



Dairy Farmers Milk Cooperative

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Cooperative**

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Dear member

2009/10 Announced Far North Queensland Region Prices for Revised Contracts

I am writing to inform you of the outcomes of DFMC's pricing negotiations with National Foods that will apply to all suppliers on Revised Contracts for the Far North Queensland (FNQ) Region and will come into affect from the 1st of July through to the 30th of June 2010. FNQ suppliers were not on confirmed prices after June 2009 and there will be a reduction in milk price compared to last year's payments. The prices quoted in the tables below are base prices, before pricing differentials. These adjustments average approximately 4.5 cpl in the Far North Queensland Region, but of course there is much variation between suppliers.

BACKGROUND COMPETITIVE PRICING – NEGOTIATIONS WITH NATIONAL FOODS

As you know we have a payment method for FNQ that the announced prices will be calculated according to a "market linkage" method where prices will be calculated by a formula referring to a blend of the overall South East Queensland price and the price paid by Murray Goulburn. A blend ratio of 56.25 (SEQ): 43.75 (MG) will be used as the benchmark. DFMC also has the guaranteed minimum base price concept and this year that will come into play as that method is delivering higher prices than the formula. FNQ price assessments are done on the basis that not all of FNQ milk goes into liquid milk.

The Murray Goulburn price component of the formula is not strong, and members would be aware that the dairy industry is currently in a state of flux, mainly driven by downturn in the export value of Australian dairy commodities and the resultant effect that has had upon demand for raw milk and upon farm gate pricing. The SEQ part of the formula calculation is based on DFMC's current Revised Contract price, which will not change since those contracts go through to June 2010, but despite this good price the formula does not deliver as well as the guaranteed minimum base price for FNQ.

DFMC prices

DFMC had in place strong guaranteed minimum base price of 45cpl for our Far North Queensland suppliers that provides an underpinning base price that secures a long term contracted milk supply for ACF/NFL. It has provided, as it was meant to, some price assurance for our suppliers during cyclical phases in the dairy commodity market. This is the first time that the guaranteed minimum base price has come into affect. The average base price will be approximately 45.25 cpl for our suppliers.

BASE PRICES

Please read the following carefully as the pricing offered refers to the new Announced Base Price which will apply to Revised Contracts for this region.

Table 1 below sets out the base prices which had already been announced by DFMC for 2008/09 incorporating the confirmed base prices for the Revised Contracts from January to June 2009 and the indicative prices for this year. The new Announced Base Prices in the table below represents a decrease from the previously announced indicative base price for your region.

Table 1 – Confirmed prices from July 1 2009 to June 30 2010

	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Pricing 2008/09							48.6	48.6	48.6	48.6	48.6	48.6
Indicative Pricing 2009/10	46.5	46.5	46.5	46.5	46.5	46.5	48.6	48.6	48.6	48.6	48.6	48.6
Pricing 2009/10	44.3	44.3	44.3	44.3	44.3	44.3	46.3	46.3	46.3	46.3	46.3	46.3

COMPOSITIONAL ADJUSTMENTS

Unchanged

QUALITY PAYMMENTS

Unchanged

VOLUME INCENTITIVES

Unchanged

LOCATION BONUSES

Unchanged

GATE CHARGES

Unchanged

NEW MILK

New milk will be paid at the rate of 5cpl in the winter payment months of February through to July. It should be noted that the summer months New Milk payment was incorporated into the base price to benefit all members and subject to milk requirements new milk might be fully removed next year.

Future Pricing and future guaranteed minimums

DFMC has guaranteed minimum base prices for our suppliers who signed contracts out to June 2011. DFMC has no suppliers in FNQ who currently need to re-sign an old contract into 2009/10. However the future guaranteed minimum base prices are tabled below. These prices are conservative prices based on caution of the Murray Goulburn component of the formula (and the whole national industry is hopeful that dairy commodity values turn around in the near future) and also on the current blend percentages on the usage of milk, which also could change over time. The DFMC will be closely monitoring market condition for improvement that will allow renegotiation of these guaranteed minimum values.

2009/10	39.00
2010/11	38.00
2011/12	38.00

The Board has no doubt that members are aware of the severe pressure on farm gate pricing at the moment and the Directors are pleased to offer this favorable current pricing outcome to our loyal suppliers.

Yours Sincerely on behalf of the Directors of DFMC



Ian Zandstra

Chairman