No milk price cuts in 2007

Kerry – Glanbia €24m conversion

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The worst is over on milk price cuts. All the indications are that there will be no milk reductions in 2007. That's the signal coming from dairy markets internationally.

INDEED, this reality is recognised by Kerry and Glanbia. Both have decided to cancel their 6c/gal reduction from January 2007.

This means that Kerry and Glanbia milk suppliers will receive €24m extra for their milk in 2007. This is of a type of conversion on the road to Damascus.

It appears that the shafts of IFA lightening did the job. In the best traditions of St Paul both processors have been converted away from the cuts. culture.

It was most uncharacteristic that Kerry should be one of the creameries leading down prices. One expects that from Glanbia.

They are always first to cut, and last to increase. Hopefully their New Year's resolution will be to kick this "addiction".

They now have the management capacity to enter a new era on milk prices. The objective is to match the West Cork payout.

In the old days the 1950s/60s farmers' milk price was always the first target to solve any problems at the creamery. It was the soft option.

Unfortunately this appears to be still the situation in the case of Kerry and Glanbia. Now in the plc situation their share price had fallen in August and September.

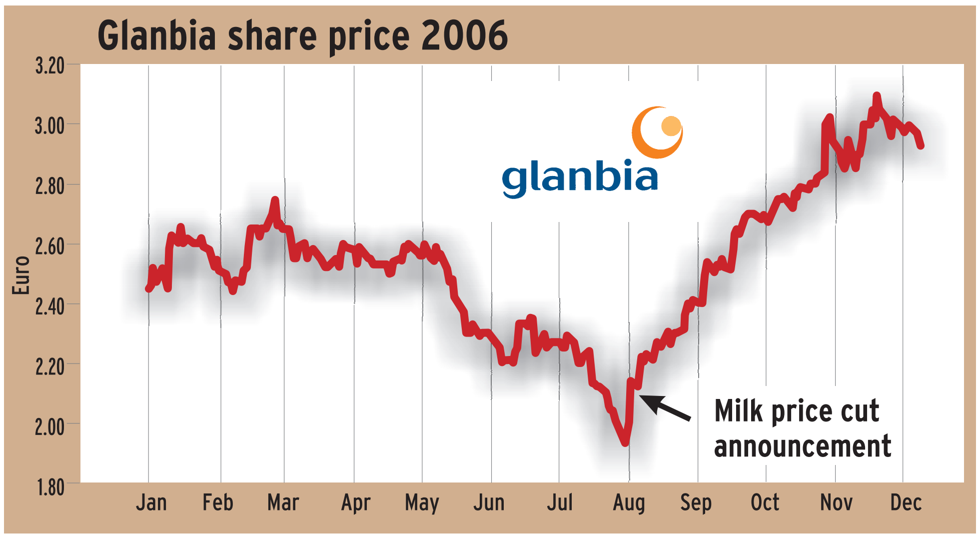
In this the 21st century the option remained the same - cut the milk price.

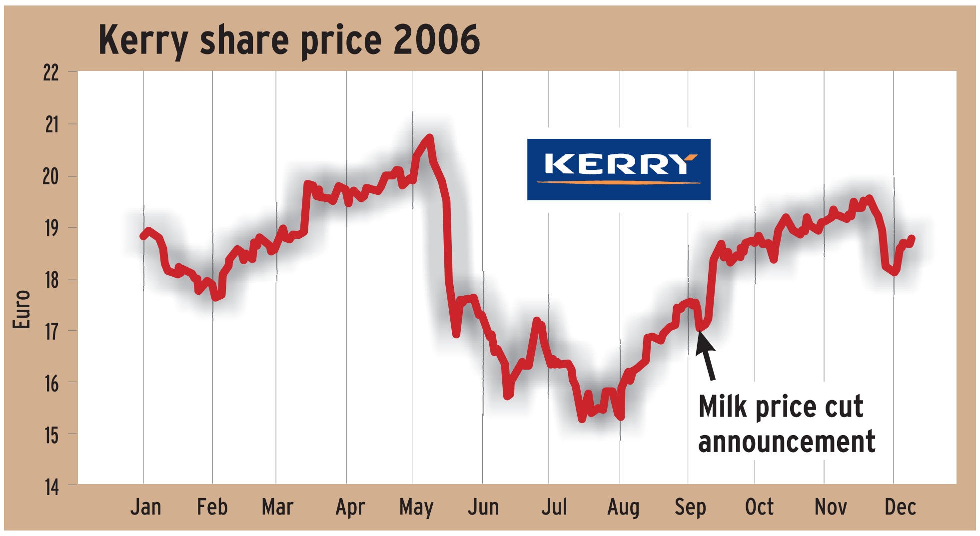
This phenomena is well demonstrated in the accompanying graphs.

Those graphs show a low point in their share price coinciding with the announcement of milk price cuts.

Just imagine how simple it would be to operate a farm on this principle. Cut input costs anytime there was financial pressure.

But farms are not creameries. The farmer has to use his ingenuity to deal with rising costs.





Global market trends

IT is worth getting a prospectus on dairy markets from the other side of the Atlantic. This is available from the December issue of "Dairy Market Outlook" published by the US Dairy Export Council. Some of the key points are set out from this assessment as follows:

SMP

Strong world demand and tight supplies in the major exporting countries resulted in much higher prices over the past month. Oceana markets are very firm and prices increased significantly. The drought in Australia has severely impacted on milk production. Prices face upward pressure due to tight supplies in Australia, the EU and currently in the US, along with continued buoyant world demand.

CHEESE

The world market is firm and prices increased a bit more over the past month. EU domestic cheese markets are firm. Oceana cheese markets are firm and prices increased. Cheese output is seasonally heavy but below last year. EU prices are strong and the supply situation in Oceana could become rather tight.

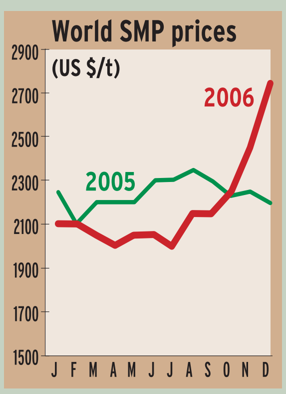
BUTTER

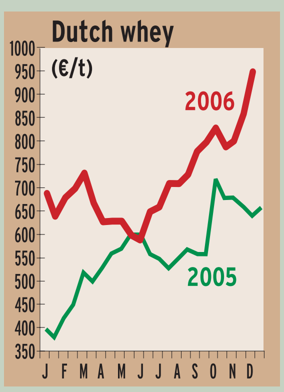
Export prices were up some as world markets continue to firm. Output is seasonally strong, especially in New Zealand but earlier stock clearing brought supplies into balance with demand. World prices could firm some more this winter giving the tighter supplies in the EU and Australia.

Market buoyancy

BARRY Wilson's DIN reflects the buoyancy of dairy markets. Whey powder prices have almost doubled compared to where they were two years ago. Prices are still on the increase. See accompanying graph on Dutch whey prices.

Indeed the graph on SMP shows extraordinary price increases. SMP prices are now 35% above the support level.



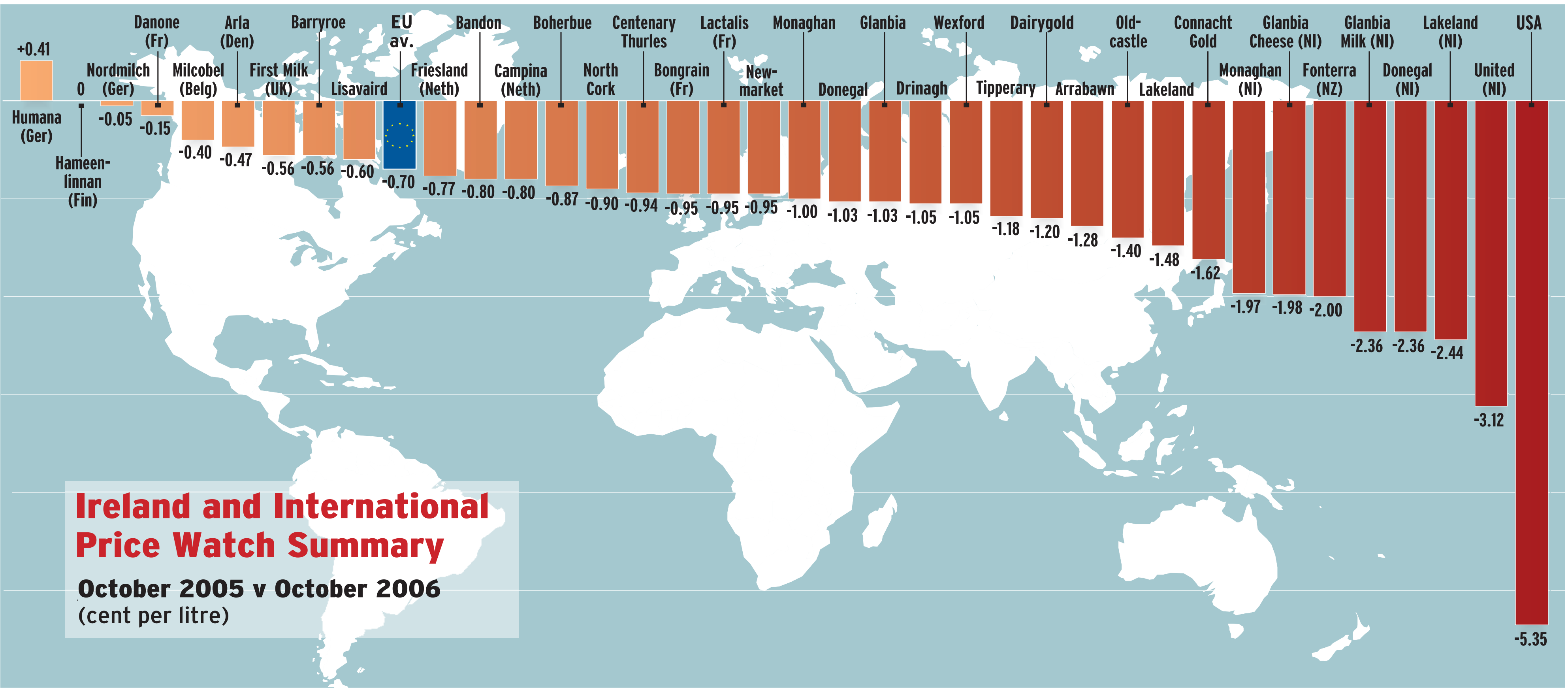


October 2006 milk price league

All cash price in column (A) are based as follows: ★ No volume conditions ★ 3.60 per cent butterfat ★ 3.30 per cent protein ★ Protein bonus not included ★ SCC 400,000
★ TBC 50,000 ★ Dairy Board and state levies at rate deducted by creamery ★ Transport charges based on 30,000 gallons per year collected ex-farm. ★ Farmer not required to have more than bulk size for five milkings.

Creamery	Cash Price c/l Oct 06	Cash Price c/l Oct 05	Max Price Oct 06	Price difference Oct 06	Avge cr Fat	Avge cr Protein	B/F diff per each 0.10%	Price Diff per each 0.10%	Price based on Avg Cr Fat & Pro	Ranking on Avg Cr Fat & Pro
Division No. 1 Over 25.50										
/Glanbia	26.05	27.08	Nil	1.03	4.04	3.59	0.23	0.43	28.45	8
*Barryroe	25.96	26.52	0.28	0.56	4.16	3.56	0.29	0.47	28.80	3
North Cork	25.75	26.65	Nil	0.90	4.09	3.62	0.30	0.46	28.50	6
Boherbue	25.75	26.62	Nil	0.87	4.27	3.74	0.29	0.47	29.75	1
*Lisavaird	25.70	26.30	0.28	0.60	4.20	3.61	0.27	0.44	28.70	4
Newmarket	25.70	26.65	Nil	0.95	4.21	3.65	0.34	0.37	29.10	2
*Drinagh	25.60	26.65	0.39	1.05	4.16	3.58	0.33	0.42	28.65	5
*Dairygold	25.50	26.70	Nil	1.20	4.20	3.65	0.25	0.46	28.65	5
*Bandon	25.50	26.30	Nil	0.80	4.17	3.61	0.25	0.50	28.45	8
Wexford	25.50	26.55	Nil	1.05	4.14	3.50	0.27	0.46	27.90	9
Division No. 2 - 25.50 - 25.00										
Kerry	25.40	26.70	Nil	1.30	4.15	3.67	0.24	0.47	28.50	7
Monaghan	25.30	26.30	0.50	1.00	3.95	3.42	0.36	0.40	27.10	14
Lakeland	25.14	26.62	039	1.48	4.10	3.56	0.17	0.37	27.10	14
Centenary & Thurles	25.06	26.00	Nil	0.94	4.22	3.63	0.20	0.50	27.82	10
Arrabawn	25.02	26.30	0.50	1.28	4.15	3.57	029	0.40	27.75	11
Tipperary	25.02	26.20	0.18	1.18	4.22	3.65	0.25	0.56	28.52	6
Division No. 3 - Under 25.00										
Donegal	24.85	25.82	1.20	1.03	4.12	3.47	0.26	0.46	26.90	15
Old Castle	24.60	26.00	Nil	1.40	4.16	3.59	0.25	0.56	27.65	12
***Connacht Gold	24.30	26.92	-	1.62	4.16	3.58	0.25	0.52	27.52	13

/ Glanbia incl. seasonal bonus
* This includes SCC bonus for under 200,000
*** Price based on A+B-C including transport charge



Glanbia tops league

THE headline is not a misprint - Glanbia top the October League. On the standardised basis they beat 26 c/l. This means they are ahead of consistent prime performers such as Barryroe, North Cork, Boherbue, Lisavaird, Newmarket and Bandon.

The Glanbia price is the result of a seasonal bonus paid in October, November and February. This payout is worth €1m to Glanbia suppliers over that period. A payout of significant proportion. It adds just 1 c/l to their October milk price compared to September. Yes there is a conditional element.

However as I see it it is a reasonable condition aimed to flatten the peak supply. This is good. business for all concerned.

To qualify for this payment the supplier must not deliver more than 16% of their total supply in the five week peak period May/June.

This criteria is based on the 15.2% Moorepark curve. This covers a 280-290 day lactation.

I understand that around 70% of Glanbia suppliers qualify for this October payment. This bonus incentivised Glanbia payment is a kind of milk price that one would expect from a processor of Glanbia's scale throughout the year.

Let's see what happens in 2007. Is it not time that Glanbia's foreign investment impacted on their Irish milk price levels - otherwise what's it all about.

International standardised milk price – Oct '06

All prices based as follows: Vat Rate 4.8%; Fat 3.60%
Protein 3.30% and SCC 249,999, TBC 24,999. Every other day collection with Annual Milk Supply 350,000 Litres.

Creamery	County	Oct 06 c/l	Oct 05 c/l	Oct 06 v. Oct 05 Price diff	Rolling Avg Last 12 mts
Hameen	Finland	36.65	36.65	N/C	35.70
Danone	France	32.40	32.25	-0.15	29.25
Friesland	NL	30.08	30.85	-0.77	28.40
Bongrain	France	30.00	30.95	-0.95	28.82
Lactalis	France	29.90	30.85	-0.95	28.72
Nodmilch	Germany	29.55	29.60	-0.05	27.46
Humana	Germany	29.36	28.95	+0.41	27.25
Milcobell	Belgium	29.35	29.75	-0.40	28.30
Campina	NL	28.50	29.30	-0.80	28.30
Arla	Denmark	27.25	27.67	-0.47	28.93
First Milk	UK	25.80	26.36	-0.56	24.94
US	US	24.21	29.56	-5.35	23.90
Fonterra	NZ	15.30	17.30	-2.00	16.45

* Rolling avg. is weighted avg. for each month which inc. bonus payments.
* Based on payout forecast of Fonterra. Based on Class III US price
All figures based on original date from the Dutch Dairy Board
More information available at www.milkprices.nl

International comparison

THE October international graph summary shows a price increase for Germany's Humana while Finland's Hamleen paid the top price at the extraordinary figure of 36.65c/l or 131.12p/g. This is the same price they paid a year ago. Irish creameries in the Republic continue to do well in this comparison. The benchmark is the EU average decrease of 0.70c/l. Barryroe and Lisavaird beat this average while Boherbue, North Cork, Bandon, Newmarket and Centenary are marginally behind. United records the second highest reduction at 3.14c/l. They are headed only by the US down 5.35c/l.

October 2006 Northern Ireland milk league

55,000 gals

Milk buyer	Price (litre)	Transport charge litre (55,000)	Price litre plus 4.8% VAT (55,000)	Price in € plus 4.8% VAT October 06	Estimated share of total milk %	Euro price diff Oct 06 v Oct 05
Division No. 1 - Over 16.00p						
United Dairy Farmers	16.88	0.68	17.69	26.36	56	3.12
Donegal Creameries	16.27	0.57	17.05	25.41	3	2.35
Town of Monaghan	16.18	0.68	16.96	25.27	19	1.97
Lakeland Dairies	16.05	0.22	16.82	25.08	14	2.44
Division No. 2 - Under 16.00p						
Glanbia Milk	15.83	0.53	16.59	24.72	2.5	2.36
Glanbia Cheese	15.82	0.77	16.58	24.70	5	1.98