Dairy Farmers Milk Cooperative
ARBN: 108 690 384

Dairy Farmers Milk Cooperative
PO Box 72
Lidcombe NSW 1825
Tel: 02 8732 5206
Fax: 02 8732 5055

2nd August 2013

Dear DFMC Supplier,

CENTRAL NSW REGION ANNOUNCED MILK PRICES 2013/14

This letter is to announce Dairy Farmers Milk Co-operative's (DFMC) changes to the Milk Payment system that will determine the price received by our farmers. There is an increase to the Base Price of approximately 2.5cpl. There are changes relating to the Contract Incentive, to the Productivity Incentive and the timeframes of contracts (one, three or five years). There will be an introduction of a Logistics Charge incremental with distance from factory.

Most of these changes are positive, some (logistics) negative, with a net effect of an increase in overall milk price across our supplier base.

In the past we have had change to pricing mainly on the base price; this is not as straight forward. Farmers will get a true position of their individual price from the DFMC income estimates coming from Farm Services.

These are the opening milk prices for the new season commencing 1st July 2013. There will be adjustments in milk payment due to the late announcement of these prices. Included in the correspondence is the revised DFMC Milk Policy document and I will refer to some policy changes in this letter.

Contract Incentives & Productivity Incentives

Contracts will be offered with some modification. Previously there was a Contract Incentive and a Productivity Incentive paid to eligible suppliers. The changes to the Productivity Incentive rates are now key and now will have different starting points for different suppliers and paid differently relative to length of contract. The graph on Page 3 will help to explain the new model.

Contract Term

All suppliers will be offered a 1, 3 or 5 year contract.

Farms on existing contracts are eligible to switch to the new contracts. This may be advantageous for some. However, they may also choose to stay on their existing contract, with some changed terms; current Contract Consideration and Productivity Incentive Rates will remain but the new increased base rates and new logistics charge will apply (detailed later in this letter). The choice suppliers make between these options should be based on comparing income estimates.

There will be some limits on the length of contract that some farmers may sign as follows:

1. The Minimum Volume for collection is currently 1,200 Litres per collection (skip-a-day). The Board has recently decided that this should rise to 1,500 Litres per collection next financial year (FY15). As such, suppliers who produced less than 300,000 Litres in 2012 /2013 may not be eligible for collection in FY 15 due to policy and as such will only be offered a 1 Year contract at the new Base Price, Contract Incentive (2cpl), Productivity Incentive (0cpl) as previously and with a Logistics Charge.

2. In areas that are at the extremities of the collection zone, farmers will be initially offered a 1 Year contract. We will then discuss with the farmers in the area as to their future in the industry and length of contract they would like. If DFMC is confident that the area will be viable as a collection cluster into the future, farmers may then upgrade to a 3 or 5 Year contract backdated to when the contracts were offered to all suppliers.

Contract Incentive

All **new** contracts will now receive a flat 2 cpl Contract Incentive.

All New Contracts	Contract Consideration rate
Flat Rate	2.00 Cpl

Existing contracts will continue with their current rates as follows:

Annual Defined Volume	Contract Consideration rate
0 to 1,999,999 litres	2.00 Cpl
2,000,000 to 4,999,999 litres	2.25 Cpl
5,000,000 to 9,999,999 litres	2.50 Cpl
10,000,000 litres and over	2.75 Cpl

Productivity Incentive

The rate of the Productivity Incentive will now be connected to the length of the contract. The graph on Page 3 will help you to understand the model.

Terms for Members who sign a 1 Year Contract

1. Suppliers will ***start*** to receive the Productivity Incentive at 5000 Kg MS per month (about 2,300 litres per day or a 840,000 litres pa)
2. The rate will flatten out at 14,000 Kgs MS per month (6,400 litre per day or 2.35m litres pa)

For 3 and 5 year contracts

1. The Productivity Incentive will ***start*** at 8,000 Kgs MS per month (3,700 litre per day or 1.35m pa)
2. The rate as well will flatten out at 14,000 Kgs MS per month (6,400 litre per day or 2.35m litres pa)

After the starting point the Productivity Incentive Rate at per Kg of Milk Solids will continue to be on a sliding scale:

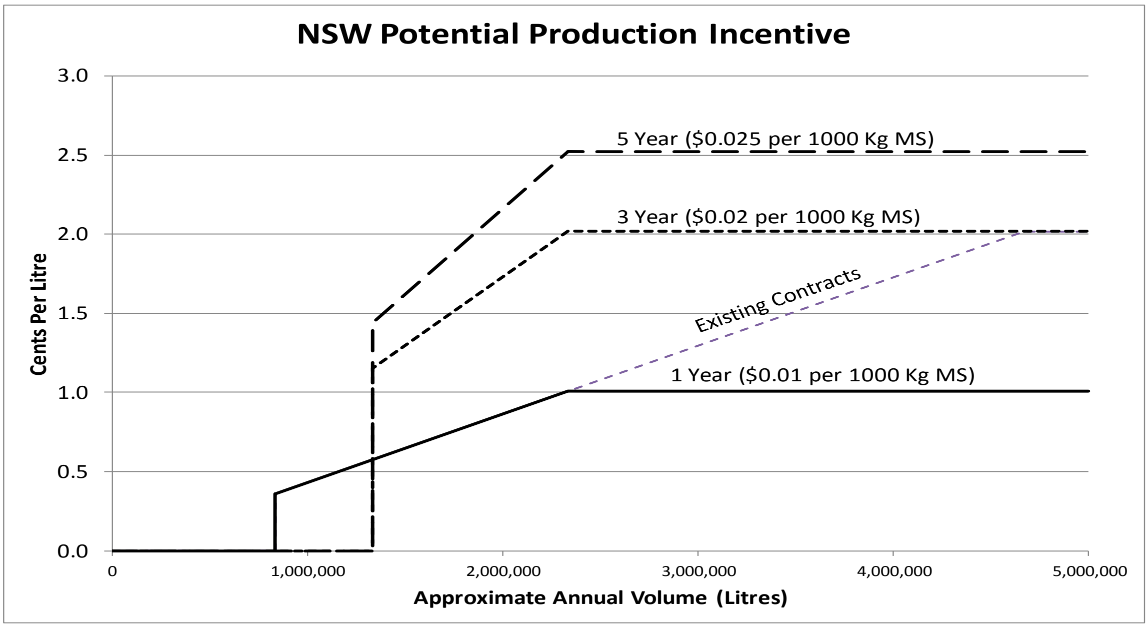
- 1 Year Contracts will receive 1 cent per 1000 Kgs MS (the current rate) to peak at around 1cpl for every litre supplied above 6,400 per day (approx.).
- 3 Year Contracts will receive 2 cents per 1000 Kgs MS to peak at around 2cpl for every litre supplied above 6,400 per day (approx.).
- 5 Year Contracts will receive 2.5 cents per 1000 Kgs MS to peak at around 2.5 cpl for every litre supplied above 6,400 per day (approx.).

This means that, with the factors of Contract Incentive and Productivity Incentive, a One Year contract attracts between 2 and 3 cpl, Three Year Contracts between 2 and 4 cpl and Five year contracts between 2 and 4.5 cpl

DFMC will provide income estimates to enable farmer to understand the resultant milk price from this and other parts of the payment policy.

Contract Values and Productivity Incentives

The following chart provides you with a visual explanation of the above.



Gate Charge

The Gate (or Stop) Charges for this Region will no longer apply.

Quality Incentive

DFMC Quality Incentive will remain unchanged.

Reference Litres

DFMC will now be quoting at a Reference Litres of 4.0% fat and 3.2% Protein (Previously we quoted at 3.95% fat and 3.15% Protein).

Logistic Model (Location Charge)

DFMC will be moving to 'Factory Gate' rather than "Farm Gate" pricing. This will be implemented through a location charge as set out in the pricing schedule below.

The location charge will be calculated based upon the Carrier Freight Rates for your region and divided by 50%. The percentage rate (50%) is fixed for the term of the contract. Any changes to the annualised cpl Logistics Charges will be based on any re-rating performed by the freight contractors.

Any changes either upwards or downwards will be outlined prior to the start of the new financial year.

The Logistics rates are as follows:

Central West – Bathurst	-3.00 Cpl	Gloucester	-2.50 Cpl
Central West - Cowra-Forbes	-3.30 Cpl	Taree	-3.80 Cpl
Central West – Forbes West	-3.80 Cpl	Kempsey	-4.80 Cpl
Central West – Dubbo	-4.30 Cpl	Lower Hunter	-3.00 Cpl
Central West - Orange	-3.00 Cpl	Upper Hunter	-3.00 Cpl
South Coast	-2.30 Cpl	Tamworth	-3.50 Cpl
Southern Highlands	-1.60 Cpl	Tamworth (Manila)	-3.50 Cpl
Sydney Basin	-0.80 Cpl	Tamworth (Walcha)	-5.00 Cpl
Comboyne	-4.40 Cpl	Wagga Wagga	-6.30 Cpl

DFMC Milk Payment Schedule – T1 Announced Base Milk Price

Announced T1 Milk Base Price			
Month	Flat Monthly Volume, Flat Monthly Price		
	Cents per Litre	**Fat $/kg**	**Protein $/kg**
Jul-13	48.18	4.63	9.27
Aug-13	48.18	4.63	9.27
Sep-13	48.18	4.63	9.27
Oct-13	48.18	4.63	9.27
Nov-13	48.18	4.63	9.27
Dec-13	48.18	4.63	9.27
Jan-14	48.18	4.63	9.27
Feb-14	48.18	4.63	9.27
Mar-14	48.18	4.63	9.27
Apr-14	48.18	4.63	9.27
May-14	48.18	4.63	9.27
Jun-14	48.18	4.63	9.27

With regard to the above table 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 Incentive, Productivity Incentive Logistics Charge & Milk Quality Incentive; and
3. Milk supplied above your monthly allocation may attract a T2 milk price (see Table 2 for T2 milk price);

DFMC MILK PAYMENT SCHEDULE – T2 Announced Base Milk Price

Announced T2 Milk Base Price			
Month	**Cents per Litre**	**Fat $/kg**	**Protein $/kg**
Jul-13	48.18	4.63	9.27
Aug-13	33.30	3.20	6.40
Sep-13	33.30	3.20	6.40
Oct-13	33.30	3.20	6.40
Nov-13	33.30	3.20	6.40
Dec-13	48.18	4.63	9.27
Jan-14	48.18	4.63	9.27
Feb-14	48.18	4.63	9.27
Mar-14	48.18	4.63	9.27
Apr-14	48.18	4.63	9.27
May-14	48.18	4.63	9.27
Jun-14	48.18	4.63	9.27
WT/Price	**42.75**		

With regard to the above table, 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

The Pro-Rata rule is to ensure that DFMC suppliers are paid Tier 1 for the milk that Lion 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.

Recalculation of Milk Pays

DFMC previously announced that there could possibly be a back pay adjustment if the current Announced Base Price was different than the interim paid price of July. DFMC currently has all suppliers paid on a base rate of 45.65cpl and as this differs from our announced base rate an adjustment back dated to the 1st July 2013 will be made in the September milk statement. In addition DFMC has made changes to our Milk Policy, however as they took effect from 1 August, no recalculation will be made related to policy changes (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.

Please note that if you have any questions or concerns regarding the above options available to you, please do not hesitate to contact your interim Regional Manager Ron Page on **0439 137 202** or via email ron.page@dfmc.org.au or discuss with your local Director.

DFMC is committed to negotiating strongly with Lion to provide to our members milk prices and policies that are reflective of the market forces within your region and factors, especially farm side, that determine supply and demand values. We will continue to monitor milk pricing paid to our suppliers.

Yours Sincerely

Ian Zandstra
Chairman
Dairy Farmers Milk Co-operative