

CONFIRMATION OF THE BASE MILK PRICE AND FARM GATE MILK PRICE FOR THE 2020/2021 SEASON

Clause 150CA(2) Dairy Industry Restructuring Act 2001 (“DIRA”)

Fonterra confirms the following prices for the season from 1 June 2020 to 31 May 2021 (the “2020/2021 Season”):

<i>Base milk price</i>	The base milk price for the 2020/2021 Season is \$7.54/kgMS.
<i>Farm gate milk price</i>	The farm gate milk price for the 2020/2021 Season is \$7.50/kgMS.

A difference may arise between the “base milk price” and the “farm gate milk price” as a result of the way in which the “farm gate milk price” is defined in accordance with DIRA and the impact of Fonterra’s fixed milk price offers. For the 2020/2021 season, this was the reason for the difference in the two prices.

TERMINOLOGY

Base milk price Under DIRA, the “base milk price” is, in relation to a season, the price per kilogram of milk solids that is set by Fonterra for that season. Fonterra also refers to this price as its “Farmgate Milk Price” (see below).

Farm gate milk price Under DIRA, the “farm gate milk price” means the “total cost of milk” divided by kilograms of milk solids that Fonterra pays out to shareholder farmers in a season. In this context, the “total cost of milk” means:

(a) the total of the payments made by Fonterra to shareholding farmers for raw milk supplied to Fonterra in the season **minus**

(b) the sum of:

(i) the total organic milk premium for the season; and

(i) the total winter milk premium for the season

Farmgate Milk Price The Farmgate Milk Price is the average price paid by Fonterra for each kilogram of milk solids supplied by Fonterra’s farmer shareholders under Fonterra’s standard terms of supply in the relevant season. The Farmgate Milk Price is calculated in accordance with the Farmgate Milk Price Manual. This is the milk price which Fonterra announces to the market as part of the publication of its annual Farmgate Milk Price Statement. Fonterra considers that the definition of the Farmgate Milk Price is consistent with the definition of the “base milk price” under DIRA.

Prior to the 2018/19 season, the output of the calculation methodology established by Fonterra’s Farmgate Milk Price Manual was the minimum aggregate amount to be paid by Fonterra (other than in exceptional circumstances) for milk supplied to Fonterra in New Zealand, and the Milk Price Manual was silent on the allocation of that minimum aggregate amount across individual supply.

ADDITIONAL INFORMATION

- Fonterra does not pay a uniform price for each kilogram of milk solids supplied to it in a season. Among other things, the average net price per kilogram received by suppliers will vary with relative protein and milkfat content, with supply profile across the season, with water content and with milk quality.