



**Dairy Farmers Milk Co-operative**  
PO Box 72  
Lidcombe NSW 1825  
Tel: 02 8732 5206  
Fax: 02 8732 5055  
**ARBN: 108 690 384**

30 June 2016

Dear DFMC Supplier,

### **SOUTHERN REGION ANNOUNCED MILK PRICES 2016/17**

On behalf of Dairy Farmers Milk Cooperative (DFMC), I am pleased to present you the enclosed pricing schedule for 2016/17. Our announced milk price covers new pricing offers available to you and includes the Flat Price Payment option.

DFMC in partnership with Lion Dairy and Drinks works hard to give you the best in competitive pricing, security and flexibility when it comes to your business needs. Key benefits include:

- Ability to choose from variable or fixed pricing, or any percentage combination of the two;
- Model Farm pricing compared to the Murray Goulburn (MG) Flat Milk Incentive (FMI);
- Fixed price contract offers of up to 3-year terms, with a farmer nominated percentage up to 50% of 2015/2016 supply;
- Cash flow benefits based on a Flat Price (forward payment) 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:

<b>Andrew Cleland</b>	Regional Manager	0419 711 663	andrew.cleland@dfmc.org.au
<b>Cameron Hodge</b>	Victorian Director	0448 437 007	cameron.hodge@dfmc.org.au
<b>Rick Gladigau</b>	SA Director	0429 807 682	rick.gladigau@dfmc.org.au

**To accept your offer, please fill out the Offer Acceptance Form (attached) and return to Andrew Cleland no later than Wednesday 30<sup>th</sup> September 2016.**

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**

**2016/17 MILK PRICING OFFERS**

DFMC’s 2016/17 milk pricing offers give you the ability to choose from variable or fixed pricing, or any percentage combination of the two.

If you choose a combination of variable and fixed pricing, you can lock in a percentage of your milk supply at the fixed rate, with the remainder paid at the variable rate. In addition you can opt in to the Forward Payment Plan (or flat monthly milk price).

The three offers are outlined below.

**OPTION 1: Variable Price Offer**

Our announced monthly price, plus average adjustments, should provide suppliers with an average **total** price of **\$5.00 kg MS**. At the reference litre of 4% butter fat and 3.2% protein, this is approximately 36.00cpl.

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

**State: DFMC - Southern - VARIABLE**

Reference Litre	Butterfat	4.00%
	Protein	3.20%

Monthly Period	July	August	September	October	November	December	January	February	March	April	May	June		
Days in Period	31	31	30	31	30	31	31	28	31	30	31	30		
													Average	
<b>Base</b>	\$/kg Butterfat	4.26	3.59	3.17	3.17	3.17	3.17	3.45	3.81	4.09	4.28	4.35	4.44	3.75
	\$/kg Protein	6.39	5.38	4.75	4.75	4.75	4.75	5.17	5.70	6.13	6.41	6.52	6.66	5.61
Cents per litre at reference litre	37.5	31.6	27.9	27.9	27.9	27.9	30.3	33.5	36.0	37.6	38.3	39.1	32.9	

Please note that the 2016/17 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, farmers should note that there will be no floor price i.e. the price can move in line with the Murray Goulburn milk price (please refer to DFMC’s policy document for additional information..

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: Fixed Price Offer**

Suppliers will be provided an option of a 1-year contract or 3-year contract.

**1 Year Contract**

Our announced monthly price plus average adjustments should provide suppliers with an average total price of **\$5.10 kg MS**. At the reference litre of 4% butter fat and 3.2% protein, this is approximately 36.75cpl.

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

**State: DFMC - Southern - 1 YEAR FIXED**

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		
Base	\$/kg Butterfat	4.35	3.67	3.24	3.24	3.24	3.24	3.52	3.88	4.17	4.36	4.44	4.54	3.82
	\$/kg Protein	6.52	5.50	4.86	4.86	4.86	4.86	5.28	5.82	6.25	6.54	6.66	6.81	5.73
Cents per litre at reference litre	38.3	32.3	28.5	28.5	28.5	28.5	31.0	34.1	36.7	38.4	39.1	40.0	33.7	

**3 Year Contract**

For suppliers who opt to sign a 3-year contract, a farmer may fix the price for up to 50% based of their 2014/2015 year’s milk supply.

Our announced monthly price plus average adjustments should provide suppliers with an average total price for a maximum of 50% their milk supply of **\$5.50 kg MS**. At the reference litre of 4% butter fat and 3.2% protein, this is approximately 39.60 Cpl.

Table 4 outlines the DFMC 3-year fixed price option for a maximum of 50% your milk supply:

**State: DFMC - Southern - 3 YEAR FIXED (F17 new rates)**

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		
Base	\$/kg Butterfat	4.68	3.97	3.57	3.57	3.57	3.57	3.83	4.20	4.50	4.69	4.78	4.88	4.15
	\$/kg Protein	7.02	5.95	5.35	5.35	5.35	5.35	5.74	6.30	6.75	7.03	7.17	7.32	6.22
Cents per litre at reference litre	41.2	34.9	31.4	31.4	31.4	31.4	33.7	37.0	39.6	41.3	42.1	42.9	36.5	

Table 5 outlines the DFMC 1 & 3-year fixed price option:

Table 5	\$ per kg MS based on model farm					
	FY17 Variable	FY17 Fixed	FY18 Variable	FY18 Fixed	FY19 Variable	FY19 Fixed
1 year contract	\$5.00	\$5.10				
3 year contract	\$5.00	\$5.50	TBA	\$5.50	TBA	\$5.50

**OPTION 3: Flat Price (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 5 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 32.40cpl.

Table 5	\$/kg Butterfat	\$/kg Protein	Cpl
Weighted average	3.75	5.61	32.90
Less	0.06	0.09	00.50
Announced Flat price	3.69	5.52	32.40

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 32.40cpl across the year, however even on the flat rate, the price can vary between 32.00cpl & 33.20cpl (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 2016/17;
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 and Location Differential Payments applicable to your region will not change from that of 2015/16;
4. The New Milk Incentive program will not apply in 2016/17;
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 2016/17 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 1<sup>st</sup> July 2015 to 30<sup>th</sup> 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 2016/17 of between 10 & 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. 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;
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 your 3 year, 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.
10. You may choose to 'Rollover' your existing 3 year contract onto a new 3 year contract with an initial term ending 30<sup>th</sup> June 2019. You may choose to do this to take advantage of new fixed pricing terms e.g. Farmer A signed \$6.14 in 2014, next year's 3 years fixed price offer is \$5.50, this would mean next year (2016/17) Farmer A would get \$6.14 and for the following 2 years (2017/18 & 2018/19) get \$5.50 for 50% of their milk.

**OFFER ACCEPTANCE FORM**

Name \_\_\_\_\_

Vendor number 220 \_\_\_\_\_

**2016/17 MILK PRICING OFFERS**

Suppliers accepting new pricing arrangements, please choose from Options 1 or 2 below.

**OPTION 1: Variable price contract offer**

- 1 year contract from and including the effective date up to and including 30 June 2017
- 100% Variable pricing; or
- 100% Fixed pricing; or
- Fixed & variable pricing – percentage of volume fixed at the Fixed pricing \_\_\_\_\_% (Max 99%)

**OPTION 2: Fixed price contract offer**

- 3 year contract from and including the effective date up to and including 30 June 2019
- Percentage of volume fixed at \$5.50 kg MS \_\_\_\_\_% (Max 50%)
- Remaining % at the Variable pricing of \$5.00 kg MS for FY17; or
- Remaining % at the 1 Year Fixed pricing of \$5.10 kg MS FY17;

**OPTION 3: Flat Price (Forward Payment Plan)**I would like the flat milk price paid via the Flat Price (forward payment) plan: Yes  No *{Tick appropriate box, cross out whichever does not apply and initial}*

Signature \_\_\_\_\_

Date \_\_\_\_\_



**FLAT PRICE (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:

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

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 2016, 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 30<sup>th</sup> September 2016.**