IN THE AUSTRALIAN COMPETITION TRIBUNAL

of 2013

MURRAY GOULBURN CO-OPERATIVE CO LIMITED

RE: PROPOSED ACQUISITION OF WARRNAMBOOL CHEESE AND BUTTER FACTORY COMPANY HOLDINGS LIMITED

Certificate identifying annexure

This is the annexure marked RAP47 now produced and shown to Robert Arthur Poole at the time of signing his statement on 28 November 2013.

Annexure RAP47

Milk Payment System brochure

Filed on behalf of Murray Goulburn Co-Operative Co Limited
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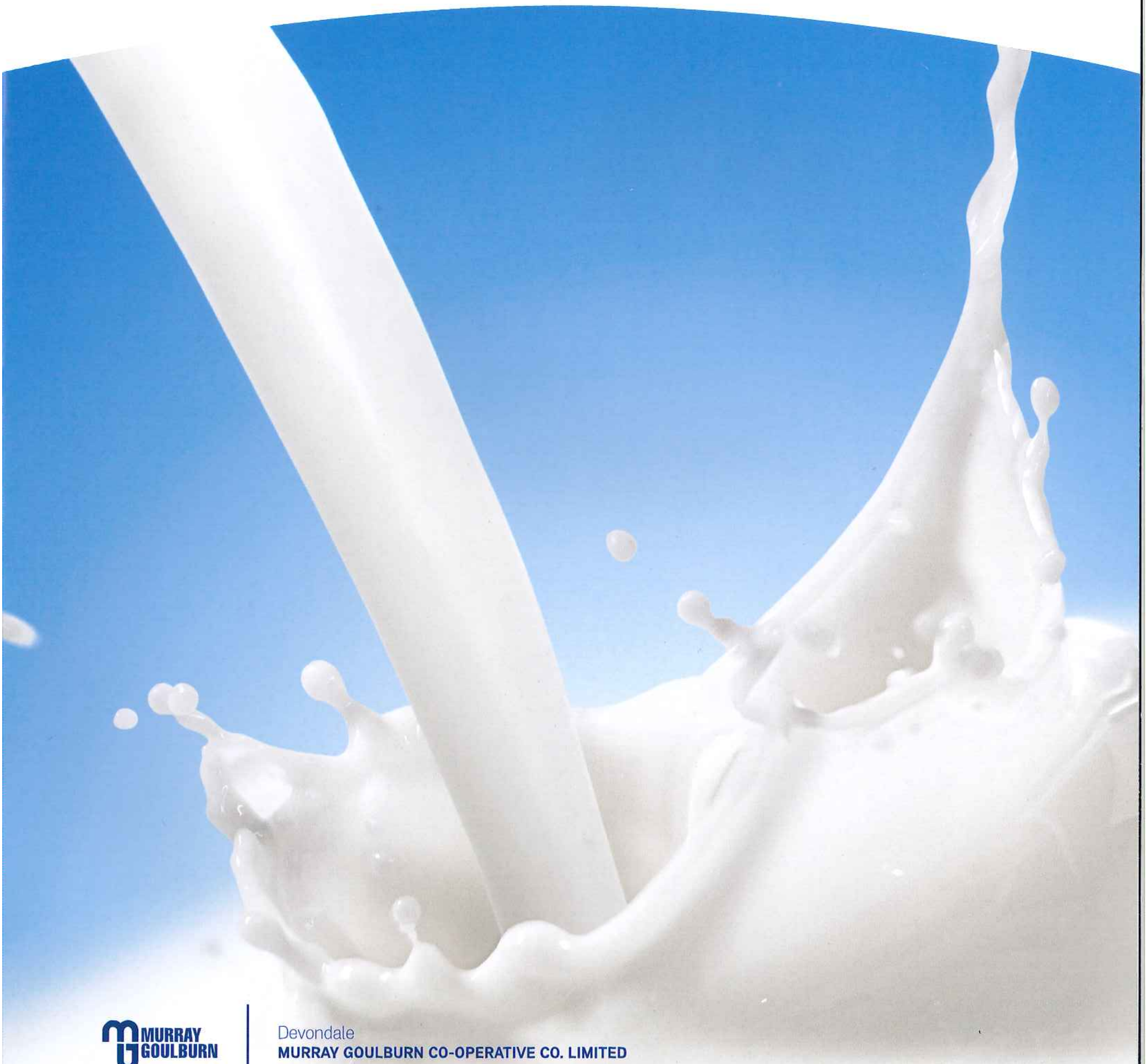
Milk payment system explained 2013-14



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MURRAY GOULBURN CO-OPERATIVE CO. LIMITED

About this booklet

This booklet is designed to assist supplier/shareholders in understanding Murray Goulburn Co-operative Co. Limited's (MG) milk payment system and incentives. Please refer to the detailed Standard Milk Payment Terms 2013-14 for the precise terms to milk payments and incentives. Your local Field Services Officer is available to answer any questions you may have.

Who is Murray Goulburn?

MG is Australia's largest dairy food company and is a co-operative of Australian farmers. Accordingly, MG holds a unique leadership position in the Australian dairy industry. A rich mix of dairy ingredients, consumer products, food service and farm trading stores provides MG with a balanced portfolio of products that we can proudly sell to Australia and the world.

In 2011-12, MG's 2497 supplier/shareholders supplied 2.94 billion litres of milk, which is approximately a third of the milk produced in Australia annually. Sales revenue was $2.4 billion and 304,000 tonnes of product was exported, primarily to Asia, Middle East/Africa and the Americas.

Contents

The new milk payment system

MG offers its supplier/shareholders a single milk payment structure, complemented by a series of incentives that are aimed at rewarding off-peak milk production, milk production growth and efficiency improvements.

The structure was introduced for the 2013-14 season, following a comprehensive review of milk payments. The review was based on fairness and profitability for MG supplier/shareholders overall, across a range of farm systems and regions.

The specific objectives of the milk payment system are:

- To provide a simple and equitable payment system
- To reflect off-peak milk value
- To improve cashflow throughout the year
- To encourage growth
- To have transparent incentives and charges
- To provide MG with a sustainable milk supply to meet its strategic plan

The new milk payment system, developed in response to the review, is designed to improve profitability and cashflow on-farm, without impacting on-farm decision-making. It provides the basis for a sustainable pricing system.

Supplier/shareholders are now offered a single base price and the option to apply a Flat Milk Incentive. The Growth and Productivity Incentives continue, along with volume and collection charges.

The main features of the new milk payment system include:

A simpler system – MG has moved from three base prices to a single base price for all supplier/shareholders.

Improved cash flow and profitability – MG will raise the base price during peak months versus off-peak months, creating a flatter price curve.

Underpin markets – MG will retain a simpler Flat Milk Incentive (previously known as the Domestic Incentive) with an improved cash flow structure to ensure MG can supply key markets and increase the milk price for all supplier/shareholders.

Balanced – MG's milk pricing system balances the profitability drivers of a range of farm systems and MG product mix objectives.

Reflecting market signals: MG has amended the fat to protein ratio to better reflect the gradual increase in the market value of fat products. The new fat:protein ratio is 1:2.2 and will be applied to all milk payments to supplier/shareholders. Therefore, protein is valued at 2.2 times the value of butterfat.

Fair market signals (milk handling costs) – The review found that the current Productivity Incentive and volume charge fairly reflect the true costs to the MG business and therefore apportions milk handling costs fairly among supplier/shareholders. As a result, the current Productivity Incentive has been largely maintained at similar levels but simplified. However, collection charges have been amended to better reflect true costs.

The system at a glance

For the 2013-14 year, a single milk payment structure has been developed with a series of incentives.*

The main elements are as follows:

Single base price

A single base price for each month of the year will be announced at the start of the financial year. The monthly milk solid prices are available to all supplier/shareholders, regardless of region or calving pattern. The monthly values may vary throughout the season as a result of price increases, including back-pays and step-ups or, in rare instances, price decreases. Supplier/shareholders have access to incentive options which can increase their overall milk price.

Milk prices vary across the year reflecting MG's changing product mix and returns.

The aim is to provide a clear market signal to suppliers about the value of milk relative to when it is supplied. These varying monthly payments are built into the base price. MG has carefully assessed the returns to suppliers on a monthly basis, as well as the costs associated with milk production across the year. Based on this assessment, most supplier/shareholders will now be paid more per kilogram of milk solids compared to last year for milk supplied in the months of August through to March.

This change will increase the value of peak milk production relative to off-peak production and will improve cashflow for most suppliers.

Flat Milk Incentive (FMI)

The Flat Milk Incentive (formerly the Domestic Incentive) recognises the value of committed milk during the off-peak period.

Growth Incentive (GI)

The Growth Incentive recognises the value of additional milk supplied to MG. Part of this additional value is distributed back to those supplier/shareholders who provide the growth milk to MG.

Productivity Incentive (PI)

The Productivity Incentive recognises scale efficiencies in milk collection for MG.

Volume and collection charges

The volume charge distributes amongst suppliers the cost to MG in haulage and processing milk of varying composition, while the collection charge is for the costs associated with each milk collection.

* The Flat Milk, Growth and Productivity Incentives are calculated on qualifying milk solids only that are of Premium 1, Premium 2 and Base Quality (please refer to Farm Milk Quality Standards for details). The Flat Milk and Growth Incentives are loyalty-based incentives and require the supplier/shareholder to either be actively supplying MG at the time of payment or be deemed by MG to have legitimately retired.

Incentives

Flat Milk Incentive

MG is increasingly committed to higher value markets that require committed milk supply in the off-peak period.

The Flat Milk Incentive recognises the commitment made by a supplier to produce a specific proportion of their milk supply in the off-peak months of July, August, February, March, April, May and June.

Supplier/shareholders may elect to participate in the Flat Milk Incentive, providing they make the commitment by 31 August of the financial year in which the incentive is to apply.

The Flat Milk Incentive is calculated based on milk solids supplied to MG in a defined period as a percentage of total annual supply of milk solids for a given financial year. Qualifying milk solids are those supplied in July, March, April, May and June, as well as half of the supply of the milk solids supplied in the months of August and February.

Qualifying milk solids (MS) are divided by the total milk solids supplied for the financial year and expressed as a percentage as follows:

$$\left[\frac{\text{July} + ((\text{August} + \text{February}) \div 2) + \text{March} + \text{April} + \text{May} + \text{June (Kg MS)}}{\text{Total supply for season (Kg MS)}}\right] \times 100 = \text{FMI\%}$$

Figure 1: Formula for calculating suppliers' Flat Milk Incentive (FMI) percentage

Once the Flat Milk Incentive percentage has been calculated, a payment or deduction will be made with June milk proceeds by 15 July, at the rates outlines in Table 1.

The table also outlines a deduction to be made from the supplier-shareholder's milk proceeds if they do not meet their Flat Milk Incentive commitment.

Table 1: Flat Milk Incentive (FMI) payment and deduction rates

FMI % (excludes grade milk)	Cents Kg Butterfat	Cents Kg Protein
< 40.00%	-4	-9
40.00% - 40.99%	4	9
41.00% - 41.99%	14	31
42.00% - 42.99%	26	57
> 43.00%	39	86

Note: The Flat Milk Incentive payment or deduction only relates to supplier/shareholders who elect the option prior to 31 August of the relevant financial year.
No deduction or payment will be made from proceeds of supplier/shareholders who do not select this option.

What's changed?

Supplier/shareholders previously on the Domestic Incentive will receive improved cashflow under the new Flat Milk Incentive. This is because they are on a higher base price. To improve the base price the end of year payment has been lowered accordingly. The new fat to protein ratio has also been applied.

Growth Incentive

MG currently has spare capacity in its processing assets. More milk means improved utilisation of assets and higher farmgate prices. The Growth Incentive recognises the value of additional milk supplied to MG.

Accordingly, the Growth Incentive payment will be paid on growth in fat and protein supplied to MG compared to the average supply to MG from that farm's previous two financial years, when a farm has a net growth in milk solids*.

Growth Incentive rates are shown below.

Table 2: Growth Incentive (GI) payment rate

	Cents Kg Butterfat	Cents Kg Protein
GI (excludes any grade milk)	33	72

The Growth Incentive will be paid automatically on qualifying milk solids following the completion of the financial year. This payment will be due with the July milk proceeds paid around 15 August.

MG is committed to the Growth Incentive until 15 August 2015.

* There are other mechanisms for calculating the Growth Incentive where the farm has not supplied MG for all of the previous two financial years. You should discuss these with your local Field Services Officer.

What's changed?

The only change with respect to the Growth Incentive is the fat to protein ratio.

Productivity Incentive

As part of the milk payment review, MG carefully assessed the costs of handling milk and found existing payment rates did reflect costs. The Productivity Incentive recognises scale efficiencies in milk collection for MG.

Calculated and paid monthly, the new Productivity Incentive improves returns for smaller suppliers whilst two further production bands have been added to reflect continued size increases of supplying farms above the previous top productivity levels.

MG's commitment to the Productivity Incentive payment is ongoing.

Table 3: Productivity Incentive (PI) payment rates

Total kg's fat & Protein kg's (excludes grade milk)	Cents Kg Butterfat	Cents Kg Protein
1,701 – 3,800	2	5
3,801 – 5,800	3	7
5,801 – 8,000	5	12
8,001 – 10,000	7	15
10,001 – 12,500	8	17
12,501 – 15,000	9	19
15,001 – 17,500	10	22
17,501 – 20,000	11	24
20,001 – 25,000	12	26
25,001 – 30,000	13	29
30,001 – 40,000	14	31
40,001 – 60,000	15	34
60,001 – 80,000	16	36
80,001 – 100,000	17	38

What's changed?

The first band has been increased to receive a higher payment whilst two further production bands have been added. The new fat to protein ratio has been applied.

Milk handling charges

Volume charge

A volume charge is intended to reflect the cost to MG in haulage and processing milk of varying composition.

MG applies differential volume charges based on milk tanker size to reflect efficiency gains from trucks of a larger capacity.

Volume charge will now be simplified to two rates as outlined in Table 4.

Table 4: Volume charge rates

Tanker size	Rate
B-Double	2.5c/litre
Tri-axle	2.7c/litre

Collection charge

A collection charge is intended to reflect the costs associated with each milk collection.

The collection charge for the first collection in one day remains unchanged at $7.50, whilst the charge for the second collection requested by the supplier/shareholder in the same 24 hour period has increased to a flat rate of $40.

If a farm has a daily collection, but has a vat capacity which is sufficient for skip-a-day collection all year, then the collection charge will be applied on a skip-a-day basis with the appropriate collection charge rebated on 15 August the following year.

If a supplier/shareholder has upgraded their vat capacity to 1.4 times peak daily production and in accordance with the Farm Milk Quality Standards in a financial year, and notifies their local Field Services Officer before 30 June, then the supplier/shareholder will be entitled to a refund of all second collection charges they incurred in that financial year (up to a maximum of $4000).

What's changed?

The volume charge has been simplified and the second collection charge within 24 hours has increased to a flat rate of $40.

Discounts

Milk quality system

MG is focused on maintaining a high standard for milk quality and commits to a complete milk quality system review during 2013-14.

The prices set out in the opening price circular are for the supply of Premium 1 milk. If the milk supplied is classified as Base Quality or Premium 2 (as set out in the Farm Milk Quality Standards), then the price payable by MG is discounted as follows:

Table 5: Discounts for Premium 2 and Base Quality milk

Milk quality	Discount Cents Kg Butterfat	Discount Cents Kg Protein
Premium 2	-10	-24
Base Quality	-18	-41

Bactoscan, Thermoduric and Bulk Milk Cell Count (BMCC) results have independent rolling grade records and are tested at least once every 10 days. The BMCC is measured every time milk is collected. Inhibitory substances testing is conducted from a dip sample taken directly from the vat by the tanker driver. If, on routine farm testing or by trace back from tanker testing, a farm has a positive test for inhibitory substances, a 10 day second grade penalty will apply (ie. a 30% discount for 10 days of milk collection).

MG operates a grade system that includes milk grades received in the rolling 12-month period previous to the current 10 day period.

What's changed?

The new fat to protein ratio has been applied.

The following table demonstrates how milk is graded.

Table 6: Grade milk discounts

Number of rolling grades		Discount levels
	BACTOSCAN	
1 – 5	1 Average Day Penalty	First Grade - 10%
		Second Grade - 30%
6 and over	10 Day Penalty	First Grade - 10%
		Second Grade - 30%
	THERMODURIC	
1 – 5	1 Average Day Penalty	First Grade - 10%
		Second Grade - 30%
6 and over	10 Day Penalty	First Grade - 10%
		Second Grade - 30%
	BMCC	
1 – 5	1 Average Day Penalty	First Grade - 10%
		Second Grade - 30%
6 and over	10 Day Penalty	First Grade - 10%
		Second Grade - 30%

Bactoscan, Thermoduric and BMCC penalties will be cumulative to a maximum of 60%.

Contact us

Please contact your local MG Field Services team for further information.

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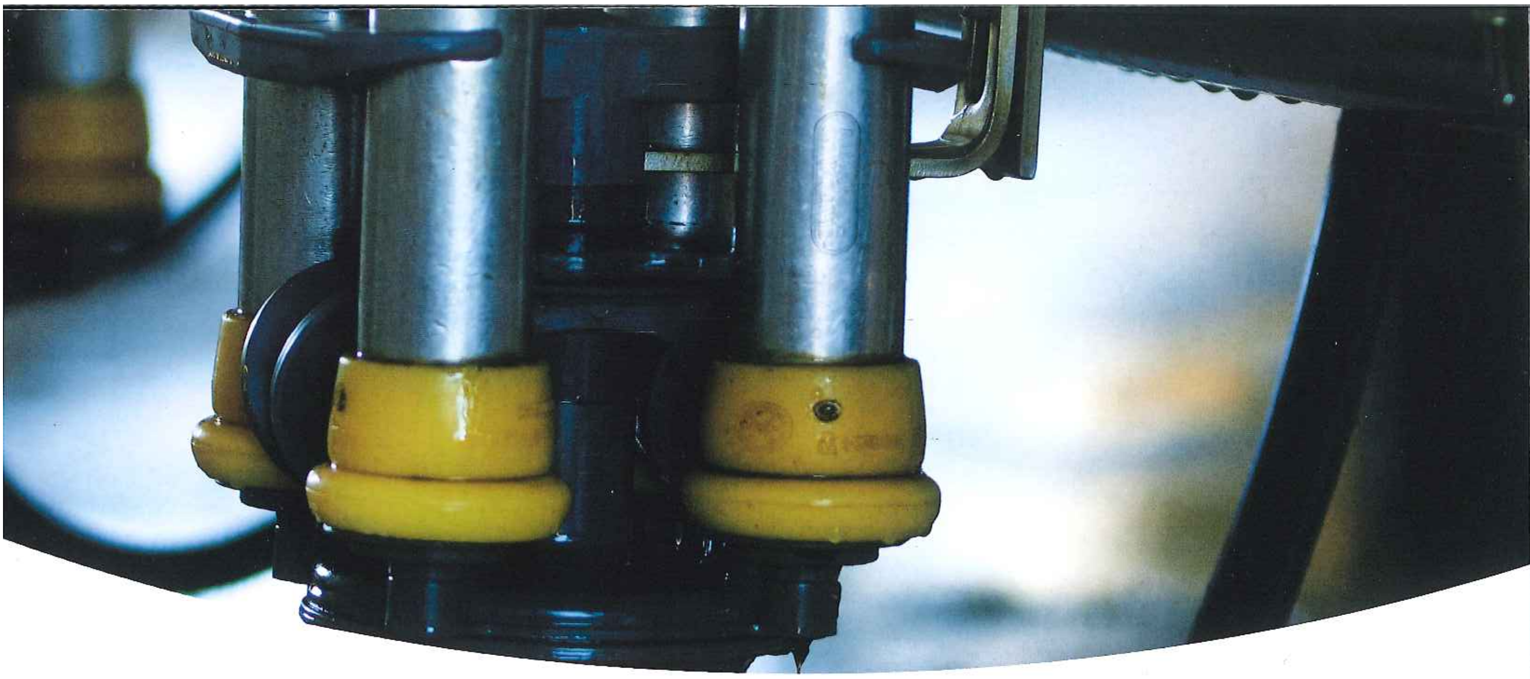

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