

STANDARDIZED MILK PRICE CALCULATIONS for MAY 2008 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		33.76	0.37	38.76
Humana Milchunion eG	DE				33.77	-0.22	36.82
Nordmilch	DE		0.15		30.80	-0.17	34.97
Arla Foods	DK	0.75		-3.75	34.27	1.41	35.44
Hämeenlinnan Osuusmeijeri	FI	2.14		5.95	39.48	3.88	40.19
Bongrain CLE (Basse Normandie)	FR	0.74			33.13	none	34.51
Danone (Pas de Calais)	FR	0.58			32.97	none	35.72
Lactalis (Pays de la Loire)	FR				32.88	none	34.30
Sodiaal	FR				32.77	none	33.81
Dairy Crest (Davidstow)	GB	-0.25	0.37	-3.07	29.72	0.00	32.07
First Milk	GB	0.61	2.30		27.52	0.00	30.22
Glanbia	IE				33.03	0.00	37.31
Kerry	IE				33.82	none	35.78
Campina	NL	0.05	0.75	-0.90	32.90	1.20	37.27
Friesland Foods	NL	0.04		-2.30	32.65	1.86	37.63
AVERAGE MILK PRICE THIS MONTH 2)					32.90		35.65
New Zealand (5)	NZ				30.03	none	31.24
United States of America (3)	US	0.14			28.85	none	32.27

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 MAY 2008

MILK PRICE

The average milk price calculated for May 2008 deliveries is € **32.90** per 100 kg standard milk. This is compared with the same month last year € **6.08** higher (plus **22.7%**).

Compared to April the average milk price has had a small move upwards.

The market now looks more friendly. After passing the top in seasonal milk output dairy market prices seem to have reached their bottom and are gradually on the rise again.

• The Netherlands and Belgium

Friesland Foods has lowered its advance payment for May.

The change was realised by a decline in price of the fat component with €0.12 and with €0.40 of the protein component price, resulting in advance payment, which was €1.87 lower compared to last month.

Compared to last year the advance payment is €7.97 higher.

At Campina the advance payment was kept unchanged.

Compared to last year the advance payment is €7.29 higher.

Milcobel has decreased the calculated advance payment for May by €2.10 to €33.75 per 100 kg standard milk, compared to April. This price was realised by lowering fat and protein price by €0.1996 and €0.37 to €2.9936 and €5.56 per 100 kg.

Compared to last year the advance payment is yet €3.67 higher.

• Germany

Also in Germany the advance payments for May are still higher than in 2007: €3.96 and €4.46 respectively for Nordmilch and Humana.

• France

For the second quarter an increase of €63.80 per 1000 litre has been agreed.

Compared to last year the advance payments are still appr. €7 higher.

- **United Kingdom, Ireland**

Irish dairy company Glanbia has lowered its advance payment for May by € 1.60 to €33.03 per 100 kg standard milk, compared to April. Compared to last year the advance payment is yet €3.78 higher. Kerry did not change its advance payment for May and is still €4.48 higher, compared to last year.

Dairy Crest did increase the May milk price by 0.75 pence per lbs (appr. € 0.90 per 100 kg of standard milk). In comparison with last year the difference is a little less than plus €6 per 100 kg.

- **Scandinavia**

The Finnish Hameenlinnan Osuusmeijeri has paid a higher milk price because of a move upwards in their winter milk allowance. And for Arla Foods nothing was changed, which kept the difference with last year at plus €6.63.

- **Oceania**

There are predictions that milk supplies in NZ will bounce back from this year, drought, forecasting a 7-10% increase in milk supplies for 2008/09 to between 16 – 16.5 million tonnes. In 2007/08 NZ milk production fell by 4.6% to 14.9 million tonnes. High milk prices are encouraging people to switch into dairy. This will probably boost milk supplies over the next 3 years by 2.5-4% a year.

- **USA**

Market

Milk prices have held higher through the first half of the year than what was earlier predicted. While dry whey prices have weakened to less than 30 cents per pound cheddar cheese prices near or above \$2.00 per lb (= € 285/100 kg) has kept Class III prices well above a year ago. All Milk price averaged near \$19.00 per lb (= € 27/100 kg) for the first half of the year compared to \$16.63 (= € 23,50/100 kg) for 2007. Dairy farmers have responded to record high milk prices in 2007 and continued high prices in 2008 by adding cows. In May, there was 1.6% more milk cows than a year ago. Historically, whenever milk cow numbers increase for a period of time there is downward pressure on milk prices without exception. But, lower than normal increases in milk per cow has held increases in total milk production to a little more than 2%. Increases in milk per cow have been less than 1%. Part of this is due to reduced use of rBST. Much is placed on high feed costs. But, with current milk prices over \$20.00 per hundredweight returns over feed costs are still favorable. However, May milk production has strengthened with an increase of 3.2% over a year ago. Much higher than expected cheese prices is the main factor for holding up milk prices thus far. Cheddar cheese production fell 2.1 percent in 2007 and continued below year ago levels for the first quarter of this year.

Most of the additional milk production is going into the production of nonfat dry milk and skim milk powder. Through April the production of nonfat dry milk was up 15% and skim milk powder production up 249%. Thus cheddar cheese stocks remain tight with April 30th stocks 7.1% lower than a year ago. Strong cheese exports is another factor for higher cheese prices.

It is uncertain if cheese and milk prices can hold at these relatively high levels, especially with increases in milk production becoming higher. Milk cow numbers are likely to increase into the 4th quarter. The announcement of the 5th round of CWT slaughter program will remove some cows by the 4th quarter. (In spring 2007 CWT removed nearly 53,000 cows at a cost of \$ 60.5 million.)

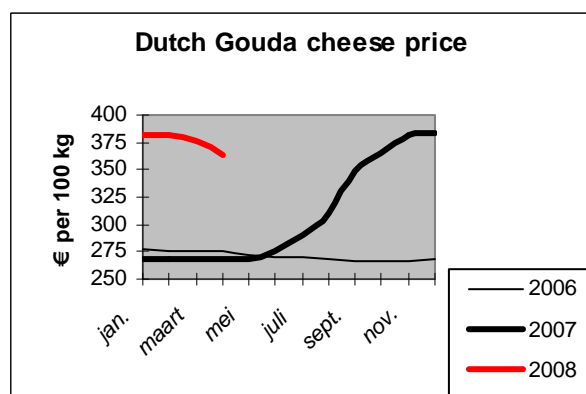
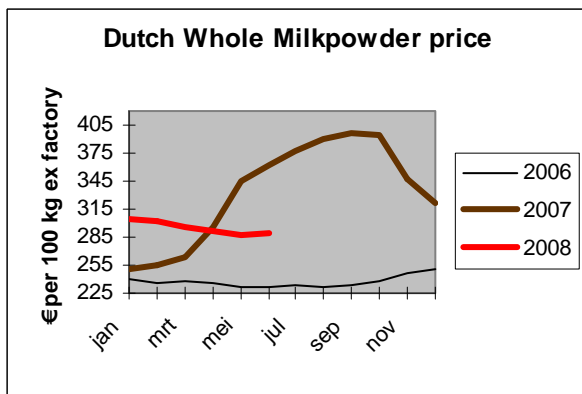
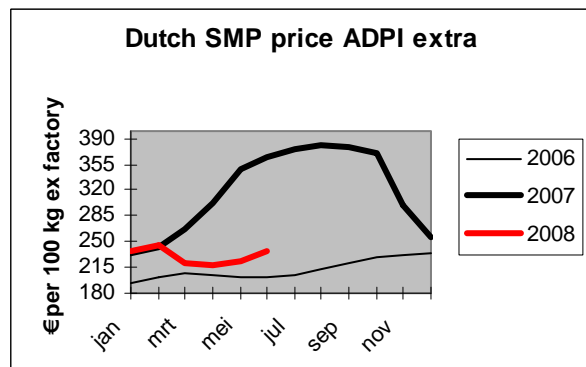
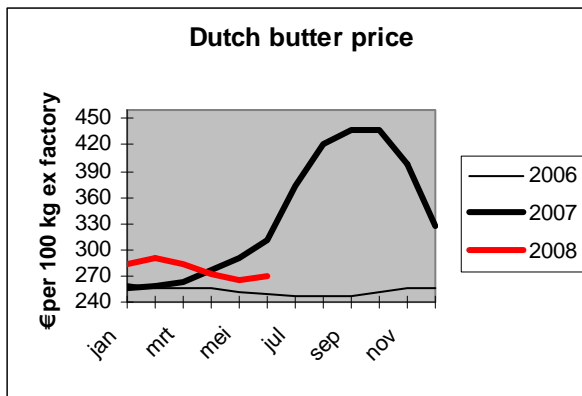
Cheddar cheese prices are expected to fall from their \$2.00 plus per pound level as additional production eventually comes forth and sales will be lower due to high prices. Cheddar production for the month of April was already 3.9% above a year ago.

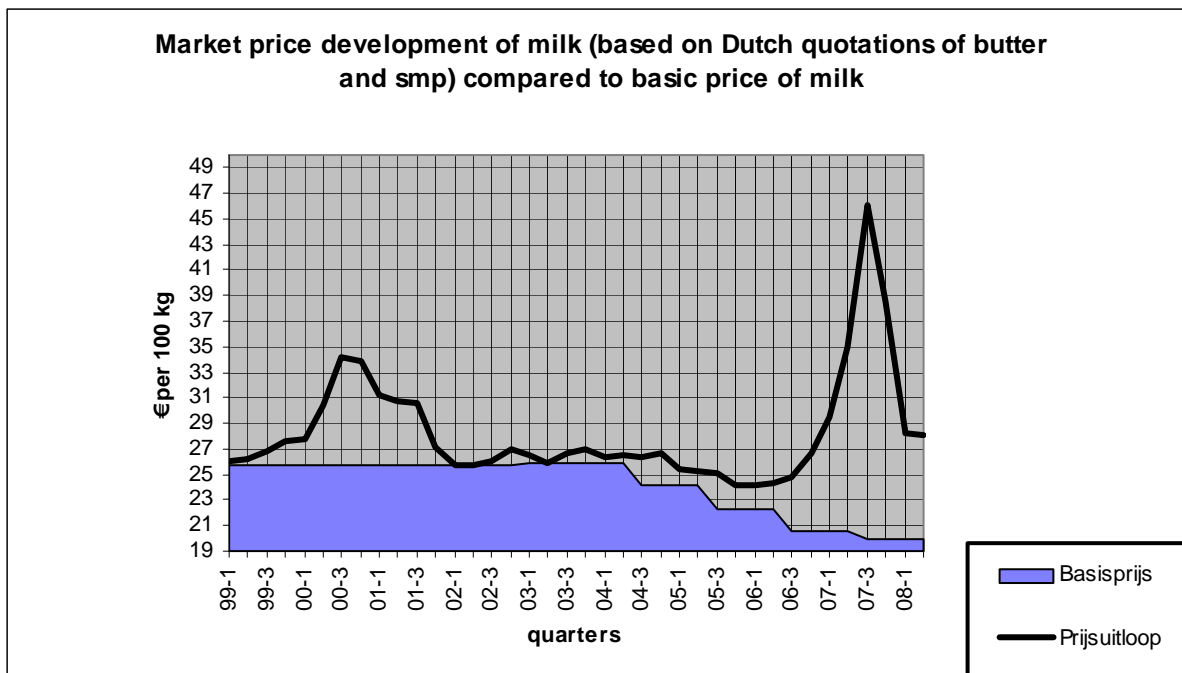
If cheddar cheese prices fall, as a result, Class III prices could be in the \$17.25 to \$18.50 range in the 4th quarter. However, current Class III futures don't reflect these lower prices. Class III futures are in the low \$20s through year's end and in the high \$19s through 2009.

MARKETSITUATION

€per 100 kg

Dutch Quotations				
	1 january 2008	8 july 2008	index	trend
Butter	280	270	102,5	↑
Whole milkpowder	310	289	93,2	→
Skimmed milkpowder	238	250	105	→
Wheypowder	57	45	79,0	→
Gouda cheese	± 385	± 365	94,8	→





Market comments

In the Netherlands milk output during the period January-May 2008 was 4660,5 million kgs or appr. 1.8% higher, compared to the same quarter last year. Both the average milk fat as the protein percentage during this period were a little higher from last year. The milk output figure in the EU-25 for the period January-April 2008 was appr. 2.1% higher than the previous year.

After passing the top in seasonal milk output dairy market prices seem to have reached their bottom and are slowly rising.

For the first 4 months export volume is less than last year. There is still no major revival in EU exports to be seen (especially for butter).

The international market for dairy commodities is still dominated by lower American dairy product prices and a falling dollar.

The continuing decline of the US dollar exchange rate versus important currencies as the euro has made of the USA a competitor on the world dairy market that cannot be ignored. Increased US presence in the international dairy trade could easily cause more spill over effects from the US market to the world market, which in turn has an impact on EU internal prices. Later in the year, drought in New Zealand, which exports 95% of its dairy production, could limit total dairy export supplies, which could contribute to a firming of world market prices.

