

Market Announcement

13 AUGUST 2015

Fonterra responds to Standard & Poor's credit watch

Fonterra Co-operative Group Limited has been notified today (13 August) that rating agency Standard & Poor's has placed the Co-operative's credit rating on credit watch.

Standard & Poor's said in its announcement that the decision reflected weakening global dairy market conditions.

Chief Financial Officer Lukas Paravicini said: "Fonterra has taken proactive and positive steps to maintain the financial strength of the Co-op. We have continued to exercise financial prudence and discipline in challenging times for dairy globally."

Measures include:

- Significantly reducing capital expenditure – Fonterra has reviewed capital expenditure for the next two years and is now targeting a spend \$500million - \$600million less for 2016 financial year (compared to financial year 2015)
- Setting a prudent advance rate payment to our farmers for the current season given ongoing volatility of global dairy prices
- Progressing well with our business transformation that will deliver significant one-off and recurring savings for the business.

"These measures reinforce our sound financial position and are enabling us to provide support to our farmers during this difficult period of low global dairy prices."

Mr Paravicini said the Co-operative's current debt levels were in line with expectations and followed investments in New Zealand processing capacity, higher advance rates to farmers last season and planned investments in Fonterra's number one strategic market, China.

"While current global prices are unsustainably low, we take a longer term view of the cyclical nature of the international dairy market and have confidence in the fundamentals for dairy," said Mr Paravicini.

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