



# Market Announcement

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23 May 2018

## **FONTERRA INCREASES FARMGATE MILK PRICE AND REVISES FORECAST EARNINGS**

Fonterra Co-operative Group today increased its 2017/18 forecast Farmgate Milk Price by 20 cents to \$6.75 per kgMS.

Chairman John Wilson says the Co-operative's strong milk price reflects a global supply and demand picture that continues to be positive for farmers.

"Global dairy prices have risen since the start of the season. The price of Whole Milk Powder is particularly strong due to continued growth in demand from China and across Asia," says Mr Wilson.

"Our Co-operative's forecast milk collections here in New Zealand have increased to 1,500 million kgMS, up from the 1,480 million kgMS we reported at half year, thanks to improved farming conditions in March and April after a challenging spring and summer.

Commenting on what the higher forecast Farmgate Milk Price means for the business, Mr Wilson says the higher milk price is good news for farmers who are still recovering after the two years of lower milk prices in 2015 and 2016. However, the higher milk price puts pressure on Fonterra's earnings in a year which is already proving challenging due to the payment to Danone and the impairment of the Co-operative's Beingmate investment.

"As a result, we are revising our forecast normalised earnings per share guidance range down to 25-30 cents per share and our forecast dividend range for the full year down to 15-20 cents per share."

"The business' revised earnings forecast is disappointing for our shareholders and unitholders. However, the total forecast cash payout for farmers increases to \$6.90-\$6.95 per kgMS which is the third highest payout this decade."

Chief Executive Theo Spierings says the earnings challenge that comes with the higher milk price is compounded by the timing and significance of this particular increase.

"There is always a natural lag in being able to pass through an increase in our input costs. But this increase has been both rapid and late in the year, making it difficult for these higher costs to flow through into our sales for this financial year.

“Against this backdrop, we can see our sales margins are not where they need to be at this point in the year to achieve our original earnings forecast”.

### Third Quarter Business Update

Fonterra’s revenue of \$14.8 billion for the first nine months of 2017/18 is up seven per cent on the same period last year, as a result of higher prices.

“In the first half of the year we felt the impact of the record low inventory followed by the low spring milk collections in New Zealand due to difficult weather conditions. This meant our sales teams had less product to sell. We were expecting our earnings to be weighted in the second half of the year and this has not transpired due to the rapid rise in our input costs late in the season into our value-add business.”

With total volumes down five per cent to 16 billion LMEs and gross margin down to 16 per cent from 18 per cent for the first nine months of the year, compared to the same period last year, Mr Spierings says the business has not delivered the third quarter results it had planned.

“With the increase in the price of milk fats we have also seen continued demand towards products with a lower fat composition, sustained competition in Greater China’s foodservice market and further constraints in some Asian markets limiting our ability to pass through costs,” says Mr Spierings.

These challenges, along with the Danone payment and the impairment of our Beingmate investment mean our gearing ratio is expected to be above our target 40-45 per cent range. We expect to be back within the target range next year,” continues Mr Spierings.

“While the strong milk price is good for our farmers, it does make the remainder of the year challenging for the business. We remain committed to maximising the total payout for our farmers and value for our unitholders by delivering the best possible earnings.”

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#### About Fonterra

*We’re a global dairy nutrition company owned by more than 10,000 farmers and their families. We’ve built our expertise on the legacy of the thousands of farmers who’ve made New Zealand a world leader in dairy. With a can-do attitude and a collaborative spirit, we’re a world leading dairy exporter. Our 22,000 people share the goodness of dairy nutrition with the world through our innovative consumer, foodservice and ingredient solutions brands, and our farming and processing operations across four continents.*