

LTO International comparison of producer prices for milk

2015

*prezzi di latte • melkprizen • prix du lait • molkeprizen
milch preise • milk prices • maelke priser • maidon hinnat*

COLOPHON

Publisher

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June 2016

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Foreword

2015 will go down in history as the year when the EU milk quota system was abolished after more than 30 years. This landmark event was responsible for a so-called 'hard landing' in the Netherlands and a big increase in milk production as a result. The steady growth in global milk production, a fall in demand from China, combined with the ongoing import ban of EU dairy products by Russia, have created an imbalance in the dairy markets.

This caused the fall in milk prices - which started in 2014 - to continue in 2015 and into the first half of 2016 too. So, after two record years for milk prices, 2015 was one of the worst years for dairy farmers and the current low milk price is responsible for continuity problems in many dairy farms. Although the milk price has not reached the lowest level recorded in 2009, the period of low milk prices has been more protracted and it is this in particular that is responsible for the difficulties that dairy farmers are experiencing. In mid-April 2016, the Dutch dairy quotations improved a little again, which could be a sign that the milk price is recovering.

The increase in milk production in the Netherlands does show the resilience and energy of the sector. Many young farmers are intending to take over their family businesses and make them future-proof. This is one development of which we can be proud, in addition to the pride we have in being farmers and producing dairy products.

This report has been made possible in part thanks to the contribution of members of EDF that supplied milk price information. The milk price series, which covers a large number of years, gives a good insight into milk price developments in the most important EU countries and also into differences between the Netherlands and the biggest dairy exporting countries in the world

Kees Romijn
Chairman Dairy Committee Dutch Federation of Agriculture and Horticulture LTO Nederland

1. Introduction and notes for readers

1.1 Introduction

The LTO International Milk Price Comparison is published every month at the request of the Dairy Committee of the Dutch Federation of Agriculture and Horticulture (LTO Nederland) at www.milkprices.nl. This is a comparison of prices paid for milk by large European companies and is done in co-operation with European Dairy Farmers (EDF). EDF collects the milk price data and makes them available. Calculations are undertaken by ZuivelNL.

The method chosen for the calculations shows the price a dairy farmer would receive if milk of specific (standard) composition, quality and quantity were delivered to the different dairy companies.

In this report the following characteristics of the standard milk are taken as a basis:

- 4.2% fat;
- 3.4% protein;
- total bacterial count 24,999 per ml;
- somatic cell count 249,999 per ml;
- annual delivery 500,000 kg.

The prices are exclusive of VAT, ex-farm and inclusive of supplementary payments.

It must be emphasized that there is no comparison of the average milk prices paid. The average price paid by a dairy company for milk is dependent on the actual composition, quality, quantity et cetera of the milk delivered. Furthermore, no conclusions can be drawn about the performance of dairy companies on the basis of the milk prices paid. Many more factors play a role in assessing performance.

After each calendar year has ended, a report is presented with the calculated milk prices paid for that year. This annual report appears when the supplementary payments of the preceding calendar/ financial year are known and can, thus, be incorporated into the milk prices. The amount of supplementary payments are contrary to previous reports not corrected for the date of payment. Based on the negative EURIBOR 3-months deposits interest rate this correction would lead to a little higher prices.

The monthly milk prices are weighted on the basis of national monthly milk deliveries. The present publication comprises the milk prices calculated for the calendar year 2015.

1.2 Notes for readers

Chapter 2 features the calculated milk prices for 2015 (paragraph 2.1), followed by a description of the developments of the dairy market in 2015 (2.2) and latest trends of milk prices and dairy markets in the first half of 2016 (paragraph 2.3).

In chapter 3 the choice of dairy companies is explained with additional information about their shares in national milk deliveries (paragraph 3.1) and additional information about the calculated milk prices per company (3.2).

Chapter 4 goes into the subject of a greater variety in contracts and milk price differentiation with some additional information about the fixed milk price schemes in Ireland (paragraph 4.2). In paragraph 4.3 an analysis is made of the effects of the A and B pricing systems of Danone and Sodiaal in France.

The appendices give an overview of milk prices per dairy company from 2009 to 2015 (Annex I) and the average currency exchange rates in 2015 and 2014 (Annex II).

2. Milk prices in 2015

2.1 Milk price comparison

After good milk price years in 2013 and 2014, milk prices fell significantly to an average of € 31.27 per 100 kg in 2015. This is a decrease of € 7.33 (19.0%) in comparison with 2014. Starting after the summer of 2014, this price decrease continued to gather pace in 2015. After achieving a record year in 2014, the average milk price fell to its lowest level for years in 2015. The only other year that the milk price was (much) lower was 2009.

Table 1. Milk prices 2015 and 2014

In € per 100 kg of standard milk (excluding VAT and including supplementary payments)

		2015		2014		2015-2014	2015-2014	national currency
Hämeenlinnan O.	FI	39.43	1	45.91	1	-6.48	-14.1%	
Granarolo (North)	IT	38.93	2	44.67	2	-5.75	-12.9%	
Dairy Crest (Davidstow)	UK	34.44	3	39.45	4	-5.00	-12.7%	-22.6%
FrieslandCampina	NL	33.22	4	41.14	3	-7.93	-19.3%	
Sodiaal (Pas de Calais)	FR	33.16	5	38.42	6	-5.25	-13.7%	
Danone (Pas de Calais)	FR	33.07	6	37.95	8	-4.89	-12.9%	
Bongrain (Basse Normandië)	FR	32.69	7	38.32	7	-5.64	-14.7%	
Lactalis (Pays de la Loire)	FR	31.67	8	37.52	9	-5.85	-15.6%	
Arla Foods DK	DK	30.50	9	39.42	5	-8.92	-22.6%	-22.6%
Milcobel	BE	28.45	10	36.16	14	-7.71	-21.3%	
Kerry Agribusiness	IE	28.29	11	36.15	15	-7.86	-21.7%	
Müller(Leppersdorf)	DE	28.16	12	36.60	11	-8.44	-23.1%	
First Milk (compositional)	UK	27.89	13	36.52	13	-8.63	-23.6%	-33.6%
DMK	DE	27.36	14	36.72	10	-9.36	-25.5%	
Glanbia	IE	26.58	15	36.11	16	-9.53	-26.4%	
DOC Cheese	NL	26.54	16	36.52	12	-9.99	-27.3%	
AVERAGE MILK PRICE		31.27		38.60		-7.33	-19.0%	
Dairygold	IE	27.85						
Emmi	CH	51.69		50.94		0.75	1.5%	-10.6%
Fonterra	NZ	21.34		28.71		-7.37	-25.7%	-26.3%
USA class III	US	35.82		41.47		-5.65	-13.6%	-30.1%

Notes on table:

- 1) In 2016, Bongrain changed its name to Savencia, Fromage & Dairy.
- 2) Several adjustments have been made to the milk prices for 2014 in comparison with the previous publication. Weighting¹ of the monthly milk prices has been updated too, resulting in a number of minor differences in comparison with previous publications.

Milk prices paid by Finnish Hämeenlinnan Osuusmeijeri and Italian Granarolo are at the top of the table again. What is more striking is the high ranking of British Dairy Crest. This is largely due to the increase in the value of the British pound in comparison with the euro. As a result, British milk prices have been converted into euros at a higher exchange rate. Without this exchange rate increase of 9.9%, the milk price calculated for Dairy Crest in 2015 would have decreased with 22.6%.

The favorable operating results and the relatively high supplementary payment received as a result enabled the FrieslandCampina dairy cooperative to limit the decrease in the milk price in 2015.

¹ The monthly milk prices are weighted on the basis of national monthly milk deliveries (source: ZuivelNL) in the two previous years. Monthly milk prices in 2014 have been weighted on the basis of average monthly milk supplies in the months in question in 2012 and 2013 and those for 2015 on the basis of the average in 2013 and 2014.

The milk prices calculated for the French dairy companies have clearly fallen less than average in 2015. As already indicated in the milk price report for 2014, milk prices in France would seem to respond less quickly and less severely to fluctuations in the market in comparison with the other European countries. One explanation for this situation would seem to be a combination of the relatively large French home market and, as such, less dependence on export and the world market, and also the milk price system applied. The contracts entered into between producer organisations and dairy processors include milk price formulas with a cushioning effect.

The milk prices paid by Danone and Sodiaal are based on so-called A-prices. In 2015 their supplying dairy farmers received a lower B-price for part of the quantity of milk supplied. If allowance had been made for this, the 2015 milk prices calculated for Danone and Sodiaal would fall respectively by € 0.07 and € 0.72 per 100 kg (see table 3 in paragraph 4.3).

The results achieved by Arla Foods and their milk price paid depend on export and the world market far more than the French dairies do. Just as in the poorest milk-price year to date - 2009 - the milk price calculated for Arla in 2015 is below the average for European dairy companies.

Milcobel has also had a difficult year, despite its improved ranking. The milk price calculated for Milcobel excludes the support received from the so-called crisis fund.

Based in part on an additional payment of € 0.55, the milk price calculated for Kerry Agribusiness is € 28.29, which is slightly higher than the milk price paid by German Müller Leppersdorf company.

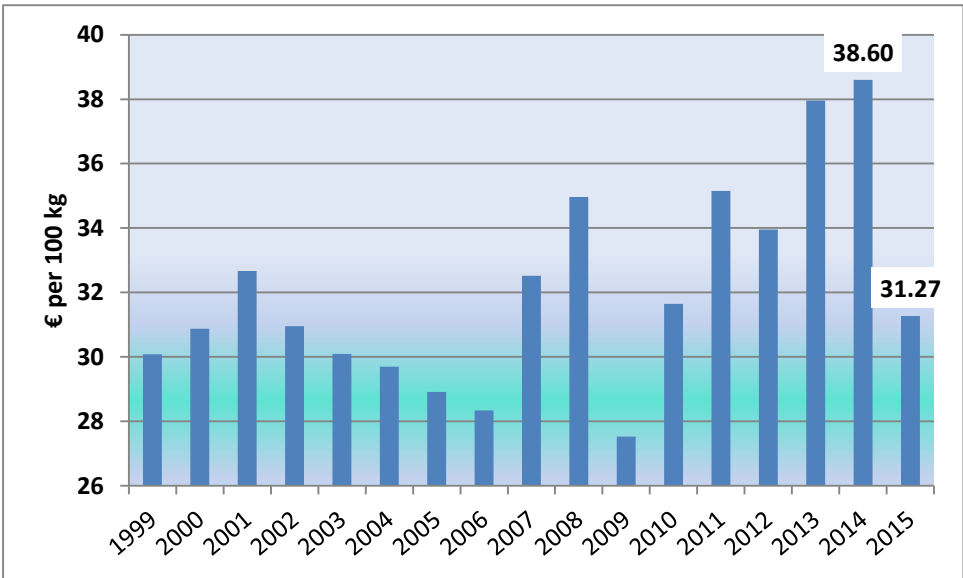
Without the currency effect, the milk price calculated for First Milk decreased with 33.6%. Incidentally, the milk price paid by First Milk is based on just the so-called A-price. A lower B-price was paid for part of the milk supplied.

German DMK and Dutch DOC Cheese, which merged with effect from 1 April 2016, are 14th and 16th in the ranking. The Irish Glanbia Ingredients Ireland Limited (GILL) company is positioned at 15th place. When calculating the milk price for GILL, no allowance was made for the support that the Glanbia milk cooperative paid to its members.

The calculation and publication of milk prices for Irish Dairygold started in 2016. Because milk-price data are available as of January 2015, the milk price for 2015 was calculated too. To ensure that the series is not distorted, the Dairygold milk price for 2015 was not included in the average for the European dairy companies.

Figure 1 shows that the average milk price in 2015 is at its second lowest level since 2007

Figure 1. Average milk prices from 1999 to 2015 inclusive



The milk price calculated for Swiss Emmi is significantly higher than milk prices in EU countries and has also risen slightly expressed in euros. However, this increase is due entirely to the substantial revaluation of the Swiss franc in comparison with the euro. Expressed in Swiss Francs, the milk price has fallen by slightly more than 10%.

Since season 2005/06, milk prices in New-Zealand have not been as low as they were in milk price years² 2014/15 and 2015/16 and, as such, not as low as in calendar year 2015 either.

Expressed in the national currency, the USA class III milk price calculated has fallen most, being a percentage of 30.1%. If the exchange rate for the dollar had not increased by 16.5% in comparison with the euro, the USA milk price calculated would have fallen 30.1% and, as such, not well above, but just below the European average.

2.2 Dairy market 2015

In 2015, the dairy market was determined by a significant global increase in supply and a structural disappointingly low level of demand. This resulted in a low price level overall.

In the first quarter, market sentiment was still positive and prices were increasing. This was due in part to the slowing down of milk supply in the EU because of the imminent imposition of a super levy and uncertainty about the development of milk production in New Zealand. Added to this, the euro, which was weakening in comparison with the dollar, was giving European producers a better competitive position in the world market.

The abolition of the milk quota system resulted in a substantial growth in milk production in the EU with effect from 1 April 2015. However, demand remained at well below the level of supply in the same period. The decreased willingness to buy on the part of China, as a result of lower economic growth and high stock levels, and the Russian import ban (introduced with effect from August 2014) played an important role in this situation. What is more, the low oil price caused major oil-producing countries to rein in their spending and import less dairy. This combination of factors put market prices under pressure with effect from the second quarter and they fell sharply.

Prices recovered briefly in September and October. However, the price increases in this period were driven primarily by market sentiment, as market fundamentals, the extended period of sluggish global demand and surplus supply were found to have remained the same. Prices started to fall again from November onwards as a result.

The average market price level in 2015 was significantly lower than in 2014, as evident from the official Dutch dairy quotations. The average quotations for skimmed milk powder (-30%), whey powder (-27%) and whole milk powder (-22%) in particular fell substantially. The average quotation for butter dropped too, although the decrease (-11%) was slightly less drastic. The decrease in the average indicative value of Gouda cheese was substantial too (-22%).

² From June to May inclusive.

2.3 Milk price and dairy market development in the first half of 2016

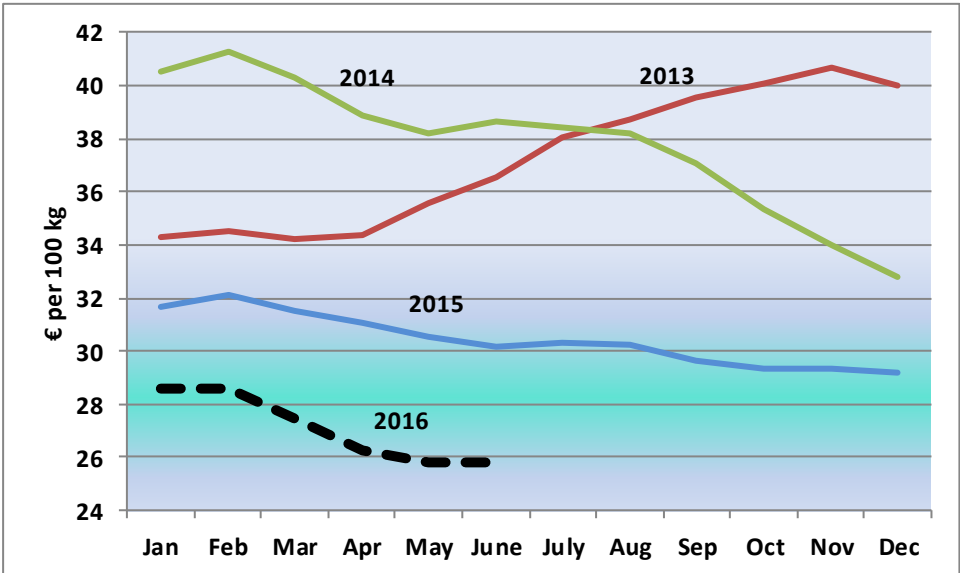
At the beginning of 2016, market fundamentals remained the same: sluggish demand and surplus supply at a global level. This imbalance caused stock levels to increase and the selling prices for dairy products were put under pressure. This resulted in a further fall in milk prices paid to dairy farmers.

The increase in the global milk pool is a European issue in particular, especially in the north-western part of Europe. However, growth in north-western Europe as a whole did weaken slightly in the second quarter of 2016. In New Zealand, milk production is at a lower level than last year, but the decrease is less than expected. In the United States, a slow-down in growth has been evident for some time now.

The market outlook became slightly more positive in mid-April, there being an upward market correction in a market that had caved in too much. This was due to a slightly lower growth in supply than expected and the higher level of demand.

The more positive market outlook has not filtered through to dairy farmers yet. The milk prices paid to producers in April has fallen even further and the expectation is that the prices in May will do the same. It is possible that milk prices will improve after the peak in production in June/July, provided the market continues to develop positively.

Figure 2. Development of average monthly milk prices from January 2012 until June 2016 (May and June estimated)



3. Choice of dairy companies and explanation of milk prices

3.1 Choice of dairy companies

The starting point for the dairy companies chosen is a comparison of the milk prices for the major European dairy companies and a regional spread across various EU countries. An effort has been made to calculate the milk prices for the biggest dairy companies per country. One exception is the 'small' Finnish Hämeenlinnan Osuusmeijeri company, as an alternative for the large Valio company.

Besides European (EU) milk prices, additional information is provided about milk prices in the 'rest of the world'. These are Emmi, the biggest dairy company in the non-EU country Switzerland, New-Zealand Fonterra, the world's biggest dairy exporter to the world market and the United States.

Table 2 shows the total milk supply per country, as well as the part (%) of raw milk supplied to the dairy companies for which the milk prices are calculated. The object is to provide an indication of the representativeness of the outcomes of the LTO International Milk Price Comparison for European milk prices.

Table 2. National milk deliveries and the shares supplied to the dairy companies

	bn kg	share	dairy company	bn kg
Germany	31.5	32%	Müller(Leppersdorf)	1.7
			DMK	8.5
France	25.4	54%	Bongrain (Savencia)	3.0
			Danone	1.0
			Lactalis	5.0
			Sodiaal	4.8
United Kingdom	15.2	11%	Dairy Crest (Davidstow)	0.5
			First Milk	1.2
The Netherlands	13.3	79%	DOC Cheese	0.9
			FrieslandCampina	9.6
Italy	10.6	8%	Granarolo	0.9
Ireland	6.6	65%	Dairygold	1.2
			Glanbia	2.0
			Kerry Agribusiness	1.1
Denmark	5.3	89%	Arla Foods DK	4.7
Belgium	4.0	28%	Milcobel	1.1
Finland	2.4	4%	Hämeenlinnan Osuusmeijeri	0.1
sub total	114.2	41%	total companies	47.3
other EU countries	37.0			
EU-28	151.3	31%	total companies	47.3
Switzerland	3.5	26%	Emmi	0.9
New Zealand	21.5	84%	Fonterra	18.1
United States	94.6			

Source: Annual milk deliveries per country: ZuivelNL, supply per company: annual reports and estimates

The milk processed per company in table 2 relates just to the country for which the milk prices are calculated. For example, Arla processes a total of 14.2 billion kg of member-supplied milk in Europe. However because the milk price calculated relates to Denmark, just the volume of Danish milk supplied is indicated in the table.

In 2015, a total of 114.2 billion kg of milk was supplied in the nine EU countries; in other words, 76% of total EU-28 milk production. The 17 dairy companies processed a total of 47.3 billion kg of milk (excluding 'foreign' milk; see the previous note). This is 41% of milk supply in the nine EU countries and 31% of total EU-28 milk supply.

For example, table 2 shows that Müller Leppersdorf and DMK jointly process 10.2 (= 1.7+8.5) billion kg of German milk. In other words, 32% of national milk supply.

Incidentally, the milk prices paid by Hämeenlinnan Osuusmeijeri and the First Milk will no longer be calculated or published with effect from 2016. This is because of the absence of milk payment accounts. By contrast, the milk prices paid by Irish Dairygold have been included in the milk price comparison since 2016. The decision was made to include a third Irish dairy company based in part on the strong increase in milk production in Ireland.

3.2 Explanation of milk prices per dairy company

Hämeenlinnan Osuusmeijeri (Finland)

The milk price paid by Hämeenlinnan Osuusmeijeri fell by 14.1% to € 39.43 in 2015. The milk price calculated includes a supplementary payment of 1.5 cents per litre. In other words, € 1.46 per 100 kg of standard milk.

Granarolo (Italy)

The milk price calculated for Granarolo fell by 12.9% to € 38.93 per 100 kg in 2015.

Dairy Crest (United Kingdom)

The milk price calculated for Dairy Crest Davidstow fell by 12.7% to € 34.44 in 2015.

FrieslandCampina (the Netherlands)

The milk price of € 33.22 calculated for FrieslandCampina (2014: € 41.14) includes a supplementary payment of € 3.49 (€ 2.92), based on a performance bonus of 7.3% (4.7%) of the value of the milk delivered in 2015, being € 2.17, the issue of fixed member bonds of 4.2% (2.7%), being € 1.24, and a correction/addition of € 0.08 on the guaranteed price already paid out monthly in 2015.

The milk price calculated for FrieslandCampina includes an average meadow premium of € 0.29 per 100 kg.

Bongrain, Danone, Lactalis and Sodiaal (France)

The milk price in French contracts between producer organisations and dairy companies is often based on market indicators calculated and published by the interprofessional organisation CNIEL. As a result, the individual price differences between the dairy companies are limited and the same applies for price fluctuations. The latter is because the French market is a relatively important factor in these indicators, as a result of which there is less reliance on the export and world markets, which are characterised by bigger price fluctuations.

Prompted in part by the pressure exerted in protests by dairy farmers, the French dairy companies temporarily paid out extra bonuses in addition to their milk prices.

Danone and Sodiaal operate a milk price system under which the higher A-price is not paid for all milk, but also a lower B-price for part of the milk supplied. The milk prices calculated are based on just the A-price. Paragraph 4.3 explains the A and B system in more detail and also the consequences it has for the average milk price paid by both companies.

Since 2010, the milk prices paid by Sodiaal have been increased to include the so-called ASAP premium with retrospective effect. Dairy farmers receive this premium if they accurately predict their future milk supplies. An average premium of € 0.21 per 100 kg has been included in the calculated milk prices.

The milk price paid by Lactalis has been reduced by € 0.34 per 100 kg with retrospective effect from January 2013 due to a correction of the volume bonus.

Arla (Denmark)

The milk price paid by Arla (€ 30.50) is based on Danish milk statements. In addition to the monthly advance milk price, the member-dairy farmers affiliated to Arla receive a supplementary payment, part of which is converted into member certificates. The supplementary payment for 2015 was 4.71% (2014: 4.05%) of the so-called basic value. This basic value is made up of the monthly fat and protein payments minus the costs per kg of milk, plus the quality bonuses received. The supplementary payment calculated is 10.34 DKK (of which 3.1 DKK in the form of member certificates) or € 1.37 (2013: € 1.53) per 100 kg of standard milk.

Milcobel (Belgium)

The milk price calculated for Milcobel fell by 21.3% to € 28.45 per 100 kg in 2015. Milcobel paid its member-dairy farmers a supplementary payment of € 0.062 per kg of fat and protein. In other words, € 0.47 per 100 kg of standard milk for the volume of milk supplied in 2015.

The milk price calculated for Milcobel does not include the bonus from the so-called crisis fund, as this bonus was not paid out by the dairy. This fund was created further to the poor market situation for dairy farming and consists of contributions from large distributors, based on an amount per litre of consumption milk sold. Based on the size of the quota on 31 March 2015, active dairy farmers received a contribution of € 2.50 per 100 litres for a period of six months (from September 2015 up to and including February 2016). This is equal to € 1.25 per 100 kg on an annual basis.

Kerry Agribusiness (Ireland)

The milk price calculated for Kerry includes an addition of € 0.55 per 100 kg of milk supplied in 2015. This additional payment was made with the milk payment for April 2016 and was included in monthly milk prices with retrospective effect. Including this addition, the milk price calculated for Kerry for 2015 works out at € 28.29 per 100 kg (minus 21.7% in comparison with last year).

Müller Leppersdorf (Germany)

The milk price calculated for Müller relates to suppliers to the dairy factory in Leppersdorf. This fell by 23.1% to € 28.16 per 100 kg in 2015.

First Milk (United Kingdom)

As a result of the increase in value of the British pound in comparison with the euro, the decrease in the price paid by First Milk in 2015 was limited to 23.6% and the milk price calculated works out at € 27.89 per 100 kg. First Milk introduced an A and B system with effect from 1 April 2016. The milk price calculated is based on the (higher) A-price.

DMK (Germany)

The milk price calculated for DMK fell by 25.5% to € 27.36 per 100 kg in 2015. DMK did not make any supplementary payments for 2015. DMK and DOC Cheese merged with effect from 1 April 2016.

Glanbia (Ireland)

The milk price of € 26.58 calculated for Glanbia Ingredients Ireland Limited (GIIL) includes seasonal bonuses of 3.8 (February) and 2.35 cents per litre (November), but excludes the payments that the cooperative made from a so-called support fund as of March 2015. In 2015, support equal to an average of approximately € 1.12 per 100 kg of milk was paid out. Because these payments are not linked to market returns, but originate from the capital of the cooperative, this payment has not been included in the milk price calculated.

The Glanbia Cooperative Society cooperative holds 36.5% of the shares in the listed company Glanbia plc. The support fund includes an amount of € 67 million that originates from the sale of shares.

No allowance has been made for fixed milk-price contracts in the milk price calculated for Glanbia either, under which higher milk prices currently apply (see paragraph 4.2).

DOC Cheese (the Netherlands)

The milk price calculated for DOC Cheese is € 26.54 in 2015 (minus 27.3%).

DOC Cheese did not make any supplementary payments for 2015. The member bonus of € 0.68 had already been included in monthly milk prices.

Dairy farmers that supply to DOC Cheese receive a sustainability bonus. An average bonus of € 0.86 has been included in the milk price calculated.

Dairygold (Ireland)

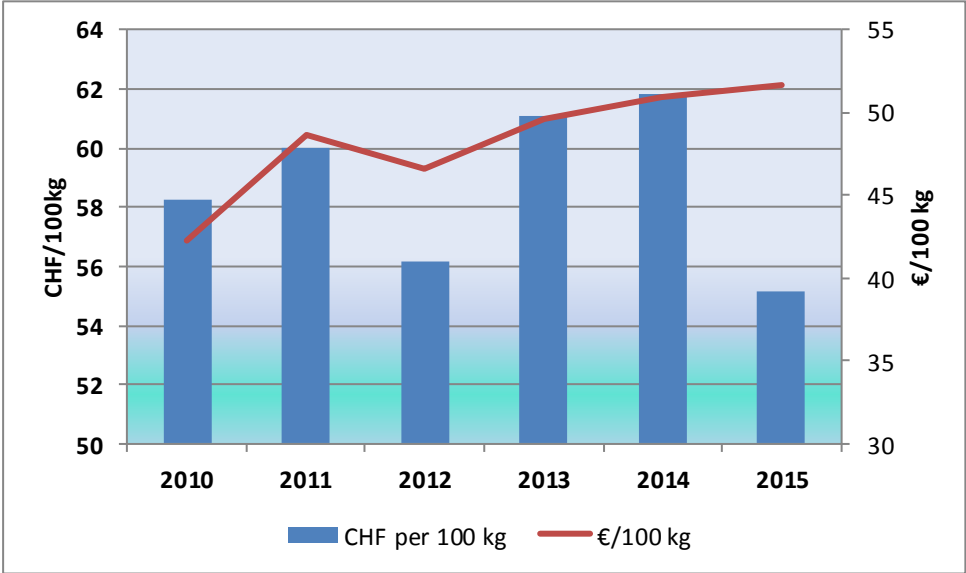
In 2015, the Irish Dairygold company paid a milk price (€ 27.85 per 100 kg) that exceeded the market return, according to the annual report. The support paid to its members totalled an amount of € 20 million and was at the expense of profits. Without this support, the milk price calculated for Dairygold in 2015 would have been € 1.73 per 100 litres lower.

Emmi (Switzerland)

The payment system in Switzerland consists of A, B and C milk prices. In 2015, the milk price calculated for Emmi, being € 51.69 per 100 kg, was based on an average milk price of 68% A, as well as B (12-32%) and C (0-20%) shares varying on a monthly basis.

Figure 3 shows the development of Emmi milk prices from 2010 to 2015 inclusive, expressed in both euros and Swiss francs. The figure also shows the effect on the milk prices calculated of the devaluation of the Swiss franc in comparison with the euro. Expressed in euros, the average milk price in 2015 did not fall. However, expressed in Swiss francs, the milk price for Swiss dairy farmers fell significantly.

Figure 3. Emmi milk prices 2010 to 2015
(CHF per 100 kg and euro per 100 kg)



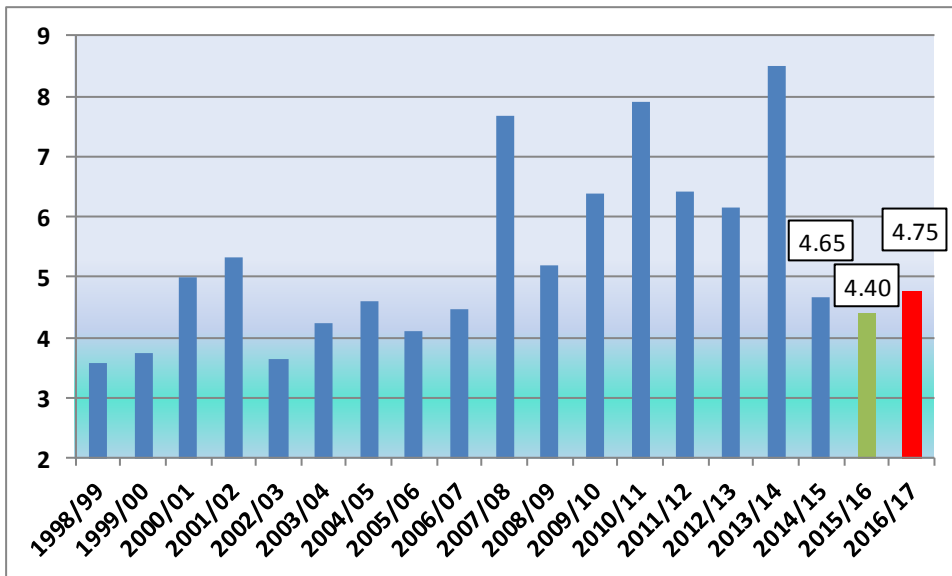
Fonterra (New-Zealand)

The milk price calculated for Fonterra for the calendar year 2015 is € 21.34 per 100 kg. This price is based on the definitive milk price (including a dividend of 0.25 NZD) in the season 2014/15 (4.65 NZD per kg of fat and protein) and the most recent milk price forecast for the season 2015/16 (4.40, including an expected dividend of 0.50).

With effect from June 2016 in the new milk-price year of 2016/17, Fonterra announced an opening milk price of NZD 4.75 (this is the milk price of 4.25 plus an estimated dividend of 0.50) per kg of fat and protein.

The milk prices of recent years and the forecast for 2016/17 are far lower than in previous years; see figure 4.

Figure 4. Fonterra milk prices 1998/99 to 2016/17
(NZD per kg milk solids MS)

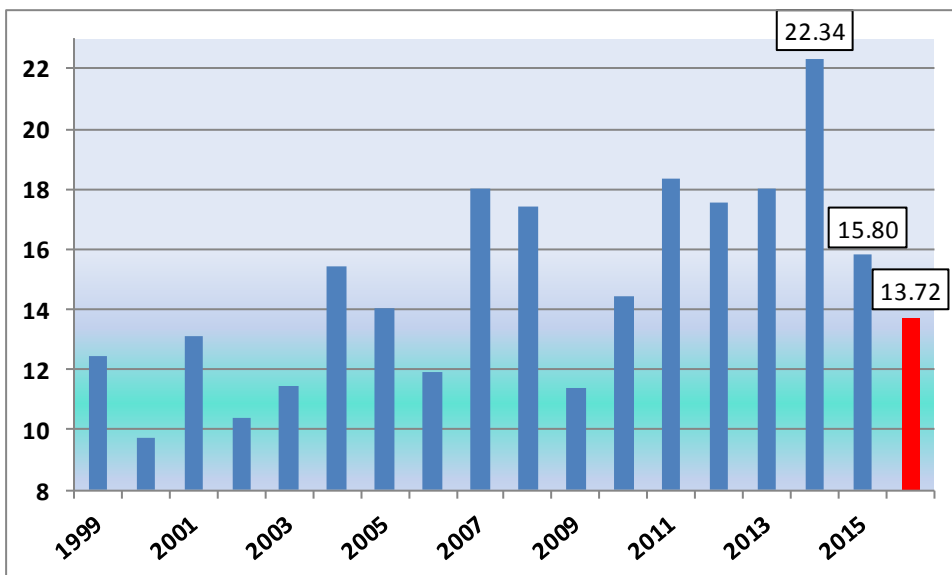


The United States

Converted into euros and for standard milk, the class III milk price for the United States in 2015 is € 35.82 (2014: € 41.46) per 100 kg. Expressed in dollars per hundredweight (cwt = 45.36 kg), the milk price has fallen from its record level of \$ 22.34 in 2014 to \$ 15.80 in 2015.

In the first four months of 2016, the milk price was on average \$ 13.72 per cwt

Figure 5. USA Class III prices
(\$ per hundredweight (cwt))



4. Contracts and milk price differentiation

4.1 A greater variety of contracts and schemes

It is becoming more and more difficult to compare milk prices because of the greater variety of contracts and cooperative schemes in place within and between dairy companies.

For example, various different types of contract apply in Ireland and the United Kingdom, depending on the destination of the milk, namely milk that is to be processed into consumption milk (products) or manufacturing milk. In Great Britain, consumption milk contracts can also be broken down into contracts for specific customers (supermarkets) and standard contracts.

Given the possible obligation for contracts to be entered into in EU member states and the abolition of the milk quota, agreements have been made - in France in particular - about the quantity of milk to be supplied and a price differentiation depending on the quantity supplied, the so-called A and B prices. First Milk introduced a system of this nature in 2015 too. Swiss dairy farmers have been familiar with contracts between producer organisations and customers, containing agreements about A, B and C prices, since the abolition of the Swiss milk quota in 2009.

To be able to absorb price fluctuations, the Irish dairy companies offer dairy farmers the possibility to receive a fixed milk price for part of the milk supplied for a certain period of time.

Finally, there has been an increase in the diversity of bonuses (and deductions). Although the quality of the milk (including milk composition) is still the most important factor that determines the price paid, to producers dairies are making more and more demands to their suppliers where production methods are concerned. For example, almost all companies operate sustainability programs, under which the business operations of dairy farmers are scored on the environment, animal care, etc. Dairy farmers that score well receive a bonus and, as such, a higher milk price.

A brief explanation of the fixed prices applicable in Ireland and the A and B system in France follows in the next paragraphs.

4.2 Fixed milk prices in Ireland

Dairy farmers that supply to the Irish dairy companies Dairygold, Glanbia and Kerry have the option to receive a fixed price for part of their milk. Glanbia has already been offering dairy farmers the opportunity to take part in the above voluntarily since 2011. The seventh phase, with a fixed milk price for the period from 1 April up to and including the end of 2018 (two years and nine months), was launched at the beginning of 2016. A certain volume of milk is made available by Glanbia, for which the dairy farmers are able to subscribe; dairy farmers only receive this fixed milk price for part of their milk production. This possibility is being utilised on a large scale, because these fixed milk prices are higher than current milk prices. For example, the fixed basic milk price for the seventh phase is 29 cents per liter (including VAT and contents of 3.3% protein and 3.6% fat), while the basic milk price in April 2016 is 24 cents per liter.

In 2015, Kerry launched a scheme for a total of 70 million liters. However, this volume was not utilised in full. Dairy farmers were able to subscribe for a maximum of 20% of their production.

4.3 A and B milk prices in France

Sodiaal and Danone operate an A and B system under which the A-price is based on dairy product returns in the French market and the B-price for butter and skimmed milk powder prices, as calculated and published by CNIEL. The milk price comparison has been based on just the A-prices to date. An analysis is done to establish the effect to the milk prices calculated for Sodiaal and Danone on the basis of an average A and B price instead of taking only A prices into account.

Since 1 April 2011, Sodiaal has been operating an A and B system under which an A-price was paid for 96% and 92% of the reference quantity of milk in 2011/12 and 2012/13 respectively. This milk reference quantity is based on the milk quota. Per month, the maximum A-volume is 8% (2011/12) and 7.7% (2012/13) of the year reference respectively. No maximum applies for the months of July, August and September and, as such, the A-price is paid for all milk during these months. Since 2013/14, the monthly maximum has been 7.5% (based on a total of 90%), except for the months of August up to and including October, for which no maximum applies.

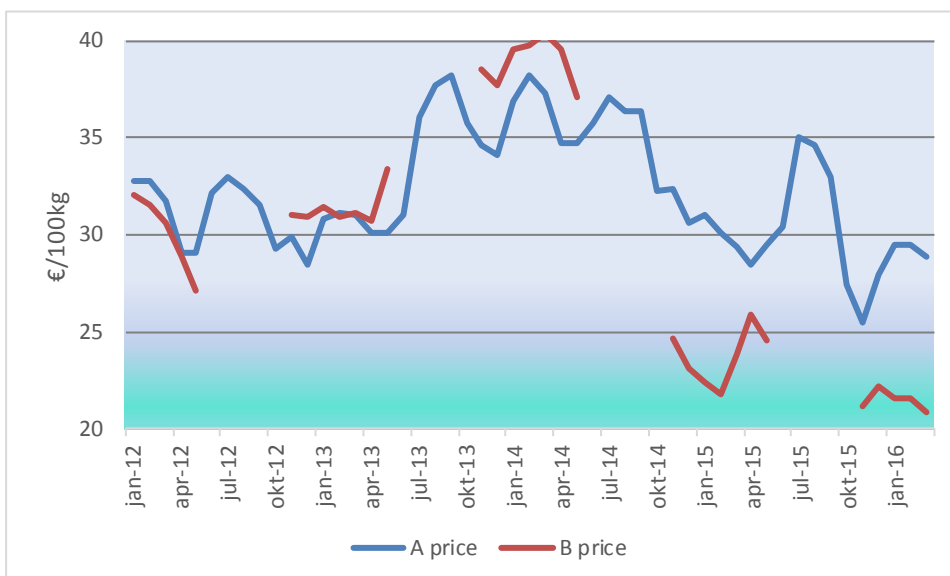
At Danone, the maximum quantity of A-milk is 8.5% of annual supply in the months November up to and including April, 9.5% in May and 12.0% in June up to and including October (this has been 12.5% since June 2015).

The A and B prices paid by Sodiaal and Danone are shown in the figures 6 and 7. The B-prices for Sodiaal have been left out for the months of July to September inclusive and August to October inclusive, as no maximum A quantity applies in these months and, as such, the A-price is received for all milk supplied during these months. The B-prices for Danone have been left out for the months of June to October inclusive, as the maximum A quantity in these months (12/12.5%) is not restrictive for milk farmers with an average supply pattern. French milk supply in these months is less than 9%.

Figure 6. A and B prices Sodiaal



Figure 7. A and B prices Danone



The effect of the A and B prices on the average milk prices calculated is very limited where Danone is concerned, despite the major differences sometimes applicable between the A and B price. This is because the maximum A quantity is only restrictive in the period from December to April inclusive and the remaining quantity of B milk is relatively low.

The effect at Sodiaal is bigger. This is because the monthly maximum quantities of A are lower so the B-share in the average milk price is higher. Sodiaal also applies lower B-prices than Danone, being the prices published by CNIEL minus € 15.00 per 1,000 liters.

Table 3. LTO prices (based just on A-prices) in comparison with the average of A and B milk prices (€ per 100 kg)

	2012	2013	2014	2015
Danone	0.00	-0.01	-0.04	0.07
Sodiaal	0.15	0.03	-0.04	0.72

If the milk price calculation were to be based on an average instead of just the A-price, the milk price for Danone in 2015 would be € 0.07 per 100 kg lower. The milk prices calculated for 2012 and 2013 would even increase slightly, by € 0.01 and € 0.04 per 100 kg respectively. There is no difference in 2011.

The effect of including the B-price is bigger for Sodiaal. Based on an A and B price instead of just the A-price, the average milk price in 2015 falls by € 0.72 per 100 kg. The difference in 2012 and 2013 is very limited.

However, in practice, dairy farmers with growing milk production will clearly be confronted with a lower milk price. This is because the A-share is based on the historic milk deliveries.

Annex I Milk prices 2009 to 2015

		Av.09-15	2009	2010	2011	2012	2013	2014	2015
Hämeenlinnan Osuusmeijeri	FI	42.37	39.52	39.22	43.28	44.06	45.18	45.91	39.43
Granarolo (North)	IT	39.47	34.75	34.91	40.40	40.73	41.87	44.67	38.93
FrieslandCampina	NL	35.20	26.22	32.79	37.12	34.98	40.95	41.14	33.22
Arla Foods DK	DK	34.08	27.51	32.65	35.41	34.47	38.61	39.42	30.50
Sodiaal (Pas de Calais)	FR	33.98	29.66	31.96	34.56	33.78	36.34	38.42	33.16
Danone (Pas de Calais)	FR	33.87	29.65	32.24	34.55	33.66	35.99	37.95	33.07
Bongrain (Basse Normandie)	FR	33.74	29.58	31.85	34.34	33.48	35.94	38.32	32.69
Dairy Crest (Davidstow)	UK	33.42	27.88	28.78	31.76	35.15	36.50	39.45	34.44
Lactalis (Pays de la Loire)	FR	33.18	29.34	31.69	34.17	32.82	35.04	37.52	31.67
DOC Cheese	NL	32.59	23.47	32.40	36.86	33.40	38.97	36.52	26.54
Milcobel	BE	32.19	25.25	31.96	34.18	30.63	38.68	36.16	28.45
Müller(Leppersdorf)	DE	31.99	24.56	30.88	35.09	31.27	37.38	36.60	28.16
DMK	DE	31.39	23.43	30.43	33.75	31.04	36.99	36.72	27.36
Glanbia	IE	31.12	22.67	29.78	34.14	30.90	37.63	36.11	26.58
Kerry Agribusiness	IE	31.08	22.71	29.04	33.61	30.45	37.31	36.15	28.29
First Milk	UK	30.01	24.24	25.75	29.25	32.42	33.99	36.52	27.89
Average		33.73	27.53	31.65	35.16	33.95	37.96	38.60	31.27
Emmi	CH	48.29		42.29	48.56	46.64	49.65	50.94	51.69
Fonterra	NZ	28.15	20.80	30.50	30.15	29.99	35.54	28.71	21.34
USA class III	US	32.02	20.24	27.24	32.70	33.36	33.28	41.47	35.82

Annex II Average currency exchange rates 2015 and 2014

Exchange rate of the euro

	2015	2014	2015/2014
Danish crown	7.4545	7.4587	-0.1%
New-Zealand dollar	1.6000	1.5907	0.6%
British pound	0.8062	0.7260	9.9%
US dollar	1.3289	1.1096	16.5%
Swiss franc	1.2143	1.0676	12.1%