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EDITORIAL

August has been a month of extreme weather in New Zealand. Earlier this month much of New Zealand was blanketed in snow. This was the heaviest snow fall in over 50 years in some regions. The snow caused milk collection problems and challenges for dairy farmers in the midst of calving. However, warm temperatures have now followed and it is now beginning to feel like spring.

Milk production volumes from New Zealand have been strong in the early part of the season. Milk output may be curtailed over the next month due as due to feed deficits resulting from snow damaged pastures.

Dairy commodity prices softened during August but have now stabilised and we anticipate a rebound in prices ahead. The US dollar remains weak, which continues to erode returns to New Zealand dairy producers. Exchange rate forecasts are now gloomier than they were a month ago. This has resulted in a reduction in the Agrifax forecast milk price. (See page 14 for more details).

Our guest commentary this month is provided by Paul Flanagan from UK dairy company First Milk. Paul introduces Dairy2020, a cross-supply chain project that aims to answer the question - What does a sustainable UK dairy industry look like in 2020?

Susan Kilsby
Dairy Analyst

Key Event Dates

Next GDT Auctions - Tuesday 6th and 20th September (1200 hours GMT)
 USDA National Agricultural Statistics Service Milk Production Report - 19th September
 World Agricultural Supply and Demand Estimates - 12th September
 USDA National Agricultural Statistics Service Dairy Products Report - 1st September
 NZX Global August 2011 dairy futures contracts (WMP, SMP, AMF) expiry date - 6th Sept 2011

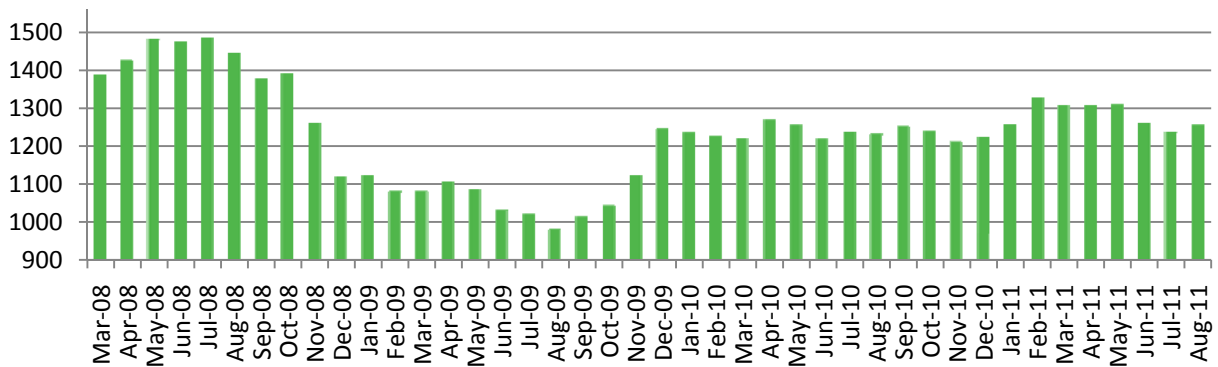
	This month	Last month	6 months ago	Last year
<u>Overall Index</u>	1,256	1,237	1,307	1,233
Land	230	217	215	242
Stock	30	29	27	24
Fonterra Shares	28	28	28	28
Dairy Company Payout	346	349	395	336
Commodity Prices	200	207	236	180
Exchange Rate	128	123	141	150
Industry Shares	294	284	265	273

The NZX Agrifax Dairy Index base line is 1000 on January 1, 2007

The NZX Agrifax Dairy Index gained 19 points in August 2011. The index value is currently 1256 points, which is 24 points higher than in August 2010.

Dairy stock prices firmed with a flurry of early herd sales reported. High demand from export markets is resulting in a supply shortage of replacement stock and is driving prices higher. Dairy land prices have also firmed in some regions. There has been increased interest in dairy land, but buyers are now looking for dairy farms to provide a return on investment rather than just relying on capital gains.

During the month of August, spot exchange rate moved slightly in favour of New Zealand exporters. Dairy commodity prices softened by 2% during the month, providing a 7 point drop in the index. The Agrifax forecast payout for the current dairying season also softened, contributing a 3 point drop in the Dairy Index.

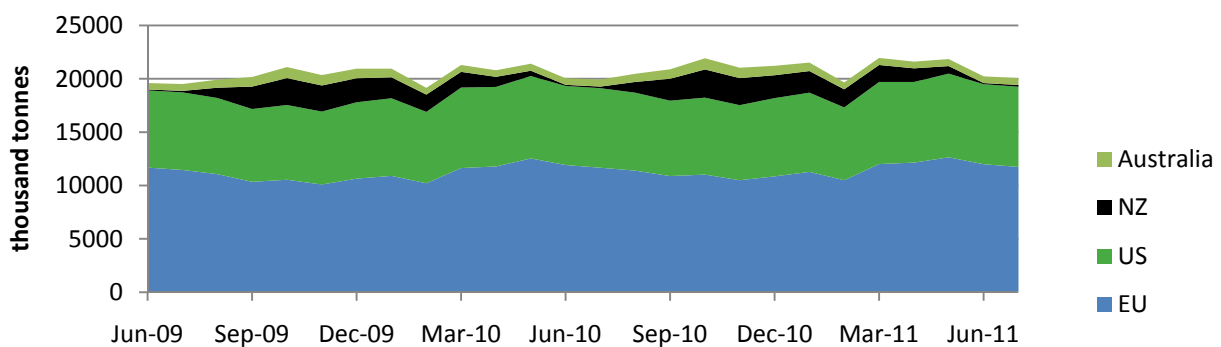


Source: Agrifax

MILK PRODUCTION - global and New Zealand

Global milk production in 2011 is running ahead of 2010 for most major dairy producing countries. The EU and the US are ahead by 2.2% and 1.6% respectively. Production for the first half of the year was also very strong in Latin America. Chile, Uruguay and Argentina are all ahead by 12-17%. Russia and Ukraine are each just over 2% behind in the first half of 2011. Milk production in Japan is down by approximately 4.5% due to the immediate and ongoing impact of the March earthquake and tsunami. The new season for Oceanic milk producers is now well underway.

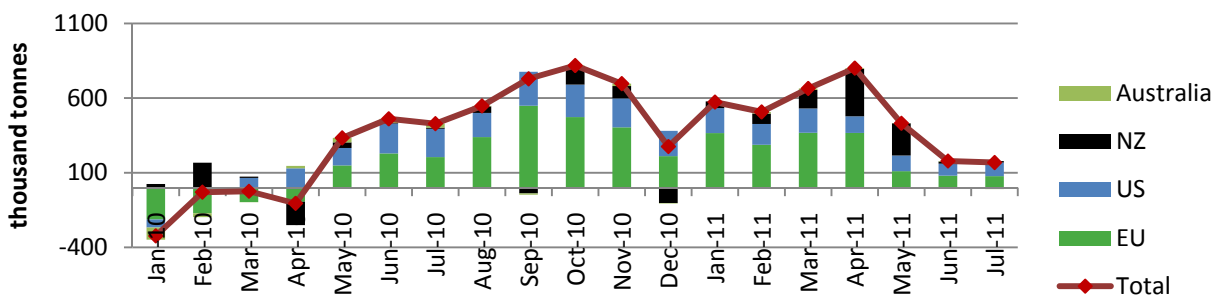
Global Monthly Milk Production - Key Exporting Regions



Sources: Agrifax, DCANZ, USDA, Dairy Australia, Eurostat

Note: Agrifax estimates for recent months where official production date not yet available

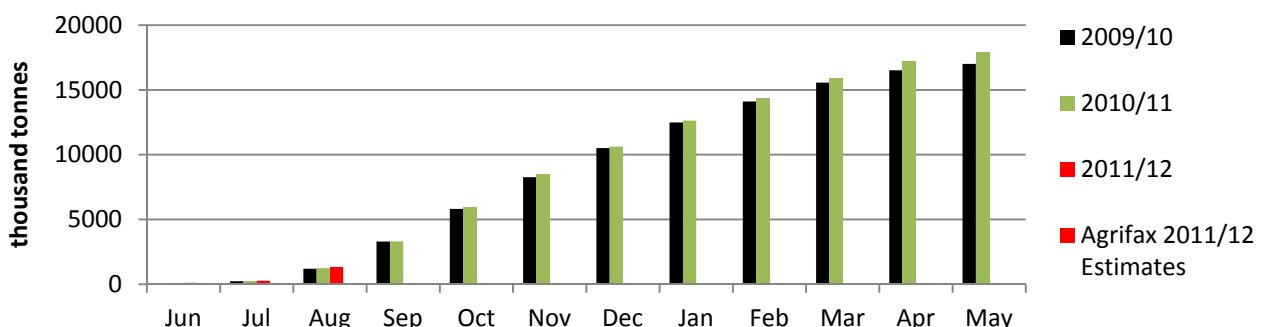
Global Milk Production - Key Exporting Regions - Year on year change in Milk Production



Sources: Agrifax, DCANZ, USDA, Dairy Australia, Eurostat

Note: Agrifax estimates for recent months where official production data not yet available

New Zealand Milk Production - Season to date

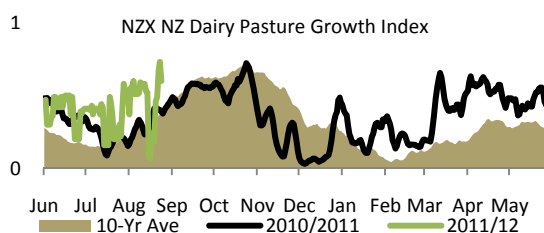


Source: DCANZ, Agrifax

MILK PRODUCTION - southern hemisphere

New Zealand milk production has started the new season strongly. During the period from 1 June to 15 August 2011 milk production is running 9.9% ahead of the same period in 2010. Production was particularly strong during June and July but, as during these months milk production is at its seasonal low, this will have

little impact on the total season's production. The combined milk production of June & July accounts for less than 1.5% of the season's total. More than half of New Zealand's dairy cows have now returned to milk. The majority of cows in northern regions will have now calved, but southern regions are in the midst of their calving period at present.



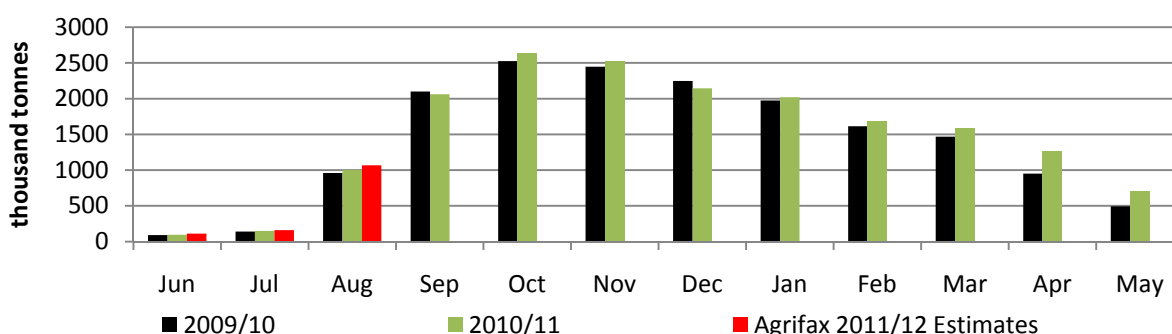
Cold, wintery weather resulted in a heavy blanket of snow covering much of New Zealand earlier this month. This was reflected in the NZX Pasture Growth Index (PGI) which crashed during that period. Despite the short period of unseasonal weather, the PGI for the month of August shows pasture growth potential to be ahead of August 2010 and marginally ahead of the five year average for this time of the season. The PGI is a measure of pasture growth potential and does not reflect the damage the snow caused to existing pasture. New Zealand dairy farms are normally in a feed deficit situation during the early spring period. Feed reserves were generally high prior to the snow but are now much lower.

Australian milk production ended the 2010/11 dairy season 0.9% ahead of the previous season.

Dairy Australia data show that total milk output was up during the dairy season of July 2010 to June 2011 but results varied between states. Queensland finished the season 8% down after being hit by devastating floods earlier in the year. Output in New South Wales and South Australia was also down by 2.7% and 5.5% respectively. Victoria recorded a 2.1% increase in milk output, with the Gippsland region achieved 5% growth. Western Australia saw output increase by 3.4% whilst the largest gain of 7.1% was recorded in Tasmania.

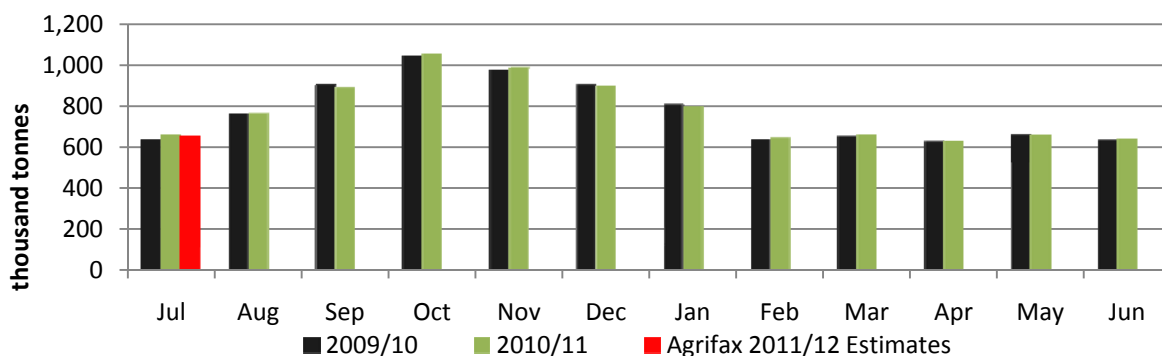
Preliminary estimates for July milk production indicate output was down by 1.5% compared with the same month in 2010. The main factor negatively impacting on milk output was the extremely wet weather which persisted across southern Victoria. The milk production curve in Australia is slightly flatter than New Zealand but output in July generally accounts for only 7% of the total seasons output.

New Zealand Milk Production - Monthly



Source: DCANZ

Australian Milk Production - Monthly



Source: Dairy Australia

MILK PRODUCTION - northern hemisphere

US milk production continues to increase on a year on year basis but the rate of growth is slowing. In July 2011 milk output increased by only 0.7% compared with the same month the previous year. Milk output growth has continually declined for the past 10 months. July 2011 figures indicate cows in milk total 80,000 more than a year ago. Milk yield per cow is less than it was a year ago. The recent hot, dry weather and high feed costs are both factors which have impacted milk output per cow.

The latest Outlook report from the Economic Research Service section of the USDA has forecast that dairy cow feed prices will remain high for the remainder of the current year and into 2012. Corn prices are anticipated to be in region of US\$6.20 to US\$7.20 per bushel. The price forecast for soybean meal has been increased to US\$355 to US\$385 per tonne for the 2011/12 year. Alfalfa prices are also expected to remain high.

The USDA anticipates that high feed prices will limit milk yields in 2011 to 21,275 pounds per cow. This is slightly above the per cow yield achieved in 2010. However, the number of cows is increasing which means that overall milk production is still forecast to grow by 1.5% to 195.6 billion pounds in 2011. US dairy farmers culled 207,000 cows during July. That's 8.4% less than in July 2010. However, on a year to date basis, the cow cull is still running 70,000 head higher than 2010.

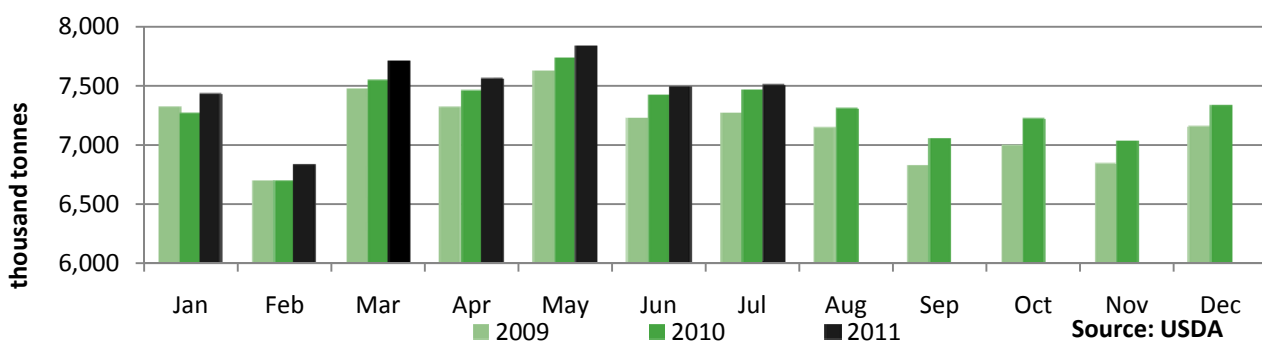
Farmgate milk prices are currently at historically high levels. The All Milk price reached a record of US\$22.10/cwt in July 2011. This is 38% higher than milk prices were a year ago. At the same time feed prices continue to firm. However, the margin between the milk price and the cost of feed improved during July. US dairy farm profitability has improved by 32% over the past year, but remains 20% lower than it was in 2007.

European milk production is 2.2% ahead in H1 2011 compared with the first six months of 2010. The countries showing the greatest increase in percentage terms are: Ireland, Latvia and France. In Ireland milk production is currently ahead by a staggering 11.8%. With milk quota increasing by just 1% in the 2011/12 season, Ireland is already seriously looking like it will incur a super-levy.

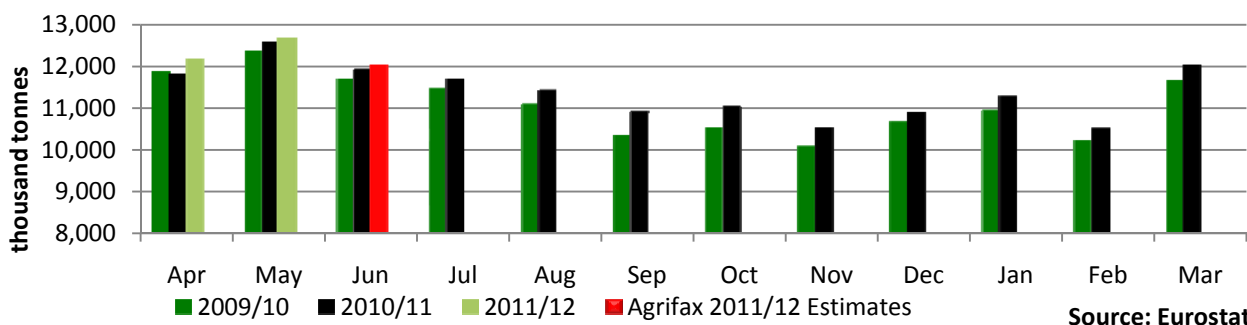
During the month of June 2011 milk production was ahead in France by 2.6% and in Germany by 1.8% compared with the same month last year. Meanwhile milk output was down in most Scandinavian and Eastern bloc countries. During H1 2011 milk output has fallen by 12.9% in Bulgaria and 7.7% in both Romania and Hungary.

The hot, dry spell that occurred in Western Europe in early summer has not had a significant impact on milk output for the region as a whole. The European summer has been generally mild and conducive to milk production. Milk prices are also aiding milk output and compensating for higher feed costs. LTO Nederland calculates the average milk price paid in June 2011 to have been €34.63 per 100 kgs milk. This is 13.2% higher than the milk price paid in June 2010.

United States Milk Production - Monthly



EU Milk Production - Monthly



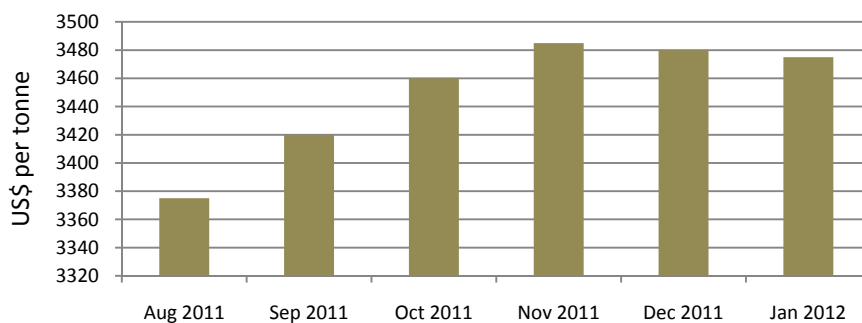
Dairy commodity prices have fallen nearly 2% over the past month but there are now clear signals that market prices have bottomed out. The medium term outlook remains positive as global demand is absorbing the increase in milk production. Global dairy product exports have grown in quantity by approximately 5% in H1 2011 compared with H1 2010.

Price levels over the past month have been difficult to determine as volumes traded from Oceania have been seasonally low. Oceanic suppliers are generally satisfied with their current level of forward sales. Therefore they are prepared to wait for prices to lift before committing to additional forward sales. On the other hand we are also not seeing a lot of urgency from buyers at present.

Milkfat products are being offered by Oceanic suppliers at a range of prices but they are generally well below their northern hemisphere counterparts. However, there is currently limited buyer demand, especially for anhydrous milkfat.

Whole milk powder (WMP) shows an upward sloping forward pricing curve in the NZX Dairy Futures market and the GlobalDairyTrade (GDT) physical product auction. WMP futures are now trading daily on the NZX market, providing transparent and timely price information as well as giving participants an opportunity to manage price risk.

NZX Dairy Futures - WMP Daily Settlement Prices (as at 30 August 2011)



Demand from China for milk powder has eased in recent months as they work through existing stock levels. The volume of WMP imported by China in the first seven months of 2011 is 22.5% higher than the same time last year. The majority of this product was imported in Q1, encouraged by the tariffs advantages brought about by the NZ-China Free Trade Agreement. While China is continuing to work through its existing milk powder stocks, the longer term outlook for this market remains firm. Therefore, buying activity is expected to pick up in this market again in the coming months.

Skim milk powder (SMP) prices have eased during the past month, with SMP priced on a par with WMP in the latest Agrifax weekly price series for Oceanic product. There is uncertainty in the market regarding whether Oceanic SMP prices have stabilised, as prices are generally still higher than being quoted in the northern hemisphere. The combination of SMP/butter, and to a lesser extent SMP/AMF, is commanding a significant premium over WMP. Therefore, it is expected that processors will favour a SMP/milkfat combination over straight WMP production in the coming months if they have the facilities available to alter product mix.

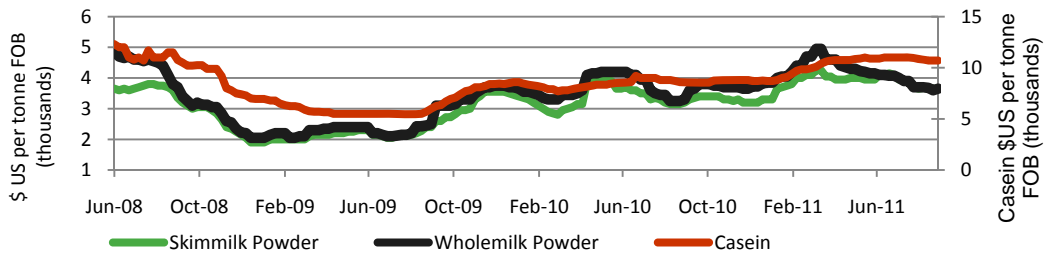
US dairy exporters continue to enjoy the upshot of the weak US dollar. US exporters of cheese have also benefited from financial assistance from Co-operatives Working Together (CWT). During H1 2011 US export volumes are up for: SMP +39%, Cheese +48%, Butter +55%. SMP exports from the four largest suppliers increased by 151,000 tonnes (or 26%) during H1 2011. The increases per country as are follows: EU +33%, US +39%, New Zealand +3%, Australia +44%.

DAIRY COMMODITY MARKETS - Prices

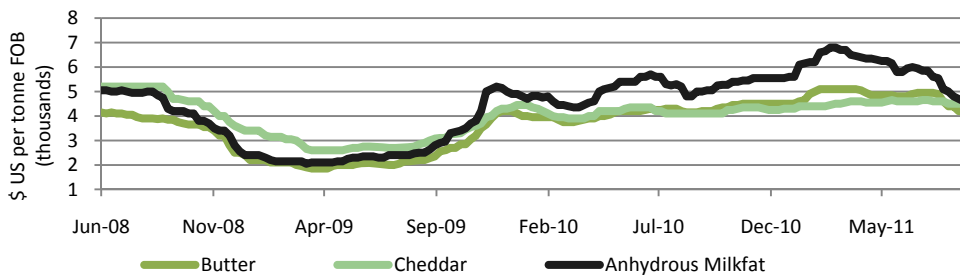
<u>New Zealand \$/tonne</u>	Last Week	Last Month	3 Months ago	1 year ago	2 years ago
Butter	4835	4830	5640	5685	3130
Skim milk Powder	4170	3965	4780	4264	3200
Whole milk Powder	4170	4025	4780	4406	3340
Cheddar	5195	4945	5395	5543	4180
Casein	12930	12475	13365	12223	8720
Anhydrous Milkfat	5315	5520	7050	6822	3780
Weighted Average Spot Price	4930	4790	5570	5280	3890

<u>US \$/tonne</u>	Last Week	Last Month	3 Months ago	1 year ago	2 years ago
Butter	4000	4200	4600	4000	2150
Skim milk Powder	3450	3450	3900	3000	2200
Whole milk Powder	3450	3500	3900	3100	2300
Cheddar	4300	4300	4400	3900	2875
Casein	10700	10850	10900	8600	6000
Anhydrous Milkfat	4400	4800	5750	4800	2600
Weighted Average Spot Price	4080	4160	4550	3720	2670

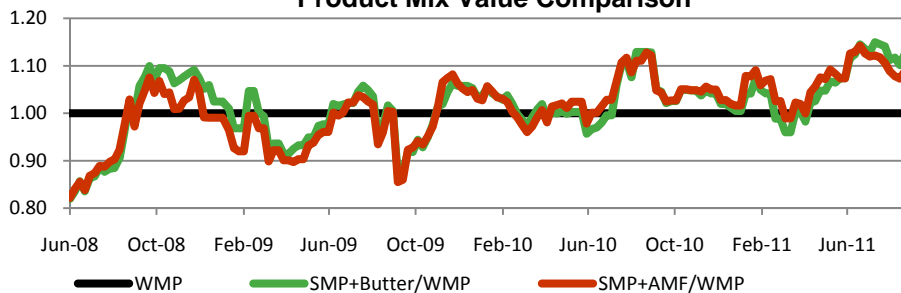
Milk Powder & Casein Prices



Fat based dairy products

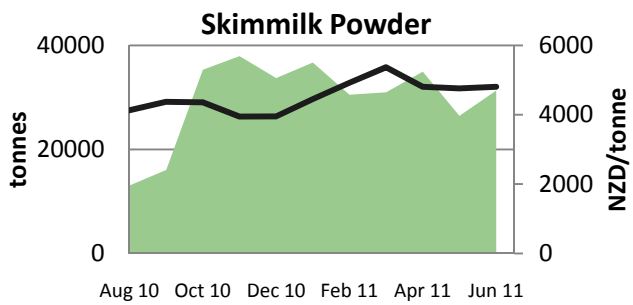
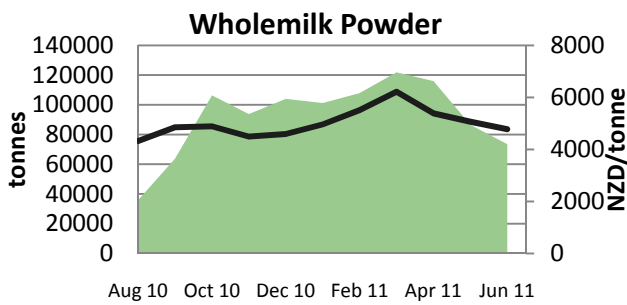


Product Mix Value Comparison



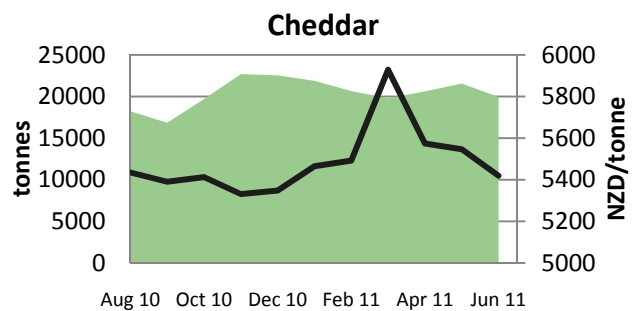
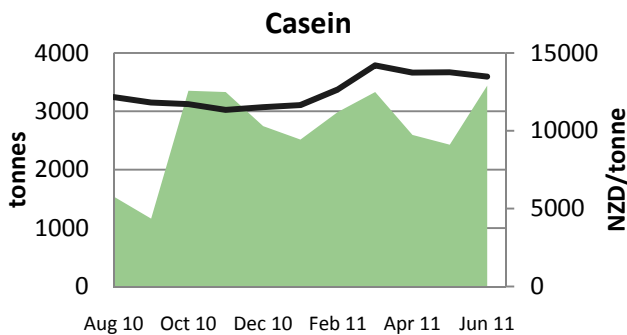
Source: Agrifax

DAIRY COMMODITY MARKETS - New Zealand exports



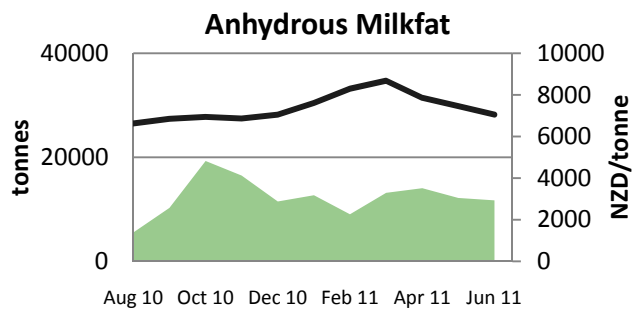
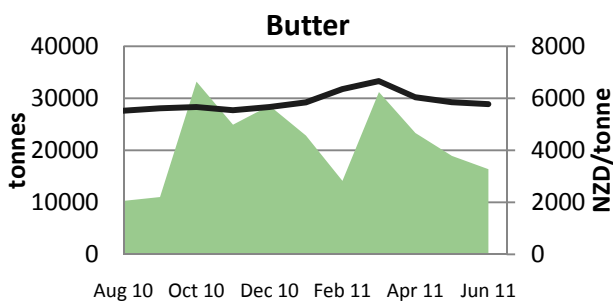
Export Volumes Monthly Spot Price

Export Volumes Monthly Spot Price



Export Volumes Monthly Spot Price

Export Volumes Monthly Spot Price



Export Volumes Monthly Spot Price

Export Volumes Monthly Spot Price

Source: Statistics NZ, Agrifax

New Zealand Dairy Commodity Export Volumes & Values

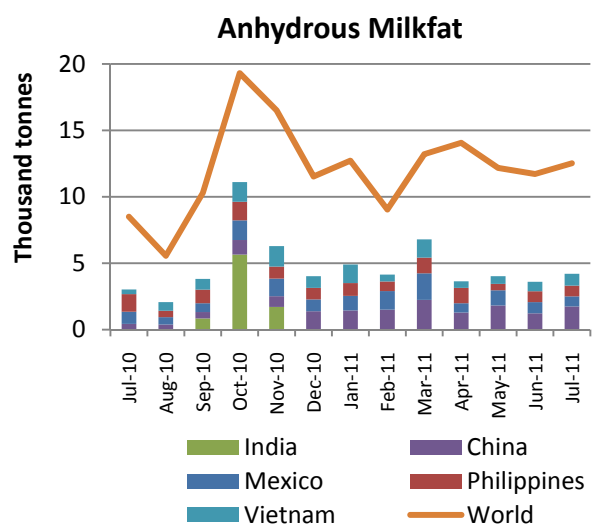
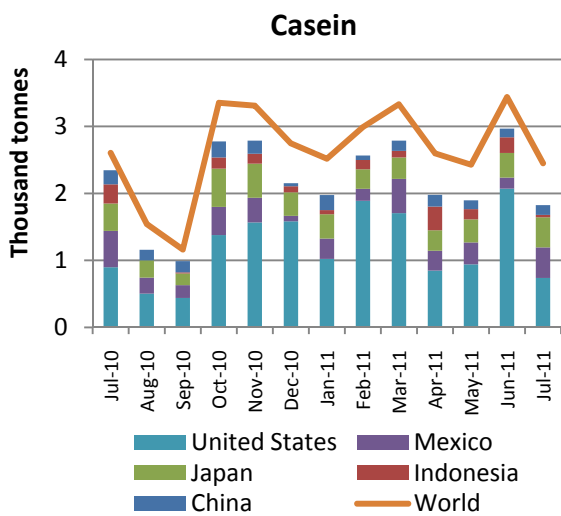
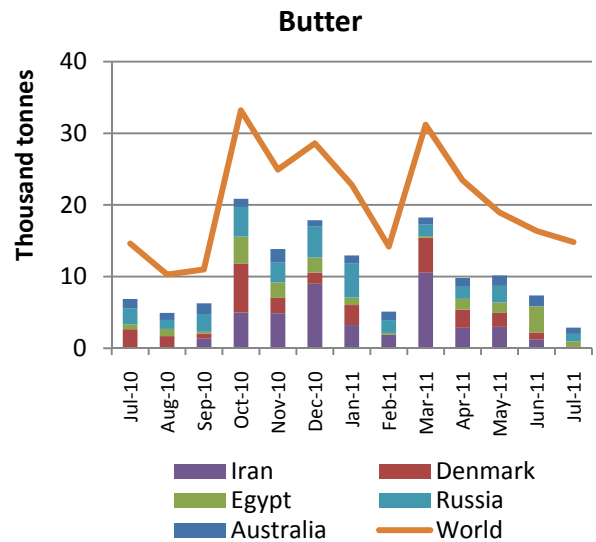
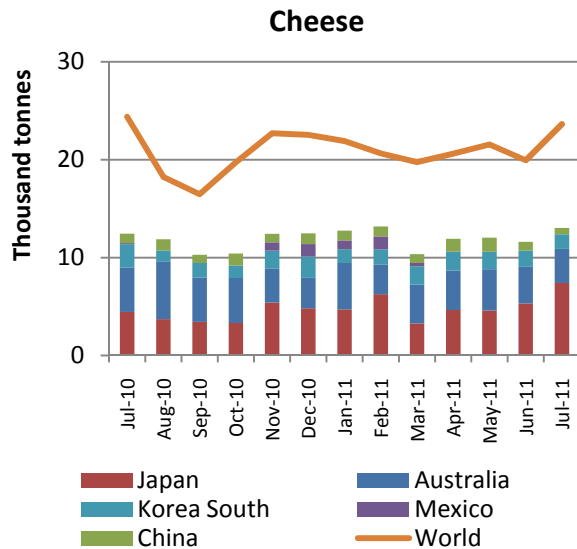
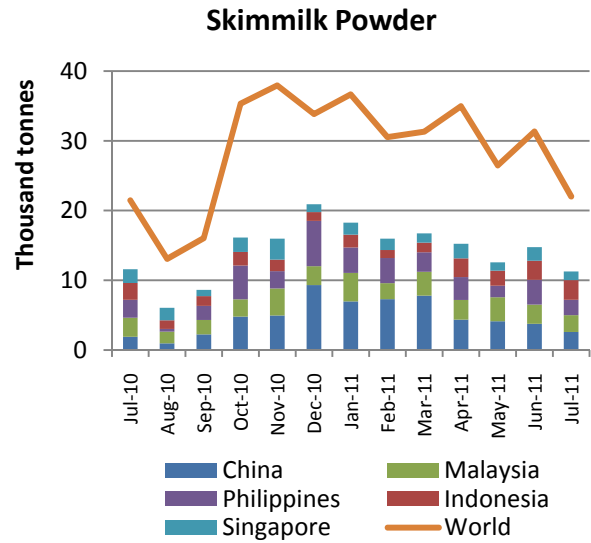
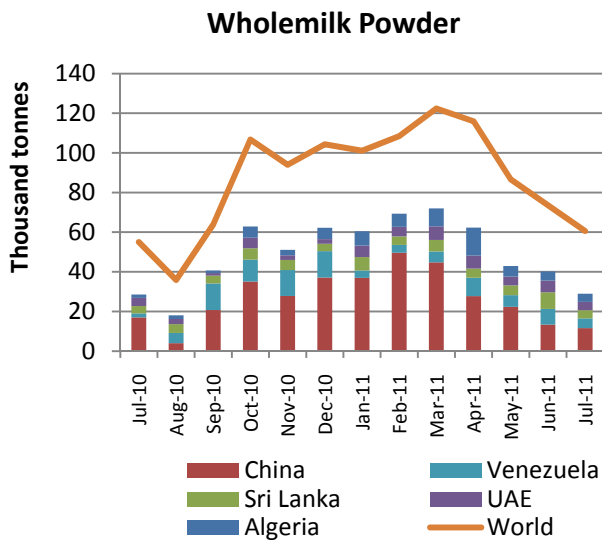
Volumes (tonnes)

	Monthly Data			Season to date
	Jul-11	Jun-11	Apr-11	Jul-11
Butter	14816	16385	18938	16385
Skim Milk Powder	22019	31328	26478	31328
Whole Milk Powder	60599	73539	86623	73539
Cheddar	23637	19935	21562	19935
Casein	2451	3440	2429	3440
Anhydrous Milkfat	12521	11717	12174	11717

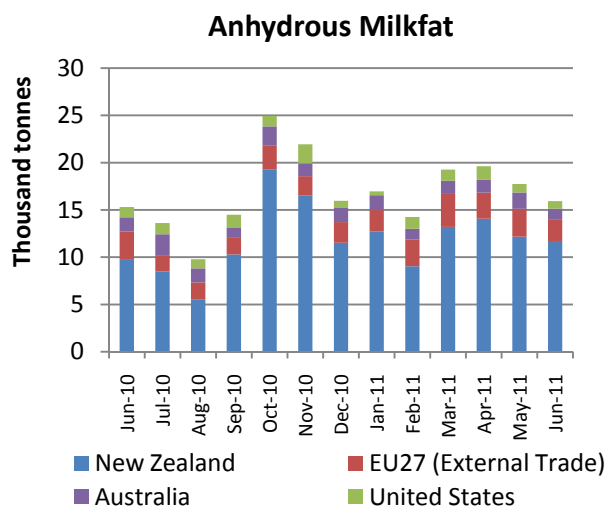
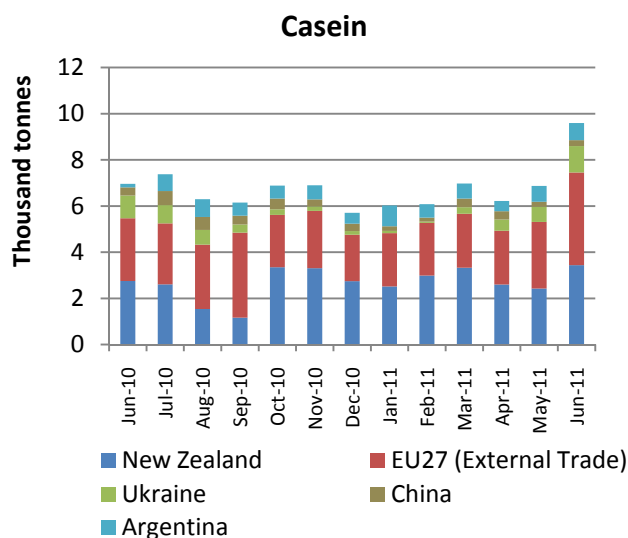
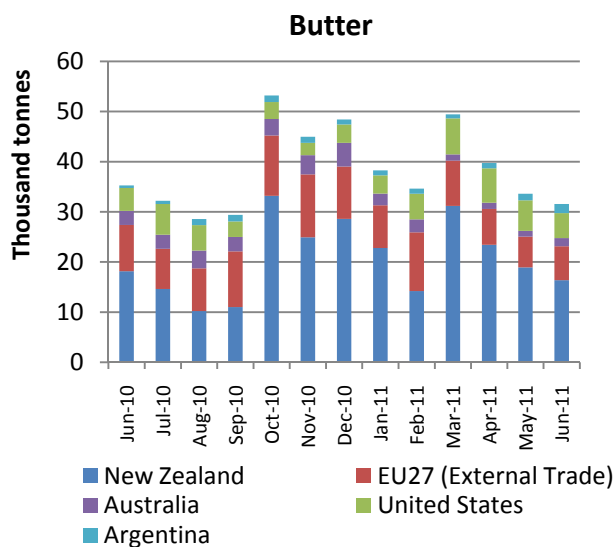
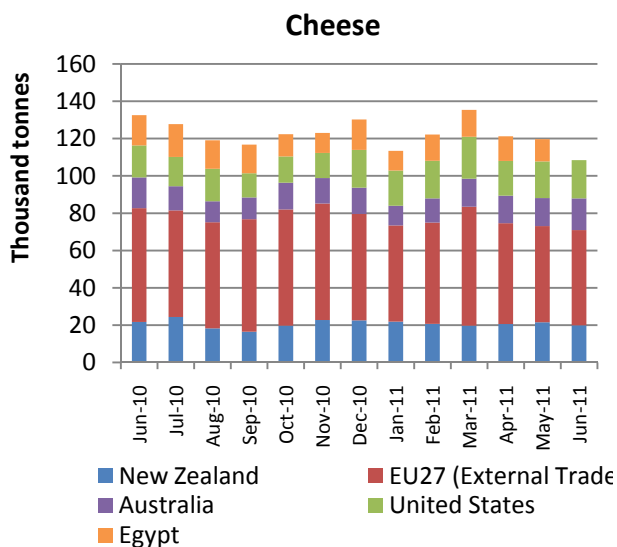
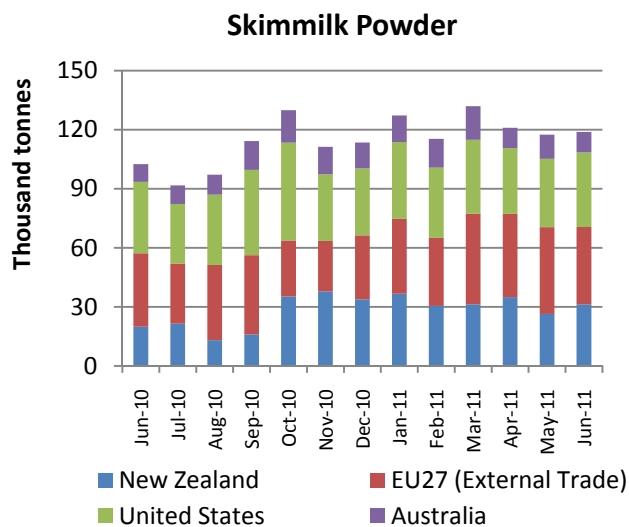
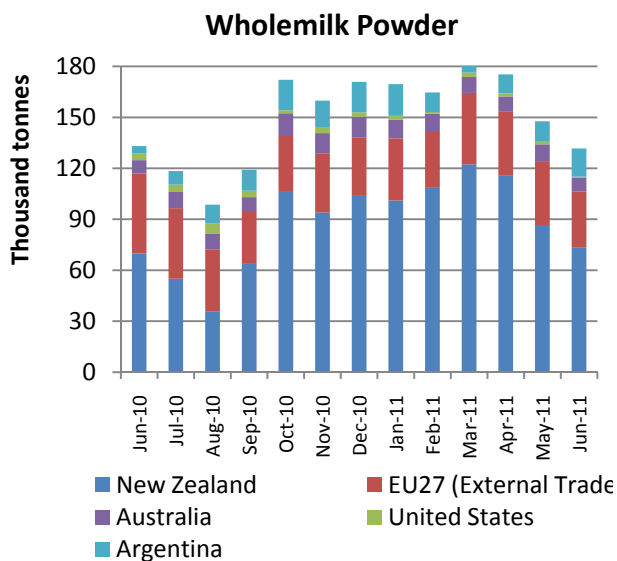
Values (thousand \$NZ)

	Monthly Data			Season to date
	Jul-11	Jun-11	Apr-11	Jul-11
Butter	84768	102616	115157	102616
Skim Milk Powder	102620	142521	120446	142521
Whole Milk Powder	300803	371074	439610	371074
Cheddar	122071	107671	114680	107671
Casein	29410	39933	28522	39933
Anhydrous Milkfat	88657	88823	93891	88823

Source: Statistics NZ



Source: Statistics NZ



Note: June 2011 data not yet available for some countries

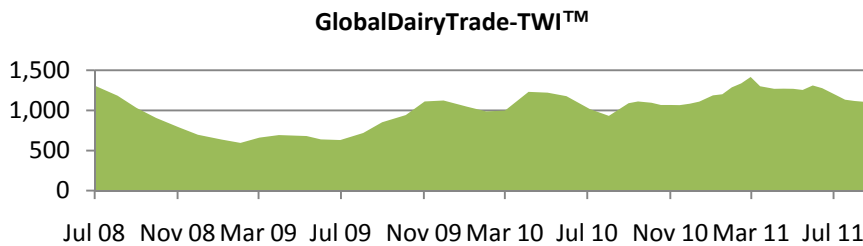
Source: GTIS

DAIRY COMMODITY MARKETS - GlobalDairyTrade & NZX Dairy Futures

GlobalDairyTrade Results from Auction dated 16 August 2011

Delivery Period	Contract 1 October	Contract 2 Nov - Jan	Contract 3 Feb - Apr	Forecast Annual Supply next 12
Skim milk Powder	3456	3409	3516	109150
Buttermilk Powder	3335	3540	n/a	6400
Wholemilk Powder	3359	3354	3544	415000
Anhydrous Milkfat	4150	4290	4605	85100
Milk Protein Conc.70	6120	5845	n/a	7110
Rennet Casein	9501	9448	n/a	6403
Cheddar	4379	4196	0	27510
GDT-TWI™	1109			

* GDT prices are averaged across all grades/specifications reported in USD/metric tonne FAS.



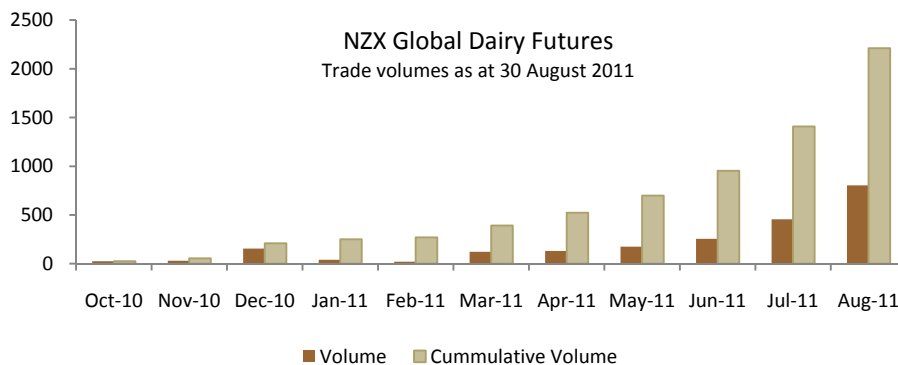
Source: GlobalDairyTrade

NZX Dairy Futures Market

Settlement Prices as at 30 August 2011

	WMP	SMP	AMF
Aug 2011	3375	3400	4200
Sep 2011	3420	3450	4200
Oct 2011	3460	3465	4220
Nov 2011	3485	3430	4185
Dec 2011	3480	3430	4185
Jan 2012	3475	3430	4185

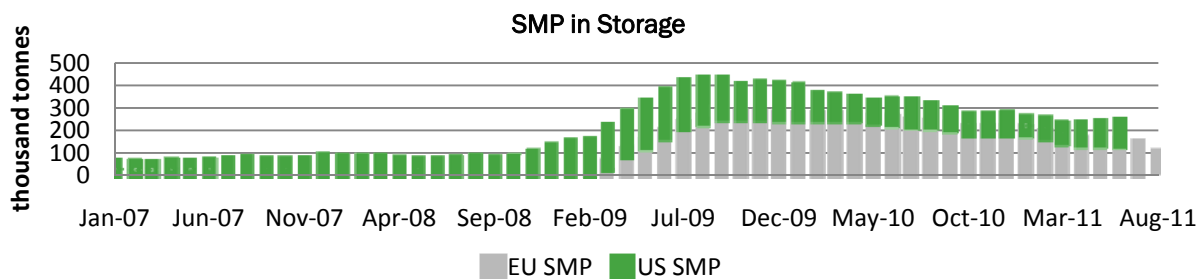
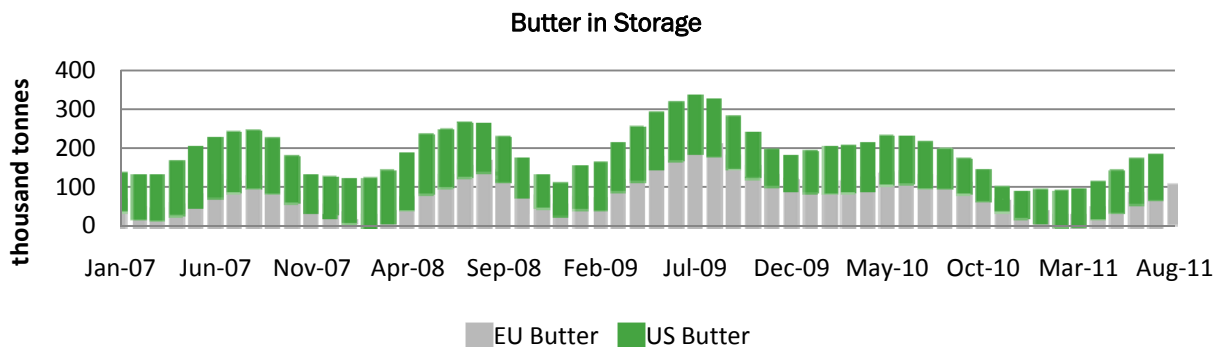
Prices for later contracts available on www.dairyfutures.com



The NZX Dairy Futures market achieved significant growth in trading activity during the month of August. During August to date 804 lots have traded. Total trades since launch in October 2010 now exceed 2000 lots. Each lot is equivalent to 1 tonne of product. While trading activity has been focused on WMP there has also been plenty of quotes for SMP & AMF futures contracts. Whole milk powder contracts are now trading daily. The increased market depth and trading frequency provides market participants with a transparent and forward looking pricing tool.

DAIRY COMMODITY MARKETS - product in storage

EU	Storage (intervention) (tonnes)	Current	6 months	Last	Two years
			ago	year	ago
	Butter (public & private)	105668	12432	110265	190777
	Skimmilk Powder	117247	157157	224879	244310
US	Storage				
	Butter	n/a	65429	70422	117744
	Skimmilk Powder	n/a	56246	75297	165109



The EU butter storage figure includes both intervention stocks and Private Storage Aid (PSA). PSA is a scheme where butter is put into subsidised storage during the main EU production season and then released during the winter months. As at 21 August, 105,668 tonnes of butter was in private storage aid. Market prices have been above the intervention price of €2.46 per kg for well over a year now, resulting in no stocks of butter being sold into intervention since early September 2009.

There have been no tenders in the EU for intervention stocks this month. All current stocks are assigned to the most deprived people scheme.

In the US, the USDA export subsidy program, known as the Dairy Export Incentive Program (DEIP), has set allocations for the period from July 2010 to June 2011. Subsidies were to be offered for up to 68,201 tonnes of nonfat dry milk, 21,097 tonnes of butterfat and 3,030 tonnes of various cheeses. None of these subsidies were allocated in 2010/11 and as yet there have not been any subsidies announced for the 2011/12 season.

Co-operatives Working Together (CWT) has assisted with the sale of 5,705 tonnes of Cheddar and Monterey Jack Cheese during August 2011. CWT aims to use its Export Assistance programme to positively influence milk prices by helping members gain and maintain market share, thus increasing the demand for US dairy products. In 2011 to date, CWT has assisted with the export of 28,261 tonnes of Cheddar, Monterey Jack and Gouda cheese to 20 different countries across four continents.

US intervention stocks of butter and SMP are controlled by the USDA's Commodity Credit Corporation (CCC). The CCC has not made any purchases of butter or SMP since October 2009.

EXCHANGE RATES

Currency prices continue to favour US exporters and, to a lesser extent, EU exporters. Meanwhile, Oceanic exporters are suffering due to the relative strength of their currencies. New Zealand and Australian currencies have moved off the extreme highs seen at the beginning of the month but are still very strong when compared with historic levels.

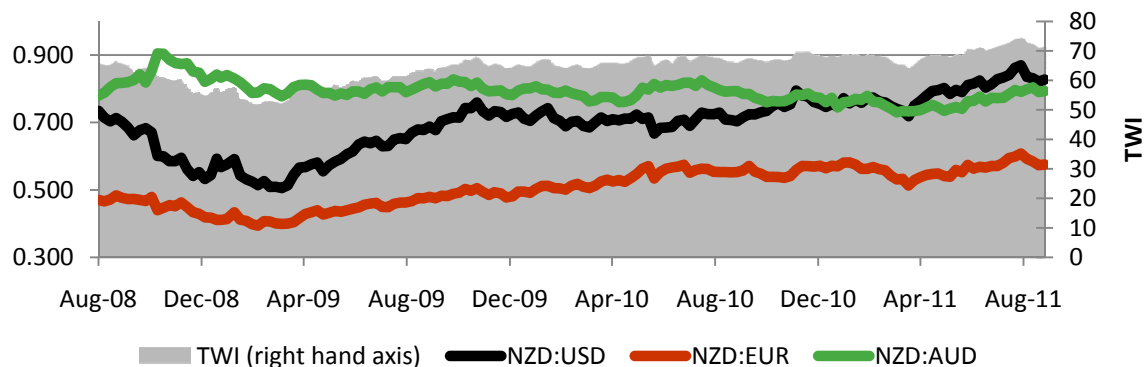
The New Zealand dollar weakened against the US dollar at the beginning of August and generally traded between US\$0.82 and US\$0.84 throughout the month. In the past few days the NZD has strengthened and is now back above US\$0.84. An increase in New Zealand home building approvals is the latest economic data to drive the currency up. Consumption data from the US is positive, stimulated by falling oil prices. Currency analysts say it is now less likely that more US dollars will be printed, which may result in some firming of the US currency. However, the US economy continues to teeter on the brink of a recession, limiting the potential strengthening of its currency. The longer term outlook is for the New Zealand currency to remain around the US\$0.84c mark through to the end of 2012 (see table below).

The Chinese currency has gained 0.8% against the US dollar during the month to date. Chinese authorities have allowed their currency to appreciate more quickly in the past month than during the year to date. However, the Chinese Yuan is still considered to be undervalued. Currency analysts are uncertain whether the Chinese government will loosen the tight grip they have on the currency.

The Euro has also appreciated against the US dollar during August, but has fallen against the New Zealand and Australian currencies. European economies remain fragile with confidence forecast to be at its lowest level since April 2010.

Currency

	Last Week	3 mths ago	1 yr ago	Season to Date	Last Season
NZD : USD	0.828	0.816	0.704	0.831	0.748
NZD : EUR	0.576	0.563	0.553	0.581	0.556
NZD : GBP	0.508	0.498	0.453	0.512	0.474
NZD : AUD	0.793	0.764	0.793	0.783	0.771
Trade Weighted Index	71.28	70.17	65.91	71.65	67.48



Forex Projections to 2012

		Q3 11	Q4 11	Q1 12	Q2 12	2012	2013
NZD/USD	Mean	0.85	0.86	0.84	0.84	0.82	0.78
	Range	0.8 - 0.89	0.8 - 0.93	0.78 - 0.94	0.76 - 0.91	0.72 - 0.9	0.74 - 0.81
	Standard Deviation	0.03	0.04	0.05	0.05	0.06	0.03
EUR/USD	Mean	1.46	1.47	1.44	1.44	1.43	1.35
	Range	1.4 - 1.5	1.39 - 1.55	1.37 - 1.5	1.32 - 1.51	1.35 - 1.56	1.3 - 1.45
	Standard Deviation	0.04	0.06	0.05	0.06	0.09	0.07
NZD/EUR	Mean	0.55	0.58	0.57	0.57	0.55	0.56
	Range	0.55 - 0.63	0.54 - 0.62	0.54 - 0.6	0.52 - 0.6	0.5 - 0.59	0.55 - 0.57
	Standard Deviation	0.03	0.02	0.02	0.03	0.04	0.01

Source: Bloomberg

DAIRY COMPANY PAYOUT

The Agrifax milk price forecast for the 2011/12 dairy season has been reduced by 5c per kg milksolids (kgMS) to NZ\$6.60 per kgMS. The outlook for a stronger New Zealand dollar is the main factor causing the reduction in the payout calculation. Agrifax is now allowing for an exchange rate of US\$0.85 for the remainder of the current dairy season. However, the full impact of the higher currency is not seen in the milk price calculation as it is assumed that a portion of foreign exchange requirements has been hedged. Dairy commodity prices have fallen during the past month. We are, however, confident that prices will rebound and return to the level allowed for in the milk price calculation.

The Agrifax forecast milk price for the 2012/13 dairy season is now also NZ\$6.60 per kgMS. This is a 20c per kgMS reduction from the forecast we made in July. In 2012/13 New Zealand dairy producers will be impacted more by the strength of the currency which is now forecast to persist for a prolonged period of time.

By the 2013/14 dairy season we expect to see both exchange rates and dairy commodity prices tip back in favour of New Zealand dairy farmers. In the 2013/14 season the Agrifax forecast milk price is NZ\$7.15 per kgMS.

Payout Predictors (milk price)

2011/12 Season			0.78	0.79	0.80	0.81	0.82
			% change from season to date				
USD per tonne FOB	2750	-28%	4.94	4.87	4.81	4.75	4.69
	3050	-20%	5.47	5.40	5.34	5.27	5.21
	3390	-12%	6.08	6.01	5.93	5.86	5.79
	3770	-2%	6.77	6.68	6.60	6.52	6.44
	4150	8%	7.45	7.35	7.26	7.17	7.08
	4570	18%	8.20	8.10	8.00	7.90	7.80
	5030	30%	9.03	8.91	8.80	8.69	8.59

2012/13 Season			0.75	0.78	0.81	0.84	0.87
			% change from current spot price				
USD per tonne FOB	2810	-25%	5.20	5.00	4.82	4.65	4.49
	3120	-20%	5.78	5.56	5.35	5.16	4.98
	3470	-10%	6.43	6.18	5.95	5.74	5.54
	3850	0%	7.13	6.86	6.60	6.37	6.15
	4240	10%	7.85	7.55	7.27	7.01	6.77
	4660	20%	8.63	8.30	7.99	7.71	7.44
	5130	35%	9.50	9.13	8.80	8.49	8.19

2013/14 Season			0.68	0.73	0.78	0.83	0.88
			% change from current spot price				
USD per tonne FOB	2460	-35%	5.04	4.70	4.40	4.13	3.90
	2890	-25%	5.93	5.52	5.17	4.86	4.58
	3400	-10%	6.97	6.49	6.08	5.71	5.39
	4000	5%	8.20	7.64	7.15	6.72	6.34
	4600	20%	9.43	8.79	8.22	7.73	7.29
	5290	40%	10.85	10.11	9.46	8.89	8.38
	6080	60%	12.47	11.61	10.87	10.21	9.63

Notes on Payout Predictors

The predicted milkprice for the current season is based on the average season to date commodity price for the current season to date and predicted commodity prices for the remainder of the current season and future seasons.

Exchange rates are based on the likely operating exchange rates for the various seasons.

% changes for commodity prices compare the season to date commodity price for the current season and the current spot price for the following seasons.

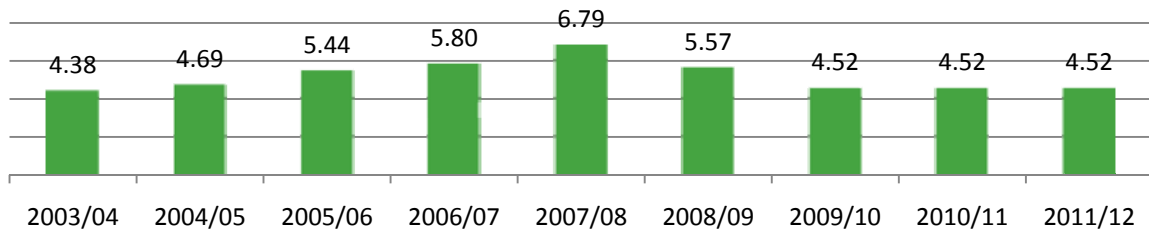
DAIRY COMPANY INFORMATION

Share Prices

		Current	Last Month	3 Mths ago	Last Year
NZX Listed					
NZSX	PGW	0.44	0.47	0.49	0.54
	Allied Farmers	0.01	0.01	0.01	0.03
	NZ Farming Systems Uruguay	0.66	0.71	0.72	0.64
NZAX	LIC	3.50	3.50	3.50	3.10
	A2	0.22	0.15	0.14	0.09
Unlisted					
	Tasman Farms	0.71	0.71	0.71	0.71
	Kaimai Cheese	1.00	1.00	1.00	1.60

Processors	2010/11	2009/10	2008/09	2007/08	2006/07	2005/06
Fonterra	4.52	4.52	4.52	5.57	6.79	5.80
Westland	1.50	1.50	1.50	1.50	1.50	n/a
Open Country	n/a	n/a	n/a	2.73	1.90	2.26
Tatua	n/a	n/a	n/a	n/a	n/a	n/a
Synlait	n/a	n/a	n/a	n/a	n/a	n/a
NZ Dairies Ltd	n/a	n/a	n/a	n/a	n/a	n/a

Fonterra Share Price

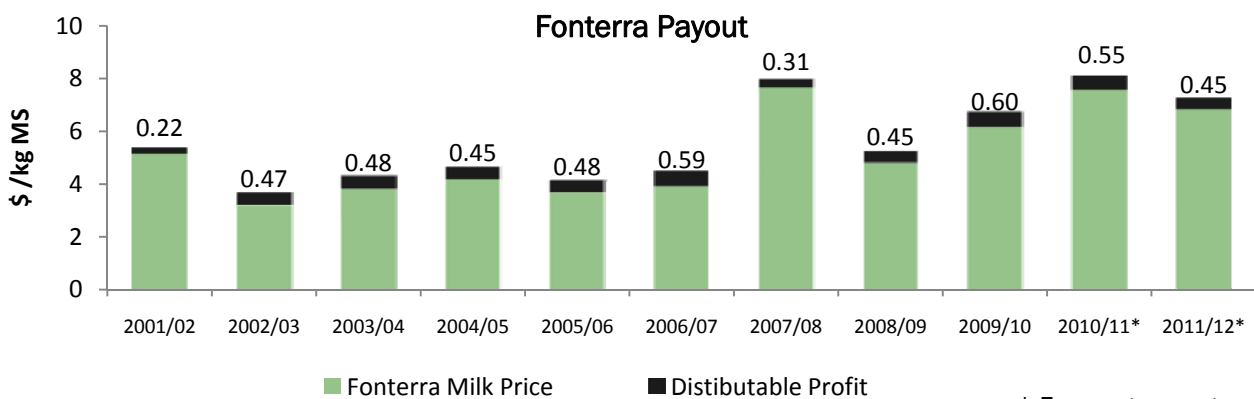


Dairy Company Payout History

	2011/12*	2010/11*	2009/10	2008/09	2007/08	2006/07
Fonterra **	7.20	8.05	6.70	5.20	7.90	4.46
Westland	6.80-7.20	7.60-7.80	6.45	4.50	8.24	4.58
Tatua	n/a	n/a	6.32	5.38	8.62	4.10
Open Country	n/a	n/a	n/a	n/a	n/a	n/a
Synlait	n/a	n/a	n/a	n/a	n/a	n/a
NZ Dairies Ltd ***	6.95 - 7.00	7.75 - 7.80	6.70	n/a	n/a	n/a

* Forecast Payouts ** Includes forecast distributable profit

*** 2010/11 payout = Fonterra milk price + dividend; 2011/12 payout = Fonterra milk price + dividend -10c/kgMS



* Forecast payout

STOCK & LAND PRICES

Dairy Stock Prices

	Delivery	Northern North Island	Southern North Island	Northern South Island	Southern South Island	New Zealand Range	New Zealand Average
<u>Dairy Cows</u>							
High BW herd	June 1st	2000-2200	1550-1750	2000-2500	1900-2300	1550-2500	2000
Low BW herd	June 1st	1800-2000	1600-1700	1900-2300	1700-1900	1600-2300	1840
Budget Cows	June 1st	1000-1200	850-1100	800-1200	850-1000	800-1200	995
In Milk Cows	Immediate	1500-1600	800-2000	1400-2000	1500-1800	800-2000	1640
Carry Over Cows (not in calf)	June 1st	700-850	1000-1300	1600-1800	1000-1400	700-1800	1200
<u>Replacement Stock</u>							
In calf R2 heifers	May 1st	1400-1600	1350-1600	1700-1800	1400-1800	1350-1800	1575
In calf R2 heifers	Immediate	1100-1500	850-1400	1500-1700	1000-1400	850-1700	1325
R1 heifers	June 1st	800-950	1550-1850	950-1200	950-1200	800-1850	1165
R1 heifers	Immediate	1000-1200	950-1300	1000-1200	1000-1300	950-1300	1150

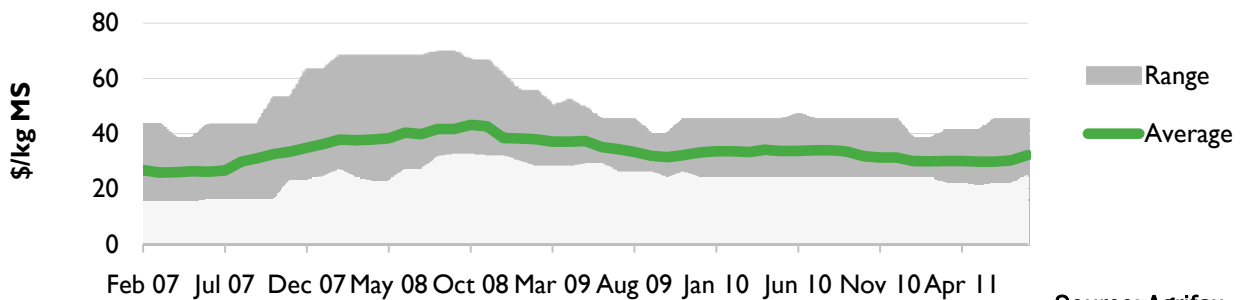
Beef Prices and Processing Volumes

<u>New Zealand</u>	This week	Last week	1mth ago	3 mths ago	1 year ago
200 kg Manufacturing Cow Price c/kg	284	284	284	315	299
Weekly cow kill*	n/a	n/a	4	21	6
<u>US Manufacturing Meat Prices</u>					
Imported Bull USc/lb	193	197	197	193	177
Imported Cow USc/lb	181	186	186	181	163

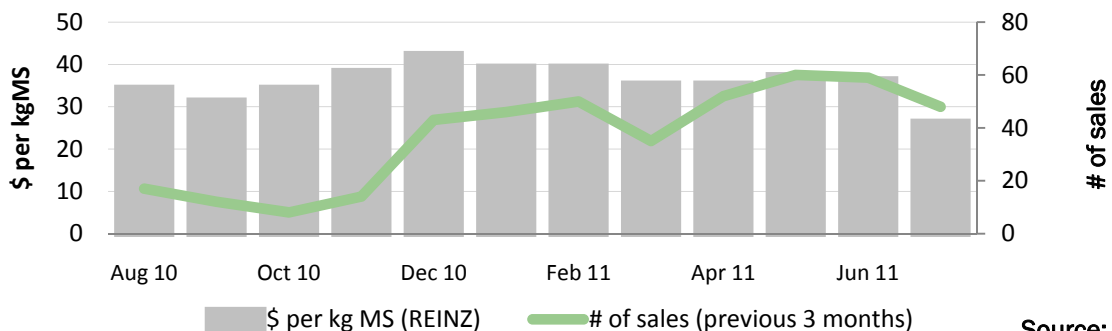
* Note: includes dairy and beef cows (thousands)

Dairy Land Values

New Zealand Dairy Land Prices



New Zealand Dairy Land Sales



Paul Flanagan is communications director at First Milk, the largest farmer-owned dairy business in the UK. As an integrated company, First Milk is a major player in the liquid milk, dairy ingredients and cheese sectors. Over the last two years, the company has made rapid progress by launching new products, working with partners across the supply chain and securing new customers in UK and international markets.



In line with First Milk's focus on Sustainability, Paul is on the steering group of a cross-supply chain project called Dairy 2020 that aims to answer the question 'what does a sustainable UK dairy industry look like in 2020, and what contribution can it make to a sustainable world?'

Below he explains the background to the project and the progress that

Last month I was at a press briefing before an Irish farmer's conference. Those sitting in the packed room ready to answer questions from journalists included Sir Henry van der Heyden the chairman of Fonterra, and John Maloney, managing director of Glanbia, the global cheese and nutrition group. Maloney and van der Heyden were no doubt waiting for questions on their company strategy or what other people could learn from their successes.

However, the first question was very succinct: 'What's wrong with the UK dairy industry?'

Unfortunately that's a question we hear a lot in the UK and the answer given of course depends very much on who's in the room and who's asking the question. However, I can guarantee you something. As people in the UK chew over the question, inevitably some people in the UK dairy industry, or some trade association or some part of the supply chain will get the blame for the current situation.

And that's where the UK Dairy2020 project differs. At the workshops we have had there are a whole range of people in the room including farmers, UK and international processors, Government, pressure groups, retailers, trade associations and food manufacturers. We could easily sit around all day and talk about the areas where we disagree. But that would be a waste of time. So we are focusing on the key drivers for the industry, what we think the industry may look like over the next decade and the short, medium and long-term objectives that each part of the supply chain need to do if we are to have a successful dairy industry in this country.

We are using a Futures approach that enables us to have open and creative conversations about the future. The process involves:

- **Scenario building:** we create engaging and challenging descriptions of different possible futures for the world in 2020. Then we test the UK dairy industry against these scenarios and identify weaknesses and opportunities.
- **Creating visions:** together the group will create together a vision statement, that will assist us in developing our strategy
- **Horizon scanning:** we identify the trends that are impacting on dairy today and research long-range trends that teach us about what the future might hold.

At the end of 2011, the project will deliver recommendations for action that will enable the UK dairy industry to thrive, detailing the collective action needed from farmers, processors, retailers, policy makers and beyond. We will share these findings and our research openly across the industry.

Over the last few months we have had a number of workshops and we are finding that there are a whole lot of positives for us in the UK which might surprise the doomsayers.

We can learn a lot from New Zealand, a small country of four million people in the middle of the Pacific Ocean. Ask any reasonable observer and they would say that clearly we in the UK have been dealt a better hand. However, through vision, determination and delivery it is evident that New Zealand has built a dairy industry that works towards shared goals and now produces over 16 billion litres of milk. The Kiwis have never sat and wallowed in the many negatives that they faced, they have got out there and made markets for themselves that suit their circumstances.

The way forward for us in the UK will be built on some innovative thinking. We need proactive and creative people to build on each other's ideas and that's part of what the Dairy2020 project is all about. Of course we have to recognise the challenges that the UK industry faces, but we must be prepared to shape our future and not get knocked off course by those with loud voices who simply don't like change.

Robert Kennedy summed up that mind-set best when he said, 'There are those who look at things the way they are and ask why ... I dream of things that never were and ask why not?'

For me, the UK Dairy 2020 project is about dreaming a bit and then grounding those dreams in hard actions that create a fantastic dairy industry that is sustainable for all of us.