



15 May 2009

Julie Graton & David White
Flatout Programming & Consultancy Pty Limited

Dear Julie & David,

Thank you for meeting with us on Friday, 17 April 2009.

I would like to take this opportunity to reiterate our position and set out the matters discussed during the meeting.

For the past six months, National Foods has been focused on the integration of Dairy Farmers into the wider business. As you can appreciate this is a complex task, but when completed we will be in a better position to focus on a comprehensive assessment of the existing franchise network structure.

In saying this, we believe the meeting was a useful forum for both groups to discuss the key concerns.

We agree that a strong and viable franchise network is necessary, and we remain committed to working closely with our network to strengthen our relationship. However, as with any business relationship, differences will exist, particularly when it involves our respective business priorities.

We also make the following comments in relation to matters discussed during the meeting:

- Franchise Owners expressed dissatisfaction that National Foods failed to respond to certain situations or incidents raised by the Franchise Owners. It is unlikely that this is the case as National Foods is committed to reviewing incidents or situations raised by Franchise Owners in a prompt manner. There may be cases where an incident or situation has been reviewed and the status quo maintained, but it is not likely that National Foods would take no action.
- We queried the basis upon which you have claimed that we have engaged in unconscionable conduct. You were unable to provide a reasonable response to this query.
- Regarding the relationship between Franchise Owners, Food Service wholesalers and National Foods, we outlined that Food Service and franchise owners/distributors are distinctly different business models offering different levels of service, products and support. To run an effective wholesale business, there are huge costs involved which account for the different pricing levels that exist through volume discounts.

At the conclusion of the meeting, we agreed that National Foods will:

- Review comparative pricing between the Food Service wholesale network and the Franchise Owner network on similar products. The intent here is that we would review line discounts for volume purchases.
- Review trading terms and Bank Guarantees.
- Review an extension of trading terms to 28 days on bulk pallet buys.
- Continue to work on improving out-of-stocks and the communication of out-of-stocks.
- Publish topline results of the Sales Support Fund audit.

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In turn, the Committee will provide:

- Details of where it believes National Foods should have required exclusive dealing waivers from the Australian Competition and Consumer Commission (ACCC).
- Provide written proof of where the divestment business is selling Oak at very low prices.

We trust that the above represents a fair assessment of the discussions held and the outcomes agreed upon.

Yours faithfully,



Chris Wallace
State Sales Manager – NSW
Convenience and Food Service

c.c. Peter White
John Georgakopolous
Stephen Lane
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