MEDIA RELEASE

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FONTERRA ANNOUNCES FORECAST CASH PAYOUT FOR 2013/14 SEASON

Fonterra Co-operative Group Limited today lifted its Forecast Farmgate Milk Price for the FY14 season by 50 cents to $7.50 per kgMS and announced an estimated dividend of 32 cents per share - amounting to a Forecast Cash Payout of $7.82.

Chairman John Wilson said the higher Forecast Farmgate Milk Price for the new season reflected continuing strong international prices for dairy.

“At the beginning of this season, our forecast was that dairy commodity prices would continue at or near current levels until the fourth quarter of 2013. However, supply constraints in Europe and China during the Northern Hemisphere spring have contributed to an increase in dairy prices of 3 per cent over the past two months. In addition, the NZ dollar has weakened against the US dollar. These factors have contributed to our updated forecast,” said Mr Wilson.

The Co-operative has also confirmed a further increase to the Advance Rate schedule, starting from $5.50 per kgMS.

“A higher Advance Rate provides our farmer shareholders a strong start to the season and the opportunity to grow their own farming businesses.”

Commenting on the forecast dividend for FY14, Mr Wilson said Fonterra’s Board has amended the Co-operative’s dividend policy.

“The Board has approved a new policy that aims to deliver a sustainable dividend from FY14 onwards. When setting the dividend, the Board will take into account short and medium term earnings to deliver a dividend per share of between 65–75 per cent of adjusted Net Profit after Tax over a period of time. The dividend remains at the Board’s discretion, and subject to market conditions and Fonterra’s financial position.

“Additionally, from FY14 we are adopting a qualitative earnings guidance approach, rather than the previous quantitative earnings per share guidance.

“The changes mean we will provide more market commentary – but will no longer put numbers around future earnings per share. This new policy will enable the business to provide a longer term view on any potential volatility in earnings,” said Mr Wilson.

Chief Executive Theo Spierings said international dairy trade growth is currently being led by strong demand for powders (combined whole milk and skim).

“This trend, relative to prices for cheese and casein, currently would have a short term negative influence on product mix returns during the first half of FY14.

“As we drive for growth in our consumer businesses, during the first half of FY14 we are likely to have to absorb some of the expected substantial increases in the cost of goods arising from current high commodity prices, and this could have an impact on margins.

“Taking into account the headwinds we face and current market volatility, the FY14 estimated dividend of 32 cents per share may be outside the 65-75 per cent range.

“We will provide an update on business performance when we announce our Annual Result on 25 September 2013,” said Mr Spierings.

- ENDS -

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About Fonterra

__Fonterra__ is a global leader in dairy nutrition – the preferred supplier of __dairy ingredients__ to many of the world’s leading food companies. Fonterra is also a market leader with our own __consumer dairy brands__ in Australia/New Zealand, Asia/Africa, Middle East and Latin America.

The __farmer-owned__ New Zealand co-operative is the largest processor of milk in the world, producing more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products every year. Drawing on __generations of dairy expertise__, Fonterra is one of the largest investors in dairy based __research and innovation__ in the world. Our more than __16,000 staff__ work across the dairy spectrum from advising farmers on sustainable farming and milk production, to ensuring we live up to exacting quality standards and delivering every day on our customer promise in more than 100 markets around the world.