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FONTERRA INCREASES 2018/19 FORECAST FARMGATE MILK PRICE AND REDUCES EARNINGS GUIDANCE

- 2018/19 forecast Farmgate Milk Price range increased to $6.30-$6.60 per kgMS
- DIRA Milk Price and Advance Rate based on $6.45 per kgMS
- FY19 forecast earnings per share revised to 15-25 cents per share
- No interim dividend
- Full strategic review underway – including the dividend policy
- Forecast milk collections revised to 1,530 million kgMS

Fonterra Co-operative Group Limited has increased its 2018/19 forecast Farmgate Milk Price range to $6.30-$6.60 per kgMS, up from $6.00-$6.30, and revised its forecast earnings down to 15-25 cents per share.

Chairman John Monaghan says the improved milk price forecast reflects the increases in global milk prices over the last quarter.

“Since our last milk price update in December, global demand has strengthened. This is driven predominantly by stronger demand from Asia, including Greater China. The European Union’s (EU) intervention stocks of Skim Milk Powder (SMP) have also now cleared for the season and, as a result, we expect demand for SMP to be strong.

“Global supply remains above last season’s levels, but growth has slowed due to challenging weather conditions in some of the world’s largest milk producing regions – in particular, Australia’s milk production is forecast to be down 5-7% on last season and the EU’s growth has slowed and is now forecast to be less than 1% up on last year.

“Here in New Zealand, due to hot, dry weather since the start of the year, we’ve revised our Co-op’s forecast milk collections down from 1,550 million kgMS to 1,530 million kgMS. This is up 2% on last year.

“We’ve seen the positive impact of this supply-demand picture on a couple of fronts – the number of bidders and, more importantly, prices for the reference products that make up our milk price have increased over the last six GDT events.

“We expect demand to remain stronger relative to supply for the rest of the season.”

The DIRA milk price and the advance rate paid to farmers have been set off a milk price of $6.45 per kgMS.

Fonterra is also advising its farmers and unit holders that its forecast earnings range has been reduced to 15-25 cents per share and that it will not be paying an interim dividend. A decision on any full year dividend can only be made at the end of the financial year, and will depend on the Co-op’s full year earnings and balance sheet position.

Mr Monaghan says that, while the milk price is strong, the Co-op's earnings performance is not satisfactory and the Co-op needs to deliver farmers and unit holders a respectable return on their investment. The Board is making solid progress with a full review of the strategy which includes a review of the dividend policy.

"We are taking a close look at our business with our portfolio review, where we can win in the world, and the products and markets where we have a real competitive advantage. We need a fundamental change in direction if we are to deliver on our full potential. We will provide an update on the strategy and the progress that has been made on the portfolio review at our interim results on March 20."

CEO Miles Hurrell says the underlying performance of the business is not where it needs to be.

"The main pressure points on our earnings are the three we highlighted in our Q1 business update – that's challenges in our Australian Ingredients and our Foodservice businesses in wider Asia. We are making inroads in addressing them but they will not be solved overnight.

"Since our Q1 business update, we have also felt the impact of difficult trading conditions in Latin America, mainly due to geopolitical situations in some countries. In addition, the increase in milk price, which is the primary cost input into our non-milk price products, has put pressure on the margins for those products, and they significantly contribute to our earnings.

"We remain committed to financial discipline. We are making good progress on our portfolio review and asset divestments in order to reduce our debt by $800 million this financial year. We are also on track to meet our targets for capital expenditure and operating expenses," says Mr Hurrell.

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