

STANDARDIZED MILK PRICE CALCULATIONS for JULY 2007 deliveries

(for standardized (1) milk and based on payment systems of the companies, all prices in euro/100kg)

Company		Quality adjustment	Quantity adjustment	Seasonal adjustment	MILK PRICE this month	Most recent supplementary payment	Rolling average last 12 months (4)
Milcobel	BE	0.73	1.38		35.85	0.19	30.10
Humana Milch Union eG	DE				32.63	-0.20	28.62
Nordmilch	DE		0.15		33.77	-0.15	27.98
Arla Foods Denmark	DK	0.48			27.68	1.07	28.71
Hämeenlinnan O.	FI	2.14		2.94	34.80	3.40	36.42
Bongrain CLE (Basse Normandie)	FR	0.74			29.14	none	29.03
Danone (Pas de Calais)	FR	0.58			31.84	none	30.18
Lactalis (Pays de la Loire)	FR				29.83	none	28.93
Sodiaal	FR				30.17	none	28.12
Arla Foods UK	GB	1.59	0.36		28.10	none	26.02
First Milk	GB	0.72	2.70		25.91	0.00	24.49
Glanbia	IE				32.34	0.00	29.51
Kerry	IE				33.82	none	28.16
Campina	NL	0.04	0.75		30.28	1.83	29.09
Friesland Foods	NL	0.04		-2.30	26.75	1.79	29.02
Arla Foods Sweden	SE	0.48			27.71	1.23	28.89
AVERAGE MILK PRICE THIS MONTH 2)					30.66		28.96
Dairy Crest (Davidstow)	GB	-0.29	0.43		28.17	0.00	27.51
New Zealand (5)	NZ				27.89	none	17.86
United States of America (3)	US	0.16			37.97	none	25.64

Remarks:

- (1) All prices are VAT excluded, paid to producers and assuming milk collected every other day
Price per 100 kg standard milk with 4.2% fat, 3.40% (crude) protein, 500,000 kg per year, total bacterial count 24,999 and somatic cell count 249,999.
- (2) Arithmetic average.
- (3) Class III prices adjusted for 4.20% fat, 3.4% protein and somatic cell count 249,999.
- (4) Including most recent supplementary payment.
- (5) Based on payout forecast of Fonterra, adjusted for 4.2% fat and 3.40% protein.

ADDITIONAL REMARKS MILK PRICES JULY 2007

MILK PRICE

The average milk price calculated for July 2007 deliveries is € 30.66 per 100 kg standard milk. This is compared with the same month last year € 3.60 higher (plus 13.3%). After expiration of much of the old contracts producers are able to increase their cheese prices quickly, which create more room for higher milk prices to continue.

With the exception of Danish/Swedish Arla and Glanbia all other dairy companies have increased their milk prices. It is clear that the rising trend will continue on the back of the strong advance of cheese prices since June.

The biggest rise in July comes from Milcobel, followed by their Irish counterparts. Also Nordmilch saw a price rise of 28%, compared to July last year.

Several companies have already announced further price rises for coming months. For example for the month of September Friesland Foods has increased its advance payment for standard milk to € 38.64, a rise of € 8.29 pro 100 kg, compared with the same month last year.

Farmers in the USA and New Zealand however are taking much more advantage of the current buoyant market situation than their European counterparts. Fonterra for example has recently forecasted a payout of \$5.53 per kg/MS for the 2007/08 season. This 2007/08 forecast was \$1.18 per kg/MS (27%) higher than the current season forecast of \$4.35 per kg/MS! Some weeks ago the company increased its forecast again and predicted a pay-out of \$ 6.40 per kg/MS for the current season. (+44%).

But by far striking is the milk price paid for July in the USA. Farmers are paid an astonishing 90% more in US dollars than in the same month last year.

The good world dairy market situation is still continuing. But coming months will show if markets are able to maintain current high price levels or will enter in a correction phase in order to search for a new price equilibrium.

New: Dairy Crest (UK)

From July onwards milk prices of UK company Dairy Crest are added to the milk price comparison. In the near future the milk prices of Dairy Crest will replace Arla UK. Reason is milk prices of Dairy Crest - in combination with First Milk - are more representative for UK milk prices than liquid milk producer Arla UK. For the time being Arla UK prices will be published and part of the calculated average so this series is not interrupted.

The milk price contracts of Dairy Crest are supplied by Dairy Crest Direct and collected from January 2006 onwards.

Dairy Crest is one of the largest UK's purchasers of milk, buying approximately 2.4 billion litres every year. Dairy Crest get their milk directly from about dairy farmers as well as cooperatives- with 70 % coming from farmer suppliers. Dairy Crest Direct (DCD) is an independent group of farmers that represent the majority of the 1,600 direct suppliers and makes contracts for the supply of milk. These contracts differs depending on the end- product (e.g. liquid milk or cheese) and/or criteria (seasonal – level).

The (seasonal) contract for DCD members supplying to Davidstow cheese is added to the milk price comparison. As this contract is representing about 600 dairy farmers this contract is one of the most important. Another reason to add this contract is, that the composition of the milk supplied on this contract is more comparable with the fat and protein contents in standard milk than the liquid milk contract.

A quality reduction of € 0.29 per 100 kg is included in the calculated milk price of Dairy Crest Davidstow (July € 28,17) because milk with a somatic cell count over 200,000 to 250,000 per ml is reduced with 0.2 pence per litre (ppl). The calculated volume bonus (€ 0.43 or 0.3 ppl) based on the standard annual delivery of 500,000 kg. As the average DCD member supplies 1.1 million litres per annum - corresponding with a volume bonus of 0.6 ppl- the average DCD member will get a higher price than the calculated milk price for standard milk.

DC announced a milk price increase by 2.0 ppl from 1 September. Compared to the same month last year this will mean a price increase of about € 4 per 100 kg standardmilk.

- **Netherlands**

Friesland Foods and Campina continue to increase their milkpayments.

By increasing the fatprice with € 0.23 and the protein price with € 0.37 the advance payment at Friesland Foods for August will be € 4.62 higher than in August last year. Most recent data shows the next increase, which will take effect in September. By increasing the fatprice with € 0.38 to € 3.97 and the protein price with € 0.61 to € 6.36 the advance payment at Friesland Foods (sesonal payments included) for September will be € 8.29 higher than in September last year.

The higher price paid by Campina is not only the result of the seasonal payments for the month of August, also the protein price was increased by € 0.74 to € 6.95 per kg. By this measure the advance payment for August will be € 7.53 higher than in August last year.

Further increases are not excluded.

Also Campina has decided to review its advance payment system. As from the start of 2008 its advance payment will be based on 97% of the definitive milk price against 95% nowadays.

This increase has to do with the difficult cash position of many farmers and the demands to reflect market realities sooner as usual.

Campina furthermore wants to fix the advance payment in the first quarter of each year in relation to an West –European average and wants to pay aprice in advance

that differs 2 cents per kg from the national average at the maximum. This measure is equal for Dutch and German farmers.

- **Belgium**

Milcobel has increased the advance payment with € 2/100 kg from the first of July 2007. This increase was realised by adjusting both the price for the fat and for the protein to the upside. The advance payment for fat has been increased by € 0.2993 to € 3.1931 per kg and for protein by € 0.5559 to € 5.9301 per kg. The fat:protein ratio was kept unchanged at 1:1.86 .

- **Germany**

In contrast with earlier announcements Nordmilch has increased its basic milk price by 5 euro to 33 euro per 100 kg as from July 1, compared to last month, while Humana did increase by 2 euro to 32 euro in July.

- **Ireland**

Kerry has increased its milk price by € 1.50 per 100 litres to €29.50 for deliveries from May 1, and Glanbia by € 1.85 per 100 litres. These price rises are due to the strengthened international dairy markets.

- **United Kingdom**

First Milk is to increase the core milk price it pays to its members by 2 pence per litre (=€ 3/100 liter) from September 1.

This rise takes the standard litre price to 20.6 ppl, which automatically increases the marginal price to 28 ppl.

Additional milk in trough months (period September-November) will be paid for according to the dual pricing scheme : a marginal price, being in September 135% of core price.

- **Scandinavia**

As from July 30 Arla Foods has retrospectively increased its milk price by 1,7 eurocent per kilo (0.128 D kr.) By this measure the advance payment will rise to 30 cent (=2,24 D kr.). Furthermore the company plans to extend its price rise in October by 2,7 tot 3,3 eurocent per kilo.

After this the advance payment will reach a level of 34,5 tot 35 eurocent per kg with a fat content of 4,3 %.

Furthermore Arla Foods is planning to introduce a pricing system that enables the company to pay a milk price that reflect market realities much faster than it used to. In this case probably seasonal corrections will no longer apply anymore.

- **Oceania**

Australia

According to recent data milk production in Australia during last season (from July 2006-June 2007) totalled 9.6 billion litres, which was 5.1% less compared to production season 2005/2006. Total export quantities of dairy products reached a total of 846.300 tons which was 4% less than a year earlier, while the total value of these exports were reduced by 4.9%. The lesser export earnings were mainly due to declining exports of butteroil (-21.6%), whole milkpowder (-13%) and skimmed milkpowder (-9.4%).

New Zealand

Fonterra Co-operative has announced a final payout for the year ended May 31, 2007 of NZ\$4.46 per kilogram of milk solids (kg/MS), against NZ\$ 4.10 for 2005/06. The result is an 41 cents increase on its season-start forecast and an 11 cent improvement on the last payout forecast announced in May. It comprises a milk price component of \$3.87 per kg/MS, up three cents, and a value component of 59 cents per kg/MS, up eight cents. When a further \$52 million in premium payments for autumn milk, organics, Stolle, Colostrum, and winter milk is taken into account, Fonterra's total kg/MS payout to shareholders is an average \$4.50 per kg/MS.

Fonterra's chairman, Mr Henry van der Heyden said, "The final payout result was positive given the high exchange rate and the fact that commodity prices did not surge until the final quarter of the year. "While we had record prices at the end of the season this was not the case for the full year."

Mr van der Heyden said that despite the highest ever average conversion rate of 67 cents for the season, revenues increased \$881 million to \$13.9 billion as a result of record sales and record production.

Milk production, including contract milk, was 1.246 billion kg/MS, three per cent above the previous record of 1.210 billion kg/MS set in 2005/06.

At this stage Fonterra,s preliminary forecast payout for the 07/08 season, which was set at \$5.53 per kilogram of milk solids (kg/MS), was recently revised. The new payout forecast was increased by 87 cents to \$6.40. The 87 cent increase is all in the Milk Price component of payout which increases to \$6.20, with the Value Return remaining at 20 cents per kg/MS.

Fonterra Chairman, Henry van der Heyden, attributed the rise to the continued strength in commodity prices, particularly recent increases in butter and cheese and ongoing firm prices for milkpowders. Also a further decline of the NZ dollar against the US dollar and euro, recently seen in the volatile exchange market, could bring more upside in pay out over time.

Because of the higher forecast Fonterra's Board has also reviewed the advance rates for the season. The advance rate for October will increase by 60 cents from \$3.60 to \$4.20 per kg/MS.

New Zealand exports of the major dairy products reached a total of 1.869.200 tons for the season (June 06-May 07), 16% more than the previous season. The average value in US dollars per tonne was climbing to \$ 2850 in May, 24% more than the comparable month of last year.

The strongest growth has been in exports of skimmed milkpowder (+34,7%) and butteroil (+59,6%), but also whole milkpowder (+6,7%), cheese (+26%), casein (+39%) and caseinates(+26,5%) were on the rise. New Zealand is gaining much more benefit from the rise in world dairy prices. The price improvement has been most marked for skimmed milkpowder, where the May average of \$ 2992/ton compares with only \$ 2115/ton in May 2006.

• United States

Milk production during July totaled 7.15 million tons, up 3.9% from July 2006. That was ahead of expectations.

Production per cow averaged 1,743 pounds (=790 kg) for July, 25 kg (3.3%) above July 2006. The number of cows on farms was 8.31 million head, 50,000 head more than July 2006, and 14,000 head more than June 2007. Growth in cow numbers is expected to continue for the remainder of 2007 and into 2008.

Higher feed prices and lower-than-expected rBST use could keep output per cow however below trend this year. But it looks like good perspectives and current firm milk prices have overcome the higher feed costs this year.

The greater availability of milk, both for the balance of 2007 and into 2008, is expected to moderate prices, but precipitous declines from 2007 price levels are unlikely next year. Robust dairy product demand, both domestically and, especially, internationally, will keep prices high.

Class III price is expected to average \$18.00 to \$18.20 (= €29,40 en €29,70) this year and soften to \$16.40 to \$17.40 next year. The all milk price will average \$19.15 to \$19.35 in 2007(=€31,25 en €31,60).

A decline to between \$18.25 and \$19.25 is expected in 2008.

Consumer price development

According to figures of the BLS (Bureau of Labor Statistics) the consumer price index (CPI) for dairy products (1982/84=100) was 197.9 in July, up 3.4 percent from June, and 9.5 percent higher than in July 2006. The US city average price for a gallon of whole milk averaged \$ 3.736(= ca € 6,76 per kg), which was a record.

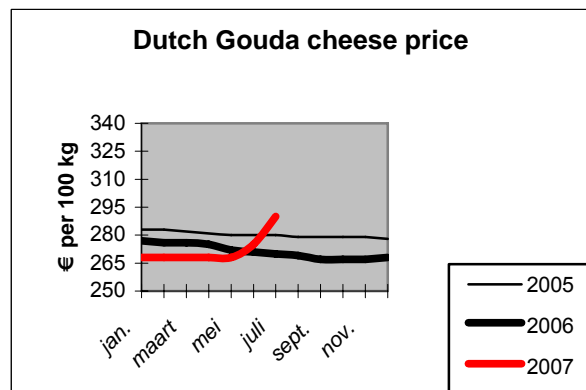
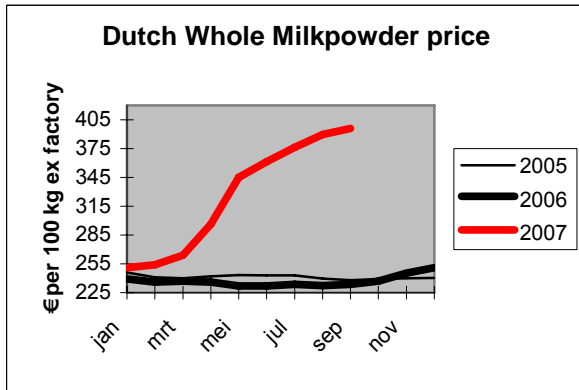
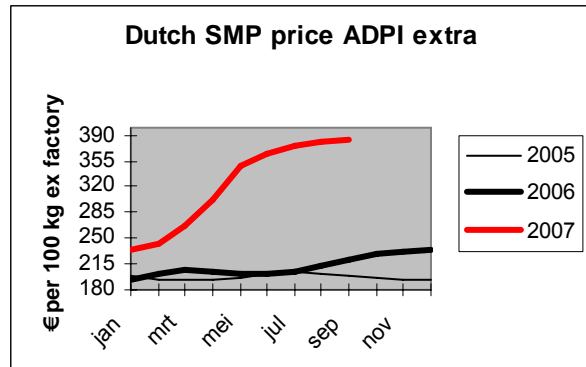
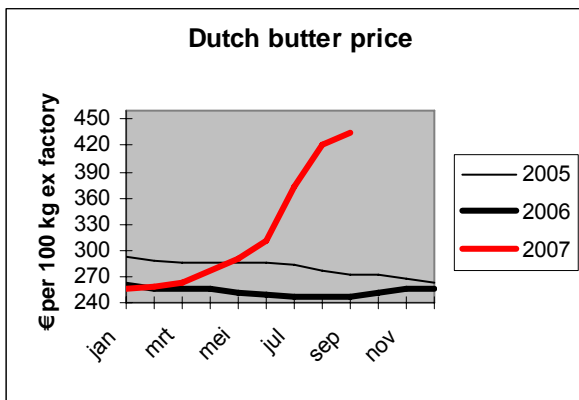
July's price index for cheese was a record 191.6, up 5.2 percent, compared to a year earlier. The US city average price for a pound of natural Cheddar cheese averaged \$ 4.292 (= ca € 6,76 per kg), which was up more than 31 cents from June and almost the same level as a year ago.

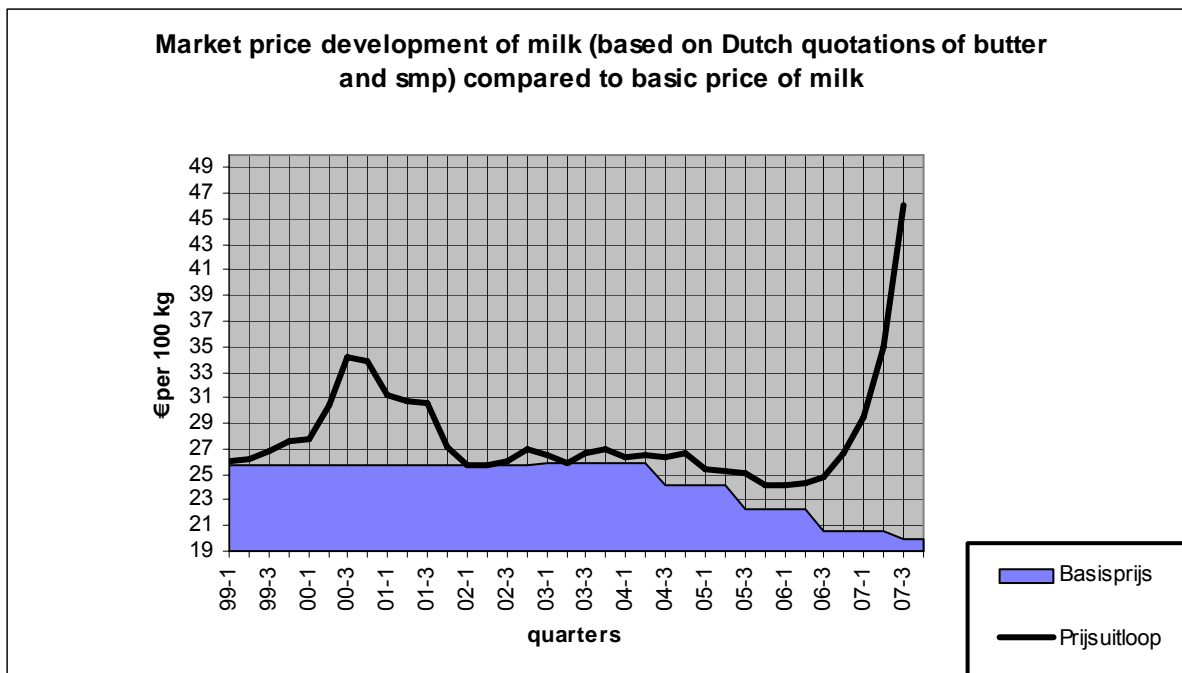
July price index for butter was 171.9, up 3.6 percent, compared to a year earlier. The US city average price for a pound of salted grade AA butter averaged \$ 3.064 (= ca € 4.86 per kg), which was up almost \$ 0.27/lb (€ 0.45/kg) compared to July 2006.

MARKETSITUATION

€ per 100 kg

Dutch Quotations				
	1 January	5 September	index	trend
Butter	256	435	170,00	→
Whole milkpowder	251	396	157,80	→
Skimmed milkpowder	235	383	163,00	→
Wheypowder	103	97	94,10	→
Gouda cheese	± 270	± 340	125,90	↑





Market comments

In the Netherlands milk output during January to July 2007 was 6.30 million tons or appr. 0.5% higher, compared to the same period last year. The average milk fat percentage during this period was at 4.34% some 0.08% lower than last year.

The cumulative milk output figure for the current quota year (April to July 2007) amounts to 3.56 million tons, which was 1.8% less, taking account of the fat correction and compared to the same period last year. The cumulative milk output figure in the EU-25 for the period January to June 2007 is 0.7% more than the previous milk production year. Preliminary figures, however, point in the direction of a further slight decline.

On the market for dairy commodities exceptionally firm price tendencies are still continuing for both for butter and in a lesser extent for milkpowder. It looks like prices of milkpowder are now stabilising on these high levels both in the EU and on the world market. Lack of available supplies and rising demand has made also butter prices started to rise at a very fast speed. Shortages are looming for the coming winter period and EU butter traders are looking to outside sources for supplemental needs.

Price rises for these commodities has now spread across the entire market place. Cheese manufacture was gradually cut down in recent months and replaced by the production of butter and milkpowder because of the better returns. This move has lead to an price environment that was favourable for an upward swing in cheese prices. With lower stocks and growing demand cheese prices are rapidly increasing at this moment. Probably more price increases can be expected until the gap with butter/powder realisations is closed.

The misbalance in supply and demand has lifted dairy commodities worldwide. Lack of stocks, together with expected low growth in production and no export subsidies

will probably constrain dairy exports from the EU and keep world market prices at high levels for some time to come.

If the markets are temporary unbalanced or for a more longer period and thus having a more structural character, is however very difficult to forecast.