



21 June 2019

Dear DFMC Supplier,

SOUTHERN REGION – SA ANNOUNCED MILK PRICES 2019/20

On behalf of Dairy Farmers Milk Cooperative (DFMC), I wish to present you the farmgate milk pricing for 2019/20. 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 2018/19 supply;
- Cash flow benefits based on a Flat Price (forward payment) option, to even out seasonal pricing
- South Australian suppliers receive a location incentive of 1.5 cpl if located less than 100km from Adelaide.

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:

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Mark Kebbell	Executive Officer	0432 046 768	mark.kebbell@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', followed by a stylized flourish.

Andrew Burnett
Chairman

Dairy Farmers Milk Co-operative

ARBN: 108 690 384. Level 4, 65 Brougham Street, Geelong, Vic 3220



2019/20 MILK PRICING OFFERS

DFMC's 2019/20 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 into 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 (including the Location Incentive at \$0.21/kg MS and payments from retailers for the Retailer Own Brand price increases of approximately \$0.28/kg MS.) should provide suppliers with an average total price of **\$7.17kg MS**.

3 YEAR CONTRACT

For suppliers who opt to sign a 3-year contract, a farmer may fix the price for up to 50% based on their 2018/19 year's milk supply.

Our announced monthly price plus average adjustments (including the Location Incentive at \$0.21/kg MS and payments from retailers for the Retailer Own Brand price increases of approximately \$0.28/kg MS) should provide suppliers with an average total price for a maximum of 50% their milk supply of **\$6.68 kg MS**.

OPTION 2: VARIABLE PRICE OFFER

Our announced monthly price, plus average adjustments (including the Location Incentive at \$0.21/kg MS and payments from retailers for the Retailer Own Brand price increases of approximately \$0.28/kg MS)), should provide suppliers with an average price of **\$7.05 kg MS**.

Importantly, the Variable price will not move down – either as a step down or retrospectively. Should Saputo Dairy Australia (SDA) increase their price the Variable Price will move by the same magnitude.

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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

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 2019/20;
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 2018/19
4. As with 2018/19 no new milk will apply in 2019/20;
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 2019/20 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 5% to DFMC shareholders in relation to financial year 2018/19 of approximately 5 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 the Variable price will not move down irrespective of movements in the commodity markets.
8. If you opted to sign a 3-year contract in 2017 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 (MSA) negotiations with Lion Dairy & Drinks Pty Ltd have been finalised and the MSA extended for a further 3 years past June 30, 2019 to June 30, 2022.