

Bonlac Supply Company



Farmers representing farmers

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<< Supplier Address File >>

Dear Valued Supplier,

I am aware that you may have recently been sent a copy of an unsigned letter from a number of current and ceased Fonterra suppliers that expressed the view that they (and the wider supplier base) had not been remunerated correctly for the 2015/16 season in terms of the milk price paid by Fonterra.

The general aim of the letter is to claim that under the BSC / Fonterra Milk Supply Agency Agreement (MSAA), that, for 2015/16, Fonterra has not met their 'benchmark' obligations to Fonterra suppliers to pay an amount not less than the milk price paid by the volume leading milk processor in Victoria (which is MG).

My response to you on this letter is as follows;

- Prior to the end of the season, BSC independently engaged lawyers to review each party's obligations under the MSAA. This was undertaken as it was deemed appropriate in the circumstances given the unprecedented events in the industry at the time. Based on the legal advice provided, BSC was satisfied that the approach undertaken by Fonterra was in line with (and actually exceeds) their MSAA obligations.
- The Final 2016 MG Farmgate Milk Price (FMP) – the prices used for determining the Benchmark - is clearly stated in MG's 2016 Annual Report as being \$4.80 (pp2,4), as well as in their AGM presentation slides. The MSSP of \$0.73 is noted in the MG financial statements as a receivable (an advance to be repaid). This MSSP advance to suppliers does not form part of the Benchmark price, and neither does any MG dividend payment.
- The final Milk Price paid by Fonterra for the 2015/16 season was \$5.13 and this was communicated in the 22 September 2016 edition of Watt Matters. This is significantly above the \$4.80 paid by MG.
- We are not in a position to speculate on what MG may do in the future with regards to its MSSP repayment schedule. However BSC retain a watching brief on this and should there be any material changes to the structure currently in place, those changes and any impact on the obligations under the MSAA, will be addressed at that time.

Please be rest assured that the BSC Board is acutely aware of its role in representing farmers, and ensuring that all parties meet their obligations.

Should you have any questions or feedback on any matter, please do not hesitate to contact myself or your regional BSC Board member.

Yours sincerely,

**Tony Marwood - Chairman
Bonlac Supply Company**