

# ANNUAL REPORT 2015



**Bonlac**  
**Supply Company**



Farmers representing farmers



# Company Information

Bonlac Supply Company Limited  
ACN 095 271 266

## **Directors**

Anthony K Marwood (Chairman)  
Aubrey O Pellett (Deputy Chairman)  
Simon C Finger  
Christiaan L Hofing  
Gregory J Bourke  
Tania S Luckin  
Mark A Billing  
Leo M Delahunty

## **Company Secretary**

William G Kermode

## **Registered Office**

327 Ferntree Gully Road  
Mount Waverley, Victoria, Australia 3149  
Tel: 03 8541 1588  
Fax: 03 8541 1822

## **Auditors**

PricewaterhouseCoopers



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# Chairman's Report





## WELCOME TO THIS YEAR'S ANNUAL REPORT

This year's report comes to you in a different format, reflecting both the change that has occurred within Bonlac Supply Company, and highlighting our areas of focus throughout the 2014/15 season.

## YEAR OF STRUCTURAL CHANGE FOR BSC

In December 2014 the Capital Note Agreement between BSC and Fonterra expired, with the Capital Note fully paid by Fonterra to BSC. BSC redeemed \$23.3 million back to shareholders, and also paid out \$1.5 million through a loyalty payment and \$1.1 million in dividends to shareholders. In February 2015 the BSC capital restructure was put to shareholders for formal approval, receiving strong support. As a result of the change, BSC is now able to represent all farmers that supply milk into Fonterra.

Operationally speaking, not a lot has changed with the new structure. The BSC/Fonterra Milk Supply Agency Agreement remains in place, and will continue until 2019. Importantly, the Monitored Benchmark Return also remains in place until 2019, ensuring all dairy farming businesses that come under BSC have security around the return they receive for their milk.

The relationship between BSC and Fonterra continues to grow and mature into a partnership that delivers enormous value for you. Our partnership has a clear focus on profitability, with the BSC working closely with Fonterra to develop initiatives to help your farming business prosper. Some of the projects we've worked on this year include the Milk Price review report from Ian Gibb, which brings you even greater clarity around the price you receive for your milk, and the evolution of Fonterra's Price Risk Management tools, to help you better manage volatility.

We are committed to working with you and for you in 2015/16 and beyond, to work with both industry and government on your behalf and to represent your views. BSC is truly "Farmers representing farmers".

## THE SEASON IN REVIEW

After a strong season in 2013/14, hopes were high for a continuation of the conditions that saw season 2013/14 close at record highs. The season was off to a good start with Fonterra's highest opening price ever. However market forces weren't on our side, with the global commodity price for SMP losing over half its value through the course of the season.

Strong growing conditions around the world meant that many dairy-producing countries had bumper seasons. This was particularly so in Europe, which also had its production quotas lifted. The resulting boost in supply was unfortunately met with a tapering off of demand in several markets. Russia imposed a trading ban on several trading partners including the EU and Australia, which further exacerbated global oversupply issues. Meanwhile, a softening Chinese economy saw demand for dairy drop 21 per cent.

Local factors also hindered growth. A fire at Fonterra's Stanhope site in December destroyed the cheese plant, meaning milk that would ordinarily go into highly-profitable cheese production was instead moved into low-value SMP. The loss of the Danone contract at Darnum also continued to bite, further contributing to an unfavourable product mix.

The BSC Board were regularly updated throughout the season on market conditions and Fonterra's challenges, and have been kept informed of Fonterra's future plans, in which Australia features prominently. One of Fonterra's key strategies aimed at maximising the value of your milk is their plan to transform Australia into its global hub for cheese, whey, and nutritional powders, complemented by its Foodservice and Retail businesses. This will restore the balance to Fonterra's product mix and squeeze value out of every drop of milk.

We look forward to seeing these plans come to life, and share Fonterra's confidence in the future of its Australian milk pool and the Australian industry more broadly.

## Some of our recent achievements include

- Ian Gibb report into Milk Pricing
- Dr Selwyn Heilbron report into Murray Goulburn Capital Restucture
- BSC now oversees the operation of the Supplier Forum
- The BSC Leadership Programme
- Our submission to the Federal Government Senate Inquiry into the Murray Darling Basin Plan
- Goulburn Murray Water connections programme representation
- Continued work with Fonterra to develop initiatives to support farmers
- Active representation, both within the dairy industry and to State and Federal Government
- Govern investments owned by BSC utilising the profits to deliver value to our suppliers

## ACKNOWLEDGEMENTS

On behalf of the Board, I would like thank all of you for your continued loyalty and support. This support is crucial to the BSC model and ensures that we can continue to represent your views at the highest levels of the industry and government.

I would also like to thank Fonterra management and staff for their continued support. Our partnership continues to strengthen and I truly believe that together we are delivering great value for our farmers.



**Tony Marwood**  
Chairman

# Directors

The Bonlac Supply Company Directors and details of their qualifications, expertise and experience are as follows:



## **ANTHONY K MARWOOD**

Echuca, Victoria  
Chairman  
Non-executive Supplier  
Director  
Age 55

Tony Marwood was elected to the Bonlac Supply Company (BSC) Board in 2006. He is a dairy farmer in Echuca, northern Victoria. Tony was a Bonlac Supplier Representative for seven years and in 2009 was elected the BSC Chairman. In 2004, Tony completed Dairy Australia's 'Advance in Dairy Leadership' program. More recently, Tony has completed the Mellonsfoll Corporate Governance course in New Zealand.



## **AUBREY O PELLETT**

Hill End, Victoria  
Deputy Chairman  
Non-executive Farmer  
Director  
Age 42

Aubrey Pellett was appointed to the Bonlac Supply Company (BSC) Board in May 2013. Aubrey runs a dairy farm in Hill End, Victoria. Aubrey has held the position of Director GippsDairy since 2010 and Director Rural Financial Counselling Service – Victoria, Gippsland since 2011. He holds a Diploma of Company Directors from AICD, and is a 2014 Nuffield Scholar (GAICD). Aubrey is a delegate on the Fonterra Australia Supplier Forum.



## **CHRIS L HOFING**

North West Coast, Tasmania  
Non-executive Supplier  
Director  
Age 53

Chris Hofing was elected to the board of the Bonlac Supply Company (BSC) in 2011. He is a dairy farmer from the North West Coast of Tasmania. Chris completed Dairy Australia's 'Advance in Dairy Leadership' program as part of the BSC Leadership Development program in 2007. Chris is also involved in the National Centre of Dairy Education, and is a member of the committee which recruits and retains persons in the dairy industry. Chris is also a delegate on the Fonterra Australia Supplier Forum.



## **SIMON C FINGER**

Yannathan, Gippsland  
Non-executive Supplier  
Director  
Age 36

Simon Finger was elected to the Board of Bonlac Supply Company (BSC) in 2009. He is a dairy farmer from eastern Victoria. Simon completed Dairy Australia's 'Advance in Dairy Leadership' program as part of the BSC Leadership Development program in 2007 and holds a Certificate IV in Workplace Training and Assessment. In 2006, Simon was nominated as the project officer representing the Gippsland region for the Young Dairyfarmer Development Program, employed through the National Centre for Dairy Education. Simon is a delegate on the Fonterra Australia Supplier Forum.



**LEO M DELAHUNTY**

Murtoa, Victoria  
Non-executive Director  
Age 63

Leo Delahunty was appointed to the Bonlac Supply Company (BSC) Board in May 2013. He is a partner in a family grain farming business located near Murtoa in the Wimmera, growing cereal, canola and pulse crops. Leo is a Director of GWM Water and the Chair of its Audit, Governance and Risk committee. Leo's past roles include Deputy Chairman of GrainCorp and a Director of Grain Growers Association, a Director of PIVOT and Incitec Pivot and an Independent Director of Wimmera Racing Ltd. He was a co-founder of DIRT Management that established and managed the Warakirri Agricultural trusts for ten years, operating grain farms through eastern Australia. Leo is a fellow of the Australian Institute of Company Directors and a graduate of the AICD Advanced Program.

**TANIA S LUCKIN**

Heywood, Victoria  
Non-executive Farmer  
Director  
Age 42

Tania was appointed to the Bonlac Supply Company Board in March 2014. Tania runs a dairy farm with her family in Heywood, Victoria. She has an advanced Diploma of Agriculture, and is currently studying a Bachelor of Business (accounting). Tania is actively involved in the dairy industry on many levels, including participating in numerous extension programs and discussion groups; participating in the Department of Environment and Primary Industries Dairy Farm Monitor project; Focus Farm for Natural Resource Management Group; is on the steering committee for the West Victoria Dairy Focus Farm; and is on the south-west Regional Extension Committee.

**MARK A BILLING**

Larpet, Victoria  
Non-executive Supplier  
Director & Fonterra Supplier  
Forum Chairman  
Age 47

Mark Billing, together with his wife Sam, run a dairy farm in the south west region of Victoria. Mark was appointed to the Bonlac Supply Company (BSC) Board in May 2013 and is also chair of the Fonterra Australia Supplier Forum representing the Bonlac Supply Company. Mark was the Victorian Dairy Apprentice of the year in 1988 and since then has been actively and enthusiastically involved at various levels within the dairying industry.

**GREGORY J BOURKE**

Melbourne, Victoria  
Non-executive Director  
Age 57

Greg is the former CEO and Managing Director of Patties Foods Ltd and has over 20 years directorship experience. Greg has held Senior Executive roles at George Weston Foods Ltd in Australia and New Zealand. He has served on the Board of the Australia Food and Grocery Council and has a strong background in finance. Greg is currently a consultant and non-executive director for a number of food manufacturing companies.

# Directors

## **NORTHERN REGION – TONY MARWOOD**

Whilst most dairy businesses in the North had on average a reasonable year financially, there were certainly some challenges, particularly around irrigation water price and availability, and a dry second half of the year culminating in a very late Autumn break.

The GMW connections program continues to be rolled out slowly and is causing a lot of frustration amongst many of our suppliers who are still not connected to the backbone and in too many cases yet to see planning or contracts. I have been working closely with MG and Tatura Milk/Bega in representing dairy views to GMW. Dairy is GMW's largest customer and needs to be treated appropriately.

The impacts from the Murray Darling Basin Plan are now having severe implications for our region. Temporary water prices have soared from \$40 to \$210 in just 3 years. Current water trading rules are not working well and need to be more transparent and



constructed correctly to deal with increasing water scarcity. BSC is forwarding a submission into the Federal Senate Inquiry into the MDBP and we have sought input from our suppliers in the North.

I am a passionate believer in the natural benefits and competitive advantages of dairy farming in the GMID. There is much work going on to ensure this remains the case.

## **SOUTH / TASMANIA – CHRIS HOFING**



The 2014/2015 season has seen a 10% increase in milk production in the Tasmanian dairy industry and this is due to our Fonterra BSC suppliers increasing their production.

Catching up with suppliers at supplier meetings, AgFest, discussion groups, cluster group meetings, field days, football, rural stores, and at the pubs gives us an opportunity to talk to suppliers and find out what is happening at a BSC level.

Forum delegates Gary Van Der Drift, Symon Jones and Nick Cramp also get the opportunity to chat with suppliers. The BSC leadership program has had a good uptake in the South and we are always on the look out for willing participants who want to be apart of future programmes. BSC also ran a small meeting with suppliers with Cashel Finance Services and the feedback from the participants was beneficial and worthwhile.

I look forward to representing southern suppliers in the coming year.



### **EASTERN REGION – SIMON FINGER**

It has been an important year for BSC suppliers in the East with the change in pricing structures which the board was pleased to be part of. Gippsland is predominately pasture based so the effect of having a pricing structure based around this will allow our farmers to make the most profitable feeding decisions every day. I have spoken to a number of suppliers throughout the year that have suggested they can now focus on the profitability of their business, rather than producing milk to meet seasonal production targets.

It is pleasing to see that the work the Board, Supplier Forum and Fonterra Support crew around helping farmers be more profitable is being seen through the growth of many farm businesses across Gippsland.

I have enjoyed seeing this at some of the discussion groups run by area managers Robyn Mitchard, Sarah Carter and Phil Johnson. This group has farmers of all stages of their farm business life and it is pleasing to see the leadership, mentoring and reinforcement within the group.

We said goodbye to long serving Regional Manager Mik Harford who I work very close with supporting our farmers. He was a strong advocate for the work of the BSC Board, Forum and also the Leadership program. He genuinely had an interest in seeing our farmers achieve their personal goals. We wish him and his family all the best and look forward to working closely with Chris Potts who is the new Regional Manager.



### **WESTERN REGION – MARK BILLING**

The Fonterra / BSC Colac discussion group that I facilitate has been meeting regularly over the past year with good attendance. The group's main focus has been farm profitability and we have engaged with the Fonterra Support Crew and a private consultant to strengthen the groups knowledge in this area of the farm business and work with Dairy Australia's Dairy Base.

The Supplier Forum ran three very successful "Planning for Positive Performance" days in the West at Noorat, Toolong and Larpent. This format received very positive feedback from suppliers and showcased the Supplier Forum and Support Crew. Fonterra / BSC Supplier Forum delegates Steve Luckin, Dave Conheady and John Dalton continue to provide excellent feedback to me as a Director on issues affecting suppliers as well as being strong representatives for the West on the Supplier Forum. The Warrnambool field days were



another great opportunity to catch up with many of our suppliers and this event provided us with an opportunity to talk about how BSC will continue on representing our farmers after the share buy-back. I look forward to representing the Western region farmers and the broader supplier base in the coming year.



# Summary Financial Results

During 2014/15 the capital notes BSC held with Fonterra were repaid to BSC (thus ceasing all future interest receipts), and the once-off loyalty bonus BSC negotiated with Fonterra (in 2012 upon the signing of the new agency agreement) was paid to BSC. BSC also had a very favourable year in terms of income on its investments and the realisation of investment capital gains.

This increased level of income was due to a number of one off investment transactions, thus enabling BSC to significantly increase its distributions to shareholders. When combined with the repayment of all the A Class/Supplier and B Class/DRY shares, BSC has contributed almost \$26million back into our local communities in 2014/15.

Income Statement	FY 2015 \$'000	FY 2014 \$'000	Change
Agency Fee income	680	737	-8%
Investment income (including capital gains)	449	124	+262%
Interest on Capital Notes (payments from Fonterra)	556	1,076	-48%
Other Income from Fonterra	1,774	-	-
Total Income	3,459	1,937	+79%
Director and staff costs	363	312	+13%
Corporate Support	518	426	+22%
Distribution of Loyalty Bonus	1,508	-	-
B Class Dividend	159	69	+130%
Profit before Income tax	911	1,130	-19%
Income tax Expense	317	360	-12%
Total profit for the year after tax	594	770	-23%



# Total Distributions to suppliers and shareholders

## Dividends and other income payments

	FY 2015 \$'000	FY 2014 \$'000	Change
A class dividend	959	449	+113%
B class / DRY dividend	159	69	+130%
Distribution of Loyalty Bonus	1,508	0	-
	2,626	518	+407%

## Total Distributions to suppliers and shareholders

	FY 2015 \$'000	FY 2014 \$'000	Change
Supplier / A class shares	19,529	1,386	+1,309%
DRY / B class shares	3,816	946	+303%
	23,345	2,332	+901%





BBQ with Symon, Louise, Steve and Liz of Dairy Tas.

## Background on BSC Leadership Program 2014/15

The BSC Leadership Program has been running for 10 years, with 38 participants going through the program over that time. The Program provides a learning opportunity for suppliers to grow and develop their skills to lead in their community and industry.

More recent programs have worked in partnership with the Dairy Australia Developing Dairy Leaders Program, and the National Centre for Dairy Education (NCDE), which provides the academic status, for accreditation going towards an Advanced Diploma in Agriculture.

Many graduates of the program go on to give back to their communities as leaders, such as joining a school council, participating in shire work or leading projects for their local sports club. It's a great way to showcase the industry within local areas and help our suppliers make a difference in their community from a dairying perspective.

The program also provides a great pathway for suppliers aspiring to lead, from the Leadership Program, to the Fonterra/BSC Supplier Forum, to the BSC Board.

Some previous participants of the BSC Leadership Program have been; Tony Marwood – BSC Chairman; Adam Jenkins – UDV President; Simon Finger – BSC Director; Chris Hofing – BSC Director; Nigel Brock – ANZ Farm Business of the Year Tas; Stuart Griffin – Chair Gippsland Milk Quality Forum and Liza Fahey – Finalist in Victorian Business Woman of the Year.

The program is being modified, in line with the Dairy Australia program, to ensure that any aspiring leaders, be it for local communities, or state organisations, or national leadership, will have suitable options and components to provide opportunity at any preferred level.

The program has been run on a bi-ennial basis, with offers for application are generally sent out in the later part of the calendar year. For any information please contact your local BSC Director or Area Manager.

### **Chris Thomas**

BSC Leadership Program Coordinator





We started in Warragul/Darnum, learning presentation skills...



... and ended up in Canberra, where we put our new presentation skills to good use.





# BSC/Fonterra Supplier Forum

The establishment of the Supplier Forum in 2009 furthers the commitment of Fonterra Australia and BSC to our farmer suppliers.

Fonterra Australia/BSC believe that having a sustainable, committed and viable supplier base is an essential part of building a strong company.



West Regional Meeting, Toolong.

## The Aim of the Supplier Forum is to;

- Provide a structure that builds on existing organisations.
- Facilitate the inclusion of suppliers from all regions.
- Foster the level of understanding between all of our farmer suppliers and the company.

## Forum Objectives;

- To provide two-way consultation between Fonterra Australia/BSC and its milk suppliers.
- To provide input into wider business and industry issues.
- To provide leadership in contributing to an industry-leading value proposition for farmers.

## This to be carried out by;

- Providing communication between the company and our supplier base.
- Providing a shared knowledge of company direction.
- Providing leadership in increasing the loyalty and commitment of suppliers.
- Improving the responsiveness and understanding of company management.

A review of the Supplier Forum was conducted in 2014 and recommendations were implemented in March 2015. This streamlined the operation of the Forum and gave the delegates clear direction on their roles and responsibilities.

Another aspect of the review was to look at broader supplier interaction. With this in mind the July Forum meeting moved out to the regions with great success, this enabled Forum delegates together with BSC Directors and Fonterra management to engage at a local level. Over 80 suppliers attended and the feedback was very positive.

The Forum will continue to look at better ways to represent suppliers and provide feedback. If you have any queries please contact your local delegate.



# Contacts

## **FORUM CHAIR**

Mark Billing **0417 502 400**

## **SUPPLIER FORUM CO-ORDINATOR**

Chris Thomas **0418 544 638**

## **BSC DIRECTOR REPRESENTATIVES**

Aubrey Pellet

Simon Finger

Chris Hofing

## **EAST**

Rachael Finch **0427 304 273**

Stuart Griffin **0402 846 236**

Peter Collins **0407 708 863**

## **NORTH**

Kelly Barnett **0429 330 411**

Rob Schloss **0409 548 453**

Jarrold O'Sullivan **0413 777 973**

## **WEST**

David Conheady **0418 379 039**

Stephen Luckin **0458 778 083**

John Dalton **0407 052 646**

## **SOUTH**

Nick Cramp **0409 676 219**

Symon Jones **0409 012 366**

Gary Van Der Drift **0419 701 110**





**Proud Partners of the  
Bonlac Supply Company**