

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.

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