

Leighton Wong
Commerce Commission
Wellington
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The Commerce Commission engaged me to assist on the practical feasibility of the yield put forward in the Milk Price Model (MPM), with particular focus on the loss methods and assumptions adopted. My qualifications are outlined in my 2013 report on the MPM to the Commerce Commission.

My review of the losses data showed, that the losses in the model have been determined from actual production data generated in house or by (audited) survey data. They represent actual and achievable yields although challenging.

I met with Fonterra's independent expert (T Gandell) on several occasions to clarify various concerns on the following subjects and to review the methodology inclusive of new data since the 2013 review.

- The mass balance
- The reflection of seasonal losses in the model
- Data selection process

All my concerns and queries were answered fully and I found the methods and logic used for the determination of losses in the MPM to be reasonable and acceptable.

As I stated in my original report the assumption of discounting the outliers due to low production volumes, technology changes and outlier results (significantly lower or higher than other plant results) is well founded and this method has been used by many people who have modelled losses in the past.

The mass balance again was undertaken as a check on the variable inputs including Milk products, Milk Composition, and Product losses and was found to account for all constituents. I am satisfied reconciliation of the mass balance calculation works within the framework of the information supplied within the Milk Model.

My view of the losses has not varied from 2013 in that the losses used in the model are from actual production data generated in house or by (audited) survey data. Thus I can only

conclude they represent actual and achievable yields for Fonterra then the losses are practically feasible for the model. Fonterra's assumed losses closely reflect an average seasonal production achievable for an efficient processor.

I have read and examined the Commission's analysis of the losses/yield section of the milk price review and found the information and statements contained within the document supplied to me are consistent with the information provided in the Milk Price Model, and Fonterra's answers to our queries.

Greg Winter

Director
Lossmon Ltd.