

MEDIA RELEASE



29 May 2013

FONTERRA ANNOUNCES OPENING FORECAST FARMGATE MILK PRICE FOR NEW SEASON

Fonterra Co-operative Group Limited today announced an opening forecast Farmgate Milk Price of \$7.00 per kgMS for the 2013/14 season - up \$1.20 on the current season.

In addition, the Co-operative confirmed a higher Advance Rate schedule, with an opening rate of \$5.00 per kgMS, reflecting the higher forecast Farmgate Milk Price for 2013/14.

The Board will announce its forecast Cash Payout - which comprises the Forecast Farmgate Milk Price and dividend for the 2013/14 season - in July when Fonterra's budget is completed and approved.

Chairman John Wilson said the higher forecast Milk Price for the new season reflected continuing strong international prices for dairy.

"The general consensus is that dairy commodity prices have peaked but will continue at or near current levels until the fourth quarter of 2013. Most external forecasts point to prices remaining relatively strong through 2014."

Commenting on the Advance Rate increase Mr Wilson said: "A stronger forecast Farmgate Milk Price, supported by our improving cash flows and strong balance sheet, means we are able to lift the Advance Rate for the new season to ensure farmers receive higher payments for their milk early in the season.

"A large proportion of our farmer shareholders have experienced drought conditions, which have had a significant impact on feed costs and production, resulting in early drying off of their herds.

A higher Advance Rate at the start of the new season will help our shareholders in managing their farming businesses to ensure an ongoing supply of high quality milk to the Co-operative," said Mr Wilson.

Market Factors Influencing the Milk Price

Chief Executive Theo Spierings said the fundamental supply and demand balance has shifted: "Global milk production growth is slowing as a result of unfavourable weather conditions in many key milk production regions.

"Although we are seeing modest production growth in the USA, recent cold conditions in Europe have had a negative impact on crops and dairy, and the outlook remains mixed.

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“Milk production growth in 2013 for the top 15 exporting countries is projected at 0.5 per cent or 1.2 billion litres - well below the 1.8 per cent (4.5 billion litres) growth levels we saw in 2012.

“In general, the global economic outlook remains steady but with some downside risk. In the USA modest growth continues, while China has managed a soft landing with the consensus on growth at around 7.8 per cent.

“While we expect most farmer shareholders will welcome a higher Milk Price, we will continue to closely monitor these key factors contributing to Fonterra’s opening forecast for the 2013/14 season.”

Mr Spierings said Fonterra was currently preparing its budgets for 2014, however, shareholders and unit holders should expect the strong uplift in international dairy powder prices to create a more challenging environment for Fonterra’s earnings in the first half of the 2014 financial year.

2012/13 Forecast

The Co-operative also confirmed today that it is holding its current forecast Farmgate Milk Price for the 2012/13 season at \$5.80 per kgMS, and a forecast dividend of 32 cents per share, amounting to a cash Payout of \$6.12 for a fully shared-up farmer.

“We are maintaining our current season forecast but advising farmers to be cautious in managing their budgets as we have seen a sharp drop in milk volumes as a result of the drought, and recent declines in GlobalDairyTrade auction results,” said Mr Wilson.

Raw Milk Regulation Change

Fonterra welcomed changes to Raw Milk Regulations that will apply from June 1.

“This season is the last when competitors can cherry pick when they get milk during the season, and it has coincided with the drought and the recent higher export prices.

“This meant Fonterra was required to supply large volumes of milk to competitors when milk flows were very low because of the drought, reducing the utilisation of our factories.

“At current prices, we estimate that the milk we have supplied our export competitors from March to May will cost our shareholders about \$25 million in lost earnings, amounting to 1.5 cents per share in lost earnings.

“At the same time we estimate that due to the drought the benefit to our competitors is far greater, with the potential to add between 5 - 30 cents per kgMS to their performance.

“As this year’s drought has shown us, the Government did the right thing in changing the Raw Milk Regulations last year,” said Mr Wilson.

Note: currency is New Zealand dollars unless otherwise stated.

- ENDS -

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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. Fonterra is also a market leader with our own [consumer dairy brands](#) in Australia/New

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Zealand, Asia/Africa, Middle East and Latin America.

The [farmer-owned](#) New Zealand co-operative is the largest processor of milk in the world, producing more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products every year. Drawing on [generations of dairy expertise](#), Fonterra is one of the largest investors in dairy based [research and innovation](#) in the world. Our more than [16,000 staff](#) work across the dairy spectrum from advising farmers on sustainable farming and milk production, to ensuring we live up to exacting quality standards and delivering every day on our customer promise in more than 100 markets around the world.



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