

Market Announcement

16 DECEMBER 2015

FONTERRA TO SELL AUSTRALIAN YOGHURT DAIRY DESSERTS BUSINESS

Fonterra Co-operative Group Limited has today announced the intention to sell its Australian yoghurt and dairy dessert business to Parmalat Australia Pty. Ltd. Both parties entered into exclusive negotiations which have now culminated in the signing of a sale agreement.

The transaction, which is conditional on regulatory and other approvals, is expected to be completed in the first half the of the 2016 calendar year.

The divestment of its Australian yoghurt and dairy desserts business, which includes manufacturing sites at Tamar Valley and Echuca as well as its Australian yoghurt and dairy dessert brands, is part of a comprehensive plan to return the Co-operative's Australian business to strong and sustainable profitability. While the sale of this business is not material in itself, it is disclosed as it is a key part of the previously announced plans for our Australian business.

Recently, Fonterra has:

- Announced a A\$120 million investment to rebuild its factory in Stanhope, in northern Victoria, as a state-of-the-art primary cheese manufacturing plant, with 50 per cent extra capacity*.
- Divested its 9% stake in Bega, with the funds being re-invested into the Stanhope cheese plant.
- Announced plans with Bellamy's Australia Ltd and China's Beingmate Baby and Child Food Company Ltd that provide opportunity for significant growth in nutritional volume from Fonterra Australia.
- Commissioned a multi-million dollar beverages plant at its Cobden facility, in western Victoria, to service a 10 year partnership with Woolworths.
- Launched Fonterra's largest global brand, Anchor, in Australia.

Chief Executive Theo Spierings said these changes were the result of driving a clear strategic plan to transform the Australian business to deliver stronger returns to farmer shareholders and unit holders.

"We are focusing on areas where we can win in a highly competitive market, and that means optimising our product mix and streamlining operations to match, and investing in higher value add products that will deliver the best returns for our farmer shareholders and unit holders.

"Australia is our largest milk pool outside New Zealand, and is an integral part of our multi-hub strategy. Our Australian operations have particular ingredient strengths in cheese, whey and nutritionals, complemented by our strong consumer and foodservice businesses. As a key part of our multi-hub strategy, we are matching these strengths with the opportunities across our 100 markets," said Mr Spierings.

Fonterra Managing Director Oceania Judith Swales said Fonterra is totally committed to the Australian dairy industry and its retail business, and the divestment is a decisive step

* Compared to the plant's previous capacity of 30,000MT

to lock in our competitive position in the Australian consumer market.

“We will continue investing in programs and innovation that supports our market-leading brands in key retail categories, including Western Star butter and Perfect Italiano, Mainland and Bega cheeses, Anchor cream, and fresh milk.

“Divesting the yoghurt and dairy desserts business will allow us to focus on what we do best, so we can continue delivering a competitive milk price to our suppliers, benefits to our customers, innovative dairy foods to our consumers, and improved returns to our farmer shareholders and unit holders,” concluded Ms Swales.

All Fonterra’s Echuca and Tamar Valley employees in the yoghurt and dairy dessert business have received offers of employment from Parmalat.

ENDS

Note: currency is New Zealand dollars unless otherwise stated.

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