

FONTERRA
DAIRY FOR LIFE

BUSINESS UPDATE

NOVEMBER 2015



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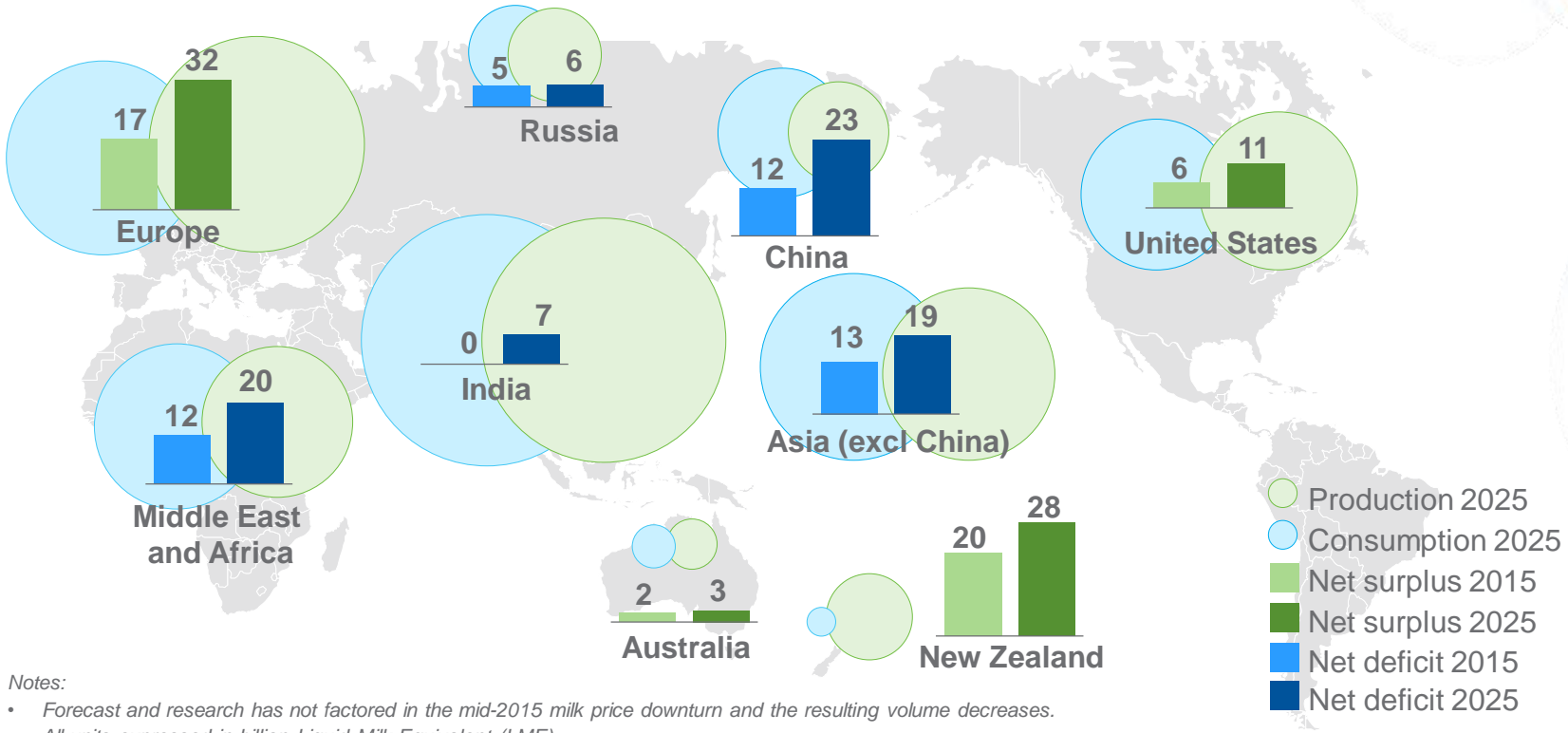
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Fundamentals for dairy remain strong – 2025 view

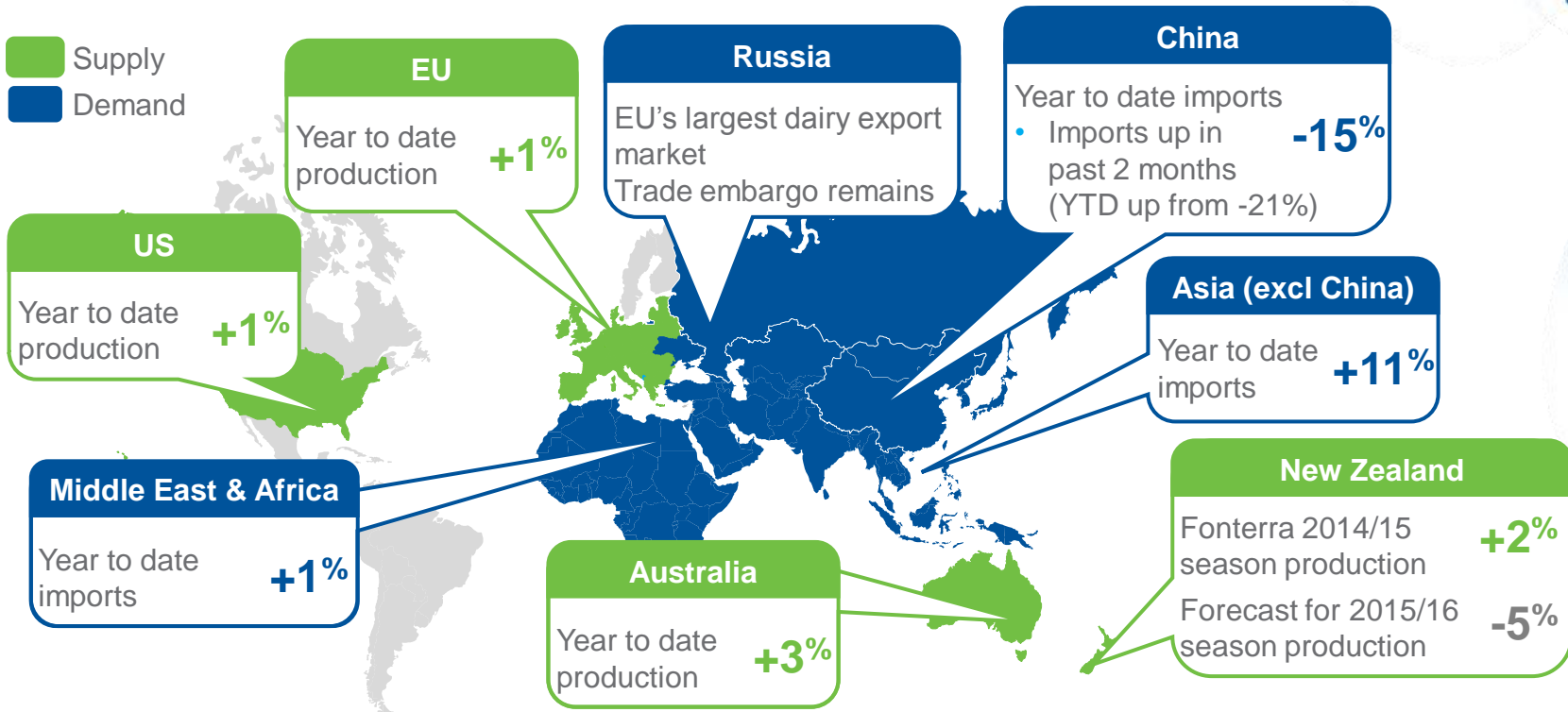


Notes:

- Forecast and research has not factored in the mid-2015 milk price downturn and the resulting volume decreases.
- All units expressed in billion Liquid Milk Equivalent (LME).
- Production and consumption volumes are represented by the relative size of the circles displayed.

Dairy supply/demand imbalance reducing

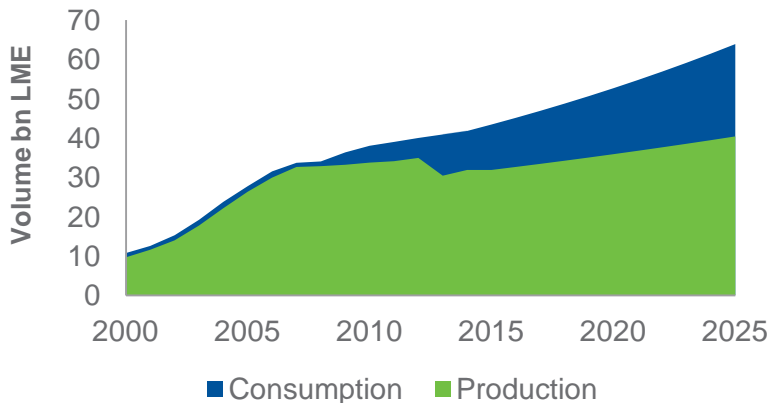
■ Supply
■ Demand



Note: All figures are year-to-date compared to same period last year (excl New Zealand): Australia (Aug), United States (Sep), EU (Aug), China (Sep), Asia (Jul), Middle East & Africa (Jul).
 Source: Government milk production statistics / GTIS trade data / Fonterra analysis

China dairy fundamentals remain strong

China Dairy Production and Consumption Gap¹

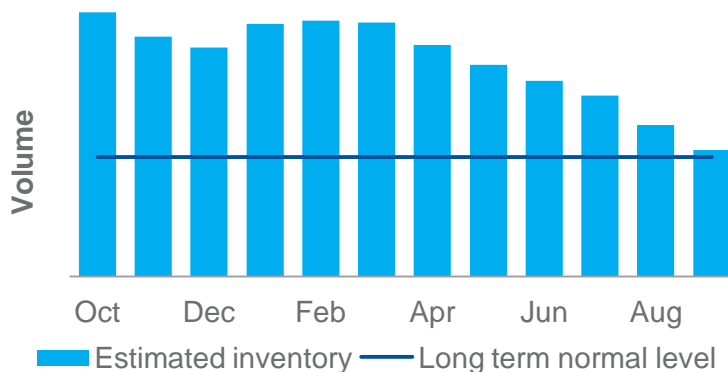


- Forecast consumption growth, +4% p.a
- Gap between production and consumption forecast to widen to 23bn LME by 2025

1. IFCN Dairy Report.

2. Fonterra estimates.

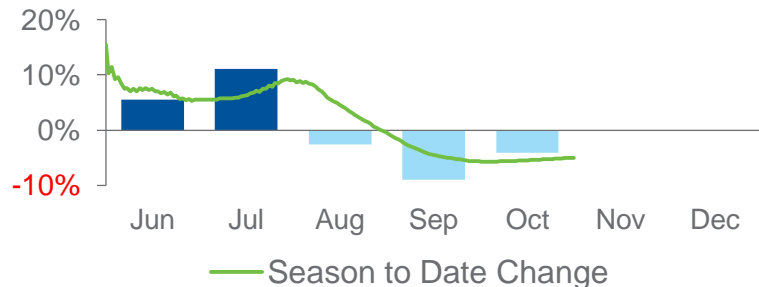
Tracked Customer Inventory²



- Estimated inventory levels of core China WMP customers reduced significantly since March

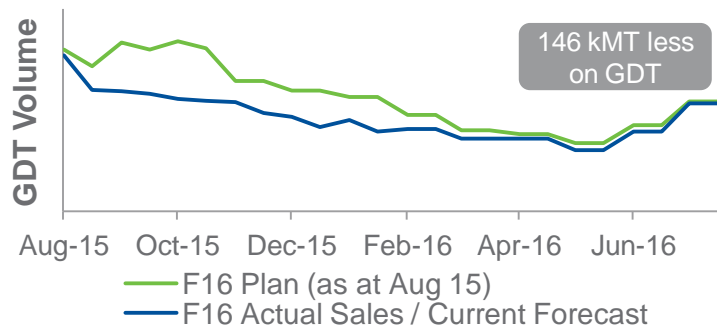
New Zealand milk supply down

Monthly Change in Milk Supply



- Lower milk collections
 - October 4% down¹
 - Season to date 5% down²
- 2015/16 season collection forecast
 - 5% down compared to the 2014/15 season
 - Over 85 million kgMS lower
- Lower forecast collections equivalent to around 150k MT of WMP
 - 146k MT off GDT over the next year
 - Increased sales through bilateral customer agreements
- El Nino – further uncertainty to forecast

Lower Collections Reflected in GDT Offering

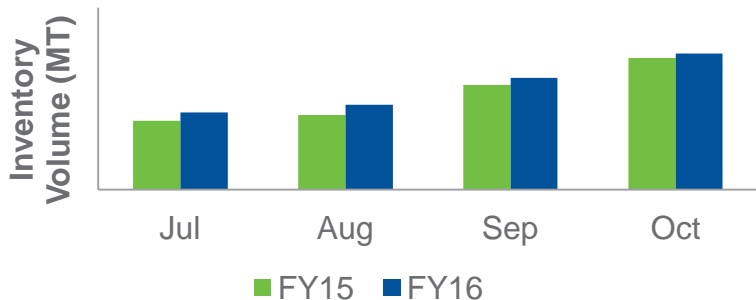


1. October 2015 milk collection compared to October 2014

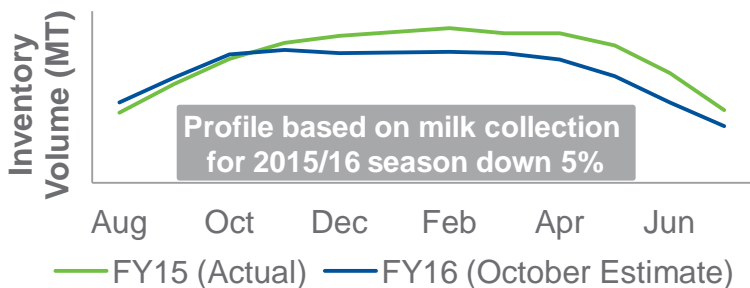
2. 1 June 2015 to 31 October 2015 compared to same period last year

Optimising sales in line with tightening inventory

Month End Inventory¹



Inventory Profile¹



- Strong sales performance Q1
 - Sales contracted rates strong and in line with last year
- FY16 Q1 closing inventory volume in line with last year
- FY16 year-end inventory volumes expected to be below FY15
 - Based on current 2015/16 season forecast collections down 5%
 - El Nino further uncertainty to collections and inventory levels

1. Month end inventory volumes for NZ ingredients.

2016 Q1 performance summary



VOLUME (MT)	REVENUE	GROSS MARGIN	OPEX	CAPEX
945K MT	\$3.6BN	22.7%	\$628M	\$258M
↑ 0.6% ¹	↓ 17.6% ¹	↑ FROM 14.1% ¹	↓ 3.5% ¹	↓ 36.5% ¹

Ingredients

Volume Change² ↓ 2%

Gross Margin³ % ↑ 15%

Consumer and Foodservice

Volume Change² ↑ 3%

Gross Margin³ % ↑ 28%

International Farming

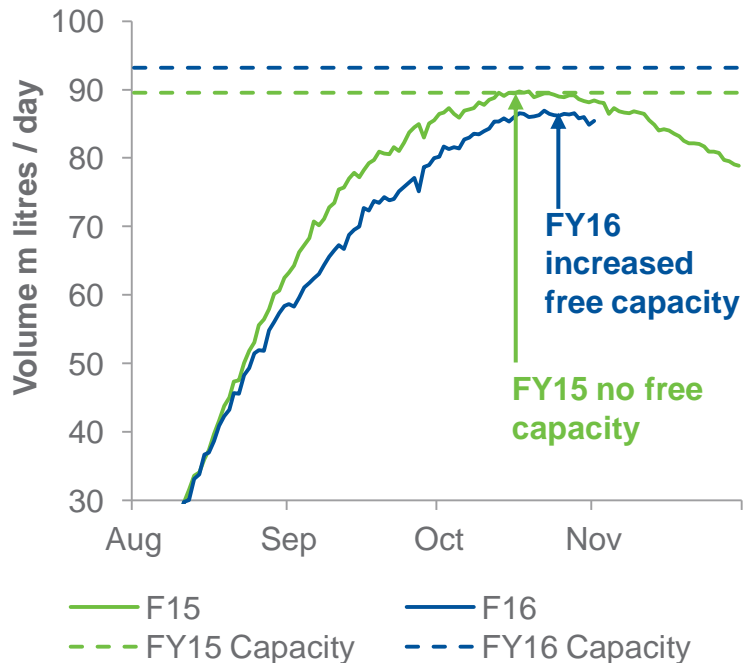
Volume Change² ↑ 56%

Gross Margin³ % ↓ -5%

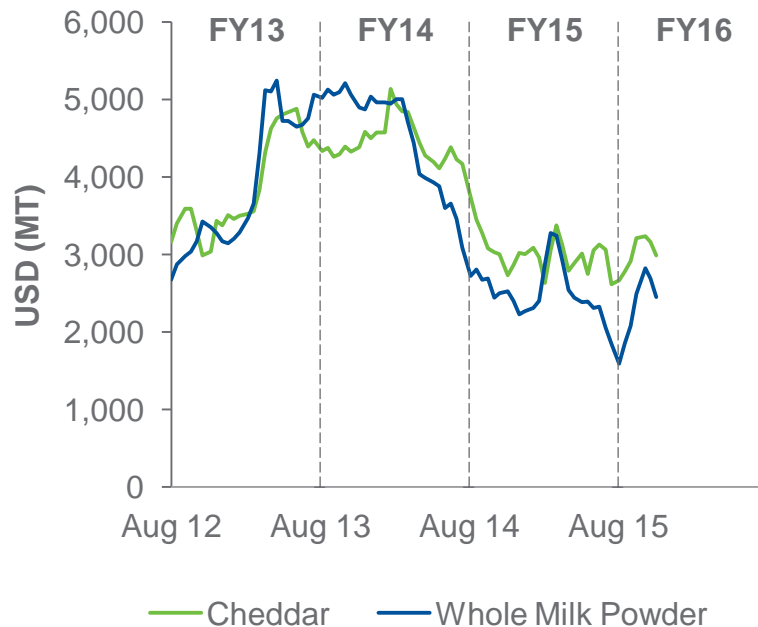
1. Compared to the first quarter of the 2015 financial year
2. Volume change is FY16 Q1 relative to FY15 Q1
3. Gross Margin % is for FY16 Q1, the arrow represents change relative to FY15 Q1

Optionality and product mix in NZ ingredients

Milk Supply versus Installed Capacity

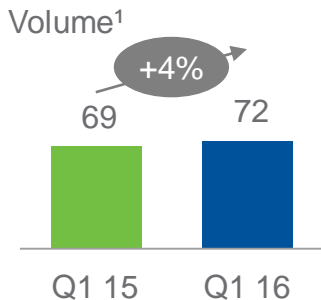


Positive Stream Returns in Q1



Consumer and foodservice growth in Q1

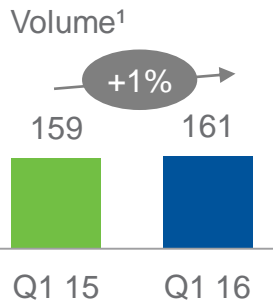
Asia



Gross Margin²

33% ↑

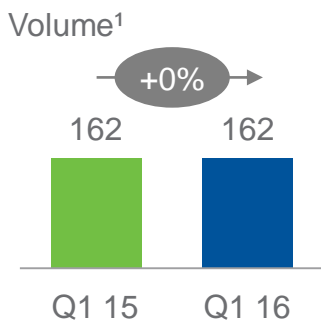
Latin America



Gross Margin²

35% ↑

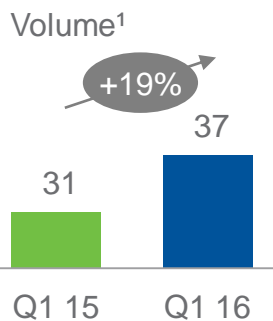
Oceania



Gross Margin²

19% ↑

Greater China



Gross Margin²

27% ↑

1. Volume (000s MT)

2. The percentage is for Q1 FY16 and the arrow shows the directional change

Financial strength and discipline

Solid credit rating reflects strong fundamentals

Credit Rating	Fitch	A (stable outlook)
	S&P	A- (stable outlook)
Debt Weighted Average Term to Maturity	As at 31 October 2015	4.6 years

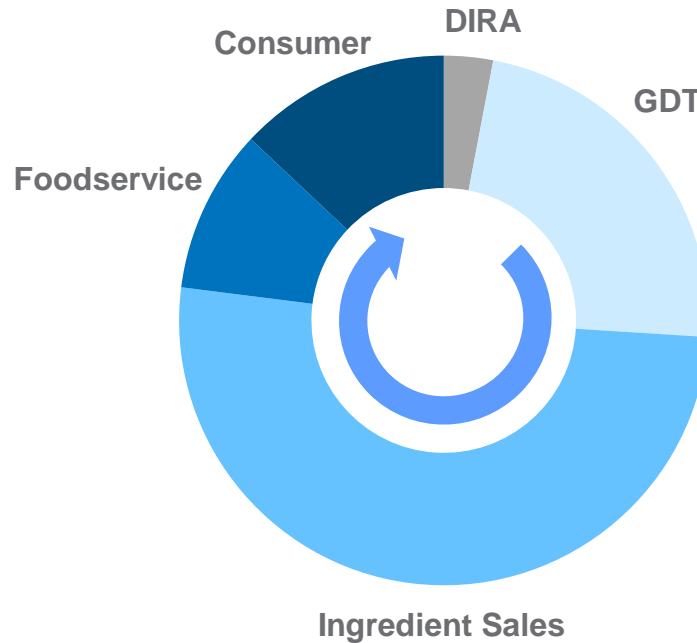
Financial discipline continued

- Lower capex following planned investment cycle
- Advance rate within guidelines
- Leverage reduction progressing to plan
 - FY16 year end gearing ratio forecast to be down from FY15 as planned and within 40-45% range
 - Half year will reflect normal seasonal profile



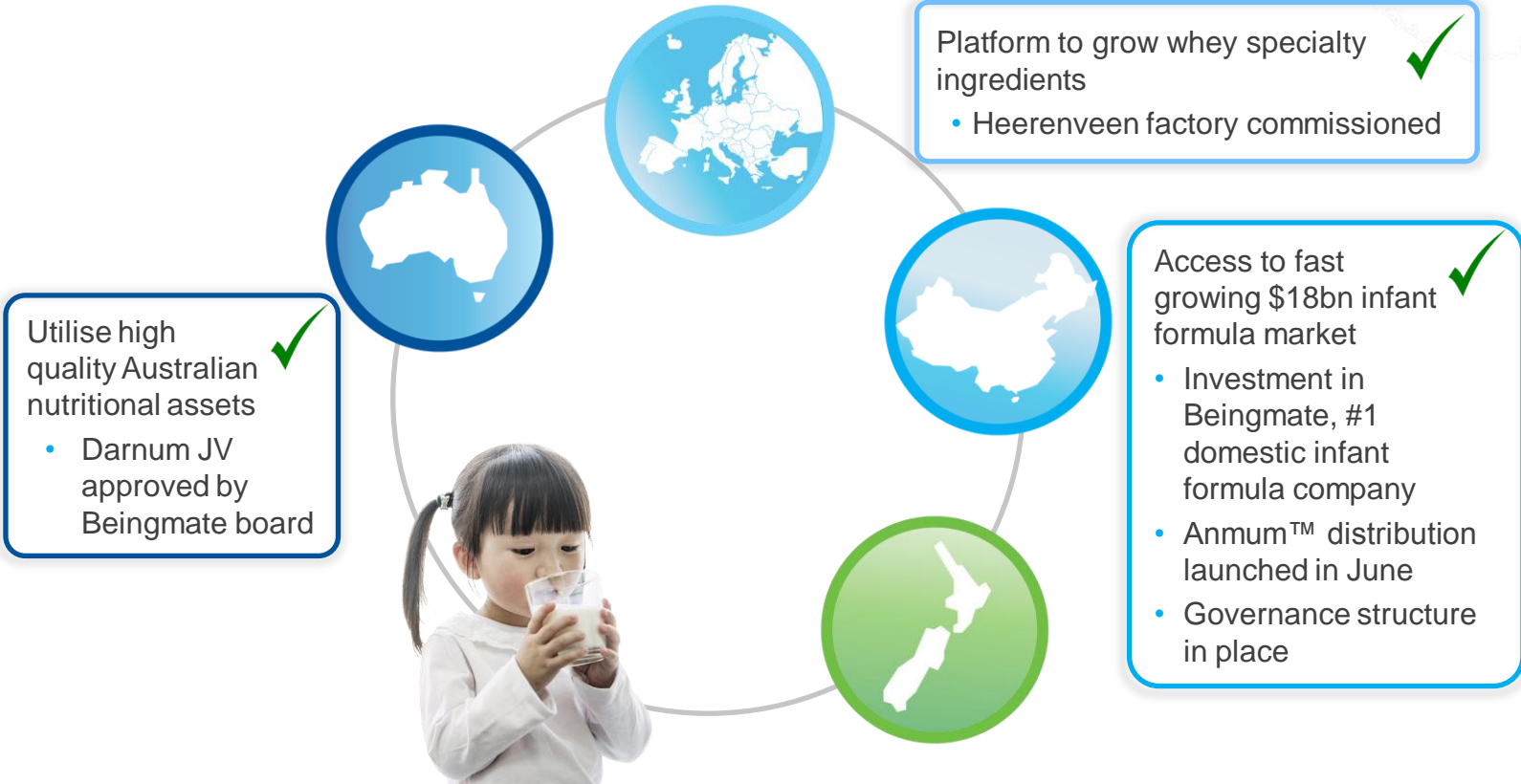
Strategy delivering – shifting volume to higher value

- 1 **Optimise**
NZ milk
- 2 **Build and grow**
beyond our current
consumer positions
- 3 **Deliver**
on Foodservice potential
- 4 **Grow**
our Anlene™ business
- 5 **Develop** leading positions in
paed & maternal nutrition
- 6 **Selectively invest**
in milk pools
- 7 **Align**
our business and organisation



- Volume off GDT and increased sales through bilateral customer agreements
- Increasing volume through value-add consumer and foodservice

Strong global partnerships key to our strategy: Beingmate



China #1 market – dynamic and significant opportunities

Forces shaping China:



1. Demographics
 - 1-2 child policy
 - 400m-500m middle class
2. Technology / e-Commerce
3. Ageing population
 - Up to 200m over 65 by 2020
4. Greater global connections
5. Adjusted Government plan



We have a plan to deliver:

- **Ambition \$10bn business** – #1 dairy player
- **60%** ingredients, **20%** consumer, **20%** foodservice
- **#1** preferred ingredients supplier
- **Anchor, Anlene, Annum**
- Offline to **online** strategy
- **Access to high quality fresh milk** - Farms
- Strong successful **partnerships**
- **Multi hub** assets connected to China to meet demand

BUSINESS TRANSFORMATION

Our focus is on both performance and mindset

Performance...

- **Driving performance** weekly
- Maximising **cash**
 - Milk Price
 - EBIT
 - Balance sheet
 - Cash flow



...Mindset

- **Clarity** of expectations
- Personal **ownership** and **accountability**
- Shared **learning**

Total shareholder return

A changed pace at which we track progress

A big picture effort...

24 months

14 workstreams

2,000 initiatives

4,000 employees

All geographies

...with weekly focus

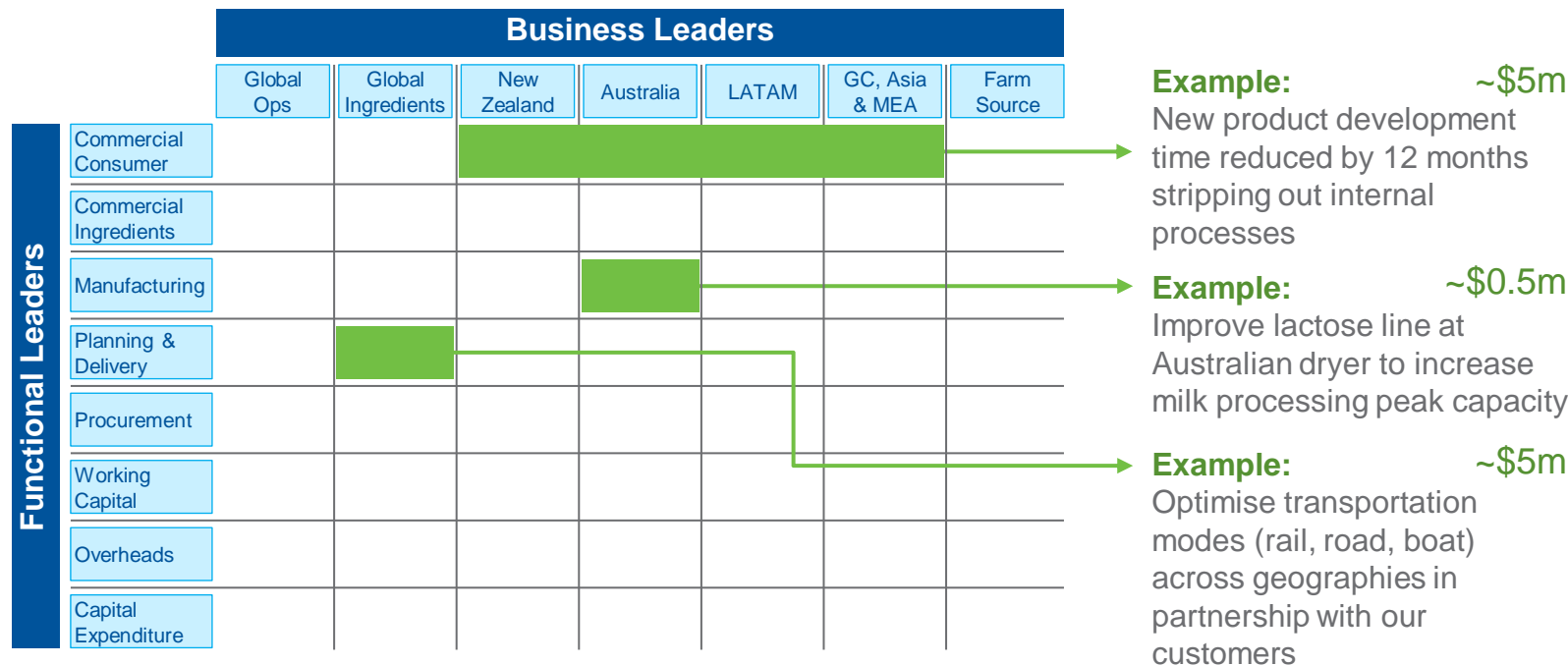
Velocity Office with dedicated
Velocity COO

Rigorous **weekly performance reviews**, locally and centrally

Challenging our **pace and ambition on performance** (financial, operational) and **mindset** (sustainability)

We are looking at the whole of Fonterra

Optimising outcome through business and functional focus

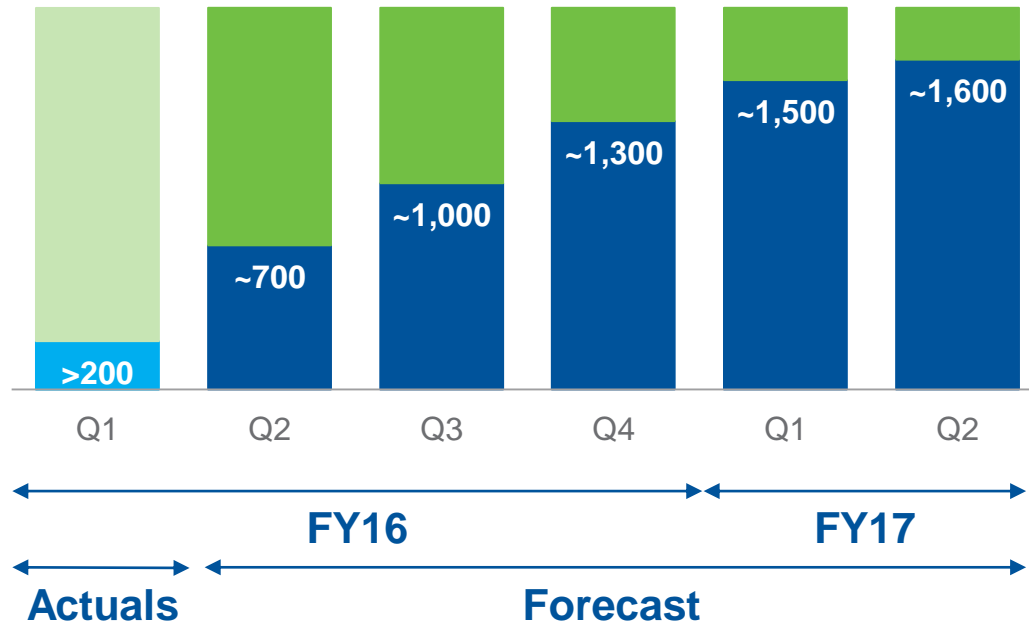


Strong pipeline of initiatives

Velocity Initiative Pipeline

No. of Initiatives

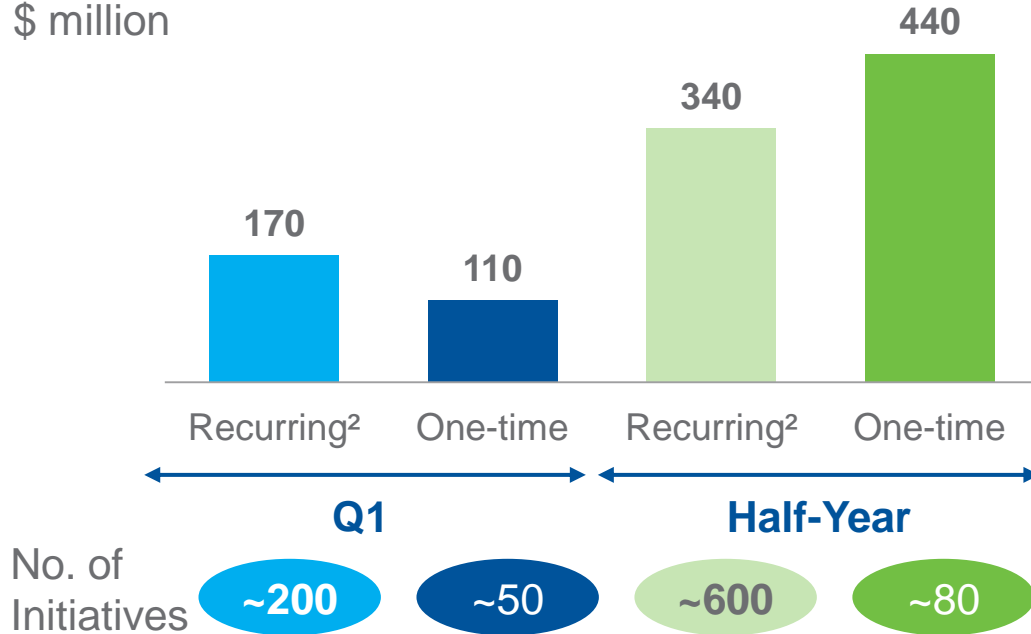
- Yet to be implemented
- Implemented initiatives



Transformation delivering cash benefits

Estimated FY16 Transformation Cash Benefits¹

\$ million



1. The estimated FY16 cash benefits of business transformation initiatives implemented in Q1 and half-year respectively.

2. Recurring cash benefits will impact both EBIT and the Farmgate Milk price and are based on assumptions set at commencement of the business transformation.

Outlook

- Good operating performance well ahead of last year
- Our business transformation is delivering
- Forecast 2015/16 total available for pay-out to be increased:
 - A forecast Farmgate Milk Price of \$4.60 per kgMS
 - A strong forecast EPS performance of 45-55 cps
- At this stage of the season, based on the Dividend Policy, management would recommend at the end of the financial year an annual dividend of 35-40 cps, which would be subject to Board approval
- Payment of Fonterra Co-operative Support loan to be accelerated
 - Increase cumulative payment up to December by 7 cents to 25 cents
 - Bring payments forward

