



BRIEF BYTES



New Zealand's only true 100% farmer owned red meat co-operative

We are currently experiencing some volatility in pricing so it's important to explain some of the factors in play behind this. Although global market pricing has been solid across several markets, the business is being affected by fluctuations in the exchange rates, which have been influenced by Brexit and US domestic politics. The company sells in multiple currencies and countries. The major difference has been the \$US-\$NZ cross-rate, which has moved within the vicinity of 4-6% in the last month or so. To give you an indication, for lamb this can impact farmer returns within a range of between 25-35 cents per kilo and beef 20-30 cents per kilo. Some shifts in product mix are also putting pressure on returns. We need to be competitive and the co-operative is working hard to deliver greater returns to farmer-shareholders and improve profitability as we get close to the end of the season. We are continually working on the areas we can control to lower operating costs and capture greater market value from our products. These are key parts of our business strategy and we are continuing to implement this strategy to build a stronger co-operative. There is still a huge amount of work to do before we can deliver the level of performance that farmers want. It is important to remember that as a co-operative, the profits of this business will come back to you as the owners of the company.

First Alliance Group chilled lamb arrives in China

Our first chilled lamb – a consignment of French racks - has now arrived in China as part of a six-month trial. Alliance Group was selected for the trial following the signing of the Memorandum of Cooperation between China and New Zealand in March. The products were processed at our Pukeuri plant before being air-freighted to Shanghai for a high-end customer in the retail and food service sectors. This is a significant milestone, not only for our co-operative and our farmer-shareholders but also for our in-market partner Grand Farm and New Zealand agriculture. It's also great Chinese consumers will now be able to receive premium chilled red meat products from New Zealand. Chilled exports to China offer significant opportunities for the co-operative. Chilled products command a premium over frozen products so this aligns with our business strategy of capturing more market value. We're also investing in creating new product forms and ranges that will be either produced from source or potentially further processed in the market to meet the growing demands of China's food service sector.



Sheep Industry Awards

Warm congratulations to Alliance Group farmer-shareholders Andrew, Katherine, Russell & Pam Welsh, who won the NZ Maternal Worth award at the Beef + Lamb New Zealand Sheep Industry Awards on Wednesday night. They farm 750 hectares with 4,200 TEFROM ewes and 1,400 hoggets in the Waimea Valley, Southland.

Congratulations also to Southland farmer Hayden Peter for winning the Emerging Talent category. A committed shareholder, Hayden was employed by Alliance Group and managed the co-operative's trial work as part of his role. He won an Alliance Group scholarship when he left school to attend university and was a recipient of a grant from the former Alliance Group Leadership Development Fund. Well done to all finalists. Alliance Group directors Dawn Sangster, Don Morrison and Jared Collie, General Manager Livestock and Shareholder Services Heather Stacy and group key account manager livestock Murray Behrent attended the event.



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Trans-Tasman business management award

Congratulations also to Alliance Group supplier Jonny Elder, who has won a trans-Tasman business management award for up-and-coming farmers. Jonny, who with his wife Michelle operates a 460-hectare sheep and beef farm near Balfour in Northern Southland, was awarded the Rabobank Business Development Prize after being selected from a group of New Zealand and Australia's most progressive young farmers, who were graduates of last year's Rabobank Farm Managers Programme (FMP). Jonny was recognised for his management project, which showed he had used learnings from the programme to create a business plan to maximise the potential of his farm.



Strengthening our focus on the domestic and UK food service sector

As part of our strategy to capture greater market value and lift returns to farmer-shareholders, we are increasing our focus on the wholesale high-end food service sector, both in New Zealand and overseas.

In New Zealand, we have appointed Lyndon Cleveland to work closely with the sector to offer an array of products, including mutton, lamb, beef and venison, and grow the Pure South brand. Lyndon brings significant skills and experience to the role, having worked as a chef in the high-end food service sector and more recently in sales with the Produce Company.



Reminder additional bobby calf regulations in force from 1 August

Two further bobby calf regulations are due to come into force on 1st August and it is important that all our suppliers are aware of these changes.

The requirements are:

- Suitable shelter must be provided for young calves before and during transportation, and at points of sale or slaughter
- Loading and unloading facilities must be provided and used when young calves are transported for sale or slaughter

These must be implemented alongside the regulations already in place, which are:

- Young calves must be slaughtered as soon as possible after arrival at the slaughter premises, and within 24-hours of the last feed on farm
- Young calves must be at least four full days old and physically fit before they are transported off farm for sale or slaughter as a result of sale
- Journey times for young calves must not exceed 12 hours
- Young calves cannot be transported across the Cook Strait
- Killing of any calves by use of blunt force to the head is prohibited, except in an emergency situation.



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Dannevirke plant re-opening 19th July

Phase one of a \$10.6 million investment at our Dannevirke plant will have been completed when the plant re-opens for the processing of bobby calves on 19th July. The first phase includes the development of the area which will be home to the new robotic primal/middle cutting machinery. The second phase will see the installation of this innovative technology over a five-week window from the end of August through September. This is great news for farmers and underlines our commitment to the North Island. The co-operative will benefit from greater productivity and health and safety benefits so we can return value to all farmer-shareholders.

Market update

Lamb - The UK market remains steady. Leg pricing is soft but that is expected at this time of year with the Northern Hemisphere summer meaning demand drops whereas middles remain solid. In North America, demand and pricing are steady for the full range of cuts and we are trying to achieve higher winter chilled volumes. In China, core items are moving to market in line with agreed plans. Some items continue to be diversified to other more profitable markets and commentary from the market indicates that some prices are at the top end. With Ramadan having concluded on 14 June, consumption in the Middle East market is improving, with potential supply shortages in the last quarter.

Mutton - Prices are steady with the balance of stocks sold and the balance of low processing numbers contracted to lower value markets in China and south-east Asia.

Venison - Frozen stocks have been cleared in Europe. The focus is now on chilled supply, which will commence this month. All sectors remain firm in North America. We are continuing to save for established key UK accounts, ensuring we supply the full product range of lamb, mutton and venison to these.

Beef - The American market remains positive although US domestic kills are on the increase. Brazilian beef exports have also experienced some difficulty complying with US regulations and exports to US have now been suspended. Livestock prices for prime cattle may be over-inflated with global market prices under pressure and a recent flush of prime kill post-cow season has seen most markets for chilled over-supplied. This has led to price levels easing, mainly in New Zealand and North Asia. Other Asian markets remain steady. European markets have struggled to meet the asking price for beef and, due to this, New Zealand exporters have supplied less than fifty per cent of the quota.

Co-Products - Skins remain steady although wool values have been weaker. Calf skins and hides are fully sold. Renderables remain steady.

Warm Regards

David Surveyor
CHIEF EXECUTIVE