

FORMULA CONTRACTS - AUGUST '16 - CONFIRMED

JUNE AHDB DAIRY data declared impacting the Formula contract milk price for AUGUST 16

(Core Formula example below seasonality/profile variant). All prices milkprices.com



<u>Contract</u>	<u>Launch</u>	<u>Base Price July 16</u>	<u>Std Litre July 16</u>	<u>Price Change AUGUST 16</u>	<u>Base Price AUGUST 16</u>	<u>Std Litre AUGUST 16</u>
CORE FORMULA	Jul/Oct 14	19.109p	24.381p	+0.452p	19.561p	24.833p
SIMPLIFIED FORMULA	April 14	21.781p	24.381p	+0.452p	22.233p	24.833p
Core Formula	April 14*	19.109p	24.571p	+0.452p	19.561p	25.023p
Standard Liquid Comparison		12.848p	18.120p	n/c	12.848p	18.120p

*Core Formula standard litre includes +0.19p/l premium only available for April 14 signed up commitments.

DIRECT MILK DPO COMMENTARY

AHDB Dairy's five June Formula parameters combined result in the highest Formula monthly price increase for two years of **+0.452p/l**. This output returning the Core Formula (*April 2014 signees*) standard litre price back above **25p/l**.

Cream – AHDB reported an increase of £240/t for June vs. May. This is the largest AHDB's monthly incremental increase reporting of cream markets for almost seven years. It must be remembered that the AHDB £/t figure quoted is a monthly average, so at June month end, cream markets were already ahead of the £1,100/t reported. Indeed, such is the momentum in cream markets, that a further significant July increase should result providing additional price impetus to the Formula.

Concentrates – After 18 months of consecutive reductions in the cost of HE18% concentrates, June recorded a £2/t increase. Costs of major sources of protein ingredients have increased markedly since February following the Argentina crop failures, resulting in a 50%+ increase in Soya values in four months. Rapeseed costs have also inflated 40% in the same period. As plentiful supply had been expected many compounders had not taken forward cover; so these costs are being passed on.

Fertiliser – AHDB recorded Ammonium Nitrogen cost at a nine year low for June, down a further £22.50/t in the month.

Red Diesel – A fourth consecutive monthly increase in red diesel costs, now increasing by 24% since the February low.

Retail 4 pints – No monthly changes; but does represent the first year on year increase, 100p June 2016, vs. 98p June 2015.

Formula Outlook: - In addition to the short term 'Brexit' currency factors, as UK and EU milk supplies tighten, the escalation in cream market values (+37% already since April) continues. As concentrate prices are also increasing, if these combined factors continue to be sustained at current rates then the transparency provided by the Formula milk pricing mechanism will deliver additional Formula derived increases in the coming months.

Notes:

Data below as declared through each month's AHDB Dairy review. Any subsequent data revisions are incorporated in the rolling sequencing. Revisions indicated through the struck through data below - i.e. fuel and cream data for March - June etc.

FORMULA INDICES - UPDATE

		<u>MARCH 16</u>	<u>APRIL 16</u>	<u>MAY 16</u>	<u>JUNE 16</u>
Cream	£/t	£820	£800	£860	£1,100
Cream Index	ppl	4.54p	4.75p	4.62p	6.40p
Four Pints Retail #	4 pints p	100p	100p	100p	100p
Feed - concentrate	£/t	£217.50	£209.50	£208.50	£210.50
Fertiliser - AN	£/t	£211.50	£197.50	£192.00	£169.50
Fuel - red diesel	p/l	38.62p 38.52p 38.50p	42.32p 42.30p 42.31p	44.30p 44.08p	46.51p

Indices applied via the Formula milk price on a 'month after next basis' i.e. June impacting August price.

MILK PRICE APPLICABLE	<u>MAY 16</u>	<u>JUNE 16</u>	<u>JULY 16</u>	<u>AUGUST 16</u>
MONTHLY FORMULA CHANGE	-0.265p	-0.129p	-0.090p	+0.452p

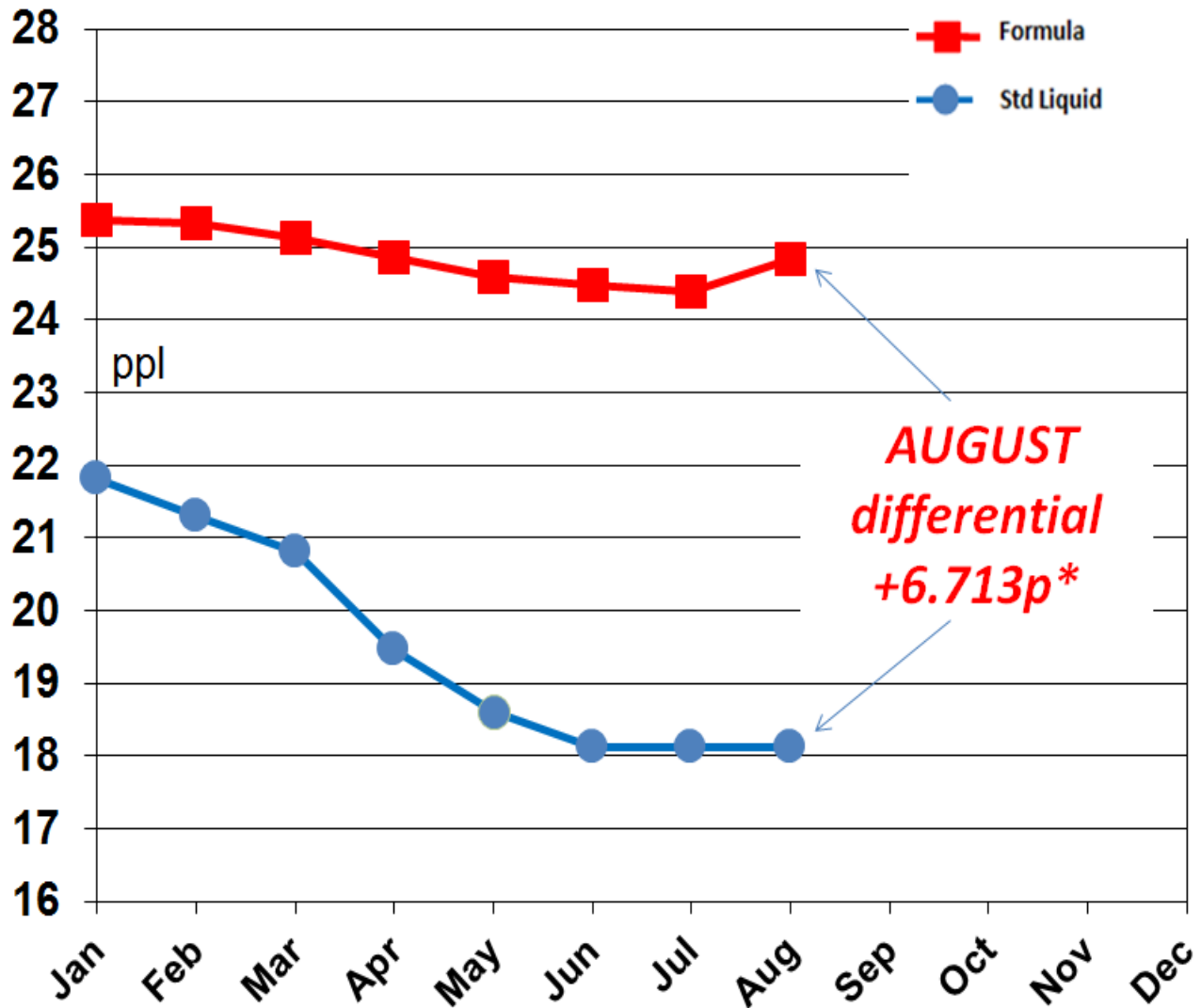
*Formula p/l comparison for consistency based on mp.com flagship table profile inclusion of 1.272p/l at April '14 Formula launch based on Jan 14 RPA data. All data rounded to 3 decimal places.

2016 Formula Summary - update

JUNE AHDB Dairy (Dairy Co) published data is utilised to generate the AUGUST milk price.

The price differential for July provides a **+6.713p/l** (*excluding retail supplement payments*) advantage towards Formula priced litres compared to the equivalent standard litre.

FORMULA – Related Price 2016 p/l



*** Excluding any retail supplements**

NOTICE TO FORMULA – January 2016

In order to provide the appropriate time and flexibility for a thorough review process of all farmer contracts, Müller Milk & Ingredients have served notice on the Core Formula and Simplified Formula pricing schedules. For the avoidance of doubt, this is notice on the Formula payment terms and not the Milk Producer's Agreement.

Effective dates involved 31st January 2016 12 months-notice, new arrangements following the thorough review process 1st February 2017.

Please see updated parameter charts below - all declared for JUNE 2016

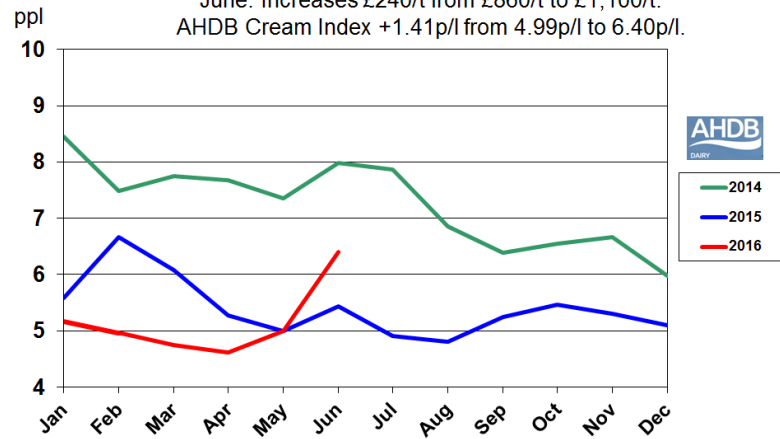
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FORMULA DATA HIGHLIGHTS – JUNE 2016

- Cream – increased £240/t, and by +1.41p/l applied to the cream index now at 6.40p/l.
- Retail four pints – no change at 100p/4pints.
- Feed HE 18% - increased by £2/t at £210.50.
- Fertilizer – decreased by £22.50/t at £169.50/t
- Fuel – increased by 2.43p/l to 46.51p/l for June. Plus further a backdated adjustment applied by DECC for May -0.22p/l to 44.08p/l, and by +0.01p/l to 42.31p/l for April.

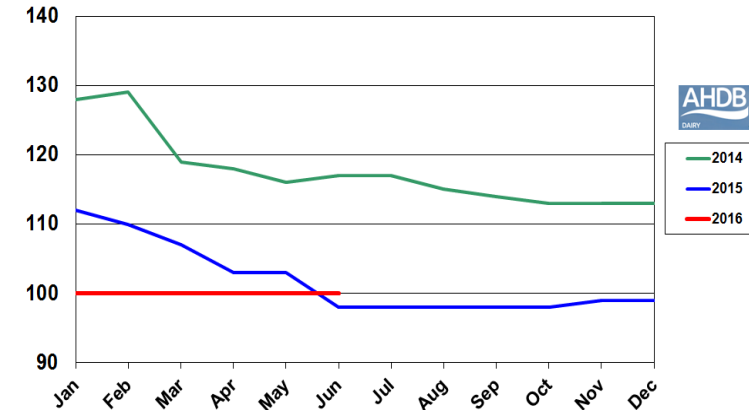
FORMULA – Cream Index – p/l

June: Increases £240/t from £860/t to £1,100/t.
AHDB Cream Index +1.41p/l from 4.99p/l to 6.40p/l.



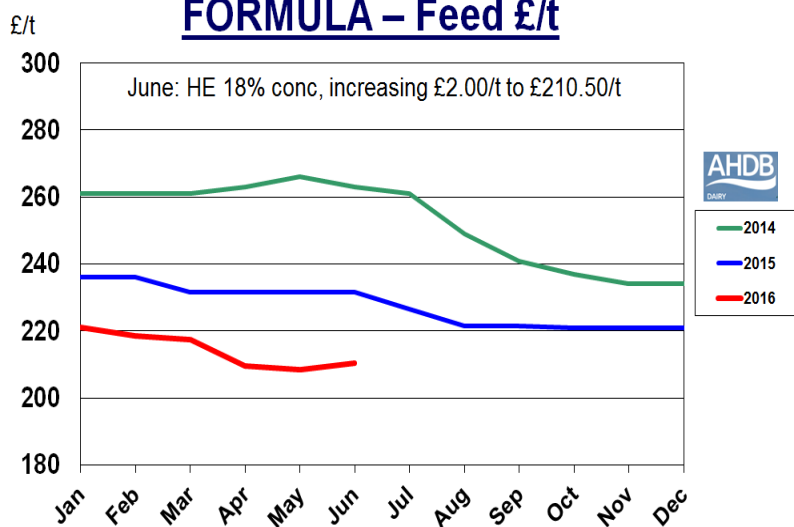
FORMULA – Retail Sales – 4 pints

June: No change at £1.00/4 pints



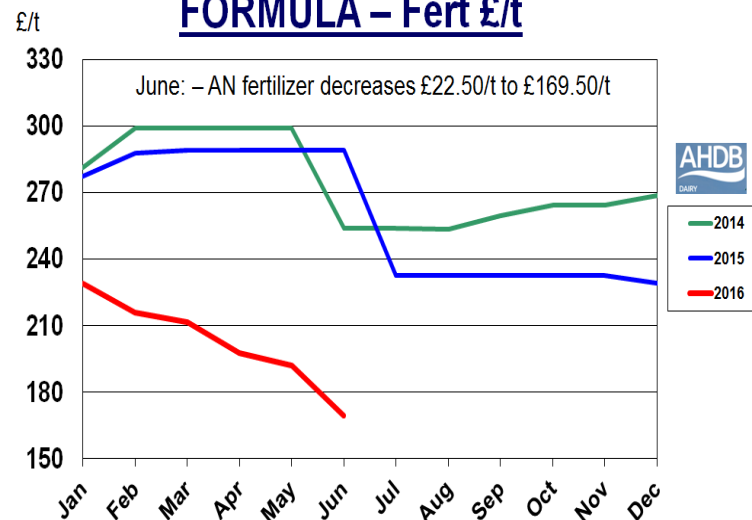
FORMULA – Feed £/t

June: HE 18% conc, increasing £2.00/t to £210.50/t



FORMULA – Fert £/t

June: – AN fertilizer decreases £22.50/t to £169.50/t



FORMULA – Fuel p/l

June: red diesel, +2.43p to 46.51p/l,
May: revised data from 44.30p/l to 44.08p/l,
April: revised data from 42.30p/l to 42.31p/l.

