

STANDARDIZED MILK PRICE CALCULATIONS for AUGUST 2008 deliveries

(for standardized milk (1) 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 month (4)
Milcobel	BE	0.73	1.37		30.60	0.37	37.54
Humana Milchunion eG	DE				35.75	-0.22	37.21
Nordmilch	DE		0.15		32.78	-0.17	34.90
Arla Foods	DK	0.69		3.46	38.52	1.42	37.18
Hämeenlinnan Osuusmeijeri	FI	2.14		11.97	45.49	3.88	42.63
Bongrain CLE (Basse Normandie)	FR	0.74			36.70	geen	35.82
Danone (Pas de Calais)	FR	0.58			38.87	geen	37.01
Lactalis (Pays de la Loire)	FR				36.51	geen	35.63
Sodiaal	FR				38.41	geen	35.45
Dairy Crest (Davidstow)	GB	-0.25	0.37		32.77	0.00	33.29
First Milk	GB	0.61	2.30		32.64	0.00	31.61
Glanbia	IE				32.46	0.00	36.57
Kerry	IE				31.83	geen	35.04
Campina	NL	0.05	0.75	3.60	36.44	1.20	37.95
Friesland Foods	NL	0.04		3.70	35.85	1.86	38.30
GEMIDDELDE MELKPRIJZEN (2)					35,71		36,41
Alois Müller	DE	0.51			34.04	0.24	38.34
DOC Kaas	NL	0.05	0.27	0.85	29.91	2.48	37.89
New Zealand (5)	NZ				23.78	0.00	30.94
United States of America (3)	US	0.14			28.73	geen	30.56

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, 3.4% (crude) protein, 500,000 kg per year, total bacterial count 24,999 and somatic cell count 249,999 per ml.
- (2) Arithmetic average.
- (3) Class III prices adjusted for 4.2% fat, 3.4% protein and somatic cell count 249,999 per ml.
- (4) Including most recent supplementary payment.
- (5) Based on payout forecast of Fonterra, adjusted for 4.2% fat and 3.4% protein.

ADDITIONAL REMARKS MILK PRICES AUGUST 2008

From now on the milk price comparison is extended with two companies DOC Kaas en Alois Müller from Germany. Dutch cooperative DOC Kaas is processing about 800 million kgs of milk to cheese (main product), milk and wheypowder year-on-year. It is the third Dutch dairy company after Friesland Foods and Campina. Alois Müller is a private company and part of the Theo Müller concern, being the largest dairy company in Germany after Nordmilch en Humana.

Both companies are added to the milk price comparison in order to give a better picture of milk prices, being paid in the two countries. Moreover only one Dutch company would remain in the monthly comparison, taking into account the possible merger between Friesland Foods and Campina. Alois Müller is added to meet wishes to compare milk prices of German cooperatives with a private company. The milk price data of both new companies are collected as from 2007 and used in the calculations.

DOC milk price has seen a relatively robust decline, compared to last year. This big difference is, however for a large part due to the high milk prices, being paid in 2007. In order not to disturb the longer term picture data of both companies are not yet used in calculating the average prices.

MILK PRICE

The average milk price calculated for August 2008 deliveries is € 35.71 per 100 kg standard milk. This is compared with the same month last year € 1.91 higher (plus 5.6%).

Compared to July the average milk price was slightly higher. The overall picture is however ambiguous. Further milk price declines are expected for the coming months.

The dairy market is weakening. Economic conditions are deteriorating slowly and lead to a softening of demand for consumption goods in general. Price pressures in the dairy sector are becoming more evident as supplies are growing and export demand is slowing. Moreover a negative market sentiment keeps prices under pressure. Most buyers are in a "wait-and-see" mode

• The Netherlands and Belgium

At Friesland Foods fat and protein price was unchanged, but its advance payment for August was up due to the seasonality adjustment of €3.70 for the month. Compared to last year the advance payment is € 0.88 higher. Recently the company however has lowered fat and protein prices for September. This makes the advance payment for the first time lower compared to the same month of last year

At Campina advance payment for August was higher. This was realised by lowering the fat component by € 0.30 and increasing the protein component by € 0.38. Compared to last year the advance payment is still € 0.38 higher.

Milcobel has not changed the calculated advance payment for August. Compared to July last year the advance payment was however € 7.87 lower.

- **Germany**

In Germany the advance payment for August has been unchanged at Nordmilch and increased by € 1/100 kg at Humana.

The advance payments compared to August last year are for both companies now lower. For Nordmilch € 0.50 less and for Humana € 2.97 less.

- **France**

Since the start of this year French competition authority DGCCRF has put a ban on agreements about the milk price to be paid. As well known from 1997 onwards the French dairy sector was accustomed to negotiate quarterly price agreements in the CNIEL, a institution for farmers, dairy companies and their counterparts.

For the second quarter an increase of € 63.80 per 1000 litre has yet been agreed, but for the future new arrangements in this way will not be possible anymore. In the meantime most companies have paid € 49 for August. Parties concerned are still considering the new situation.

Compared to last year the advance payments are between € 4.50 and appr. € 5.10 higher.

- **United Kingdom, Ireland**

Irish dairy companies Glanbia and Kerry have not changed their advance payments for August. Compared to last year their payments are lagging last year's by respectively € 4,17 and € 4,48..

At the British company Dairy Crest advance payments for this month are unchanged. In comparison with last year the milk price difference is a positive € 3.85. First Milk however has increased its standard milk price to € 32.65, which makes the difference with last year plus € 5.66 .

- **Scandinavia**

Arla Foods has not changed its milk price either for this month. The difference with last year is € 9.16 plus.

- **Oceania**

Fonterra Co-operative Group has announced a final payout of **\$7.90** per kilogram of milksolids (kgMS) for the 2007/08 season (**± € 30.70/100 kg milk**) comprising a

milk price of \$7.59 per kgMS and a value return of 31 cents per kgMS. Mr van der Heyden said the 2007/08 result followed one of the most volatile and challenging years in global markets in recent memory, compounded by the drought which affected production in New Zealand. Fonterra achieved revenues of \$19.5 billion from the sale of goods in the 14 months to July 31 2008. A 63 per cent increase in weighted US\$ average sales prices offset an average exchange rate seven cents higher for the season at 74 cents.

“We have seen a global liquidity crisis, drought, the New Zealand dollar hit new highs and increases in the cost of everything from fuel to interest rates in the past season. It is hard to imagine a more unpredictable operating environment.” Fonterra CEO, Andrew Ferrier, said the record result for the 2007/08 financial year was not solely related to record commodity prices. They certainly played a big part, but they also presented a real challenge for our consumer operations, which had to overcome the record prices to return improved earnings and profitability. Higher prices impacted negatively on our Fonterra Ingredients business.”

Fonterra collected 1,192 million kilograms of milksolids, including contract milk, a 4.3 per cent decrease on the prior season due to drought conditions across much of New Zealand.

The Fonterra Board has also lowered the payout forecast for the current 2008/09 season to **\$6.60 per kgMS (=± €25.65/100 kg milk*)** from the \$7.00 per kgMS forecast in May. The \$6.60 forecast comprises a milk price of \$6.25 and a value return component of 35 cents. The value return remains unchanged from the May forecast and will be reviewed again in December.

Since then we have seen prices fall away from last year’s record highs. High prices have dampened global consumer demand and, at the same time, have encouraged production increases in exporting regions around the world. With buyers playing a waiting game, there is the possibility of further softening of prices before supply and demand come back into balance. Although the New Zealand dollar has been moving in our favour this season, we can’t be confident that a lower currency will fully offset price movements .”

• USA

Milk production during August totaled 14.5 billion lbs (= 6.58 million tons), up 1.5% from August 2007.

Production per cow averaged 1,717 lbs (= 779 kg) , 2 pounds (0.2%) below August 2007. The number of milk cows on farms was 8.47 million head, 137,000 head more (1.6%) than August 2007, and 3,000 head less than July 2008.

Including the impact of the CWT herd retirement program, milk production in the second half of 2008 is expected to be about 1% above the second half of 2007, and annual production to be up about 2%.

Overseas demand and export growth has been the greatest contributor to recent high U.S. dairy prices. But some of those U.S. prices are now hanging above world levels. Given the substantial share of U.S.milk production (11½% in the first seven months of 2008) now going into exports, dairy producers and processors cannot afford to lose those overseas markets. Sooner or later, then, U.S. prices must fall to allow these products to clear in the global market. Also a higher dollar is a danger in the

* with 8.3% milk solids
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sense that it puts downward pressure on milk and dairy commodity prices since it is expected that export prices denominated in dollars will be lower.

While CME butter prices have increased to \$1.70 per pound (**= \$ 3750/ton**), nonfat dry milk prices and dry whey prices have weakened. Nonfat dry milk prices are in the range of \$1.25 to \$1.35 per pound (**=± \$ 2865/ton**) and dry whey \$0.2125 to \$0.2425 per pound. (**=± \$ 500/ton**) While July butter production was just slightly higher than a year ago and dry whey production 5.8% lower, nonfat dry milk production was 11% higher.

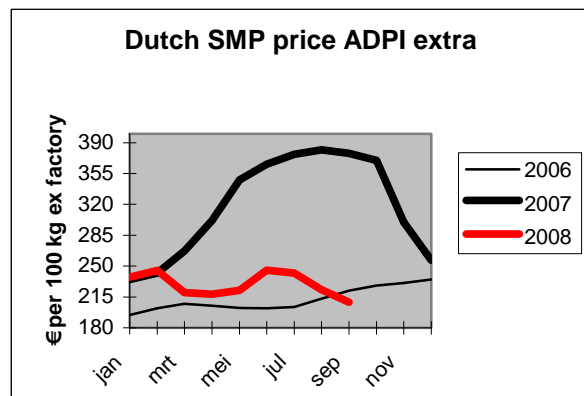
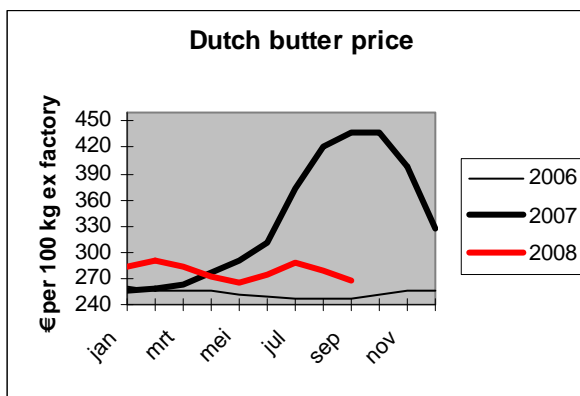
Cheese prices have been highly volatile. Cheddar 40-pound block prices were more than \$2.00 per pound the end of July, but by September were fallen to \$1.68. As of September 18th blocks had recovered to \$1.9225. (**=± \$ 4285/ton**)

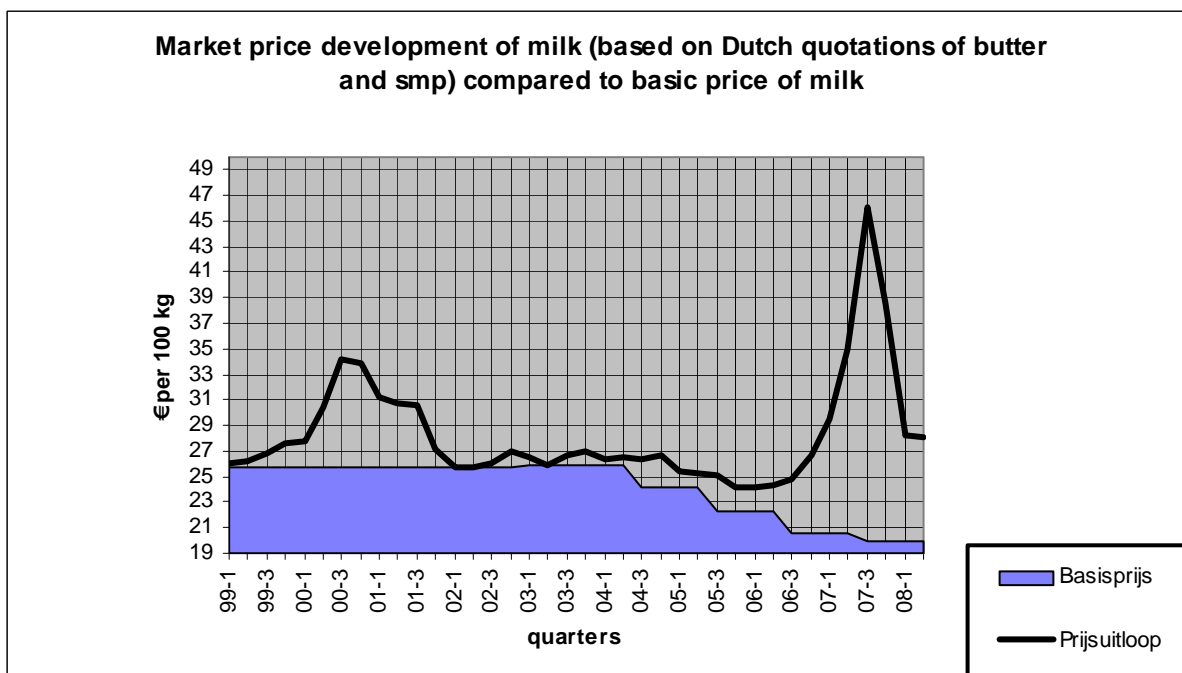
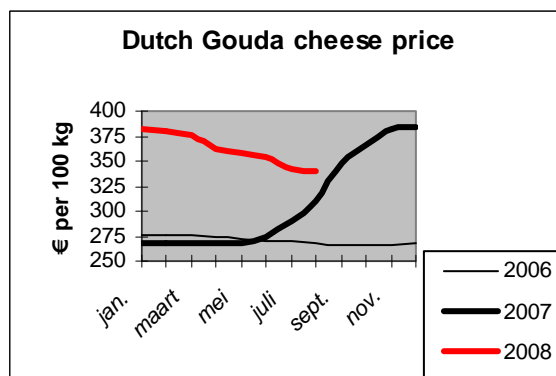
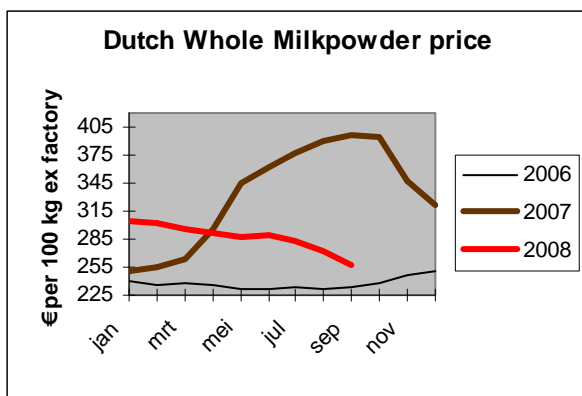
The cheese processing sector may be close to capacity limits, slowing production increases. So cheese prices are expecting not to weaken much and to remain near the \$2. a pound (**=± \$ 4400/ton**) for the rest of the year.

MARKETSITUATION

€ per 100 kg

Dutch Quotations				
	1 January 2008	1 October 2008	index	trend
Butter	Boter	280	237	84,6
Whole milkpowder	Vol melkpoeder	310	242	78,1
Skimmed milkpowder	Mager melkpoeder	238	194	81,5
Wheypowder	Weipoeder	57	42	73,7
Gouda cheese	Gouda kaas	± 385	± 335	87,0





Market comments

In the Netherlands milk output during the period January-August 2008 was 7342.9 million kgs or appr. 1.9% higher, compared to the same period last year. The average milk fat percentage during this period was a little higher (+0.02) from last year. The protein percentage was similar to last year. The milk output figure in the EU-25 for the period January-June 2008 was appr. 1.3% higher than the previous year.

The picture of the market is not very positive. Market is volatile and prices are under pressure, owing to a slackening of demand and rising supplies. Especially products with milkfat, like butter and full milkpowder has seen considerable price declines and are vulnerable.

It looks as if the sales opportunities are becoming less favourable. Negative factors are :

- a still existing higher EU price level, compared to the worldmarket
- a still unfavourable exchange rate of the euro versus the US dollar
- and the prospect of diminishing world economic growth, impacting consumer demand worldwide.

Up till now export volumes are less than last year and there is still no major revival in EU exports to be seen. This can cause further turmoil in the market, and exerting more pressure on prices. Milkpowder prices have declined and the butter market, which saw prices rising from June, has changed direction and is declining further. Also the recent upheaval in the cheese market, where prices in the bulk segment have been increased in June, was short lived and prices are retreating again.

The international market for dairy commodities is still dominated by lower American dairy product prices, still pushing European exporters from the market. And from Oceania signals are indicating lower prices for the near future.