

Market Announcement

4 MARCH 2019

FONTERRA RESPONDS TO FITCH'S RATING OUTLOOK REVISION

Fonterra Co-operative Group Limited has been notified that credit rating agency Fitch Ratings has affirmed Fonterra's long-term credit rating at 'A' but has revised its rating outlook for the Co-operative to 'Negative' from 'Stable'.

Fitch said in its announcement that the revision of the Outlook to Negative follows Fonterra's reduction of its forecast earnings for 2019 financial year.

Fonterra's Chief Financial Officer Marc Rivers says Fonterra acknowledges that the Co-op's earnings performance is not satisfactory and that it needs a fundamental change in direction if it is to increase its earnings capacity and quality.

"We need stronger earnings to deliver a respectable return on the capital invested in the Co-op and a strong balance sheet. We are taking a series of proactive steps to make this happen."

These measures, which have been shared previously, include:

1. **Conducting a full review of the Co-operative's strategy**
2. **Completing a portfolio review that is re-evaluating all investments, major assets and partnerships** - this involves a thorough analysis of whether they give the Co-op a competitive advantage, are hitting their target return on capital and whether they can be scaled up and more value driven from them over the next two-three years.
3. **Reducing its debt by \$800 million by the end of the 2018/19 financial year** through selling assets and/or reducing the Co-op's ownership in certain assets.
4. **Reducing capital expenditure to \$650 million for 2018/19** from \$861 million in 2017/18.
5. **Reducing operating expenses to 2016/17 levels within the next two years.**
6. **Holding any dividend decisions to the end of the financial year** when the Co-op has a complete picture of its full year earnings and balance sheet position.

"These steps are needed for Fonterra to deliver to its full potential and to give our stakeholders confidence in our business," says Mr Rivers.

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