



Dairy Farmers Milk Cooperative
ARBN: 108 690 384

Dairy Farmers Milk Cooperative
PO Box 72
Lidcombe NSW 1825

25th June 2014

Dear DFMC Supplier,

REVISED SEQ REGION ANNOUNCED MILK PRICES 2014/15

Further to my letter to you on the 2nd April 2014, this letter is to formally announce a **further** increase of **1cpl** to DFMC's Base Milk Price 2014/15.

Base Milk Price Lift for 2014/15

In SEQ, the Base Milk Price will increase from 50.54cpl to **53.50cpl** (at a reference litre of 4.00% Fat and 3.20% Protein) from 1st July 2014 (\$7.43 per kilogram milk solids equivalent):

Region	Current Base Milk Price Cpl	Cpl Increase	Announced Base Milk Price commencing from 1 st July 2014	% Increase in Base Milk Price
SEQ	50.54	2.96	53.50	+ 6.00%

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 2.50cpl above the base price. As such our announced monthly price plus average adjustments should result in DFMC paying our suppliers an average total price of **56.00cpl** (\$7.78 per kilogram milk solids equivalent).

The following table details our announced base milk price for all milk purchased within your monthly allocation as T1 milk for financial year 2014/15.

New Announced Base Milk Price for 2014/15

DFMC - SE Qld (Northern)

Reference Litre	Butterfat	4.00%
	Protein	3.20%

Monthly Period	July	August	September	October	November	December	January	February	March	April	May	June	Average
Days in Period	31	31	30	31	30	31	31	28	31	30	31	30	
Tier 1	\$/kg Butterfat	5.14	5.14	5.14	5.14	5.14	5.14	5.14	5.14	5.14	5.14	5.14	5.14
	\$/kg Protein	10.29	10.29	10.29	10.29	10.29	10.29	10.29	10.29	10.29	10.29	10.29	10.29
Cents per litre at reference litre	53.50	53.50	53.50	53.50	53.50	53.50	53.50	53.50	53.50	53.50	53.50	53.50	53.50
Status [c] confirmed [i] Indicative	C	C	C	C	C	C	C	C	C	C	C	C	C

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 all milk purchased from contracted suppliers during the Financial Year 2014/15. No T2 will apply for the term of the contract.
2. In addition to the announced base milk prices detailed above, contracted DFMC suppliers will receive a payment above the base milk price for Contract Consideration, Productivity Incentive & Milk Quality Incentive/Deduction will be paid on all milk supplied.
3. DFMC Contract Consideration, Milk Quality Incentive and Location Differential Payments applicable to your region will not change from that of 2013/14.

Future Pricing

I am also pleased to advise you of the following Guaranteed Minimum Base Milk Prices. Suppliers who enter into a 1, 3 or 5 year supply contract i.e. DFMC warrants that the base milk price will not decrease below the following:

- 2014/15 financial year – 53.50 cents per reference litre

For suppliers who enter into a 3 or 5 year supply contract, DFMC Guarantees the Minimum Base Milk Price for 2015/16:

- 2015/16 financial year – 50.54 cents per reference litre

New Milk

DFMC is serious about growing milk supply and backing farmers. As such the New Milk program will be extended to a 5 month period (Feb to June) and for a minimum 2 year commitment i.e. FY15 & FY16.

DFMC will pay a **5cpl incentive payment** for New Milk production for increases over the equivalent month (Feb to June) in the previous year.

The New Milk incentive payment will be 70 cents per kilogram of qualifying milk solids (butterfat plus protein), which is equivalent to 5cpl at the reference litre of 4% butterfat and 3.2% protein. Qualifying milk solids are all milk solids that you supply in the payment month in excess of the volume of milk solids that you supplied in the corresponding month in the previous year. i.e. If the volume of milk solids is greater than the same period in FY2013/14 and again in 2014/15, then the incentive will be paid to you on that additional volume of milk solids (only).

A worked example is provided below:

	litres	MS %	kg MS	New Milk Incentive rate (c/kg MS)	New Milk Incentive paid (\$)	New Milk Incentive (cpl)
Mar 2014	100,000	7.20%	7,200			
Mar 2015	105,000	7.20%	7,560			
New Milk	5,000		360	70	252	5.0

Contract Term

All suppliers may apply for a new 1, 3 or 5 year contract.

DFMC will now offer **100% Tier 1** contracts and members will be able to enter into one, three or five year contract terms i.e. for the term of the contracts, there will be no Tier 2 milk. Suppliers who have previously entered into three and five year supply contracts in 2013 are able to apply to rollover onto the new agreements.

Minimum Volumes

The Minimum Volume for collection is currently 1,200 Litres per collection (skip-a-day). Suppliers should note that Minimum Volumes for collection will rise to 1,500 Litres per collection next financial year (FY15). As such, suppliers who produced less than 300,000 Litres in 2013/2014 may not be eligible for collection in FY 15 due to the policy and therefore may not be offered a contract except where there is evidence that production has increased significantly since that time.

Productivity Incentive

The rate of the Productivity Incentive will continue to be connected to the length of the contract. Please note that the starting point for suppliers who enter into 3 and 5 year contracts will now be 4,500kg MS (previously 5,000 Kg MS) and the point at which the incentive reaches its maximum threshold remains at 14,000 Kg MS - please review to DFMC Milk Policy Document for further information.

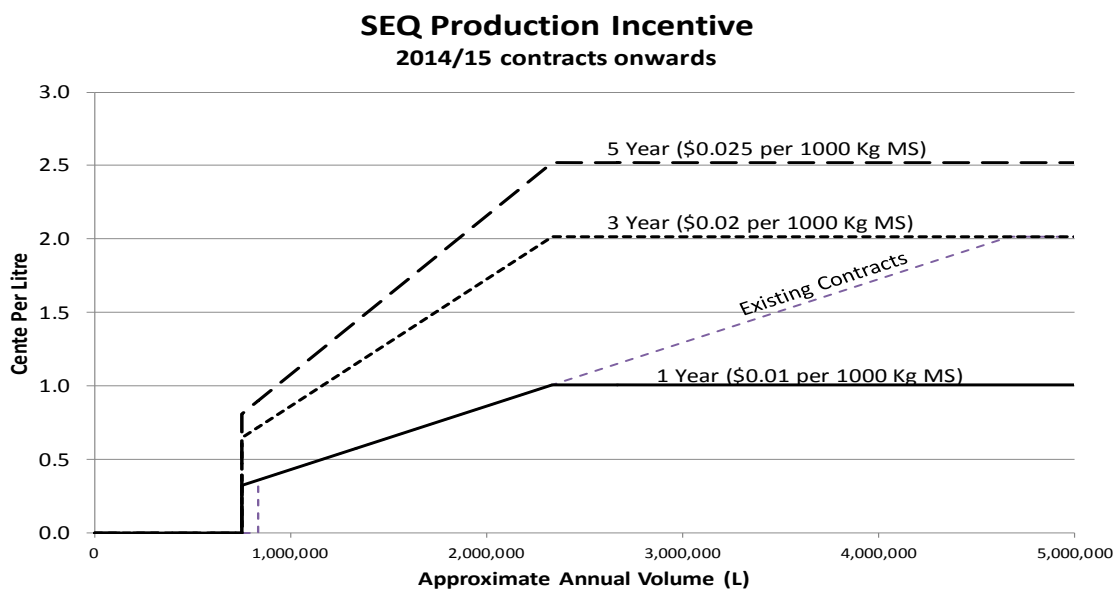
Terms for Members who sign a 1 Year Contract (This is unchanged from 2013/14)

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 reach its maximum threshold 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 now **start** at 4,500 Kgs MS per month (2,000 litre per day or 750,000 litres pa); and
2. The rate as well will reach its maximum threshold 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. The following chart provides you with a visual explanation of the above:



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

Questions

Please note that if you have any questions or concerns regarding the above options available to you, please do not hesitate to contact:

Tony Burnett – Regional Manager	0428 632 148	Tony.burnett@dfmc.org.au
Edith Nicholls – Farm Services	0419 811 391	edith.nicholls@dfmc.org.au
Andrew Burnett – SEQ Director	0419 773 907	Andrew.burnett@dfmc.org.au

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

Yours Sincerely



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Chairman
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