

Market Announcement

10 August 2018

Fonterra updates 2017/18 Farmgate Milk Price and earnings guidance

Fonterra Co-operative Group Limited today announced a revision to its forecast 2017/18 Farmgate Milk Price, and updated its normalised earnings per share and dividend guidance.

The Co-operative is reducing last season's 2017/18 forecast Farmgate Milk Price to \$6.70 per kgMS from \$6.75 per kgMS. The previously announced 25-30 cents guidance range has been held but the Co-operative is indicating that it will be at or slightly below this range and it is likely that the full year dividend will be just the 10 cents already paid in April.

Chairman John Monaghan said the Board has made these decisions in the best long-term interests of its farmer shareholders and unitholders.

"It is important for our Co-operative to have a strong balance sheet and, as we indicated in May, the higher milk price, which is good for our farmers, has put pressure on Fonterra's earnings, and therefore our balance sheet in a year which was already challenging due to the payment to Danone and the impairment of the Co-operative's Beingmate investment.

"You never want to have to reduce the Milk Price at the season's end, but it is the right thing to do and \$6.70 remains a strong milk price.

"Maintaining a strong balance sheet has helped us to support farmers during tough seasons through our Co-operative Support Loan and being able to bring forward the Advance Rate Schedule and get money to farmers earlier in the season.

"We need to do everything within our control to keep these options on the table for when farmers need them. This means keeping our balance sheet strong."

Mr Monaghan said he wanted to be upfront with farmers and unitholders that to achieve this the Board has taken the step to depart from the amount calculated under the Farmgate Milk Price Manual. This is permitted within Fonterra's Constitution.

"During the process of closing our books for the financial year end, the need for these actions has become clear. Our forecast performance is not where we expected it would be. While the numbers are not finalised, our margins were less than we forecasted right across our global Ingredients and Consumer and Foodservice businesses."

The Co-operative's full year results will be announced on 13 September 2018.

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