



Media Release

Devondale enters daily pasteurised milk market to boost farmer returns

10 April 2013

- Devondale announces 10-year private label daily milk partnership with Coles
- The Co-operative will also relaunch Devondale branded daily pasteurised milk
- Devondale cheese will return to Coles' shelves
- Deal will deliver additional profits to Devondale dairy farmers

Devondale (Murray Goulburn Co-operative Co. Limited), the Australian farmer Co-operative, today announced a landmark, ten-year partnership to supply Coles with daily pasteurised milk for its private label brands in Victoria and NSW from July 2014.

Separately, the Co-operative will also relaunch Devondale-branded daily pasteurised milk, through an initially exclusive agreement with Coles, and Devondale cheese will return to Coles' shelves.

The milk price paid by Coles under this unique agreement locks in a premium that will deliver additional profits to Devondale dairy farmers over the life of the contract. The premium is not affected by price fluctuations in international dairy markets or movements in the Australian currency and the contract contains rise and fall provisions to protect the premium farmers receive.

As a Co-operative, Devondale will return 100% of the profits from this agreement to its farmer-shareholders through higher farm-gate returns.

Devondale Managing Director, Gary Helou, commented, "The daily pasteurised milk segment is currently mainly supplied by foreign owned companies that repatriate their profits to overseas shareholders. The entry of Australia's farmer owned Co-operative into this market segment cuts out the middle man and delivers profits directly to farmers.

"This is a logical growth opportunity that extends Devondale's domestic presence in consumer markets and is expected to lock in returns that will be paid to farmers through higher farm-gate prices. These higher prices will benefit all dairy farmers."

Devondale will invest approximately \$120 million in the construction of two state-of-the-art milk-processing plants in Melbourne and Sydney. This is the most significant investment in dairy processing technology since the dairy industry was deregulated in 2000.

The new plants will incorporate the world's latest processing technology to deliver the highest possible quality standards while also assisting to position Devondale as the nation's most efficient producer of daily pasteurised milk. This is consistent with Devondale's objective of being an industry leader in quality, operating excellence and innovation in pursuit of higher returns to dairy farmers.

Devondale will actively seek to grow its milk supply to meet the demands of this new contract and will be taking on new farmer-shareholders across existing and new supply zones. This includes growing a local milk supply in the Sydney region to support the Sydney processing plant.



“The newly launched Devondale daily pasteurised milk will extend our branded product range and increase awareness of the Devondale brand amongst consumers.

“We are also very pleased that Coles has agreed to again range Devondale-branded cheese products. This new ranging is expected to add significantly to the sales of Devondale cheese and further increase farm-gate returns to dairy farmers,” Mr Helou said.

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Background information

About Devondale (Murray Goulburn Co-operative Co. Limited) and milk prices

Devondale is Australia's largest dairy farmer Co-operative. It represents more than a third of the nation's dairy farmers and is 100% controlled by its 2,480 farmer-shareholders in Victoria, South Australia and New South Wales.

Devondale produces and processes approximately one-third of Australia's milk supply (approximately 3 billion litres annually) into quality dairy foods for both export and domestic markets.

Devondale is Australia's largest dairy exporter and Victoria's largest exporter by value. In 2011-12 Devondale had turnover of \$2.4 billion including \$1.2 billion in export revenues.

Devondale profits are returned directly to farmer-shareholders through the farm-gate price paid to farmers for milk and as dividends.

The Co-operative has a strong market presence in Australia through its flagship Devondale brand and is a major supplier of UHT milk, cheese, butter and spreads to the Australian market. It also provides yoghurt to Australian consumers through a joint venture with Danone and exports an extensive range of dairy ingredients.

As a farmer Co-operative, Devondale's objective is to maximise returns for farmers by offering the highest possible farm-gate prices for milk. This has an important influence on the price offered by other industry participants who need to compete against Devondale to purchase milk.

Devondale sets milk prices to be paid to its farmer-shareholders annually. The price offered reflects an average of the prices Devondale expects to receive for all of its products in both international and domestic markets.

While domestic supply and demand conditions have some impact on this price, the primary drivers of the price Devondale can offer its farmer-shareholders are related to international forces, including global supply and demand, and currency movements.

Until now, Devondale has only had a small exposure to the daily pasteurised milk market and this has limited its capacity to influence the returns farmers receive from this important market segment.



Milk in Australia

In 2011-12, Australian dairy farmers produced a total of 9.48 billion litres of milk. Of this 1.95 billion was consumed as white daily pasteurised milk. The balance was processed into other products including long life fresh milk, butter, spreads, cheese, milk powders and other specialty products.

About 40% of these products are exported to key markets such as Japan, China, south east Asia and MENA (Middle East and North Africa).

Dairy products can also be freely imported into Australia making Australia part of global dairy trade. For example in 2011-12 more than 185,000 tonnes of dairy products were imported into Australia, particularly from New Zealand.

Daily pasteurised milk in Australia

In 2011-12 Australians consumed approximately 1.95 billion litres of white daily pasteurised milk. Approximately 60% of this milk was purchased via a supermarket with the balance consumed in the convenience trade and the food service sector. Private label fresh milk represented approximately 58% of the grocery sales and 13% of non-grocery sales.

Major multinationals Lion (owned by Japanese company Kirin) and Parmalat (owned by French company Lactalis) held approximately 85% market share of grocery fresh milk and 79% of the non-grocery market in 2011-12.

Source of all statistics is Dairy Australia