

Media release

8 March 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 \$4.15 per kgMS to \$3.90 per kgMS.

When combined with the forecast earnings per share range of 45-55 cents, this means a total forecast available for payout of \$4.35-\$4.45 per kgMS and would currently equate to a forecast Cash Payout of \$4.25-\$4.30 per kgMS for a fully shared-up farmer after retentions.

Fonterra is forecasting its New Zealand milk production to be at least 4 per cent lower than last season as New Zealand farmers respond to the ongoing low prices by reducing herd size and feeding significantly less supplementary feed which is expected to have an impact on this Autumn's production.

Chairman John Wilson said difficult conditions in the globally traded dairy market have put further pressure on the forecast.

"This further reduction in the forecast Farmgate Milk Price is the last thing farmers want to hear in what is proving to be a very challenging season. At times like this the business needs to do everything it can to drive every last cent back to farmers.

"Management is fully focused on reducing cost and generating cash right across the business. The continuing lift in financial performance and our balance sheet strength will provide opportunities to support our farmers' cash flows. We will provide an update on this at our interim results on March 23," said Mr Wilson.

Chief Executive Theo Spierings said dairy exports and imports had been imbalanced for the past 18 months due to European production increasing more than expected, and lower imports into China and Russia – the two largest importers of dairy.

"The time frame for a rebalancing has moved out and largely depends on production reducing – particularly in Europe - in response to these unsustainably low global dairy prices.

"The long-term fundamentals for dairy are positive with demand increasing at over 2 per cent a year due to the growing world population, increasing middle classes in Asia, urbanisation and favourable demographics.

"Our forecast is based on no significant changes to either supply or demand globally before the end of the year. However, a reduction in the supply available for export before then could mean prices recover earlier than currently expected," said Mr Spierings.

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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