

Market Announcement

16 MAY 2016

FONTERRA CONFIRMS EARLY FINAL DIVIDEND PAYMENT

Fonterra Co-operative Group Limited today confirmed it will pay part of its forecast final dividend earlier, to support farmers during a time of extremely tight on-farm cash flows.

Chairman John Wilson said a solid performance during the nine months to 30 April in the current financial year enables the Co-operative to declare the 10 cents per share dividend today. Payment will be made on 7 June, bringing dividend payments so far this year to 30 cents per share.

“While the milk supply and demand imbalance continues to impact global milk prices and our forecast Farmgate Milk Price, the business is delivering on strategy and has maintained the good performance levels seen in the first six months of the financial year.

“The earlier payment meets our goal of getting cash to farmers earlier in winter when they need it, as we signalled at our interim results announcement.

“Our total forecast dividend is 40 cents per share for the year. We intend to declare another 10 cents per share dividend in August, subject to financial performance continuing to support the current forecast earnings per share range of 45 to 55 cents,” said Mr Wilson.

“Our forecast New Zealand milk collection for the current season is 1,558 million kgMS, which is 3 per cent lower than last season.”

Performance

Chief Executive Theo Spierings said despite lower milk collections, ingredients gross margins improved to 16 per cent.

“We have continued to optimise our product mix by adjusting volumes away from reference products, such as Whole Milk Powder, towards non-reference products, such as cheese and casein, to take advantage of the relative pricing.

“A strong sales performance has resulted in ingredients inventory volumes being 11 per cent lower than the same period last year.

“Our determination to convert as much milk as possible into the highest-returning products has resulted in an additional 300m litres on a liquid milk equivalent (LME) basis going to consumer and foodservice products in the past nine months. The continuing strong performance of our consumer and foodservice businesses is reflected in gross margins which have increased to 28 per cent, supported by volume growth of nine per cent and lower input costs.

“The development of International Farming Ventures to provide access to locally-sourced high quality milk is progressing as planned. We retain our focus on reducing on-farm costs and good operating performance. Earnings continue to be impacted by the development phase of the business and by the low domestic milk price in China,” said Mr Spierings.

Outlook

Looking ahead to the final three months of Fonterra's financial year, Mr Wilson said the Co-operative's good operating performance was expected to continue.

"We are maintaining our earnings per share range of 45-55 cents, and our forecast total dividend of 40 cents per share.

"The range reflects assumptions about:

- Normal impact of end of season milk production on NZ ingredients earnings
- Timing of completion of announced business sales in Australia
- No further geopolitical deterioration in Venezuela and Brazil.

"Ongoing financial discipline and the business' performance are resulting in strong cash flow - we are on target to reduce gearing to between 40 and 45 per cent by year-end," said Mr Wilson.

"We will be providing our opening 2016/17 season forecast Farmgate Milk Price for our farmers at the end of May, as we do every year in line with our obligations under the Dairy Industry Restructuring Act."

Fonterra Shareholders' Fund unit holders will receive a part payment of the forecast final distribution of 10 cents per unit¹.

The record date for the early part payment of the final dividend and distribution is 30 May, and the payment date is 7 June. The Co-operative and Fonterra Shareholders' Fund will continue to offer a dividend and distribution reinvestment plan, at a discount of 2.5 per cent to the strike price. Eligible shareholders and unit holders who want to participate for this dividend and distribution need to submit a notice of participation by 31 May 2016.

-ENDS-

For further information contact:

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Director Capital Markets

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¹ Less any PIE (Portfolio Investment Entity) tax or any other adjustments for tax in relation to that unit.

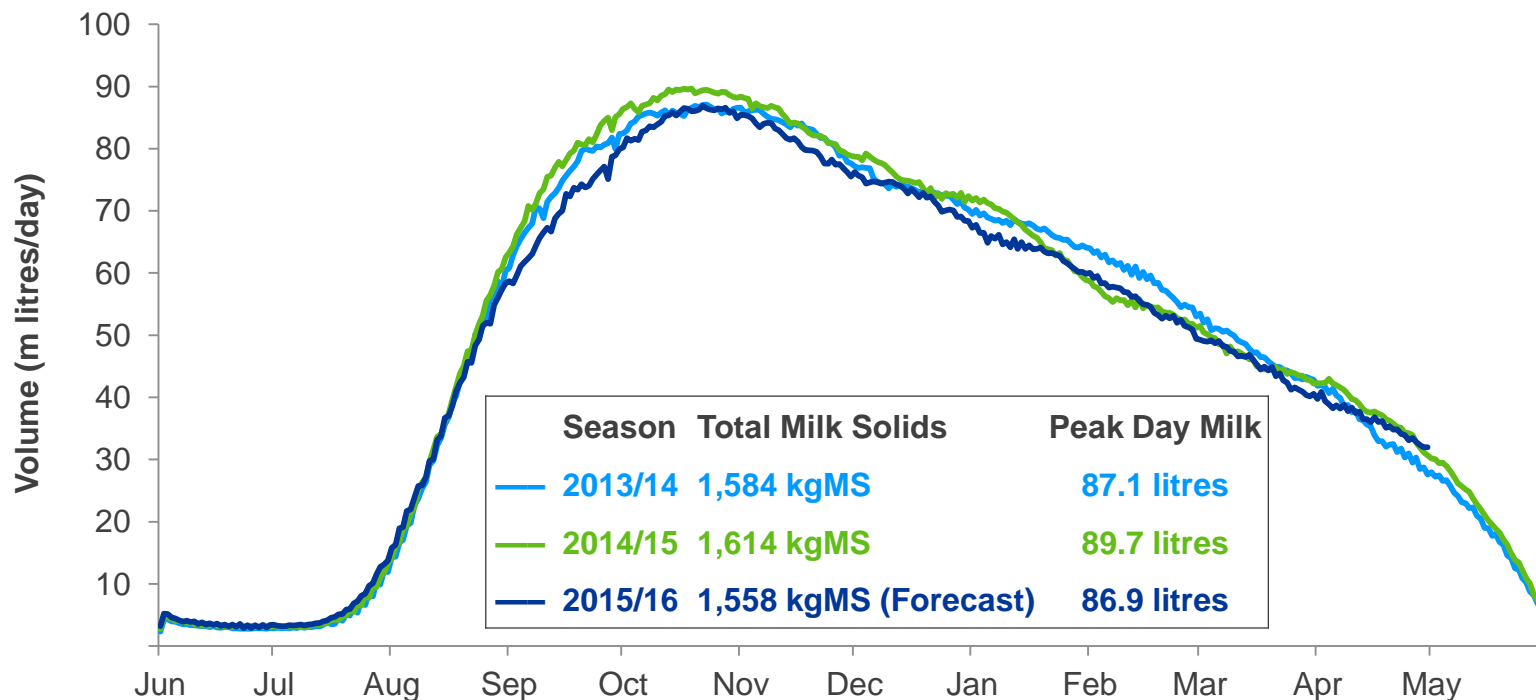
FONTERRA
DAIRY FOR LIFE

MAY 2016 BUSINESS UPDATE

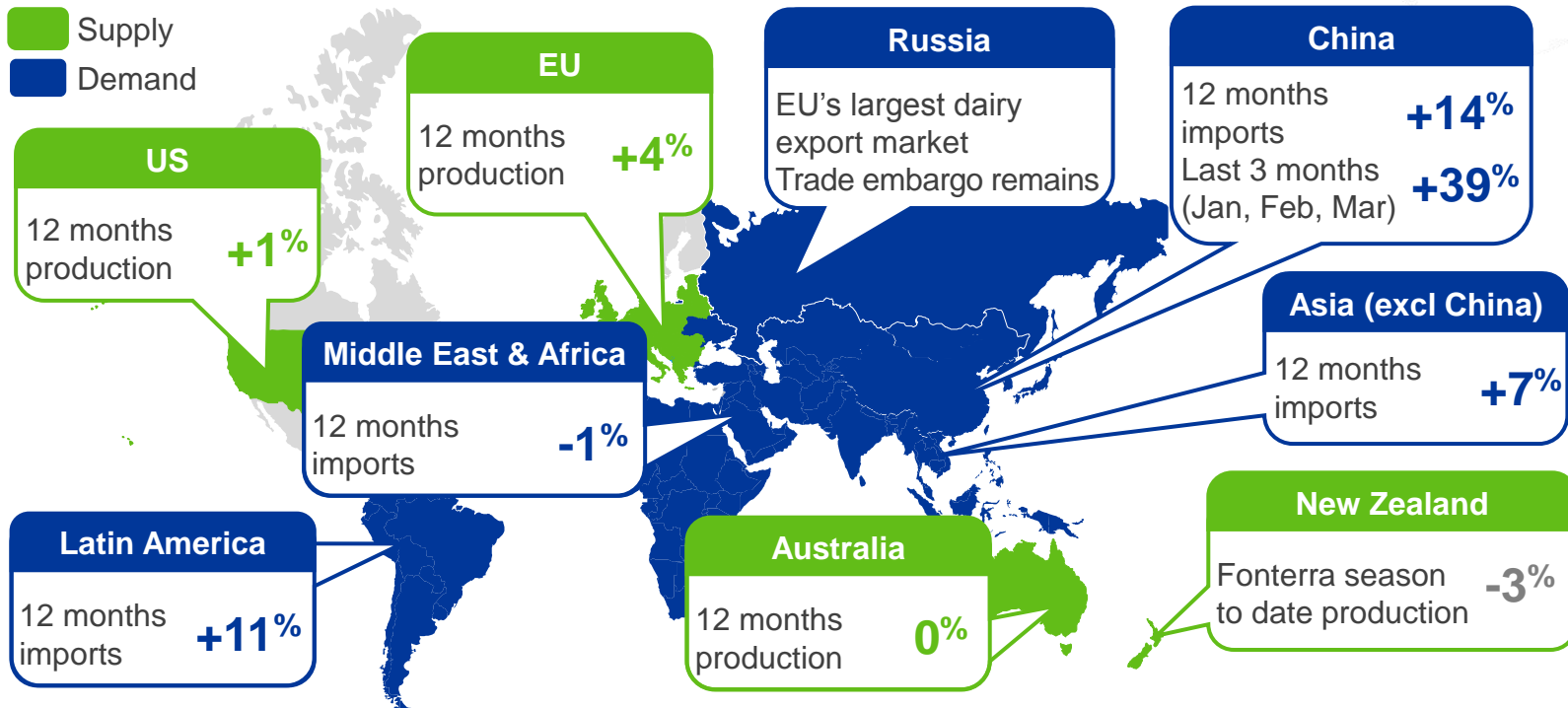


Milk supply in NZ lower than last season

2015/16 season forecast to be 3% lower



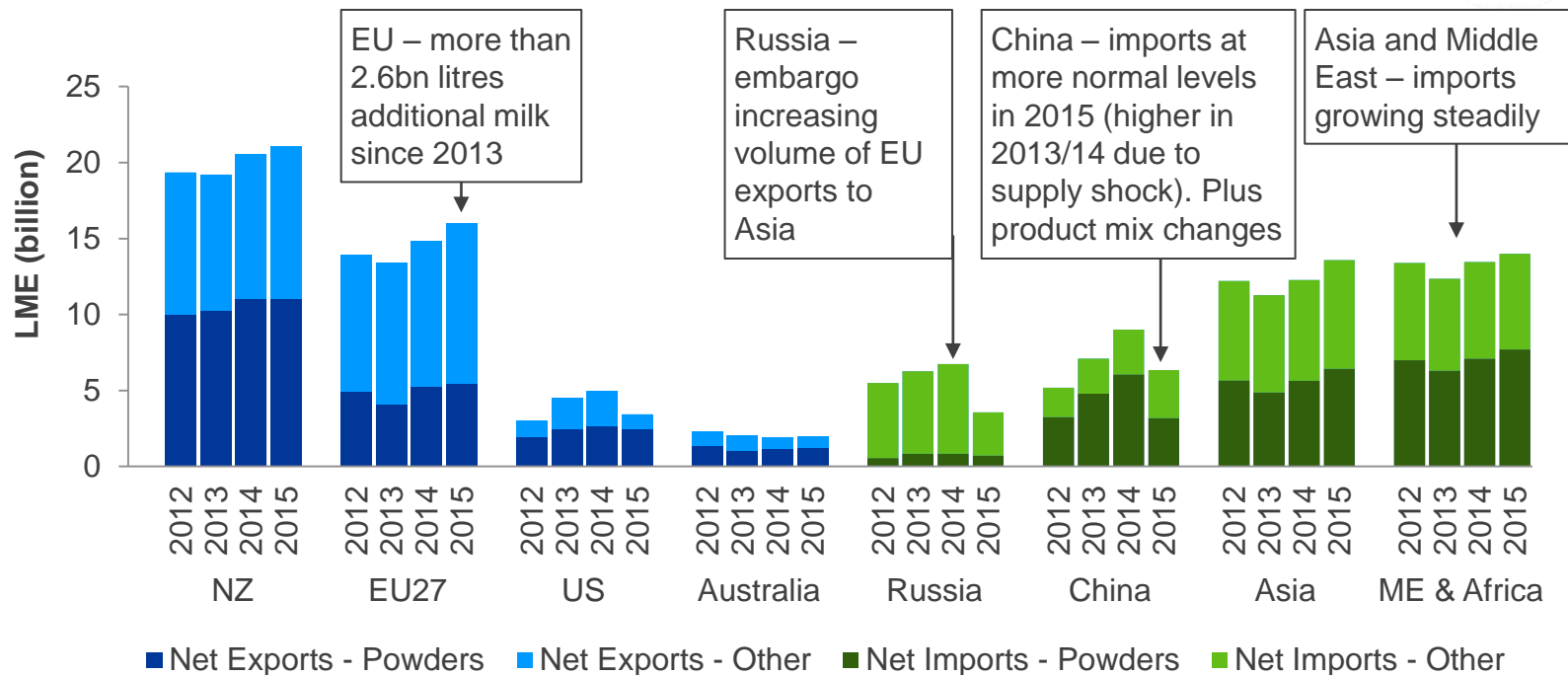
Dairy supply/demand imbalance changing



Note: All figures excluding New Zealand are for the rolling 12 months compared to same period last year: Australia (to Feb), EU (to Feb), United States (to Mar), China (to Mar), Asia (to Jan), Middle East & Africa (to Jan), Latin America (to Jan). New Zealand is for the season from 1 June to April.

Source: Government milk production statistics / GTIS trade data / Fonterra analysis

Globally traded market continues to impact prices



Note: Trade expressed in terms of tonnes of Liquid Milk Equivalent (milk standardized to 4.2% fat and 3.5% protein).

Nine-month performance summary 2016



VOLUME (LME)	REVENUE	GROSS MARGIN	OPEX	CAPEX
17.8BN	\$12.9BN	22%	\$1.9BN	\$634M
↑ 2% ¹	↓ 10% ¹	↑ FROM 17% ¹	↓ 3% ¹	↓ 37% ¹

Ingredients

Volume LME (BN) ²	16.9
Volume Change ³	↑ 2%
Gross Margin ⁴ %	↑ 16%

Consumer & Foodservice

Volume LME (BN) ²	3.7
Volume Change ³	↑ 9%
Gross Margin ⁴ %	↑ 28%

International Farming

Volume LME (BN) ²	0.2
Volume Change ³	↑ 49%
Gross Margin ⁴ %	↓ -15%

1. Compared to FY15 nine-month period.

2. Volumes by strategic platform include inter-company sales between business units and therefore in total this exceeds the group external sales volume of 17.8bn

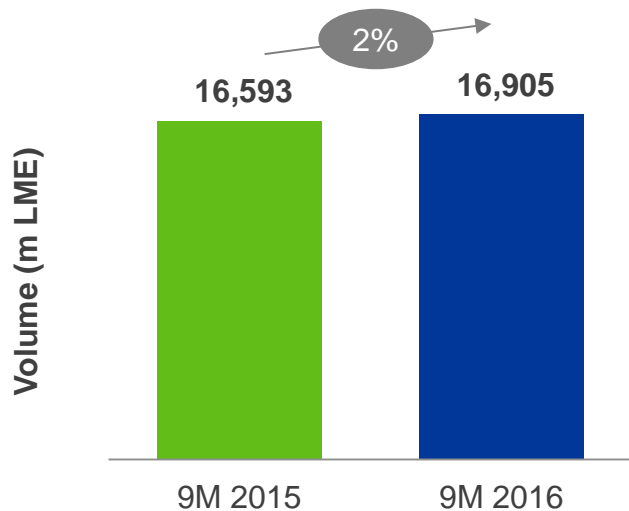
3. Volume change is FY16 nine-months relative to FY15 nine-months.

4. Gross Margin % is for FY16 nine-months, the arrow represents change relative to FY15 nine-months.

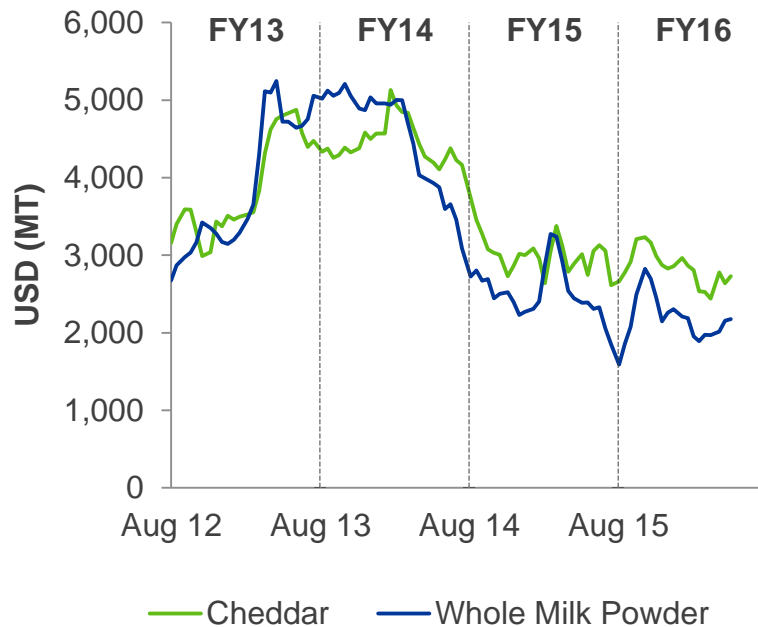
Ingredients volume growth and positive stream returns



Good volume growth



Positive stream returns year to date in NZ

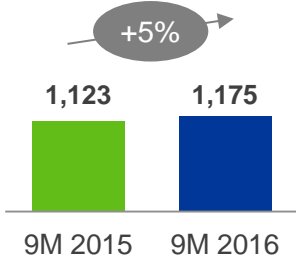


Consumer and foodservice – nine-month growth



Asia

Volume¹

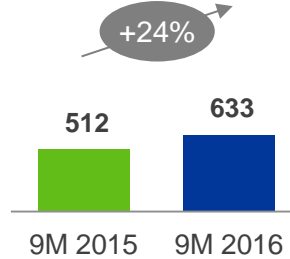


Gross Margin²

31% ↑

Greater China

Volume¹

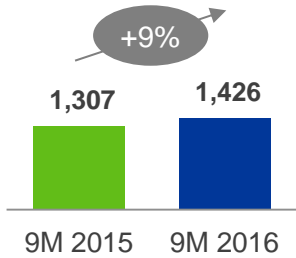


Gross Margin²

37% ↑

Oceania

Volume¹

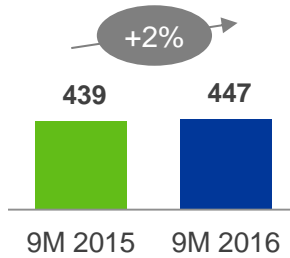


Gross Margin²

21% ↑

Latin America

Volume¹



Gross Margin²

31% ↑

1. Volume (m LME).

2. The percentage is for FY16 nine-months and the arrow shows the directional change.

Australian Milk Price update



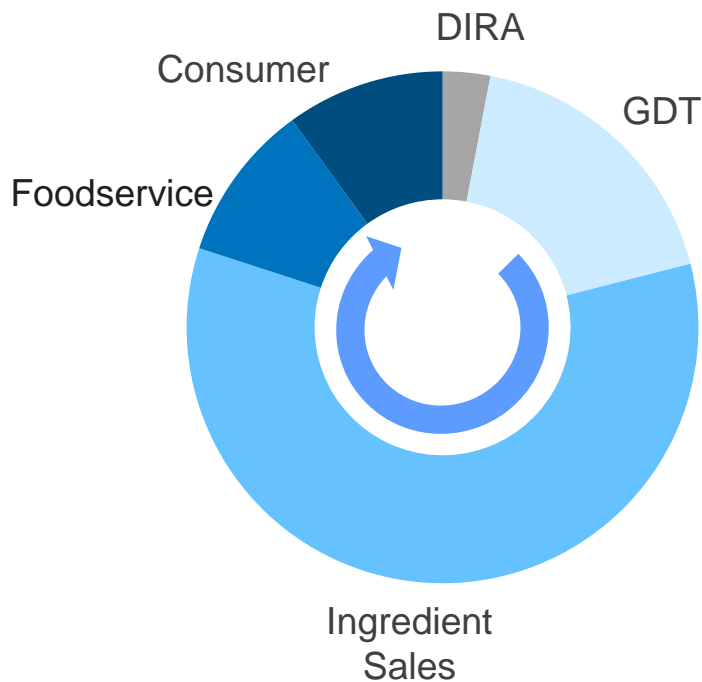
- Milk price reduced to AUD5.00 from AUD5.60 per kgMS
 - Farmer support loan of 60 cents per kgMS – interest-bearing and linked to supply contract
- Reflects reality of supply / demand imbalance in global dairy market
- Reduces ingredients operating losses
 - Expect input costs to reduce by AUD48 million
- Priority is a long-term sustainable business for:
 - Fonterra Australia
 - Our farmer suppliers in Australia
- On target to return to profitability



Strategy delivering



- 1 **Optimise**
NZ milk
- 2 **Build and grow**
beyond our current
consumer positions
- 3 **Deliver**
on Foodservice potential
- 4 **Grow**
our Anlene™ business
- 5 **Develop** leading positions in
paed & maternal nutrition
- 6 **Selectively invest**
in milk pools
- 7 **Align**
our business and organisation



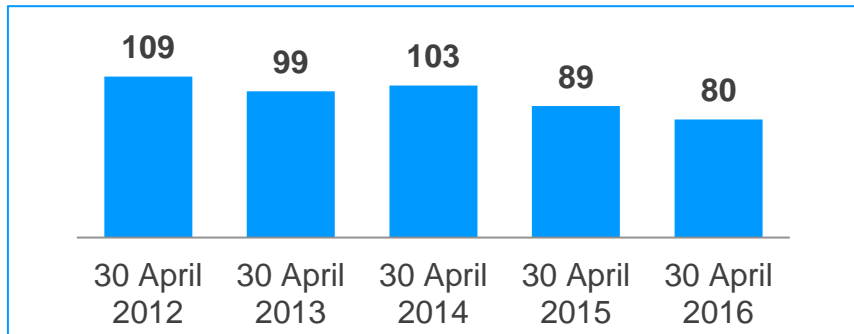
- Optimising NZ milk
 - Optionality at peak
 - More stable earnings
 - Higher returns
- Increasing volume through value-add consumer and foodservice
 - Moved additional 300m LME into consumer and foodservice in nine months

Financial strength and discipline

Solid credit rating reflects strong fundamentals

Credit Rating	Fitch	A (stable outlook)
	S&P	A- (stable outlook)
Debt Weighted Average Term to Maturity	As at 30 Apr 2016	4.2 years

Reduced working capital days – 9 month average



Financial discipline continued

- Lower capex following planned investment cycle
- Advance rate within guidelines
- Strong cash flow due to
 - Higher earnings
 - Working capital improvements
- Leverage reducing to plan
 - FY16 year-end gearing ratio expected to be within 40-45% range

Outlook



- Good operating performance to continue
- Early part payment of final dividend to be paid on 7 June – 10 cents
 - Payment date accommodates the dividend reinvestment plan
- Forecast earnings remain at 45-55 cents per share. Range reflects:
 - Timing of completion of announced business sales in Australia
 - Normal impact of end-of-season milk production on NZ ingredients earnings
 - No further geopolitical deterioration in Venezuela and Brazil
- Leverage reducing to plan – gearing of 40 to 45% by year-end
- Forecast total dividend continues to be 40 cents per share
 - Current intention to declare another 10 cents per share in August



Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one
(Please provide any other relevant
details on additional pages)

1

Full name of Issuer
Fonterra Shareholders' Fund (NS)

Name of officer authorised to make this notice
Mike Cronin
Authority for event, e.g. Directors' resolution
Directors' resolution

Contact phone number
(09) 374 9052
Contact fax number
(09) 379 8281
Date
16 / 5 / 2016

Nature of event
Tick as appropriate
Bonus Issue ☐ If ticked, state whether: Taxable ☐ / Non Taxable ☐ Conversion ☐ Interest ☐ Rights Issue Renounceable ☐
Rights Issue non-renounceable ☐ Capital change ☐ Call ☐ Dividend ☒ If ticked, state whether: Interim ☒ Full Year ☐ Special ☐ DRP Applies ☒

EXISTING securities affected by this
If more than one security is affected by the event, use a separate form.
Description of the class of securities
Units (FSF)
ISIN
NZFSFE0001S5
If unknown, contact NZX

Details of securities issued pursuant to this event
If more than one class of security is to be issued, use a separate form for each class.
Description of the class of securities
N/A
ISIN
N/A
If unknown, contact NZX

Number of Securities to be issued following event
N/A
Minimum Entitlement
Ratio, e.g. 1 for 2
Conversion, Maturity, Call Payable or Exercise Date
N/A
Enter N/A if not applicable
Treatment of Fractions
N/A
Tick if pari passu
OR provide an explanation of the ranking

Monies Associated with Event
Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.
In dollars and cents
Amount per security (does not include any excluded income)
Resident Inv (see note)
nil
Non-resident Inv (see note)
\$0.10
Source of Payment
Distribution pursuant to Clause 15.1(a) of the Fonterra Shareholders' Fund Unit Trust Deed and paid through Computershare
Excluded income per security (only applicable to listed PIEs)
\$0.10
nil
NOTE: FSF is a Foreign Investment Variable Rate PIE. The whole distribution is excluded income for NZ resident investors. PIE tax (for resident investors) or NRWT (for non-residents) may be deducted at the rate appropriate for the investor
Currency
NZD
Supplementary dividend details - NZSX Listing Rule 7.12.7
Amount per security in dollars and cents
Date Payable
Total monies
Approximately \$11 million

Taxation
Amount per Security in Dollars and cents to six decimal places
In the case of a taxable bonus issue state strike price
\$
Resident Withholding Tax
Nil (see note above)
Imputation Credits (Give details)
Nil
Foreign Withholding Tax
See note above
FDP Credits (Give details)
Nil

Timing
(Refer Appendix 8 in the NZSX Listing Rules)
Record Date 5pm
For calculation of entitlements -
30 May, 2016
Application Date
Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.
7 June, 2016
Notice Date
Entitlement letters, call notices, conversion notices mailed
N/A
Allotment Date
For the issue of new securities. Must be within 5 business days of application closing date.
N/A

OFFICE USE ONLY
Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:
Security Code:
Security Code:
NZX