

## **FONTERRA MILK PRICE FOR SEASON ENDING 31 MAY 2014**

### ***Publication of information required under section 150N of the Dairy Industry Restructuring Act 2001***

Under section 150N of the Dairy Industry Restructuring Act 2001 Fonterra Co-operative Group Limited (Fonterra) is required to publish the following information if it sets an average, or 'base', milk price other than in accordance with a recommendation of the Milk Price Panel (Panel):

- The Panel's recommendation, and
- A statement setting out the reasons why the Panel's recommendation was not accepted.

Prior to the Fonterra Board setting the final Farmgate Milk Price for the 2014 milk season, the Panel, as part of its recommendation, advised the Board that the aggregate Farmgate Milk Price calculated under the Milk Price Manual for the 2014 milk season was NZD 14.151 billion, which would equate to an average Farmgate Milk Price of NZD 8.93 per kilogram of milksolids.

The Fonterra Board, however, resolved that the aggregate Farmgate Milk Price for the 2014 season would be NZD 13.329 billion, equating to an average Farmgate Milk Price of \$8.40 per kilogram of milksolids plus premiums for some specialty milk.

The reasons why the Fonterra Board did not accept the Panel's recommendation are set out in the 2014 Farmgate Milk Price Statement, which is publicly available on [www.fonterra.com](http://www.fonterra.com). Prior to the Panel's recommendation, Fonterra also publicly indicated the likelihood that it would pay a Milk Price below the price calculated under Fonterra's Farmgate Milk Price Manual, including in the 'Reasons Paper' submitted by Fonterra to the Commerce Commission on 1 August 2014 in support of the 2014 Milk Price, and in Fonterra's 2014 Interim Report published in March 2014.<sup>1</sup>

In brief, in the 2014 season, Fonterra faced a number of extraordinary circumstances notably as a result of significant differences between the relative returns for Milk Price commodities and the relative returns for non-Milk Price commodities, and processing capacity constraints over the peak milk period.

The Fonterra Board decided that it was necessary to protect the Co-operative and maintain the confidence of key stakeholders by recognising that it would be prudent to maintain strength in Fonterra's balance sheet by not setting a Farmgate Milk Price that would need to be paid in part out of borrowings. Accordingly, in early December 2013, Fonterra signalled its intention to pay a final Farmgate Milk Price below the price calculated under the Manual. The Fonterra Board subsequently confirmed this decision when approving the final Farmgate Milk Price for the 2014 season.

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<sup>1</sup> Fonterra's 'Reasons' paper is available at <http://www.fonterra.com/wps/wcm/connect/6a0a1b8d-b394-42b2-b839-fded049918c0/Fonterra+Reasons+Paper+2013-14+season.pdf?MOD=AJPERES>, and Fonterra's 2014 Interim Report is available at <http://www.fonterra.com/wps/wcm/connect/b48f0333-d221-4c80-9028-c6061e3eaa89/Fonterra+2014+Interim+Report.pdf?MOD=AJPERES>.