



22 June 2018

Dear DFMC Supplier,

**SOUTHERN REGION – VIC
ANNOUNCED MILK PRICES 2018/19**

On behalf of Dairy Farmers Milk Cooperative (DFMC), I wish to present you the enclosed pricing schedule for 2018/19. 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;
- Fixed price contract offers of up to 3-year terms, with a farmer nominated percentage up to 50% of 2017/2018 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

DFMC provides value and security by offering pricing certainty in the face of fluctuating market conditions. Our 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:

| | | | |
|--------------------|-------------------|--------------|--|
| Dom Baxter | Regional Manager | 0419 711 663 | dom.baxter@dfmc.org.au |
| Adrian Dauk | SA Director | 0439 829 993 | adrian.dauk@dfmc.org.au |
| Mark Kebell | Executive Officer | 0432 046 768 | mark.kebell@dfmc.org.au |

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

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

Andrew Burnett
Chairman
DAIRY FARMERS MILK CO-OPERATIVE

2018/19 MILK PRICING OFFERS

DFMC's 2018/19 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: 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 **\$6.10 kg MS**. At the reference litre of 4% butter fat and 3.2% protein, this is approximately 43.92cpl.

The table below outlines the DFMC 1-year fixed price option:

| State: DFMC - Vic - 1 YEAR FIXED | | | | | | | | | | | | | 22 June 2018 | | |
|------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|--------------|--|---------|
| Reference Litre | | Butterfat | 4.00% | | | | | | | | | | | | |
| | | Protein | 3.20% | | | | | | | | | | | | |
| Monthly Period | July | August | September | October | November | December | January | February | March | April | May | June | | | |
| Period Date range | 1/07/2018 - 31/07/2018 | 1/08/2018 - 31/08/2018 | 1/09/2018 - 30/09/2018 | 1/10/2018 - 31/10/2018 | 1/11/2018 - 30/11/2018 | 1/12/2018 - 31/12/2018 | 1/01/2019 - 31/01/2019 | 1/02/2019 - 28/02/2019 | 1/03/2019 - 31/03/2019 | 1/04/2019 - 30/04/2019 | 1/05/2019 - 31/05/2019 | 1/06/2019 - 30/06/2019 | | | |
| Days in Period | 31 | 31 | 30 | 31 | 30 | 31 | 31 | 28 | 31 | 30 | 31 | 30 | | | |
| Base | | | | | | | | | | | | | | | Average |
| \$/kg Butterfat | 5.08 | 4.36 | 3.96 | 3.96 | 3.96 | 3.96 | 4.22 | 4.58 | 4.88 | 5.10 | 5.16 | 5.26 | 4.54 | | |
| \$/kg Protein | 7.62 | 6.54 | 5.94 | 5.94 | 5.94 | 5.94 | 6.33 | 6.87 | 7.32 | 7.65 | 7.74 | 7.89 | 6.81 | | |
| Cents per litre at reference litre | 44.7 | 38.4 | 34.9 | 34.9 | 34.9 | 34.9 | 37.1 | 40.3 | 42.9 | 44.9 | 45.4 | 46.3 | 40.0 | | |

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 2017/2018 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 **\$6.05 kg MS**. At the reference litre of 4% butter fat and 3.2% protein, this is approximately 43.56 Cpl.

The table below outlines the DFMC 3-year fixed price option for a maximum of 50% your milk supply:

| State: DFMC - Vic - 3 YEAR FIXED (started in F19) | | | | | | | | | | | | | 26 June 2018 | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|--------------|--|---------|
| Reference Litre | | Butterfat | 4.00% | | | | | | | | | | | | |
| | | Protein | 3.20% | | | | | | | | | | | | |
| Monthly Period | July | August | September | October | November | December | January | February | March | April | May | June | | | |
| Period Date range | 1/07/2016 - 31/07/2016 | 1/08/2016 - 31/08/2016 | 1/09/2016 - 30/09/2016 | 1/10/2016 - 31/10/2016 | 1/11/2016 - 30/11/2016 | 1/12/2016 - 31/12/2016 | 1/01/2017 - 31/01/2017 | 1/02/2017 - 28/02/2017 | 1/03/2017 - 31/03/2017 | 1/04/2017 - 30/04/2017 | 1/05/2017 - 31/05/2017 | 1/06/2017 - 30/06/2017 | | | |
| Days in Period | 31 | 31 | 30 | 31 | 30 | 31 | 31 | 28 | 31 | 30 | 31 | 30 | | | |
| Base | | | | | | | | | | | | | | | Average |
| \$/kg Butterfat | 5.04 | 4.32 | 3.92 | 3.92 | 3.92 | 3.92 | 4.18 | 4.54 | 4.84 | 5.06 | 5.12 | 5.22 | 4.50 | | |
| \$/kg Protein | 7.56 | 6.48 | 5.88 | 5.88 | 5.88 | 5.88 | 6.27 | 6.81 | 7.26 | 7.59 | 7.68 | 7.83 | 6.75 | | |
| Cents per litre at reference litre | 44.4 | 38.0 | 34.5 | 34.5 | 34.5 | 34.5 | 36.8 | 40.0 | 42.6 | 44.5 | 45.1 | 45.9 | 39.6 | | |

OPTION 2: Variable Price Offer

Our announced monthly price, plus average adjustments, should provide suppliers with an average **total** price of **\$5.82 kg MS**. For the model farm at the reference litre of 4% butter fat and 3.2% protein, this is approximately 41.9 cpl.

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.

The table below outlines the DFMC variable announced base milk price option:

| State: DFMC - Vic - VARIABLE | | | | | | | | | | | | | 22 June 2018 | | |
|------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|--------------|----------------|--|
| Reference Litre | | Butterfat | 4.00% | | | | | | | | | | | | |
| | | Protein | 3.20% | | | | | | | | | | | | |
| Monthly Period | July | August | September | October | November | December | January | February | March | April | May | June | | | |
| Period Date range | 1/07/2018 - 31/07/2018 | 1/08/2018 - 31/08/2018 | 1/09/2018 - 30/09/2018 | 1/10/2018 - 31/10/2018 | 1/11/2018 - 30/11/2018 | 1/12/2018 - 31/12/2018 | 1/01/2019 - 31/01/2019 | 1/02/2019 - 28/02/2019 | 1/03/2019 - 31/03/2019 | 1/04/2019 - 30/04/2019 | 1/05/2019 - 31/05/2019 | 1/06/2019 - 30/06/2019 | | | |
| Days in Period | 31 | 31 | 30 | 31 | 30 | 31 | 31 | 28 | 31 | 30 | 31 | 30 | | | |
| Base | | | | | | | | | | | | | | Average | |
| \$/kg Butterfat | 4.82 | 4.16 | 3.74 | 3.74 | 3.74 | 3.74 | 4.02 | 4.38 | 4.66 | 4.86 | 4.92 | 5.00 | | 4.31 | |
| \$/kg Protein | 7.23 | 6.24 | 5.61 | 5.61 | 5.61 | 5.61 | 6.03 | 6.57 | 6.99 | 7.29 | 7.38 | 7.50 | | 6.47 | |
| Cents per litre at reference litre | 42.4 | 36.6 | 32.9 | 32.9 | 32.9 | 32.9 | 35.4 | 38.5 | 41.0 | 42.8 | 43.3 | 44.0 | | 38.0 | |

Please refer to our letter of May 30, 2018 – Southern Variable Price mechanism change. Please note that the 2018/19 variable pricing has the capacity to move up and down as compared to major milk processors in the region. As such, DFMC will pay a competitive variable price.

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.

| | \$/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 farmer's 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 2018/19;
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 +1.5cpl if located less than 100km from Adelaide;
3. DFMC Contract Consideration and Milk Quality Incentive Payments applicable to your region will not change from that of 2017/18;
4. As with 2017/18 no new milk will apply in 2018/19;
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 2018/19 is set at a pricing ratio of 1 part Fat is to 1.5 parts Protein;
6. The Board will be reviewing its position on Dividend payments. Subject to the Co-operative's financial performance and member approval via way of resolution, DFMC is likely to:
 - a. pay a dividend of around 8% to DFMC shareholders in relation to financial year 2016/17 of approximately 8 cents per share, franked at a rate of 50%. Shareholders will have the option to re-invest that dividend payment back as share capital;
7. For suppliers who opt for part or all of their milk supply to be paid at the variable price option, you should note that Variable price can now move up and down i.e. in the event of a milk commodity price drop and subsequent competing processors' step-down, DFMC variable price may be adjusted down;
8. If you opted to sign a 3-year contract in 2016 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.
9. Our Milk Supply Agreement negotiations with Lion Dairy & Drinks Pty Ltd have progressed well during the past twelve months. Both parties have agreed to some amendments however we have agreed in principle to extend our current MSA for a further 3 years past June 30 2019 to June 30 2022.
10. From July 1 2019 both DFMC & Lion direct suppliers will move to a combined milk policy system all contained under the one document. Across some regions this will remove duplication and complication of having two milk payment and policy systems. More details will be available at our upcoming supplier meetings.