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1<sup>st</sup> September 2012

Dear DFMC Supplier

**CENTRAL NSW REGION ANNOUNCED MILK PRICES 2012/13**

This letter is to announce Dairy Farmers Milk Co-operative's (DFMC) opening milk pricing for the new season commencing 1<sup>st</sup> July 2012. Included in the correspondence is the revised DFMC Milk Policy document and I will refer to some policy changes in this letter.

This announced base milk pricing is for all Central Regions Suppliers (NSW).

**Our announced Tier One (T1) base milk price is a weighted average of 45.00 cents per litre** at the reference litre of 3.95% Butter Fat and 3.15% Protein (\$6.34 per kilogram milk solids equivalent). This price is an approx. decrease of 4.5 % on last year's base price.

Suppliers achieve adjustments in addition to the announced base milk price from the DFMC incentive payments. Last year the regional average adjustments paid was approximately 4.0 cpl above the base price. You will note that the change to adjustments as a result of policy changes will result in different outcomes across suppliers and across sub regions within NSW. Generally the overall price decrease compared to last year will be greater than 4.5%.

**A summary of changes to milk policy and adjustments**

1. The quality criteria will change and there will not be an end of year bonus. In general, top quality milk will receive 2cpl on a monthly basis and lower quality will be more heavily penalised.
2. The productivity payment will now commence at 5,000 kgs MS per month (approx. 840,000 litres p.a) rather than 4,000 kgs. The commencement rate will be \$ 0.05 kg MS
3. It should be noted that the Protein to Fat ratio has changed from 1:2.5 to 1:2 effective from 1<sup>st</sup> July 2012. This means that payment rates for protein and fat have decreased the weighting for the payment of protein.
4. The distance or logistic adjustment and gate charges will be changed as per the table below.

	2011 / 12		2012 / 13	
	Gate Charge \$	Location Cpl	Gate Charge \$	Location Cpl
0 – 100 Km	10	1.0	<b>10</b>	<b>1.0</b>
101 – 200 Km	15	0.5	<b>20</b>	<b>0.0</b>
200 + Km	20	0.0	<b>30</b>	<b>-1.0</b>

## DFMC MILK PAYMENT SCHEDULE

The following table (1) details our announced base milk price for all milk purchased within your monthly allocation as T1 milk for financial year 2012/13

**Table 1: Announced T1 Base Milk Price**

<b>Announced T1 Milk Base Price</b>			
Month	Flat Monthly Volume, Flat Monthly Price		
	Cents per Litre	Fat \$/kg	Protein \$/kg
Jul-12	45.00	4.39	8.78
Aug-12	45.00	4.39	8.78
Sep-12	45.00	4.39	8.78
Oct-12	45.00	4.39	8.78
Nov-12	45.00	4.39	8.78
Dec-12	45.00	4.39	8.78
Jan-13	45.00	4.39	8.78
Feb-13	45.00	4.39	8.78
Mar-13	45.00	4.39	8.78
Apr-13	45.00	4.39	8.78
May-13	45.00	4.39	8.78
Jun-13	45.00	4.39	8.78
<b>WT/Price</b>	<b>45.00</b>		

With regard to the above table (1) you should note the following:

1. The announced T1 base milk price for a month is the base price for milk purchased as T1 milk;
2. In addition to the announced base milk prices detailed above, DFMC suppliers will receive a payment adjustment on the base milk price for Contract Consideration, location Incentive (where applicable), Productivity Incentive & Milk Quality Incentive;
3. Milk supplied above your monthly allocation may attract a T2 milk price (see Table 2 for T2 milk price);
4. DFMC Location incentive (where applicable), Quality Incentive Payments and Gate Charges applicable to your region have changed from that of 2011/12. I encourage all suppliers to refer to your Milk Purchasing Policy for additional information; and
5. DFMC Contract Consideration incentive applicable to your region will not change from that of 2011/12.

## RECALCULATION OF MILK PAYS FROM THE 1<sup>ST</sup> AUGUST

DFMC suppliers in the Central (NSW) region are currently receiving the Lion offered base price of 45 cents per litre. Changes to the Milk Policy took effect from 1 August meaning there will be no recalculation related to policy changes (quality, productivity and logistics adjustments) for the July milk month.

The Milk Co-operative will set-off any amounts payable by you to the Milk Co-operative against any amount payable by the Milk Co-operative to you on your next milk statement for any monies owing.

## CONFIRMED vs. INDICATIVE T2 PRICING

DFMC will now confirm the T2 base milk price every quarter in advance i.e. we have provided you with indicative all year round pricing, in the month prior to the start of each quarter (e.g. in September) we will announce the T2 Base Price for the October to December period

The following table (2) details our T2 base milk prices.

**Table 2: T2 Base Milk Price (Cpl at the reference litre 3.95% bf & 3.15% p)**

NSW		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<b>Tier 2</b>	\$/kg Butterfat	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26
	\$/kg Protein	2.52	2.52	2.52	2.52	2.52	2.52	2.52	2.52	2.52	2.52	2.52	2.52
Cents per Litres		12.94	12.94	12.94	12.94	12.94	12.94	12.94	12.94	12.94	12.94	12.94	12.94
Status [c] confirmed [l]		c	c	c	l	l	l	l	l	l	l	l	l

With regard to the above table (2), T2 milk prices will be paid for milk supplied in excess of the contracted monthly volumes. However you should note the following:

1. The monthly T2 values are applied to an individual supplier's milk only when:
  - (a) The regional milk pool exceeds the monthly regional AFD;
  - (b) The 10% above contract headroom has come into effect;
  - (c) After the Pro-rata rule is applied (See Pro-rata rule for additional information); and
  - (d) If excess milk does not attract the T2 milk value there will be an adjustment made to pay excess T2 milk at the T1 price.
2. These prices are base prices only, additional adjustments will be made for Productivity, Quality and Location
3. Note that Contract Consideration will not be paid on T2 milk

**The PRO-RATA RULE (may come into play on a monthly payment basis when the regional AFD has been exceeded)**

The Pro-Rata rule is to ensure that DFMC suppliers are paid Tier 1 for the milk that Lion (formally called National Foods) needs within a region on a monthly basis. If the total milk supplied for the month exceeds regional monthly AFD it might appear that all excess regional milk is Tier 2, however some farmers may not have supplied their contracted volumes. That shortfall in supply is allocated on a pro rata basis to those suppliers over contract.

**REGIONAL ANTICIPATED FULL DEMAND (AFD) and FP contracts.**

In addition all suppliers will be on a flat allocation and will only be offered a FP contract. As such suppliers with an initial term ending 30<sup>th</sup> June 2012 will be required, with the assistance of the Regional Managers, to enter into a FP contract.

The Region as a whole has one Regional AFD i.e. the sum of all suppliers individual monthly AFD's will be the Regional AFD for that month.

## **Guaranteed Minimum**

You should also be aware that the following Guarantee Minimum Base Milk Prices (please refer to the Milk Supply Contracts for details) are available to suppliers who enter into a 1 or 2 year supply contract. These are as follows:

- 2012/13 financial year – 45 cents per litre
- 2013/14 financial year – 45 cents per litre

Please note that if you have any questions or concerns regarding the above options available to you, please do not hesitate to contact your Regional Manager Helen Whitelaw on **0429 061 280** or via email [helen.whitelaw@dfmc.org.au](mailto:helen.whitelaw@dfmc.org.au) or discuss with your local Director.

DFMC is committed to providing our members a milk price and policies that are competitive with market forces within your region. We will continue to monitor milk pricing paid to our suppliers along with the competitive market that influences the price paid to farmers.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Ian Zandstra', with a stylized flourish at the end.

Ian Zandstra  
Chairman  
Dairy Farmers Milk Co-operative