

STANDARDIZED MILK PRICE CALCULATIONS for SEPTEMBER 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		29.56	0.37	36.70
Humana Milchunion eG	DE				35.75	-0.22	37.01
Nordmilch	DE		0.15		31.79	-0.17	34.51
Arla Foods	DK	0.68		3.38	37.62	1.42	37.69
Hämeenlinnan Osuusmeijeri	FI	2.14		12.94	46.48	3.88	43.38
Bongrain CLE (Basse Normandie)	FR	0.74			36.89	geen	36.18
Danone (Pas de Calais)	FR	0.58			39.06	geen	37.37
Lactalis (Pays de la Loire)	FR				36.41	geen	35.96
Sodiaal	FR				38.41	geen	35.76
Dairy Crest (Davidstow)	GB	-0.24	0.37	1.83	35.60	0.00	33.46
First Milk	GB	0.61	2.28		33.60	0.00	31.83
Glanbia	IE				29.54	0.00	35.72
Kerry	IE				31.83	geen	34.37
Campina	NL	0.05	0.75	3.60	35.80	1.20	37.59
Friesland Foods	NL	0.04		3.70	35.40	1.86	38.05
GEMIDDELDE MELKPRIJZEN (2)					35,58		36,37
Alois Müller	DE	0.51			34.04	0.24	37.75
DOC Kaas	NL	0.05	0.27	0.85	29.91	2.48	36.98
New Zealand (5)	NZ				23.57	0.00	30.04
United States of America (3)	US	0.14			28.31	geen	30.01

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 SEPTEMBER 2008

MILK PRICE

The average milk price calculated for September 2008 deliveries is €35.58 per 100 kg standard milk. This is compared with the same month last year €0.12 **lower** (minus 0.3%).

Compared to August the average milk price was also slightly lower. The overall picture is however ambiguous. The Finnish, French, British dairy companies and Arla Foods have still higher milk prices, compared to last year, while milk prices of the other companies declined below the level of last year. Further milk price declines are expected for the coming months.

The dairy market is still 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. Last year's record 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. Moreover a negative market sentiment keeps prices under pressure.

• The Netherlands and Belgium

At Friesland Foods advance payment for September was down as a consequence of lower fat and protein prices. Fat price was reduced by €0,01 to €2,94 and protein price was reduced by €0,12 to €6,68.

Compared to last year the advance payment is now €3.24 lower. Recently the company made public that the advance payment for October has been increased a little. However compared to October 2007 the payment is €8,65 lower.

Campina's advance payment for October was also lower. This was realised by lowering the protein component by €0.19 to €7,45, while the fat component remained unchanged.

Compared to last year the advance payment is still €4.52 lower.

Milcobel has decreased the calculated advance payment for September by €1.05 to €29.56 per 100 kg standard milk, compared to August. This price was realised by lowering fat and protein price by €0.0998 and €0.1855 to €2.59 and €4.82 per 100 kg. Compared to last year the advance payment was €11.01 lower.

- **Germany**

In Germany the advance payment for September has been unchanged for Humana at € 35/100 kg, while at Nordmilch payment was decreased by € 1/100 kg.

The advance payments compared to September last year are for both companies lower. For Nordmilch € 4.95 less and for Humana € 2.48 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 and September. Parties concerned are still considering the new situation.

Compared to last year the advance payments are between € 4.90 and appr. € 5.70 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 companies Dairy Crest and First Milk advance payments for this month are up 1 ppl.

In comparison with last year the milk price difference is a positive € 2.19 for Dairy Crest and € 2.97 for First Milk.

- **Scandinavia**

Arla Foods has lowered its milk price for this month. Standard price was calculated at € 37,62 (= minus € 0,90 compared to August last month). The difference with last year is still € 6.42 plus.

Standard price at Finnish Hameenlinnan Osuusmeijeri was calculated at € 46,48 (+ € 1,94 more than in August), which is a plus of € 9.71 above last year. Farmers are taking advantage of a milk deficit in the area.

- **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.

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

* with 8.3% milk solids

May forecast and will be reviewed again in December.
Reduced price forecasts are due to the recent price fall of dairy commodities on the international markets.

In Oceania, milk output is building as the season develops. Most sources project a 6 - 7% increase over last season in New Zealand with Australian output projected to be 1% higher. For the first two months (July - August) of Australia's milk production season, milk volumes are running 3.6% heavier.

• USA

Milk production estimate for September totaled 15.1 billion lbs (= 6.85 million tons), up 1.7% from September 2007. Production per cow averaged 1,652 lbs (= 750 kg), 7 pounds above September 2007. The number of milk cows on farms was 8.46 million head, 118,000 head more (1.4%) than September 2007, but 8,000 head less than August 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 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.

The first signs are already visible. Market conditions are changing rapidly. The milk supply in the U.S. is tightening to one percent growth as during the fall months due to reduced producer margins. Feed costs are still high by historical levels. Demand for U.S. exports has already weakened slightly. Exports of nonfat dry milk and butter may decline further in 2009. So, even though the milk supply is declining, demand is falling even faster. The fast deteriorating economic environment will lead to a reduction in domestic use for dairy products. So weaker dairy market prices will probably result.

While CME butter prices are moving around \$1.70 per pound (= \$ 3750/ton), nonfat dry milk prices and dry whey prices have weakened further. Nonfat dry milk prices are in the range of \$1.00 per pound (=± \$ 2200/ton) and dry whey \$0.1900 to \$0.2000 per pound. (=± \$ 430/ton)

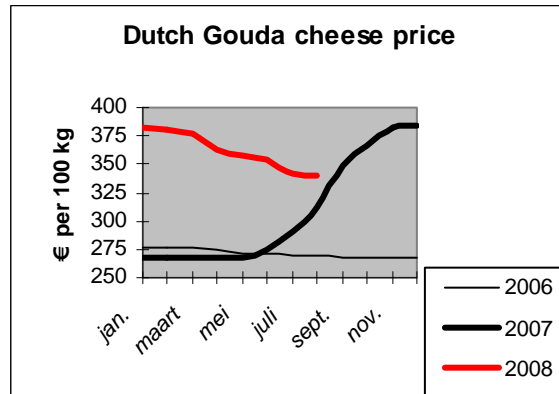
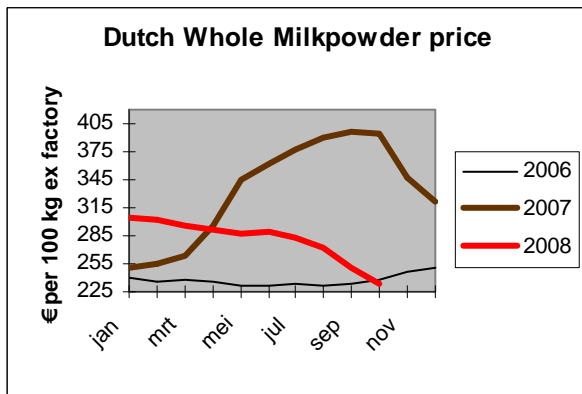
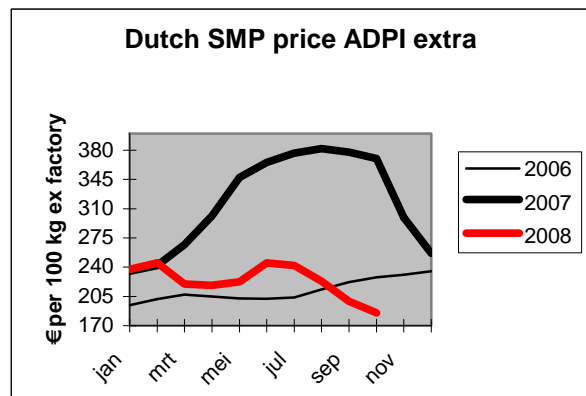
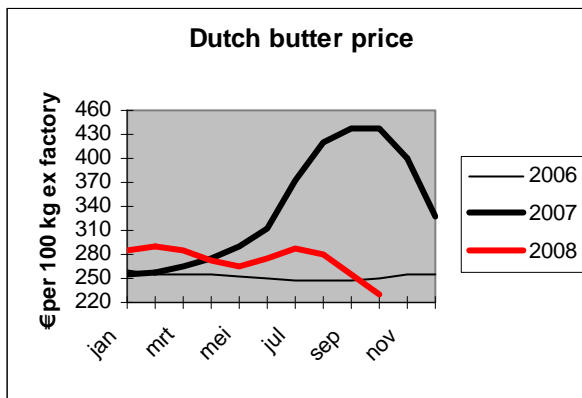
Cheese prices have been less volatile. Cheddar 40-pound block prices were moving around a level of \$1.80 per pound at mid October (=± \$ 3965/ton)

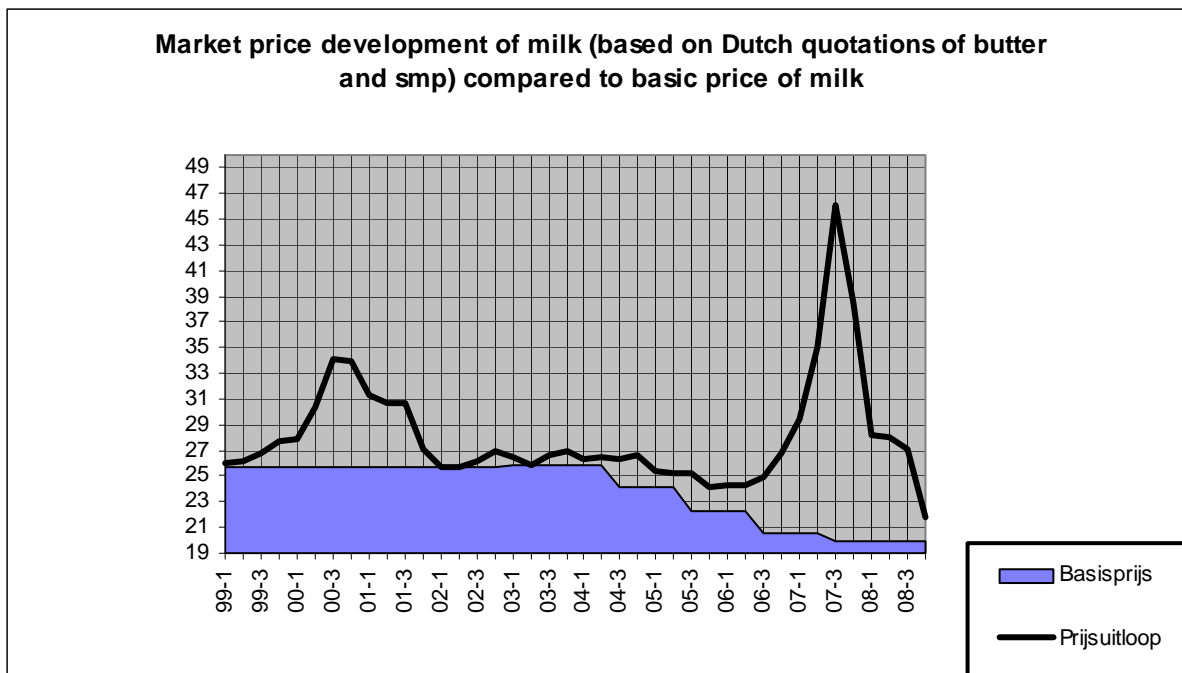
The cheese processing sector may be close to capacity limits, slowing production increases. So cheese prices are expecting not to weaken much and to remain near these levels for the rest of the year.

MARKETSITUATION

€ per 100 kg

Dutch Quotations				
	1 January 2008	29 October 2008	index	trend
Butter	280	219	78,2	↓
Whole milkpowder	310	225	72,6	↓
Skimmed milkpowder	238	175	73,5	↓
Wheypowder	57	38	66,7	→
Gouda cheese	± 385	± 330	85,7	↓





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-July 2008 was appr. 1.1% higher than the previous year.

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

Economic perspectives are not very encouraging given the financial crisis and recession fears. The weakening U.S. and global economic picture is currently having a depressingly bearish impact on all commodities, dairy included. Worldmarket and EU internal prices showed a rapid decline as they were adapting the changed conditions between supply and demand. Milk production in the EU and USA is up to now 1.3% and 2.3% higher. Big South American countries showed also robust growth figures and for Oceania, after a dip last year rise in production is foreseen. Total demand however is expected to fall back significantly. Current butter and milkpowder quotations are appr. 47% and 52% below the record level of last year and even below levels similar with those in 2006 before the hausse in prices during 2007 started. However the strengthening of the dollar exchange rate against the euro may have a positive impact on EU sales opportunities to the world market.