



24 August 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) – Financial statements and reports for the full year ended 30 June 2016

In accordance with the Listing Rules, I attach a copy of Murray Goulburn's financial statements and reports for the full year ended 30 June 2016, for immediate release to the market.

This information is being released given that unitholders of the MG Unit Trust have an economic exposure to Murray Goulburn. In particular, unitholders have the opportunity to earn returns based on the performance of Murray Goulburn and are entitled to receive distributions equivalent to any dividend paid to Murray Goulburn's shareholders.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Fiona Smith'.

Fiona Smith
Company Secretary

Murray Goulburn Co-operative Co. Limited

(ACN 004 277 089)

Financial statements and reports for the year ended 30 June 2016

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Directors' Report 2016

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

DIRECTORS

The Directors listed on page 4 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, Grad Dip Applied Governance, 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, Grad Dip Company Secretarial Practice, 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 ⁽¹⁾	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 ⁽¹⁾	8,008
	21,687

(1) 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.

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% 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% 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.

Directors' Report 2016

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% 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 Nutritionals (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 Milk Supply Support Package. 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 5 to 15.

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.

Directors' Report 2016

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 56 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

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 and 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#)	*	*	5	7
G Helou Managing Director Melbourne	BE (Hons) MComm, FAICD, FAIM Director from 2011 until 28 April 2016	13 (15#)	*	*	*	*
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#)	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#)	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.

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.

Murray Goulburn 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
1. Remuneration snapshot		
1.1. Key points	Provides a summary of the remuneration outcomes for FY16.	6
1.2. Key changes during FY16	Details the key remuneration changes in FY16.	6
1.3. Key Management Personnel	Lists the names and roles of the KMP whose remuneration details are disclosed in this report.	6
2. Setting senior executive remuneration		
2.1. Remuneration governance and strategy	Explains Murray Goulburn's remuneration policy and strategy, and how the Board and Remuneration Committee make decisions, including the use of external consultants.	7
2.2. Remuneration components	Shows how executive remuneration is structured to support business objectives and explains the executive remuneration mix.	7
2.3. FY16 Short Term Incentive Plan (STIP)	Provides details of the FY16 STIP.	8
2.4. FY16 Long Term Incentive Plan (LTIP)	Provides details of the FY16 LTIP.	9
3. Executive remuneration outcomes		
3.1. Financial performance	Provides a breakdown of Murray Goulburn's performance over the past five years.	11
3.2. Short Term Incentive Plan (STIP) outcomes	Details the STIP outcomes for FY16.	11
3.3. Long Term Incentive (LTIP) outcomes	Details the LTIP outcomes for the plan with a performance test at 30 June 2016.	11
3.4. KMP contract details	Lists the key contract terms governing the employment of KMP (including termination entitlements where relevant).	12
4. Non-Executive Director remuneration outcomes		
4.1. Remuneration structure	Provides details of the fee structure for Board and Committee roles.	12
5. Remuneration tables		
5.1. KMP remuneration	Provides the remuneration tables for KMP.	13
5.2. Non-executive Director remuneration	Provides the remuneration tables for the non-executive Directors.	14
5.3. Shareholdings	Outlines the shareholdings of Directors.	15

Murray Goulburn Remuneration Report 2016

1. REMUNERATION SNAPSHOT

1.1. Key points

Sales revenue for FY16 was \$2.78b (this was 3.3% 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 \$1.32b, a growth of 17.2% over FY15. The Ingredients and Nutritional segment revenue was lower by 18.5%. 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% 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 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
Non-executive Director	
P W Tracy	Chairman
K W Jones	Deputy Chairman
N Akers	Non-executive Director
W T Bodman	Non-executive Director
PJO Hawkins	Special Director (Non-executive)
MF Ihlein	Special Director (Non-executive)
ML Jelbart	Non-executive Director [Resigned 2 May 2016]
K Grant	Special Director (Non-executive) [Appointed 14 March 2016. Resigned 3 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
Executive Director	
G Helou	Managing Director [Resigned 28 April 2016]
Executive	
D Mallinson	Interim CEO
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.

Murray Goulburn Remuneration Report 2016

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:

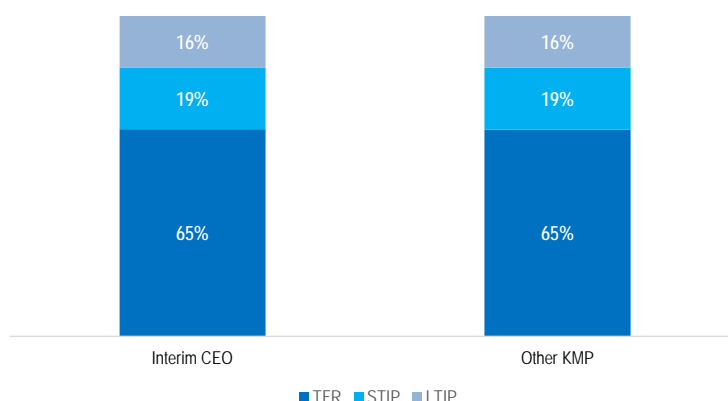
Remuneration Component	Purpose
Total Fixed Remuneration (TFR)	Fixed remuneration rewards the day to day accountabilities of the position and is made up of base salary (including salary sacrifice benefits and applicable fringe benefits), fixed allowances and company contributions to superannuation (paid 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 3 year period and any payment made within five months.

Murray Goulburn Remuneration Report 2016

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.

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

The graph below shows the FY16 remuneration mix ("At target" STIP & 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 % opportunities and weightings applied for the achievement of company goals and individual performance. These are outlined in the table below:

Murray Goulburn Remuneration Report 2016

Role	At Target Opportunity of Fixed Remuneration	Weighting	
		Company Goals	Individual Performance
Managing Director	40%	80%	20%
Interim CEO	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 & 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.

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 unit holders 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"> Distributable Milk Pool (DMP) (50 per cent weighting) Relative Total Shareholder Return (RTSR) (50 per cent weighting)
Vehicle	<ul style="list-style-type: none"> Cash linked to unit price movement
Quantum opportunity	Quantum is based on a percentage of fixed remuneration as determined by the Board. The quantum opportunities are based on achieving varying levels of performance with opportunities also available for achieving performance between levels: <p>Managing Director</p> <p>Threshold performance: 15 per cent of fixed remuneration</p> <p>Target performance: 30 per cent of fixed remuneration</p> <p>Stretch performance: 60 per cent of fixed remuneration</p>

Murray Goulburn Remuneration Report 2016

	<p>Executive Leadership Team</p> <p>Threshold performance: 12.5 per cent of fixed remuneration</p> <p>Target performance: 25 per cent of fixed remuneration</p> <p>Stretch performance: 50 per cent 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"> The purpose of the DMP hurdle is to focus LTIP participants on driving alignment between shareholders and unit holders. Targets are set by determining a performance hurdle to be achieved by the end of the three year period, using the year prior to the grant year as the base year. For example, the current grant performance will be assessed on the DMP from FY15 over a three year period by comparing the actual result in FY18 to the FY15 amount. The hurdles and related components within the hurdle are based on forecasted levels of financial performance, including forecasted inflation (wage, energy/utilities, and transport) and Company initiatives. This is then normalised to remove the impact of commodity prices and exchange rates. Three levels of growth targets are set - threshold (80% of target), target (100% of target) and stretch (110% of target). In order for any amount to be payable, at least 80% of the forecast increase in the DMP needs to be achieved over the three year period. 																								
RTSR hurdle and target	<ul style="list-style-type: none"> The purpose of the RTSR hurdle is to ensure that the interests of the executives are closely aligned with those of the Company's shareholders over the long term and to incentivise outperformance of the Company relative to its peers. The RTSR is assessed against the relative performance over the relevant vesting period as measured against a comparator group. 																								
Vesting schedule	<p>Vesting (or entitlement to payment) occurs according to the following schedule for proportion of the LTIP award (subject to each performance measure).</p> <p>Distributable Milk Pool</p> <table> <tr> <th>Achievement of Hurdle</th><th>Proportion of LTIP award (for the 50% related to the DMP Hurdle) that is made available</th></tr> <tr> <td>Below threshold</td><td>0%</td></tr> <tr> <td>Threshold (80% of target)</td><td>50%</td></tr> <tr> <td>Between threshold and target</td><td>Straight line correlation between 50% and 100% of LTIP award opportunity</td></tr> <tr> <td>Target (100% of target)</td><td>100%</td></tr> <tr> <td>Between target and stretch</td><td>Straight line correlation between 100% and 200% of LTIP award opportunity</td></tr> <tr> <td>Stretch (110% of target)</td><td>200%</td></tr> </table> <p>Relative Total Shareholder Return</p> <table> <tr> <th>Achievement of Hurdle</th><th>Proportion of LTIP award (for the 50% related to the RTSR Hurdle) that is made available</th></tr> <tr> <td>Below 50th percentile</td><td>0%</td></tr> <tr> <td>Target (at the 50th percentile)</td><td>100%</td></tr> <tr> <td>Above the 50th but below the 75th percentile</td><td>Straight line correlation between 100% and 200% of LTIP award opportunity</td></tr> <tr> <td>Stretch (equal to or above the 75th percentile)</td><td>200%</td></tr> </table>	Achievement of Hurdle	Proportion of LTIP award (for the 50% related to the DMP Hurdle) that is made available	Below threshold	0%	Threshold (80% of target)	50%	Between threshold and target	Straight line correlation between 50% and 100% of LTIP award opportunity	Target (100% of target)	100%	Between target and stretch	Straight line correlation between 100% and 200% of LTIP award opportunity	Stretch (110% of target)	200%	Achievement of Hurdle	Proportion of LTIP award (for the 50% related to the RTSR Hurdle) that is made available	Below 50 th percentile	0%	Target (at the 50 th percentile)	100%	Above the 50 th but below the 75 th percentile	Straight line correlation between 100% and 200% of LTIP award opportunity	Stretch (equal to or above the 75 th percentile)	200%
Achievement of Hurdle	Proportion of LTIP award (for the 50% related to the DMP Hurdle) that is made available																								
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Stretch (110% of target)	200%																								
Achievement of Hurdle	Proportion of LTIP award (for the 50% related to the RTSR Hurdle) that is made available																								
Below 50 th percentile	0%																								
Target (at the 50 th percentile)	100%																								
Above the 50 th but below the 75 th percentile	Straight line correlation between 100% and 200% of LTIP award opportunity																								
Stretch (equal to or above the 75 th percentile)	200%																								
Adjustments to performance hurdles	Performance hurdles can be amended at the discretion of the Board during the performance period but only following a change to the target setting approach and/or assessment methodology as agreed by the Board or to prevent the participant from receiving an inappropriate benefit in certain circumstances.																								
Adjustments to LTIP award outcomes	Following the end of a performance period, the Board may take into account certain items or factors that may have assisted or hindered the participant in achieving the performance hurdles (beyond those already factored into the forecasted targets). The Board has the discretion to adjust the outcome either upwards or downwards to account for such items or factors or to prevent the participants receiving an inappropriate benefit in certain circumstances. The Board will also give consideration to the Company's performance against that of its competitors.																								
Cessation of employment	On leaving the Company by reason of resignation or termination for cause, all unvested LTI Awards will lapse. Where employment ceases for any other reason a participant's LTI Award will continue on foot and vest subject to performance against existing hurdles, subject to Board discretion.																								

Murray Goulburn Remuneration Report 2016

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

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
<u>Managing Director</u> G Helou	0%	100%
<u>Interim CEO</u> D Mallinson	0%	100%
<u>Executive</u> F Smith B Hingle A Moncau	0% 0% 0%	100% 100% 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 MD, CFO and COO.

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

Murray Goulburn Remuneration Report 2016

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 CEO	3 April 2014
B Hingle	Chief Financial Officer	13 January 2014
F Smith	Chief Operations 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

Murray Goulburn Remuneration Report 2016

5. REMUNERATION TABLES

5.1. KMP remuneration

	Salary and Allowances	STI Cash Bonus	Non Monetary (i)	Subtotal	Annual leave accrued (taken) (vii)	Long Service Leave Accrued	Subtotal of leave benefits	LTI Cash Incentives (ii)	Superannuation	TOTAL	Proportion of remuneration performance related (viii) %
Executive Officers	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
2016											
D Mallinson (iii)	671,891	-	-	671,891	45,791	12,256	58,047	4,929	19,308	754,175	0.7
G Helou (iv)	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 (v)	792,531	-	-	792,531	8,081	9,696	17,777	-	19,308	829,616	-
B Hingle (vi)	625,657	-	-	625,657	12,904	10,303	23,207	(138,875)	19,308	529,297	-
TOTAL	5,408,476	-	130,732	5,539,208	(191,216)	(52,362)	(243,578)	(619,513)	95,891	4,772,009	
2015											
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
TOTAL	3,434,301	1,419,549	219,946	5,073,796	101,911	65,220	167,131	308,105	75,650	5,624,682	

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) 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.

(iii) A higher duties allowance is included in the Salary and Allowances for the Interim CEO.

(iv) 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 years long service leave benefit).

(v) A Moncau resigned on 30 June 2016. Salary and Allowances include notice payment.

(vi) B Hingle resigned on 26 April 2016. Salary and Allowances include notice payment.

(vii) Annual Leave column represents the movement in the accrual in FY16

(viii) If you exclude the FY14 LTIP reversal, the proportion of remuneration performance related for D Mallinson is 13.1% and F Smith is 13.4%

Murray Goulburn Remuneration Report 2016

5.2. Non-executive Director remuneration

	Short Term Benefits		Post Employment	TOTAL
	Fees & Salary	Non Monetary (i)	Superannuation	
Non-executive Directors	\$	\$	\$	\$
2016 (ii)				
PW Tracy (vii)	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 (vi) (vii)	158,890	-	14,443	173,333
MF Ihlein (vi) (vii)	151,063	-	13,937	165,000
ML Jelbart (iii)	107,029	-	10,168	117,197
KW Jones	136,986	-	13,014	150,000
K Grant (iv)	16,815	-	1,597	18,412
ED Morris (v)	109,450	-	10,398	119,848
GN Munzel	106,544	-	10,122	116,666
JP Pye	121,765	-	11,568	133,333
M Van de Wouw	106,544	-	10,122	116,666
TOTAL	1,497,917	28,213	131,701	1,657,831
2015				
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
TOTAL	1,075,095	27,352	100,315	1,202,762

(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) ML Jelbart resigned from the Board of Directors on 2 May 2016 due to ill health.

(iv) K Grant was appointed to the Board of Directors on 14 March 2016 and resigned on 3 May 2016.

(v) ED Morris resigned from the Board of Directors on 10 May 2016.

(vi) Fees and salary include fee for acting as Responsible Managers of the responsible entity of the MG Unit Trust.

(vii) Fees and salary include one off fee for participating in the Due Diligence Committee for the capital structure.

Murray Goulburn Remuneration Report 2016

5.3. Shareholdings

Direct and indirect shareholdings of Directors in the parent entity

	Shares held at 30 June 2015		Shares held at 30 June 2016
	Ordinary No.		Ordinary No.
	Acquired Ordinary No. (i)		
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

Direct and indirect shareholdings of Directors in MG Unit Trust

	Units held at	Acquired	Units held at
	30 June 2015	(iii)	30 June 2016
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

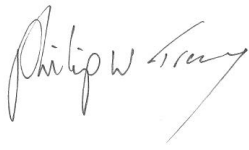
(i) Shares acquired either as a result of the initial public offering, Dividend Reinvestment Plan or by participation in the monthly Supplier Offtake Program.

(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.

Directors' Report 2016

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

A handwritten signature in black ink, appearing to read 'Philip W. Tracy', with a long, sweeping horizontal stroke at the end.

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)
Profit for the year		39,848	21,246
Attributable to:			
Equity holders of the parent	25	40,577	25,166
Non-controlling interest		(729)	(3,920)
Profit for the year		39,848	21,246

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
Profit for the year		39,848	21,246
Other comprehensive income			
<i>Items that will not be classified subsequently to profit or loss:</i>			
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
<i>Items that may be reclassified subsequently to profit or loss:</i>			
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
Total comprehensive income for the year		48,028	7,213
Attributable to:			
Equity holders of the parent		48,757	11,133
Non-controlling interest		(729)	(3,920)
Total comprehensive income for the year		48,028	7,213

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
Current assets			
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
Total current assets		1,011,751	933,265
Non-current assets			
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
Total non-current assets		1,166,082	907,319
Total assets		2,177,833	1,840,584
Current liabilities			
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
Total current liabilities		531,516	659,358
Non-current liabilities			
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
Total non-current liabilities		470,623	500,987
Total liabilities		1,002,139	1,160,345
Net assets		1,175,694	680,239
Equity			
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
Total equity		1,175,694	680,239

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the financial year ended 30 June 2016

			Asset			Investment	Transactions with Non- controlling	Foreign Currency		Attributable to Owners	Non- Controlling	
	Issued	Capital	Revaluation	General	Hedge	Revaluation	Interests	Translation	Retained	of the	Interests	Total
	Capital	Reserve	Reserve	Reserve	Reserve	Reserve	Reserve	Reserve	Earnings	Parent		\$000
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
	Note 23	Note 24	Note 24	Note 24	Note 24	Note 24	Note 24	Note 24	Note 25		Note 26	
Balance as at 1 July 2014	268,741	36,916	135,451	5,257	3,529	33	(785)	2,814	287,089	739,045	6,846	745,891
Profit (loss) for the year	-	-	-	-	-	-	-	-	25,166	25,166	(3,920)	21,246
Other comprehensive income	-	-	(5,250)	-	(16,300)	(12)	-	7,529	-	(14,033)	-	(14,033)
Total comprehensive income	-	-	(5,250)	-	(16,300)	(12)	-	7,529	25,166	11,133	(3,920)	7,213
Payment of dividends	-	-	-	-	-	-	-	-	(31,578)	(31,578)	-	(31,578)
Issue of ordinary shares to milk suppliers	13,463	-	-	-	-	-	-	-	-	13,463	-	13,463
Transferred to retained earnings (net of tax)	-	-	(101)	-	-	-	-	-	103	2	-	2
Capital raising costs	(25,255)	-	-	-	-	-	-	-	-	(25,255)	-	(25,255)
Shares bought back and cancelled	(27,890)	-	-	-	-	-	-	-	-	(27,890)	-	(27,890)
Difference on acquisition of interest in subsidiary	-	-	-	-	-	-	(618)	-	-	(618)	(989)	(1,607)
Balance as at 30 June 2015	229,059	36,916	130,100	5,257	(12,771)	21	(1,403)	10,343	280,780	678,302	1,937	680,239
Profit (loss) for the year	-	-	-	-	-	-	-	-	40,577	40,577	(729)	39,848
Other comprehensive income	-	-	14,756	-	(5,853)	30	-	(753)	-	8,180	-	8,180
Total comprehensive income	-	-	14,756	-	(5,853)	30	-	(753)	40,577	48,757	(729)	48,028
Payment of dividends	-	-	-	-	-	-	-	-	(44,700)	(44,700)	-	(44,700)
Issue of ordinary shares / units to investors	501,576	-	-	-	-	-	-	-	-	501,576	-	501,576
Capital raising costs	(519)	-	-	-	-	-	-	-	-	(519)	-	(519)
Difference on acquisition of interest in subsidiary	-	-	-	-	-	-	(4,370)	-	(3,352)	(7,722)	(1,208)	(8,930)
Transferred to retained earnings (net of tax)	-	-	-	-	-	-	5,773	-	(5,773)	-	-	-
Balance as at 30 June 2016	730,116	36,916	144,856	5,257	(18,624)	51	-	9,590	267,532	1,175,694	-	1,175,694

Consolidated Statement of Cash Flows

for the financial year ended 30 June 2016

	Note	2016 \$000	2015 \$000
Cash flows from operating activities			
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
Cash flows from investing activities			
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)
Cash flows from financing activities			
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
Cash at the end of the year	31(A)	27,276	3,802

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 entities notional tax calculation.

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

Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 5 to the financial statements.

Notes to the Financial Statements continued

for the financial year ended 30 June 2016

NOTE 1: Summary of Significant Accounting Policies continued

B) INCOME TAX continued

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.

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

Notes to the Financial Statements continued

for the financial year ended 30 June 2016

NOTE 1: Summary of Significant Accounting Policies continued

G) IMPAIRMENT OF ASSETS

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

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

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

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

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.

J) GOODS AND SERVICES TAX

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

- 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
- 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.

Notes to the Financial Statements continued

for the financial year ended 30 June 2016

NOTE 1: Summary of Significant Accounting Policies continued

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.

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 recognized 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 Supplier's 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 Stock Exchange. The exposure of the MG Unit Trust and therefore Unitholders to Murray Goulburn is only economic.

Notes to the Financial Statements continued

for the financial year ended 30 June 2016

NOTE 1: Summary of Significant Accounting Policies continued

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.

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 nutritionals), 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 Supplier 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.

Z) SEGMENT INFORMATION

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

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

- Ingredients & Nutritionals
- Dairy Foods
- Other

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

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

Notes to the Financial Statements continued

for the financial year ended 30 June 2016

NOTE 1: Summary of Significant Accounting Policies continued

Other operations include trading stores which sell farm supplies and services to farmers, 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 & 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 amend 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.

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
Segment Income Statement					
2016					
External revenue	1,084,857	1,325,157	367,658	-	2,777,672
Inter-segment revenue	7,616	1,345	80,682	(89,643)	-
Revenue from sale of goods	1,092,473	1,326,502	448,340	(89,643)	2,777,672
Segment contribution to profit	(81,548)	164,467	20,610	-	103,529
Other income					3,032
Net gain on sale of non-current assets					17,298
Share of profit (loss) of associates					(1,648)
Operating expenses					(41,224)
Finance costs					(23,445)
Profit before tax					57,542

	Ingredients and Nutritionals \$000	Dairy Foods \$000	Other \$000	Intersegment Eliminations \$000	Total \$000
Segment Income Statement					
2015					
External revenue	1,330,637	1,130,050	411,197	-	2,871,884
Inter-segment revenue	9,201	1,297	127,326	(137,824)	-
Revenue from sale of goods	1,339,838	1,131,347	538,523	(137,824)	2,871,884
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)
Profit before tax					22,984

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.

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
Revenue from sale of goods	2,777,672	2,871,884

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
Total	2,777,672	2,871,884	1,166,082	907,319

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% or more to the Group's revenue for both 2016 and 2015.

NOTE 3: Revenue

	2016	2015
	\$000	\$000
Revenue		
Sales revenue	2,777,672	2,871,884
Other income		
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
Sales and other income	2,798,002	2,874,130

NOTE 4: Profit before Income Tax Expense has been determined after:

	2016	2015
	\$000	\$000
Charging/(crediting) as losses and gains:		
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

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)
Income tax expense	17,694	1,738

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 (i)	-	(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 (ii)	(2,094)	-
Non assessable capital gain	(422)	-
Sundry items	564	(949)
Under (over) provision for income tax in prior year	-	(287)
Income tax expense	17,694	1,738

(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 losses 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
2016						
Gross deferred tax liabilities						
Property, plant and equipment	(72,036)	3,123	(3,424)	-	(6,324)	(78,661)
Consumables	(6,842)	(792)	-	-	-	(7,634)
Investments	(9)	-	-	-	(13)	(22)
Other	(335)	(961)	-	-	-	(1,296)
	(79,222)	1,370	(3,424)	-	(6,337)	(87,613)
Gross deferred tax assets						
Provisions	16,315	5,942	72	-	-	22,329
Tax losses	4,327	702	-	-	-	5,029
Cash flow hedges	5,473	-	-	(71)	2,580	7,982
Capital raising costs	8,414	-	-	(2,153)	-	6,261
Other	7,672	(964)	-	-	-	6,708
	42,201	5,680	72	(2,224)	2,580	48,309
Net deferred tax liability (i)	(37,021)	7,050	(3,352)	(2,224)	(3,757)	(39,304)
2015						
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
Net deferred tax liability	(58,902)	629	-	480	20,772	(37,021)

(i). The net deferred tax liability attributable to entities operating in Australia is \$41.469m. The net deferred tax asset attributable to entities operating in China is \$2.165m, 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.

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 (i)	(243,578)	167,131
Total long term employee benefits (ii)	(619,513)	308,105
Total post employment employee benefits	227,592	175,965
Total remuneration	6,429,840	6,827,444

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

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
Recognised amounts			
<i>Dividends in relation to the 2015 financial year (2014 financial year)</i>			
Fully Paid Ordinary Shares			
Final dividend of 9 cents (2015: 8 cents) per share unfranked		25,286	22,208
Fully Paid B Class Non-cumulative Non-redeemable Preference Shares			
Final dividend of nil cents (2015: 5 cents) per share unfranked		-	554
Fully Paid C Class Non-cumulative Non-redeemable Preference Shares			
Final dividend of nil cents (2015: 8 cents) per share unfranked		-	1,844
<i>Dividends in relation to the 2016 financial year (2015 financial year)</i>			
Fully Paid Ordinary Shares			
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
Total dividends recognised	25	44,700	31,578

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.

Unrecognised amounts

Dividends in relation to the 2016 financial year (2015 financial year)

Fully Paid Ordinary Shares			
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	-
		21,687	25,286
Franking account balance		7,396	2,056

Final dividends in respect to the current and prior financial years were not been 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.

NOTE 9: Receivables

	2016 \$000	2015 \$000
Current		
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
	352,558	404,114

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:

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
	23,904	35,332

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
	568,660	507,775

AMOUNTS RECOGNISED IN PROFIT OR LOSS

Inventories recognised as expense	2,366,640	2,508,387
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Inventories recognised as expense were included in cost of goods sold.

Write downs of inventories to net realisable value	22,262	16,052
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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
Current		
Milk Supplier Support Package advance	58,876	-
Provision for impairment - milk supplier support package advance	(4,648)	-
	54,228	-
Prepayments	8,474	6,113
	62,702	6,113
Non-current		
Milk Supplier Support Package advance	124,458	-
Provision for impairment - milk supplier support package advance	(9,826)	-
	114,632	-
Other	5,779	5,477
	120,411	5,477

Milk Supplier 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.

NOTE 12: Other Non-current Financial Assets

	2016 \$000	2015 \$000
Investments		
Shares in quoted corporations at fair value	186	143
	186	143

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.

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

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

STATEMENT OF PROFIT AND LOSS	2016 \$000	2015 \$000
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)
Profit for the year	47,885	36,792

STATEMENT OF COMPREHENSIVE INCOME

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
Total comprehensive income for the year	56,970	15,230

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
STATEMENT OF FINANCIAL POSITION		
Current assets		
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
Total current assets	1,009,390	932,561
Non-current assets		
Receivables	3,407	4,076
Investment in subsidiaries	27,531	55,613
Investment in associates (ii)	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	-
Total non-current assets	1,153,141	839,026
Total assets	2,162,531	1,771,587
Current liabilities		
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
Total current liabilities	670,639	629,006
Non-current liabilities		
Payables	1,000	1,000
Borrowings	276,280	419,374
Provisions	10,726	8,908
Deferred tax liabilities	44,243	43,299
Total non-current liabilities	332,249	472,581
Total liabilities	1,002,888	1,101,587
Net assets	1,159,643	670,000
Equity		
Issued capital	730,116	229,059
Reserves	121,766	112,681
Retained earnings (ii)	307,761	328,260
Total equity	1,159,643	670,000
MOVEMENT IN RETAINED EARNINGS		
Balance at the beginning of the financial year (ii)	328,260	322,944
Balance at the beginning of the financial year - entities who joined the group during 2016 (i)	(30,410)	-
Transfer to (from) reserves	6,726	102
Net profit	47,885	36,792
Dividends provided for or paid	(44,700)	(31,578)
Balance at the end of the financial year	307,761	328,260

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

(ii) 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.

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 \$0.8m.

	2016 \$000	2015 \$000
Movement in Investments in Associated Companies		
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)
Equity accounted amount at the end of the financial year	7,649	13,105

Aggregate amounts with respect to associate entities' are:

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

(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 \$37.6m 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 \$18.4m, of which \$16.5m was reflected as a reduction in the asset revaluation reserve whilst \$1.9m was expensed through profit and loss. In the prior year ended 30 June 2015 an impairment loss of \$7.5m 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 \$1.7m (2015: \$2.3m) was capitalised in respect to the acquisition of qualifying assets.

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)
Carrying amount at 30 June 2016	382,420	402,009	7,098	140,643	932,170

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 \$5.00¹ per kg/MS, 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.

SIGNIFICANT ESTIMATE: IMPACT OF POSSIBLE CHANGE IN KEY ASSUMPTIONS

If the milk price used in the value-in-use calculation had been 5% 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 1% lower than management's estimate (1.5% instead of 2.5%), 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 1% higher than management's estimate (13.1% instead of 12.1%), the group would not have had to recognise an impairment against assets as sufficient head room exists.

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 16: Intangible Assets

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

(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 forecasted 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 3 to 5 years.

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

RECONCILIATIONS

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

	Goodwill	Brand names	Software	Software under development	Total
Carrying amount at 30 June 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)
Carrying amount at 30 June 2016	12,121	15,293	12,275	63,812	103,501

NOTE 17: Payables

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

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
Current		
Bank overdraft - Tasmanian Dairy Products Co Ltd	-	10,671
Bank loans	67,331	184,650
Private placement senior notes	22,893	-
	90,224	195,321
Non-current		
Bank loans	144,064	167,600
Private placement senior notes	273,364	286,458
	417,428	454,058

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
Foreign currency derivatives assets	555	790
Foreign currency derivatives liabilities	-	1,028

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
Current		
Employee benefits (i)	48,121	46,359
Non-current		
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
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NOTE 21: Deferred Tax Liabilities

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

NOTE 22: Contingent Liabilities

Other

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.

NOTE 23: Issued Capital and equity instruments

	2016 \$000	2015 \$000
Issued capital and equity instruments	730,116	229,059
i) Movements in issued capital		
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)
Balance at the end of the financial year.	730,116	229,059

ii) Number of equity instruments

Movements in equity instruments on issue	Ordinary Shares ^(a)	Units ^(b)	Preference Shares ^(c)	Total
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	-	-
Balance at 30 June 2016	349,843,966	204,821,672	-	554,665,638

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.

^(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.

NOTE 23: Issued Capital continued

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 monitor the capital structure by reference to the consolidated entity's gearing ratio. The gearing ratio is calculated as net debt divided by total capital where net debt is borrowings less cash and total capital is equity, including minority interest, plus net debt.

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

	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 (i)	36,916	36,916
Asset revaluation reserve	144,856	130,100
General reserve (i)	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
	178,046	168,463

(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.

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 24: Reserves continued

	Note	2016 \$000	2015 \$000
MOVEMENTS IN RESERVES			
Asset revaluation reserve			
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
Balance at the end of the financial year		144,856	130,100
Hedge reserve			
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
Balance at the end of the financial year		(18,624)	(12,771)
Investment revaluation reserve			
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
Balance at the end of the financial year		51	21
Transactions within the non-controlling interests reserve			
Balance at the beginning of the financial year		(1,403)	(785)
Difference on acquisition of Tasmanian Dairy Products Co Ltd		(4,370)	(618)
Transferred to retained earnings (net of tax)		5,773	-
Balance at the end of the financial year		-	(1,403)
Foreign currency translation reserve			
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
Balance at the end of the financial year		9,590	10,343

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
Balance at the end of the financial year		267,532	280,780

NOTE 26: Non-controlling Interests

	2016 \$000	2015 \$000
Non-controlling interests comprises:		
Ordinary shares in Tasmanian Dairy Products Co Ltd (2015: 121 shares) (i)	-	1,937
	-	1,937

(i) During the financial year ended 30 June 2016 the parent entity Murray Goulburn Co-operative Co. Ltd acquired a further 24% interest in the ordinary shares of Tasmanian Dairy Products Co Ltd, taking its total interest to 100% 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 Ltd of \$0.8m, is reflected in the cash flow statement. Following that transaction, there ceased to be a non-controlling interest in Tasmanian Dairy Products Co 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% 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
a) Operating lease commitments		
• 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)
	377,702	348,700

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) Capital expenditure commitments

Contracted capital expenditure commitments due within one year	67,333	81,898
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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\$8m (2015: US\$3.8m), Euro 3.8 m (2015: Euro 6.6m) 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.

Foreign currency sensitivity

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

		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)

NOTE 29: Financial Instruments continued

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

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).

NOTE 29: Financial Instruments continued

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
At 30 June 2016						
Non-interest bearing	386,305	1,000	-	-	387,305	387,305
Variable rate	67,675	-	151,894	-	219,569	211,405
Fixed rate	36,539	13,022	174,957	133,520	358,038	296,247
Consolidated	490,519	14,022	326,851	133,520	964,912	894,957
At 30 June 2015						
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
Consolidated	632,991	178,009	184,826	160,583	1,156,409	1,066,356

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. (i)	Shares held at 30 June 2015 Ordinary No.	Acquired Ordinary No. (iii)	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 (iv)	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 acquired 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.

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 (i)	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
	-	55,748	55,748

(i) 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.

NOTE 31: Notes to the Statement of Cash Flows

	2016	2015
	\$000	\$000

A) RECONCILIATION OF CASH

For the purposes of the statement of cash flows, cash includes cash on hand, deposits on call and investments in money market instruments, net of bank overdrafts.

Cash at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:

Cash per statement of financial position ⁽¹⁾	27,276	14,473
Bank overdraft - refer Borrowings note 18	-	(10,671)
Cash per statement of cash flows	27,276	3,802

⁽¹⁾ MG Responsible Entity Limited is required to hold \$5 million in cash and therefore the consolidated group is restricted from utilising this cash for any other purpose.

B) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOW FROM OPERATING ACTIVITIES

Profit 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	-
Change in operating assets and liabilities		
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)
Net cash inflow (outflow) from operating activities	85,644	103,848

C) FINANCING ARRANGEMENTS

Credit facility	986,655	1,156,021
Amount utilised	507,652	651,537
Unused credit facility	479,003	504,484

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.

NOTE 32: Parent Entity Disclosures

	2016 \$000	2015 \$000
A) FINANCIAL POSITION		
Total current assets	964,185	855,162
Total non-current assets (i)	1,192,023	833,878
Total assets	2,156,208	1,689,040
Total current liabilities	679,167	598,507
Total non-current liabilities	344,290	464,457
Total liabilities	1,023,457	1,062,964
Net assets	1,132,751	626,076
Issued capital	730,116	229,059
Retained earnings (i)	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
Total equity	1,132,751	626,076

(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) FINANCIAL PERFORMANCE FOR THE YEAR

Profit for the year	46,987	32,100
Total comprehensive income (loss)	3,330	12,913

C) GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

Guarantee provided under the deed of cross guarantee	30,740	27,240
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D) CONTINGENT LIABILITIES

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.

E) COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Plant and equipment and software intangible assets	66,625	79,212
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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

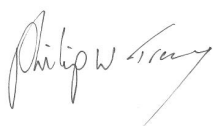
In the Directors' opinion:

- 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

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



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



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 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 cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

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

Lisa Harker
Partner

Melbourne
24 August 2016