

Market Announcement

14 OCTOBER 2015

Fonterra responds to Standard and Poor's

Fonterra Co-operative Group Limited has been notified today that rating agency Standard and Poor's has downgraded the Co-operative's credit rating from A to A-.

Chief Financial Officer Lukas Paravicini said: "Our underlying financial strength and credit quality remain strong. This is recognised by Standard and Poor's maintaining our rating in the 'A' category and reflects our fundamental strength and financial discipline.

"It is important to note that the revised rating will not have any impact on Fonterra's strategy or on farmer shareholder payout."

Mr Paravicini said the Co-operative's current debt is at expected levels for this stage of the investment cycle.

"We carefully planned our investment strategy by first reducing our gearing over a number of years to enable us to make higher levels of investment in key strategic opportunities.

"These investments are making the Co-operative stronger and positioning us well for the future. We have built additional manufacturing capacity in our home base of New Zealand which is improving returns by giving more product options during the peak production period and our planned investments in China are building our presence in our number one strategic market," Mr Paravicini said.

Fonterra is also continuing its strong financial discipline including capital investment management, setting a prudent advance rate payment to farmers for the current season, and applying its dividend policy to ensure an ongoing retention of a portion of earnings.

"In addition we are progressing well with our business transformation and this will further strengthen our financial position. Global dairy prices are also recovering which is a positive development, particularly for our farmer shareholders," Mr Paravicini said.

Standard and Poor's noted that its new methodology for agricultural co-operatives introduced in March does not always adequately capture the significant financial flexibility, and hence strength, of the Co-operative.

"Given this, we are disappointed that Standard and Poor's has not reconfirmed its rating from April, especially when global dairy prices have significantly improved and we have continued our strong financial discipline," Mr Paravicini said.

-ENDS-

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