



Media release

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FONTERRA INCREASES FARMGATE MILK PRICE AND UPDATES ON EARNINGS

Fonterra Co-operative Group today increased its 2016/17 forecast Farmgate Milk Price by 15 cents to \$6.15 per kgMS.

Chairman John Wilson said the increase reflects the strong fundamentals supporting global dairy markets. "World dairy prices have risen in recent months and as we near the end of the season we have more visibility and certainty which makes us confident of our \$6.15 position," Mr Wilson said.

Fonterra also confirmed its forecast earnings per share range of 45 to 55 cents for the 2017 financial year, as it continues to target a full year dividend of 40 cents per share. "Some of the challenges we faced in the third quarter could continue, but the business is committed to a strong fourth quarter particularly in Ingredients sales. This means we have been able to confirm the earnings per share range." Mr Wilson said.

"The higher forecast Farmgate Milk Price of \$6.15 per kgMS and the target dividend of 40 cents per share gives a forecast cash payout of \$6.55 for a 100% shared-up farmer which is good news for our farmers and their communities," he said.

In a further signal of confidence in the market outlook for dairy, the Co-operative is forecasting an improved Farmgate Milk Price of \$6.50 per kgMS for the 2018 season. The forecast earnings range for the 2018 financial year will be announced around the beginning of August.

"The increase in the forecast Milk Price for the current season and the improved forecast for 2017/18 will be welcome news for our farmers following two challenging seasons on farm," Mr Wilson said.

"Stronger production in March and April has partly offset lower peak milk production and collections are now expected to be down 3% for the season, a much better outcome for our farmers than had been anticipated earlier in the year," Mr Wilson said.

Third Quarter Performance Update

Fonterra's revenue of \$13.9 billion for the first nine months of 2016/17 is up 8% on the same period last year, as a result of higher milk prices.

"Our volume to value strategy continues to drive our performance in the Ingredients and Consumer and Foodservice businesses, Chief Executive Officer Theo Spierings said. "Margins in most of our businesses are similar to last year, and we have moved an additional 350 million liquid milk

equivalent (LME) into higher value products in the year to date. Consumer and Foodservice volumes in Greater China in particular have grown by 40% in the period.

“We are on track to exceed our target of moving an additional 400 million LME into higher value products by year-end,” he said.

“Better than expected autumn weather conditions have resulted in more milk at the end of the season which combined with higher milk prices is good news for the Co-operative.”

Previously signalled challenges, including product stream returns and pressure on margins, have had a greater impact than expected in the third quarter. “The closing of the relative price gap between reference Milk Price products and non-reference products has reduced overall profitability in our Ingredients business,” Mr Spierings said.

“We have continued to manage our costs tightly, with operating expenses for the nine months down 4%.

“Efficiencies and improvements in working capital are ongoing, and capital expenditure is in line with expectations and expected to reduce in the 2017/18 year. Our gearing is forecast to be in the target range of 40-45% at the conclusion of the year. All these factors contribute to the continuing strength of the Co-operative’s balance sheet,” Mr Spierings said.

Chairman John Wilson said the Co-operative is well placed to deliver through the rest of the year for its farmers.

“While there is work to be done in the final quarter the outlook for earnings remains achievable, and we are committed to delivering the best outcome for our farmer shareholders and unitholders,” Mr Wilson said.

ENDS

NOTE:

Fonterra is required to forecast its Farmgate Milk Price every quarter under the Dairy Industry Restructuring Act (DIRA). Fonterra manufactures five commodity products that inform the Farmgate Milk Price – whole milk powder, skim milk powder, butter, anhydrous milk fat, and butter milk powder. These are called reference products. Non-reference products include cheese and casein.

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