

DAIRY REPORTER



Weekly Dairy News for Members of DFMC

30 August 2011

WCB doubles profit

Strong demand and rising international prices deliver results for WCB.

Warrnambool Cheese & Butter has reported a surge in net profit by 110% to \$18.5 million in the 2011 financial year, helped by strong international dairy prices and strong demand for its branded consumer products. Revenue was up 21% to \$504 million. However, the dairy products manufacturer has warned with the dairy export prices expected to plateau in 2012, it could be vulnerable to the volatility of the Australian dollar.

Expansion on cards for Tasmania

Dairy enjoys a resurgence in Tasmania as expansion continues.

The Van Diemen's Land Company in Tasmania has announced plans of creating another 30 dairy farms under a \$180 million proposal, in a move which would triple its milk production and expand its herd by 21,000 cows. The Woolnorth expansion reportedly seems to be the latest in a series of dairy developments in Tasmania.

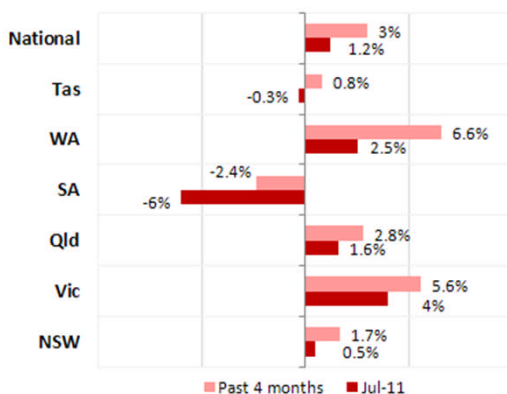
Earlier, Fonterra reported it will spend \$6.5 million to convert its plant at Spreyton, near Devonport, to gas and \$12 million to upgrade its Wynyard cheese factory. National Foods is also investing \$150 million to update and expand its cheese plants in Burnie and on King Island, while Tasmanian Dairy Products plans to construct a \$60 million milk-powder plant at Circular Head

Australian milk sales up in July

Milk sales up, but still lagging behind the growth trend of last 4 months.

Dairy Australia reported that milk sales in July were 1.2% higher than the same month last year. All states reported growth in packaged milk sales, excluding SA and Tasmania, which were down by 6% and 0.3%, respectively. July sales dipped well below the sales growth trends seen in all states over the past 4 months, as shown in the chart on the right.

Australian packaged milk sales - July 2011 v past 4 months



Carbon tax to impact pay cheques

Dairy farmers could be hit with the escalating costs under the carbon tax.

According to the Department of Primary Industries analysis of the carbon tax's impact, Victoria's dairy processors may be forced to cut suppliers' annual milk cheques by an average of an estimated \$5,687 from July 1, in the face of carbon tax. Murray Goulburn and Fonterra are among the top 500 companies, who would be forced to pay \$23/t carbon tax, and pass those back to farmers.

The DPI analysis has also revealed that on-farm costs for farmers would increase, varying from \$997 on a small northern irrigated dairy farm to \$4,500 on a medium-sized Gippsland farm. This analysis was based on key assumptions that electricity prices would increase by 10% and fertiliser companies would pass the full cost of the carbon tax to farmers.

Headlines

- WCB doubles profit
- Woolworths unveils full-year results
- Metcash victory a boost for mergers
- Draft CAP plans leaked
- Glanbia reports strong first half results

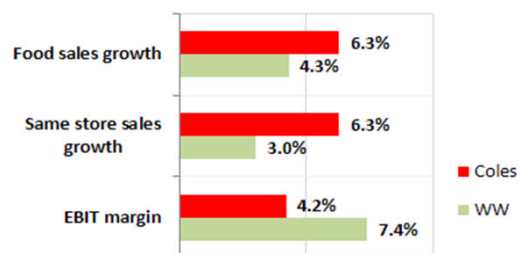
Indicators	
Dairy export index	Rising dollar curbs index
World dairy prices	WMP lifts, others steady
US cull cow prices	Prices continue to fall
Grain futures	Sharp rise in wheat futures and local grains

Woolworths unveils final full-year results

Pre-tax profit rises, but Woolworths tips a tough year ahead for retail.

Woolworths' Ltd booked a 5.1% boost in net profit to \$2.12 billion in 2010/11. The food and liquor division reported a 4.3% increase in sales, with comparable sales up 3%. It delivered an EBIT margin of 7.4%, as earnings before interest and tax increased by 7.5% to \$2.67 billion for the year. Outgoing chief executive Michael Luscombe has forecast tougher times ahead, with profit expected to rise by 2%-6% this financial year, well below the 8.4% average of analysts' forecasts.

How the big two compared in 2010/11



Metcash defeats ACCC in court

Metcash gets the official nod to buy Franklins chain after court win.

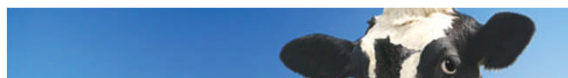
Metcash has won the Australian Federal court approval for its \$215 million purchase of the Franklins supermarket chain from parent Pick n Pay, overcoming opposition from the ACCC. Federal Court Justice Arthur Emmett concluded that he believed that the takeover would strengthen the capacity of the independent retailers to compete with major supermarkets. He also said that he was not convinced that a third party would make an offer to acquire the whole or a significant majority of the Franklins assets, as the ACCC had put forward

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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 stronger. The index of Australia export returns fell this week as the \$A gained strength against the \$US. The only movement seen this week was in WMP prices which rose by US\$50/t, while others stayed firm. The \$A closed the week slightly stronger against the US dollar at **\$US1.0568**; this trimmed the index of spot returns by 2 points to **119.67**.

NZX has posted 2000 traded lots. NZX Dairy Futures has reached its second milestone in the trade volumes executed, with a total of more than 2,000 lots traded since its launch in October 2010. This reflects the high growth rate of the volumes traded – while the first milestone of 1,000 lots was attained in nine months, the second (1,000 lots) took only eight weeks. Trading has been significantly strong in July and August, with an average of over 40% month-on-month growth occurring since March 2011.

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.

UK milk prices behind EU counterparts

Lifts in UK farmgate prices are slim compared to its EU counterparts.

According to DEFRA, the average UK farmgate price stood at 26.61ppl in June, which was 0.23ppl (0.9%) increase on the May average price. Annual comparisons show a 2.76ppl (11.6%) increase year-on-year. But as the chart below shows, UK producers continue to lag their mainland EU counterparts who are getting better returns out of the lifts in wholesale product prices.

Robert Wiseman Dairies is the latest to pass a price increase, confirming it will increase the farmgate milk price to its members by 1.85 pence per litre from October 2011, bringing the new supplier price to 28.425ppl. The higher price reflected the continued strength in commodity markets and the company's need to maintain its competitive positioning to secure the supplies required to meet customer demand over the winter. The UK milk processor has also confirmed that it has made some contractual adjustments to milk composition and quality, in order to align it with the business requirements.

Goodman Fielder suffers losses

Food maker suffers huge losses as its dairy division battles higher costs.

Goodman Fielder booked an annual net loss of \$166.7m for the 2011 financial year, compared to a net profit of \$161.1 million in 2010, hit by write-downs in its baking division, and higher prices for commodities and energy that lifted the company's input costs. The group's EBITDA was down 7.4% to \$356.7m, on revenues which fell 3.9% to \$2.56 billion. The dairy division experienced a fall in sales and earnings, with earnings partly affected by unfavourable exchange rates. Sales fell by 4.2% to \$422.5 million, while EBITDA reduced by 15.3% to \$51.1 million compared to last year. While in the first half of the year, the dairy business was able to withstand a significant increase in the price of raw milk, in the second half, weakened economic conditions reduced consumer confidence and strengthened consumer resistance to price increases, making it harder for the group to pass on higher input costs.

Imported beef prices eases in the US

Fall in imported beef prices – a reflection of last year's trend.

Imported beef prices have fallen for the second consecutive week, as imported manufacturing beef supplies in the US tighten and domestic manufacturing beef prices lift. The recent fall reflects last year's trend, where prices softened towards the end of summer in the Northern hemisphere and continued to do so, until the US manufacturing beef supply scaled back and production in Australia and NZ slowed.

Draft CAP plans leaked

Leaked plans provide insights into major structural changes to come

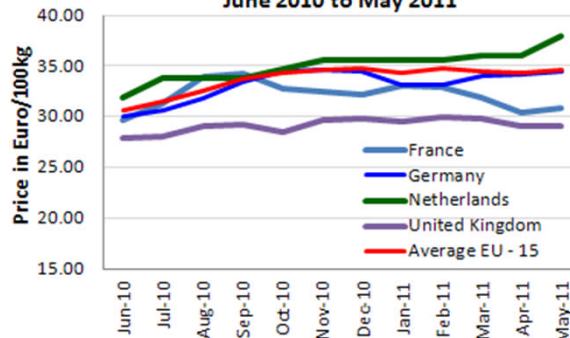
Reports from Europe have emerged that the draft plans for restructuring of Pillars 1 and 2 of the Common Agriculture Policy payments post-2013 have been leaked. The reform plan for Pillar 1 – direct support – includes a progressive capping scheme for higher payments (those in excess of €150,000) and a move towards a greener policy through mandatory environmental requirements, including 5% of farmland being devoted to ecological purposes. The Pillar 2 – rural development – has undergone minor amendment, towards three core objectives - competitiveness, sustainable resource management and balanced territorial development - with priority on the areas of knowledge transfer, competitiveness, food chain imbalances, ecosystem protection, resource efficiency and employment.

Glanbia reports a strong first half

Sustained demand and strong global market help boost Glanbia's profits.

Irish dairy group Glanbia (and former co-op) reported a small boost in operating profit by 5.3% to €83.1m for the first six months to July 2, compared to the same period last year, driven by a "strong" performance from its international operations. Group revenues rose 29.6% compared to the prior-year period, while EBITA grew 31.2% to €117 million.

Farmgate Milk Price by Country - June 2010 to May 2011



Dean Foods' antitrust settlement scrapped

Dairy giant might escape the brunt of a million-dollar settlement bill.

Dean Foods has persuaded a US district court judge to nullify a proposed agreement to pay US\$140 million over a period of five years, to about 7,000 dairy farmers in the Southeast of the US to settle claims that they suffered losses from Dean's milk buying practices. The company's unusual request to back out of the agreement came after Judge Ronnie Greer agreed in July to exclude farmer-members of the Dairy Farmers of America (DFA) co-op from the "class" of farmers that sued Dean, DFA and others, alleging violation of competition laws. This ruling opened the potential for Dean to negotiate a new settlement with the smaller group of non-DFA farmers. However, a trial has been scheduled for September 13, to enable the group's lawyers to pursue their claims against Dean, National Dairy Holdings (NDH) and DFA and two of its affiliates and former chief executive Gary Hanman.

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