Dairy Farmers Milk Cooperative

Greg Griffith
Executive Officer

Dairy Farmers Milk Cooperative

PO Box 72
Lidcombe NSW 1825

Tel: 02 8732 5206
Fax: 02 8732 5181

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Dear member

2009/10 Announced Southern 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 Southern Region and will come into affect from the 1st of July through to the 30th of June 2010. There will be a reduction in milk price from last year's extremely strong payments. The prices quoted in the tables below are base prices, before price differentials which vary with individual farms. These adjustments average between 6cpl to 8 cpl in the Southern Region.

BACKGROUND COMPETITIVE PRICING – NEGOTIATIONS WITH NATIONAL FOODS

DFMC, as part of the MSA, is required to inform our members of the competitor's milk prices in regions and those competitor's values are the basis of negotiations with NFL to pay at least competitive prices. As you know we have as well payment methodologies to pay ahead of MG on an annual basis and also the guaranteed minimum base price concept. This year the guaranteed minimum base price will come into play.

Competitors Prices - member will fully realise the difficulties in comparing prices, whether it is between farms or processor payments (incentives, volume payments supply pattern, quality, components etc). There is also the issue of what, over the year, might the step-ups be. DFMC quotes prices at our reference litre (3.15/3.95) and most Victorians quote cpl at the supplied composition. DFMC provides here some numbers on the kgms payments worked back to our reference litre for comparison, but caution is required with these assumptions. Some of these processors are offering interest free loans.

Murray Goulburn did not provide its estimate of what the opening prices means in cents per litre terms as is usual in its covering letter with the announcement, but by our reckoning the opening announcement reflects a price of about $3.46/kgms or close to 26cpl for an average MG producer, or approx 25 cpl DFMC reference litre.

Fonterra announced an opening milk price of $3.60/kgms, which would equate to close to 27cpl or approx 25.7 cpl in comparison.

Warrnambool Cheese announced opening prices which have so far out-performed other manufacturers in the region, averaging about $3.78/kgms, or about 28cpl across its expected milk supply and approx 26.8 cpl in comparison.

Tatura Milk Industries says it is to pay its 300 suppliers an opening price of $3.80 per kilogram of milk solids, or around 28cpl (27 cpl cf DFMC), which excludes any loyalty payments which Tatura has used in the past since its purchase by Bega Cheese. At this stage, Tatura has not foreshadowed any such payment rates or timings.

UDP is reported to have announced (but as yet unconfirmed at the time of printing this newsletter) a forecast average annual return of $3.45/kg (25 cpl cf DFMC)

Parmalat have announced an annual price of 34 cpl at higher Victorian components than the DFMC reference litre (a comparison of approx 32 cpl) and are suggesting that there will not be an increase on that throughout the year. Time will tell.

DFMC prices

Based on the above pricing it is clear 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.

DFMC had in place strong guaranteed minimum base price of 35cpl for our southern suppliers that provided an underpinning base price that provided security of 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. For the first time this guaranteed minimum base price will come into affect. There has been a favorable negotiated adjustment to the 35cpl guaranteed minimum base price. Therefore the average base price will be approximately 36 cpl for suppliers on Option 1, whilst it will be 35cpl for Option 1.

DFMC has represented our suppliers concerns that the monthly payment skew was too severe for suppliers that were meeting NFL needs of supplying milk on a flatter profile. DFMC has been able to negotiate a change to monthly payments so that the summer/winter skew is not as pronounced as it was. This will help alleviate some of the cash flow impacts of the price reduction.

BASE PRICES

In the Southern Region covering South Australia, Victoria and the Riverina, our suppliers had the choice of two contract options. Please read the following carefully as the pricing offered refers to the contract option you chose.

Option 1

Table 1 below sets out the base prices which had already been announced by DFMC for 2008/09 incorporating the base prices for the Revised Contracts from January 2009. The new announced Base Prices represents a decrease from the previously announced base price for your region.

Table 1 – Contract option 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							43.0	47.0	50.0	53.0	53.0	49.0
Indicative Pricing 2009/10	45.6	42.6	32.1	31.1	31.2	34.6	49.0	51.4	51.5	52.4	54.0	53.8
Pricing 2009/10	**38.3**	**35.7**	**26.9**	**26.1**	**26.2**	**29.0**	**41.1**	**43.1**	**43.2**	**44.0**	**45.3**	**45.1**

Option 2

Table 2 below sets out the Base Prices which had already been announced by DFMC for the 2008/09 incorporating the base price for the Revised Contracts from January 2009. The new announced Base Prices represents a decrease from the previously announced base price for your region.

Table 2 – Contract option 2 – 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							43.0	47.0	50.0	53.0	53.0	49.0
Indicative Pricing 2009/10	45.0	41.0	36.0	36.0	36.0	36.0	41.0	45.0	48.0	51.0	51.0	47.0
Pricing 2009/10	**37.6**	**34.2**	**30.1**	**30.1**	**30.1**	**30.1**	**34.2**	**37.6**	**40.1**	**42.6**	**42.6**	**39.2**

COMPOSITIONAL ADJUSTMENTS

Unchanged

QUALITY PAYMMENTS

Unchanged

VOLUME INCENTITIVES

Unchanged

LOCATION BONUSES

Unchanged

GATE CHARGES

Unchanged

NEW MILK

The New Milk Payment has been removed in the Southern Region and has been incorporated in the base price to benefit all Members within this region.

Future Pricing and future guaranteed minimums

DFMC has guaranteed minimum base prices for our suppliers who signed contracts out to June 2011. We are yet to announce new minimum base prices or even new 2009/10 prices for those few farmers who are on an old contract and wish to se-sign. DFMC is not ready to announce future guaranteed minimum prices for any suppliers who wish to roll-over contracts into longer contracts out to 2011 or 2012.

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, negotiated pricing outcome to our loyal suppliers.

Yours Sincerely on behalf of the Directors of DFMC

Ian Zandstra
Chairman