

Market Announcement

7 December 2017

FONTERRA REVISES 2017/18 FORECAST FARMGATE MILK PRICE

Fonterra Co-operative Group Limited today reduced its forecast Farmgate Milk Price for the 2017/18 season from \$6.75 to \$6.40 per kgMS and updated the market on its financial results for the first three months of the 2018 financial year.

Chairman John Wilson says the lower forecast Farmgate Milk Price reflects a prudent approach to ongoing volatility in the global dairy market. The GlobalDairyTrade price for whole milk powder is a big influencer of the Farmgate Milk Price and it has declined by almost 10 percent since 1 August 2017.

“While the result of the arbitration with Danone has impacted our earnings guidance for the season, it has no influence on our forecast Farmgate Milk Price,” says Mr Wilson.

“What is driving this forecast is that despite demand for dairy remaining strong, particularly in China, other parts of Asia and Latin America, we are seeing strong production out of Europe and continued high levels of EU intervention stockpiles of Skim Milk Powder.

“This downward pressure on global prices is being partly offset by the lower NZ-US dollar exchange rate,” says Mr Wilson.

“Our strong financial position, customer order book at this point in the year, and confidence in demand means that the Board is able to increase the payments made in January by 10 cents per kgMS and will hold the Advance Rate through to the payments in May.

“In effect, our farmers will receive equal or higher payments for their milk over this period than were scheduled under the previous \$6.75 milk price.

Fonterra has also updated its full season New Zealand milk collection forecast due to ongoing challenging weather conditions. The Co-operative has reduced its forecast by 1 per cent to 1,525 million kgMS – the same volume as last season.

First Quarter Financial Results

Fonterra’s first quarter revenue of \$4 billion is up 4 per cent on the same period last year. Sales volumes are down 20 per cent to 3.9 billion liquid milk equivalent (LME), while the gross margin of 16.7 per cent is also down.

Chief Executive Theo Spierings says the first quarter financial results were generally as expected as the Co-operative started the year with record low inventory followed by the second year of low spring milk collections from New Zealand due to wet weather.

“This has challenged our Ingredients business where we had lower volumes to sell. As a result, sales were down 19 per cent to 3.6 billion LMEs compared to the same time last year.

The gross margin in Ingredients was in line with the second half of last year. However, when we compare it to the same period last year it was down from 12.1 per cent to 8.1 per cent, mainly due to the rise in commodity prices,” says Mr Spierings.

“Our Consumer and Foodservice business continued with strong sales volumes in our key markets across both Greater China and Asia with, overall, just a 3 per cent decline to 1.3 billion LMEs in total volume compared to the record levels at the same time last year.

“Gross margin in Consumer and Foodservice was 24 per cent. While this is down on the 31 per cent in the first quarter of 2017 when input costs were lower, it is up on the gross margin percentage in the last quarter of 2017. This positive trend demonstrates we can create more value in our Consumer and Foodservice business despite higher input costs and reflects the strength of our strategy of moving more volume into higher value.”

Mr Spierings says the Co-operative expected performance to be weighted to the second half of the year and remains confident in its full year forecasts following revisions after the recent Danone announcement.

“We are focused on continued tight operational and financial discipline and a keen eye on our customers’ needs to maximise sales opportunities.”

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About Fonterra

Fonterra is a global leader in dairy nutrition – the preferred supplier of dairy ingredients to many of the world’s leading food companies. It is also a market leader with its own consumer dairy brands in New Zealand and Australia, Asia, Africa, the Middle East and Latin America. Fonterra is a farmer-owned co-operative and the largest exporter of milk in the world. It is one of the world’s largest investors in dairy research and innovation drawing on generations of dairy expertise to produce more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products for 140 markets.

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