

AUSTRALIAN GRAINS INDUSTRY CONFERENCE

INNOVATION DRIVING MILK YIELDS – IMPLICATIONS FOR THE GRAINS INDUSTRY

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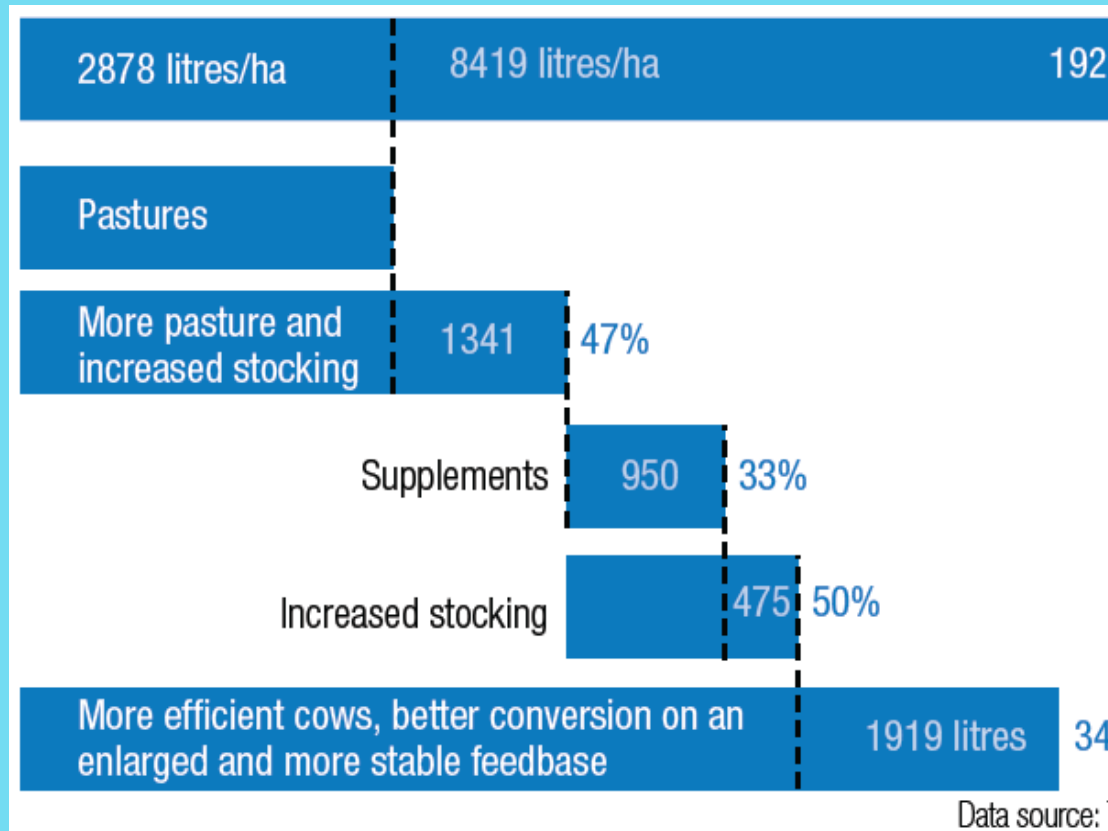
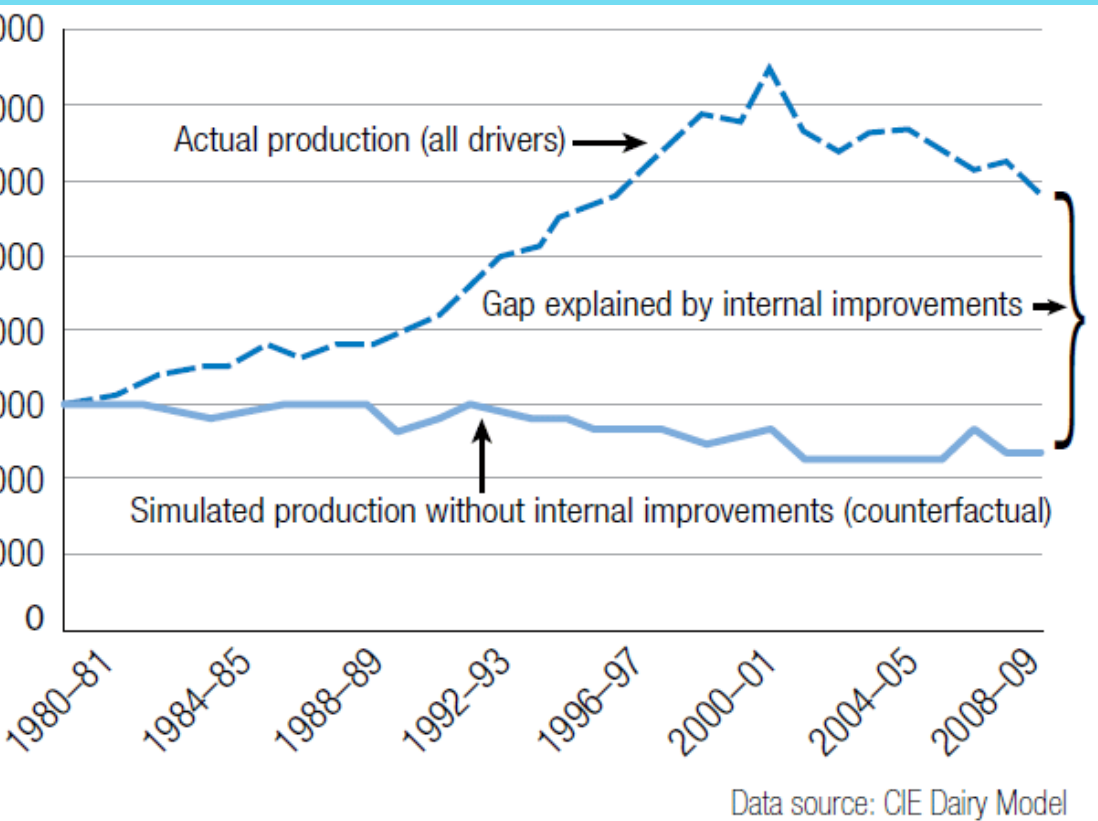
KEY AREAS

- Innovation: Dairy improvements over time (1980-2010)
- Innovation: A couple of examples of current work
- Focus on the industry post deregulation (2000/2001)
- Implications for the Australian Grains Industry
- Australian Dairy Farmers
- Focus on China
- What ACM is doing
- Key Points

Y FIRST EXPOSURE TO DAIRY



INNOVATION VIA RD&E HAS IMPROVED DAIRY PROFITABILITY



Innovation will continue to add value through targeted RD&E

INNOVATION IN DAIRY COW AND PLANT GENE RESEARCH

No Silver Bullet, but some great work being done

DNA sequencing will lead to identification of favourable genetic traits that can be selected for:

- Feed conversion efficiency
- Reproduction efficiency
- Life of efficient production

Calf Sex Selection

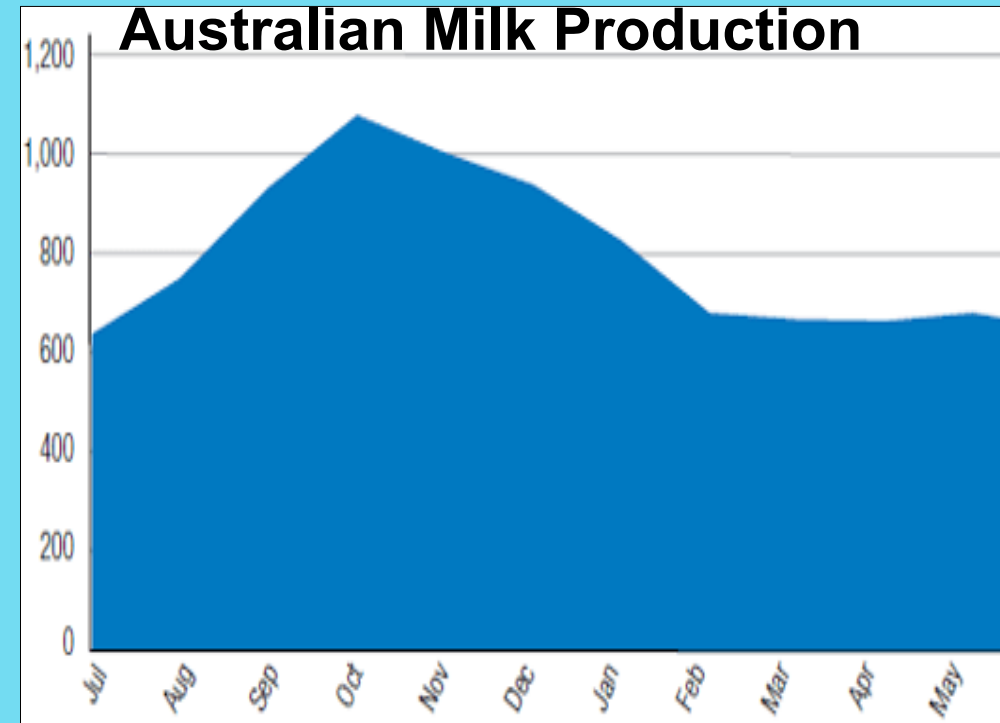
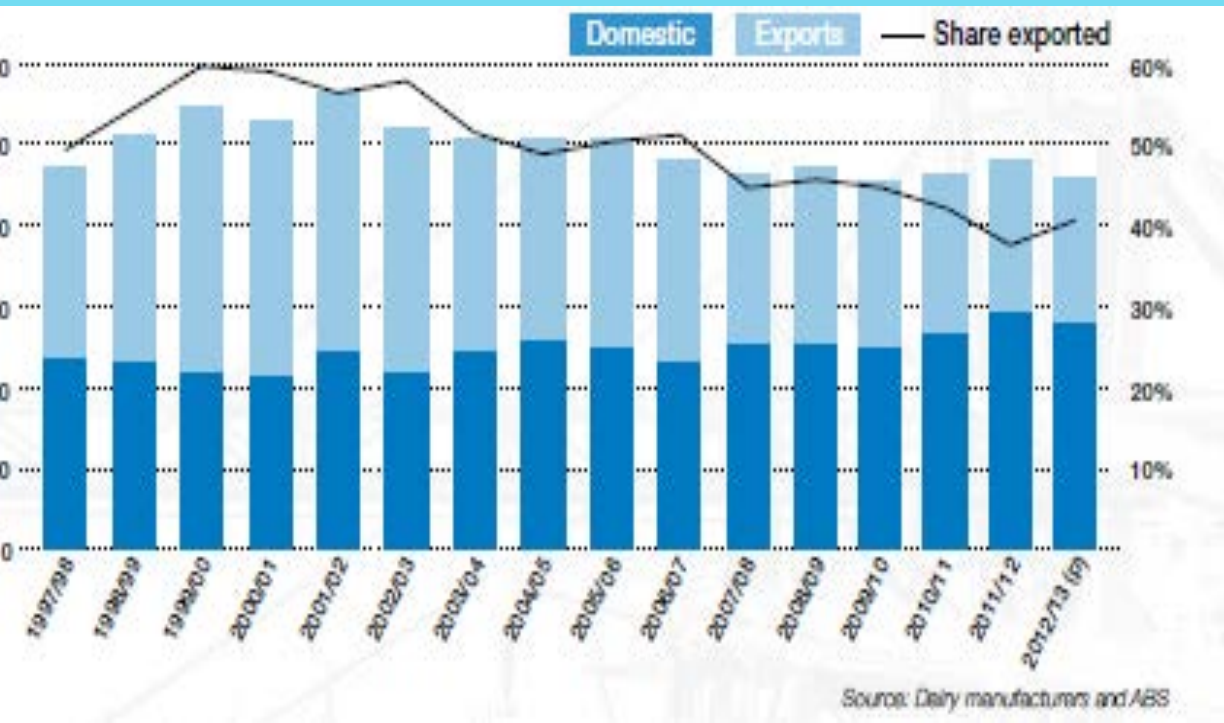
Pasture based or supplementary feed technology:

Species specific grasses and even species specific grains and oilseeds

Probiotics



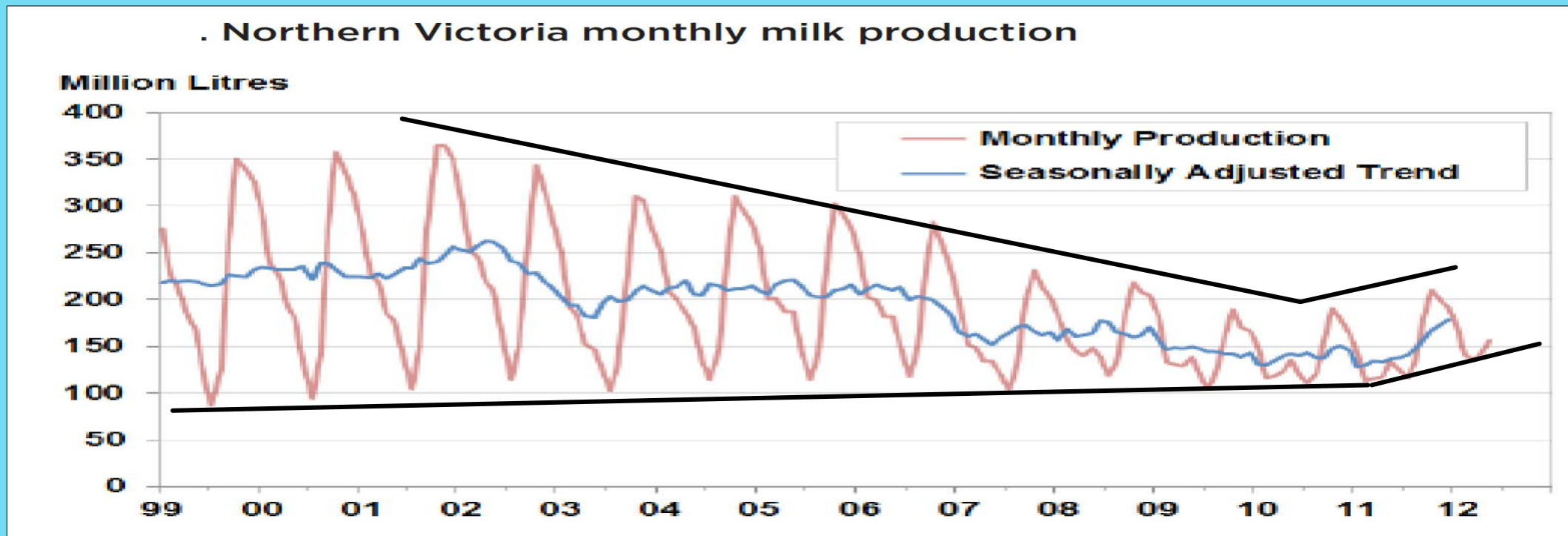
AUSTRALIA: 2% OF GLOBAL OUTPUT, 7-9% GLOBAL TRADE



Post deregulation milk production has dropped from 11BL down to 9BL
International competitiveness has declined, despite domestic growth
At the cross roads and could end up being defined by the size of our domestic market
Not great for the supplementary feeding growth expectations
Processors have incentivised farmers to produce “flatter” milk
Peak to trough ratio in Australia 2:1 versus NZ 26:1

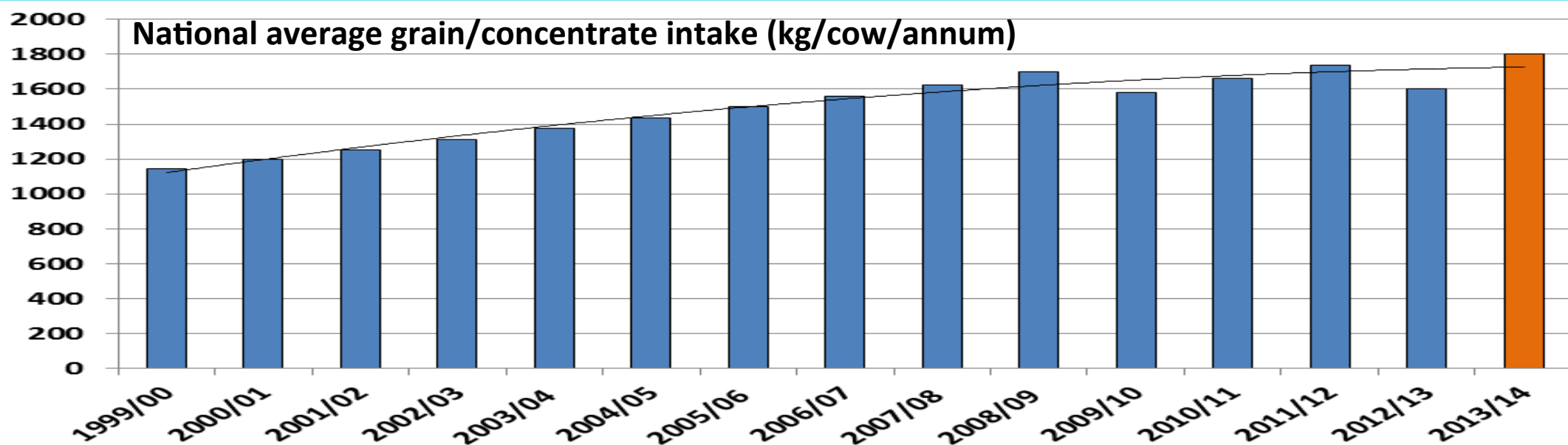


NORTHERN VICTORIA IS THE FLATTEST AUSTRALIAN REGION



- Historically access to a reliable irrigation water supply provided the foundation for a perennial pasture based, low cost, dairy system
- Peak has reduced dramatically
- Trough has actually started to increase
- The result of incentives offered by processors for off-peak milk
- Demand for high value milk products such as fresh milk, cream and UHT is flat
- Farm systems are now geared up to produce “flat milk”
- Strategic supplementary feed to play an important role

IMPLICATIONS FOR THE GRAINS INDUSTRY



Supplementary feeds, currently at 3M mt, will make an increasingly important contribution to farm-gate profitability

This contribution will accelerate as innovative products and processes come on stream

Strategic supplementary feed strategies need to take a longer horizon, 12 months or more

The feed value proposition needs to be extended to more milk suppliers

Grains and Dairy Industries can work together to add value to protein and energy



AUSTRALIAN DAIRY FARMERS ARE JADED BUT OPTIMISTIC

Profitability was ok in 13/14 but we need two more years at that level to restore confidence

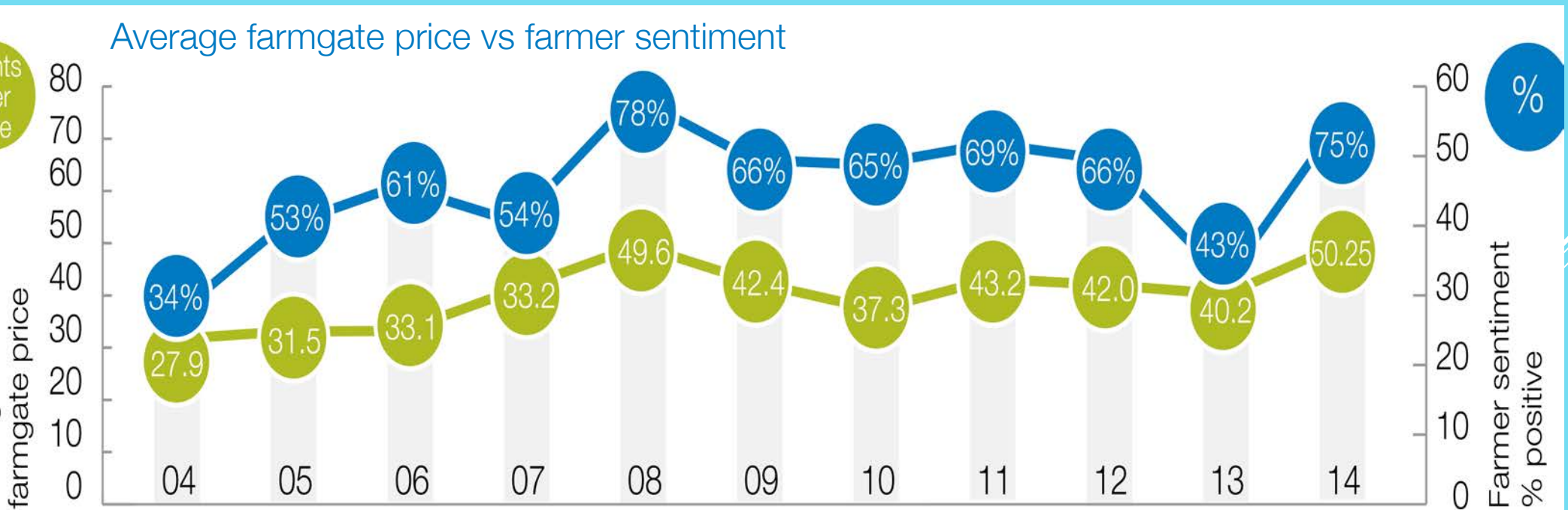
Lived through ten tough years

Downward price shocks are confidence sapping and commodity volatility erodes the appetite to invest

Most importantly our suppliers need to be doing what they can do to lower their cost of production

Strategic supplementary feeding to boost profits is essential and needs to be part of our suppliers operation

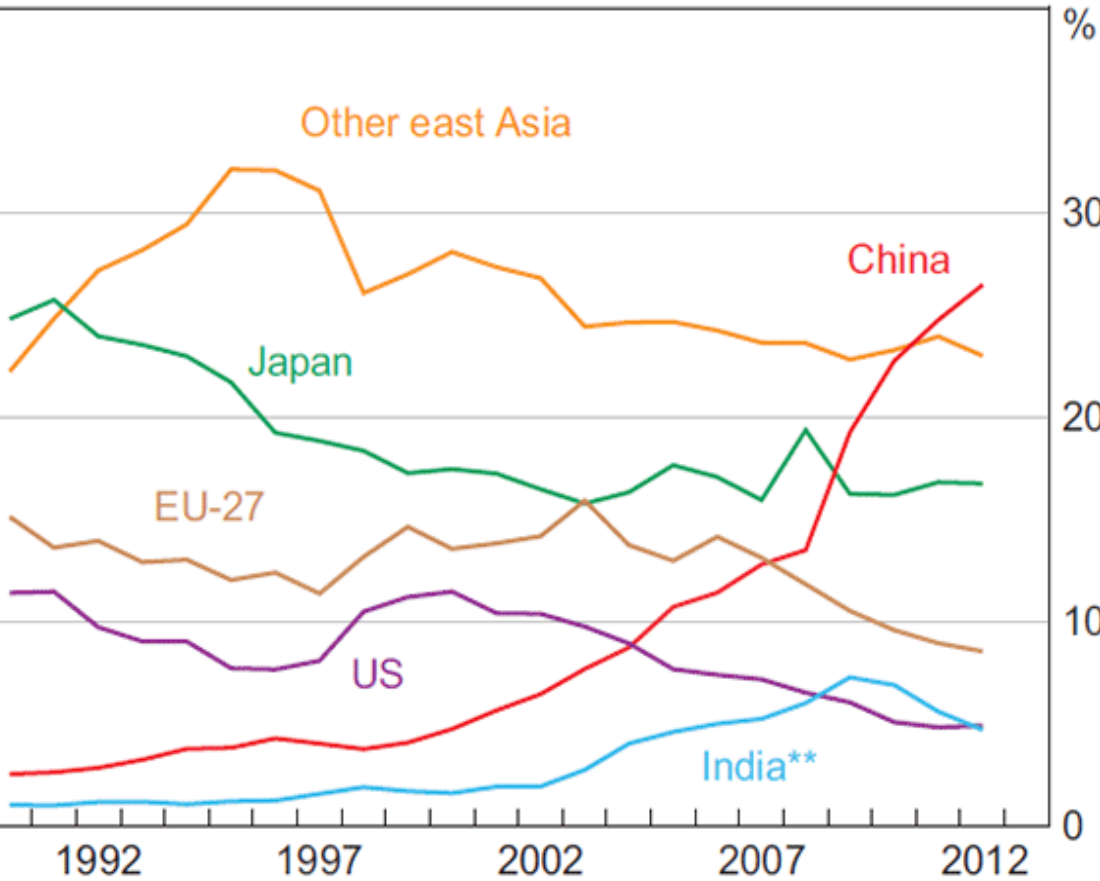
Need to look at milk pricing over a longer time period



AUSTRALIA'S EXPORT DEMAND AND CHINA'S IMPORT DEMAND

Australian Exports by Destination

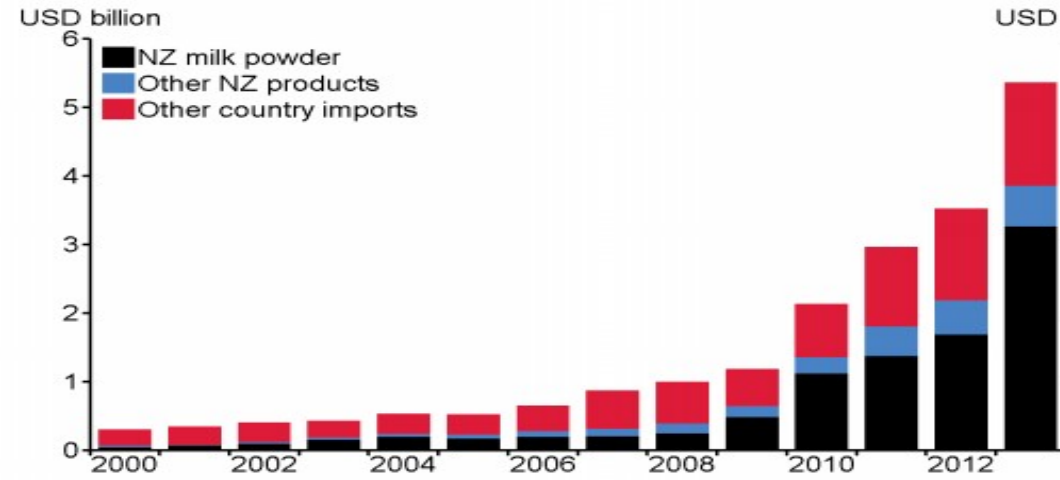
Share of total goods and services*



Financial years prior to 1999

* Goods exports prior to 1999

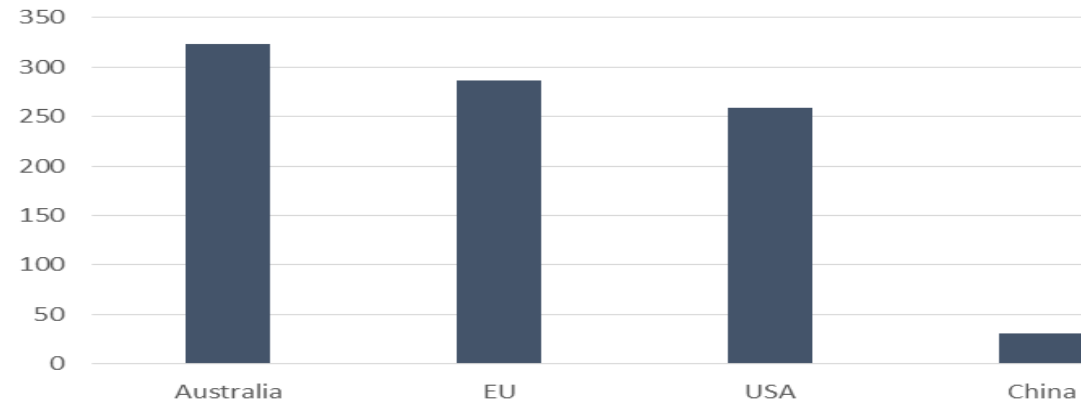
Source: ABS



Source: UN C

Per Capita Dairy Consumption by Country

(kgME/yr/capita) (source: IFCN, 2011)



Any way you measure it the impact of China is massive

ACM: REDUCING VOLATILITY VIA RISK MANAGEMENT

Milk Curve

- Our payment structure encourages flat milk production, to support our domestic fresh dairy business and our UHT export business

Milk Price

- ACM operates in the premium value added space, not commodity
- Guaranteed Minimum Price averaging A\$6.60/kg MS or 49 cents/ litre
- In place until June 2015, advised of this back in late March, early April
- Can lock into supplementary feeds where profitable

Land

- Pilot co-investment dairy farms underway
- Seeking to support good farmers to build equity in dairy farms

Water

- ACM sees water as a key input and is exploring models to provide our suppliers with water surety

Feed

- Provide feed price options out to 12 months or more
- Looking for partners to help us, we will be the counterparty
- Feed cost deducted from the milk payments
- Focus on our suppliers



BRINGING IT HOME

- Targeted Innovation has kept us in the game and will continue
- Suppliers need a stable milk price at a level that encourages profitable growth
- The suppliers need longer term price signals and the ability to lock in price for two to three years
- Australian Grains & Dairy can work together to grow supplementary feed
- Reduce the volatility of key inputs and output
- Confidence is a magical juice!



AUSTRALIAN CONSOLIDATED MILK

THANK YOU

Peter E Jones

General Manager

