

Media release

18 November 2016

FONTERRA INCREASES FARMGATE MILK PRICE AND UPDATES ON Q1 PERFORMANCE

Fonterra Co-operative Group Limited today increased its 2016/17 forecast Farmgate Milk Price by 75 cents to \$6.00 per kgMS.

When combined with the forecast earnings per share range for the 2017 financial year of 50 to 60 cents, the total payout available to farmers in the current season is forecast to be \$6.50 to \$6.60 before retentions.

Chairman John Wilson said the increase reflects improvements in pricing since September, following the gradual rebalancing of global supply and demand.

“We’ve seen falling production in the major exporting regions, particularly Europe and Australia, and an unprecedented decline in New Zealand milk supply due to wetter than normal spring conditions across most regions. On balance, demand continues to be firm. As a result there has been a steady improvement in global dairy commodity prices and this is reflected in the improved forecast.

“We are very mindful that farm incomes will be affected this year because of lower milk production so we will be doing everything possible to build on our good start to the financial year and deliver the highest possible total payout to our farmers,” said Mr Wilson.

First Quarter Performance Update

Fonterra’s first quarter revenue of \$3.8 billion is up six per cent on the same period last year. Sales volumes are up two per cent to 4.9 billion litres liquid milk equivalent (LME), while the gross margin of 22 per cent remains largely unchanged.

Chief Executive Theo Spierings said the first quarter revenue gains reflected broad-based volume and margin growth across the business, and an ongoing focus on cost controls.

“Our operating expenses have reduced by two per cent to \$621 million and we continue to keep a close rein on them, in line with the financial discipline shown last year,” he said.

The Co-operative has moved an additional 128 million litres LME into higher-value consumer and foodservice products compared with the same period last year.

“The consumer and foodservice business achieved an improved gross margin of 31 per cent, up from 28 per cent. This reflects the increasing strength of our brands in key markets and our focus on chef-led solutions in foodservice.”

Mr Spierings said while the first quarter performance was pleasing, the Co-operative’s earnings face emerging head-winds for the remainder of the financial year.

“Our current milk collection forecast is 1,460 million kilograms of milk solids (kgMS), down seven per cent on last season, and this is constraining sales.

“In addition there is a potential impact from the price of Milk Price reference products, such as whole milk powder, rising faster than non-reference products.”

Mr Spierings said that, given the Co-operative's stronger sales performance and lower production volumes, it continues to monitor its inventory and contracted sales position closely.

Chairman John Wilson said the Co-operative has had a strong start to the year.

"The unchanged earnings guidance range of 50 to 60 cents took into account the fact that a higher milk price had the potential to influence margins across the business. However, we do expect this volatility to continue which could impact both milk price and earnings guidance. We will keep our farmers and investors updated as we move through the year," he 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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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 processor 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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