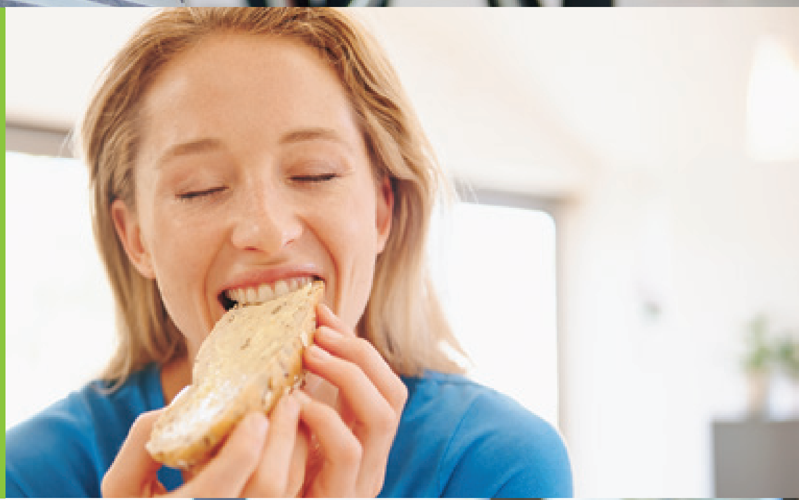
We love dairy foods

Devondale Murray Goulburn
Annual Report 2014

In this Annual Report



Devondale Murray Goulburn* is Australia's largest dairy foods company. In 2013–14, the Company received approximately 3.4 billion litres^, or 37 per cent, of Australia's milk and generated sales revenue in excess of $2.9 billion. MG was formed in 1950 and remains 100 per cent dairy farmer controlled, with over 2,500 supplier/shareholders and more than 2,400 employees. MG is also Australia's largest dairy food exporter to the major markets of Asia, the Middle East and North Africa, and the Americas. MG produces a range of ingredient and nutritional products, supplies the food service industries globally and its flagship Devondale brand is sold nationally.

* Devondale Murray Goulburn (also MG, the Company or the Co-operative) includes Murray Goulburn Co-operative Co. Limited ABN 23 004 277 089 and subsidiaries. Devondale Murray Goulburn's Annual Report can be viewed or downloaded from the Company's website www.mgc.com.au.
^ Includes MG's majority owned subsidiary, Tasmanian Dairy Products Co Ltd.

Performance overview

Strong demand from key markets in Asia and the Middle East drove prices for world dairy ingredients to new highs in 2013–14, delivering double digit revenue growth for MG and a welcome record final farmgate milk price for supplier/shareholders.

	Year ended 30 June 2014	Year ended 30 June 2013	Change (%)
Sales revenue ($ million)	**2,917**	2,385	22
Reported statutory net profit after tax ($ million)	**29.3**	34.9	(16)
Final available milk price ($/kg ms)	**6.81**	4.97	37
Ordinary dividend declared or paid – per share (cents)	**8**	8	0
Ordinary dividend declared or paid – total value ($ million)	**22.1**	21.1	5

Sales revenue
(A$ 000)

2008–09	2,329,285
2009–10	2,163,441
2010–11	2,287,492
2011–12	2,367,231
2012–13	2,385,099
2013–14	**2,916,521**

Milk intake
(million litres)

2008–09	3,261
2009–10	2,864
2010–11	2,827
2011–12	2,936
2012–13	3,119*
2013–14	**3,391***

Production
(tonnes)

2008–09	746,411
2009–10	718,542
2010–11	690,836
2011–12	739,545
2012–13	776,634*
2013–14	**784,299***

* Includes MG's majority owned subsidiary, Tasmanian Dairy Products Co Ltd.

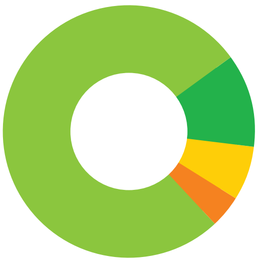
2013–14 Sales revenue

Total revenue
$2.9 billion
(including MG Trading stores)

International **51%** Domestic **49%**

2013–14 Export volume

Total volume
324,000 tonnes



Asia **77%** Middle East/Africa **7%**
The Americas **4%** Other **12%**

Total assets

(A$ 000)

2008–09	1,577,529
2009–10	1,519,281
2010–11	1,530,134
2011–12	1,632,228
2012–13	1,659,054
2013–14	**1,763,436**

Equity

(A$ 000)

2008–09	727,040
2009–10	719,003
2010–11	788,469
2011–12	759,035
2012–13	686,487
2013–14	**745,891**

Building a 'first choice dairy foods company'

Vision and Strategy 2017

At MG, our goal is to lift farmgate returns by at least $1.00 per kilogram of milk solids[(i)] by 2017 and drive industry growth.

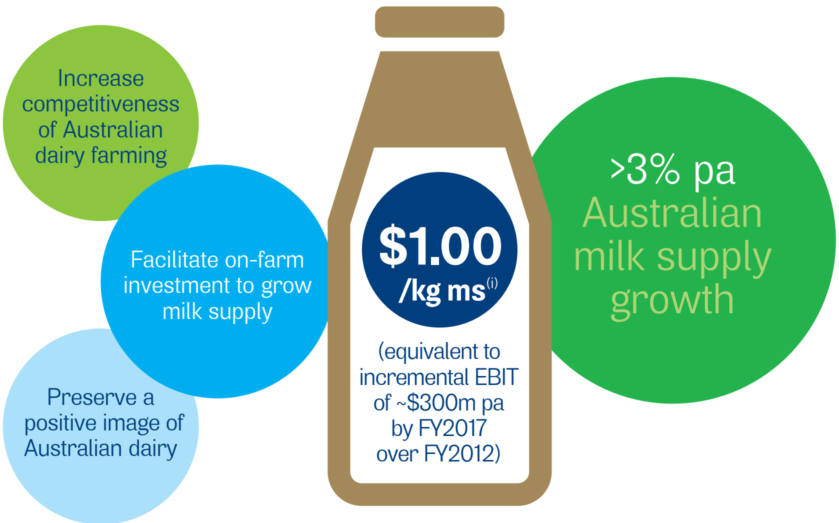
Our 'Vision and Strategy 2017' sets down our plan to get there – outlining our vision to become a first choice dairy foods company for farmers, customers and consumers and our two strategic focal points: Operational Excellence – our strategy to reshape our business so that we can become the most efficient supplier of dairy foods; and Innovation – to drive our shift to higher value products in the growth categories of nutritional powders, consumer cheese and dairy beverages.

The strategy recognises that global demand for dairy foods is strong and growing, particularly in Asia where dairy deficit regions are expected to import an additional 25 billion litres by 2020[(ii)].

It acknowledges that milk production in Australia has declined to such an extent that Australia is at risk of losing relevance in global trade and that farmgate returns need to be higher if MG is to encourage existing and new supplier/shareholders to grow milk production once again.

MG intends to invest up to $500 million over the next five years to ensure we have the right manufacturing capability and capacity to respond to the extraordinary growth opportunities ahead for Australian dairy.

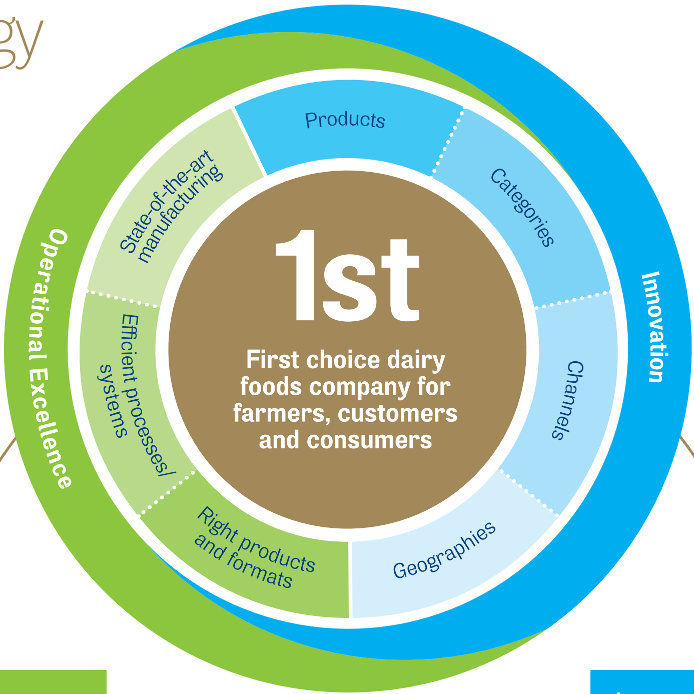
The strategy aims to deliver a $1.00 per kilogram of milk solids[(i)] lift in farmgate returns to benefit our more than 2,500 supplier/shareholders across Australia and cement MG's position as Australia's leading dairy foods company, a co-operative 100 per cent controlled by dairy farmers, dedicated to maximising the price paid to farmers for their milk. By improving farmgate returns and farm profitability, MG believes farm business owners will invest and increase milk production. Historically growth of three per cent per annum has been achievable.



(i) In order to measure an increase in underlying milk price, rather than use the available milk price paid to suppliers each year, an implied milk price is used, which is based on forecasted available milk price from FY2012 plus the value of annual dividends. The available milk price targets are normalised for the movements in dairy commodity prices, foreign exchange and impacts of inflation as well as other one off items such as opening inventory.

(ii) Rabobank 2014.

Our Vision and Strategy



Operational Excellence

Drive operating excellence to become the most efficient supplier of dairy foods.

Innovation

Shift to higher value dairy products portfolio with a focus on nutritional powders (baby, toddler formula), consumer cheese and dairy beverages.

Invest up to **$500 million**

Deliver **$1.00 /kg ms**

Catalyst to grow milk production

MG's target growth regions

We have our sights set on the growth markets, particularly South East Asia, China and the Middle East and North Africa where the outlook for dairy foods is strong. MG will 'look north and go north', particularly to Asia, which is expected to be the growth engine for dairy food demand for many years to come.

Devondale Murray Goulburn's target regions

3.4 billion*
litres of milk received

784,299*
tonnes of dairy product produced

324,000
tonnes of dairy product exported

31
countries where MG products are sold

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* Includes MG's majority owned subsidiary, Tasmanian Dairy Products Co Ltd.


Europe
Middle East/ North Africa
China
Japan
South East Asia
Pacific Islands

From the Chairman

The past year has been an exceptional season for Devondale Murray Goulburn's supplier/shareholders, who have enjoyed record farmgate milk prices and excellent seasonal conditions. 2013–14 was also a milestone year for MG, as we took decisive action announcing significant new infrastructure investment, witnessed further growth in MG's milk intake and saw the Co-operative maintain its rightful place as the dairy partner of choice for farmers.

It was an outstanding year for MG. The final milk price was $6.81 per kilogram of milk solids on an available weighted average basis, a 37 per cent increase over last year, delivering a welcome boost to farm incomes.

The Board declared an unfranked final dividend of eight per cent on ordinary shares and five per cent for B and C class preference shares. For ordinary shares, this equates, for the average shareholder, to $0.09 per kilogram of milk solids, in addition to the farmgate milk price paid to supplier/shareholders. In addition, an unfranked special dividend of $0.25 per A class preference share was paid to A class preference shareholders as part of the cancellation of those shares.

Total payments to supplier/shareholders[i] for the year were more than $1.7 billion, representing 61 per cent of MG's sales[i], compared to 50 per cent of sales last year. When combining the final milk price of $6.81 with the dividend of eight cents per share, the total return to supplier/shareholders was on average $6.90 per kilogram of milk solids.

Net profit after tax was $29.3 million, down from $34.9 million in the previous year.

Pleasingly, MG's milk supply grew strongly by eight per cent in 2013–14 to 3.4 billion litres[i], against a backdrop of flat Australian milk production growth of 0.4 per cent[ii]. MG's share of Australia's milk pool is now 37 per cent, up from 33 per cent a year ago with milk supply growing across all regions, particularly in western Victoria as the region recovers from a poor season in 2013. MG's milk supply was also boosted by our entry into the New South Wales (NSW) milk market – where in our first 10 months we collected approximately 100 million litres from new member suppliers.

Investing for future growth

In 2012, the Board endorsed a five year vision and strategy for our Co-operative to transform MG and build a 'first choice dairy foods company for farmers, customers and consumers' – through achieving operational excellence and driving innovation.

Since then, MG has focused on actioning that strategic plan and announced a number of investments. These investments are being made to upgrade ageing infrastructure and ensure we have world's best manufacturing capability to meet and serve the growing needs of international consumers and customers. They include the $160 million investment to build our two chilled milk processing facilities in Melbourne and Sydney; and $19 million for two new high speed UHT lines at Leongatha – which together represent the most significant investment in dairy infrastructure undertaken in Australia for at least a decade.

Defining the right capital structure for MG

Recognising the scale of investment required to reinvigorate and revitalise MG, in mid-2013 the MG Board announced that a comprehensive capital structure review would be undertaken to determine the best way to prudently fund the transformation of MG's manufacturing footprint.

MG has identified that capital investments up to $500 million will be required over the next three to five years to rejuvenate our manufacturing and supply chain infrastructure.

The capital structure review was instigated to examine the best way to raise these funds and involved a comprehensive review of all available options, including: increasing bank debt; sale and leaseback of assets; retention of profits; raising additional equity from supplier/shareholders; and raising capital from external investors.

The review determined that the recommended proposed capital structure – a funding model that maintains 100 per cent farmer control, but allows external investors to invest into MG via a separate, non-voting unit trust – is the most effective and efficient capital structure for MG to pursue.

(i) Includes Tasmanian Dairy Products Co Ltd.
(ii) Dairy Australia.

Since first describing the recommended capital structure at the 2013 Annual General Meeting (AGM), MG has undertaken an extensive consultation process with MG supplier/shareholders to discuss the proposal and ensure it meets the needs of the Co-operative now and into the future. This process has involved three rounds of supplier consultation meetings across all dairy regions and feedback from suppliers has resulted in a number of modifications being made to the proposal. A fourth round of capital structure supplier meetings is planned towards the end of the 2014 calendar year.

Throughout the consultation process with suppliers, a key area of interest has been how we align the interests of MG supplier/shareholders and external investors. MG has developed a Farmgate Milk Price (FMP)/dividend model that retains FMP as the primary measure of success and aligns higher dividends with higher FMP.

I look forward to further engagement with supplier/shareholders on the best capital structure for MG and am confident that we will be in a position to present a final, recommended capital structure to supplier/shareholders for approval in the year ahead.

A class preference shares

In early June 2014, we were very pleased that both MG's ordinary and A class preference shareholders passed the special resolutions presented at the meetings of the respective shareholder groups. Shareholders voted to cancel all the A class preference shares on issue and pay A class preference shareholders $1.25 per share in return. The A class preference share was an old class of share that had been closed to new shareholders for more than a decade. This class consisted of mainly very small shareholdings, 20 per cent of which could no longer be contacted. In these circumstances, the Board's view was that a cancellation of the A class preference shares was the right way forward and represented the best outcome for both A class preference shareholders and our current supplier/shareholders.

Adding balance sheet strength

During 2013–14, the Company's balance sheet grew in strength due in large part to the sale of MG's stake in Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB), but also through the sale and leaseback of the Integrated Logistics Centre (ILC) at Laverton.

The WCB sale delivered cash proceeds of $93 million and the sale and leaseback arrangement for the ILC delivered $93 million in additional cash flow.

These proceeds were welcome and support MG's plans to reinvest in our business, grow market share in Australia and expand internationally.

While we were disappointed to have missed out on the opportunity to acquire WCB, the sale of our stake represented an excellent financial outcome for the Company and we remain proud of the role we played in the bidding process, to drive a genuine auction for these important Australian dairy assets.

Giving back to the community

In addition to the primary role MG plays in supporting Australia's dairy farmers through driving farmgate milk prices higher, the Company also looks for opportunities to support the broader community.

For the past three years, MG has partnered with Foodbank to support its work to match the food industry's surplus food with the welfare sector's need. MG donates quality, nutrition-rich products, primarily UHT milk, that have a real, daily impact on individuals and communities. During the year, MG donated the equivalent of 761,958 kilograms of dairy foods, which went towards the provision of more than one million meals to satisfy the immediate hunger needs of vulnerable Australians. MG also donated $110,000 to an industry-funded effort to supply milk to underprivileged families.

In May, we announced a cash contribution of $300,000 to support the wider Warrnambool community's efforts to raise $5 million to build a specialist cancer centre in the western region. The cancer centre will ensure those fighting cancer in the region will no longer have to travel long distances for specialist treatment.

A high performing team

In closing I would like to take this opportunity to thank and pay tribute to the management and staff of MG for the role everyone has played in this remarkable year for the Company. On behalf of the Board, I thank you for your service and dedication to the Co-operative. In particular, I wish to acknowledge and thank Gary Helou and his management team for their strong leadership.

There was one change to the composition of the MG Board during the year. We welcomed new Director Duncan Morris, who was elected to the Board via the western region, following the retirement of Don Howard after 16 years of service. During his time on the Board, Don oversaw significant change at MG and in our industry and was always a passionate advocate for change within MG. We are indebted to his service.

I also want to thank my fellow Directors for their ongoing support and dedication to MG in a year when their services were called on more frequently than is usually the case.

Finally, I wish to extend my thanks to you – our supplier/shareholders. Throughout the course of the year we have sought and received your support as we continue on our path to revitalise and reinvigorate MG so that we are well placed to take advantage of the extraordinary opportunities for Australian dairy.

I look forward to welcoming you to the AGM in November.

Philip Tracy
Chairman

Managing Director's Message

It has been a strong year for Devondale Murray Goulburn and the Australian dairy industry. After a decade of challenges, Australian dairy roared back to life, spurred on by strong milk prices, heightened interest in Australia's dairy assets and a reinvigorated MG advocating for industry growth and higher farmgate returns.

At MG, we are committed to delivering a $1.00 per kilogram of milk solids(i) increase in the farmgate milk price by 2017 and we are the only Australian dairy foods company to publicly set such a target.

Having launched MG's 'Vision and Strategy 2017' two years ago – our five year plan to drive growth in the farmgate milk price by becoming a 'first choice dairy foods company for farmers, customers and consumers' in our chosen markets – we have made good progress.

Our Vision and Strategy 2017 is grounded in the knowledge that if Australia is to assume its rightful place as a globally relevant dairying nation, we must grow milk production enabling supply to meet the rising demand for dairy foods, particularly in international markets. Most especially, we must 'look north and go north' as Asia is clearly the epicentre driving growth in demand for high quality dairy foods. Now and into the future MG and Australian dairy have the prime opportunity to build sustainable long term growth given our proximity to these markets and impeccable record as a source of quality, clean and safe food. This opportunity is too great to pass up.

But we know we can't just 'flick the switch' and double milk production overnight. It will take investment and a sustained increase in the farmgate milk price to motivate Australia's farmers to invest in their businesses and grow production.

Our Vision and Strategy 2017 is our plan to get there. It has two critical strategic focal points: Operational Excellence – our strategy to reshape our business so that we can become the most efficient supplier of dairy foods; and Innovation – to drive our shift to higher value products in the growth categories of nutritional powders, consumer cheese and dairy beverages.

To support our strategy, we have identified capital investments of $500 million over the next three to five years to invest in cutting edge, automated manufacturing technology to drive efficiency and innovation. These are critical investments to better connect our nutritional powders, consumer cheese and dairy beverage supply chain assets with our target markets.

To fund this level of investment, we reviewed available funding options and recommended that MG considers a new capital structure, which maintains our co-operative structure and 100 per cent farmer control and raises external capital via the issue of units, which would be listed on the Australian Securities Exchange (ASX). We believe this is an innovative funding structure to raise non-voting capital, that delivers profit related returns to external investors, but keeps 100 per cent control in the hands of MG's supplier/shareholders.

This approach will diversify MG's source of investment funds away from traditional bank debt and deliver MG the financial strength, flexibility and stability to invest in our growth strategy.

A strong year for MG

Looking at MG's financial performance, it was an outstanding year for the Company. Throughout the year, global demand for dairy foods remained strong and prices for key dairy ingredients such as whole milk powder stayed at near record levels for an unprecedented period. These external factors, combined with our continued focus on improving performance through reducing costs and investing to support innovation and value growth, underpinned the full year result and drove a record high farmgate return.

As is our custom, MG opened early and high, setting a benchmark for other industry players to follow and giving our supplier/shareholders confidence for the season ahead. The final weighted average milk price for the 2013–14 season was $6.81 per kilogram of milk solids, a 37 per cent increase on the previous year and a record price for MG.

An unfranked final dividend of eight per cent on ordinary shares and five per cent for B and C class preference shares was also declared. For ordinary shares, this equated on average to $0.09 per kilogram of milk solids, in addition to the farmgate milk price paid to supplier/shareholders. An unfranked special dividend of $0.25 per A class preference share was paid to A class preference shareholders as part of the cancellation of those shares.

(i) In order to measure an increase in underlying milk price, rather than use the available milk price paid to suppliers each year, an implied milk price is used, which is based on forecasted available milk price from FY2012 plus the value of annual dividends. The available milk price targets are normalised for the movements in dairy commodity prices, foreign exchange and impacts of inflation as well as other one off items such as opening inventory.

Total payments to supplier/shareholders[ii] for the year were more than $1.7 billion, representing 61 per cent of MG's sales[ii], compared to 50 per cent of sales last year. When combining the final milk price of $6.81 with the dividend of eight cents per share, the total return to supplier/shareholders was on average $6.90 per kilogram of milk solids.

MG's milk supply grew strongly by eight per cent in 2013–14 to 3.4 billion litres[ii], compared to a stagnant total Australian milk production. Our share of Australia's milk pool increased to 37 per cent, up from 33 per cent a year ago with milk supply growing across all regions, including NSW, South Australia and Tasmania.

Net profit after tax was $29.3 million, slightly down from $34.9 million in the prior year. Our balance sheet was strengthened, with total equity increasing by $59 million, including a $36 million gain from the sale of our stake in WCB, which was recognised directly in equity. As at 30 June 2014, MG had total assets of $1.76 billion and total equity of $746 million.

Strong revenue growth of 22 per cent to $2.9 billion was delivered from across our businesses, particularly in international exports where we saw 30 per cent growth year-on-year to $1.5 billion. Exports now account for more than 51 per cent of MG's revenue. Strong growth was delivered in the strategic segment of nutritional powders, up 19 per cent, as well as a 77 per cent growth in international consumer and food service dairy foods.

Our achievements

Across MG, the team continued the foundation work that began in 2012–13 to ensure the Company is well positioned to capitalise on the significant opportunities we see ahead for growth in dairy foods.

A year of construction to build two new state-of-the-art chilled milk processing plants culminated in the official opening in July of the Melbourne plant, with Sydney commencing operation in early August.

These facilities are the new home of Devondale's daily pasteurised milk brand and the processing base for the groundbreaking 10 year agreement to supply chilled milk for Coles' private label. Both sites employ world-leading technology and quality standards that will assist in positioning MG as the nation's most efficient producer of daily pasteurised milk – a market that currently accounts for around 20 per cent of total Australian milk production.

During the year we also delivered on a number of previously announced capital investments including $19 million to increase UHT capacity at Leongatha, $5 million to strengthen our consumer butter capability at Koroit and $2 million to increase cheese capacity at Cobram.

With these investments commissioned and operational, our focus now is on delivery of the three new capital projects announced in May. Worth a combined $126 million, these projects will further support transformation of MG's manufacturing footprint. They include:

- $74 million investment in consumer cheese at Cobram;
- $38 million in infant nutrition at Koroit and Cobram; and
- $14 million in dairy beverages at Edith Creek.

Together they will deliver world-leading technology with state-of-the-art automation for processing and packaging a range of dairy foods destined for Asian and Australian consumers.

Innovation is a central focus. We are investing in our brands and supply chain to ensure we can navigate a new path to meet and serve the growing needs of farmers, consumers and customers for Australian made dairy foods.

At home in Australia, we further strengthened our flagship Devondale brand, with new TV advertisements to support UHT, consumer cheese and the launch of Devondale Smoothies. These efforts have had a clear impact with Devondale being recognised during the year as a top 15 Australian brand in the annual list of the nation's top 100 brands, compiled by Brand Finance Australia.

In international dairy foods, a new team with extensive experience in Asian markets was recruited to support our retail, food service and private label business in Asia. This team will be key to building connectivity into these markets and leveraging the infrastructure investments we are making to customise dairy foods to suit different market and customer requirements. We also launched Devondale UHT in Vietnam and are on track to introduce a new consumer convenience UHT offering specifically tailored to China in 2014–15.

Building a safe work environment

Our commitment to building a safe workplace remains a priority. We have invested significantly to improve health and safety across all areas of MG and to ensure that every member of our team has had safety training so that we build a shared understanding of the role everyone plays in creating a safe workplace. Since launching our safety program Goal Zero, last year, we have seen a vast improvement in our safety record and while I commend the MG team for this strong turnaround, our goal remains firm – zero injuries at MG.

In closing, I would like to pay tribute to and thank the incredible people behind the Company. Firstly, my sincere thanks to our Chairman, Philip Tracy, and our Board of Directors – whose experience and counsel I value highly. To the broader MG team, thank you. I am indebted to you for your passion, hard work and commitment to the business as we continue our transformation and pursue growth.

Finally, to the farming families across Australia who support the co-op ideal and entrust their milk to MG, thank you for your ongoing support and be assured we remain focused and committed to driving sustainable growth in the farmgate milk price.

Gary Helou
Managing Director

(ii) Includes Tasmanian Dairy Products Co Ltd.

Our brands

Retail

Ingredients and Nutritionals

Australian milk is predominantly produced on pasture-based systems where dairy cows graze fresh green pastures every day.

Farm services

MG TRADING
Since 1973
Farm Land Life

Joint ventures

TASMANIAN DAIRY PRODUCTS CO. LTD.

AMP

Provico

INTERMIX AUSTRALIA PTY LTD

DTS FOOD LABORATORIES
YOUR TRUSTED PARTNERS IN QUALITY

*Who are these caretakers of the morning, who harvest liquid gold**...
At Devondale Murray Goulburn, we are a proud co-operative of more than 2,500 Australian dairy farmer/suppliers who join together each and every day to produce 37 per cent of Australia's finest milk for the world to enjoy.

* Excerpt from Ode to the Dairy Farmer by Robbie Brammall.

Building world's best operations

We have begun the largest investment in dairy infrastructure undertaken in Australia for more than a decade, as we transform Devondale Murray Goulburn and pursue our goal to become the nation's most efficient producer of dairy foods.

Across MG we are investing in the future of the Australian dairy industry to deliver higher farmgate returns for our supplier/shareholders. Several key investment projects were commissioned during the year and a further $126 million investment in manufacturing capability and capacity was announced.

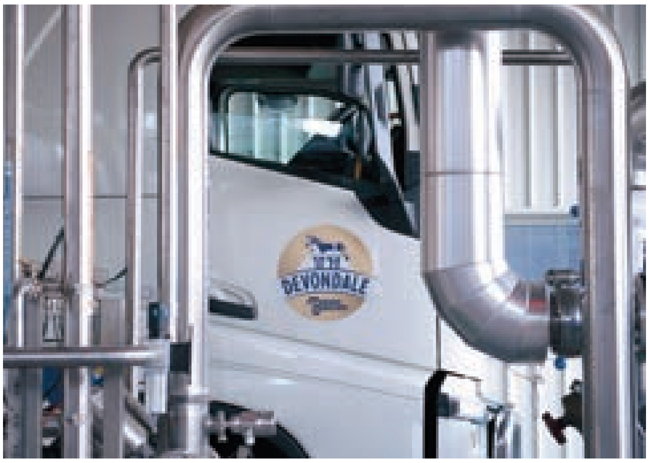
MG has commissioned its new world class Melbourne and Sydney chilled milk processing plants. The plants were designed and built in around 18 months and utilise the latest in milk processing and filling technology, operating at high speeds with minimum labour and energy requirements.

Known as the Devondale Dairy Beverages Centres (Melbourne and Sydney) the plants use world-leading technology and quality standards that will assist in positioning MG as the nation's most efficient producer of daily pasteurised milk, thereby delivering strong ongoing returns to MG's dairy farmer/shareholders.

At Koroit (western Victoria), MG's investment of $5 million to build a new retail butter line was commissioned in November 2013 and is operating at capacity servicing the requirements for Devondale butter in Australia and international markets. Two new high speed UHT lines at Leongatha were also commissioned in 2013–14 and are fully operational.

The year also saw a comprehensive review of MG's existing manufacturing footprint. Consequently further investments in key infrastructure were announced to ensure MG has the capability and capacity it needs to meet growing demand for Australian made dairy foods, particularly in international markets. Three new capital projects worth a combined $126 million will be undertaken at the Company's existing sites over the next 12 to 18 months and involve investment in world-leading technology with state-of-the-art automation for processing and packaging a range of dairy foods destined for Asian and Australian consumers. The projects announced were:

- A $74 million investment at Cobram to build a world class cheese cut and wrap facility to serve Australian and Asian consumer and food service markets.
- A $38 million investment at Koroit and Cobram to increase capacity for production of nutritionals for growing international infant nutrition markets.
- A $14 million investment at Edith Creek to install and commission a flexible small format cup and bottle filling line to commercialise a range of dairy beverage products for consumer markets in Australia and Asia.



Our new Devondale Dairy Beverages Centres in Melbourne and Sydney were designed, built and commissioned in 18 months. The chilled milk facilities are world-class, featuring complete end-to-end automation, utilising the latest milk processing and filling technology to operate at high speeds with energy efficiency. Each plant is capable of processing 50,000 litres of milk per hour and producing 150 million litres of chilled milk per year.

Year in Review
Business Operations

In April 2014, Business Operations was formed bringing together MG's Operations function and the Ingredients and Nutritionals business. The newly created Business Operations unit also has responsibility for ensuring MG's workplaces are safe and that MG's product quality, manufacturing efficiency and environmental practices position MG as the dairy foods supplier of choice with farmers, customers and consumers.

Building a safe workplace for our people

At MG our approach to safety begins with a belief that in any circumstance harm and damage can be prevented and that as an organisation we have a responsibility to do everything practicable to prevent workplace injury and illness.

Our Goal Zero safety program is designed to drive safety awareness, improve our health and safety performance and ultimately eliminate workplace injury across all our workplace locations including manufacturing sites, MG Trading stores, field services and office locations.

Since launching Goal Zero in 2012–13, MG has invested in safety training for people across all levels of the organisation and improved safety procedures and measures across all sites. During the year, MG's second 'stop for safety' one-hour program was held focusing on Goal Zero initiatives and to raise awareness and further identify opportunities to improve safety. A two-day Safety Leadership Conference was also held for people managers and compulsory safety training at senior and middle management levels was rolled out.

This year, these initiatives have supported further significant reductions in lost time injury frequency rates and lost time injuries and while we are very pleased with the improvement in our safety record, MG will not rest until we have zero workplace injuries.

Quality and cost management remain a core focus

In line with MG's aim to become Australia's preferred supplier of dairy foods, Business Operations continuously seeks opportunities to improve quality, productivity and efficiency.

During the year, our drive for greater automation and process control across operations resulted in further significant reductions in both cost and quality claims and led to an additional $50 million in cost savings being achieved.

Investing in milk collection infrastructure

The roll out of flowmeters and retractable hoses commenced at MG during the year, with Gippsland suppliers the first to have collections measured by flowmeters. The northern and western regions are scheduled to follow in the second half of 2014.

The introduction of flowmeters across the tanker fleet brings MG into line with global industry best practice and delivers a range of commercial, quality and safety benefits, including more accurate measurement of milk volume, improved sampling and a safer environment for tanker drivers and suppliers.

MG also invested in 52 new Volvo prime movers and 22 tankers, which were on the road during the peak season, assisting with operational efficiencies and at the same time delivering improved safety benefits for MG drivers.

Volvos feature market-leading technology, including advanced electronic braking systems and an electronic stability program to help prevent the potential for traffic accidents and tanker rollovers. They also lead the way in cabin strength for driver safety and are environmentally friendly, complying with 'Euro 5' emission standards.

GOAL ZERO

Safe People
Safe Systems
Safe Workplaces
Safely Home

A sustainable business into the future

At MG, we maintain a strong commitment to building a sustainable business, which goes beyond simply ensuring we comply with relevant legislation.

We want to be industry leaders when it comes to sustainable performance and have identified 10 key areas to focus our efforts including: environmental noise, air emissions, odour, surface water, land and groundwater, waste, energy use, water use, flora and fauna, and greenhouse gas.

Aspirational targets have been set and during the year MG continued to see a positive progression towards achieving our targets. In particular, MG delivered a substantial reduction in energy consumption and greenhouse gas emissions despite an increase in production output.

A number of initiatives have driven these positive results including the impact of a portfolio of energy and greenhouse gas abatement projects, the requirement of sites to reduce energy by five per cent per year, the Energy Blitz program and subsequent efficiency activities.

During 2013–14, we continued to be a signatory to the Australian Packaging Covenant (APC). The APC was established by industry and government to reduce the impact that packaging has on the environment, particularly on packaging going to domestic landfills.

Ingredients and Nutritionals

MG's Ingredients and Nutritionals business is a globally recognised and respected supplier of bulk and customised dairy ingredients and nutritional milk powders, primarily in the key markets of North Asia, South East Asia, Australia, Sri Lanka and USA. Today, MG is the world's second largest supplier of dairy ingredients, with the business accounting for almost half of MG's annual revenue.

Strong trading conditions led to price growth across all commodity groups during the year, largely driven by increased demand for milk powder from China and butter from Russia.

For MG's Ingredients and Nutritionals business it was a very strong year with net sales revenue in 2013–14 up 23 per cent to $1.6 billion.

MG's infant nutrition Cobram facility was one of the first Australian manufacturers approved by the Chinese authorities to supply infant formula into China. This followed a comprehensive review by Chinese authorities of infant formula manufacturers and has led to tighter regulations around infant nutrition. Our Chinese plant in Qingdao also received certification, providing MG with both a premium export range and a locally manufactured range of infant nutrition products.

MG made good progress towards establishing its reputation as a reliable supplier of nutritional powders to world-leading nutritional customers. The investments announced at Cobram and Koroit to upgrade our powders capability and capacity will also support MG to capitalise expected growth for nutritional powders.

The MG Ingredients team also continued to leverage long standing customer relationships and its intimate understanding of customer needs to develop ideal ingredient solutions for customers.

Year in Review
MG Dairy Foods

MG Dairy Foods encompasses all consumer and food service sales, as well as marketing and innovation, in both domestic and international markets. The business is charged with taking our brands to the world.

Dairy Foods Australia

In Australia, where there are multiple dairy companies competing in a low growth dairy market, trading conditions remain competitive. In this environment, MG seeks to differentiate itself from other dairy companies through maintaining strong relationships with key customers and investing in brand innovation and marketing support to drive sales growth.

Despite a challenging trading environment, with continuing food deflation impacting margins and further growth of private labels leading to deep discounting amongst branded products, MG was able to deliver double digit net sales revenue and volume growth in 2013–14. Sales growth was underpinned by the ongoing strength of MG's flagship Devondale brand, growth across the Liddells range, increased private label volumes, and continued strong growth in food service sales.

In the domestic market, MG invested behind its key dairy brands – Devondale and Liddells – to drive 'cut through' with consumers and to build a point of difference. For Devondale, new television advertisements were released to support the Devondale range of products – from UHT though to cheese slices and butter. The advertisements use humour to highlight everyday household challenges, such as running out of milk, and provide a Devondale solution.

The launch of Devondale Smoothies was an important extension of the brand. The product is an example of the work MG is doing to expand and extend the dairy category in Australia to drive growth. Smoothies were developed in response to research that showed that consumers, particularly mothers, wanted a great tasting dairy product for their children that is highly nutritious and low in sugar.

For Liddells, it was another year of strong sales growth. The brand continues to resonate with consumers and is now the number one lactose free dairy brand in Australia. Given its success, several brand extensions were launched, including Liddells chilled milk, cream cheese and cheese shred, with more new products planned for the year ahead.

Dairy Foods International

Dairy Foods International was established in 2012–13 to drive growth of MG's consumer dairy foods business in China, South East Asia, the Middle East and the Pacific. The business has focused on developing customised products to meet the sophisticated needs of consumers and establishing product distribution for consumers in these regions.

During the year, Devondale UHT milk was relaunched in Vietnam, supported by a marketing campaign to communicate the unique benefits of Australian milk. In China, where Devondale UHT is an established brand, sales continue to grow strongly and it is one of the country's biggest selling imported milk brands.

New cheese and butter products were also launched in Singapore, Malaysia and Hong Kong and a dedicated team was recruited to focus on building MG's food service business across Asia.

Year in Review
Supplier/Shareholder Relations

MG's Shareholder Relations function oversees milk supply, commercial raw milk sales and purchases, MG Trading, shareholder services and corporate affairs.

Milk supply received exfarm increased by eight per cent in 2013–14 to 3.4 billion litres, including the southern milk pool, the NSW/Sydney region and Tasmania[i]. This represents exceptionally strong growth when compared to Australia's national milk pool, which grew by 0.4 per cent and led to MG's market share growing by four percentage points. MG now represents 37 per cent of Australia's total milk supply.

Importantly, milk supply grew across all supply regions. In northern Victoria and southern Riverina milk intake was up 1.8 per cent, Gippsland was 3.3 per cent higher and in the western region, which includes western Victoria and South Australia, milk supply grew strongly, up eight per cent on the prior year.

Since announcing MG's entry into the NSW/Sydney region in mid-2013, MG has received an overwhelming response from dairy farmers, with approximately 50 per cent of dairy farm businesses in the region choosing to join the Co-operative.

MG's majority owned subsidiary Tasmanian Dairy Products Co Ltd also continued to grow milk supply in northern Tasmania from its dedicated group of suppliers.

Improvements to MG's quality structure

Making high quality and safe dairy foods is vital to MG and milk quality at the farmgate is an important element of this outcome. Accordingly, during 2013–14 MG completed a comprehensive review of our raw milk quality systems, which included feedback from our supplier consultative groups. The review showed that the great majority of MG suppliers produce high quality milk for most of the year. Following the review, the Board and management recommended changes to the system including a move from five quality bands to four, aligning MG's quality bands with the end use of suppliers' milk.

Supporting the Next Generation

MG announced the Next Generation package in 2012–13 to address some of the key barriers to growth, including access to capital and skilled labour. In 2013–14, the first full year of operations for the package, more than $50 million in investment in dairy farm businesses has been facilitated with a number of suppliers accessing one or more of the suite of Next Generation initiatives: financial support for young farmers, farming families and new entrants seeking to grow their business or enter the industry; access to employment and immigration resources to address labour market shortages; and leasing partnerships through MG's preferred investment providers.

MG Trading

With 23 stores and five fertiliser stores servicing most of the south east dairy region, MG Trading is focused on reducing the cost of farm inputs and supporting increased profitability through providing competitively priced products and services.

Sales from MG Trading stores grew by 20 per cent during the year to $237 million, on the back of higher farmgate returns, improved store layouts, an expanded offering and competitive pricing. MG also opened two new stores – Warragul and Colac – in the second half of 2013–14, which had a positive impact on sales growth.

MG Trading continued to develop and enhance its offering during the year opening new fertiliser depots at Timboon and Katamatite and launching a tailored dairy farm insurance offer in conjunction with Marsh Advantage Insurance, and a competitively priced fuel offer in partnership with Reliance BP.

(i) Includes MG's majority owned subsidiary Tasmanian Dairy Products Co Ltd.

8%
increase in MG's milk intake

37%
of Australia's total milk supply

20%
growth in MG Trading stores' sales

Year in Review
Our People

Ensuring MG people are supported and engaged to maximise their business contribution is an essential part of MG's journey to become a first choice dairy foods company.

MG's people related initiatives are focused on accelerating MG's ability to leverage its people capability, enhance performance, achieve operational excellence and facilitate transformation. MG's People and Culture function partners with MG's business leaders and people to activate and drive activities that will deliver a high performance organisation.

Supporting our people at work

In 2013–14, further progress was made towards building people management processes.

A new online platform, 'People Central' was launched to house and deliver further efficiencies for key people management processes, including the Company-wide performance management program. 'People Central' facilitates the alignment of key performance measures throughout the business.

MG's new online internal information portal was also launched to improve our ability to share, collaborate and manage information across multiple sites, geographies and teams. With more than 2,400 people working for MG it is critical that key procedures, processes and information can be streamlined and accessed online across distance and time zones.

The 'Ready, Set, Go' employee on-boarding and induction program was introduced to provide new employees with important information about MG's business, operations and way of working.

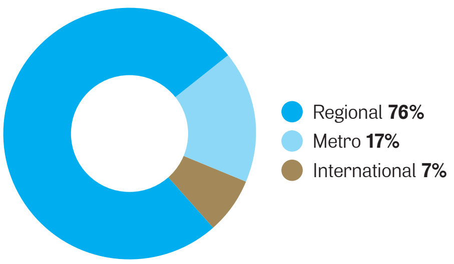
Investing in our people through training and development continued during the year. In addition to the considerable investment MG makes to support safety training, Workplace Behaviours Training, including a Code of Conduct Refresher, was rolled out for all employees.

Employee engagement

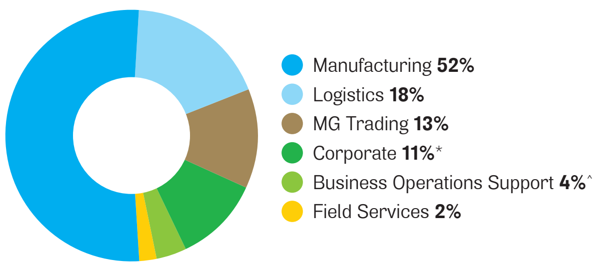
A key focus throughout 2013–14, our employee engagement was enhanced by the successful renegotiation of our Transport Enterprise Agreement and a new Greenfields Enterprise Agreement covering MG's new Devondale Dairy Beverages Centres.

We have also put in place a preferred supplier approach for recruitment, which is generating savings, and our inaugural talent review was completed, establishing a clear platform to activate our Learning and Development Framework.

Our People by Location



Organisation by Operation



* Employees of Shareholder Relations and Business Operations located at FWP are deemed Corporate.

^ Development and Optimisation, Ingredients and Nutritionals, PMO and Capital Projects, Safety and Environmental Sustainability, Technical Excellence employees are deemed Business Operations Support.

There are more than 2,400 dedicated and passionate people who make up the MG team, with 76 per cent employed in regional Australia, providing direct support to our supplier/shareholders through the trading stores, field services, milk collections and processing.

Board of Directors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1. Philip W. Tracy
BEc/BComm, CA, SIA, GAICD

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

Philip is a dairy farmer, milking over 2,000 cows at Yanakie in Gippsland, Victoria. He is a Chartered Accountant and has a Bachelor of Economics and Commerce and is a graduate of the Australian Institute of Company Directors.

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

Gary was appointed as Managing Director in October 2011.

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

3. Kenneth W. Jones
Adv. Dip. Ag., MAICD

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

Ken is a dairy farmer, milking 430 cows at Kergunyah in north east Victoria. He has an Advanced Diploma in Agriculture and is a member of the Australian Institute of Company Directors.

4. Natalie Akers
BPPM (Hons), BA, GAICD

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

Natalie is a dairy farmer, milking 700 cows at Tallygaroopna in northern Victoria. She has a Bachelor of Public Policy and Management with honours, a Bachelor of Arts and has completed the Fairley Leadership Program. Natalie has pursued a professional career in agriculture, including water policy and dairy research and development. Natalie is also a graduate of the Australian Institute of Company Directors.

5. William T. Bodman
BSc (Ag), GAICD

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

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

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

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

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

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

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7. Michael F. Ihlein

BBus (Acc), FCPA, FAICD, F Fin

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

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

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

8. Maxwell Jelbart

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

Max is a dairy farmer, milking 1,000 cows at Leongatha South and 350 cows at Caldermeade in Gippsland. He is a Nuffield Farming Scholar, a member of the Nuffield Australia Investment Committee and a board member of Marcus Oldham College.

9. Edwin Duncan Morris (Duncan Morris)

Dip. Bus. Studies (Accounting), CPA, GAICD

Duncan was elected to the Board in 2013. He is a member of the Finance, Risk and Audit Committee and Supplier Relations Committee.

Duncan is an accountant and dairy farmer, milking 260 cows at Cobden, western Victoria. He has spent most of his accounting career in public practice, primarily attending to the accounting and taxation needs of dairy farmers. Duncan has had significant board experience with local community organisations and is a graduate of the Australian Institute of Company Directors.

10. Graham N. Munzel

GAICD

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

Graham is a dairy farmer, milking 290 cows at Gunbower in northern Victoria. He is a graduate of the Australian Institute of Company Directors.

11. John P. Pye

Adv. Dip. Ag., MAICD

John was elected to the Board in 2005. He is Chairman of the Supplier Relations Committee and a member of the Finance, Risk and Audit Committee and Remuneration and Nominations Committee.

John is a dairy farmer, milking 500 cows at Bessiebelle in western Victoria. He has an Advanced Diploma in Agriculture and is a member of the Australian Institute of Company Directors. He is a member of Powercor's Customer Consultative Committee and a former Director of Southern Rural Water Authority (2002 to 2010).

12. Martin J. Van de Wouw

MAICD

Martin was elected to the Board in 2010. He is a member of the Compliance Committee and Supplier Relations Committee.

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

Executive Leadership Team


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1. Gary Helou

BE (Hons), MComm, FAICD, FAIM

Managing Director

Gary Helou was appointed as Managing Director in October 2011.

Gary brings experience from a broad range of roles encompassing the international and domestic food and agricultural industries. Prior to joining Murray Goulburn, he was Chief Executive Officer of SunRice for 11 years. He held senior leadership roles in Hong Kong, Singapore and Indonesia with Pacific Brands Food Group and Indofood.

Gary has a Chemical Engineering Degree and a Master of Commerce (Marketing) from the University of New South Wales.

2. Brad Hingle

Chief Financial Officer

Brad Hingle was appointed Chief Financial Officer in January 2014.

Prior to joining Murray Goulburn, Brad was the Chief Financial Officer of SunRice, where he spent 14 years and held a number of senior roles. Brad has also held senior roles at Deloitte Consulting in Australia as well as at Dunlop Tyres and Mondi Limited in South Africa. He has studied Cost and Management Accounting.

3. David Mallinson

Dip Bus, PG Cert Finance, MBA, CPA, FNIA, GAICD

Executive General Manager Business Operations

David Mallinson was appointed Executive General Manager Business Operations in April 2014. David was previously General Manager Project Management Office and Capital Projects from October 2013.

Prior to joining Murray Goulburn David was Fonterra Australia/New Zealand's Chief Financial Officer for six years, having held various senior roles within the merged business and senior roles in Bonlac Foods Ltd and United Milk Tasmania. David has also previously worked for ANZ and Cadbury Schweppes.

David holds various qualifications including a Master of Business Administration from Monash University and he completed the Executive Development Program at Stanford University (USA) in 2004.


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4. Robert Poole

BAgSci, MBL

Executive General Manager Shareholder Relations

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

In 2011–12 Robert also held leadership roles within the dairy industry including President of the Australian Dairy Products Federation and Deputy Chairman of the Australian Dairy Industry Council.

Robert studied science (Agriculture) at Melbourne University and was inducted as a Master of Business Leadership at RMIT University in 2004.

5. Fiona Smith

BSc, LLB, GDipGov, FGIA

Company Secretary and General Counsel

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

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

Fiona has a Bachelor of Science and a Bachelor of Laws from the Australian National University and a Graduate Diploma in Applied Corporate Governance. Fiona is also a Fellow of the Governance Institute of Australia.

6. Aditya Swarup

BA (Hons)/Economics, MBA

Executive General Manager Strategy

Aditya Swarup was appointed Executive General Manager Strategy in 2012.

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

Prior to joining Murray Goulburn, Aditya spent six years at SunRice as General Manager of Corporate Strategy. Before SunRice, Aditya spent over eight years in strategy consulting roles, including Monitor Group and Accenture, advising several large Australian corporates.

Aditya has an MBA from Melbourne Business School, University of Melbourne (1997) and a Bachelor of Arts (with Honours) and Economics from the University of Delhi (1991).

Corporate Governance Statement

1. Introduction

This section of the Annual Report outlines Murray Goulburn's governance framework for the year ended 30 June 2014.

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

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

Murray Goulburn's key governance documents, including the Constitution, Board and Board Committee Charters and key policies are available on the Company's website at www.mgc.com.au/our-story/governance.

2. Role and Responsibilities of the Board

BOARD

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

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

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

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

DELEGATION TO MANAGEMENT

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

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

INDEPENDENT PROFESSIONAL ADVICE

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

ACTIVITIES DURING THE YEAR

A key activity of the Board during the year has been governing the Company having regard to its strategic objectives, as well as the goal to lift farmgate returns and drive industry growth, and the vision to drive operating excellence and shift to a higher value dairy products portfolio. The Board has focused on the principal objectives of creating and enhancing shareholder value and maximising supplier returns. Within this context, the Board approved various matters, including:

- investments totalling $126 million in consumer cheese at Cobram ($74 million), infant nutrition at Koroit and Cobram ($38 million) and dairy beverages at Edith Creek, Tasmania ($14 million);
- the takeover offer for Warrnambool Cheese and Butter Factory Company Holdings Limited (WCB) and the subsequent acceptance of Saputo Inc.'s offer, which ultimately delivered to the Company cash proceeds of $93 million;
- six step ups in the milk price paid by the Company throughout the year;
- the opening milk price for financial year 2015; and
- the proposal to undertake a selective capital reduction and cancellation of the A class preference shares, which was ultimately approved by shareholders at the general and A class preference shareholder meetings held on 6 June 2014.

Importantly, during the year the Board has also overseen the construction of the two new state-of-the-art chilled milk processing plants in Melbourne and Sydney, with the plants officially opened in July 2014 and August 2014, respectively.

In addition to the above matters, the Board spent a significant amount of time considering a potential capital structure to provide access to equity capital to effectively fund strategic operational and commercial initiatives to deliver a sustainable increase in the annual farmgate milk price, consistent with the Company's overarching strategy. The potential capital structure will be the subject of further Board consideration during financial year 2015.

3. Structure of the Board

MEMBERSHIP AND MEETINGS

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

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

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

During the year, Duncan Morris joined the Board as a Supplier Director following the annual Director election process undertaken in accordance with the Company's Constitution. In effect, Mr Morris replaced Don Howard, who retired from the Board after 16 years as a Supplier Director. As is required with all new Non-executive Directors, Mr Morris confirmed his acceptance of the appointment on the standard terms, which are available on the Company's website at www.mgc.com.au/our-story/governance.

At the 2012 Annual General Meeting, shareholders approved various amendments to the Constitution, which included an increase in the maximum number of Special Directors, giving the Board the capacity to appoint a third Special Director. During the year, the Remuneration and Nominations Committee (with the assistance of an external recruitment consultant) commenced identifying potential candidates for this additional directorship having regard to the skills and experience that would best complement those held by existing Directors. This process will continue with a view to the Board appointing a third Special Director during financial year 2015.

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

The Company Secretary, Fiona Smith, is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

The Directors of the Company, their length of service and their biographical details are set out on pages 26 to 27.

The Board met 23 times during the year, with 10 scheduled monthly meetings and 13 ad hoc meetings (predominantly to consider matters relating to the Company's takeover offer for WCB). Details of the number of meetings attended by each Director are set out in the Directors' Report on page 40.

At the commencement of each scheduled monthly meeting, the Board holds a closed session (attended by Non-executive Directors only), which provides Non-executive Directors with an opportunity to raise issues in the absence of management.

COMMITTEES

To assist the Board to carry out its responsibilities, the Board has established a Finance, Risk and Audit Committee, a Remuneration and Nominations Committee, a Compliance Committee and a Supplier Relations Committee.

Other committees are established from time to time to deal with specific matters. For example, a committee was established in 2013 to specifically consider matters relating to the Company's capital structure.

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

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

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

The Company Secretary provides secretarial support for each Committee.

There were a number of changes made to the membership of each Committee during the year as a result of the review undertaken by the Board in December, following the change in the Board composition.

FINANCE, RISK AND AUDIT COMMITTEE

Role and responsibilities

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

The Committee's key responsibilities and functions are:

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

Membership and meetings

The Committee consists of:

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

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

Name	Membership Status for FY2014
Peter Hawkins (Chairman)	Member for the entire period
Bill Bodman	Member for the entire period
Ken Jones	Member until 18 December 2013
Duncan Morris	Member since 18 December 2013
Graham Munzel	Member for the entire period
John Pye	Member since 18 December 2013
Martin Van de Wouw	Member until 18 December 2013

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

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

The Finance, Risk and Audit Committee met six times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 40.

Activities during the year

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

- reviewing the scope of the annual internal and external audit plans for 2014 and overseeing the work performed by the auditors;
- reviewing significant accounting, financial reporting and related issues raised by management, the Internal Auditor and the External Auditor;
- regularly reviewing the Company's key risks and risk management program;
- reviewing and monitoring improvements to the Company's internal control and accounting practices;
- reviewing and recommending to the Board the approval of the Company's annual and half year financial statements;
- reviewing the performance, tenure and independence of the External Auditor, together with their assurances that all applicable independence requirements were met; and
- reviewing the performance of the Internal Auditor.

External audit

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

The External Auditor attends the Company's Annual General Meeting and is available to answer questions from shareholders relevant to the audit.

During the year, the Committee facilitated the process to replace the Company's External Auditor, including making a recommendation to the Board regarding the appointment of PricewaterhouseCoopers (which was ultimately approved by shareholders at the Annual General Meeting held in November 2013), agreeing the compensation and terms of their engagement and monitoring the transition.

Internal audit

Ernst and Young (EY) has been engaged to carry out the Company's internal audit function. EY's role as the Company's Internal Auditor is to determine, independently of the External Auditor, whether adequate and effective systems of risk management and internal control are in place. The Internal Auditor prepares its scope of work (including the annual internal audit plan) having regard to the Company's strategic imperatives, key risks, key processes and reasonable site coverage and the Finance, Risk and Audit Committee reviews the internal audit plan to ensure it is appropriate. The relationship with the Internal Auditor is managed by the Company Secretary and General Counsel; however, the Internal Auditor (represented by the Internal Audit Partner and Internal Audit Director) reports directly to the Committee at each meeting on the progress against the internal audit plan, as well as detailed findings and corresponding management actions in relation to reviews undertaken in accordance with that plan. The Internal Auditor is also given an opportunity to raise issues with the Committee in the absence of management.

Risk management

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

The Policy recognises that the effective identification and management of risk reduces the uncertainty associated in executing the Company's business strategies. The Board plays a key role in the oversight of key risks by providing strategic guidance on all aspects of risk management across the Company, reviewing and approving annually (including in financial year 2014) the Company risk profile, reviewing, ratifying and monitoring systems of risk management and setting the risk management tone and expectations across the Company.

The Company is considered to have a material environmental risk exposure in that each of its sites requires an Environment Protection Authority licence and must comply with the conditions of that licence in its operations. In order to manage this risk, the Company has in place an effective monitoring program to ensure each site complies with its licence.

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

To facilitate the Finance, Risk and Audit Committee's oversight of the Company's risk management program, management reports to the Committee in an open and transparent manner, including the provision of quarterly business risk reports, which set out new and emerging risks, an overview of incidents and events, and an update on key risks. These reports comprise information prepared in accordance with:

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

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

Enhancements were made to the risk management program during the year by:

- requiring all key business risks outside tolerance to be identified, assessed and managed; and
- progressing the development of an internal control framework.

REMUNERATION AND NOMINATIONS COMMITTEE

Role and responsibilities

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

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

The Committee's key responsibilities and functions are to:

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

Membership and meetings

The Committee must consist of:

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

The members of the Committee during this period were:

Name	Membership Status for FY2014
Philip Tracy (Chairman)	Member for the entire period
Peter Hawkins	Member for the entire period
Michael Ihlein	Member for the entire period
Ken Jones	Member for the entire period
John Pye	Member since 18 December 2013

Other Directors and members of management may attend meetings of the Committee at the invitation of the Committee Chair.

The Remuneration and Nominations Committee met six times during the period. Information on meeting attendance by Committee members is included in the Directors' Report on page 40.

Activities during the year

The key activities undertaken by the Committee during the period in relation to the Company's remuneration framework, the policies and practices regarding the remuneration of Directors, as well as the contractual arrangements, remuneration and performance evaluation of other members of key management personnel, are reflected in the Remuneration Report on pages 41 to 54.

The Committee also oversaw:

- the director induction program, with new Director, Duncan Morris inducted following his appointment in November 2013; and
- the director training program, with Directors participating in eight sessions during the year, which were designed to develop and maintain the skills and knowledge needed to perform their role as Directors of the Company effectively.

Further, the Committee, with the assistance of an external recruitment consultant, commenced identifying potential candidates for the third Special Director position during the year. It is expected that the Committee will be in a position to make a recommendation to the Board in relation to the appointment of a third Special Director during financial year 2015.

Corporate Governance Statement continued

COMPLIANCE COMMITTEE

Role and responsibilities

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

The Committee's key responsibilities and functions include:

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

Membership and meetings

The Committee must consist of:

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

The members of the Committee during this period were:

Name	Membership Status for FY2014
Michael Ihlein (Chairman)	Member for the entire period
Natalie Akers	Member for the entire period
Don Howard	Member until 22 November 2013
Max Jelbart	Member for the entire period
Ken Jones	Member since 18 December 2013
John Pye	Member until 18 December 2013
Martin Van de Wouw	Member since 18 December 2013

Other Directors, members of management and the External Auditor may attend meetings of the Committee at the invitation of the Committee Chair.

The Compliance Committee met eight times during the period, including three joint meetings with the Supplier Relations Committee to consider matters relating to the farm milk quality review. Information on meeting attendance by Committee members is included in the Directors' Report on page 40.

Activities during the year

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

- reviewing the procedures, policies, systems and processes in place to ensure compliance with applicable laws and regulations, through regular detailed reports from management, with a particular focus on occupational health and safety, environment and quality and food safety;
- receiving reports on significant occupational health and safety, environment and quality and food safety incidents, including outcomes of investigations and remedial and preventative actions taken by management;
- overseeing the matters considered and discussed by management's Executive Safety Leadership Committee by reviewing minutes of its meetings; and
- reviewing the culture with respect to the observance of appropriate ethical standards, including receiving reports on matters raised by employees and contractors via the Ethics Hotline.

In addition, the Compliance Committee, in conjunction with the Supplier Relations Committee, considered the outcomes of the independent farm milk quality review and made recommendations to the Board in relation to the improvement opportunities identified.

SUPPLIER RELATIONS COMMITTEE

Role and responsibilities

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

The Committee's key responsibilities include:

- approving the overall strategy for communication with shareholders developed by management;
- reviewing and monitoring the interface between the Company and suppliers and reviewing matters that are likely to affect that interface, including significant corporate communications;
- reviewing the standard terms and conditions for the supply of milk to the Company and making recommendations to management or the Board as appropriate;
- reviewing parameters for the variation by management of the standard terms and conditions for the supply of milk to the Company and making recommendations to the Board;
- where information relating to suppliers or milk supply is to be materially relied upon by the Board, considering and advising the Board on the reasonableness of this information;
- receiving and considering reports from the Field Services Group in relation to their interactions with and services provided to suppliers;
- receiving and considering reports relating to the MG Trading stores in relation to their interactions with and services provided to suppliers;
- reviewing any proposed amendments to Company policies or procedures that could affect the Company's relationship with its suppliers, and making recommendations to the Board;
- providing advice and guidance for management with regard to management's processes for managing questions and complaints lodged with the Company by suppliers; and
- providing advice and guidance for management in relation to any complaints lodged by suppliers.

Membership and meetings

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

Name	Membership Status for FY2014
John Pye (Chairman)	Member for the entire period
Natalie Akers	Member for the entire period
Bill Bodman	Member for the entire period
Don Howard	Member until 22 November 2013
Max Jelbart	Member for the entire period
Ken Jones	Member for the entire period
Duncan Morris	Member since 18 December 2013
Graham Munzel	Member for the entire period
Philip Tracy	Member for the entire period
Martin Van de Wouw	Member for the entire period

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

The Supplier Relations Committee met eight times during the period, including three joint meetings with the Compliance Committee to consider matters relating to the farm milk quality review. Information on meeting attendance by Committee members is included in the Directors' Report on page 40.

Activities during the year

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

- receiving and considering regular reports from management on the activities undertaken by the Field Services team, including in relation to milk supply and the various services and programs available to suppliers;
- receiving and considering regular reports from management in relation to the activities undertaken by the MG Trading team, including in relation to Trading Stores and the corresponding property portfolio;
- receiving regular reports on the management of credit provided by the Company to suppliers;
- considering significant industry issues including the Company's position in relation to unconventional gas exploration and genetic modification;
- considering the milk payment system for financial year 2015;
- considering the shareholder communications strategy; and
- receiving reports on the Supplier Development Program.

In addition, the Supplier Relations Committee, in conjunction with the Compliance Committee, considered the outcomes of the independent farm milk quality review and made recommendations to the Board in relation to the improvement opportunities identified.

4. Independence, Performance Evaluation and Remuneration

INDEPENDENCE AND CONFLICTS OF INTEREST

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

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

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

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

PERFORMANCE EVALUATION

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

During the year, an externally facilitated evaluation of the Board, its Committees, the Chairman and individual Directors was undertaken. Overall, the review indicated that the Board and its Committees are continuing to function effectively and in accordance with the respective Charters. The review also highlighted a number of improvement opportunities that are in the process of being implemented and monitored by the Board.

Corporate Governance Statement continued

REMUNERATION

Details of the Company's remuneration policy and practices and the remuneration paid to Directors and key management personnel are set out in the Remuneration Report on pages 41 to 54 of this Annual Report.

5. Conduct and ethics

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

The key values underpinning the Code of Conduct are:

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

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

6. Continuous Disclosure and Communications with Shareholders

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

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

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

In addition, the Company regularly communicates with its shareholders through supplier meetings that are held throughout Victoria, South Australia and New South Wales at least twice a year, as well as its Annual General Meeting. For convenience and environmental purposes, shareholders are given the option to receive communications from, and send communications to, the Company (including its share registry) electronically.

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

7. Diversity

The Company submitted its annual public report on gender equality to the Workplace Gender Equality Agency (WGEA) in March 2014, which included the following results:

- Board – one of the 12 Directors (eight per cent) is female;
- senior executives – three of the 11 senior executives (27 per cent) are female; and
- employees – 584 of the 2,455 Company employees (24 per cent) are female.

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

The Board sets measurable objectives to monitor progress in addressing any diversity imbalance issues. In 2014 the Board endorsed the following objectives in building diversity awareness at Murray Goulburn:

1. Supplier Development Program – to increase the rate of female participation each year.
2. Candidacy Attraction Rates (including external hires and internal promotions) – to ensure and increase females sourced and identified on long and short lists for all key leadership roles, including directorship positions.
3. Employee Turnover/Retention Profiling – to assess rates and reasons by age, tenure and gender.

Assessment of these objectives and review of progress will be carried out on an annual basis and reported to shareholders.

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

Financial Statements

Directors' Report

Your Directors present the following report for the financial year ended 30 June 2014.

Directors

The Directors listed on page 40 each held office as a Director of the Company at all times during or since the end of the financial year, except for:

- ED Morris – appointed 22 November 2013
- DF Howard – resigned 22 November 2013

Company Secretaries

F 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.

D Page (B. Bus., CA) joined the Company in 2003 and was appointed as a Company Secretary in 2011.

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 2013–14 in respect to the financial year ended 30 June 2013:	
Final dividend paid in September 2013	
On Ordinary Shares at $0.08 per share unfranked	21,027
On A Class Preference Shares at $0.08 per share unfranked	1,179
On B Class Preference Shares at $0.05 per share unfranked	485
On C Class Preference Shares at $0.08 per share unfranked	2,592
	25,283
b) Dividends paid during 2013–14 in relation to the financial year ended 30 June 2014:	
On A Class Preference Shares, special dividend of $0.25 per share unfranked	3,623
Total dividends paid during the financial year ended 30 June 2014	28,906
c) Dividends proposed, but not yet paid, in respect to the financial year ended 30 June 2014:	
Final dividend recommended for payment during September 2014	
(Dividends declared subsequent to 30 June 2014 and therefore not recognised)	
On Ordinary Shares at $0.08 per share unfranked	22,104
On B Class Preference Shares at $0.05 per share unfranked	493
On C Class Preference Shares at $0.05 per share unfranked	1,754
	24,351

Review of Operations

The consolidated entity reported profit after income tax of $29.3 million (2013: $34.9 million) for the financial year ended 30 June 2014.

Consolidated sales revenue was $2,916 million (2013: $2,385 million) for the financial year ended 30 June 2014, an increase of 22 per cent on the prior year. Consolidated profit after income tax of $29.3 million (2013: $34.9 million) for the financial year ended 30 June 2014 was 16 per cent lower than the prior year. This reflects a weighted average available milk price of $6.81/kg MS (2013: $4.97/kg MS) for the entity's Victorian Milk Pool.

Future Developments

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

Significant Changes in the State of Affairs

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

Events Subsequent to Balance Date

With the exception of the declaration of dividends detailed in Note 7 'Unrecognised Amounts', no 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 2014.

Environmental Regulations

Murray Goulburn maintains a strong focus on doing the right thing by the environment and the community.

We continue to report in line with federal environmental reporting requirements including our annual energy use and greenhouse gas emissions under the *National Greenhouse and Energy Reporting Act 2007*, our direct carbon cost liability under the *Clean Energy Act 2011*, and until June 2014 our energy efficiency opportunities under the *Energy Efficiencies Opportunities Act 2006*. We also report our annual environmental performance at our licensed sites through requirements outlined by the various state based environment related Acts and authorities.

During the financial year ended 30 June 2014, the Victorian Environment Protection Authority served three statutory notices in relation to environmental performance at our milk processing sites. Two were served to our Rochester site relating to waste stockpiling and odour, and one served to our Cobram site relating to environmental noise. We take these notices seriously and instituted corrective measures to address the issues at both sites. The Rochester notices were both complied with and subsequently revoked and the Cobram notice will be complied with within the required time frame.

We were also charged a late payment penalty for a shortfall error, which was made in our mid-year carbon report. The error, which we identified ourselves, was a timing error and did not affect our overall carbon quantity reported or tax payment. A provisional unit shortfall interest charge of $6,107 was paid. A late payment penalty of $3,030 was issued, however, it was waived following our request.

Remuneration

The Remuneration Report containing the remuneration of key management personnel (KMP) is provided on pages 41 to 54.

Insurance of Officers

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

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 96 of this financial report.

Rounding of Amounts to the Nearest Thousand Dollars

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

Meeting Attendance by Directors

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

			Committee Meetings			
		Full Meetings of Directors 23 held	Finance, Risk & Audit 6 held	Compliance 8 held	Remuneration & Nominations 6 held	Supplier Relations 8 held
Director and Location	Qualifications and Experience	Meetings Attended (Meetings held whilst a member of the Board/Committee)				
PW Tracy Chairman Foster	Dairy Farmer B. Ec & Comm, CA, SIA, GAICD, Director since 2009	23	*	*	6	7 (8)
G Helou Managing Director Melbourne	BE (Hons) MComm, FAICD, FAIM, Director since 2011	22 (23)	*	*	*	*
KW Jones Deputy Chairman Gundowring	Dairy Farmer Advanced Diploma Agr., MAICD, Director since 2008	23	3 (3)	4 (4)	6	8
N Akers Tallygaroopna	Dairy Farmer B (Hons) Public Policy and Mgt, B. Arts, GAICD, Director since 2011	22 (23)	*	8	*	8
WT Bodman Won Wron	Dairy Farmer B. Agr. SC., GAICD, Director since 2009	23	6	*	*	8
PJO Hawkins Melbourne	Special Director BCA (Hons), FAICD, SF Fin, FAIM, ACA (NZ), Director since 2009	20 (23)	6	*	6	*
DF Howard Camperdown	Dairy Farmer Dip. Company Directors (ANU), MAICD, Director until 22 November 2013	12 (12)	*	4 (4)	*	3 (3)
MF Ihlein Sydney	Special Director BBus (Acc), FCPA, FAICD, F Fin, Director since 2012	22 (23)	*	8	6	*
ML Jelbart Leongatha	Dairy Farmer Director since 2012	23	*	8	*	8
ED Morris Cobden	Dairy Farmer Dip. Bus. Studies (Accounting), CPA, MAICD, Director since 22 November 2013	11 (11)	3 (3)	*	*	5 (5)
GN Munzel Gunbower	Dairy Farmer GAICD, Director since 2008	23	6	*	*	8
JP Pye Bessiebelle	Dairy Farmer Advanced Diploma Agr., MAICD, Director since 2005	23	3 (3)	4 (4)	3 (3)	8
MJ Van de Wouw Timboon	Dairy Farmer MAICD, Director since 2010	23	3 (3)	4 (4)	*	8

* Not a member of the relevant committee.

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

Remuneration Report 2014

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

The report covers the following:

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

1. Introduction to Remuneration

As disclosed in last year's Remuneration Report, there were a number of changes made to the remuneration framework in 2013 with the most significant being the introduction of a Long Term Incentive Plan (LTIP) for the Managing Director. This year the Board considered it important to align the interests of the KMP with those of shareholders by introducing an at-risk component to their remuneration, which rewards sustainable long term value growth for both shareholders and the Company. As a result, the eligibility to participate in the LTIP was extended to KMP during the 2014 financial year. This is also aligned to the Managing Director's remuneration structure and a more detailed explanation of the LTIP can be found in Section 7 of this report.

FINANCIAL YEAR 2014 REMUNERATION REVIEW

Financial year 2014 saw an improved performance for the Company primarily driven by a stronger demand in world dairy ingredients leading to high dairy commodity prices during the year. These higher prices combined with a continued focus by management on lowering internal costs and growing markets resulted in high farmgate prices, which supported a strong recovery in cash and fodder positions for our shareholders in the second half of the year. The Company also increased its milk supply by approximately eight per cent on financial year 2013 volumes. As a result, this performance has resulted in payments under the Short Term Incentive Plan (STIP) for KMP covered by this report.

2. Remuneration Governance

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

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

- benchmarking the Managing Director's total remuneration package against comparable companies;
- benchmarking the Managing Director's direct reports total remuneration package against comparable companies resulting in the LTIP being extended to the KMP covered in this report; and
- provision of ongoing information and commentary on the design of the LTIP including performance target monitoring and assessment.

During 2014 no remuneration recommendations, as defined by the *Corporations Act 2001*, were provided by EY.

Remuneration Report 2014 continued

3. Key Management Personnel

Murray Goulburn has determined KMP to be the Non-executive Directors, Managing Director and selected members of the Executive Leadership Team. The 2014 financial year KMP disclosed in this report are:

Name	Position
Non-executive Director	
PW Tracy	Chairman
KW Jones	Deputy Chairman
N Akers	Non-executive Director
WT Bodman	Non-executive Director
PJO Hawkins	Special Director (Non-executive)
DF Howard	Non-executive Director (to 22 November 2013)
MF Ihlein	Special Director (Non-executive)
ML Jelbart	Non-executive Director
ED Morris	Non-executive Director (from 22 November 2013)
GN Munzel	Non-executive Director
JP Pye	Non-executive Director
MJ Van de Wouw	Non-executive Director
Executive Director	
G Helou	Managing Director
Executive	
D Mallinson	Executive General Manager Business Operations (from 3 April 2014)
D Noonan	Chief Financial Officer (to 13 January 2014)
B Hingle	Chief Financial Officer (from 13 January 2014)
F Smith	Company Secretary/General Counsel

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

4. Executive Remuneration Strategy

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

- creates and enhances sustainable long-term value by maximising returns for all shareholders;
- provides market competitive and equitable remuneration;
- recognises and rewards high performing individuals; and
- encourages behaviours that support a high performing organisation.

The remuneration framework for the KMP covered by this report contains a mix of fixed remuneration and variable at-risk pay to reward performance.

The Company's remuneration policy for the KMP covered by this report targets the median position for total remuneration of the relevant market. In undertaking the review of the Managing Director's remuneration, this year the Board considered the relative market comparator group to be companies within the ASX 200 with similar revenue bases while also taking into account the Company is an unlisted public company.

5. Executive Remuneration Structure

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

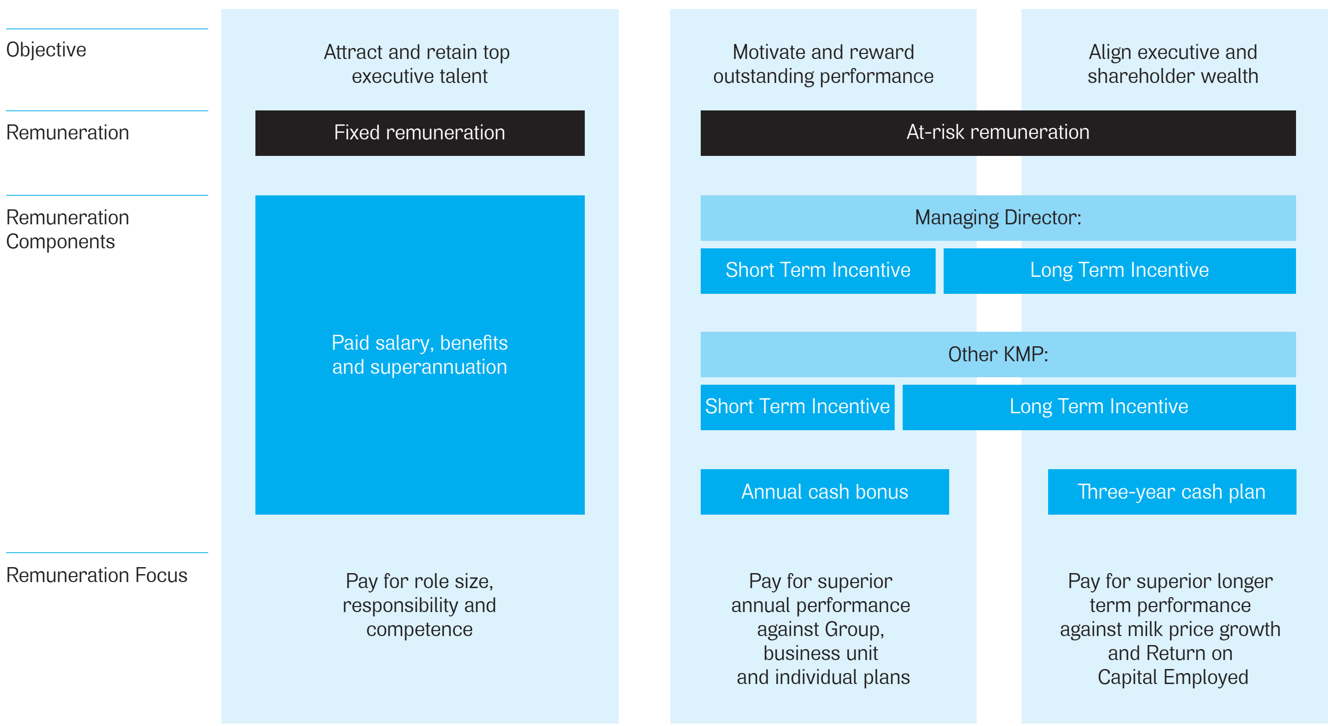
Remuneration Component	Purpose
Fixed remuneration	Fixed remuneration rewards the day to day accountabilities of the position and is made up of base salary (including salary sacrifice benefits and applicable fringe benefits), fixed allowances and Company contributions to superannuation (paid at the legislative minimum).
Short Term Incentive (STI) (under the STIP)	STI is an annual at-risk cash component of remuneration and is performance based. Performance is assessed on the achievement of approved key performance indicators (KPIs).
Long Term Incentive (LTI) (under the LTIP)	LTI 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 milk price growth and on return on capital employed. Performance is measured and any payment made at the end of the three-year period.

2014 EXECUTIVE PAY MIX

This year the Board approved eligibility of the LTIP for the KMP – further details on the LTIP can be found in Section 7 of this report.

As shown in the diagram below, the remuneration structure of the Managing Director and other KMP comprises both fixed and at-risk remuneration. The total remuneration mix varies between the Managing Director and his direct reports.

The Managing Director's total remuneration mix is made up of 50 per cent fixed remuneration and a maximum of 50 per cent at-risk remuneration. Of the at-risk remuneration, 40 per cent is STI and 60 per cent is LTI. For all other KMP covered by this report, total remuneration mix is made up of 57 per cent fixed remuneration and a maximum of 43 per cent at-risk remuneration. Of the at-risk remuneration, 33 per cent is STI and 67 per cent is LTI.



6. Short Term Incentive Plan and Link to Performance

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

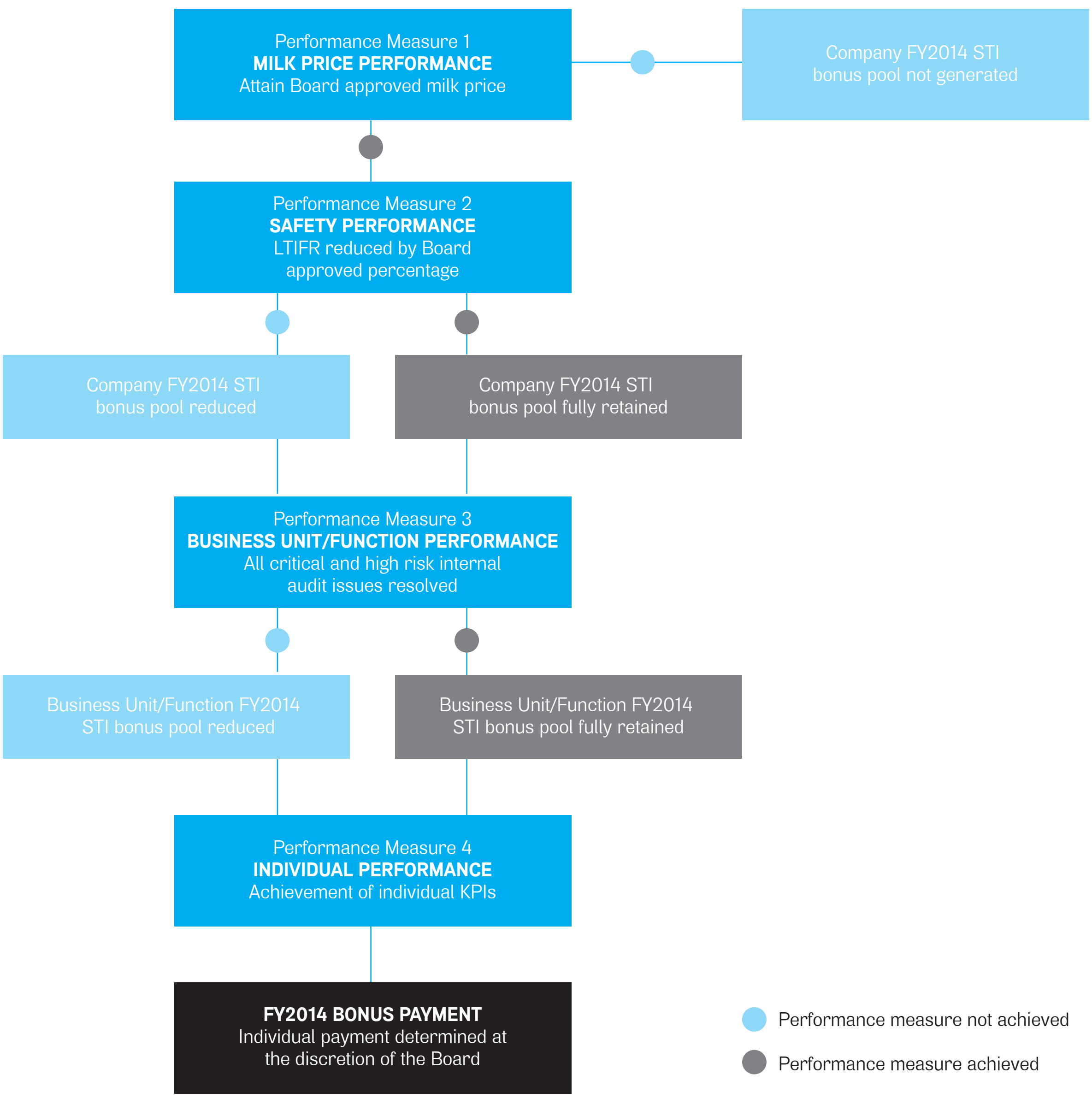
STI POOL FUNDING

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

PERFORMANCE MEASURES

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

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



6. Short Term Incentive Plan and Link to Performance continued

The Board selected these performance measures as it believes they align the KMP's interests with the Company's performance and management values. Performance against each performance measure is assessed by the Remuneration and Nominations Committee for the Managing Director and by the Managing Director for the other executive KMP. Once performance measures have been assessed, the Board approves the amount of STI payable. The Board believes the method of assessment is rigorous and provides a balanced evaluation of the KMP. All STI cash awards referable to performance during the 2014 financial year are payable post year end.

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

The Board will consider revising the STI structure during the 2015 financial year with a view to potentially introducing threshold, target and stretch levels for each performance measure.

6. Short Term Incentive Plan and Link to Performance continued

Performance for Short Term Incentive for 2014 Financial Year:

The table below summarises the outcomes of the performance measures for 2014.

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

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

FINANCIAL

- Despite the challenging conditions of a high Australian dollar and fluctuating commodity prices, the final milk price of $6.81 per kilogram of milk solids outperformed the milk price budget by 14.5 per cent.

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

	Net Sales Revenue $000	Profit After Tax $000	Dividends* $000
Financial year ended 30 June 2014	2,916,521	29,297	24,351
Financial year ended 30 June 2013	2,385,099	34,904	28,906
Financial year ended 30 June 2012	2,367,231	14,467	31,525
Financial year ended 30 June 2011	2,287,492	36,319	29,937
Financial year ended 30 June 2010	2,163,441	28,041	26,077

* All amounts reflect dividends paid in relation to the period except the amount for the financial year ended 30 June 2014, which reflects the dividend declared for that period.

All shares in the Company are traded at a fixed $1.00 per share.

SAFETY

- This year had a continued focus on safety and the executives continued to show strong leadership in driving a step change in safety throughout the business with a number of key initiatives including:
  - the implementation of safety performance dashboards across all areas of the Company and a Company performance scorecard;
  - the introduction of Health & Wellbeing and Safety Leadership Programs; and
  - hosting the internal Annual Safety Conference and annual Stop for Safety initiative where all employees stopped for one hour to participate in a workplace safety activity.
- As a result, the Company achieved a 37 per cent reduction in the LTIFR to 8.13.

INTERNAL AUDIT

- The internal audit program, introduced in 2012, continued with EY as the Internal Auditor with an increased focus on finalising all high risk findings. As in the previous year, at the end of the financial year, the Internal Auditor undertook a review of all outstanding high risk finding recommendations and management actions taken to close out these findings.
- The Internal Auditor concluded that all high risk findings were either completed by 30 June 2014 or sufficient management action had been undertaken to reduce their risk rating from high.

6. Short Term Incentive Plan and Link to Performance continued

SHORT TERM INCENTIVE OUTCOMES

The STI payments for 2014 reflect the strong achievements by the Company and of individual KMP against the applicable performance measures. The table below shows the percentage of STI payments awarded and forfeited for KMP.

	Short Term Incentive	
Name	Percentage of Available STI Awarded	Percentage of Available STI Forfeited
Managing Director		
G Helou	85	15
Executive		
D Mallinson	75	25
D Noonan	60	40
B Hingle	79	21
F Smith	100	0

7. Long Term Incentive Plan and Link to Performance

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

The KMP included in this report (excluding those that ceased to be KMP during the year) were offered eligibility to the LTIP following a benchmarking exercise undertaken by EY in which the total remuneration mix was compared against peers within a comparator group of ASX 200 companies. This comparator group was chosen on the basis that it represents companies of similar operational size and business complexity to MG, and from which key executive talent would typically be attracted from. As a result, an opportunity was identified to introduce a long term incentive for the KMP to better align the current remuneration structure and quantum with the comparator group. The Board agreed to the introduction of the LTIP for the KMP reporting to the Managing Director during financial year 2014.

Following the introduction of the LTIP in financial year 2013 for the Managing Director only, the Board reviewed the LTIP design for the other KMP to ensure related costs are sustainable, aligned with business performance and supplier/shareholder and the KMP's expectations. Given the Board's continued focus on these areas, the LTIP guiding principles are unchanged from financial year 2013:

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

7. Long Term Incentive Plan and Link to Performance continued

PERFORMANCE MEASURES

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

Element	Description
Award	Conditional rights to receive cash payment subject to meeting pre-determined performance hurdles. The LTIP is based on two independent and separately assessed performance hurdles being: • Implied Milk Price Growth (IMPG) (50 per cent weighting). • Return on Capital Employed (ROCE) (50 per cent weighting).
Quantum opportunity	Quantum is based on a percentage of fixed remuneration as determined by the Board. The quantum opportunities are based on achieving varying levels of performance with opportunities also available for achieving performance between levels: Managing Director Threshold performance: 15 per cent of fixed remuneration Target performance: 30 per cent of fixed remuneration Stretch performance: 60 per cent of fixed remuneration Other KMP Threshold performance: 12.5 per cent of fixed remuneration Target performance: 25 per cent of fixed remuneration Stretch performance: 50 per cent of fixed remuneration Quantum opportunities also exist for performance achieved between the performance hurdles stated above. As there are two independent and separately assessed performance hurdles, to achieve the maximum total opportunity, both hurdles will need to be achieved at the stretch level of performance. The minimum total value available is nil.
Performance period	Three-year performance period from 1 July 2013 to 30 June 2016 with no retesting opportunity available at the end of the performance period.
IMPG hurdle	• The purpose of the IMPG hurdle is to focus the KMP on delivering an optimal return to suppliers/shareholders through an increase in underlying milk price, while also making sure that there are sufficient funds available for reinvestment back into the business. • In order to measure an increase in underlying milk price, rather than using the available milk price paid to suppliers each year, an implied milk price is used that is based on forecasted available milk price targets plus the value of annual dividends. The available milk price targets are normalised for the movements in dairy commodity prices, foreign exchange and impacts of inflation as well as other one off items such as opening inventory. • In order to ensure there are sufficient funds available for reinvestment back into the business, increases or decreases in retained earnings are translated into adjustments to the implied milk price.
IMPG target setting	• Targets are set by determining a performance hurdle to be achieved by the end of the three-year period, using the year prior to the grant year as the base year. For example, the current grant performance will be assessed on the IMPG from financial year 2013 over a three-year period by comparing the actual result in financial year 2016 to the financial year 2013 amount. • The performance hurdle is formed on the basis of three annual notional targets that in aggregate, equal the three-year performance hurdle. • The hurdles and related components within the hurdle are based on forecasted levels of financial performance, including forecasted inflation (wage, energy/utilities, transport) and Company initiatives. This is then normalised to remove the impact of commodity prices and exchange rates. • Three levels of growth targets are set – threshold (80 per cent of target), target (100 per cent of target) and stretch (110 per cent of target). In order for any amount to be payable, at least 80 per cent of the forecast increase in implied milk price needs to be achieved over the three-year period.

7. Long Term Incentive Plan and Link to Performance continued

<table>
<tr><th>Element</th><th>Description</th></tr>
<tr><td>ROCE hurdle</td><td>• The purpose of the ROCE hurdle is to focus the KMP on achieving the maximum return to suppliers/shareholders by incentivising the most cost efficient use of capital.
• In order to achieve the growth in milk price, significant capital will need to be employed. The Board considers that it is important to focus management's attention on the most efficient use of this capital.
• The ROCE hurdle is measured by calculating the total return to shareholders (based on total payments for milk plus dividends paid in that financial year) as a percentage of the three-year rolling average of annual capital employed.</td></tr>
<tr><td>ROCE target setting</td><td>• ROCE hurdle is determined by the Board based on the anticipated levels of capital employed to deliver the significant increase in milk price.
• In setting the ROCE hurdle, the Board looks at the forecasted levels of financial performance including forecasted inflation performance, which is then normalised for currency movements and commodity price fluctuations.
• Three levels of ROCE targets are set – threshold (96 per cent of target), target (100 per cent of target) and stretch (104 per cent of target). In order for any amount to be payable, at least 96 per cent of the ROCE hurdle needs to be achieved over the three-year period.</td></tr>
<tr><td>Vesting schedule</td><td>Vesting (or entitlement to payment) occurs according to the following schedule for proportion of the LTIP award (subject to each performance measure).

Implied Milk Price Growth
<table>
<tr><th>Achievement of hurdle</th><th>Proportion of LTIP award (for the 50 per cent related to the IMPG hurdle) that is made available</th></tr>
<tr><td>Below threshold</td><td>0 per cent</td></tr>
<tr><td>Threshold (80 per cent of target)</td><td>50 per cent</td></tr>
<tr><td>Between threshold and target</td><td>Straight line correlation between 50 per cent and 100 per cent of LTIP award opportunity</td></tr>
<tr><td>Target (100 per cent of target)</td><td>100 per cent</td></tr>
<tr><td>Between target and stretch</td><td>Straight line correlation between 100 per cent and 200 per cent of LTIP award opportunity</td></tr>
<tr><td>Stretch (110 per cent of target)</td><td>200 per cent</td></tr>
</table>
Return on Capital Employed
<table>
<tr><th>Achievement of hurdle</th><th>Proportion of LTIP award (for the 50 per cent related to the ROCE hurdle) that is made available</th></tr>
<tr><td>Below threshold</td><td>0 per cent</td></tr>
<tr><td>Threshold (96 per cent of target)</td><td>50 per cent</td></tr>
<tr><td>Between threshold and target</td><td>Straight line correlation between 50 per cent and 100 per cent of LTIP award opportunity</td></tr>
<tr><td>Target (100 per cent of target)</td><td>100 per cent</td></tr>
<tr><td>Between target and stretch</td><td>Straight line correlation between 100 per cent and 200 per cent of LTIP award opportunity</td></tr>
<tr><td>Stretch (104 per cent of target)</td><td>200 per cent</td></tr>
</table></td></tr>
<tr><td>Adjustments to performance hurdles</td><td>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.</td></tr>
</table>

7. Long Term Incentive Plan and Link to Performance continued

Element	Description
Adjustments to LTIP award outcomes	Following the end of a performance period, the Board may take into account certain items or factors that may have assisted or hindered the participant in achieving the performance hurdles (beyond those already factored into the forecasted targets e.g. adjustments for retained earnings in the implied milk price). The Board has the discretion to adjust the outcome either upwards or downwards to account for such items or factors or to prevent the participants receiving an inappropriate benefit in certain circumstances. The Board will also take into account the Company's performance against that of its competitors.
Cessation of employment	On leaving the Company, rights awarded under the plan vest as follows: • Resignation/termination with cause – all rights are forfeited, subject to Board discretion. • Resignation for any other reason – rights will remain on foot and vest subject to performance against existing hurdles, subject to Board discretion.

Summary of 2013–14 LTIP Grant

Grant date	23 October 2013 for the Managing Director 14 May 2014 for other KMP
Performance hurdle	IMPG and ROCE
IMPG assessment	The hurdle will not be assessed for vesting until the three-year performance period is completed (30 June 2016)
ROCE assessment	The hurdle will not be assessed for vesting until the three-year performance period is completed (30 June 2016)
Payment date	Any payment will be made by 30 November 2016

8. Remuneration Summary Table

	Short Term Benefits				Leave Benefits			Long Term Benefits	Post Employment Benefits		
Executive Officers	Salary and Allowances $	STI Cash Bonus $	Non-monetary[iv] $	Subtotal $	Annual Leave Accrued (taken) $	Long Service Leave Accrued $	Subtotal of Leave Benefits $	LTI Cash Incentives[v] $	Super-annuation $	Total $	Proportion of Remuneration Performance Related %
2014											
G Helou	1,612,955	552,500	222,124	2,387,579	7,997	26,506	34,503	325,000	17,775	2,764,857	31.7
B Hingle[i]	270,856	45,261	–	316,117	18,954	4,105	23,059	91,667	7,406	438,249	31.2
D Mallinson[ii]	153,693	70,313	908	224,914	11,860	2,566	14,426	108,333	4,444	352,117	50.7
D Noonan[iii]	236,932	37,419	–	274,351	(8,350)	4,278	(4,072)	–	9,403	279,682	13.4
F Smith	532,224	137,500	–	669,724	24,630	9,681	34,311	91,667	17,775	813,477	28.2
Total	**2,806,660**	**842,993**	**223,032**	**3,872,685**	**55,091**	**47,136**	**102,227**	**616,667**	**56,803**	**4,648,382**	
2013											
G Helou	1,562,959	598,500	220,361	2,381,820	101,295	25,640	126,935	315,000	16,470	2,840,225	32.2
M Beniston	331,732	66,997	24,129	422,858	16,312	11,915	28,227	–	16,470	467,555	14.3
K Mentiplay	554,685	142,789	12,477	709,951	11,226	9,369	20,595	–	16,470	747,016	19.1
D Noonan	433,529	84,375	–	517,904	17,727	7,222	24,949	–	16,470	559,323	15.1
R Poole	345,533	54,257	22,299	422,089	15,048	12,812	27,860	–	16,470	466,419	11.6
F Smith	467,349	128,835	–	596,184	17,594	9,223	26,817	–	16,470	639,471	20.1
Total	**3,695,787**	**1,075,753**	**279,266**	**5,050,806**	**179,202**	**76,181**	**255,383**	**315,000**	**98,820**	**5,720,009**	

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

(i) B Hingle was appointed Chief Financial Officer on 13 January 2014. The consolidated entity paid $125,086 in relocation costs, which are not considered to form part of Mr Hingle's remuneration.

(ii) D Mallinson was appointed Executive General Manager Business Operations on 3 April 2014.

(iii) D Noonan ceased to qualify as KMP on 13 January 2014.

(iv) Non-monetary compensation includes the provision of motor vehicles and travel benefits.

(v) LTI cash incentives reflects an accrual associated with the Managing Director's anticipated maximum performance of $975,000 LTIP opportunity (i.e. $975,000/three years = $325,000 per annual accrual). The accrual for the other participating KMP reflects one-third of their anticipated maximum potential entitlement.

Remuneration Report 2014 continued

9. Executive Contracts

The Company has entered into employment contracts with all KMP. The employment contracts have no fixed term and outline the components of remuneration to be paid. All 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). 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	Executive General Manager Business Operations	3 April 2014
D Noonan	Chief Financial Officer	23 March 2012
B Hingle	Chief Financial Officer	13 January 2014
F Smith	Company Secretary/General Counsel	9 January 2012

10. Non-executive Director Remuneration

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

For 2014, the following Non-executive Director fee structure (inclusive of superannuation contributions) was in operation:

Chairman's remuneration	$240,000
Other Non-executive Director remuneration	
Base annual fee	$85,000
Plus additional fees for:	
Deputy Chairman	$40,000
Committee Chair	
Finance, Risk and Audit Committee	$15,000
Compliance Committee	$15,000
Supplier Relations Committee	$15,000
Total fees	**$1,175,000**

10. Non-executive Director Remuneration continued

Non-executive Director	Short Term Benefits Fees and Salary $	Non Monetary[(vi)] $	Post Employment Super-annuation $	Total $
2014				
PW Tracy	222,225	27,232	17,775	267,232
N Akers	77,803	–	7,197	85,000
WT Bodman	77,803	–	7,197	85,000
PJO Hawkins	91,533	–	8,467	100,000
DF Howard[(i)]	30,874	–	2,856	33,730
MF Ihlein	91,533	–	8,467	100,000
ML Jelbart	77,803	–	7,197	85,000
KW Jones	114,416	–	10,584	125,000
ED Morris[(ii)]	47,237	–	4,369	51,606
GN Munzel	77,803	–	7,197	85,000
JP Pye	91,533	–	8,467	100,000
MJ Van de Wouw	77,803	–	7,197	85,000
Total	**1,078,366**	**27,232**	**96,970**	**1,202,568**
2013				
PW Tracy	191,080	23,784	17,197	232,061
N Akers	71,025	–	6,392	77,417
WT Bodman	78,338	–	7,050	85,388
PJO Hawkins	82,112	–	7,390	89,502
DF Howard	74,740	–	6,727	81,467
MF Ihlein[(iii)]	61,826	1,127	5,564	68,517
ML Jelbart[(iv)]	46,375	–	4,174	50,549
KW Jones	97,997	–	8,820	106,817
GN Munzel	71,025	–	6,392	77,417
JP Pye	82,112	–	7,390	89,502
JT Vardy[(v)]	26,250	–	2,363	28,613
MJ Van de Wouw	71,025	–	6,392	77,417
Total	**953,905**	**24,911**	**85,851**	**1,064,667**

(i) DF Howard resigned from the Board of Directors on 22 November 2013.

(ii) ED Morris was appointed to the Board of Directors on 22 November 2013.

(iii) MF Ihlein was appointed to the Board of Directors on 30 October 2012.

(iv) ML Jelbart was appointed to the Board of Directors on 28 November 2012.

(v) JT Vardy resigned from the Board of Directors on 28 November 2012.

(vi) Non-monetary compensation includes provision of a motor vehicle to the Chairman and travel related costs.

Directors are not entitled to participate in performance based remuneration programs, namely the STIP or LTIP.

With the exception of JP Pye, Directors are not entitled to retirement benefits. At 30 June 2014, JP Pye had an accrued benefit payable on retirement of $128,450.

11. Shareholdings

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

	Ordinary Shares Held at 1 July 2012 No.	Ordinary Shares Acquired No.(iv)	Ordinary Shares Held at 30 June 2013 No.	Ordinary Shares Held at 1 July 2013 No.	Ordinary Shares Acquired No.(iv)	Ordinary Shares Held at 30 June 2014 No.
PW Tracy	1,242,496	102,779	1,345,275	1,345,275	139,714	1,484,989
N Akers	204,333	48,355	252,688	252,688	34,209	286,897
WT Bodman	138,523	26,912	165,435	165,435	18,644	184,079
DF Howard	552,969	64,101	617,070	617,070	3,128	(ii)
ML Jelbart	1,148,977	191,901	1,340,878	1,340,878	115,100	1,455,978
KW Jones	193,797	56,854	250,651	250,651	23,995	274,646
ED Morris	(iii)	(iii)	(iii)	28,671	3,721	32,392
GN Munzel	196,271	33,083	229,354	229,354	17,434	246,788
JP Pye	233,441	34,903	268,344	268,344	19,993	288,337
MJ Van de Wouw	366,458	41,862	408,320	408,320	5,476	413,796
JT Vardy	884,420	108,055	(i)	(i)	(i)	(i)
	5,161,685	**708,805**	**4,878,015**	**4,906,686**	**381,414**	**4,667,902**

(i) JT Vardy resigned from the office of Director during the previous financial year and accordingly his shareholdings at 30 June 2013 and 2014 are not disclosed.

(ii) DF Howard resigned from the office of Director during the current financial year and accordingly his shareholdings at 30 June 2014 are not disclosed.

(iii) ED Morris was appointed to the office of Director during the current financial year and accordingly his shareholdings prior to 1 July 2013 are not disclosed.

(iv) All shares were issued for a value of $1, and accordingly the value of the issued shares equals $381,414 (2013: $708,805).

Other KMP

No other KMP hold shares in the Company as at 30 June 2014. Shares are not awarded as part of KMP remuneration, nor does the value of the Company's shares enter into the determination of any part of KMP remuneration.

Signed in accordance with a resolution of the Board of Directors

Philip W Tracy

PW Tracy
Director

Melbourne
26 August 2014

Consolidated Statement of Profit or Loss

for the financial year ended 30 June 2014

	Note	2014 $000	2013 $000
Sales revenue	2	2,916,521	2,385,099
Cost of sales		(2,571,469)	(2,067,009)
Gross profit		345,052	318,090
Other income	2	30,761	4,336
Share of profit (loss) of associates	13	(10,889)	837
Distribution expenses		(152,682)	(143,522)
Selling and marketing expenses		(73,700)	(53,889)
Administration expenses		(58,306)	(49,728)
Finance costs	3	(27,156)	(28,022)
Other expenses		(20,833)	(9,049)
Profit before income tax		32,247	39,053
Income tax expense	4	(2,950)	(4,149)
Profit for the year		**29,297**	**34,904**
Attributable to:			
Equity holders of the parent	24	27,936	29,396
Non-controlling interest		1,361	5,508
Profit for the year		**29,297**	**34,904**

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the financial year ended 30 June 2014

	Note	2014 $000	2013 $000
Profit for the year		29,297	34,904
Other comprehensive income			
Items that will not be classified subsequently to profit or loss:			
Increment (decrement) on revaluation of land and buildings	23	–	54,833
Net change in fair value of equity instruments measured at fair value through other comprehensive income	23	54,434	541
Income tax relating to items that will not be reclassified subsequently	4	(15,320)	(16,450)
Items that may be reclassified subsequently to profit or loss:			
Transfer to income statement on cash flow hedges	23	31,410	(11,008)
Gain (loss) on cash flow hedges taken to equity	23	3,258	(43,566)
Exchange differences arising on translation of foreign operations	23	(984)	4,553
Income tax relating to items that may be reclassified subsequently	4	(10,092)	15,006
Total comprehensive income for the year		**92,003**	**38,813**
Attributable to:			
Equity holders of the parent		90,642	33,305
Non-controlling interest		1,361	5,508
Total comprehensive income for the year		**92,003**	**38,813**

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

for the financial year ended 30 June 2014

	Note	2014 $000	2013 $000
Current assets			
Cash	30(a)	13,858	11,809
Receivables	8	536,252	442,137
Inventories	9	366,512	291,207
Current tax receivable		1,700	–
Other	10	8,652	3,636
Derivative financial instruments	18	1,736	49
Total current assets		928,710	748,838
Non-current assets			
Investments accounted for using the equity method	13	16,994	20,607
Other financial assets	11	161	35,876
Property, plant and equipment	14	796,044	832,005
Intangible assets	15	16,121	16,121
Other	10	5,406	5,607
Total non-current assets		834,726	910,216
Total assets		1,763,436	1,659,054
Current liabilities			
Payables	16	371,196	321,973
Borrowings	17	149,886	205,496
Current tax payable		363	727
Provisions	19	46,415	44,394
Derivative financial instruments	18	36	35,546
Total current liabilities		567,896	608,136
Non-current liabilities			
Payables	16	1,921	1,425
Borrowings	17	380,893	324,475
Provisions	19	7,933	7,852
Deferred tax liabilities	20	58,902	30,679
Total non-current liabilities		449,649	364,431
Total liabilities		1,017,545	972,567
Net assets		**745,891**	**686,487**
Equity			
Issued capital	22	268,741	262,677
Reserves	23	183,215	179,496
Retained earnings	24	287,089	233,915
Parent entity interest		739,045	676,088
Non-controlling interest	25	6,846	10,399
Total equity		**745,891**	**686,487**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the financial year ended 30 June 2014

	Issued Capital $000	Capital Reserve $000	Asset Revaluation Reserve $000	General Reserve $000
	Note 22	Note 23	Note 23	Note 23
Balance at 1 July 2012	248,271	36,916	117,820	5,257
Profit or (loss) for the year	–	–	–	–
Other comprehensive income	–	–	38,383	–
Total comprehensive income	–	–	38,383	–
Payment of dividends	–	–	–	–
Issue of ordinary shares to milk suppliers	9,993	–	–	–
Dividend reinvestment plan issues	4,413	–	–	–
Transferred to retained earnings (net of tax)	–	–	(2,320)	–
Allotment of shares to suppliers	–	–	–	–
Shares to be issued in lieu of milk payments	–	–	–	–
Non-controlling interest in subsidiaries disposed	–	–	–	–
Shares bought back and cancelled	–	–	–	–
Difference on acquisition of interest in subsidiary	–	–	–	–
Other	–	–	–	–
Balance at 30 June 2013	**262,677**	**36,916**	**153,883**	**5,257**
Profit or (loss) for the year	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	–
Payment of dividends	–	–	–	–
Issue of ordinary shares to milk suppliers	16,799	–	–	–
Dividend reinvestment plan issues	3,752	–	–	–
Transferred to retained earnings (net of tax)	–	–	(18,432)	–
Allotment of shares to suppliers	–	–	–	–
Shares bought back and cancelled	(14,487)	–	–	–
Difference on acquisition of interest in subsidiary	–	–	–	–
Balance at 30 June 2014	**268,741**	**36,916**	**135,451**	**5,257**

The accompanying notes form part of these financial statements.

Hedge Reserve $000	Investment Revaluation Reserve $000	Share Allotment Reserve $000	Transactions with Non-controlling Interests Reserve $000	Foreign Currency Translation Reserve $000	Retained Earnings $000	Attributable to Owners of the Parent $000	Non-controlling Interests $000	Total $000
Note 23	Note 23	Note 23	Note 23	Note 23	Note 24		Note 25	
17,463	(3,910)	2,971	2,354	303	233,724	661,169	97,866	759,035
–	–	–	–	–	29,396	29,396	5,508	34,904
(38,202)	541	–	–	3,187	–	3,909	–	3,909
(38,202)	541	–	–	3,187	29,396	33,305	5,508	38,813
–	–	–	–	–	(31,525)	(31,525)	–	(31,525)
–	–	–	–	–	–	9,993	–	9,993
–	–	–	–	–	–	4,413	–	4,413
–	–	–	–	–	2,320	–	–	–
–	–	(2,971)		–	–	(2,971)	–	(2,971)
–	–	1,957	–	–	–	1,957	–	1,957
–	–	–	–	–	–	–	(8,454)	(8,454)
–	–	–	–	–	–	–	(84,492)	(84,492)
–	–	–	(253)	–	–	(253)	–	(253)
–	–	–	–	–	–	–	(29)	(29)
(20,739)	**(3,369)**	**1,957**	**2,101**	**3,490**	**233,915**	**676,088**	**10,399**	**686,487**
–	–	–	–	–	27,936	27,936	1,361	29,297
24,268	39,114	–	–	(676)	–	62,706	–	62,706
24,268	39,114	–	–	(676)	27,936	90,642	1,361	92,003
–	–	–	–	–	(28,906)	(28,906)	–	(28,906)
–	–	–	–	–	–	16,799	–	16,799
–	–	–	–	–	–	3,752	–	3,752
–	(35,712)	–	–	–	54,144	–	–	–
–	–	(1,957)		–	–	(1,957)	–	(1,957)
–	–	–	–	–	–	(14,487)	–	(14,487)
–	–	–	(2,886)	–	–	(2,886)	(4,914)	(7,800)
3,529	**33**	**–**	**(785)**	**2,814**	**287,089**	**739,045**	**6,846**	**745,891**

Consolidated Statement of Cash Flows

for the financial year ended 30 June 2014

	Note	2014 $000	2013 $000
Cash flows from operating activities			
Receipts from customers		2,892,570	2,426,267
Payments to suppliers and employees		(2,936,397)	(2,280,948)
		(43,827)	145,319
Dividends received		1,761	1,267
Interest received		3,196	3,781
Interest paid		(27,617)	(27,750)
Income taxes paid		(2,518)	(5,040)
Net cash inflow (outflow) from operating activities	30(b)	(69,005)	117,577
Cash flows from investing activities			
Payments for property, plant and equipment		(85,125)	(99,885)
Investment in associated company	13	(8,000)	(6,000)
Payments to acquire financial assets		(2,788)	(13,067)
Proceeds from the sale of property, plant and equipment		96,362	3,633
Proceeds from the sale of financial assets		92,937	–
Payments for investments in subsidiaries		(7,800)	(8,775)
Net cash inflow (outflow) from investing activities		85,586	(124,094)
Cash flows from financing activities			
Buy-back of shares in non-controlling interests		–	(40,675)
Dividends paid		(25,154)	(27,112)
Proceeds from the issue of ordinary shares		16,799	9,993
Payment for shares bought back		(14,487)	–
Proceeds from borrowings		209,073	173,347
Repayment of borrowings		(200,683)	(131,420)
Net cash outflow from financing activities		(14,452)	(15,867)
Net increase (decrease) in cash		2,129	(22,384)
Cash at the beginning of the year		11,809	34,193
Effect of exchange rate fluctuations on cash held		(80)	–
Cash at the end of the year	30(a)	**13,858**	**11,809**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for the financial year ended 30 June 2014

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 26 August 2014. The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. The consolidated entity is a for-profit entity.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000), unless otherwise indicated, in accordance with ASIC Class Order 98/0100, which does apply to the consolidated entity.

In applying the consolidated entity's accounting policies, below, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the consolidated entity. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions.

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 2014 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 at 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 4 to the financial statements.

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 28.

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 (2013: straight line method) to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated entity.

The expected useful lives are as follows:

- Buildings – 25 to 50 years
- Plant and equipment – 5 to 25 years
- Vehicles – 3 to 8 years
- Tankers – 10 to 20 years

NOTE 1: Summary of Significant Accounting Policies continued

G) IMPAIRMENT OF ASSETS

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

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

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

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

H) FINANCIAL ASSETS

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

Trade receivables, loans and other receivables are recorded at amortised cost, using the effective interest method, less impairment through the allowance account.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including fees and transaction costs) through the expected life of the financial asset or, where appropriate, a shorter period.

Listed shares held by the consolidated entity that are traded in an active market are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the investment is disposed of the cumulative gain or loss previously accumulated in the investments revaluation reserve is transferred to retained earnings. Dividends are recognised in profit or loss when the consolidated entity's right to receive the dividends is established.

I) GOODS AND SERVICES TAX

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

i. where the amount of GST incurred is not recoverable from the taxation authority. In this case the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

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

J) INTANGIBLE ASSETS

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

K) 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.

L) INVENTORIES

Dairy produce stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour, maturation costs and an allocation of manufacturing overheads.

Stores, packing materials and Murray Goulburn Trading stocks, have been valued at the lower of cost and net realisable value.

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 2014

NOTE 1: Summary of Significant Accounting Policies continued

M) INVESTMENT IN ASSOCIATES

An associate is an entity over which the consolidated entity has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but 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.

N) GOODWILL

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

O) ACCOUNTS PAYABLE

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

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

P) PROVISIONS

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Q) EMPLOYEE BENEFITS

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

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

R) BORROWINGS

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

S) BORROWING COSTS

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

T) REVENUE RECOGNITION

Revenue from the sale of goods and disposal of assets is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods. 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.

U) PARENT ENTITY DISCLOSURES

The financial information for the parent entity, Murray Goulburn Co-Operative Co. Limited, as disclosed in Note 31, 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.

NOTE 1: Summary of Significant Accounting Policies continued

V) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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. 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 advisers 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.

W) 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 2013:

- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011–7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards and AASB 2012–10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments together represent a suite of related standards covering the accounting and disclosure requirements for consolidated financial statements, associates, joint arrangements and off balance sheet vehicles.
- AASB 13 Fair Value Measurement and AASB 2011–8 Amendments to Australian Accounting Standards arising from AASB 13 combine guidance for all fair value measurements required in other standards.
- AASB 119 Employee Benefits and AASB 2011–10 Amendments to Australian Accounting Standards arising from AASB 119 amend disclosure, presentation and accounting to defined benefit plans and other employee benefits.

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

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial liabilities and includes rules relating to hedge accounting.

The new standard is not applicable until 1 January 2018 but is available for early adoption. The consolidated entity early adopted the classification and measurement components of AASB 9 in a previous financial period, with the exception of those relating to hedge accounting.

There will be no impact on the consolidated entity's accounting for financial assets or financial liabilities on full adoption of the standard. The new hedging rules will align hedge accounting more closely with the Group's risk management practices and, as a general rule, it will be easier to apply hedge accounting once the standard is adopted in full. The new standard also introduces expanded disclosure requirements and changes in presentation with regards to financial instruments.

The consolidated entity has not yet completed the analysis on how its own hedging arrangements would be affected by the new rules, and therefore has not yet decided whether to adopt any parts of AASB 9 early. In order to apply the new standard's hedging rules, the Group would have to adopt AASB 9 and the consequential amendments to AASB 7 Financial Instruments: Disclosures and AASB 139 Financial Instruments: Recognition and Measurement in their entirety.

Notes to the Financial Statements continued

for the financial year ended 30 June 2014

NOTE 2: Revenue

	Note	2014 $000	2013 $000
Revenue			
Sales revenue		2,916,521	2,385,099
		2,916,521	2,385,099
Other income			
Interest received or receivable from:			
• other persons		3,202	3,615
Dividends received from other corporations		1,037	721
Net gain on sale of Integrated Logistics Centre		26,522	–
		30,761	4,336
Sales and other income		**2,947,282**	**2,389,435**

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

	Note	2014 $000	2013 $000
Charging/(crediting) as losses and gains:			
Borrowing costs			
Interest paid or payable to:			
• other persons		27,156	28,022
		27,156	28,022
Depreciation of:			
• buildings		8,870	8,237
• plant and equipment and vehicles		44,367	45,813
	14	53,237	54,050
Impairment (reversal) of non-current property, plant and equipment		(1,402)	(1,261)
Net (gain) on sale and scrapping of non-current assets		(1,195)	(717)
Write down of inventories to net realisable value		10,669	1,207
Rental expense on operating leases		22,620	10,722
Research and development expenditure		5,800	6,813
Employee benefits (including restructuring costs)		242,129	212,469

NOTE 4: Income Tax Expense

A) INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2014 $000	2013 $000
Tax expense comprises:		
Current tax expense	139	4,936
Deferred tax expense (benefit)	2,811	(787)
Income tax expense	**2,950**	**4,149**
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	32,247	39,053
Income tax calculated at the Australian statutory tax rate of 30%	9,674	11,716
Dividends as a co-operative[i]	(8,672)	(9,457)
Effect of tax rates in foreign jurisdictions	(24)	(1,787)
Equity accounted loss/(profit)	3,471	59
Current year losses for which no deferred tax asset was recognised	–	3,776
Previously unrecognised tax losses now recouped to reduce current tax expense	(877)	–
Sundry items	(251)	(17)
Under (over) provision for income tax in prior year	(371)	(141)
Income tax expense	**2,950**	**4,149**

(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. 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 year end have been held to be deductible on this basis.

NOTE 4: Income Tax Expense continued

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

	Opening Balance $000	Charged to Income $000	Transfer from Equity to Income $000	Charged to Equity $000	Closing Balance $000
2014					
Gross deferred tax liabilities					
Property, plant and equipment	(78,643)	7,983	–	–	(70,660)
Consumables	(7,415)	863	–	–	(6,552)
Investments	–	–	15,305	(15,320)	(15)
Cash flow hedges	(1,519)	–	983	(977)	(1,513)
Other	(1,502)	(7,668)	–	308	(8,862)
	(89,079)	1,178	16,288	(15,989)	(87,602)
Gross deferred tax assets					
Provisions	15,573	627	–	–	16,200
Tax losses	26,778	(11,413)	(15,305)	–	60
Cash flow hedges	10,406	–	(10,406)	–	–
Other	5,643	6,797	–	–	12,440
	58,400	(3,989)	(25,711)	–	28,700
Net deferred tax liability	**(30,679)**	**(2,811)**	**(9,423)**	**(15,989)**	**(58,902)**
2013					
Gross deferred tax liabilities					
Property, plant and equipment	(59,609)	(2,584)	–	(16,450)	(78,643)
Consumables	(7,619)	204	–	–	(7,415)
Cash flow hedges	(7,485)	–	3,302	2,664	(1,519)
Other	(391)	255	–	(1,366)	(1,502)
	(75,104)	(2,125)	3,302	(15,152)	(89,079)
Gross deferred tax assets					
Provisions	18,900	(3,327)	–	–	15,573
Tax losses	25,502	1,276	–	–	26,778
Cash flow hedges	–	–	–	10,406	10,406
Other	680	4,963	–	–	5,643
	45,082	2,912	–	10,406	58,400
Net deferred tax liability	**(30,022)**	**787**	**3,302**	**(4,746)**	**(30,679)**

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

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

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

All operating entities within the 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 tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

NOTE 5: Compensation of Key Management Personnel

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

	2014 $	2013 $
Total short term employee benefits (excluding annual leave)	4,978,284	6,029,622
Total annual and long service leave benefits	102,227	255,383
Total long term employee benefits	616,667	315,000
Total post employment employee benefits	153,773	184,671
Total termination benefits	–	–
Total remuneration	**5,850,951**	**6,784,676**

NOTE 6: Remuneration of Auditors

	2014 $000	2013 $000
(a) Auditor of the parent entity:		
• audit and review the financial report	365,000	342,000
• assurance related services	17,850	28,905
• other consulting services	100,471	250,700
	483,321	621,605
(b) Related practice of the parent entity auditor		
• audit and review the financial report	45,000	–
• corporate finance services	–	90,480
	528,321	**712,085**
(c) Non-PricewaterhouseCoopers audit firms		
• audit and review the financial report	36,050	–
• assurance related services	9,000	–
• other consulting services	10,000	–
	55,050	**–**

The auditor of the parent entity is PricewaterhouseCoopers (2013: Deloitte Touche Tohmatsu).

NOTE 7: Dividends Paid or Proposed

	Note	2014 $000	2013 $000
Recognised amounts			
Dividends in relation to the 2013 financial year (2012 financial year)			
Fully Paid Ordinary Shares			
Final dividend of 8 cents (2013: 12 cents) per share unfranked		21,027	27,551
Fully Paid A Class Non-cumulative Non-redeemable Preference Shares			
Final dividend of 8 cents (2013: 8 cents) per share unfranked		1,179	1,208
Fully Paid B Class Non-cumulative Non-redeemable Preference Shares			
Final dividend of 5 cents (2013: 5 cents) per share unfranked		485	514
Fully Paid C Class Non-cumulative Non-redeemable Preference Shares			
Final dividend of 8 cents (2013: 8 cents) per share unfranked		2,592	2,252
Dividends in relation to the 2014 financial year (2013 financial year)			
Fully Paid A Class Non-cumulative Non-redeemable Preference Shares			
Special dividend of 25 cents per share unfranked (as part of share buy-back and cancellation)		3,623	–
Total dividends recognised	24	**28,906**	**31,525**

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 2013 and the actual payment of the dividend.

		2014 $000	2013 $000
Unrecognised amounts			
Dividends in relation to the 2014 financial year (2013 financial year)			
Fully Paid Ordinary Shares			
Final dividend of 8 cents per share unfranked (2013: 8 cents per share unfranked)		22,104	21,081
Fully Paid A Class Non-cumulative Non-redeemable Preference Shares			
Final dividend of nil cents (2013: 8 cents per share unfranked)		–	1,183
Fully Paid B Class Non-cumulative Non-redeemable Preference Shares			
Final dividend of 5 cents per share unfranked (2013: 5 cents per share unfranked)		493	454
Fully Paid C Class Non-cumulative Non-redeemable Preference Shares			
Final dividend of 5 cents per share unfranked (2013: 8 cents per share unfranked)		1,754	2,378
		24,351	**25,096**
Adjusted franking account balance		**12,390**	**10,887**

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

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

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

NOTE 8: Receivables

	2014 $000	2013 $000
Current		
Trade receivables	463,484	389,733
Less: provision for impairment of receivables	(1,934)	(1,762)
	461,550	387,971
Other receivables	74,702	54,166
	536,252	**442,137**

All receivables are recorded at amortised cost.

Credit risk associated with these receivables is addressed in Note 28(c). The fair value of receivables is documented in Note 28(d).

The consolidated entity reviews the recoverability of receivables by reference to internal credit assessment and historical and ongoing customer payment trends. Trade receivables of $1,934,000 (2013: $1,762,000) in the consolidated entity have been assessed as impaired and provided for in the provision for impairment of receivables.

	2014 $000	2013 $000
Movements in the provision for impairment of receivables:		
Balance at the beginning of the year	1,762	1,643
Impairment losses recognised on receivables	264	284
Impairment losses reversed	–	–
Amounts written off as uncollectible	(92)	(165)
	1,934	**1,762**
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	4,058	8,914
30 – 60 days	10,732	10,394
60 – 90 days	4,629	3,778
90+ days	9,208	6,101
	28,627	**29,187**

NOTE 9: Inventories

	2014 $000	2013 $000
Finished goods		
• at cost	227,410	235,260
• at net realisable value	91,299	10,103
Packaging and manufacturing materials	47,803	45,844
	366,512	**291,207**

AMOUNTS RECOGNISED IN PROFIT OR LOSS

Inventories recognised as expense during the year ended 30 June 2014 amounted to $2.571 billion (2013: $2.067 billion). These were included in cost of goods sold. Write downs of inventories to net realisable value amounted to $10.7 million (2013: $1.2 million). These write downs were recognised as an expense during the year ended 30 June 2014 and are also included in cost of goods sold.

NOTE 10: Other Assets

	2014 $000	2013 $000
Current		
Prepayments	5,206	3,636
Deferred capital raising costs	3,446	–
	8,652	**3,636**
Non-current		
Other	5,406	5,607
	5,406	**5,607**

NOTE 11: Other Non-current Financial Assets

	2014 $000	2013 $000
Investments		
Shares in quoted corporations at fair value	161	35,876
	161	**35,876**

Shares in quoted corporations are Level 1 financial instruments recorded at fair value using quoted prices. As at 30 June 2013, the consolidated entity had an investment in Warrnambool Cheese and Butter Factory Company Holdings Limited. This investment was sold during the 2014 financial year. A profit of $51.017 million, before tax, was realised on the sale.

NOTE 12: Controlled Entities

Entity	% Ownership Interest 2014	% Ownership Interest 2013	Place of Incorporation	Class of Share
Parent entity				
Murray Goulburn Co-operative Co. Limited[a]	N/A	N/A	Australia	Ordinary
Controlled entities of Murray Goulburn Co-operative Co. Limited:				
Murray Goulburn Trading Pty Ltd[b]	100	100	Australia	Ordinary
Murray Goulburn Investment Limited (deregistered 13 July 2014)	100	100	Australia	Ordinary
MG Nutritionals Pty Ltd[b]	100	100	Australia	Ordinary
Meiji-MGC Dairy Co Pty Ltd[b]	100	100	Australia	Ordinary
Lavery International Pty Ltd[b]	100	100	Australia	Ordinary
Classic Food Holdings Pty Ltd[b]	100	100	Australia	A,B,C,D,E
Classic Foods Pty Ltd	100	100	Australia	Ordinary
Murray Goulburn Dairy (Qingdao) Co., Ltd	100	100	China	N/A
Murray Goulburn Nutritional (Qingdao) Co., Ltd.	100	100	China	N/A
Provico Pty Ltd	51.0	51.0	Australia	Ordinary
MG Agrilink Pty Ltd[b]	100	100	Australia	Ordinary
MG Shares Pty Ltd[b]	100	100	Australia	Ordinary
Tasmanian Dairy Products Co Ltd[d]	76.0	56.1	Australia	Ordinary
Devondale Foundation Limited (a company limited by guarantee)[e]	–	–	Australia	N/A
Murray Goulburn International Pty Ltd[b]	100	100	Australia	Ordinary
Murray Goulburn Asia Holding Company Pte Ltd	100	100	Singapore	Ordinary
Murray Goulburn SEA Pte Ltd	100	100	Singapore	Ordinary
Murray Goulburn Procurement Company Pte Ltd	100	100	Singapore	Ordinary
MG Project Inverloch Pty Ltd[b]	100	100	Australia	Ordinary
MG Project Inverloch (Finance) Pty Ltd[b]	100	100	Australia	Ordinary
Murray Goulburn Superannuation Pty Ltd[b]	100	100	Australia	Ordinary
MG Employees Equity Limited (deregistered 25 December 2013)	–	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 tax consolidated group.

(c) An additional entity, namely, Murray Goulburn Nominees Pty Ltd, is beneficially owned by Murray Goulburn Co-operative Co. Limited.

(d) During the 2014 financial year, the parent entity acquired a further 19.9 per cent interest in Tasmanian Dairy Products Co Ltd for $7.8 million in cash consideration.

(e) Murray Goulburn Co-operative Co Limited is considered to control this entity due to certain of its Directors sitting on Devondale Foundation Limited's Board.

Notes to the Financial Statements continued

for the financial year ended 30 June 2014

NOTE 12: Controlled Entities continued

Murray Goulburn Co-operative Co. Limited and Murray Goulburn Trading Pty Ltd are entities that are party to a deed of cross guarantee. The consolidated Statement of Financial Position of entities, which are party to the deed of cross guarantee, is:

	2014 $000	2013 $000
STATEMENT OF FINANCIAL POSITION		
Current assets		
Cash	2,889	4,605
Receivables	571,963	450,096
Inventories	336,288	274,285
Derivative financial instruments	1,736	49
Other	8,288	3,434
Total current assets	921,164	732,469
Non-current assets		
Receivables	5,016	5,899
Investment in subsidiaries	54,844	49,044
Investment in associates	31,839	25,034
Other financial assets	161	35,876
Property, plant and equipment	691,354	727,046
Intangible assets	4,155	4,155
Total non-current assets	787,369	847,054
Total assets	1,708,533	1,579,523
Current liabilities		
Payables	348,702	311,851
Borrowings	148,386	197,100
Current tax payable	363	–
Derivative financial instruments	36	35,546
Provisions	46,208	44,279
Total current liabilities	543,695	588,776
Non-current liabilities		
Payables	1,000	1,000
Borrowings	343,309	286,646
Provisions	7,933	7,852
Deferred tax liabilities	63,710	30,798
Total non-current liabilities	415,952	326,296
Total liabilities	959,647	915,072
Net assets	**748,886**	**664,451**
Equity		
Issued capital	268,741	262,677
Reserves	134,499	127,219
Retained earnings	345,646	274,555
Total equity	**748,886**	**664,451**
MOVEMENT IN RETAINED EARNINGS		
Balance at the beginning of the financial year	274,555	272,329
Net profit	45,853	31,430
Dividends provided for or paid	(28,906)	(31,525)
Transfer from reserves	54,144	2,321
Balance at the end of the financial year	**345,646**	**274,555**

NOTE 12: Controlled Entities continued

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

	2014 $000	2013 $000
STATEMENT OF PROFIT OR LOSS		
Sales revenue	2,913,168	2,367,701
Cost of sales	(2,571,348)	(2,057,377)
Gross profit	341,820	310,324
Other income	31,222	5,025
Impairment of associates	(1,157)	–
Distribution expenses	(149,678)	(140,893)
Selling and marketing expenses	(65,856)	(50,372)
Administration expenses	(60,010)	(49,609)
Finance costs	(23,514)	(34,371)
Other expenses	(19,419)	(8,393)
Profit before income tax	53,408	31,711
Income tax (expense) benefit	(7,555)	(281)
Profit for the period	**45,853**	**31,430**
STATEMENT OF COMPREHENSIVE INCOME		
Profit for the year	45,853	31,430
Other comprehensive income		
Items that will not be classified subsequently to profit or loss:		
Increment (decrement) on revaluation of land and buildings	–	55,082
Net change in fair value of equity instruments measured at fair value through other comprehensive income	54,434	541
Income tax relating to items that will not be reclassified subsequently	(15,320)	(16,525)
Items that may be reclassified subsequently to profit or loss:		
Transfer to income statement on cash flow hedges	31,410	(11,008)
Gain (loss) on cash flow hedges taken to equity	3,258	(43,566)
Income tax relating to items that may be reclassified subsequently	(10,401)	16,373
Total comprehensive income for the year	**109,234**	**32,327**

NOTE 13: Investments Accounted for Using the Equity Method

	2014 $000	2013 $000
Investments in associated companies	**16,994**	**20,607**

Name of Associate	Principal Activity	Ownership 2014 %	Ownership 2013 %
Intermix Australia Pty Ltd	Food ingredient processing	33.3	33.3
Dairy Technical Services Ltd	Dairy analytical and technical services	25.3	25.3
Australian Milk Products Pty Ltd	Exporter of dairy products	50.0	50.0
MGM (Aust) Pty Ltd	Retail of dairy products	0.0	50.0
Progenex Pty Ltd	Retail of dairy products	0.0	50.0
Nedfarm	Milk production – dairy cattle	40.0	40.0
Danone Murray Goulburn Pty Ltd	Retail of dairy products	50.0	50.0

All associates are incorporated in Australia.

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

Movement in Investments in Associated Companies	2014 $000	2013 $000
Equity accounted amount at the beginning of the financial year	20,607	14,316
Acquisition of interests in associates	8,000	6,000
Share of (loss)/profit after income tax	(10,889)	837
Dividends received from associates	(724)	(546)
Equity accounted amount at the end of the financial year	**16,994**	**20,607**

Associate entities do not have any contingent liabilities.

Aggregate assets of associates is $119,630,000 (2013: $111,532,000).

Aggregate liabilities of associates is $73,152,000 (2013: $70,733,000).

Aggregate revenue of associates is $164,420,000 (2013: $159,833,000).

Aggregate profit/(loss) of associates is $(15,671,000) (2013: $3,171,000).

NOTE 14: Property, Plant and Equipment

	2014 $000	2013 $000
Land and buildings		
Freehold land at fair value[i]	57,311	76,971
Buildings at fair value[i]	305,274	328,978
less accumulated depreciation and impairment losses	(9,333)	(484)
	295,941	328,494
Total land and buildings	353,252	405,465
Plant and equipment		
At cost	1,165,894	1,128,704
less accumulated depreciation and impairment losses	(806,367)	(773,564)
Total plant and equipment	359,527	355,140
Vehicles		
At cost	46,781	53,924
less accumulated depreciation	(30,090)	(28,307)
Total vehicles	16,691	25,617
In the course of construction	66,574	45,783
Total property, plant and equipment	**796,044**	**832,005**

(i) Valuations of land and buildings
The basis of the valuation of land and buildings 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.

The fair value of those assets was determined by an independent registered valuer. 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.

The revaluation to fair value of land and building assets was last undertaken as at 30 June 2013. Directors have assessed the carrying value of land and buildings as at 30 June 2014 and are satisfied that it is not materially different from its fair value. This is in accordance with a policy of revaluing property progressively to ensure that the carrying value of land and buildings does not differ materially from their fair value.

Notes to the Financial Statements continued

for the financial year ended 30 June 2014

NOTE 14: 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 1 July 2012	328,047	296,048	37,055	75,014	736,164
Additions (including transfers from capital work in progress)	34,110	95,576	1,490	(31,291)	99,885
Net revaluations through asset revaluation reserve	54,833	–	–	–	54,833
Reversal of impairment loss of non-current assets	1,273	(12)	–	–	1,261
Disposals	(4,561)	(1,005)	(3,109)	–	(8,675)
Depreciation	(8,237)	(35,994)	(9,819)	–	(54,050)
Effect of movement in exchange rates	–	527	–	2,060	2,587
Carrying amount at 30 June 2013	405,465	355,140	25,617	45,783	832,005
Additions (including transfers from capital work in progress)	22,322	40,791	1,002	21,010	85,125
Net revaluations through asset revaluation reserve	–	–	–	–	–
Reversal of impairment loss of non-current assets	–	1,402	–	–	1,402
Disposals	(65,413)	(1,208)	(2,024)	–	(68,645)
Depreciation	(8,870)	(36,463)	(7,904)	–	(53,237)
Effect of movement in exchange rates	(252)	(135)	–	(219)	(606)
Carrying amount at 30 June 2014	**353,252**	**359,527**	**16,691**	**66,574**	**796,044**

NOTE 15: Intangible Assets

	2014 $000	2013 $000
Goodwill at cost	12,121	12,121
Brand names at cost	4,000	4,000
Total intangible assets	**16,121**	**16,121**

Intangible assets recognised by the consolidated entity have an indefinite useful life. As such, they were assessed for possible impairment during the year ended 30 June 2014 and no impairment was evident.

RECONCILIATIONS

There was no movement in goodwill or brand names at cost during 2014 or 2013. In considering impairment, management has considered relevant forecasted cash flow projections.

NOTE 16: Payables

	2014 $000	2013 $000
Current		
Trade payables	56,391	98,793
Payable to farmer suppliers	175,279	131,513
Sundry payables and accrued expenses	139,526	91,667
	371,196	**321,973**
Non-current		
Other	1,921	1,425
	1,921	**1,425**

All payables are recorded at amortised cost. The fair value of payables is documented in Note 28(d).

NOTE 17: Borrowings

	2014 $000	2013 $000
Current		
Bank loans	118,039	192,558
Private placement senior notes	31,847	12,938
	149,886	**205,496**
Non-current		
Bank loans	253,504	162,750
Private placement senior notes	127,389	161,725
	380,893	**324,475**

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 $53,078,556 (2013: $53,908,000).

The fair value of borrowings is documented in Note 28(d).

NOTE 18: Derivative Financial Instruments

	2014 $000	2013 $000
Foreign currency derivatives assets	**1,736**	**49**
Foreign currency derivatives liabilities	**36**	**35,546**

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 19: Provisions

	2014 $000	2013 $000
Current		
Other	–	1
Employee benefits[i]	46,415	44,393
	46,415	**44,394**
Non-current		
Employee benefits	7,933	7,852
	7,933	**7,852**

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	29,067	27,801

NOTE 20: Deferred Tax Liabilities

	Note	2014 $000	2013 $000
Deferred tax liability	4	**58,902**	**30,679**

NOTE 21: Contingent Liabilities

The consolidated entity is not aware of any contingent liabilities.

NOTE 22: Issued Capital

	2014 $000	2013 $000
Issued capital	**268,741**	**262,677**

	Number of Shares				
Movements in Issued Capital	Ordinary Shares [(a)]	A Class Preference Shares [(b)]	B Class Preference Shares [(c)]	C Class Preference Shares [(d)]	Total
Balance at 30 June 2012	225,757,565	15,174,833	10,103,587	26,446,565	277,482,550
Shares issued	9,992,219	–	–	–	9,992,219
Bonus shares issued	23,270,268	–	–	–	23,270,268
Dividend reinvestment plan issues	4,390,786	21,241	414	14	4,412,455
Transfers	(1,857,027)	(407,625)	(1,014,877)	3,279,529	–
Balance at 30 June 2013	261,553,811	14,788,449	9,089,124	29,726,108	315,157,492
Shares issued	16,818,948	–	–	–	16,818,948
Dividend reinvestment plan issues	3,731,734	20,287	359	50	3,752,430
Transfers	(5,805,836)	(321,470)	773,424	5,353,882	–
Share buy-back and cancellations	–	(14,487,266)	–	–	(14,487,266)
Balance at 30 June 2014	**276,298,657**	**–**	**9,862,907**	**35,080,040**	**321,241,604**

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

(a) Ordinary Shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote. Upon ceasing supply of milk to the Company, shareholders' ordinary shares are converted into a class of non-cumulative, non-redeemable preference shares as determined by the Board.

(b) A class eight per cent non-cumulative non-redeemable Preference Shares
A Class eight per cent non-cumulative, non-redeemable Preference Shares entitled holders to receive, out of profits available for dividend, a preferential dividend at a rate of eight per cent per annum. All shares were bought back and cancelled during 2013–14.

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

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

NOTE 22: 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.

	2014 $000	2013 $000
Total borrowings	530,779	529,971
less cash	(13,858)	(11,809)
Net debt	516,921	518,162
Total equity	745,891	686,487
Total capital	1,262,812	1,204,649
Gearing ratio	40.9%	43.0%

NOTE 23: Reserves

	2014 $000	2013 $000
Capital reserve [i]	36,916	36,916
Asset revaluation reserve	135,451	153,883
General reserve [i]	5,257	5,257
Hedge reserve	3,529	(20,739)
Investment revaluation reserve	33	(3,369)
Share allotment reserve	–	1,957
Transactions with non-controlling interests reserve	(785)	2,101
Foreign currency translation reserve	2,814	3,490
	183,215	**179,496**

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

NOTE 23: Reserves continued

	Note	2014 $000	2013 $000
MOVEMENTS IN RESERVES			
Asset revaluation reserve			
Balance at the beginning of the financial year		153,883	117,820
Increment (decrement) on revaluation of land and buildings	14	–	54,833
Related income tax	4	–	(16,450)
Transfer to retained earnings		(26,331)	(3,315)
Related income tax		7,899	995
Balance at the end of the financial year		**135,451**	**153,883**
Hedge reserve			
Balance at the beginning of the financial year		(20,739)	17,463
Transferred to income statement		31,410	(11,008)
Related income tax	4	(9,423)	3,302
Gains (losses) on cash flow hedges		3,258	(43,566)
Related income tax	4	(977)	13,070
Balance at the end of the financial year		**3,529**	**(20,739)**
Investment revaluation reserve			
Balance at the beginning of the financial year		(3,369)	(3,910)
Net change in fair value of equity instruments measured at fair value through other comprehensive income		54,434	541
Related income tax	4	(15,320)	–
Transfer to retained earnings		(51,017)	–
Related income tax		15,305	–
Balance at the end of the financial year		**33**	**(3,369)**
Share allotment reserve			
Balance at the beginning of the financial year		1,957	2,971
Allotment of shares to suppliers		(1,957)	(2,971)
Shares to be issued in lieu of milk payments		–	1,957
Balance at the end of the financial year		**–**	**1,957**
Transactions within the non-controlling interests reserve			
Balance at the beginning of the financial year		2,101	2,354
Difference on acquisition of Murray Goulburn Dairy (Qingdao) Co., Ltd		–	(253)
Difference on acquisition of Tasmanian Dairy Products Co Ltd		(2,886)	–
Balance at the end of the financial year		**(785)**	**2,101**
Foreign currency translation reserve			
Balance at the beginning of the financial year		3,490	303
Translation of foreign operations		(984)	4,553
Related income tax	4	308	(1,366)
Balance at the end of the financial year		**2,814**	**3,490**

NOTE 23: Reserves continued

NATURE AND PURPOSE OF RESERVES

Capital reserve
The capital reserve is used to accumulate realised capital profits.

Asset revaluation reserve
The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

General reserve
The general reserve is used from time to time to transfer profits from retained earnings. There is no policy of regular transfer.

Hedge reserve
The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss.

Investment revaluation reserve
The investment revaluation reserve represents accumulated gains and losses arising on the revaluation of investments that have been recognised through other comprehensive income.

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

Transactions 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: Retained Earnings

	Note	2014 $000	2013 $000
Balance at the beginning of the financial year		233,915	233,724
Net profit attributable to members of the parent entity		27,936	29,396
Dividends provided for or paid	7	(28,906)	(31,525)
Transfer from reserves (net of tax)	23	54,144	2,320
Balance at the end of the financial year		**287,089**	**233,915**

NOTE 25: Non-controlling Interests

	2014 $000	2013 $000
Non-controlling interests comprises:		
49 ordinary shares in Provico Pty Ltd (2013: 49)	935	1,004
121 ordinary shares in Tasmanian Dairy Products Co Ltd (2013: 221)	5,911	9,395
	6,846	**10,399**

NOTE 26: Capital and leasing commitments

	2014 $000	2013 $000
a) Operating lease commitments		
• Due within 1 year	42,719	9,999
• Due within 1–5 years	145,451	21,283
• Due longer than 5 years	148,734	11,172
	336,904	**42,454**

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

	2014 $000	2013 $000
Contracted capital expenditure commitments due within one year	**20,432**	**157,468**

NOTE 27: Events Subsequent to Balance Date

With the exception of the declaration of dividends detailed in Note 7 'Unrecognised Amounts', no matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in financial years subsequent to the financial year ended 30 June 2014.

NOTE 28: 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$180 million (2013: US$420 million) forward exchange contracts outstanding with maturity dates not exceeding one year, of which US$53.1 million (2013: US$27 million) relate to receivables at balance date and US$126.9 million (2013: US$393 million) to future transactions. The fair value of these contracts at balance date is a gain of $1.7 million (2013: loss of $35.5 million).

Unrealised gains or losses at year end on specific hedges in the form of forward exchange contracts, in respect of unsettled sales transactions, are deferred and recognised in the hedge reserve to match against the underlying hedge transaction. Forward exchange contracts are classified as Level 2 financial instruments, as their fair value measurement is derived from inputs other than quoted prices that are observable for the asset or liability.

Currency options

During the year the consolidated entity entered into a range of US$ currency options with varying maturities and strike rates. By simultaneously purchasing and selling options in barrier type structures, the entity has effectively capped an exchange rate should the A$ (Australian dollar) strengthen whilst maintaining the flexibility to improve the exchange rate should the A$ trade at more favourable levels.

At balance date, there were $nil currency options outstanding (2013: $nil).

Private placement senior notes

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

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.

		2014 $000	2013 $000
Other equity	A$ strengthens 1% – increase (decrease)	1,669	3,774
	A$ weakens 1% – increase (decrease)	(1,703)	(3,850)
Profit or loss	A$ strengthens 1% – increase (decrease)	(12)	16
	A$ weakens 1% – increase (decrease)	13	(16)

Notes to the Financial Statements continued

for the financial year ended 30 June 2014

NOTE 28: 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 LIBOR. Rates on A$ loans are based on BBR.

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

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

Interest rate sensitivity

The consolidated entity's sensitivity to a 50 basis point increase or decrease, representing management's assessment of the possible change in interest rates applicable to debt facilities subject to variable rates, holding all other variables constant would be a decrease/increase in net profit of $1.86 million (2013: $1.22 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 counterparties 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 $186.2 million (2013: $203.4 million).

The fair value of a government loan of $1.0 million at balance date is $0.9 million (2013: $0.8 million).

NOTE 28: 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 30(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 2014						
Non-interest bearing	370,196	–	1,000	–	371,196	371,196
Variable rate	125,700	18,283	254,099	2,222	400,304	371,543
Fixed rate	39,717	7,357	37,499	113,238	197,811	159,236
Consolidated	**535,613**	**25,640**	**292,598**	**115,460**	**969,311**	**901,975**
At 30 June 2013						
Non-interest bearing	357,519	–	1,000	–	358,519	358,519
Variable rate	203,753	124,521	17,548	32,947	378,769	355,308
Fixed rate	22,187	40,338	39,082	121,483	223,090	174,663
Consolidated	**583,459**	**164,859**	**57,630**	**154,430**	**960,378**	**888,490**

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 30(c).

Notes to the Financial Statements continued

for the financial year ended 30 June 2014

NOTE 29: 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, allotted to them in their capacity as suppliers of milk to the company:

	Shares Held at 1 July 2012 Ordinary No.	Acquired Ordinary No.(iv)	Shares Held at 30 June 2013 Ordinary No.	Shares Held at 1 July 2013 Ordinary No.	Acquired Ordinary No.(iv)	Shares Held at 30 June 2014 Ordinary No.
PW Tracy	1,242,496	102,779	1,345,275	1,345,275	139,714	1,484,989
N Akers	204,333	48,355	252,688	252,688	34,209	286,897
WT Bodman	138,523	26,912	165,435	165,435	18,644	184,079
DF Howard	552,969	64,101	617,070	617,070	3,128	(ii)
ML Jelbart	1,148,977	191,901	1,340,878	1,340,878	115,100	1,455,978
KW Jones	193,797	56,854	250,651	250,651	23,995	274,646
ED Morris	(iii)	(iii)	(iii)	28,671	3,721	32,392
GN Munzel	196,271	33,083	229,354	229,354	17,434	246,788
JP Pye	233,441	34,903	268,344	268,344	19,993	288,337
MJ Van de Wouw	366,458	41,862	408,320	408,320	5,476	413,796
JT Vardy	884,420	108,055	(i)	(i)	(i)	(i)
	5,161,685	**708,805**	**4,878,015**	**4,906,686**	**381,414**	**4,667,902**

(i) JT Vardy resigned from the office of Director during the previous financial year and accordingly his shareholdings at 30 June 2013 and 2014 are not disclosed.

(ii) DF Howard resigned from the office of Director during the current financial year and accordingly his shareholdings at 30 June 2014 are not disclosed.

(iii) ED Morris was appointed to the office of Director during the current financial year and accordingly his shareholdings prior to 1 July 2013 are not disclosed.

(iv) All shares were issued for a value of $1, and accordingly the value of the issued shares equals $381,414 (2013: $708,805).

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

Total purchases of goods and services from Murray Goulburn Trading Pty Ltd by Directors and their related entities was $2,323,111 (2013: $3,786,832) and the balance outstanding as at 30 June 2014 was $433,782 (2013: $1,553,947). 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 $598,103 (2013: $531,976), with a balance outstanding at financial year end of $2,499 (2013: $15,754). Further, during the year, Southern Stockfeeds paid $11,825 (2013: $10,693) to the consolidated entity for services provided in collecting Southern Stockfeeds accounts receivable.

Aggregate of loans to three (2013: four) Directors as at financial year end: $25,846 (2013: $120,080).

Total interest paid by Directors: $8,394 (2013: $2,739).

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:

- ML Jelbart: total loan at financial year end: $nil (2013: $nil); peak loan balance during the year: $nil (2013: $101,697); interest paid: $nil (2013: $nil).

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

R Poole holds an interest in 54,312 (2013: 54,312) C class preference shares in the Company.

NOTE 30: Notes to the Statement of Cash Flows

	2014 $000	2013 $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:

	2014 $000	2013 $000
Cash per statement of financial position	13,858	11,809
Cash per statement of cash flows	13,858	11,809

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

	2014 $000	2013 $000
Profit for the period	29,297	34,904
Depreciation	53,237	54,050
Movement in doubtful debts provision	172	119
Reversal of impairment attributable to non-current assets	(1,402)	(1,261)
Loss (gain) on disposal of fixed assets	(27,717)	717
Share of (profit) loss of associated company	11,613	(291)
(Gain) loss from defined benefit superannuation fund	–	(3,631)
Change in operating assets and liabilities		
Decrease (increase) in trade receivables	(87,700)	(52,024)
Decrease (increase) in other receivables and prepayments	(25,170)	15,383
Decrease (increase) in inventories	(75,305)	73,685
Increase (decrease) in trade payables and amounts due to suppliers	49,441	(5,723)
Increase (decrease) in provisions	1,737	2,436
Increase (decrease) in deferred tax liability	2,792	(787)
Net cash inflow (outflow) from operating activities	**(69,005)**	**117,577**

C) FINANCING ARRANGEMENTS

	2014 $000	2013 $000
Credit facility	1,023,083	682,345
Amount utilised	528,595	304,351
Unused credit facility	**494,488**	**377,994**

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

D) NON-CASH FINANCING AND INVESTING ACTIVITIES

Nil.

Notes to the Financial Statements continued

for the financial year ended 30 June 2014

NOTE 31: Parent Entity Disclosures

	2014 $000	2013 $000
A) FINANCIAL POSITION		
Total current assets	854,891	690,431
Total non-current assets	783,094	840,959
Total assets	1,637,985	1,531,390
Total current liabilities	598,354	562,198
Total non-current liabilities	331,289	343,499
Total liabilities	929,643	905,697
Net assets	**708,342**	**625,693**
Issued capital	268,741	262,677
Retained earnings	307,320	238,323
Reserves		
Capital reserve	24,290	24,290
Asset revaluation reserve	101,781	119,906
General reserve	2,648	2,648
Hedge reserve	3,529	(20,739)
Investment revaluation reserve	33	(3,369)
Share allotment reserve	–	1,957
Total equity	**708,342**	**625,693**
B) FINANCIAL PERFORMANCE FOR THE YEAR		
Profit for the year	**44,066**	**28,608**
Total comprehensive income (loss)	**108,604**	**(12,634)**
C) GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES		
Guarantee provided under the deed of cross guarantee	**18,708**	**25,955**

D) CONTINGENT LIABILITIES

The Company is not aware of any contingent liabilities.

E) COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment	**19,806**	**156,673**

NOTE 32: 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 2014 and performance for the financial year ended on that date.

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

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

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

PW Tracy
Director

Melbourne
26 August 2014

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 2014, the consolidated statement of profit or loss, 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 2014 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 41 to 54 of the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Lisa Harker

Lisa Harker
Partner

Melbourne
26 August 2014

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Murray Goulburn Co-Operative Co. Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) 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.

Lisa Harker
Partner
PricewaterhouseCoopers

Melbourne
26 August 2014

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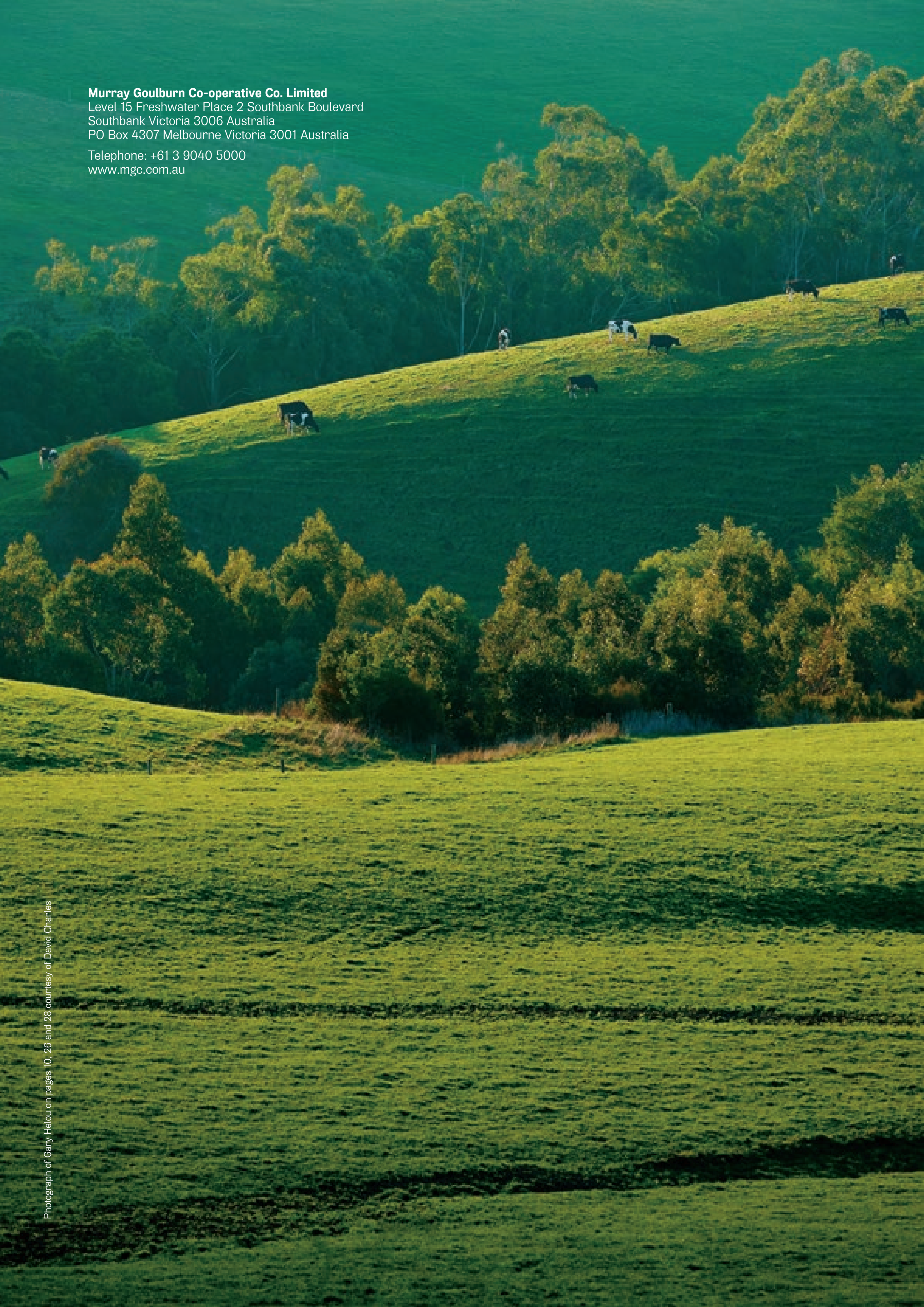

Photograph of Gary Helou on pages 10, 26 and 28 courtesy of David Charles www.mgc.com.au