

Dairy Farmers of America's Dairy Risk Management Services

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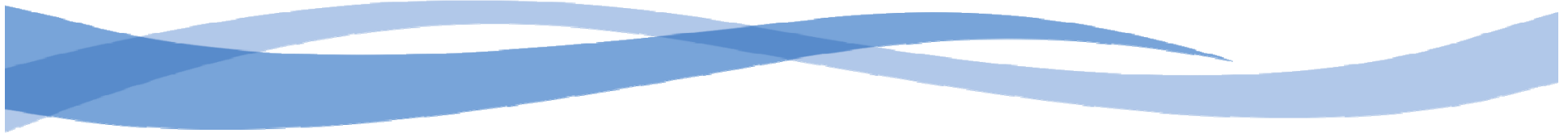


Dairy Farmers of America

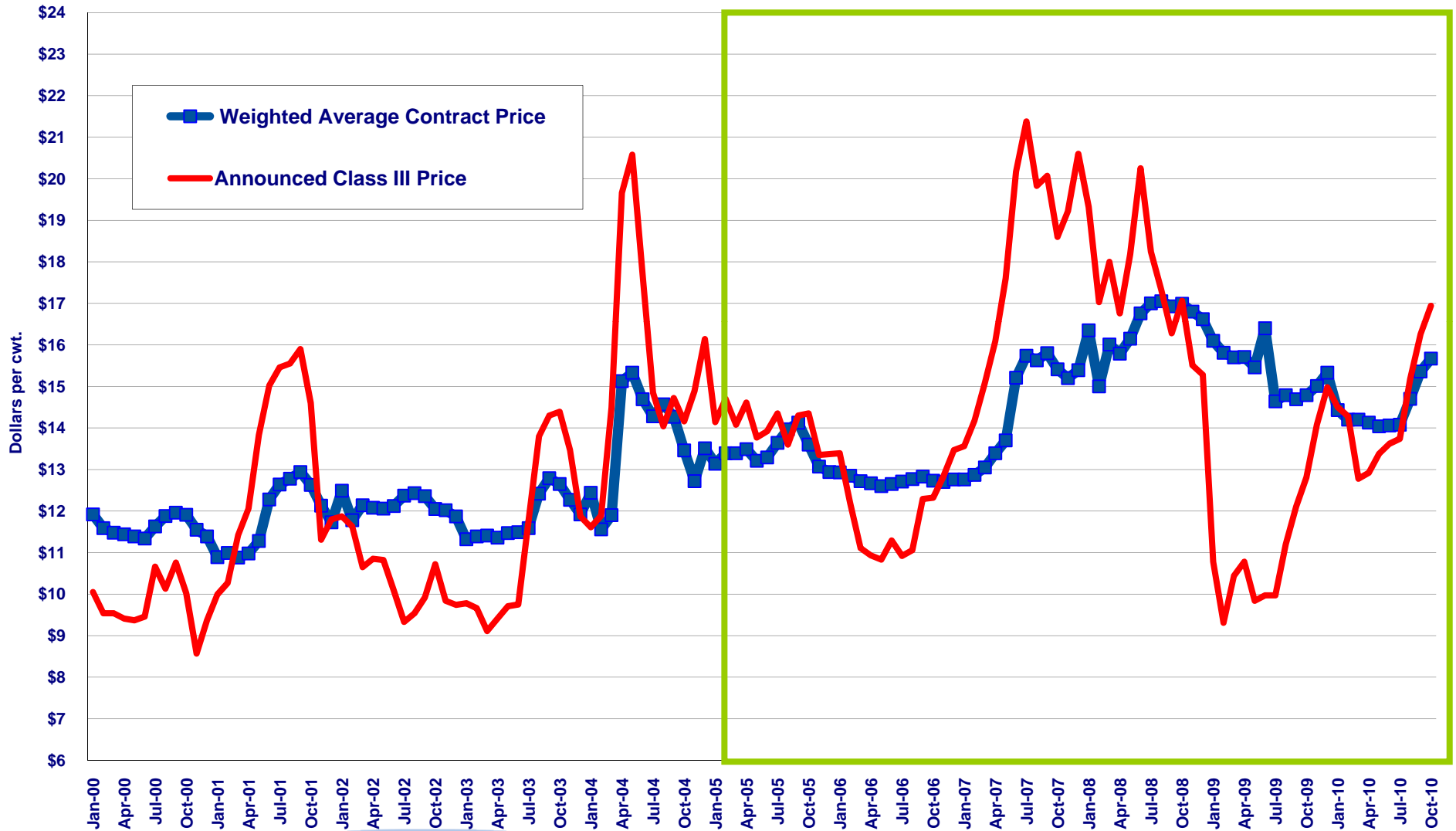


DRMS

Dairy Risk Management Services



Weighted Average Contract Prices vs. Announced Class III Prices
January 2005 through November 2010 - Contract Ranges Reflected
Weighted Average Value - \$14.51 vs. Class III Average - \$14.54



Forward Contract vs Futures Contract

Forward Contract

- Physical Delivery
- No daily margin calls
settles on the milk check
- Flexible Sizes
- Limited flexibility

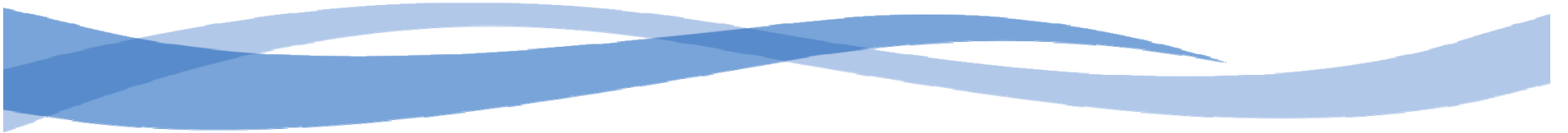
Exchange Traded

- Cash Settled
- Margin Calls (performance bond)
- Standardized Contract
- Flexibility – more exotic options

Basis Risk



Price Risk Management Strategies



Basic Contracting Programs

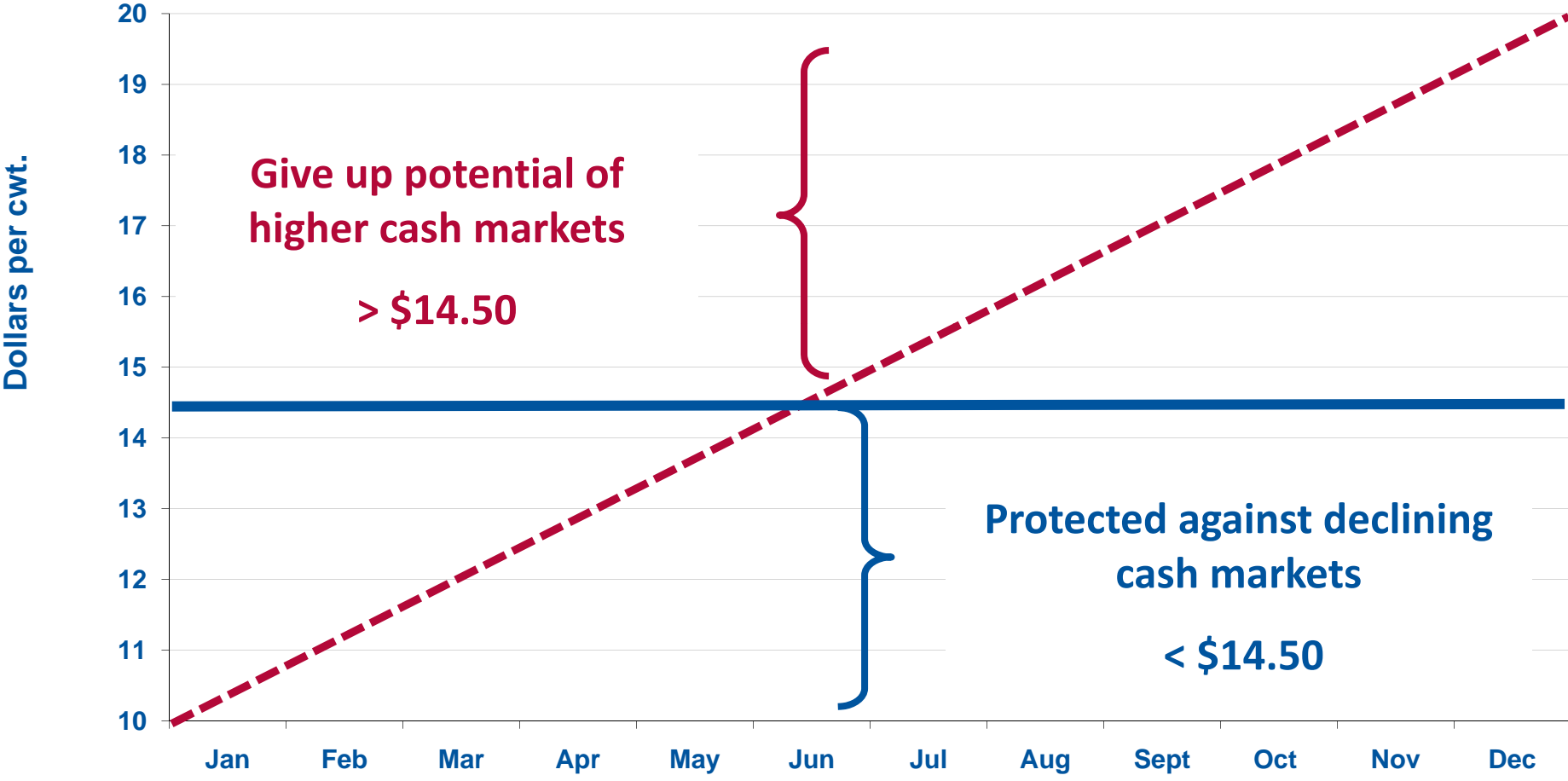
- **Fixed Price**
- **Minimum Price**
- **Minimum/Maximum (Min/Max)**
- **Upside Rider (used in conjunction with Fixed or Min/Max)**



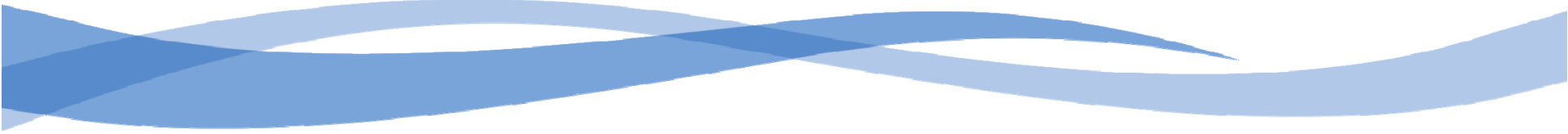
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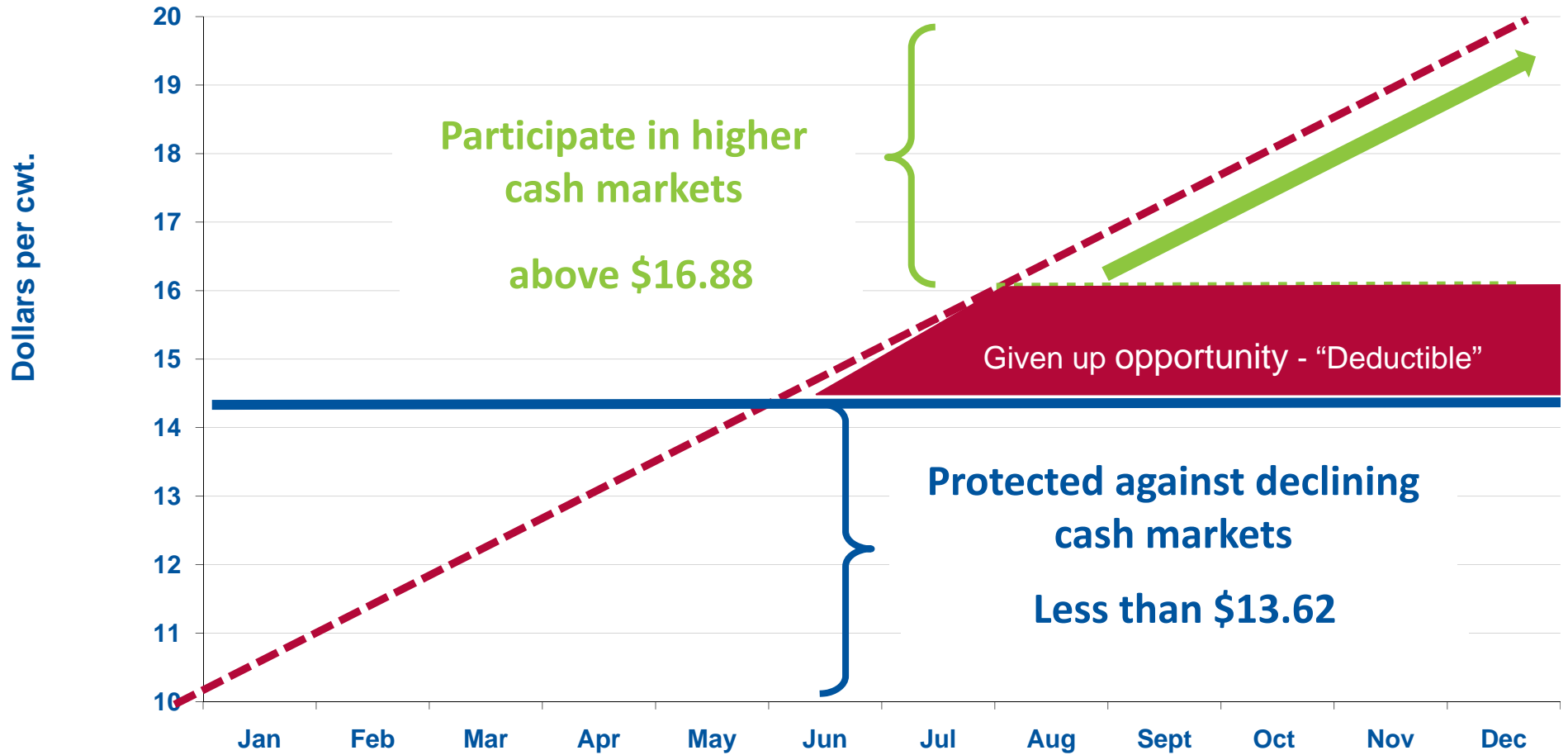
Fixed Price Forward Contract



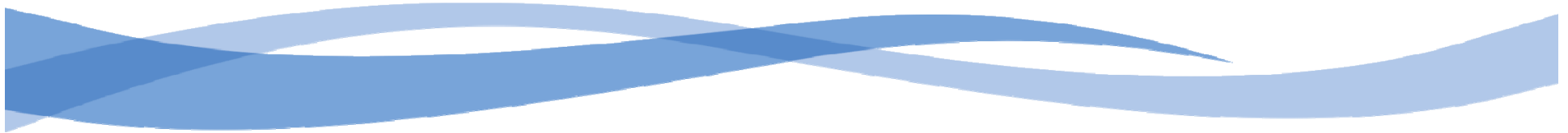
Class III Price over Time



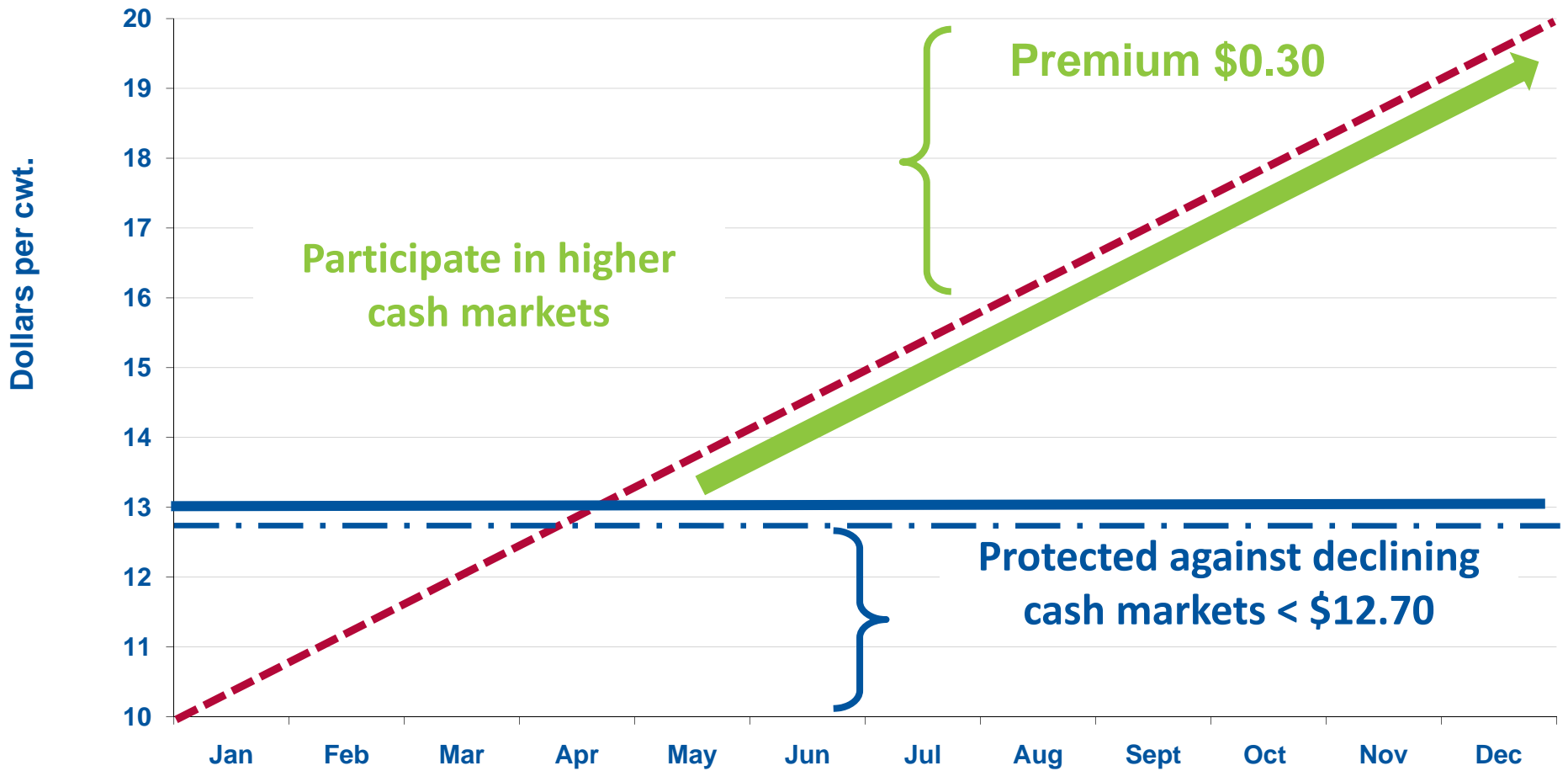
Fixed Price Forward Contract with Upside Rider



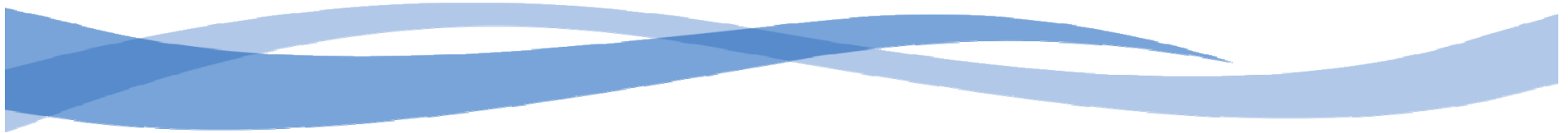
Class III Price over Time



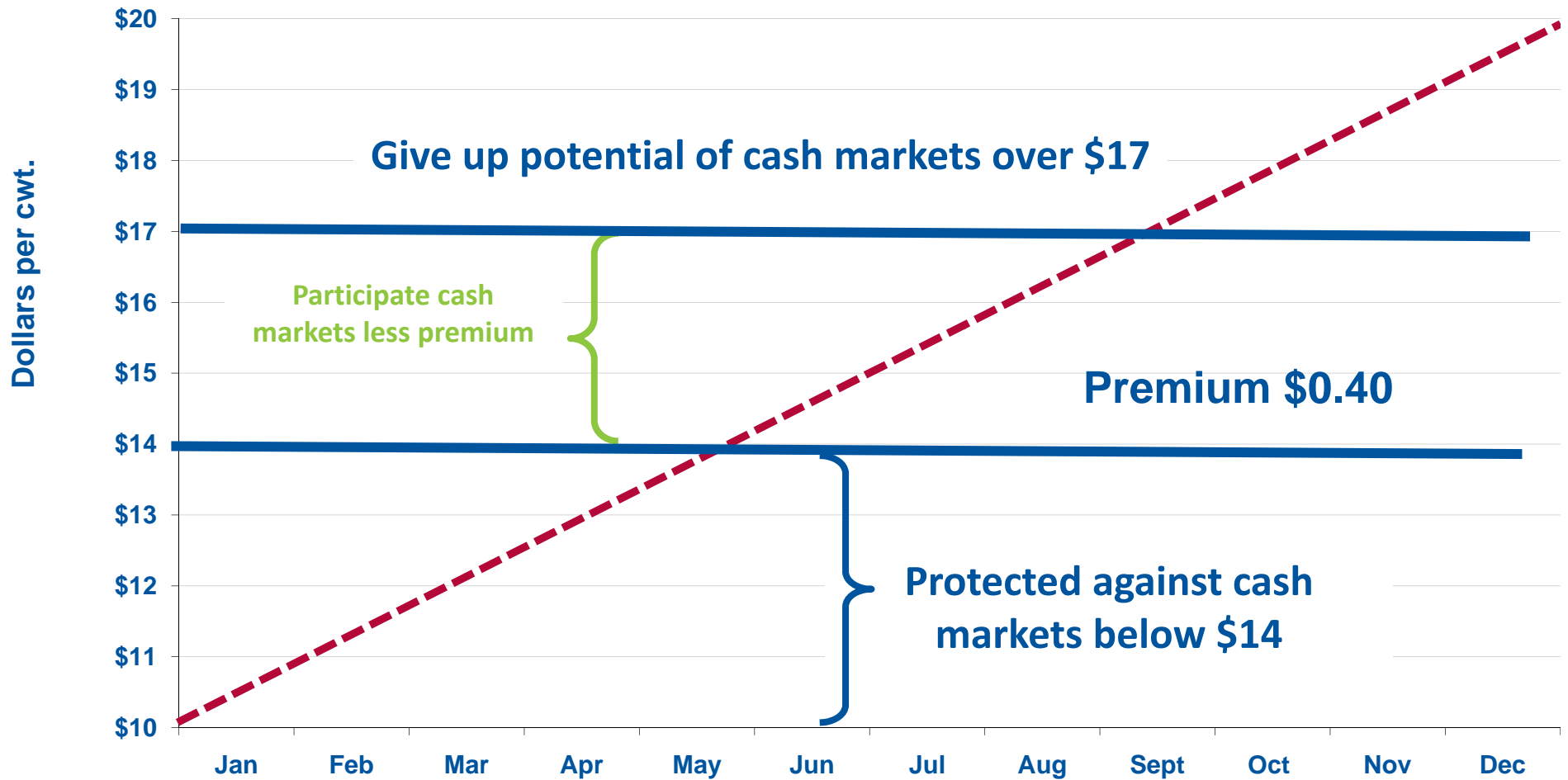
Minimum Price Forward Contract



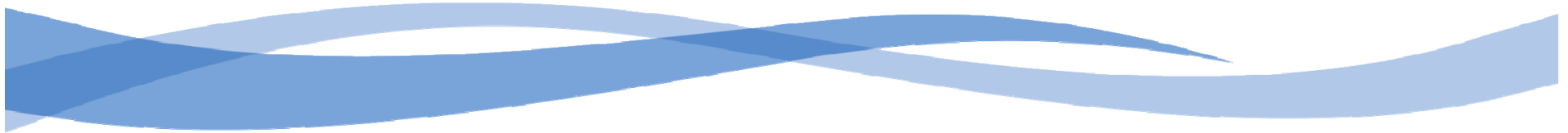
Class III Price over Time



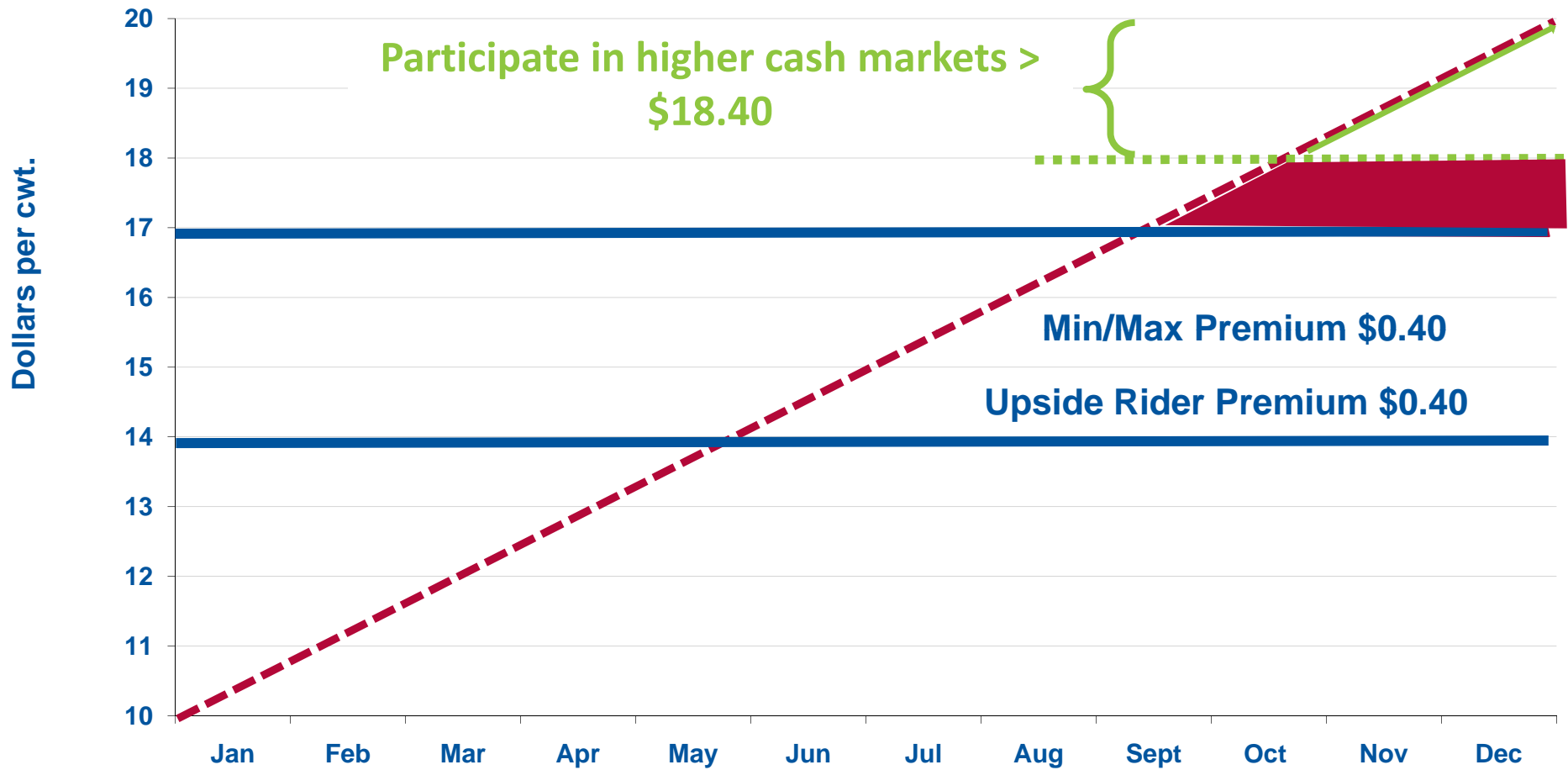
Minimum/Maximum



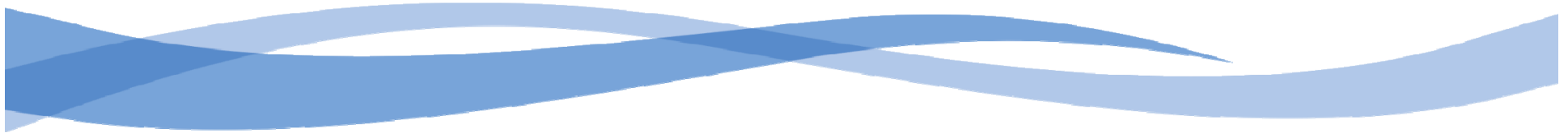
Class III Price over Time



Minimum/Maximum Price Forward Contract with Upside Rider



Class III Price over Time

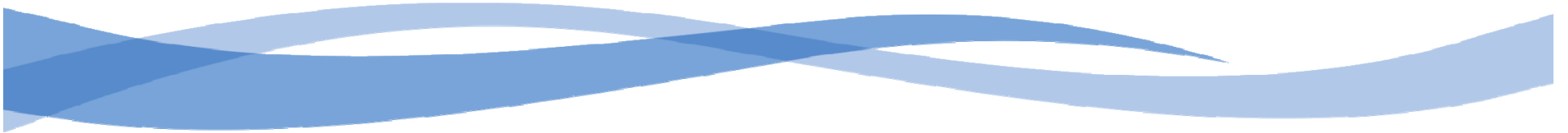


Additional Programs

- CA 4b pricing proxy
- Milk-Feed Margin
- More to come

Milk Feed Margin Program

- Protects a margin between the primary feed costs and the Class III milk price
NON PRIMARY FEED MARGIN
- The Milk Margin Contract provides the ability to fix the margin between Class III and primary feed costs at the same time
- The Feed Rider provides the opportunity to add a “feed rider” to an existing Class III transaction



Feed Ration Assumptions

The feed value in the Milk Feed Margin and Feed Rider calculates the amount of corn and soybean meal needed to produce 100 pounds of milk.

Price of 100 pounds of milk

- Price of 0.03244 ton corn (energy)

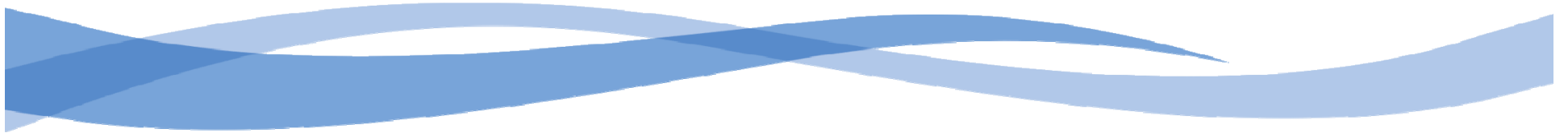
- Price of 0.01050 ton soybean meal (protein)

FEED VALUE / FEED RIDER

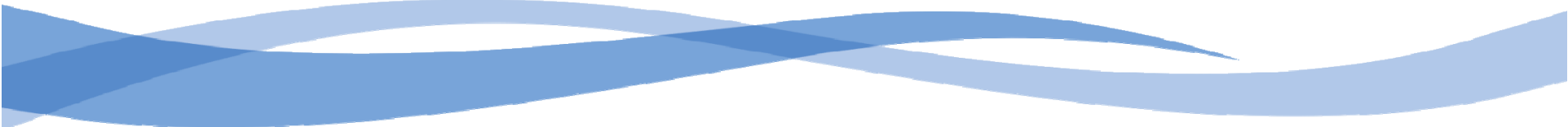


Have a plan

- Know & manage cost of production
- Determine return on investment in per hundredweight
- Plan for basis variability
- Know appetite for risk
 - Avoid catastrophic losses
 - Participate in higher markets
- Look for market opportunities to provide return on investment



Details

- **Must be a DFA member**
 - **Executed Forward Contract for Delivery Master Agreement required**
 - **20,000 lbs. per month minimum and in 5,000 lbs. increments**
 - **Up to 75% of historical average production**
 - **Monthly or multi-month contract**
 - **No upfront costs**
 - **Price risk offset with futures and/or options at the CME Group or with a DFA customer**
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Valuable Resources

- Home Page
 - Basis Report
 - Working Orders for Forward Contracting Report
 - Forward Contracting Transaction Report
- Resources
 - **DFA News**
 - DFA Today archive
 - Monthly Recap archive
 - DRMS Pricing Updates archive
 - Milk Feed Margin Daily Settlement
- Farm Services Tab
 - For DRMS information: 1-877-424-3343
 - Dairy Risk Management Services Overview
 - Forward Contracting Tools
 - Additional Resources
 - Milk over Feed Costs Contract



Thank you

