purpose funding vehicle, which is listed on the Australian Securities Exchange. The exposure of the MG Unit Trust and therefore Unitholders to Murray Goulburn is only economic.

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

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 1: Summary of Significant Accounting Policies continued

### X) Profit Sharing Mechanism

Murray Goulburn introduced a Profit Sharing Mechanism (PSM) to govern the allocation of the Milk Pool between milk payments, income tax and net profit after tax (NPAT available to be paid as dividends on shares and distributions on units). The PSM is designed to:

- create clear alignment of interests between suppliers and unitholders, with each set of stakeholders benefiting from increases in the farmgate milk price;
- provide transparency in relation to the approach of Murray Goulburn in setting the farmgate milk price and the level of dividends on shares and distributions on Units; and
- put in place an effective governance framework to ensure the appropriate implementation and application of the mechanism, including in relation to any deviations from it and any potential future adjustments to the mechanism.

The Board intends to target a dividend payout ratio of 100 percent of net profit before tax.

### Y) 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 include sales channel (retail, food service, ingredients or nutritional), expected selling price including global commodity prices and foreign exchange rates and require the use of management judgement. The net realisable value of inventory is reviewed semi-annually.

**Taxation** – the consolidated entity is subject to taxation in several different tax jurisdictions, but most particularly Australia, Singapore and China. Significant judgement is required in determining the provision for income taxes payable in each jurisdiction. There are some transactions and calculations for which the ultimate tax determination is uncertain. Entities within the consolidated entity may be subject to audit from the various taxation authorities from time to time. The consolidated entity recognises a receivable or liability for any tax that may, as a result of such audit, become refundable by or payable to a tax authority as a result of audit issues when the cash flow associated with the refund or payable becomes probable. The assumptions regarding future realisation, and therefore the recognition of deferred tax assets, may change due to future operating performance and other factors. Where the final tax outcome of such matters is different from the amounts that were initially recorded as either receivable or payable, the differences will generally impact the calculation of deferred tax balances and tax expense.

**Fixed assets at fair value** – from time to time, the consolidated entity engages independent valuers to ascertain the fair value of land and building assets. Key assumptions made by these experts in the determination of fair value include: the likely selling price of assets for which a market is likely to exist, the likely replacement value of other assets where a market for sale may not exist and the net present value of cash flows, which the assets may generate over their useful lives. In determining net present values, judgement is required in respect to adopting a discount rate and in the estimation of gross cash flows over periods of time.

**Impairment testing of non-current assets** (including property, plant and equipment, goodwill and brand names) – in testing non-current assets for impairment:

- future cash inflows are based on management's latest approved budget and following four-year forecast, reflecting expectations of sales growth, commodity prices, sales channels and foreign exchange rates;
- estimated supplier production costs inclusive of an appropriate level of supplier returns;
- capital expenditure, taxation and other cost incurred;
- the expected long term growth rate used to extrapolate cash flows beyond the five-year period, the growth rate is consistent with long-term average consumer price index data;
- pre-tax discount rate, being the weighted average cost of capital determined by market inputs and adjusted for the risks specific to the cash generating unit.

**Milk Supply Support Package (MSSP)** – an impairment provision is estimated based on suppliers who have retired or transferred their milk supply to a competitor. Supplier movements are monitored and impairments recorded as required.

## Note 1: Summary of Significant Accounting Policies continued

### Z) Segment information

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

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

- Ingredients and Nutritionals
- Dairy Foods
- Other

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

The Dairy Foods segment manufactures and supplies dairy products such as fresh milk, UHT milk, cheese, and butter in markets throughout Australia, China, South-East Asia, the Middle East and the Pacific.

Other operations include trading stores which sell farm supplies and services to farmers and milk broking services. In addition, the other operations segment in 2015 included the manufacture of bulk dairy ingredients in Tasmania – in 2016 the results attributable to this activity have been included in the Ingredients and Nutritionals segment following Tasmanian Dairy Products Co Pty Ltd becoming a wholly owned subsidiary.

### AA) Adoption of new and revised standards

Except for the changes below, the consolidated entity has consistently applied the accounting policies set out within this financial report to all periods presented in these consolidated financial statements.

The consolidated entity has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2015:

- AASB 2012–3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Liabilities*, which provides guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132. The amendment did not have any impact upon the consolidated entity on adoption.
- AASB 2013–3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* amends the disclosure requirements in AASB 136 *Impairment of Assets* and requires the disclosure of financial information about the fair value measurement when recoverable amount of impaired assets is based on fair value less costs to dispose. The additional disclosure requirements have not impacted the consolidated entity upon adoption.
- AASB 2013–4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* permits the continuation of hedge accounting where a derivative designated as a hedging instrument is novated from one counterparty to a central counterparty as a result of laws or regulations. The amendment did not impact any of the hedging contracts held by the consolidated entity on adoption.
- AASB 2015–1 *Amendments to Australian Accounting Standards – Part: A Annual Improvements 2010–2012 and 2011–2013 Cycle* amends a number of accounting standards including: clarification of the definitions in AASB 2 *Share-based Payment* and AASB 124 *Related Party Disclosures*; additional disclosures requirements in AASB 8 *Operating Segments*; clarification of the portfolio exception in AASB 13 *Fair Value Measurement*; clarification of items in AASB 140 *Investment Property* and other editorial corrections. The amendments did not have any impact upon the consolidated entity on adoption.

Although the adoption of these standards has resulted in some changes to the accounting policies of the consolidated entity, they have not resulted in any adjustment to the amounts recognised in the financial statements, nor resulted in any additional disclosures upon adoption.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 1: Summary of Significant Accounting Policies continued

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

### **AASB 9 Financial Instruments**

In December 2014, AASB issued the final version of AASB 9 *Financial Instruments* (AASB 9 (2014)), including consequential amendments to other standards. AASB 9 (2014) is the final version of a new principal standard that consolidates requirements for the classification and measurement of financial assets and liabilities, hedge accounting and impairment of financial assets. AASB 9 (2014) supersedes all previously issued and amended versions of AASB 9. The standard is not applicable until 1 January 2018 but early adoption is available.

The consolidated entity early adopted the classification, measurement and hedge accounting components in previous financial years (AASB 9 (2013)) as well as the consequential amendments introduced to other numerous Australian Accounting Standards. This version of the standard excluded the impairment section, which replaces the incurred loss impairment model used today with an expected credit losses model for impairment financial assets. The consolidated entity is currently assessing the potential impact of the new impairment model on the financial results.

### **AASB 15 Revenue from Contracts with Customers**

AASB 15, issued by the Australian Accounting Standards Board (AASB), is relevant to the current operations, and may impact, the consolidated entity in the period of initial application. The standard is available for early adoption but it has not been applied in preparing this financial report.

AASB 15 replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts and Interpretation 13 Customer Loyalty Programs*. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control under AASB 15 replaces the existing notion of risks and rewards under current accounting standards. The standard is applicable from 1 January 2018 with early adoption permitted. The consolidated entity is currently assessing the potential impact of the new standard and at this stage is unable to estimate the financial impact upon adoption.

### **AASB 16 Leases**

On 13 January 2016 the International Accounting Standards Board (IASB) issued IFRS 16 *Leases*. This standard has not yet been issued by the AASB.

IFRS 16 replaces IAS 17 *Leases* and eliminates the classification between operating and finance leases and introduces a single lessee accounting model. The new model requires:

- the recognition of a leased asset, and its corresponding lease liability, for all leases that have a term of more than 12 months, unless the underlying asset is of low value; and
- the separate recognition of the depreciation charge on the leased asset from the interest expense on the lease liability.

The standard is applicable from 1 January 2019 with early adoption permitted if, and only if, IFRS 15 *Revenue* is also early adopted. The application of IFRS 16 will impact the financial results and position of the consolidated entity to the extent that leases currently classified as operating leases will need to be brought on balance sheet. In addition, the current operating lease expense recognised in the income statement will be replaced with a depreciation and finance charge. The consolidated entity is currently assessing the potential impact of the new standard and at this stage is unable to estimate the financial impact upon adoption.



## Note 2: Segment revenues and results

	Ingredients and Nutritionals \$000	Dairy Foods \$000	Other \$000	Intersegment Eliminations \$000	Total \$000
<b>Segment Income Statement</b>					
<b>2016</b>					
External revenue	1,084,857	1,325,157	367,658	–	2,777,672
Inter-segment revenue	7,616	1,345	80,682	(89,643)	–
<b>Revenue from sale of goods</b>	<b>1,092,473</b>	<b>1,326,502</b>	<b>448,340</b>	<b>(89,643)</b>	<b>2,777,672</b>
Segment contribution to profit	(81,548)	164,467	20,610	–	103,529
Other income					3,032
Net gain on sale of non-current assets					17,298
Share of profit (loss) of associates					(1,648)
Operating expenses					(41,224)
Finance costs					(23,445)
<b>Profit before tax</b>					<b>57,542</b>
<b>Segment Income Statement</b>					
<b>2015</b>					
External revenue	1,330,637	1,130,050	411,197	–	2,871,884
Inter-segment revenue	9,201	1,297	127,326	(137,824)	–
<b>Revenue from sale of goods</b>	<b>1,339,838</b>	<b>1,131,347</b>	<b>538,523</b>	<b>(137,824)</b>	<b>2,871,884</b>
Segment contribution to profit	30,630	47,497	9,624	–	87,751
Other income					2,246
Share of profit (loss) of associates					(1,038)
Operating expenses					(37,445)
Finance costs					(28,530)
<b>Profit before tax</b>					<b>22,984</b>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1. Reported segment contribution to profit represents the profit before tax earned by each segment without allocation of central operating expenses, administration costs and directors' salaries, share of profit/(loss) of associates, other income, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 2: Segment revenues and results continued

### Revenue from major products

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

	2016 \$000	2015 \$000
Dairy products and ingredients	2,512,798	2,625,406
Farming supplies	264,874	246,478
<b>Revenue from sale of goods</b>	<b>2,777,672</b>	<b>2,871,884</b>

### Information about geographic segments

The Group operates in six principal geographical areas – Australia (country of domicile), North Asia, South East Asia, USA, the Middle East and the Pacific. The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Australia	1,664,711	1,628,902	1,135,160	873,042
Other countries	1,112,961	1,242,982	30,922	34,277
<b>Total</b>	<b>2,777,672</b>	<b>2,871,884</b>	<b>1,166,082</b>	<b>907,319</b>

### Information about major customers

Included in revenues arising from direct sales of Dairy Foods of \$1,325 million (2015: \$1,130 million) are revenues of approximately \$313 million (2015: \$310 million) which arose from sales to the Group's largest customer. No other single customer contributed 10 percent or more to the Group's revenue for both 2016 and 2015.

### Note 3: Revenue

	2016 \$000	2015 \$000
<b>Revenue</b>		
Sales revenue	2,777,672	2,871,884
<b>Other income</b>		
Interest received or receivable from:		
• other persons	3,029	2,243
Dividends received from other corporations	3	3
Net gain on sale of shareholding in Dairy Technical Services Ltd	17,298	–
	20,330	2,246
<b>Sales and other income</b>	<b>2,798,002</b>	<b>2,874,130</b>

### Note 4: Profit before Income Tax Expense has been determined after:

	2016 \$000	2015 \$000
<b>Charging/(crediting) as losses and gains:</b>		
Finance costs		
Interest paid or payable to:		
• other persons	23,445	28,530
	23,445	28,530
Depreciation or amortisation of:		
• Depreciation – buildings	11,343	9,961
• Depreciation – plant and equipment and vehicles	43,449	42,010
• Amortisation – software intangibles	2,031	880
	56,823	52,851
Impairment (reversal) of non-current property, plant and equipment	1,896	(1,406)
Impairment (reversal) of investments in associated companies	(952)	1,730
Net loss (gain) on sale and scrapping of non-current assets	3,116	(7,044)
Loss (gain) on sale of investment in associated entity	(17,298)	(115)
Write down of inventories to net realisable value	22,262	16,052
Rental expense on operating leases	66,146	41,004
Research and development expenditure	2,135	7,000
Employee benefits (including restructuring costs)	279,507	256,821

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 5: Income Tax Expense

### A) Income tax recognised in profit or loss

	2016 \$000	2015 \$000
Tax expense comprises:		
Current tax expense	24,744	2,367
Deferred tax (benefit)	(7,050)	(629)
<b>Income tax expense</b>	<b>17,694</b>	<b>1,738</b>
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit before income tax expense	57,542	22,984
Income tax calculated at the Australian statutory tax rate of 30%	17,263	6,895
Dividends as a co-operative <sup>(i)</sup>	–	(9,473)
Effect of tax rates in foreign jurisdictions	(16)	479
Equity accounted loss/(profit)	494	90
Current year losses for which no deferred tax asset was recognised	1,905	4,983
Previously unrecognised tax losses now recouped to reduce current tax expense <sup>(ii)</sup>	(2,094)	–
Non-assessable capital gain	(422)	–
Sundry items	564	(949)
Under (over) provision for income tax in prior year	–	(287)
<b>Income tax expense</b>	<b>17,694</b>	<b>1,738</b>

- (i) As a co-operative, the head entity in the Australian tax consolidated group is able to claim a tax deduction for unfranked dividends paid to shareholders. Unfranked dividends are claimed as a deduction in the financial year in which they are paid unless they are paid within three months subsequent to the conclusion of the prior financial year, in which case they are deductible in the calculation of that earlier year's taxable income. Dividends declared post 30 June 2015 were held to be deductible on this basis. Consistent with the franking of the interim dividend paid during the year ended 30 June 2016, it is the parent entity's intention to pay franked dividends in the future. In contrast to the treatment of unfranked dividends, future franked dividend payments would not be available as a deduction in the determination of the consolidated group's tax expense and tax liability and accordingly there is no adjustment in 2016.
- (ii) Tasmanian Dairy Products Co Pty Ltd (TDP) became a wholly owned subsidiary on 29 October 2015 and was consolidated for income tax purposes within the Australian tax group, of which Murray Goulburn Co-operative Co. Ltd is the head entity, from that date. Upon TDP's entry into the tax consolidated group, some of the accumulated tax loss deferred tax assets carried forward by TDP and all deferred tax assets and liabilities attributable to temporary differences were recognised.



## Note 5: Income Tax Expense continued

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

	Opening Balance \$000	Charged to Income \$000	Charged to Retained Earnings on Acquisition \$000	Transfer from Equity to Income \$000	Charged to Equity \$000	Closing Balance \$000
<b>2016</b>						
Gross deferred tax liabilities						
Property, plant and equipment	(72,036)	3,123	(3,424)	–	(6,324)	(78,661)
Consumables	(6,842)	(792)	–	–	–	(7,634)
Investments	(9)	–	–	–	(13)	(22)
Other	(335)	(961)	–	–	–	(1,296)
	(79,222)	1,370	(3,424)	–	(6,337)	(87,613)
Gross deferred tax assets						
Provisions	16,315	5,942	72	–	–	22,329
Tax losses	4,327	702	–	–	–	5,029
Cash flow hedges	5,473	–	–	(71)	2,580	7,982
Capital raising costs	8,414	–	–	(2,153)	–	6,261
Other	7,672	(964)	–	–	–	6,708
	42,201	5,680	72	(2,224)	2,580	48,309
<b>Net deferred tax liability<sup>(i)</sup></b>	<b>(37,021)</b>	<b>7,050</b>	<b>(3,352)</b>	<b>(2,224)</b>	<b>(3,757)</b>	<b>(39,304)</b>
<b>2015</b>						
Gross deferred tax liabilities						
Property, plant and equipment	(70,660)	(3,626)	–	–	2,250	(72,036)
Consumables	(6,552)	(290)	–	–	–	(6,842)
Investments	(15)	–	–	–	6	(9)
Cash flow hedges	(1,513)	–	–	480	1,033	–
Other	(8,862)	7,340	–	–	1,187	(335)
	(87,602)	3,424	–	480	4,476	(79,222)
Gross deferred tax assets						
Provisions	16,200	115	–	–	–	16,315
Tax losses	60	4,267	–	–	–	4,327
Cash flow hedges	–	–	–	–	5,473	5,473
Capital raising costs	–	–	–	–	8,414	8,414
Other	12,440	(7,177)	–	–	2,409	7,672
	28,700	(2,795)	–	–	16,296	42,201
<b>Net deferred tax liability</b>	<b>(58,902)</b>	<b>629</b>	<b>–</b>	<b>480</b>	<b>20,772</b>	<b>(37,021)</b>

(i) The net deferred tax liability attributable to entities operating in Australia is \$41.469 million. The net deferred tax asset attributable to entities operating in China is \$2.165 million, and represents future tax benefits attributable to tax losses.

The Company and its wholly owned Australian entities are part of an Australian tax consolidated group. The head entity within the tax consolidated group is Murray Goulburn Co-operative Co. Limited. The most significant entities in the Australian tax consolidated group are identified in Note 13.

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

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 6: Compensation of Key Management Personnel

Compensation of key management personnel is included in the Remuneration Report within the Directors' Report. Total amounts paid as remuneration to key management personnel of the consolidated entity include:

	2016 \$	2015 \$
Total short term employee benefits (excluding annual leave)	7,065,338	6,176,243
Total annual and long service leave benefits <sup>(i)</sup>	(243,578)	167,131
Total long term employee benefits <sup>(ii)</sup>	(619,513)	308,105
Total post employment employee benefits	227,592	175,965
<b>Total remuneration</b>	<b>6,429,840</b>	<b>6,827,444</b>

- (i) Negative annual and long service leave benefits reflect the excess of amounts paid on settlement of leave entitlements owing and the reversal of non-vesting entitlements for key management personnel whose employment ceased in 2016.
- (ii) Negative long term employee benefits reflect the excess of the reversal of non-vesting long term incentive amounts which will not be paid to key management personnel whose employment ceased in 2016.

## Note 7: Remuneration of Auditors

	2016 \$	2015 \$
<b>(a) Auditor of the parent entity</b>		
• audit and review the financial report	677,085	457,400
• assurance related services	–	1,881,920
• other consulting services	18,000	370,029
	<b>695,085</b>	<b>2,709,349</b>
<b>(b) Related practice of the parent entity auditor</b>		
• audit and review the financial report	47,914	71,700
• corporate finance services	–	–
	<b>47,914</b>	<b>71,700</b>
<b>(c) Non-PricewaterhouseCoopers audit firms</b>		
• audit and review the financial report	–	37,000
• assurance related services	–	4,750
• other consulting services	–	4,800
	<b>–</b>	<b>46,550</b>

The auditor of the parent entity is PricewaterhouseCoopers (2015: PricewaterhouseCoopers).

Fees paid to the parent entity's auditor for assurance related services in 2015 reflect amounts paid in respect to PricewaterhouseCoopers' role as Investigating Accountants in relation to the capital raising.

## Note 8: Dividends Paid or Proposed

	Note	2016 \$000	2015 \$000
<b>Recognised amounts</b>			
<b>Dividends in relation to the 2015 financial year (2014 financial year)</b>			
<i>Fully Paid Ordinary Shares</i>			
Final dividend of 9 cents (2015: 8 cents) per share unfranked		25,286	22,208
<i>Fully Paid B Class Non-cumulative Non-redeemable Preference Shares</i>			
Final dividend of nil cents (2015: 5 cents) per share unfranked		–	554
<i>Fully Paid C Class Non-cumulative Non-redeemable Preference Shares</i>			
Final dividend of nil cents (2015: 8 cents) per share unfranked		–	1,844
<b>Dividends in relation to the 2016 financial year (2015 financial year)</b>			
<i>Fully Paid Ordinary Shares</i>			
Interim dividend of 3.5 cents (2015: nil cents) per share on issue, fully franked		12,198	–
Interim dividend of 3.5 cents (2015: nil cents) per unit on issue, fully franked		7,216	–
Special dividend of 25 cents per 'B' class share unfranked		–	1,482
Special dividend of 25 cents per 'C' class share unfranked		–	5,490
<b>Total dividends recognised</b>	25	<b>44,700</b>	<b>31,578</b>
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 2015 and the actual payment of the dividend.			
<b>Unrecognised amounts</b>			
<b>Dividends in relation to the 2016 financial year (2015 financial year)</b>			
<i>Fully Paid Ordinary Shares</i>			
Final dividend of 3.91 cents per share fully franked (2015: 9 cents per share unfranked)		13,679	25,286
Final dividend of 3.91 cents per unit fully franked (2015: nil as there were no units on issue at 30 June 2015)		8,008	–
		<b>21,687</b>	<b>25,286</b>
<b>Franking account balance</b>		<b>7,396</b>	<b>2,056</b>

Final dividends in respect to the current and prior financial years were not recognised in the balance sheet at the respective year end as they were declared subsequent to the conclusion of the financial year.

The values of the unrecognised dividends disclosed above are based on the respective dividend rates declared and the total of shares outstanding as at 30 June 2016 (2015: As at 27 April 2015, owing to terms of the Company's capital raising). The adjusted franking account balance has been calculated after taking into account franking credits that arise from the settlement post 30 June 2016 of tax liabilities referable to the Australian tax group and for franking debits that will arise upon payment of the fully franked final dividend in respect to the years ended 30 June 2016 and 2015 respectively.

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

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 9: Receivables

	2016 \$000	2015 \$000
<b>Current</b>		
Trade receivables	316,305	359,026
Less: provision for impairment of trade receivables	(2,129)	(1,373)
	314,176	357,653
Other receivables	38,382	46,461
	<b>352,558</b>	<b>404,114</b>

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

Credit risk associated with trade receivables is addressed in Note 29(c). The fair value of receivables is documented in Note 29(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 \$2,129,000 (2015: \$1,373,000) in the consolidated entity have been assessed as impaired and provided for in the provision for impairment of receivables.

	2016 \$000	2015 \$000
Movements in the provision for impairment of receivables:		
Balance at the beginning of the year	1,373	1,934
Impairment losses recognised on receivables	2,783	3,863
Impairment losses reversed	(849)	–
Amounts written off as uncollectible	(1,178)	(4,424)
Provision for impairment – trade receivables	2,129	1,373

Trade receivables of customers past due but considered recoverable are not provided for in the provision for impairment of receivables. The consolidated entity does not hold any collateral over these balances.

Ageing of past due but not impaired trade receivables:

	2016 \$000	2015 \$000
0 – 30 days	16,826	25,057
30 – 60 days	2,588	4,457
60 – 90 days	4,467	5,763
90+ days	23	55
	<b>23,904</b>	<b>35,332</b>



## Note 10: Inventories

	2016 \$000	2015 \$000
Finished goods		
• at cost	420,861	340,374
• at net realisable value	85,837	111,666
Packaging and manufacturing materials	61,962	55,735
	<b>568,660</b>	<b>507,775</b>
<b>Amounts recognised in profit or loss</b>		
Inventories recognised as expense	<b>2,366,640</b>	<b>2,508,387</b>
Inventories recognised as expense were included in cost of goods sold.		
Write downs of inventories to net realisable value	<b>22,262</b>	<b>16,052</b>

These write downs were recognised as an expense during the year ended 30 June 2016 and are also included in cost of sales.

## Note 11: Other Assets

	2016 \$000	2015 \$000
<b>Current</b>		
Milk Supply Support Package advance	58,876	–
Provision for impairment – Milk Supply Support Package advance	(4,648)	–
	54,228	–
Prepayments	8,474	6,113
	<b>62,702</b>	<b>6,113</b>
<b>Non-current</b>		
Milk Supply Support Package advance	124,458	–
Provision for impairment – Milk Supply Support Package advance	(9,826)	–
	114,632	–
Other	5,779	5,477
	<b>120,411</b>	<b>5,477</b>

Milk Supply Support Package (MSSP) advances amounts which are expected to be collected within one year are classified as current receivables otherwise they are presented as non-current receivables. Interest is charged at the rate equivalent to the cost to Murray Goulburn of funding the MSSP.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 12: Other Non-current Financial Assets

	2016 \$000	2015 \$000
<b>Investments</b>		
Shares in quoted corporations at fair value	186	143
	<b>186</b>	<b>143</b>

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

## Note 13: Controlled Entities

The group's principal subsidiaries at 30 June 2016 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

	% Ownership Interest		Place of Incorporation	Class of Share/Unit
	2016	2015		
<b>Parent entity</b>				
Murray Goulburn Co-operative Co. Limited <sup>(a)(f)</sup>	N/A	N/A	Australia	Ordinary
<b>Controlled entities of Murray Goulburn Co-operative Co. Limited:</b>				
Murray Goulburn Trading Pty Ltd <sup>(b)(f)</sup>	100	100	Australia	Ordinary
Murray Goulburn Dairy (Qingdao) Co. Ltd	100	100	China	N/A
Tasmanian Dairy Products Co Pty Ltd <sup>(b)(c)(f)</sup>	100	76	Australia	Ordinary
Provico Pty Ltd <sup>(b)(f)</sup>	100	100	Australia	Ordinary
MG Unit Trust <sup>(d)</sup>	100	100	Australia	Ordinary
MG Responsible Entity Limited <sup>(b)(e)</sup>	100	100	Australia	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 Australian tax consolidated group.

(c) During the 2016 financial year, the parent entity acquired a further 24 per cent interest in Tasmanian Dairy Products Co Pty Ltd for \$4.8 million in cash consideration.

(d) MG Unit Trust was formed on 1 May 2015.

(e) MG Responsible Entity Limited was incorporated on 29 August 2014.

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

### Note 13: Controlled Entities continued

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

	2016 \$000	2015 \$000
<b>Statement of profit and loss</b>		
Sales revenue	2,767,817	2,858,327
Cost of sales	(2,348,397)	(2,500,410)
Gross profit	419,420	357,917
Other income	15,047	3,691
Impairment of associates	–	(1,730)
Distribution expenses	(193,605)	(165,191)
Selling and marketing expenses	(86,871)	(75,563)
Administration expenses	(60,375)	(51,445)
Finance costs	(23,445)	(25,327)
Other expenses	(1,637)	(5,232)
Profit before income tax	68,534	37,120
Income tax expense	(20,649)	(328)
<b>Profit for the year</b>	<b>47,885</b>	<b>36,792</b>
<b>Statement of comprehensive income</b>		
Profit for the year	47,885	36,792
Other comprehensive income		
Items that will not be classified subsequently in profit and loss		
Net increment (decrement) on revaluation of land and buildings	21,297	(7,500)
Net change in fair value of equity instruments measured at fair value	43	(17)
Income tax relating to items that will not be reclassified subsequently	(6,402)	2,255
Items that may be reclassified subsequently through profit or loss		
Transfer to income statement on cash flow hedges	238	(1,598)
Gain (loss) on cash flow hedges taken to equity	(8,600)	(21,688)
Income tax relating to items that may be reclassified subsequently	2,509	6,986
<b>Total comprehensive income for the year</b>	<b>56,970</b>	<b>15,230</b>

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 13: Controlled Entities continued

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

	2016 \$000	2015 \$000
<b>Statement of financial position</b>		
<b>Current assets</b>		
Cash	6,658	8,946
Receivables	389,095	426,487
Inventories	550,380	490,520
Derivative financial instruments	555	790
Other	62,702	5,818
<b>Total current assets</b>	<b>1,009,390</b>	<b>932,561</b>
<b>Non-current assets</b>		
Receivables	3,407	4,076
Investment in subsidiaries	27,531	55,613
Investment in associates <sup>(i)</sup>	7,649	6,586
Other financial assets	186	143
Property, plant and equipment	902,292	697,582
Intangible assets	96,839	75,026
Other	115,237	–
<b>Total non-current assets</b>	<b>1,153,141</b>	<b>839,026</b>
<b>Total assets</b>	<b>2,162,531</b>	<b>1,771,587</b>
<b>Current liabilities</b>		
Payables	380,694	399,372
Borrowings	234,288	181,750
Current tax payable	7,533	756
Derivative financial instruments	–	1,028
Provisions	48,124	46,100
<b>Total current liabilities</b>	<b>670,639</b>	<b>629,006</b>

## Note 13: Controlled Entities continued

	2016 \$000	2015 \$000
<b>Non-current liabilities</b>		
Payables	1,000	1,000
Borrowings	276,280	419,374
Provisions	10,726	8,908
Deferred tax liabilities	44,243	43,299
<b>Total non-current liabilities</b>	<b>332,249</b>	<b>472,581</b>
<b>Total liabilities</b>	<b>1,002,888</b>	<b>1,101,587</b>
<b>Net assets</b>	<b>1,159,643</b>	<b>670,000</b>
<b>Equity</b>		
Issued capital	730,116	229,059
Reserves	121,766	112,681
Retained earnings <sup>(i)</sup>	307,761	328,260
<b>Total equity</b>	<b>1,159,643</b>	<b>670,000</b>
<b>Movement in retained earnings</b>		
Balance at the beginning of the financial year <sup>(i)</sup>	328,260	322,944
Balance at the beginning of the financial year – entities who joined the group during 2016 <sup>(ii)</sup>	(30,410)	–
Transfer to (from) reserves	6,726	102
Net profit	47,885	36,792
Dividends provided for or paid	(44,700)	(31,578)
<b>Balance at the end of the financial year</b>	<b>307,761</b>	<b>328,260</b>

- (i) The 30 June 2015 carrying value of investments in associates has been adjusted down to align with the treatment of those investments in the consolidated entity's accounts. A corresponding adjustment to retained earnings has been made, decreasing retained earnings in the prior year.
- (ii) During the year ended 30 June 2016, Tasmanian Dairy Products Co Pty Ltd and Provico Pty Ltd joined Murray Goulburn Co-operative Co. Ltd and Murray Goulburn Trading Pty Ltd as entities subject to a deed of cross guarantee.



# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 14: Investments Accounted for Using the Equity Method

	2016 \$000	2015 \$000
Investments in associated companies	7,649	13,105

Name of Associate	Principal Activity	Ownership 2016 %	Ownership 2015 %
Intermix Australia Pty Ltd	Food ingredient processing	33	33
Dairy Technical Services Ltd	Dairy analytical and technical services	–	25
Nedfarm	Milk production – dairy cattle	40	40
Danone Murray Goulburn Pty Ltd	Retail of dairy products	50	50

All associates are incorporated in Australia.

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

During the year ended 30 June 2016, the consolidated entity sold its investment in Dairy Technical Services Ltd. A gain of \$17.3 million was realised.

During the year ended 30 June 2015, the consolidated entity sold its investment in Australian Milk Products Pty Ltd for \$0.8 million.

Movement in Investments in Associated Companies	2016 \$000	2015 \$000
Equity accounted amount at the beginning of the financial year	13,105	16,994
Acquisition/(disposal) of interests in associates	(768)	(666)
Impairment reversal (recognition of impairment)	952	(1,730)
Share of (loss)/profit after income tax	(1,648)	(1,038)
Dividends received from associates	(3,992)	(455)
<b>Equity accounted amount at the end of the financial year</b>	<b>7,649</b>	<b>13,105</b>
<b>Aggregate amounts with respect to associate entities are:</b>		
Assets of associates	59,488	99,631
Liabilities of associates	49,494	65,962
Revenue of associates	69,490	143,264
Profit/(loss) of associates	(3,603)	(1,790)
Contingent liabilities	–	–

## Note 15: Property, Plant and Equipment

	2016 \$000	2015 \$000
<b>Land and buildings</b>		
Freehold land at fair value <sup>(i)</sup>	77,126	62,183
Buildings at fair value <sup>(i)</sup>	309,948	312,915
less accumulated depreciation and impairment losses	(4,654)	(17,648)
	305,294	295,267
<b>Total land and buildings</b>	<b>382,420</b>	<b>357,450</b>
<b>Plant and equipment</b>		
At cost	1,223,416	1,194,544
less accumulated depreciation and impairment losses	(821,407)	(818,402)
<b>Total plant and equipment</b>	<b>402,009</b>	<b>376,142</b>
<b>Vehicles</b>		
At cost	24,208	24,214
less accumulated depreciation	(17,110)	(19,366)
<b>Total vehicles</b>	<b>7,098</b>	<b>4,848</b>
In the course of construction	140,643	90,576
<b>Total property, plant and equipment<sup>(ii)</sup></b>	<b>932,170</b>	<b>829,016</b>

### (i) Valuations of land and buildings

The basis of the valuation of land and buildings in 2016 is fair value being market value for existing use of all freehold land and buildings. Land and building assets at fair value are considered to be Level 3 non-financial assets.

As at 30 June 2016, the fair value of these assets was determined by an independent, certified practising valuer employed by the firm m3property Strategists. In respect to Level 3 land, fair value was derived using the sales comparison approach. For land, sales prices of comparable unimproved land in close proximity to the consolidated entity's land assets were used as a basis for the valuation and were adjusted for differences in key attributes such as property size and property improvements. For certain Level 3 building assets, most particularly largely generic warehousing facilities, valuations were determined by reference to a capitalisation of market based rental yields for comparable premises adjusted for key attributes such as available storage space measured in square metres. In respect to certain other Level 3 building assets, fair value was determined using a depreciated replacement cost methodology.

As a result of the valuation exercise undertaken at 30 June 2016, revaluation increments of \$37.6 million were recognised and credited to the asset revaluation reserve. Similarly, certain assets were found to be stated in excess of their recoverable amount and were written down by \$18.4 million, of which \$16.5 million was reflected as a reduction in the asset revaluation reserve, whilst \$1.9 million was expensed through profit and loss. In the prior year ended 30 June 2015 an impairment loss of \$7.5 million was recognised in respect to the one asset found to be stated in excess of its recoverable amount, with a corresponding reduction recognised in the asset revaluation reserve. The group adheres to a policy of revaluing property progressively to ensure that the carrying value of land and buildings assets does not differ materially from their fair value.

### (ii) Capitalisation of interest

Interest of \$1.7 million (2015: \$2.3 million) was capitalised in respect to the acquisition of qualifying assets.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 15: Property, Plant and Equipment continued

### Reconciliations

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

Consolidated	Land and Buildings \$000	Plant and Equipment \$000	Vehicles \$000	In Course of Construction \$000	Total \$000
Carrying amount at 30 June 2014	353,252	359,527	16,691	66,574	796,044
Additions (including transfers from capital work in progress)	20,211	56,358	368	23,962	100,899
Impairment recognised in asset revaluation reserve	(7,500)	–	–	–	(7,500)
Reversal of impairment loss of non-current assets	–	1,406	–	–	1,406
Transfers to software intangibles assets (note 16)	–	(4,268)	–	–	(4,268)
Disposals	(2,225)	(359)	(8,619)	–	(11,203)
Depreciation	(9,961)	(38,418)	(3,592)	–	(51,971)
Effect of movement in exchange rates	3,673	1,896	–	40	5,609
Carrying amount at 30 June 2015	357,450	376,142	4,848	90,576	829,016
Additions (including transfers from capital work in progress)	18,406	70,519	4,943	50,665	144,533
Revaluation increments recognised in the asset revaluation reserve	37,601	–	–	–	37,601
Revaluation decrements recognised in the asset revaluation reserve	(16,521)	–	–	–	(16,521)
Impairment loss of non-current assets	(1,896)	–	–	–	(1,896)
Transfers between asset classes	1,391	(926)	75	(540)	–
Disposals	(2,075)	(2,035)	(749)	(35)	(4,894)
Depreciation	(11,343)	(41,430)	(2,019)	–	(54,792)
Effect of movement in exchange rates	(593)	(261)	–	(23)	(877)
<b>Carrying amount at 30 June 2016</b>	<b>382,420</b>	<b>402,009</b>	<b>7,098</b>	<b>140,643</b>	<b>932,170</b>

### Impairment tests for Murray Goulburn Co-operative Co. Limited

As a result of the operating model of the business, impairment testing of goodwill and brand names is carried out at the Murray Goulburn Co-operative Co. Limited level. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The CGU is Murray Goulburn Co-operative Co. Limited (MGC) and excludes Murray Goulburn Dairy (Qingdao) Co. Ltd, Murray Goulburn Trading Pty Ltd and Provico Pty Ltd. Following the trading update on 27 April 2016 which announced the reduction in the Available Southern Milk Region farmgate milk price of between \$4.75 to \$5.00<sup>(1)</sup> per kgms, the implied market capitalisation of the group was below the carrying value of the net assets thereby indicating a prima facie impairment of assets. Accordingly an impairment assessment was carried out at the MGC level.

The following table sets out the key assumptions utilised in the cash flow projections for MGC:

Assumption	Rate	Approach used to determining values
Milk cost	\$5.00 to \$5.50	An estimate of Supplier cost of production.
Long Term growth rate (%)	2.5	This is the growth rate in the terminal year and is consistent with the long term Consumer Price Index rate included in the June 2016 Deloitte Access Economics Business Outlook.
Pre-tax discount rate (%)	12.1	Reflects the specific risks related to the group.

- (1) For the purpose of the Profit Sharing Mechanism, the Actual Weighted Average Southern Milk Region farmgate milk price of \$4.71 to \$4.96 per kilogram milk solids is used as the Actual Weighted Average Southern Milk Region farmgate milk price does not include the add-back of quality adjustments accrued from the supply of non-premium milk.

## Note 15: Property, Plant and Equipment continued

### Significant estimate: impact of possible change in key assumptions

If the milk price used in the value-in-use calculation had been five percent higher than management's estimate, the group would not have to recognise an impairment against the carrying value of assets as sufficient head room exists. If the long-term terminal growth rate applied to the cash flow projections had been one percent lower than management's estimate (1.5 percent instead of 2.5 percent), the group would not have had to recognise an impairment against assets as sufficient head room exists. If the pre-tax discount rate applied to the cash flow projections had been one percent higher than management's estimate (13.1 percent instead of 12.1 percent), the group would not have had to recognise an impairment against assets as sufficient head room exists.

## Note 16: Intangible Assets

	2016 \$000	2015 \$000
Goodwill <sup>(i)</sup>	12,121	12,121
Brand names <sup>(i)</sup>	15,293	15,293
Software <sup>(ii)</sup>	12,275	6,102
Software under development <sup>(iii)</sup>	63,812	26,062
<b>Total intangible assets</b>	<b>103,501</b>	<b>59,578</b>

- (i) Goodwill and brand name intangible assets recognised by the consolidated entity are stated at cost and have an indefinite useful life. They were assessed for possible impairment during the year ended 30 June 2016 and no impairment was evident. In considering impairment, management has considered relevant forecast cash flow projections. Goodwill impairment testing is carried out at the consolidated level and not at an operating segment level given there is no reasonable basis for allocating goodwill at an operating segment level.
- (ii) Software assets have limited useful lives and are amortised on a straight line basis over three to five years.
- (iii) Software under development is transferred to software once the asset is ready for use in its intended form.

### Reconciliation

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

	Goodwill	Brand names	Software	Software Under Development	Total
Carrying amount at 30 June 2014	12,121	4,000	–	–	16,121
Additions – Caboolture brand name	–	9,327	–	–	9,327
Additions – other	–	1,966	2,714	26,062	30,742
Transfers in from property plant and equipment (Note 15)	–	–	4,268	–	4,268
Amortisation	–	–	(880)	–	(880)
Carrying amount at 30 June 2015	12,121	15,293	6,102	26,062	59,578
Additions – other	–	–	8,204	37,750	45,954
Transfers in from property plant and equipment (Note 15)	–	–	–	–	–
Amortisation	–	–	(2,031)	–	(2,031)
<b>Carrying amount at 30 June 2016</b>	<b>12,121</b>	<b>15,293</b>	<b>12,275</b>	<b>63,812</b>	<b>103,501</b>

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 17: Payables

	2016 \$000	2015 \$000
<b>Current</b>		
Trade payables	104,532	102,165
Payable to farmer suppliers	145,795	165,011
Sundry payables and accrued expenses	135,978	148,801
	<b>386,305</b>	<b>415,977</b>
<b>Non-current</b>		
Other	1,000	1,000
	<b>1,000</b>	<b>1,000</b>

All payables are recorded at amortised cost. The fair value of payables is documented in Note 29(D).

## Note 18: Borrowings

	2016 \$000	2015 \$000
<b>Current</b>		
Bank overdraft – Tasmanian Dairy Products Co Pty Ltd	–	10,671
Bank loans	67,331	184,650
Private placement senior notes	22,893	–
	<b>90,224</b>	<b>195,321</b>
<b>Non-current</b>		
Bank loans	144,064	167,600
Private placement senior notes	273,364	286,458
	<b>417,428</b>	<b>454,058</b>

The bank loans and private placement senior notes are covered by negative pledge agreements between the parent entity and its financiers. All borrowings are recorded at amortised cost. Private placement notes are designated as effective cash flow hedges with the exception of \$nil (2015: \$130,208,333). The fair value of borrowings is documented in Note 29(D).

## Note 19: Derivative Financial Instruments

	2016 \$000	2015 \$000
<b>Foreign currency derivatives assets</b>	<b>555</b>	<b>790</b>
<b>Foreign currency derivatives liabilities</b>	<b>–</b>	<b>1,028</b>

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



## Note 20: Provisions

	2016 \$000	2015 \$000
<b>Current</b>		
Employee benefits <sup>(i)</sup>	48,121	46,359
<b>Non-current</b>		
Employee benefits	10,726	8,908
The current provision for employee benefits includes annual and long service leave referable to unconditional, vested entitlements. The entitlements are presented as current liabilities albeit the consolidated entity does not expect to settle the full amount of accrued leave within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.		
(i) Current leave obligations expected to be settled after 12 months	21,119	24,910

## Note 21: Deferred Tax Liabilities

	Note	2016 \$000	2015 \$000
Deferred tax liability	5	41,469	37,021

## Note 22: Contingent Liabilities

There are no matters giving rise to material contingent liabilities in the context of the consolidated entity.

### Class Action

On 17 May 2016, Murray Goulburn Co-operative Co. Limited (MG) and MG Responsible Entity Limited, as responsible entity of the MG Unit Trust (MG RE), were notified that a group proceeding had been filed against them and a number of current and former directors in the Supreme Court of Victoria.

The statement of claim alleges contraventions of the Corporations Act through allegedly misleading or deceptive statements made in a Product Disclosure Statement issued on 29 May 2015 (PDS), and in subsequent market announcements. The proceeding is brought by the lead plaintiff on behalf of unitholders who purchased units pursuant to the PDS and/or in the period 'on or after 3 July 2015 and prior to the commencement of trading on 29 February 2016' and who held any of those units at the commencement of trading on 27 April 2016. The information usually required by AASB 137 *Provisions, Contingencies and Contingent Liabilities* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The companies strongly deny that there is a proper basis for the claim and are vigorously defending the proceedings.

### Regulatory Investigations

MG and MG RE are also currently the subject of investigations which are being undertaken by:

- the Australian Securities and Investments Commission in relation to potential breaches of the Corporations Act; and
- the Australian Competition and Consumer Commission in relation to potential breaches of the Competition and Consumer Act.

The companies are fully co-operating with both government agencies to resolve the issues. To date no adverse findings have been notified to either company in relation to these investigations.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 23: Issued Capital and Equity Instruments

	2016 \$000	2015 \$000		
<b>Issued capital and equity instruments</b>	<b>730,116</b>	<b>229,059</b>		
<b>i) Movements in issued capital</b>				
Balance at the beginning of the financial year	229,059	268,741		
Issue of ordinary shares to milk suppliers	62,256	13,463		
Capital raised on issue of units by MG Unit Trust	439,320	–		
Shares bought back and cancelled	–	(27,890)		
Capital raising costs net of tax	(519)	(25,255)		
<b>Balance at the end of the financial year</b>	<b>730,116</b>	<b>229,059</b>		
<b>ii) Number of equity instruments</b>				
<b>Movements in equity instruments on issue</b>	<b>Ordinary Shares<sup>(a)</sup></b>	<b>Units<sup>(b)</sup></b>	<b>Preference Shares<sup>(c)</sup></b>	<b>Total</b>
Balance at 30 June 2014	276,298,657	–	44,942,947	321,241,604
Shares issued	13,463,018	–	–	13,463,018
Dividend reinvestment plan issues	–	–	–	–
Transfers	(8,495,114)	–	8,495,114	–
Share buy-back and cancellations	–	–	(27,890,580)	(27,890,580)
Balance at 30 June 2015	281,266,561	–	25,547,481	306,814,042
Conversion of preference shares to ordinary shares	15,207,280	–	(15,207,280)	–
Preference cancellation	–	–	(10,340,201)	(10,340,201)
Ordinary shares issued by Murray Goulburn Co-operative Co. Ltd				
– Supplier share offer	42,953,396	–	–	42,953,396
– Supplier priority share offer	6,039,820	–	–	6,039,820
Units issued by MG Unit Trust				
– Friends of MG offer	–	4,492,102	–	4,492,102
– Institutional offer	–	203,957,134	–	203,957,134
– Employee offer	–	749,345	–	749,345
Rebalancing between shares and units for market transactions	4,421,276	(4,421,276)	–	–
Convertible preference shares created using ordinary shares	(44,367)	44,367	–	–
<b>Balance at 30 June 2016</b>	<b>349,843,966</b>	<b>204,821,672</b>	<b>–</b>	<b>554,665,638</b>

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. All share issues and buy backs during the year ended 30 June 2015 were undertaken at a value of \$1 per share. During the year ended 30 June 2016, shares were issued at a value of \$2.10 per share.

### (a) Ordinary Shares

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

### (b) Units

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

## Note 23: Issued Capital and Equity Instruments continued

### (c) Preference Shares

Preference shares include: 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. 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. B and C preference shares cancelled above represent the consolidation of B and C preference shares in accordance with the Murray Goulburn Co-operative Co. Limited Capital Structure Booklet and Notices of Meetings to Shareholders and Preference Shareholders of Murray Goulburn issued on 21 May 2015. In accordance with the MG Unit Trust Product Disclosure Statement issued on 29 May 2015, B and C preference shares on hand at 3 July 2015 were converted to non-voting shares.

### 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 percent.

	2016 \$000	2015 \$000
Total borrowings	507,652	649,379
less cash	(27,276)	(14,473)
Net debt	480,376	634,906
Total equity	1,175,694	680,239
Total capital	1,656,070	1,315,145
Gearing ratio	29%	48%

## Note 24: Reserves

	2016 \$000	2015 \$000
Capital reserve <sup>(i)</sup>	36,916	36,916
Asset revaluation reserve	144,856	130,100
General reserve <sup>(i)</sup>	5,257	5,257
Hedge reserve	(18,624)	(12,771)
Investment revaluation reserve	51	21
Transactions with non-controlling interests reserve	–	(1,403)
Foreign currency translation reserve	9,590	10,343
	<b>178,046</b>	<b>168,463</b>

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

### 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.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 24: Reserves continued

### 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.

### Transactions within the non-controlling interests reserve

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

### Foreign currency translation reserve

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

	Note	2016 \$000	2015 \$000
<b>Movements in reserves</b>			
<b>Asset revaluation reserve</b>			
Balance at the beginning of the financial year		130,100	135,451
Revaluation increments	15	37,601	–
Related income tax	5	(11,280)	–
Revaluation decrements	15	(16,521)	(7,500)
Related income tax	5	4,956	2,250
Transfer to retained earnings		–	(144)
Related income tax		–	43
<b>Balance at the end of the financial year</b>		<b>144,856</b>	<b>130,100</b>
<b>Hedge reserve</b>			
Balance at the beginning of the financial year		(12,771)	3,529
Transferred to income statement		238	(1,598)
Related income tax	5	(71)	480
Gains (losses) on cash flow hedges		(8,600)	(21,688)
Related income tax	5	2,580	6,506
<b>Balance at the end of the financial year</b>		<b>(18,624)</b>	<b>(12,771)</b>
<b>Investment revaluation reserve</b>			
Balance at the beginning of the financial year		21	33
Net change in fair value of equity instruments measured at fair value through other comprehensive income		43	(17)
Related income tax	5	(13)	5
<b>Balance at the end of the financial year</b>		<b>51</b>	<b>21</b>
<b>Transactions within the non-controlling interests reserve</b>			
Balance at the beginning of the financial year		(1,403)	(785)
Difference on acquisition of Tasmanian Dairy Products Co Pty Ltd		(4,370)	(618)
Transferred to retained earnings (net of tax)		5,773	–
<b>Balance at the end of the financial year</b>		<b>–</b>	<b>(1,403)</b>
<b>Foreign currency translation reserve</b>			
Balance at the beginning of the financial year		10,343	2,814
Translation of foreign operations		(753)	6,341
Derecognition of tax balances on reserves		–	1,188
<b>Balance at the end of the financial year</b>		<b>9,590</b>	<b>10,343</b>

## Note 25: Retained Earnings

	Note	2016 \$000	2015 \$000
Balance at the beginning of the financial year		280,780	287,089
Net profit attributable to members of the parent entity		40,577	25,166
Dividends provided for or paid	8	(44,700)	(31,578)
Transfer from reserves (net of tax)		(9,125)	103
<b>Balance at the end of the financial year</b>		<b>267,532</b>	<b>280,780</b>

## Note 26: Non-controlling Interests

	2016 \$000	2015 \$000
Non-controlling interests comprises:		
Ordinary shares in Tasmanian Dairy Products Co Pty Ltd (2015: 121 shares) <sup>(i)</sup>	–	1,937
	<b>–</b>	<b>1,937</b>

- (i) During the financial year ended 30 June 2016 the parent entity Murray Goulburn Co-operative Co. Ltd acquired a further 24 percent interest in the ordinary shares of Tasmanian Dairy Products Co Pty Ltd, taking its total interest to 100 percent of the issued capital of that entity. Consideration payable on acquisition of this additional interest was \$4.8 million, which, together with stamp duty costs associated with a previous acquisition of shares in Tasmanian Dairy Products Co Pty Ltd of \$0.8 million, is reflected in the cash flow statement. Following that transaction, there ceased to be a non-controlling interest in Tasmanian Dairy Products Co Pty Ltd. Further during the financial year ended 30 June 2015 the parent entity Murray Goulburn Co-operative Co. Ltd acquired a further interest in the ordinary shares of Provico Pty Ltd, taking its total interest to 100 percent of the issued capital of that entity. Following that transaction, there ceased to be a non-controlling interest in Provico Pty Ltd. Refer Note 13. Consideration paid to acquire these additional interests is set out in the cash flows statements for the years ended 30 June 2016 and 2015 respectively.

## Note 27: Capital and Leasing Commitments

	2016 \$000	2015 \$000
<b>a) Operating lease commitments</b>		
• Due within 1 year	73,865	53,047
• Due within 1–5 years	167,058	159,577
• Due longer than 5 years	153,001	154,273
	393,924	366,897
Less sub-lease rental income	(16,222)	(18,197)
	<b>377,702</b>	<b>348,700</b>
Operating leases relate to factories, trading stores, warehousing facilities, office space, and vehicles, with lease terms of between one and 30 years. Some leases have an option to extend the lease term. The consolidated entity does not have an option to purchase the leased assets at expiry of the lease period.		
<b>b) Capital expenditure commitments</b>		
<b>Contracted capital expenditure commitments due within one year</b>	<b>67,333</b>	<b>81,898</b>



# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 28: Events Subsequent to Balance Date

With the exception of the declaration of dividends detailed in Note 8 '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 2016.

## Note 29: 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.

### 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 fair value risk associated with rate fluctuations.

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\$40 million (2015: US\$135 million) in outstanding forward exchange contracts, contracts to sell Australian dollars in return for US dollars. These contracts have maturity dates not exceeding one year. The US\$40 million (2015: US\$135 million) hedges future sales transactions. In addition, at balance date, the entity has US\$8 million (2015: US\$3.8 million), Euro 3.8 million (2015: Euro 6.6 million) and NZ\$2.1 million (2015: nil) in outstanding forward exchange contracts to sell A\$ as a hedge over future interest expense and property, plant and equipment purchases. The net fair value of all forward exchange contracts at balance date is a gain of \$0.6 million (2015: loss of \$0.2 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.

#### **Private placement senior notes**

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

## Note 29: 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 percent 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.

		2016 \$000	2015 \$000
Other equity	A\$ strengthens 1% – increase (decrease)	2,182	1,187
	A\$ weakens 1% – increase (decrease)	(2,226)	(1,211)
Profit or loss	A\$ strengthens 1% – increase (decrease)	54	810
	A\$ weakens 1% – increase (decrease)	(55)	(827)

### 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\$ overdraft bears interest at a floating rate based on the bank's corporate overdraft reference rate. The US\$ bank overdraft bears interest at a floating rate based on the Federal Reserve's Target Rate. US\$ cash on hand yields interest at the US Interbank Bid Rate. A\$ cash on hand bears interest at a floating rate based on the targeted cash rate of the Reserve Bank of Australia.

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

The 2009 private placement will be repaid as follows and bear interest at the following fixed rates: US\$17.0 million, 5.44 percent (29 October 2016), US\$89.0 million, 5.81 percent (29 October 2019), US\$14.0 million, 5.96 percent (29 October 2021). The 2014 private placement will be repaid as follows and bears interest at the following fixed rates: US\$20 million, 3.37 percent (29 October 2020); US\$30 million, 3.61 percent (29 October 2021), US\$15 million, 3.73 percent (29 October 2022), US\$35 million, 3.85 percent (29 October 2023).

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 applicable to debt facilities subject to variable rates, holding all other variables constant, would be a decrease/increase in net profit of \$1.06 million (2015: \$1.81 million 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 counter-parties in various countries.

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

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 29: Financial Instruments continued

### D) Fair value

The fair value of other financial assets and financial liabilities, excluding derivative instruments, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. To calculate the fair value of derivative instruments, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

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

The fair value of the private placement at balance date is \$342.4 million (2015: \$328.1 million).

The fair value of a government loan of \$1.0 million at balance date is \$0.97 million (2015: \$0.95 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 31(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 undiscounted 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
<b>At 30 June 2016</b>						
Non-interest bearing	386,305	1,000	–	–	387,305	387,305
Variable rate	67,675	–	151,894	–	219,569	211,405
Fixed rate	36,539	13,022	174,957	133,520	358,038	296,247
<b>Consolidated</b>	<b>490,519</b>	<b>14,022</b>	<b>326,851</b>	<b>133,520</b>	<b>964,912</b>	<b>894,957</b>
<b>At 30 June 2015</b>						
Non-interest bearing	415,977	1,000	–	–	416,977	416,977
Variable rate	203,220	141,681	34,536	–	379,437	362,921
Fixed rate	13,794	35,328	150,290	160,583	359,995	286,458
<b>Consolidated</b>	<b>632,991</b>	<b>178,009</b>	<b>184,826</b>	<b>160,583</b>	<b>1,156,409</b>	<b>1,066,356</b>

### F) Financing arrangements and unused credit facilities

Total financial facilities available to the consolidated entity and the extent to which they are utilised at balance date are set out in Note 31(c).

### Note 30: Related Parties

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

#### A) Associated companies

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

#### B) Directors of the parent entity

Direct and indirect shareholdings of Directors in the parent entity	Shares held at 30 June 2014 Ordinary No.	Acquired Ordinary No. <sup>(i)</sup>	Shares held at 30 June 2015 Ordinary No.	Acquired Ordinary No. <sup>(iii)</sup>	Shares held at 30 June 2016 Ordinary No.
PW Tracy	1,484,989	67,782	1,552,771	120,364	1,673,135
N Akers	286,897	20,163	307,060	68,073	375,133
WT Bodman	184,079	12,356	196,435	16,358	212,793
ML Jelbart	1,455,978	48,597	1,504,575	(ii)	(ii)
KW Jones	274,646	823	275,469	2,685	278,154
ED Morris	32,392	5,084	37,476	(ii)	(ii)
GN Munzel	246,788	9,952	256,740	–	256,740
JP Pye	288,337	14,889	303,226	11,192	314,418
MJ Van de Wouw	413,796	3,824	417,620	1,242	418,862
	4,667,902	183,470	4,851,372	219,914	3,529,235

Direct and indirect shareholdings of Directors in MG Unit Trust	Units held at 30 June 2014	Acquired	Units held at 30 June 2015	Acquired <sup>(iv)</sup>	Units held at 30 June 2016
PW Tracy	–	–	–	47,619	47,619
N Akers	–	–	–	30,884	30,884
WT Bodman	–	–	–	–	–
ML Jelbart	–	–	–	–	(ii)
KW Jones	–	–	–	28,571	28,571
ED Morris	–	–	–	–	(ii)
GN Munzel	–	–	–	27,619	27,619
JP Pye	–	–	–	15,000	15,000
MJ Van de Wouw	–	–	–	47,619	47,619
	–	–	–	197,312	197,312

- (i) All shares were issued for a value of \$1, and accordingly the value of the issued shares equals \$183,470.
- (ii) ML Jelbart and ED Morris resigned from the office of Director during the current financial year and accordingly their shareholdings at 30 June 2016 are not disclosed.
- (iii) Shares acquired either as a result of the initial public offering, Dividend Reinvestment Plan or by participation in the monthly Supplier Offtake Program.
- (iv) MG Units either acquired as a result of the initial public offering upon the Trust's listing on the ASX or subsequently via on market purchases.

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.

Directors who supply milk to the consolidated entity participated in the Milk Supplier Support Package on normal terms and conditions and in the same manner as all other suppliers.

Total purchases of goods and services from Murray Goulburn Trading Pty Ltd by Directors and their related entities was \$2,450,532 (2015: \$2,469,328) and the balance outstanding as at 30 June 2016 was \$430,678 (2015: \$455,563). 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 on normal commercial terms and conditions. The total amount purchased was \$1,223,983 (2015: \$393,955), with a balance outstanding at financial year end of \$60,850 (2015: \$nil). Further, during the year, Southern Stockfeeds paid \$21,997 (2015: \$6,635) to the consolidated entity for services provided in collecting Southern Stockfeeds accounts receivable.

# Notes to the Financial Statements continued

for the financial year ended 30 June 2016

## Note 30: Related Parties continued

Aggregate of loans to three (2015: three) Directors as at financial year end: \$23,794 (2015: \$27,083). Total interest paid by Directors: \$5,718 (2015: \$3,343).

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:

- None

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.

### C) Key management personnel

Executive key management personnel held no shares in the Company at either 30 June 2016 or 30 June 2015. MG Unit Trust units held by executive key management personnel in the Company as at 30 June 2016 are set out below:

	Units held at 30 June 2015	Acquired <sup>(i)</sup>	Units held at 30 June 2016
D Mallinson	–	31,904	31,904
F Smith	–	4,761	4,761
B Hingle	–	16,666	16,666
A Moncau	–	2,417	2,417
	–	<b>55,748</b>	<b>55,748</b>

- (i) MG Units acquired either as a result of the initial public offering upon the Trust's listing on the ASX or subsequently via on market purchases.



## Note 31: Notes to the Statement of Cash Flows

	2016 \$000	2015 \$000
<b>A) Reconciliation of cash</b>		
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 <sup>(i)</sup>	27,276	14,473
Bank overdraft – refer Borrowings note 18	–	(10,671)
Cash per statement of cash flows	27,276	3,802
(i) MG Responsible Entity Limited is required to hold \$5 million in cash and therefore the consolidated group is restricted from utilising this cash for any other purpose.		
<b>B) Reconciliation of profit for the period to net cash flow from operating activities</b>		
Profit for the period	39,848	21,246
Depreciation and amortisation	56,823	52,851
Movement in impaired receivables provision	15,018	(561)
Finance costs capitalised on acquisition of qualifying assets	(1,695)	(2,321)
Unrealised foreign exchange losses	1,238	42,554
Impairment recognised (reversed) attributable to non-current assets	1,896	(1,406)
Loss (gain) on disposal of fixed assets	3,116	(7,044)
Share of (profit) loss of associated company	1,648	1,038
Associate entity dividends	3,992	455
Loss (gain) on disposal of investment in associate	(17,298)	(115)
Impairment recognised (reversed) on investments in associated companies	(952)	1,730
Non cash employee share issue costs	1,575	–
<b>Change in operating assets and liabilities</b>		
Decrease (increase) in trade receivables	50,732	120,221
Decrease (increase) in prepayments	(2,663)	(978)
Decrease (increase) in current tax receivable	–	1,700
Decrease (increase) in inventories	(60,885)	(141,263)
Increase (decrease) in trade payables and amounts due to suppliers	(11,626)	15,760
Increase (decrease) in provisions	3,580	919
Increase (decrease) in current tax payable	6,193	310
Increase (decrease) in deferred tax liability	(4,896)	(630)
Increase (decrease) in minority reserve	–	(618)
<b>Net cash inflow (outflow) from operating activities</b>	<b>85,644</b>	<b>103,848</b>
<b>C) Financing arrangements</b>		
Credit facility	986,655	1,156,021
Amount utilised	507,652	651,537
<b>Unused credit facility</b>	<b>479,003</b>	<b>504,484</b>

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 2016

## Note 32: Parent Entity Disclosures

	2016 \$000	2015 \$000
<b>A) Financial position</b>		
Total current assets	964,185	855,162
Total non-current assets <sup>(i)</sup>	1,192,023	833,878
<b>Total assets</b>	<b>2,156,208</b>	<b>1,689,040</b>
Total current liabilities	679,167	598,507
Total non-current liabilities	344,290	464,457
<b>Total liabilities</b>	<b>1,023,457</b>	<b>1,062,964</b>
<b>Net assets</b>	<b>1,132,751</b>	<b>626,076</b>
Issued capital	730,116	229,059
Retained earnings <sup>(i)</sup>	288,687	286,399
Reserves		
Capital reserve	24,290	24,290
Asset revaluation reserve	105,583	96,430
General reserve	2,648	2,648
Hedge reserve	(18,624)	(12,771)
Investment revaluation reserve	51	21
<b>Total equity</b>	<b>1,132,751</b>	<b>626,076</b>
(i) The 30 June 2015 carrying value of investments in associates has been adjusted down to align with the treatment of those investments in the consolidated entity's accounts. A corresponding adjustment to retained earnings has been made, decreasing retained earnings in the prior year.		
<b>B) Financial performance for the year</b>		
Profit for the year	46,987	32,100
Total comprehensive income (loss)	3,330	12,913
<b>C) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries</b>		
Guarantee provided under the deed of cross guarantee	30,740	27,240
<b>D) Contingent liabilities</b>		
Other than the matters referred to in Note 22 and the contingent liability exposures which could arise therefrom, there are no other matters giving rise to material contingent liabilities in the context of the parent entity.		
<b>E) Commitments for the acquisition of property, plant and equipment and intangible assets</b>		
Plant and equipment and software intangible assets	66,625	79,212

## Note 33: 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

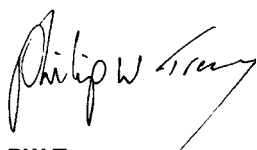
In the Directors' opinion:

- 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 2016 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 13 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  
24 August 2016

# Auditor's Independence Declaration



## Auditor's Independence Declaration

As lead auditor for the audit of Murray Goulburn Co-operative Co. Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Lisa Harker  
Partner  
PricewaterhouseCoopers

Melbourne  
24 August 2016

**PricewaterhouseCoopers, ABN 52 780 433 757**  
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE  
VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)  
Liability limited by a scheme approved under Professional Standards Legislation.

# Auditor's Independence Report



## 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 (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other 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 at year's end or from time to time during the financial year.

### *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 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 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 consolidated entity's preparation and fair presentation of the financial report 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.

### *Independence*

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

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.





## *Auditor's 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 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes 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 45 to 56 of the directors' report for the year ended 30 June 2016. 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.

## *Auditor's opinion*

In our opinion, the remuneration report of Murray Goulburn Co-Operative Co. Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in dark ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

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

Lisa Harker  
Partner

Melbourne  
24 August 2016

**Murray Goulburn**  
**Co-operative Co. Limited**  
Level 15 Freshwater Place  
2 Southbank Boulevard  
Southbank Victoria 3006 Australia  
  
PO Box 4307 Melbourne  
Victoria 3001 Australia  
  
Telephone: +61 3 9040 5000  
[www.mgc.com.au](http://www.mgc.com.au)

