



Dairy Farmers Milk Co-operative
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30 June 2015

Dear DFMC Supplier,

SOUTHERN REGION ANNOUNCED MILK PRICES 2015/16

On behalf of Dairy Farmers Milk Cooperative (DFMC), I am pleased to present you the enclosed pricing schedule for 2015/16. As you entered into a 3 year supply contract in 2014, our announced milk prices cover both the new 1 year Variable & Fixed pricing offers, as well as your agreed 3 Year Fixed rate for up to 50% of your milk supply. It also includes the Forward Payment option.

DFMC works hard to help you grow your milk supply and our pricing is designed to give you flexibility when it comes to your business needs. Key benefits include:

- Ability to choose from variable or fixed pricing for the balance of your milk that is not paid at the agreed 3 year rate;
- Model Farm pricing compared to the Murray Goulburn (MG) Flat Milk Incentive (FMI);
- Continuation of the New Milk Incentive program;
- Cash flow benefits based on a forward payment (flat price) option, to even out seasonal pricing;
- Commitment to pay Tier 1 prices across the board for the duration of your contract; and
- A milk payment rebate based on business done.

DFMC provides value and security by offering pricing certainty in the face of fluctuating market conditions. Our long-term supply agreement with Lion Dairy and Drinks gives you the opportunity to plan your future based on income surety and solid market information.

If you have any questions or concerns regarding the options available to you, please contact:

Andrew Cleland	Regional Manager	0419 711 663	andrew.cleland@dfmc.org.au
Cameron Hodge	Victorian Director	0448 437 007	cameron.hodge@dfmc.org.au
Rick Gladigau	SA Director	0429 807 682	rick.gladigau@dfmc.org.au
Edith Nicholls	Farm Services	0419 811 391	edith.nicholls@dfmc.org.au

To accept your offer, please fill out the Offer Acceptance Form (attached) and return to Andrew Cleland no later than Wednesday 30th September 2015.

On a personal note I would like to thank you for your supply, and wish you all a successful and prosperous year ahead.

Yours Sincerely on behalf of the DFMC Board

Duncan McInnes
Chairman
DAIRY FARMERS MILK CO-OPERATIVE

2015/16 MILK PRICING OFFERS

DFMC’s 2015/16 milk pricing offers give you the ability to choose from the 1 year variable or fixed pricing option for the balance of your milk that is not paid at the agreed 3 Year Fixed rate.

OPTION 1: 1 Year Variable Price Offer

Our announced monthly price, plus average adjustments, should provide suppliers with an average **total** price of **\$5.80 kg MS**. At the reference litre of 4% butter fat and 3.2% protein, this is approximately 41.75cpl.

Table 1 below outlines the DFMC variable announced base milk price option:

Table 1: DFMC - Vic/ Riv and SA

Monthly Period	July	August	September	October	November	December	January	February	March	April	May	June		
Days in Period	31	31	30	31	30	31	31	29	31	30	31	30		
													Average	
All Milk	\$/kg Butterfat	4.92	4.24	3.83	3.83	3.83	3.83	4.10	4.46	4.74	4.93	5.01	5.10	4.40
	\$/kg Protein	7.38	6.36	5.74	5.74	5.74	5.74	6.15	6.68	7.11	7.39	7.51	7.65	6.60
Cents per litre at reference litre	43.3	37.3	33.7	33.7	33.7	33.7	36.1	39.2	41.7	43.4	44.1	44.9	38.7	

Please note that the 2015/16 variable pricing has the capacity to move up and down as compared to the Murray Goulburn announced FMI price. As such, DFMC will pay a guaranteed premium above the MG FMI, based on a sliding scale (see Table 2 below). For example, if MG pays 45cpl, DFMC will pay 46cpl. In addition to this, DFMC guarantees a floor price of \$5.70 kg MS. This means the total price payable based on the model farm cannot drop below \$5.70 kg MS.

Please note that DFMC’s Model Farm is based on 1.8m Litres, Flat Supply with a SCC of up to 250,000 at the reference litre of 4% butter fat and 3.2% protein.

Table 2	MG FMI	MG FMI	MG FMI
Cpl	Less than 45cpl	Between 45cpl and 50cpl	Greater than 50cpl
Guaranteed premium to be paid	+1cpl	+0.75cpl	+0.5cpl

OPTION 2: 1 Year Fixed Price Offer

Our announced monthly price plus average adjustments should provide suppliers with an average total price of **\$6.00 kg MS**. At the reference litre of 4% butter fat and 3.2% protein, this is approximately 43.20cpl.

Table 3 outlines the DFMC 1-year fixed price option:

Table 3: State: DFMC - Vic/ Riv and SA

Monthly Period		July	August	September	October	November	December	January	February	March	April	May	June	
Days in Period		31	31	30	31	30	31	31	29	31	30	31	30	
														Average
All Milk	\$/kg Butterfat	5.09	4.41	3.98	3.98	3.98	3.98	4.26	4.62	4.91	5.10	5.18	5.28	4.56
	\$/kg Protein	7.64	6.61	5.97	5.97	5.97	5.97	6.38	6.93	7.37	7.64	7.77	7.91	6.84
Cents per litre at reference litre		44.8	38.8	35.0	35.0	35.0	35.0	37.5	40.7	43.2	44.9	45.6	46.4	40.2

EXISTING MILK PRICING OFFERS

You opted to sign a 3-year supply contract in 2014, and you elected to fix up to 50% of their 2013/14 year’s milk supply.

Your agreed rate where you elected to fix up to 50% of their 2013/14 year’s milk supply should provide suppliers with an average total price of **\$6.14 kg MS** (this includes average adjustments). At the reference litre of 4% butter fat and 3.2% protein, this is approximately 44.20cpl.

Table 4 outlines the DFMC 2014 agreed 3-year fixed price option for those who elected to fix up to 50% of their 2013/14 year’s milk supply:

Table 4: State: DFMC - Vic/ Riv and SA

Monthly Period		July	August	September	October	November	December	January	February	March	April	May	June	
Days in Period		31	31	30	31	30	31	31	29	31	30	31	30	
														Average
50% of Milk	\$/kg Butterfat	5.20	4.49	4.09	4.09	4.09	4.09	4.35	4.73	5.02	5.21	5.31	5.40	4.67
	\$/kg Protein	7.80	6.74	6.13	6.13	6.13	6.13	6.52	7.09	7.53	7.82	7.96	8.10	7.01
Cents per litre at reference litre		45.8	39.5	36.0	36.0	36.0	36.0	38.3	41.6	44.2	45.9	46.7	47.5	41.1

OPTION 3: Forward Payment Plan

All Southern supplier farmers considering new pricing offers or who have existing offers are entitled to a Forward Payment plan. This allows you to be paid a ‘flat’ milk price based on a weighted average ‘Announced Base Milk’ price when applied to your annual kg butterfat (less 0.05 \$/kg) and protein (less 0.10 \$/kg) levels. It equates to -0.5cpl.

Suppliers should note that the -0.5 cpl discount is only an interim measure to allow for variations in supply patterns compared to expectations. Suppliers will receive the full rate entitled to them based on an end of year ‘balance up’ calculation – see Table 6 below for more information.

For example: based on DFMC announced Variable Base Milk price applied to the farmer’s kg butterfat and protein (for the previous year), this farmer would be paid a \$/kg flat rate for every month of the year that is equivalent to an annual milk payment 38.20cpl.

Table 6	\$/kg Butterfat	\$/kg Protein	Cpl
Weighted average	4.40	6.60	38.70
Less	0.06	0.09	00.50
Announced Flat price	4.34	6.51	38.20

The rates above are only an example. Individual farmers seeking to have a Flat Monthly Milk price will need to complete an individual income estimate to determine their own weighted average base milk price.

A farmer should note that whilst the butterfat and protein rates are paid flat, they will not get a flat cpl rate each month of the year as it varies with composition – in the example above, this farmers payment is a flat \$/kg rate each month that is equivalent to 38.20cpl across the year, however even on the flat rate, the price can vary between 37.80cpl & 39.00cpl (based on this farm’s composition, size, etc.).

Note: at the end of the financial year i.e. the June milk cheque payable in July, DFMC will do a ‘balance up’. That is we will do a full year’s calculation based on actual supply (kg butterfat and protein) of the announced variable and/or fixed rate versus the flat rate that was paid and we will either pay a top-up payment or take a deduction based on what you would have received on the variable and/or the fixed rate.

PRICING NOTES

1. For all payment options, the announced base milk price for a month is the base price for all milk purchased from contracted suppliers during the Financial Year 2015/16;
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 which will be paid on all milk supplied. SA suppliers receive a location incentive of +0.5cpl if located less than 100km from Adelaide;
3. DFMC Contract Consideration, Milk Quality Incentive, New Milk and Location Differential Payments applicable to your region will not change from that of 2014/15;
4. The New Milk Incentive program, which could deliver 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 for New Milk production for increases over the equivalent months in the previous years from February to July;
5. Payments to Members are made in terms of \$/kg Fat and \$/kg Protein. DFMC quotes prices based on a reference litre of 4% Fat and 3.2% Protein for comparative purposes in both cents per litre (Cpl) and dollars per kilogram of Milk Solids (\$/kg MS) and for 2015/16 is set at a pricing ratio of 1 part Fat is to 1.5 parts Protein;
6. Subject to the Co-operative's financial performance and member approval via way of resolution, DFMC plan to pay a rebate on Business done. The rebate will be \$1 for every 500 litres of milk produced from 1st July 2015 to 30th June 2016 and on average this will represent a +0.20cpl payment. Members will have the option to re-invest that rebate payment back as share capital;
7. In addition to the Farmgate Milk Price, DFMC has forecast a dividend to be paid to DFMC shareholders in relation to financial year 2015/16 of 12 cents per share, franked at a rate of 50%. Shareholders will have the option to re-invest that dividend payment back as share capital;
8. For suppliers who opt for part or all of their milk supply to be paid at the variable price option, the variable price is linked to the Murray Goulburn price as outlined in the Model Farm section, and has an underpinning guaranteed minimum price of \$5.70 kg MS. Suppliers should note that Variable price can now move up and down i.e. in the event of a MG step-down, DFMC variable price may be adjusted down e.g. regardless of MG opening price and/or any announced step-downs, the total price payable based on the model farm cannot drop below \$5.70 per kg MS – for more information please visit DFMC Milk Policy document;
9. As you opted to sign a 3-year contract in 2014 and you fixed up to 50% of your milk supply, at the time of announcing milk prices in years 2 or 3, there is the choice of having the balance of the milk not supplied as part of the fixed volume paid at that year's announced fixed or variable price.

OFFER ACCEPTANCE FORM

Name _____

Vendor number 220 _____

2015/16 MILK PRICING OFFERS**EXISTING MILK PRICING OFFERS**

Suppliers with existing offers, please choose whether you would like to apply variable or fixed pricing to the balance of milk not supplied as part of your fixed volumes.

- Existing 3 year contract signed in 2014 from and including the effective date up to and including 30 June 2017:

I would like to lock the balance of the milk not supplied as part of the fixed volume, at the 2015/16 announced milk price:

- Option 1: 1 year Variable pricing of \$5.80 kg MS; or
 Option 2: 1 year Fixed pricing of \$6.00 kg MS.

OPTION 3: Forward Payment Plan (applies to both 2015/16 and existing milk pricing offers)

I would like the flat milk price paid via the forward payment plan: Yes No

{Tick appropriate box, cross out whichever does not apply and initial}

Signature _____

Date _____



FORWARD PAYMENT PLAN (continued)

Condition to the offer:

Pursuant to the terms of your supply contract, DFMC will apply Liquidated Damages based on the following:

If you supply all or some of your milk to a third party during a month you must, if required by the Milk Co-operative, immediately pay to the Milk Co-operative liquidated damages based on all milk supplied for each month of supply i.e. from the 1st July onwards and calculated as follows:

$$\text{\$X} = \text{Z} \times \text{W cents}$$

Where:

- \$X is the amount payable by you to the Milk Co-operative for the relevant month. If \$X is a negative amount no amount is payable by you
- Z is the number of litres supplied to the Milk Co-operative by you for the relevant month.
- W means, for the period up to 30 June 2015, the offered "weighted average flat base milk price" payable for the relevant month less the Announced "variable base milk price" payable for the relevant provided that if W is a negative number, W shall be zero.

ACCEPTANCE

By agreeing to the above, you acknowledge that the above formula represents a genuine pre-estimate of the loss the Milk Co-operative will suffer if you fail to supply to the Milk Co-operative the Minimum Volume of milk for a month.

Based on the weighted average butterfat and protein rates as determined by my incomes estimate, I agree be paid the following flat rate:

\$kg butterfat \$ _____

\$kg protein \$ _____

Cpl rate _____

Company _____

Vendor Number _____

Name _____

Signature _____

Date _____

To accept your offer, please send your completed form to Andrew Cleland by 30th September 2015.