

Media release

28 January 2016

FONTERRA REVISES 2015/16 FORECAST MILK PRICE

Fonterra Co-operative Group Limited today reduced its forecast Farmgate Milk Price for the 2015/16 season from \$4.60 per kgMS to \$4.15 per kgMS.

When combined with the earnings per share range of 45-55 cents, this means a total available for payout of \$4.60-\$4.70 per kgMS and would currently equate to a forecast Cash Payout of \$4.50-\$4.55 per kgMS to our farmers after retentions.

Chairman John Wilson said global economic conditions continue to be challenging and are impacting demand for a range of commodities, including dairy.

“Key factors driving dairy demand are declining international oil prices which have weakened the spending power of countries reliant on oil revenues, economic uncertainty in developing economies and a slow recovery of dairy imports into China. In addition, the Russian ban on European Union dairy imports continues to push more product on to the world market.

“There is still an imbalance between supply and demand which continues to put pressure on global milk prices. Since last September, prices on GlobalDairyTrade for Whole Milk Powder (WMP) have fallen 12 per cent, and Skim Milk Powder (SMP) prices are down 8 per cent.

“Although New Zealand farmers have responded to lower global prices by reducing supply, that has yet to happen in other regions, including Europe, where milk volumes have continued to increase.

Chief Executive Theo Spierings said while global demand remained sluggish, Fonterra supported the general view that dairy prices will improve later this calendar year.

“However the time frame for supply and demand rebalancing has moved further out and largely depends on a downward correction in EU supply in response to the lower global prices. These prices are clearly unsustainably low for farmers globally and cannot continue in the longer term.

“It is important to state that despite the current challenges, we have confidence long-term international dairy demand will continue its expansion due to a growing world population, increasing middle classes in Asia, urbanisation and favourable demographics.

“While a unique series of global issues are impacting the forecast Milk Price, the business is performing well, as outlined in our business update in November, and is on track to generate improved dividend returns. Fonterra has remained focused on reducing costs, increasing efficiencies and shifting more milk into higher value products,” said Mr Spierings.

Mr Wilson said: “The reduction in the forecast Farmgate Milk Price will be very tough on our farmers. As we confirm the Co-op’s performance for the first half of the financial year, we will look at the best way to help our farmers’ cash flows, underpinned by the expected improvement in dividend returns and the financial strength of the Co-operative.

“We will continue to keep our farmers updated as the season progresses,” said Mr Wilson.

Note: currency is New Zealand dollars unless otherwise stated.

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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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