



Dairy Farmers Milk Cooperative
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2nd July 2014

Dear DFMC Supplier,

SOUTHERN REGION ANNOUNCED MILK PRICES 2014/15

This letter is to announce Dairy Farmers Milk Co-operative’s (DFMC) opening milk pricing for the new season commencing 1st July 2014.

DFMC pricing initiatives are designed to improve farmer engagement and grow milk supply. Key changes include:

- Amending the Model Farm comparison to be compared to the Murray Goulburn (MG) Flat Milk Incentive (FMI) instead of the Traditional Model;
- Providing Fixed Price contract offers with up to 3 year terms with a farmer nominated percentage up to 50% of 2013/2014 supply;
- Expanding the current New Milk Incentive program;
- Reverting to seasonal pricing with Cash Flow benefits mechanism based on an agreement between DFMC and Lion Dairy and Drinks to provide a Forward Payment program; and
- Commitment to only pay Tier 1 prices for the period of the contract.

MODEL FARM ALTERATION

DFMC’s previous Model Farm comparison was based on MG Traditional Pricing. Consequently as MG Traditional Pricing rose, the DFMC premium to MG FMI could be eroded and at higher prices slips behind the MG FMI. The calculation was also done at ‘top quality’ which in DFMC’s case was better than MG’s.

Now, DFMC’s Model Farm is a 1.8m Litre, Flat Supply with an SCC up to 250,000.

As such, DFMC now guarantees to pay a premium ahead of the MG FMI based on the **Table 1** below:

Table 1	MG FMI	MG FMI	MG FMI
Cpl	Less than 45cpl	Greater than 45cpl and less than 50cpl	Greater than 50cpl
Guarantee Premium to be paid	+1cpl	+.75cpl	+0.5cpl

Further to the above, as DFMC’s model farm comparison is based on farm with an SCC of up to 250,000, the model now more closely reflects our key competitor’s lower quality standards. Farms that do meet our more stringent quality requirements receive an effective benefit of 0.6 cpl compared to our previous approach.

CONTRACT AND PRICING OFFERS

OPTION 1: Variable Price Contract Offer

Our announced monthly price plus average adjustments should provide suppliers with an average total price of **\$6.35** kg MS equivalent. At the reference litre of 4% Butter Fat and 3.2% Protein, this is approximately 45.70cpl. This is a 5.30% increase on last year's opening price.

Our announced base milk price is **42.6** cents per litre at the reference litre or \$5.92 kg MS equivalent.

State: DFMC - Southern / Vic & Riverina, SA

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		
All Milk	\$/kg Butterfat	4.55	3.96	3.61	3.61	3.61	3.61	3.82	4.14	4.39	4.55	4.63	4.71	4.10
	\$/kg Protein	9.09	7.89	7.23	7.23	7.23	7.23	7.64	8.27	8.78	9.10	9.25	9.41	8.19
Cents per litre at reference litre	47.3	41.1	37.6	37.6	37.6	37.6	39.7	43.0	45.7	47.3	48.1	49.0	42.6	

DFMC will provide suppliers with a minimum guarantee underpinned by the Murray Goulburn FMI price for the 12 months July to June. Please refer to **Table 1** for additional information.

OPTION 2: Fixed Price Contract Offer

For suppliers who opt for a 1 Year contract, DFMC will provide a fixed price offer at **\$6.40** kg Milk Solids based on Model Farm parameters. At the reference litre of 4% Butter Fat and 3.2% Protein, this is approximately **46.10cpl**. This is a 6.28% increase on last year's opening price.

Our announced base milk price is **43.00** cents per litre at the reference litre or \$5.97 kg MS equivalent.

State: DFMC - Southern / Vic & Riverina, SA - 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		
All Milk	\$/kg Butterfat	4.59	3.99	3.65	3.65	3.65	3.65	3.86	4.18	4.43	4.59	4.67	4.76	4.14
	\$/kg Protein	9.17	7.97	7.31	7.31	7.31	7.31	7.72	8.35	8.86	9.18	9.33	9.49	8.27
Cents per litre at reference litre	47.7	41.5	38.0	38.0	38.0	38.0	40.1	43.4	46.1	47.7	48.5	49.4	43.0	
Status [c] confirmed [i] indicative	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 i.e. for the term of the contracts, there will be no Tier 2 milk.
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. SA suppliers receive a location incentive of 0.5cpl if located less than 100km from Adelaide.

DFMC will expand this offer of a fixed price for a 3 year term whereby a farmer may fix the price for up to 50% of their 2013/2014 year's milk supply. Requests to fix greater than 50% of milk supply will be considered on a case by case basis.

Table 2 below outlines DFMC Fixed price option:

Table 2	\$ per KG MS based on Model Farm					
	FY15 Variable	FY15 Fixed	FY16 Variable	FY16 Fixed	FY17 Variable	FY17 Fixed
1 Year Contract	\$6.35	\$6.40				
3 Year Contract	\$6.35	\$6.14	TBA	\$6.14	TBA	\$6.14

Notes to the above pricing:

1. Base Prices for suppliers who wish to sign a 3 year contract on the basis of \$6.14 Kg MS for up to 50% of their 2013/2014 milk volume will be provided on request.
2. Option 2 provides suppliers with a minimum guarantee as outlined in the Model Farm section above, however this will be on variable price portion of their litres only.
3. In years 2 or 3, for the balance of the milk not supplied as part of the fixed volume at \$6.14 Kg MS, the supplier will have the choice of having the balance paid at that year's announced fixed or variable price.

CONTRACT TERM

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

DFMC will now offer **100% Tier 1** contracts and members will be able to enter into a one or three year contract terms i.e. for the term of the contracts, there will be no Tier 2 milk. Suppliers on existing two or three year supply contracts are able to apply to rollover their contracts onto the new Fixed Price agreements.

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

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 2012/2013 or 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

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

Ken Bailey – Regional Manager	0419 711 663	ken.bailey@dfmc.org.au
Edith Nicholls – Farm Services	0419 811 391	edith.nicholls@dfmc.org.au
Scott Sieben – Victorian Director	0427 567 107	Scott.sieben@dfmc.org.au
Rick Gladigau – SA Director	0429 807 682	Rick.gladigau@dfmc.org.au

DFMC is committed to providing our members a milk price and policies that are competitive with market forces within your region. We will continue to monitor milk pricing paid to our suppliers along with the competitive market that influences the price paid to farmers.

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