

Market Announcement

1 August 2016

FONTERRA ANNOUNCES EARNINGS PER SHARE FORECAST FOR 2016/17

Fonterra Co-operative Group Limited has today announced a forecast earnings per share range for the 2017 financial year of 50 to 60 cents. The forecast Farmgate Milk Price has been maintained at \$4.25 per kilogram of milksolids (kgMS), making the total payout available to farmers in the 2016/17 season \$4.75 to \$4.85.

Chairman John Wilson said the solid forecast earnings per share range reflects performance improvements across the business and would be welcomed by farmers. However, with the Farmgate Milk Price forecast remaining at \$4.25 per kgMS, it is another financially challenging season for farmers.

"The Co-operative is aware of how tough the situation on farm remains. We are focused on delivering as much cash as possible to our farmers by bringing payments forward while maintaining a strong balance sheet. This forecast is our best estimate at this early stage of the season. We will continue to update our farmers as we move through the season."

Mr Wilson said the \$4.25 Farmgate Milk Price reflects the continuing global uncertainty and the high NZD/USD exchange rate which continues to impact the competitiveness of New Zealand dairy exports.

"The recent weakening of the Euro, combined with the continued strength of the New Zealand dollar, has meant a price advantage for European export dairy products."

"We expect global milk supply and demand to come into balance over the course of this season. Farmers globally are producing less milk in response to lower prices and we are forecasting a three per cent reduction in our New Zealand milk collection for this season."

Chief Executive Theo Spierings said the returns from the ingredients, consumer and foodservice businesses continue to grow in-line with Fonterra's business strategy to convert more milk into higher returning products.

"We are seeing the benefits of our investments in manufacturing over recent years. We now have more flexibility to make the right products at the least cost, delivering better returns for our farmers' milk.

"Our good progress in continuing to increase value through our consumer and foodservice businesses, particularly in important markets such as China, Malaysia, Indonesia, Sri Lanka, Oceania and Latin America, is reflected in the lift in the earnings per share forecast.

"Constantly improving the performance of our business is an absolute priority and puts us in a strong position to create more value for our farmers. We are generating significant improvements and cash benefits through our ongoing business transformation that contribute to both our Farmgate Milk Price and our earnings," said Mr Spierings.

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For further information contact:

Simon Till
Director Capital Markets
Phone: +64 21 777 807

