

Market Announcement

26 May 2016

FONTERRA ANNOUNCES FORECAST FARMGATE MILK PRICE FOR 2016/17 SEASON

Fonterra Co-operative Group Limited today announced an opening forecast Farmgate Milk Price of \$4.25 per kgMS for the 2016/17 season, an increase of 35 cents on the forecast for the current season.

Fonterra is required under the Dairy Industry Restructuring Act to announce its forecast Milk Price at the beginning of each season, which starts on 1 June.

Chairman John Wilson said the Co-operative's forecast took into account a range of factors including the high NZD/USD exchange rate, supply volumes from other major dairying regions, current global inventory levels, and the economic outlook of major dairy importers.

"Conditions on farm are very challenging. The strength of the Co-operative's balance sheet is enabling us to increase the advance rate in the first half of the new season.

"We will also bring forward payments for this season's milk. This will provide some assistance with on-farm cashflows.

"We are doing this while remaining within our policies and maintaining our financial discipline.

"The New Zealand dollar is relatively high and is currently impacting milk prices and our forecasts.

"We are expecting global dairy pricing to gradually improve over the season as farmers globally reduce production in response to ongoing low milk prices, however we continue to urge caution with on-farm budgets," said Mr Wilson.

"We will announce our forecast earnings per share for the 2017 financial year in July as normal. This, along with our forecast Farmgate Milk Price, comprises the total available for payout to our farmers."

Chief Executive Theo Spierings said the long term fundamentals for global dairy remain positive with demand expected to increase by two to three per cent a year due to the growing world population, increasing middle classes in Asia, urbanisation and favourable demographics.

"In addition to global supply growth slowing, we are seeing imports into major dairy markets improving compared to a year ago. China dairy consumption growth remains positive and its demand for imports has been steady over recent GlobalDairyTrade events.

"We expect these drivers to result in the globally traded market rebalancing.

"We will remain focused on securing the best possible returns for our farmers by converting their milk into high-value products for customers around the world," said Mr Spierings.

There is no change to the current 2015/16 season forecast Farmgate Milk Price, which is being held at \$3.90 per kgMS.

Note: currency is New Zealand dollars unless otherwise stated.

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