

## STANDARDIZED MILK PRICE CALCULATIONS for OCTOBER 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		<b>28.51</b>	0.37	<b>35.52</b>
Humana Milchunion eG	DE				<b>35.75</b>	-0.22	<b>36.57</b>
Nordmilch	DE		0.15		<b>28.82</b>	-0.17	<b>33.54</b>
Arla Foods	DK	0.64		3.19	<b>35.51</b>	1.42	<b>37.76</b>
Hämeenlinnan Osuusmeijeri	FI	2.14		12.94	<b>46.47</b>	3.88	<b>43.99</b>
Bongrain CLE (Basse Normandie)	FR	0.74			<b>32.92</b>	none	<b>35.93</b>
Danone (Pas de Calais)	FR	0.58			<b>36.21</b>	none	<b>37.22</b>
Lactalis (Pays de la Loire)	FR				<b>32.68</b>	none	<b>35.74</b>
Sodiaal	FR				<b>32.66</b>	none	<b>35.48</b>
Dairy Crest (Davidstow)	GB	-0.25	0.37	2.47	<b>37.26</b>	0.00	<b>33.39</b>
First Milk	GB	0.62	2.31		<b>34.17</b>	0.00	<b>31.82</b>
Glanbia	IE			6.78	<b>36.09</b>	0.00	<b>34.98</b>
Kerry	IE				<b>31.83</b>	none	<b>33.82</b>
Campina	NL	0.05	0.75	3.60	<b>34.80</b>	1.20	<b>37.14</b>
Friesland Foods	NL	0.04		3.70	<b>35.47</b>	1.86	<b>37.34</b>
<b>GEMIDDELDE MELKPRIJZEN (2)</b>					<b>34,61</b>		<b>36,02</b>
Alois Müller	DE	0.51			<b>32.55</b>	0.24	<b>36.94</b>
DOC Kaas	NL	0.05	0.27	0.85	<b>27.10</b>	2.48	<b>35.66</b>
New Zealand (5)	NZ				<b>20.84</b>	0.00	<b>27.99</b>
United States of America (3)	US	0.16			<b>31.98</b>	none	<b>30.00</b>

### 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 OCTOBER 2008**

### **MILK PRICE**

The average milk price calculated for October 2008 deliveries is €34,61 per 100 kg standard milk. This is compared with the same month last year €4.39 **lower** (minus 11.3%).

Compared to September the average milk price was also lower. The price differences have increased. This is partly due to the declining trend in milk prices in the current year at the one hand and to the accelerating trend in higher prices at the end of last year on the other hand. The overall picture is however ambiguous.

Finnish, one 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.

Uncertainty and price volatility still reigns the market place, although heavy downward pressures are slowly dissipating. The market has no bottom insight as intervention is not possible until March next year. Prices of many dairy commodities are moving around or under intervention support levels. However markets find some support by measures to open up the Private Storage Aid program for butter 2 months earlier. (1/1/2009 instead of 1/3/2009) and to keep public intervention unchanged. However any price recovery has to come mainly from internal and international demand to rise in the near future. And with economic conditions deteriorating slowly, leading to a softening of demand for consumption goods in general, no triggers are at hand for an immediate improvement of the price environment.

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 still hesitating to buy, there is the possibility of further softening of prices before supply and demand come back into balance.

#### **• The Netherlands and Belgium**

At Friesland Foods advance payment for October was hardly changed. Fat price was reduced by €0.42 to €2.52 and protein price was increased by €0.54 to €7.22, which leads to a slightly changed price.

Compared to last year the advance payment is now €8.66 lower. Recently the company made public that the advance payment for November remains the same.

Campina's advance payment for October was lower. This was realised by lowering the fat component by € 0.40 to € 2.30 and increasing the protein component by € 0.20 to € 7.65.

Compared to last year the advance payment is still € 5.52 lower.

DOC advance payment for October was € 2.81 lower at € 27.10.

Compared to last year the advance payment is still € 16.08 lower.

Milcobel has decreased the calculated advance payment for October again by € 1.05 to € 28.51 per 100 kg standard milk, compared to August. This price was realised by lowering fat and protein price by € 0.0997 and € 0.1854 to € 2.49 and € 4.63 per 100 kg. Compared to last year the advance payment was € 14.69 lower.

- **Germany**

In Germany the advance payment has been unchanged for Humana at € 35/100 kg, while at Nordmilch payment was decreased by € 3/100 kg.

The advance payments compared to October last year are for both companies lower. For Nordmilch € 11.88 less and for Humana € 5.45 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. Recently a new agreement has been reached. For October basic milk prices have been decreased by € 30/1000 litre. In November and December prices will be lowered by € 25, compared to the same months last year.

Compared to last year the advance payments in October are between € 1.80 and appr. € 3.50 higher.

- **United Kingdom, Ireland**

Milk price of Irish dairy company Kerry was unchanged. Glanbia's standard milk price was higher because of the introduction of the seasonality payments.

Compared to last year their payments are lagging last year's by respectively € 6.97 and € 9.47.

At the British companies Dairy Crest and First Milk advance payments for this month were up, mainly due to higher seasonality payments.

In comparison with last year the milk price difference is a negative € 0.80 for Dairy Crest and a positive € 0.03 for First Milk.

- **Scandinavia**

Arla Foods has lowered its milk price for this month. Standard price was calculated at € 35.51 (= minus € 2.11 compared to September last month). The difference with last year is still € 0.82 plus.

Standard price at Finnish Hameenlinnan Osuusmeijeri was calculated at € 46,47, unchanged from last month, which leads to a plus of € 7.77 above last year. Farmers are still taking advantage of a milk deficit in the area.

## • Oceania

In September the Fonterra Board had 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. Reduced price forecasts were due to the recent price fall of dairy commodities on the international markets.

Recently Fonterra Co-operative Group has announced a revised forecast payout for the current season of **\$6.00 (=± €23.30/100 kg milk\*)** per kilogram of milksolids.

This is a 60 cent reduction from the previous forecast in September and it follows a 24 percent drop in international dairy commodity prices in the last eight weeks

A rebalancing of the mark\$6.00 per kgMS forecast comprises a milk price of \$5.60 per kgMS, down 65 cents, and a value return forecast of 40 cents per kgMS, a five cent increase. Fonterra CEO Andrew Ferrier said, given current conditions, demand was unlikely to recover by mid-2009 as initially expected.

While the medium to long term outlook for dairy remains positive the financial crisis has driven commodity prices down further and, with consumer confidence deteriorating, it is likely that prices will remain weak, rather than recover, through the fiscal year.

The market has not yet absorbed the surplus stocks from the US. In addition, stocks in the EU are building. This combination of excess stocks and weak demand has driven prices down rapidly. While lower commodity prices will improve margins in some markets for our consumer brands businesses, Fonterra expect this to be offset by lower volumes as a result of lower consumer demand.

This lower demand is best illustrated by recent export figures. For the first time this year export volumes and value for September faltered. Export in volume terms was 88.000 tonnes or 25.6% down on September last year. Total export value was NZ \$ 589.3 million or 2.7% less.

## • USA

Milk prices are trending much lower than a year ago due to lower product prices. Lower milk prices are not being driven by a lot more milk being produced, but more by a fallen demand as result of the economic slowdown. USDA's estimate for October showed milk production just 1.2 percent more than a year ago. Monthly increases in milk have been below 2 percent since July and the October increase is the lowest this year. Although cow numbers are expected to fall, feed costs are trending lower and milk production will likely increase about 1% next year, reaching 191.5 billion pounds(= ± 86.9 million ton) in 2009 which is well below growth rates in recent years.

Milk prices are not forecasted to improve and could go even lower as we finish the year and for the first half of 2009. For 2009 Class III futures are below \$15.00 through May against \$17.00 now in October.

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\* with 8.3% milk solids

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While increases in milk production are not relatively high, a slowdown in domestic milk and dairy product sales and dairy exports are to blame for lower milk prices. Up until now dairy exports have been good. Compared to a year ago January through September exports were up 48 percent for cheese, 299 percent for butter and 77 percent for nonfat dry milk (skim milk powder) with dry whey exports down 17 percent.

But since then exports have softened and this situation is anticipated to continue in 2009 due to the global slowdown of the economy and the recent strength of the US dollar.

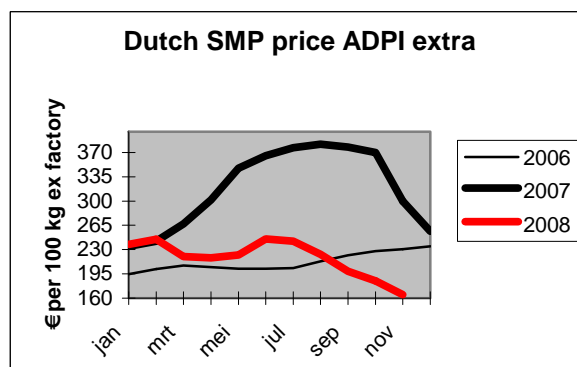
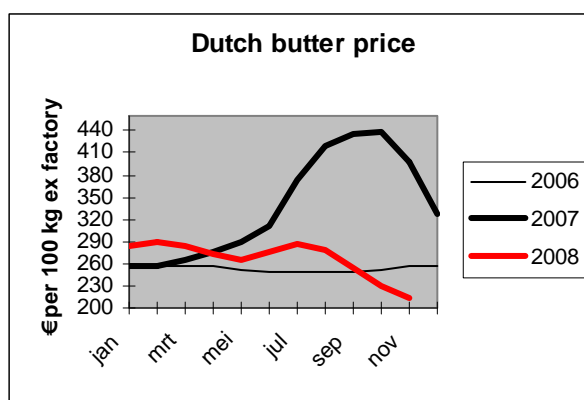
CME butter prices which were \$1.75 per pound mid-October are now around \$1.50 per pound (= \$ 3305/ton) and are expected to decline shortly as Christmas orders are filled. Cheese prices now mid November \$ 1.76 (=± \$ 3878/ton) are also expected to decline after Christmas. Dry whey which was \$0.44 per pound a year ago is now in the \$0.15 to \$0.18 range. This lower dry whey price from a year ago explains about \$1.70 of the lower Class III price.

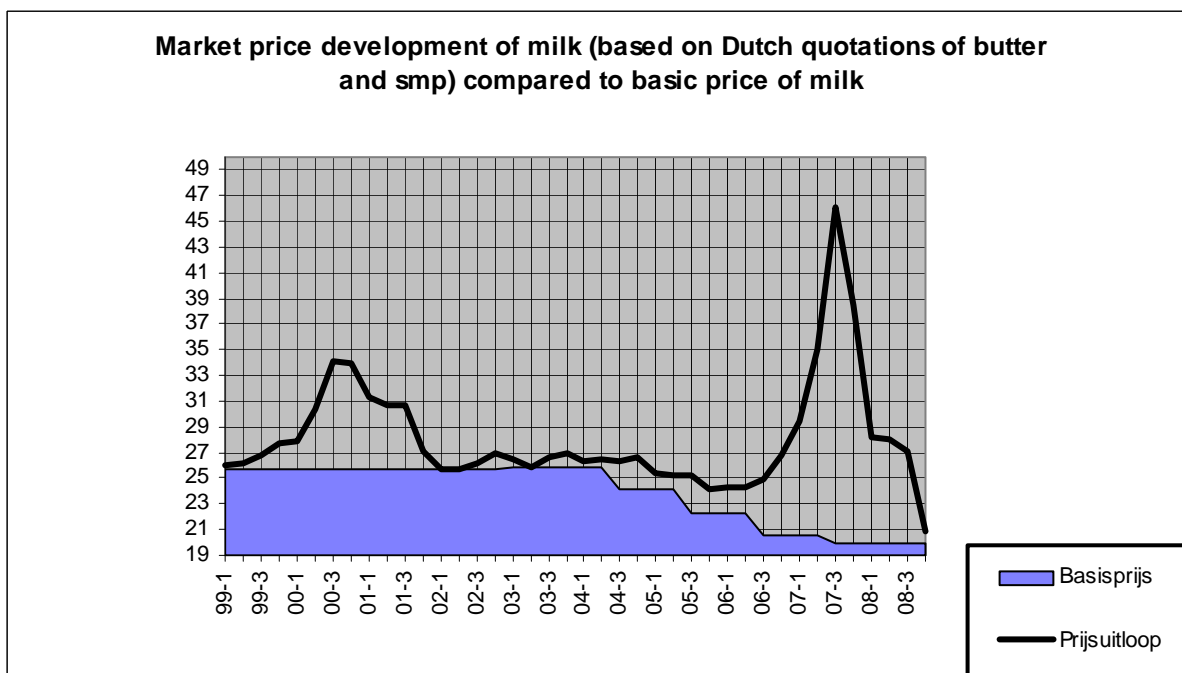
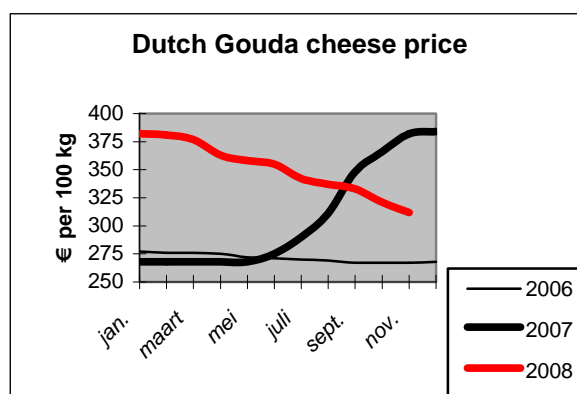
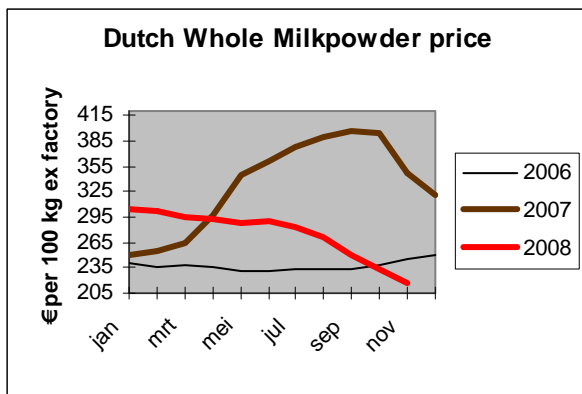
The all-in milk price, which is expected to average \$ 18.35 per lb (= €32.35) in 2008, is forecast to slide to \$ 15.30 to 16.20 per lb in 2009 (= €27- €28.50).

#### MARKETSITUATION

€per 100 kg

Dutch Quotations				
	1 January 2008	5 December 2008	index	trend
Butter	280	212	75,7	↓
Whole milkpowder	310	212	68,4	↓
Skimmed milkpowder	238	165	69,4	↓
Wheypowder	57	41	71,9	→
Gouda cheese	± 385	± 320	83,1	↓





## Market comments

In the Netherlands milk output during the period January-October 2008 was 9096.9 million kgs or appr. 1.8% higher, compared to the same period last year. The average milk fat percentage during this period was a little higher (+0.01) from last year. The protein percentage was similar to last year. The milk output figure in the EU-25 for the period January-August 2008 was appr. 1.1% higher than the previous year.

The general picture of the dairy market has not changed that much. Market is still volatile, but downward pressures are less and prices are starting to stabilise. A slackening of demand and rising supplies had led to considerable price declines, bringing butter and milkpowder under their intervention support levels.

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. Prices are not expected to pick up again before supplies respond to lower market prices.