

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



19 July 2011

Fonterra finishes with a flourish

Co-op closes strong and completes first scheduled pricing review for 2011/12.

Fonterra has announced its second highest closing price in finalising the 2010/11 season, with a final step-up of 15 cents/kg fat and 38 cents/kg protein for its suppliers in Victoria and Tasmania. This brings Fonterra's assessment of its average weighted milk price for the 2010/11 season to \$5.70 per kilogram of milk solids at farm gate (inclusive of incentives, net of volume charge).

Fonterra has also completed its first scheduled pricing review for the 2011/12 season and has confirmed a milk price increase of 12 cents per kilogram of fat and 30 cents per kilogram of protein. This payment will be backdated to 1 July 2011 and will be paid to current Fonterra suppliers in Victoria and Tasmania on 15 August, and it takes Fonterra's estimate of the 2011/12 average announced prices to date to \$4.85/kg milk solids. General Manager Milk Supply, Heather Stacy, also announced a new growth incentive payment program, called "Boo\$t", designed to support Fonterra suppliers in Victoria and Tasmania who are growing milk volumes.

A2 Corp starts new plant in Sydney

A2 to open new Sydney milk processing plant as Aussie sales grow.

NZ-based A2 Corporation is adding more processing capacity to the Sydney region at a time when others are scaling back, commencing the construction of a \$7.5 million dollar processing facility to meet the growing demand for its products in Australia. The plant, expected to be operational in January 2012, will initially be capable of processing an estimated 10 million litres of milk annually, with scope for expansion, in addition to the 20 million litres of milk already supplied by contractors.

Wes Judd steps away from national roles

ADF President to step down to attend to family business fulltime.

Australian Dairy Farmers (ADF) President Wesley Judd has announced he will not be seeking re-election for his present position at the upcoming mid-August ADF Board meeting, due to the priorities of his own family's farming business. The Judd farm on the Darling Downs was one of the worst hit operations in Queensland in the January floods, and has been dealt further problems in recovery due to the ongoing wet conditions. Wes will also step down from his position as chair of the Australian Dairy Industry Council (ADIC) and his role as the President of the Australian Dairy Herd Improvement Scheme (ADHIS). His presence, capacity and level-headedness will be sorely missed in industry leadership and issues management at a national level. However, he will not be totally out of the loop and plans to retain his position closer to home on the Queensland Dairy farmers Organisation (QDO). We wish Wes every success in the challenges ahead.

Bega confirms IPO plans

Bega's prospectus out this week as its ABS listing draws close.

Bega Cheese is in the final stages of preparing a \$35 million IPO to list on the Australian Securities Exchange. Bega plans to release a prospectus this week. The offer gives the cheese company an indicative market capitalisation of \$254 million - with a majority of the other shares to be held by the company's traditional farmer co-op shareholders. Bega executive chairman Barry Irvin has said the funds would be used primarily to reduce interest-bearing debt, which has built after the recent investments to expand its footprint and involvement in cheese and ingredients production. 18 million shares are on offer for the \$2-a-share float which opens on July 26 and closes on August 16.



Headlines

- Fonterra closes strong and steps up
- ADF farewells its president
- Dutchman to run Fonterra
- Cheddar takes a place in GDT auction

Indicators	
Dairy export index	Dollar weaker, index rises
World dairy prices	Butter price falls, others steady
Cow prices	Prices increase
Grain futures	Sharp lift in wheat prices

Bright Foods in talks to buy Manassen

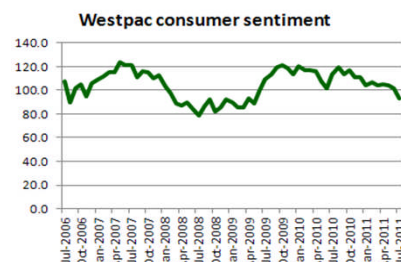
Bright Foods tries for its fifth foreign acquisition attempt.

China's Bright Foods has entered into advanced talks to buy Australian branded food business Manassen Foods which manages a number of specialist dairy brands including imported European products from CHAMP Private Equity. Although the value of the potential deal is undisclosed, Food Holdings, the parent company of Manassen Foods, posted EBITDA of \$50.4 million for the 12 months to June 2010. If successful, the deal would mark Bright Food's first overseas acquisition of any note after being unsuccessful with a number of large deals that include CSR's sugar business and French yoghurt maker Yoplait, although this will be a small deal in comparison to Bright's scope and appetite.

Consumer confidence plummets

Consumer sentiment plunges to recession levels on financial fears in July.

The Westpac-Melbourne Institute of Consumer Sentiment suggests consumers are getting gloomier about short-term prospects, plummeting 8.3% in July to 92.8 points, the lowest reading recorded in more than two years. Westpac states that this fall was largely driven by households' concerns over prospects for the economy and personal finances amid Europe's worsening debt problems, high interest rates, and uncertainty about the impact of the carbon tax.



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Australasian export index from Jan 2008



Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

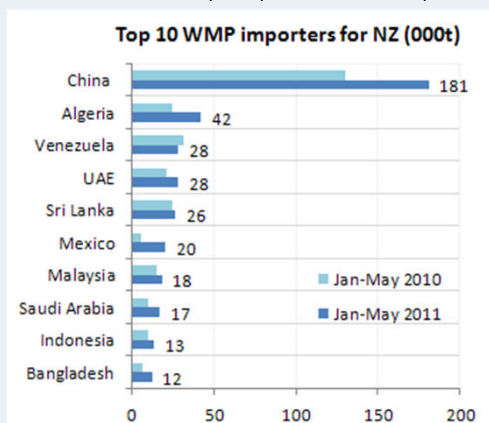
Index of export returns

Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.

Dollar weaker. The index of Australia export returns posted a gain this week as the \$A lost half a cent against the \$US. Spot prices for powders and cheddar stayed unchanged, while butter fell this week. The \$A closed the week at **\$US1.0640** and the index of spot returns was up by most of a point to **126.1**.

Cheddar cheese earns a place in GDT auction – Cheddar cheese will be offered for the first time in the next GDT auction on July 19. It has been proposed that an estimated 960 tonnes of product will be made available for delivery in 2011 and 27,510 tonnes will be supplied via GDT over the next 12 months. Starting prices for cheddar are expected to vary from \$3,785/t for young cheddar to \$4,065/t for “hi solids” grade.

NZ powder exports growing quickly in 2011 - The latest trade statistics have revealed that there was significant growth in the NZ exports of WMP in the five months to the end of May 2011, driven by increased demand from China and Algeria, which is coming back into the market after a quieter time over the last year. WMP exports to China increased by 39% to over 180,000 tonnes this year on the same five-month period a year ago, while exports to Algeria lifted by 75% to over 42,000 tonnes. In contrast, exports of SMP dipped 3.5% to just under 160,000 tonnes in the five months to the end of May compared to the same period last year.

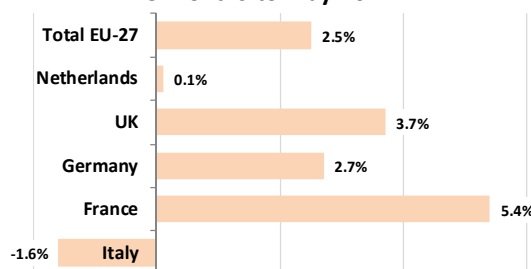


Growth in EU milk deliveries

Expansion in milk deliveries eases, as production gets hit by dry weather.

According to market analysts, EU-27 milk deliveries continued to expand in May, with dairies processing approximately 12.75 million tonnes of milk in May, up 1.2% from the same period a year ago. Total deliveries in the first five months of 2011 amounted to approximately 58.8 million tonnes, up 2.5% from the January-May 2010 level. However, growth in leading countries such as France and the UK has significantly eased compared to the earlier months of the year, affected by the warm and dry weather. Germany maintains its growth rate while Dutch output is flat.

Changes in EU milk output
5 months to May 2011



Fonterra gets a new CEO

Dutchman - experienced in co-operative model - chosen to run Fonterra.

After a search process that followed the announcement of Andrew Ferrier to leave his post, Fonterra has appointed Dutchman Theo Spierings as its new CEO to replace Andrew Ferrier who announced his resignation in March. Mr Spierings, aged 46, is no stranger to senior management of a farmer-owned multinational dairy business, as he is a dairy industry executive with 25 years of experience in the global industry, and led the Dutch farmer-owned co-op Royal Friesland Foods into a profitable merger with another Dutch dairy giant Campina in 2008. He has a strong background in corporate strategy and mergers and acquisitions in the FMCG sector. He will commence his new role at Fonterra on 28 September this year.

USDA raises 2011 milk production

Total 2011 milk production estimate now 1.5% above 2010 output.

The USDA has raised both 2011 and 2012 US milk production estimates in its latest World Ag Supply & Demand Estimates (WASDE) report, reflecting increasing cow numbers and no change in the projected growth in milk per cow. Total 2011 milk output projection was revised to lift the latest estimate to 1.5% above 2010 output, while the total 2012 production was increased to an estimated 1.6% above 2011 projections.

Dean Foods to pay \$140m in settlement

Dean Foods reaches a million-dollar settlement with dairy farmers.

Dean Foods has agreed to pay US\$140 million in a partial settlement to the Southeast Dairy Farmers in a class-action suit filed four years ago for unfair competition. The processor will be making an initial payment of US\$60 million to a fund distributed among dairy farmer class members with an additional US\$20 million each year for the next four years. Dean will also take steps to restore fair competition in the milk market.

Lactalis announces new Parmalat's CEO

Parmalat gets senior Lactalis figure as its new CEO.

Yvon Guerin, a senior figure and general manager of Lactalis' cream and nutrition division, has been appointed as the new CEO for Parmalat, the Italian dairy company now under Lactalis control. He replaces Enrico Bondi, who has achieved a herculean effort over the past 8 years in reviving the group in the aftermath of its financial collapse in late 2003 after a massive fraud perpetrated by its previous management, who are now doing jail time. With over 20 years of experience at the French dairy company, Guerin, aged 46, is expected to draw from his acquisition experience to merge Parmalat into the Lactalis operations. His appointment takes immediate effect and his arrival at Parmalat to take up the new role is expected in the coming days.

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