



28 October 2016

Market Announcements Office
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Melbourne VIC 3000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Murray Goulburn Co-operative Co. Limited (Murray Goulburn) – Chairman’s and Interim Chief Executive Officer’s Annual General Meeting Addresses

In accordance with Listing Rule 3.13.3, I attach a copy of the addresses to be delivered by the Chairman and Interim Chief Executive Officer at Murray Goulburn’s 2016 Annual General Meeting in Melbourne today.

Yours faithfully

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

Fiona Smith
Company Secretary

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2016 Annual General Meeting Chairman's and Interim CEO's Addresses

Philip Tracy - Address to the AGM

Good morning ladies and gentlemen and welcome to the 66th Annual General Meeting for Murray Goulburn.

My name is Philip Tracy and I will chair today's meeting. As it is now 11am and a quorum is present I will formally declare the 2016 Annual General Meeting of Murray Goulburn Co-operative Co. Limited (MG) open.

To begin, I would like to introduce your Board and Executive Leadership Team. On the stage with me is our Interim CEO, David Mallinson and our Deputy Chairman, Ken Jones. In the audience, we have Directors - Natalie Akers, Bill Bodman, Peter Hawkins, Mike Ihlein, Graham Munzel, John Pye and Martin Van De Wouw. Returning to the stage, we also have with us here our Interim Chief Financial Officer, Alan Tilley, and our Company Secretary and Chief Operating Officer, Fiona Smith. In the audience we have the members of our Executive Leadership Team. All will be available to meet with you after the meeting.

We also have Lisa Harker, our external auditor present and I extend a special welcome to all, including everyone who has travelled to join us today as well as the unitholders of the MG Unit Trust who are present.

We meet today after what has been a very challenging period for the co-op. The weeks and months that followed the April announcement have been tough. Every member of the co-op has been affected and everyone has had to make adjustments, sit at kitchen tables and run figures, look for savings, put off staff, cull herds, it's been extremely challenging.

I want to take this opportunity to again express how deeply sorry I am that MG suppliers have had to endure such a heavy burden.

As your Chairman, I am responsible for the stewardship of MG and am therefore ultimately accountable for its performance. While as a Board, we did what we could with the information that we had at the time, we know that the outcomes of that period have been devastating for suppliers and for that we are deeply sorry.

In the circumstances, there are a number of areas I wish to address, before inviting our interim CEO, David Mallinson, to address the meeting. We will then move on to the items of business and finish with general questions from the floor.

Looking first at the financial performance of the company in Financial Year 2016 (FY16). It goes without saying that this past year has been very challenging. MG, and the global dairy industry, faced further deterioration in dairy commodity prices. A combination of factors, including increased EU

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supply ex-quota; the slow-down in China demand; and the ongoing Russian trade bans on western import products, collided to depress global dairy markets and keep them down for a prolonged period.

I have spoken many times on the details that have led to this 'perfect storm' and the significant hardship that this has placed on our suppliers as well as dairy farmers, across the world.

These circumstances, of course, flowed through to affect MG's financial results in FY16.

- Revenue was down 3.3 percent compared with last year to \$2.8 billion, primarily reflecting the impact of the very low commodity price environment on MG's Ingredients business.
- While the final milk price was \$4.80 per kilogram milk solids (kgms), impacted by lower commodity prices and increased cost, the average cash price received by suppliers for milk supplied in FY16 was \$5.53 per kgms – made up of the final \$4.80 farmgate milk price and \$0.73 of Milk Supply Support Package (MSSP) support.
- Net Profit after Tax, attributable to shareholders and unitholders was \$40.6 million.
- The Board declared a final, fully franked dividend/distribution of 7.41 cents for the year, with approximately two-thirds of the dividend/distribution paid to MG supplier/shareholders and the balance distributed to unitholders.
- Milk intake was down marginally by 2.5 percent to 3.5 billion litres, in line with expectations.

Turning now to the announcement made yesterday regarding the outcome of the MSSP review.

As you may recall, the MSSP was introduced by the Board because, in our view, passing on the full impact of the April farmgate milk price revision in the months of May and June would have been catastrophic for suppliers.

As noted earlier, the introduction of the MSSP meant that MG suppliers received an average cash price for milk supplied in FY16 of \$5.53 per kgms versus the forecast of \$5.60, a reduction of \$0.07.

Our motivation in introducing the MSSP was to cushion the impact of the April price reduction. However, I also understand the criticisms by suppliers and the impact of this on milk losses to date which demonstrate that the MSSP did not operate as originally intended.

In response, a number of changes have been announced. These include:

- Capping the recoupment, so that no supplier will pay more than the benefit they received in FY16;
- Suspending the recoupment until 30 June 2017; and
- Extending the recoupment out to 2022, approximately halving the annual impact on suppliers.

In addition to these structural changes, MG also announced yesterday an immediate step-up of \$0.01 per litre or \$0.13 per kgms and a further end of year step-up of an additional \$0.01 cent per litre for southern milk region suppliers.

These additional milk payments mean MG is now forecasting an average cash price of \$4.95 per kgms this season and are aimed at stemming milk losses to support MG's recovery and growth.

Your Board believes that yesterday's announcements are a sensible balance with regards to the MSSP and provide the opportunity to deliver an increased milk price immediately and together with the extended recoupment period and the planned significant cost savings, will ensure MG can be competitive on milk price now and into the future.

I want to take this opportunity to thank suppliers for your patience as we worked through this review.

Turning now to MG leadership. Earlier this year, I committed to updating you at this time with regards to recruitment of a Managing Director to lead MG into its next phase.

I had hoped today to be in position to make an announcement regarding the Managing Director's appointment, however, we are not there yet but the process is well advanced.

What I can advise is that we have received significant interest in the MD role and also have a very strong internal candidate in interim CEO, David Mallinson. David has done an outstanding job continuing to execute our strategy with discipline and rigour, as the Board undertakes the search for a permanent appointment and I wish to acknowledge and thank him for his commitment and leadership.

I don't expect that it will be too much longer before the Board can announce MG's Managing Director. However, given that this is an important decision, I ask for your continued patience as we complete the process to appoint the best possible candidate to lead Murray Goulburn.

Since April, I have been asked many times what learnings have come and while there are of course many, some areas are consistently raised as being in need of review, particularly whether we have the right Board structure and composition and milk price transparency. Let me comment on both.

Milk price transparency has attracted intense interest from suppliers, government and other stakeholders this year. The Board's view is that we need to review the current annualised milk pool process applied to determine whether it remains fit for purpose.

This is a particularly important given the co-op's reliance on global markets, where we are seeing increased volatility. This volatility has resulted in two step-downs in the past eight years against a total of three step-downs in the co-op's 66 year history.

As a co-op, MG's objective is to maximise the farmgate milk price paid to suppliers. As such, MG typically announces a forecast full year final milk price and then pays 90-92 percent of the final price as the opening milk price. This approach supports supplier cash flows and responds to the intense competition for milk in the Australian market, which motivates processors to pay the highest possible opening price. This mechanism has proved problematic twice in the past eight years.

In New Zealand the opening price is traditionally a lower percentage, between 60-70 percent, of the forecast final farmgate milk price. This reduces the risk of a price reduction during the season. It also means New Zealand dairy farmers do not receive the same level of cash flow at the start of the season.

In Europe, it's a different mechanism again, with dairy farmers quoted milk prices on a monthly basis. This delivers a more accurate reflection of current monthly market conditions but reduces the farmer's ability to generate long term forecasts across the financial year.

Each of these approaches has both advantages and disadvantages. It is therefore important that MG takes the opportunity to review the best approach, so that we can ensure the business sends the right market signals, while also balancing farmers need for cash against what the market is paying.

This review will require significant input from suppliers and we will keep you updated on the review process once it gets underway.

MG is also committed to continuing to work with other members of the dairy industry to explore ideas for improving Australia's pricing transparency.

This includes the introduction of the proposed commodity milk price index. It is our view that this index should be independently managed and tailored for the benefit of all participants in the Australian dairy industry.

Turning now to Board structure and composition.

Over the past months, a range of views have been expressed and suggestions put forward regarding the most appropriate Board structure to serve the co-op in the future.

As a result, the Board has been discussing for some time how best to take account of this feedback and capture supplier input. To that end, your Board intends to review its structure and composition, with the assistance of the four new Directors, before coming back to shareholders.

Conducting a review is the most appropriate way forward and will involve wide consultation with suppliers and other stakeholders, to ensure that all views are considered.

Ultimately, the structure of the MG Board is a matter for shareholder/suppliers and any recommendations made will need to be put before you for consideration and, if required, voted on at a general meeting in accordance with our constitution.

We will update you further as the review process gets underway.

FY16 has been a year of significant change at Board and Management levels. Since April, MG has seen its Managing Director and CFO depart. We have also seen substantial Board change, with three Directors departing the Board.

As a result Board succession planning, including Chairman succession and the need for there to be an orderly transition to new leadership at Board level, has been under consideration for some time.

This focus is particularly important, given there are a number of Directors, including myself, that are approaching the maximum nine year tenure allowable under our Charter.

Turning firstly to my tenure. It is my view that we are now approaching the time when MG needs to transition to a new Chairman. Subject to the support of the Board, I am prepared to remain as Chair. I will only remain as Chair for as long as is required to effect an orderly transition. At that time, I plan to retire from the Board.

This will allow for the completion of the MD recruitment process and provide the necessary time for the four new Directors to get to know MG's business.

Peter Hawkins has also advised his intention to retire from the Board as a Special Director due to his extensive other commitments and will be leaving the Board in the coming months. Peter joined the Board in 2009 as a Special Director and has made a significant contribution as the Chairman of the Finance, Risk and Audit Committee.

He leaves MG with our thanks for his service during a period of great change and challenge. The Board has actively continued the process to recruit a third Special Director and this will now be extended to include a replacement for Peter.

As shareholders will be aware, the MG constitution sets out an annual process for Board renewal. This year, elections for supplier Directors were held for the Western Region with three new candidates nominated for Directorships - Craig Dwyer, Lisa Dwyer and Harper Kilpatrick.

A supplier Director nomination process was also conducted in the Gippsland Region solely to fill the vacancy in the Board arising from the retirement of the late Max Jelbart, a great co-op man, who is greatly missed. The candidate nominated to replace Max, is Kelvin Jackson.

I want to extend a very warm welcome to all successful nominees. Shareholders will be invited to vote on their appointments as Directors when we come to the formal business of the meeting a little later.

If successfully elected today, the Board will have four new Directors in 2016/17. Under our Charter, the maximum tenure period for a Director is nine years. Therefore, next year – neither Ken Jones or Graham Munzel will seek re-election and the year after, when elections are held for the Gippsland Region, both Bill Bodman and I cannot seek re-election. Board renewal is a constant process at MG and critical for a healthy governance structure.

Before I hand over to David, I would like to take a moment to acknowledge and thank my fellow Directors for their ongoing support and dedication to MG during a challenging period for the co-op.

To the team behind Murray Goulburn, led by David Mallinson and the Executive Leadership Team, I want to extend the Board's thanks for your ongoing commitment to the business during a very difficult year. I also want to thank those team members who MG has recently farewelled. Thank you to all team members, past and present, for your professionalism and hard work, during a difficult period for the business.

During the year we had the resignations of Duncan Morris and Kiera Grant and today we also farewell Directors - Martin Van de Wouw and John Pye. On behalf of the Board, I want to extend my thanks to all for their contribution to Murray Goulburn. To John and Martin who leave us today, we wish you all the very best for the future and look forward to your continued association with Murray Goulburn as suppliers.

Finally, I would also like to acknowledge again the passing of former Director Max Jelbart and also former Deputy Chair, John Vardy, during the year. Both men were passionate co-op members and are sadly missed.

As I look to the year ahead, there are some signs emerging which indicate that the current global dairy supply and demand imbalance may be correcting, however, our view remains that it is still too early to call the end of this cycle.

In the current environment, the Board remains committed to the value-add strategy and MG management will continue to 'pull every lever' within its control to manage costs and deliver the best possible farmgate milk price to suppliers.

Positive signs are emerging in international dairy commodity prices. This together with favourable seasonal conditions will help all suppliers navigate through this difficult time. It is important to remember that MG remains a very strong company, with a bright future. What I do know is that your co-op will pass on any improvement in returns through an improved farmgate milk price and dividends.

I would like to thank you for your loyalty to the co-op and on behalf of the Board express our gratitude for your commitment to the company.

I now invite interim CEO, David Mallinson, to address the meeting.

David Mallinson - Address to the AGM

Thank you Chairman.

In the face of the exceptionally challenging past six months as described by the Chairman, it is paramount that the MG team maintain focus on the things within its control, namely to safely achieve efficiencies and deliver on business critical projects and initiatives while putting cash back into suppliers pockets.

First of all I'd like to talk safety.

In 2016 our Total Recordable Injury Frequency Rate reduced by 12 percent to 12.81. We are moving in the right direction, but more work needs to be done. Safety is paramount and we are committed to improving safety across our business.

A key requirement of the Board following the April trading update was that Management and I maintain focus on identifying and removing cost from the business to benefit our milk price and balance sheet.

Since then, we have examined our corporate overheads and after the close of the year, announced that we identified a program of cost efficiencies to deliver an additional \$50 to \$60 million per annum during Financial Year 2018 (FY18), with \$10 million to \$15 million of this delivered in Financial Year 2017 (FY17).

At the same time we also focused on reducing our working capital, removing \$51 million in Financial Year 2016 (FY16) and plan to remove a further \$100 million in FY17.

I can advise that we are well underway in delivering these cost efficiencies and are very confident that we will deliver the \$50 million to \$60 million into the FY18 milk price.

In addition, to further enhance our milk price, we have now commenced a review of our business operations. While I am not going to pre-empt the outcomes of this review, I want to say that the purpose is to ensure we have the most cost effective business and highest possible farmgate milk price.

As we are competing with other global processors our cost base must also be globally competitive.

To some of the highlights of FY16:

In 2016 MG's Dairy Foods segment continued to perform strongly, delivering another year of double-digit revenue growth.

FY16 revenue from the segment grew 17.2 percent from \$1.1 billion to \$1.3 billion with Dairy Foods the principal contributor to group profit, generating segment contribution of \$164.5 million.

Within this result we saw significant improvement both in Domestic and International Dairy Foods with increases of 45 percent and 67 percent respectively.

China remains a focus for our branded Dairy Foods Business with 12 regional distributors now signed up as part of an improved distribution strategy in China, adding to our online and cross border channels. Total China sales now exceed \$260 million.

This reflects the robust premiums this segment can deliver above commodity prices in the current environment.

As a direct result of this combined growth, MG can report that total sales of branded Devondale products reached \$580 million in FY16 – up 45 percent from Financial Year 2015 (FY15) – a strong endorsement of our strategy to move into higher value added products.

Further supporting the value add strategy MG's Nutritionals business provided some offset to the performance of Ingredients, with revenue growing 50 percent in the year, driven by strong demand from business to business customers for Australian sourced nutritional products.

In February, we were awarded a five-year national private label contract to supply Coles branded Australian cheese, underpinning the \$91 million investment in our new production facility at Cobram.

This new facility is a key part of our capital investment program that is core to our strategy of innovation and operational excellence.

Along with our branded Devondale business we will have a highly efficient facility that is capable of producing world-leading, dairy food products that meet the needs of our customers and consumers both in Australia and internationally.

Work is continuing on the commissioning phase and production of Coles volumes will commence in the new factory in December.

I have been asked how we are promoting our Devondale brand investment. We do so through meaningful, value for money sponsorships that deliver results.

One of the major successes has been our involvement with the highly successful TV cooking show, Masterchef. Masterchef runs for five months of the year and is watched by 1.4 million people per episode. This is fantastic exposure for our brand.

A good indication of the positive influence that sponsorships like Masterchef are having on our Devondale brand is when we look at our domestic retail performance in the dairy category - and by that I mean how our brand is selling in supermarkets.

According to national supermarket scan data compiled by Aztec, on a value basis in the past 12 months to mid-September the dairy category grew at 1.9 percent. Over that same period MG branded business grew at nearly 10 percent.

And more importantly it's accelerating in the right direction. In the latest quarter the dairy category grew at 4.4 percent, and MG branded business grew at 11.4 percent.

I am pleased to announce today that Devondale will again sponsor Masterchef in 2017 as we continue to advertise our products.

I know a lot of our suppliers are on social media and so are Murray Goulburn's brands.

Our presence primarily consists of Facebook pages for Devondale, Liddells, Milkshakes and 8 Bar Iced Coffee – each with a unique strategy and target market, where we have almost 100,000 followers.

I have made a commitment to be upfront and transparent with our stakeholders regarding price and business performance.

The three major drivers of our milk price are commodity prices, foreign currency and milk volumes.

While conditions remain difficult and our announcement last week reflected that, we are confident that as production returns off the back of improving weather conditions, this will flow back in the form of further payments to our farmers.

I remain absolutely focused on driving our value-add strategy and achieving cost efficiencies across our business which can support a higher farmgate milk price for our suppliers.

As I said earlier, this extends to ensuring we are globally competitive with our costs.

By doing so, we will do everything we can to ensure Murray Goulburn remains financially strong and competitive on milk price.

In conclusion, I would like to thank all our suppliers for your support and acknowledge that we will continue to listen to your views on how to improve your co-operative for the benefit of everyone.

Lastly, I would like to thank my management team and all our employees for their exceptional efforts over the past six months.

I will now hand back to the Chairman.