

# Market Announcement

07 AUGUST 2015

## Fonterra forecast payout and co-op support for 2015/16

Fonterra Co-operative Group Limited has today announced that the forecast total payout available to farmers in the 2015/16 season will be \$4.25-\$4.35, comprising:

- Forecast Farmgate Milk Price \$3.85 per kilogram of milksolids (kgMS)
- Forecast earnings per share range of 40 - 50 cents per share.

Fonterra has also announced Fonterra Co-operative Support of an additional 50 cents per shared-up kilogram of milksolids to support farmers this season.

### Revised 2015/16 Farmgate Milk Price Forecast

Chairman John Wilson said the Farmgate Milk Price forecast has been reduced from \$5.25 kgMS to \$3.85 per kgMS due to the continued significant imbalance in the global dairy market between weak demand and surplus supply.

"This imbalance and the challenge of lower prices continuing for longer than anticipated is a global issue, which dairy farmers around the world are increasingly grappling with.

"Current prices are unsustainably low and we are seeing them beginning to impact production levels globally. We have confidence that prices will recover over the course of the season. However, it will be a tough season for our farmers.

"The range of possible scenarios is contributing to the uncertainty we are seeing today.

"We know the global dairy market will improve. The hard thing to call at the moment is exactly when and how quickly," said Mr Wilson.

### Forecast available for Payout

The Co-operative has announced \$4.25 - \$4.35 forecast total available for payout for 2015/16, comprising the revised forecast Farmgate Milk Price of \$3.85 per kgMS and an earnings per share range of 40 – 50 cents.

Fonterra has a dividend policy of paying out 65 – 75 per cent of adjusted Net Profit after Tax over a period of time.

Chief Executive Theo Spierings said the key influences of forecast earnings are expected to be:

- the positive impact of the lower Farmgate Milk Price on consumer margins globally for New Zealand-sourced products
- the contribution from transformation within the business
- movements in New Zealand product mix returns.

"As part of this work and given the current pressures facing our farmers, we have reviewed our capital expenditure for the next two years. As a result we are now targeting a spend of \$500million - \$600million less for 2016 financial year compared to FY15.

"We will continue to update our farmers and the market on business performance and the delivery of expected gains from the transformation of the business as the year progresses," said Mr Spierings.

### Fonterra Co-op Support

Mr Wilson said Fonterra is uniquely placed to help its farmers because of the Co-operative's underlying strength and is providing Fonterra Co-operative Support for farmers in the form of a loan to help farmers deal with the challenging conditions.

“This support is all about standing together as a Co-operative and using our collective strength to help our farmers get through these tough times,” said Mr Wilson.

The Co-operative will provide all Fonterra share-backed farmers the opportunity to apply for Fonterra Co-operative Support amounting to an additional 50 cents per shared-up milk solids for production for the season. This payment, interest free for two years, will be paid back when the Farmgate Milk Price or Advance Rate goes above \$6.00 per kgMS.

A first payment will be made in October for June to December and will continue until May. Payments will total 50 cents per shared-up milk solids over the season but will be phased from October as transformation savings are delivered.

Fonterra Co-operative Support for the first half of the season (June to December) is estimated to be up to \$430 million, depending on take-up rates, and will be funded by one-off savings generated by changes the business is making, such as improving working capital.

The Board and management intend to continue this through the season and in December will review all relevant conditions including the global dairy market and progress on transformation, to ensure that it remains in the best interests of the Co-operative and its farmers to continue Fonterra Co-operative Support through the season.

Mr Spierings said Fonterra continues to believe strongly in dairy and this farmer support is an investment in the future of the Co-op.

A Fonterra Co-operative Support schedule will be made available as part of the application process.

### **Milk volume forecast 2015/16**

Fonterra has reduced its New Zealand milk volume forecast for the 2015/16 season to 1,589 million kgMS, 2 per cent lower than the previous season.

Chairman John Wilson said the revision reflected the likely impact of farmers using more traditional practices to manage their farm businesses within the limits of a low payout forecast.

“We are already seeing our farmers reducing stocking rates and reducing supplementary feeding to lower on-farm costs. In New Zealand we have the advantage of a largely pasture-based system which will allow farmers to lower costs. Nevertheless, it will be a very difficult season for farmers if current prices continue,” said Mr Wilson.

“We expect to continue seeing our farmers make these sorts of on-farm decisions – particularly in light of today’s announcements,” said Mr Wilson.

-ENDS-

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