FONTERRA
DAIRY FOR LIFE

2015 ANNUAL RESULTS

SEPTEMBER 2015

JOHN WILSON, CHAIRMAN

THEO SPIERINGS, CEO

LUKAS PARAVICINI, CFO

Fonterra
Dairy for life

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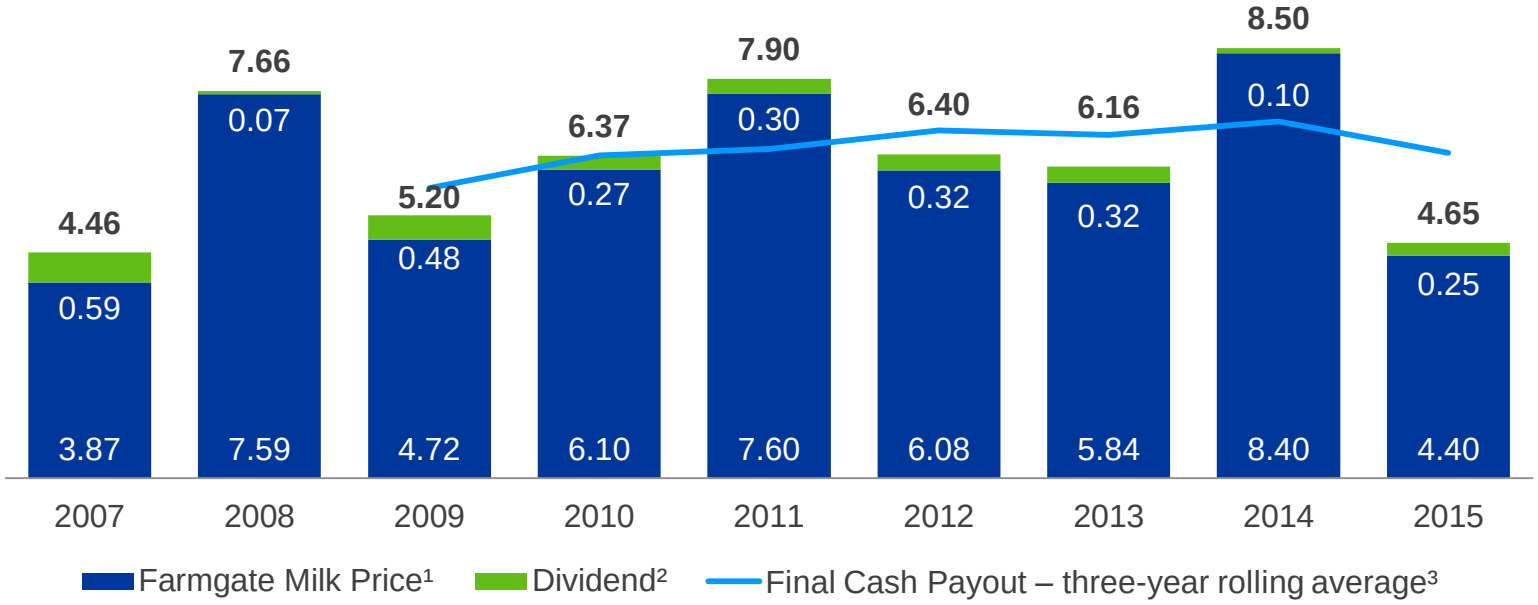
JOHN WILSON – CHAIRMAN

A TOUGH SEASON FOR FARMERS



1. *Farmgate Milk Price: $ per kgMS.*
2. *Dividend: $ per share.*
3. *Final Cash Payout weighted by milk solids volume.*

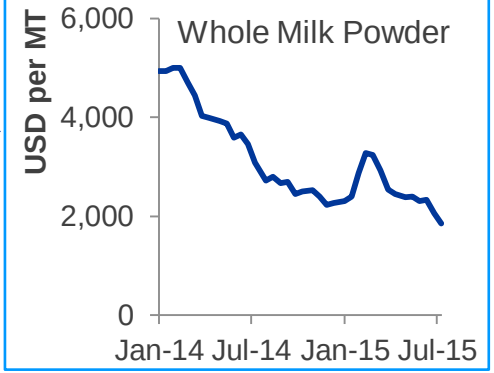
CHALLENGING YEAR GLOBALLY

Economic and geopolitical issues

- China Slowdown
- Eurozone
- Oil and mineral prices
- Russian embargo
- ISIS Middle East

Dairy supply/demand imbalance

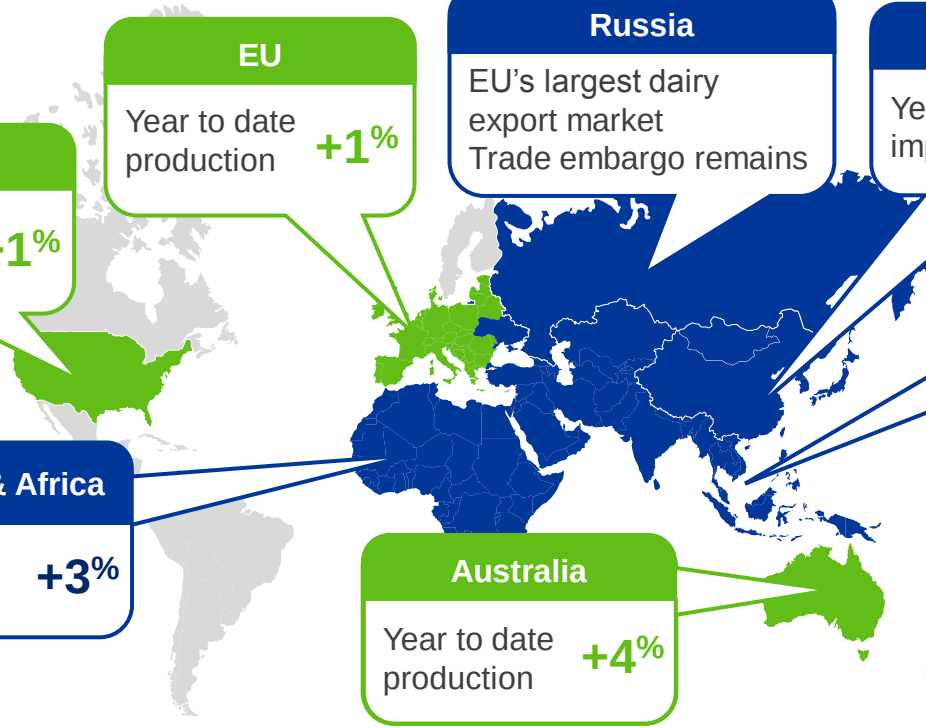
Fall in dairy prices



- Forecast milk price lowered from $7.00 to $4.40 – difficult to predict milk price
- Slump in prices longer than market expectations
- Many major global dairy companies impacted
- Long term outlook for dairy remains positive

DAIRY SUPPLY / DEMAND IMBALANCE

Supply
Demand



US
Year to date production **+1%**

EU
Year to date production **+1%**

Russia
EU's largest dairy export market
Trade embargo remains

China
Year to date imports **-21%**

Asia (excl China)
Year to date imports **+14%**

Middle East & Africa
Year to date imports **+3%**

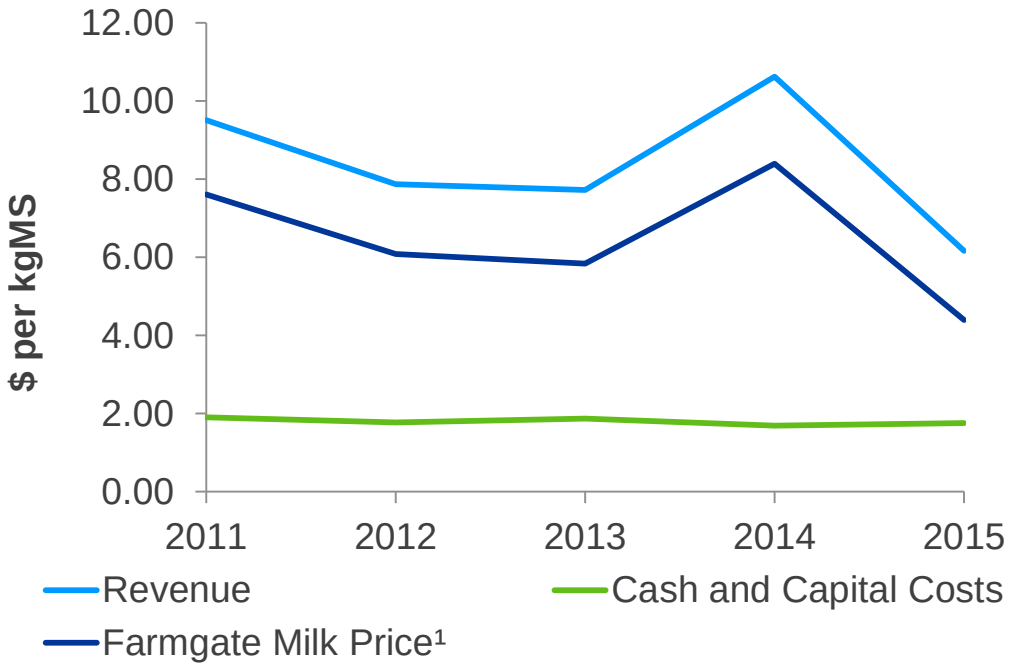
Australia
Year to date production **+4%**

New Zealand
Fonterra 2014/15 season production **+2%**
Forecast for 2015/16 season production **-5%**

Note: All figures are year-to-date (excl New Zealand): Australia (July), United States (July), EU (June), China (July), Asia (May), Middle East & Africa (May).
Source: Government milk production statistics / GTIS trade data / Fonterra analysis

KEY DRIVERS OF MILK PRICE

Revenue, cash costs and capital costs



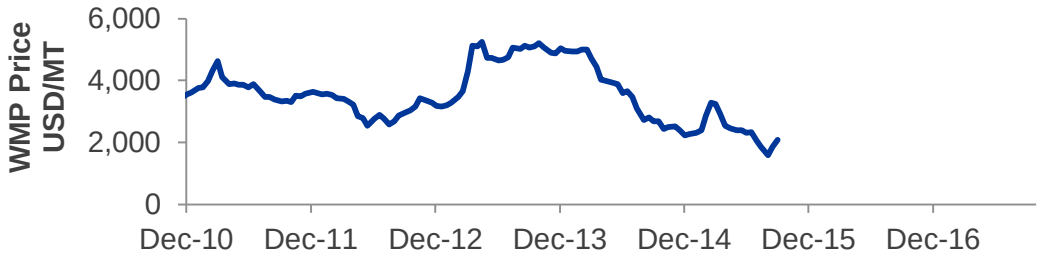
- Revenue has been volatile
- Dairy prices
- Currency (FX)
- Costs relatively stable
- Cost of capital
- Operating costs

1. *2014 Milk Price includes adjustment of 53 cents.*

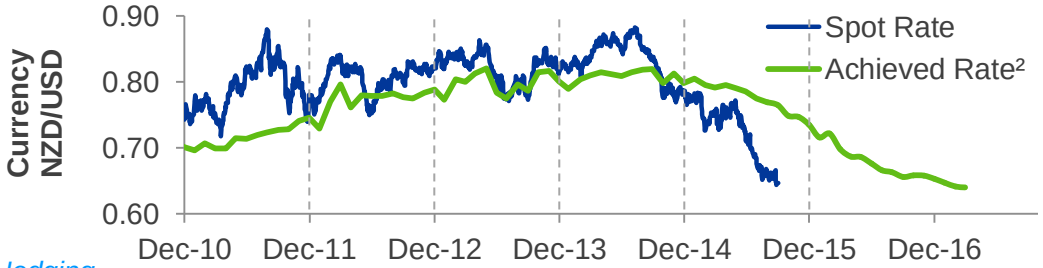
MILK PRICE REVENUE

Dairy price volatility has had a significant impact on Milk Price

Dairy Prices (USD per MT)



Exchange Rate NZD / USD



Hedging impact[1]

$0.88	**$0.32**	**$0.22**	**$0.42**	**($0.50)**

Dairy Prices

- Significant volatility 2012 to 2015
- WMP prices fell 44% in last 12 months

Exchange Rate

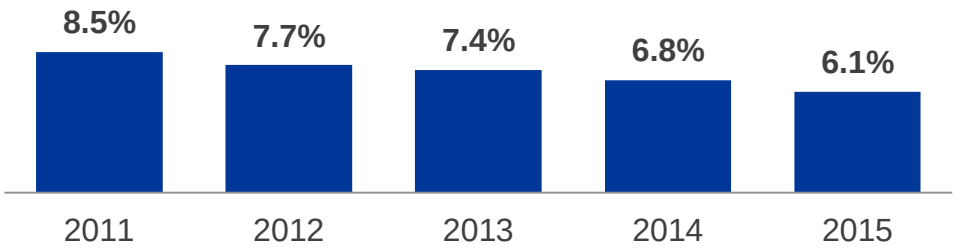
- Hedging benefit over last 5 years
  - Average 27 cents per kgMS p.a.
  - Reduces volatility
- Impact of lower spot rate in 2015 spread over 2015 to 2017 hedging

1. *Hedging impact is expressed in $/KgMS, calculated on the same basis as is used in the Milk Price Statement being the difference between the spot rate and the hedged achieved rate for the season. For example for the 2015 season the foreign exchange rate is applied to cash received from Sep-2014 to Dec-2015.*
2. *Where the forecast exposure is less than 100% hedged the Achieved Rate assumes that the unhedged balance is hedged on the basis of the forward curve as at 31 July 2015*

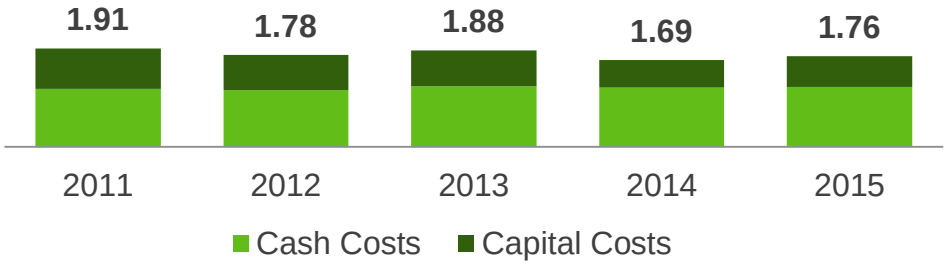
MILK PRICE COSTS

Stable total cost base

Milk Price Cost of Capital



Milk Price cash and capital costs ($/kgMS)



Milk Price Cost of Capital

- Capital costs are lower reflecting lower cost of debt
- Benefited milk price by 15 cents per kgMS or $240 million to milk price in 2015 vs. 2011

Total Costs

- Inflationary increases in cash costs offset in part by efficiency gains
- Capital cost steadily reduced

WE RESPONDED BY DRAWING ON OUR CO-OP STRENGTHS

- Supporting farmer cash flows through timing of advance rate ($900 million)
- Farm Source benefits
  - 6-month extended credit at Fonterra Farm Source stores
  - $4 million of Fonterra Farm Source rewards dollars taken up by 9,000 farmers
  - Compliance relief to April 2015
- Acceleration of business transformation to adapt to new realities

2016 OUTLOOK

- The 2015/16 pay-out:
  - A forecast Farmgate Milk Price of $4.60 per kgMS
  - A strong forecast EPS performance of 40-50 cps
- In addition 50 cents per kgMS loan to support farmers[1]
- Global markets remain volatile and difficult to forecast milk price early in season
- Capex for the 2016 financial year lowered to $900 million

1. *All share-backed farmers.*

THEO SPIERINGS – CEO

STRONG REBOUND IN PROFITABILITY

VOLUME[1]	REVENUE[2]	NORMALISED EBIT
4.3M MT	$18.8BN	$974M
↑ 9%	↓ 15%	↑ 94%

NET PROFIT AFTER TAX	DIVIDEND PER SHARE	RETURN ON CAPITAL[3]
$506M	25 CPS	8.9%
↑ 183%	↑ 150%	

Ingredients

Volume	↓	3.0m MT
Normalised EBIT[4]	↑	$973m
Return on Capital[3]		9.3%

Consumer and Foodservice

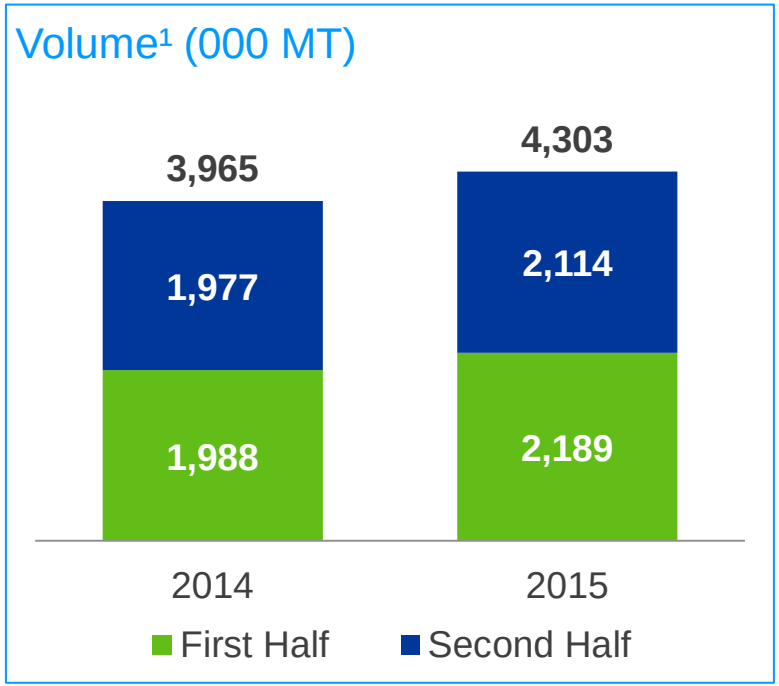
Volume[5]	↑	1.7m MT
Normalised EBIT	↑	$408m
Return on Capital[3]		25.5%

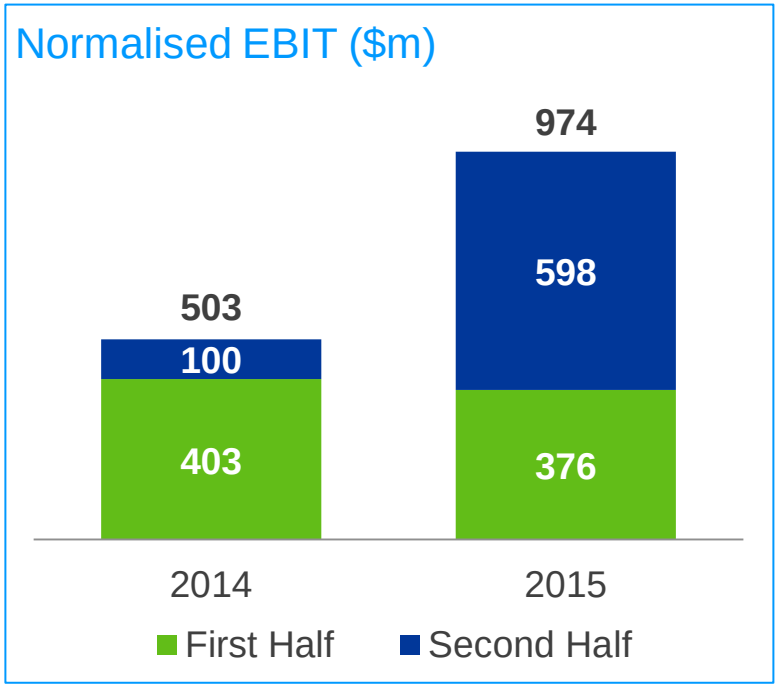
International Farming

Volume	↑	0.2m MT
Normalised EBIT	↓	($44m)

1. *Total volume, excluding DPA consolidation (324,650 MT), is up 0.3%*
2. *Total revenue, excluding DPA consolidation, is down 21%.*
3. *Return on Capital (ROC) excludes goodwill, brands and equity accounted investments. Group ROC including goodwill, brands and equity accounted investments was 6.9%.*
4. *Ingredients excludes unallocated costs*
5. *Consumer and Foodservice volume, excluding DPA consolidation (324,650 MT), is up 3%*

STRENGTHENING OF PERFORMANCE IN THE SECOND HALF

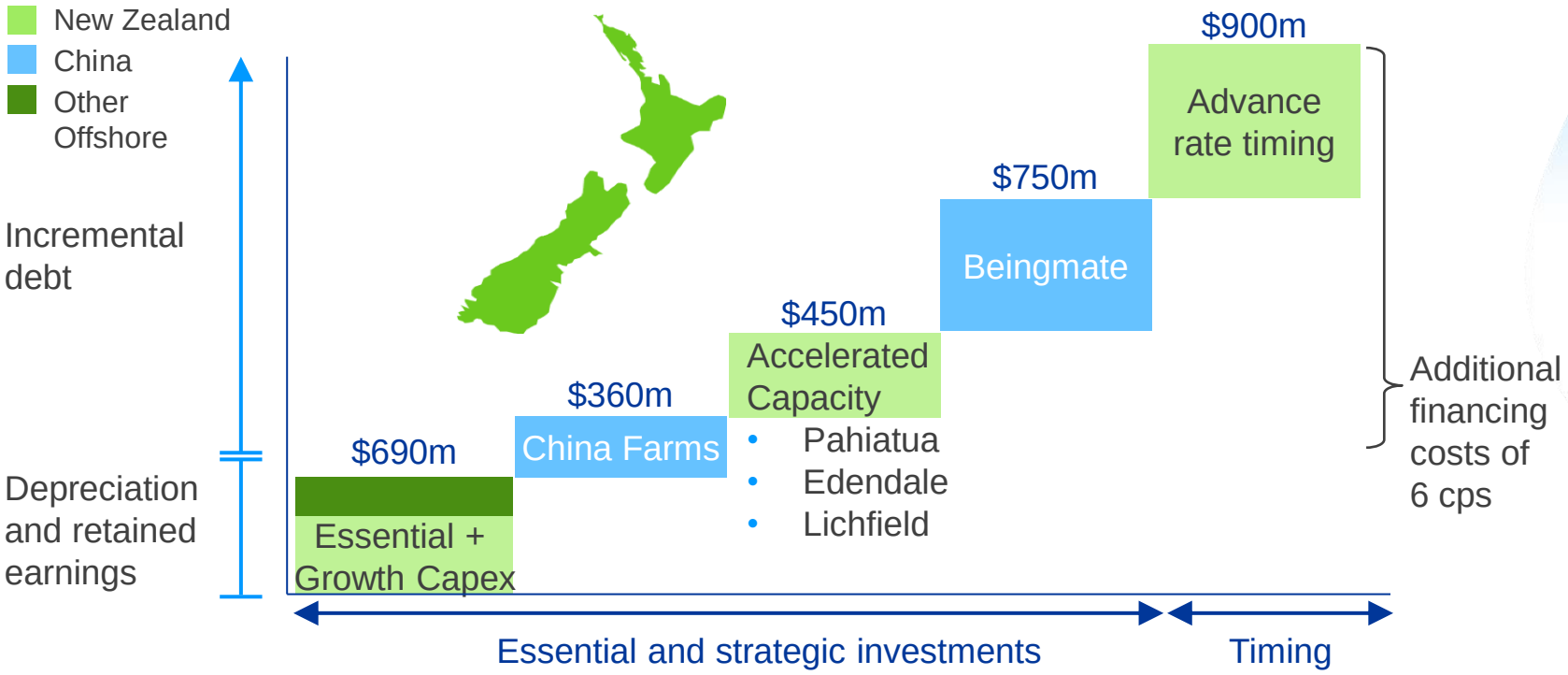




1. *Volume includes 324,650 MT from DPA consolidation. Excluding this, volume increased 0.3%.*

STRATEGIC INVESTMENTS FOR THE FUTURE

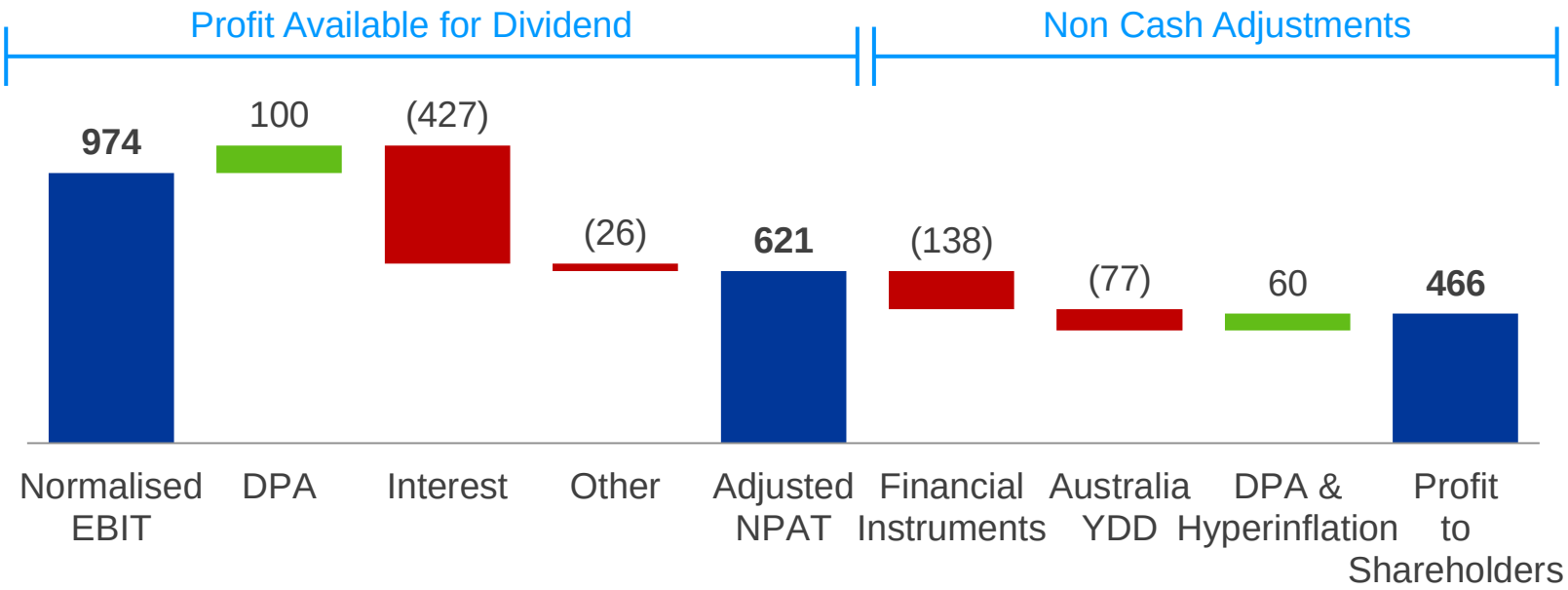
Led to higher financing costs



LUKAS PARAVICINI – CFO

PROFIT AVAILABLE FOR DIVIDEND

Total Dividend of 25 cents per share

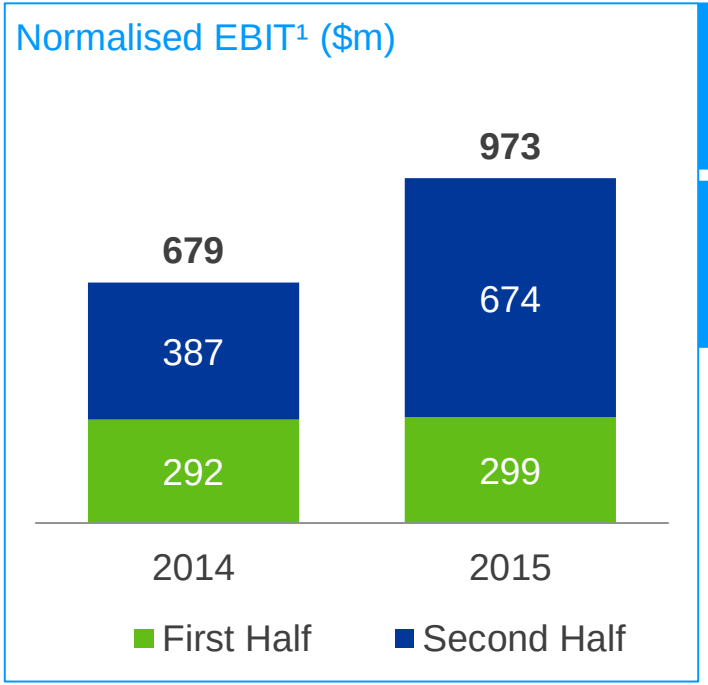


Cents per Share

61	6	(27)	(1)	**39**	(9)	(5)	4	**29**

INGREDIENTS

A solid result driven by New Zealand ingredients



Volume
-2%

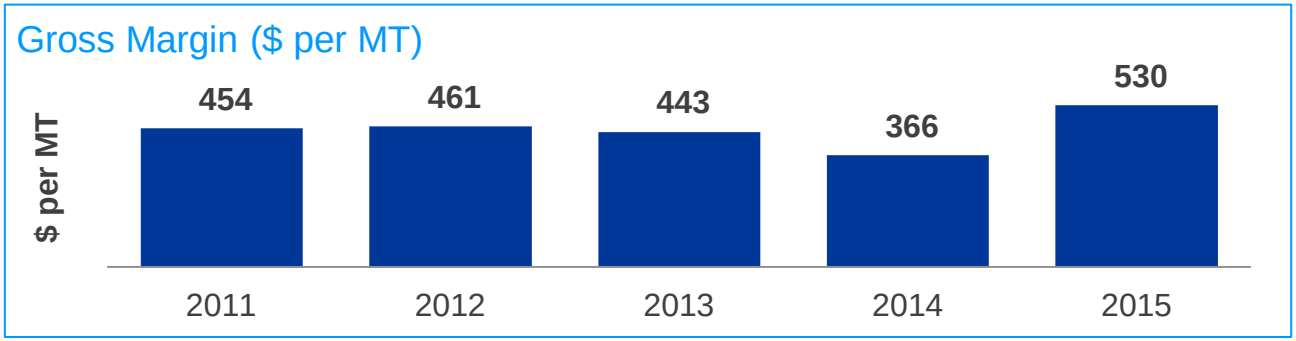
Normalised EBIT Growth
+43%

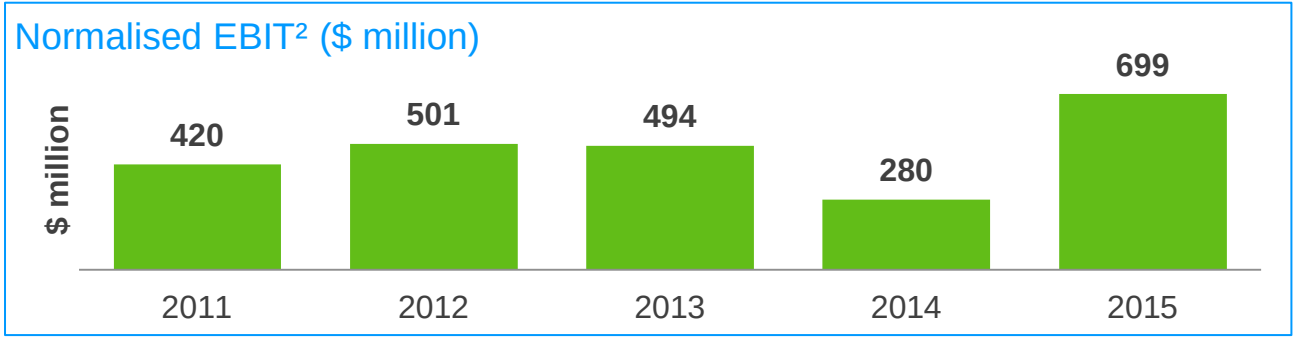
- NZ ingredients:
  $264 million gross margin higher
  - Improved stream returns
  - Optimised product mix to pricing
  - Lower peak costs
- Australian ingredients:
  ($92) million normalised EBIT
  - Adverse product mix
    - Stanhope cheese fire
    - Darnum – lower nutritionals
- **Return on Capital of 9.3%**

1. *Ingredients EBIT excludes unallocated group costs*

NEW ZEALAND INGREDIENTS

Solid performance over last 5 years[1]

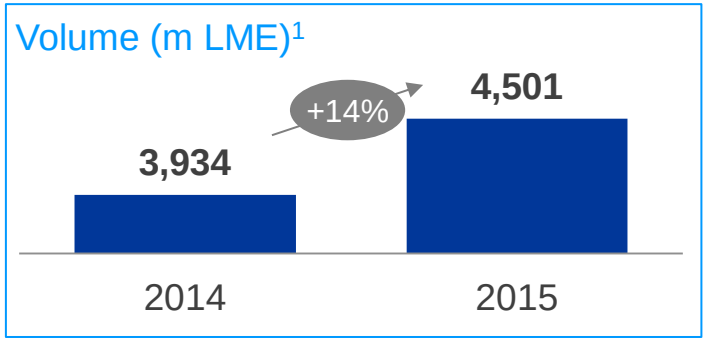


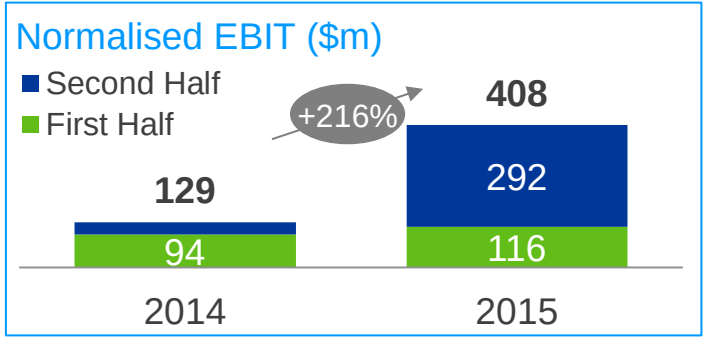


1. *Comparatives reflect business structures at the time and have not been restated*
2. *For comparative purposes, includes unallocated group costs*

CONSUMER AND FOODSERVICE

Strong volume and margin growth

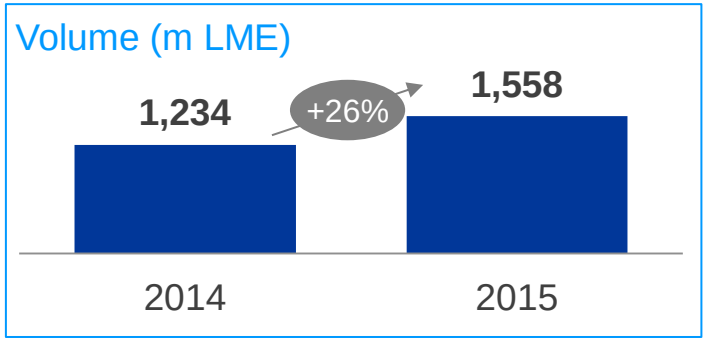


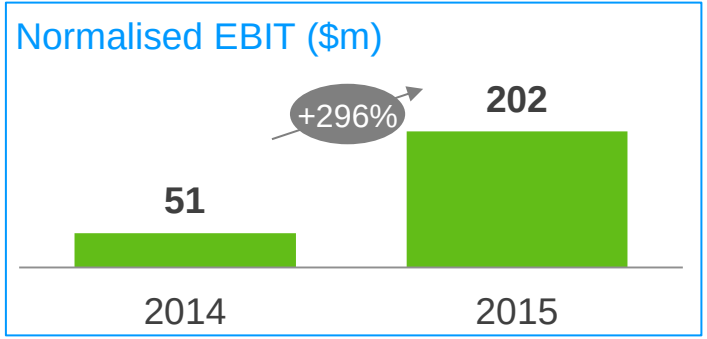


- Asia and Greater China – record performance
- Lower input costs for NZ sourced product
- Australia margins impacted by yoghurt and dairy desserts
- Solid performance from Latin America
- **Return on Capital of 25.5%**

1. *Excluding DPA consolidation (66 million LME), volumes are up 13%*

ASIA
CONSUMER AND FOODSERVICE
Record Performance





Volume

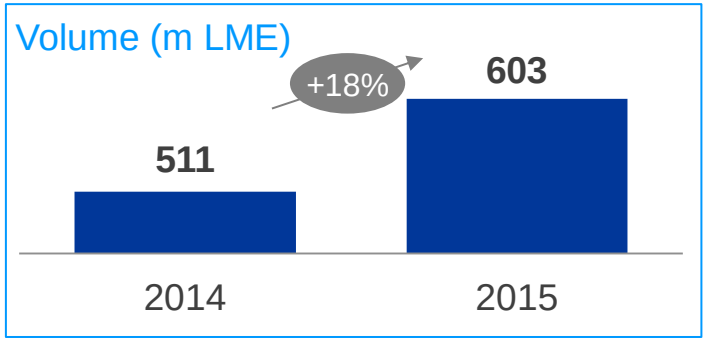
- Sri Lanka recovery grew volumes
- Foodservice growth of 11 per cent
  - Targeting Italian kitchen and Asian bakeries
  - Growth in butter and UHT

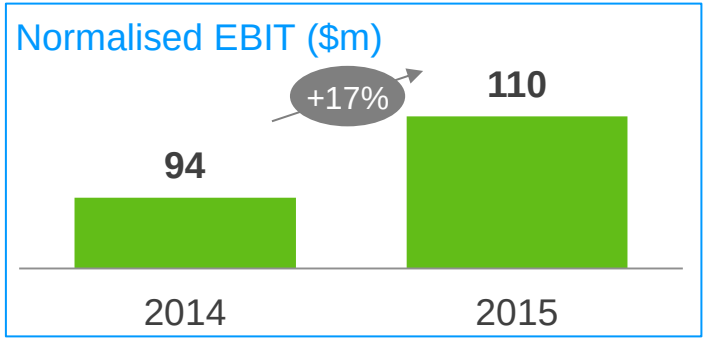
Value

- Pricing strategy delivered higher margins and maintained market share
- Strong margin uplift reflecting the strength of our brands and lower input costs
- **Return on Capital of 96.2%**

LATIN AMERICA CONSUMER AND FOODSERVICE

Solid growth in normalised EBIT





Volume

- Consolidation of DPA
- New products launched in Brazil
- Increased consumer prices in Chile

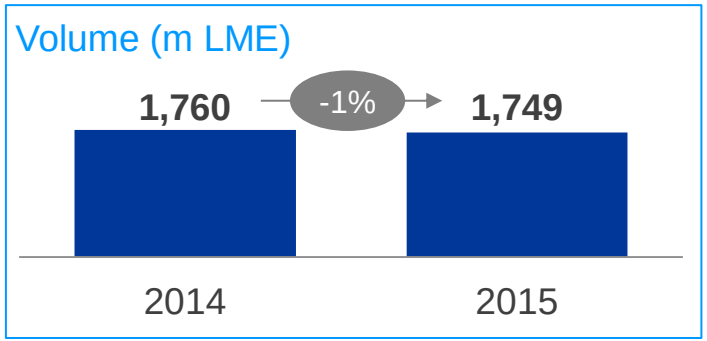
Value

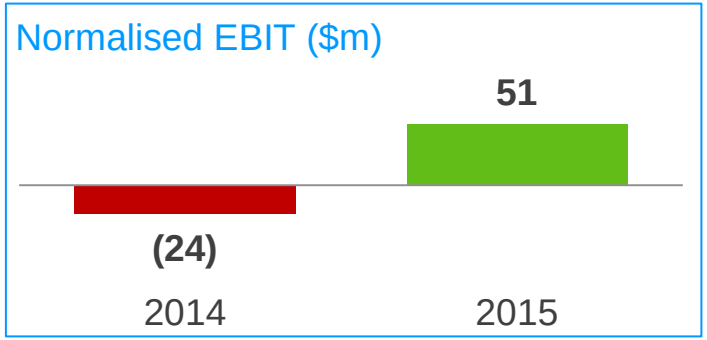
- Driving market share through product innovation
- Margins improved due to pricing and on-going cost reductions
- **Return on Capital of 18.6%**

1. *Excluding consolidation of DPA, LME volumes are up 5%*

OCEANIA CONSUMER AND FOODSERVICE

Progress in Australian reshape and driving product innovation in NZ





Volume

- Lower volume in NZ due to UHT production moving into ingredients
- Australian domestic foodservice up 10 per cent

Value

- Growth due to NZ consumer and key Australian brands
- Continued innovation and launch of new products
- Australian yoghurt and dairy desserts continued margin squeeze
- **Return on Capital of 5.0%**

TAKING DECISIVE STEPS TO TURNAROUND AUSTRALIAN PERFORMANCE

Fonterra
Dairy for life

Review ✓

- Multi-hub strategy
- Integrated model
- Cheese/whey/ nutritionals

Fix leaks ✓

- Maintained milk supply
- Cost reductions
- Winning supply chain
- Working capital improvements

Improve Portfolio
In progress

- # 1 supplier Coles/Woolworths
- Strong brand performance
- 3-year nutritionals contract
- 10% foodservice volume growth

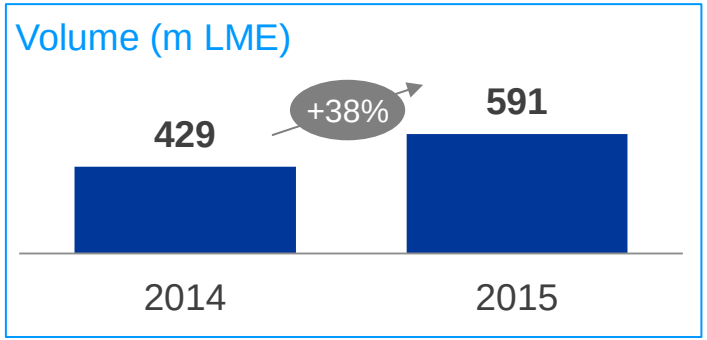
Transform Business
In progress

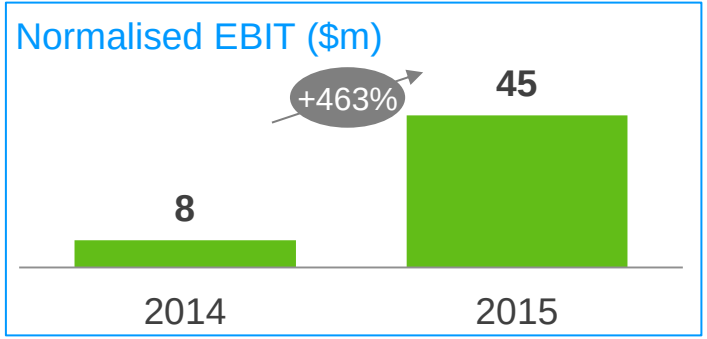
- END GAME
- A Profitable Australian business

A profitable business

GREATER CHINA CONSUMER AND FOODSERVICE

Record Performance





Volume

- Growth driven by foodservice and Anchor™
- Foodservice business rolled out to 13 new cities to total of 40

Value

- Lower inputs costs improved margins
- Distribution of Anmum™ infant formula through Beingmate now underway
- **Return on Capital of 71.5%**

INTERNATIONAL FARMING

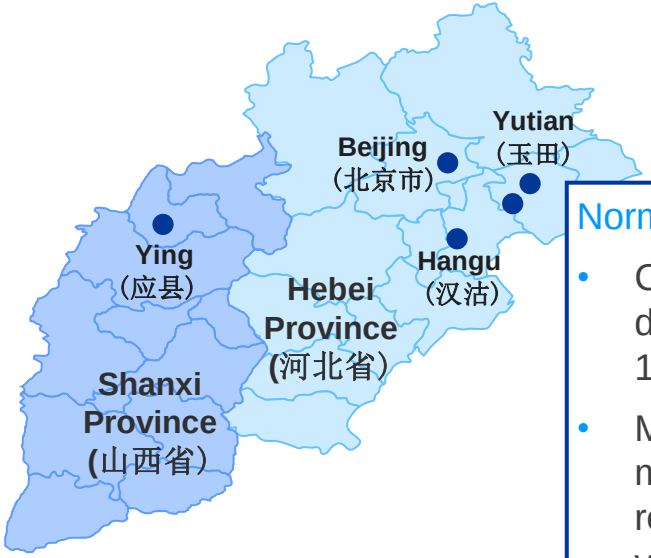
Important part of our strategy to build an integrated dairy business in China

Ying Hub in Ying County

Capacity	200 million litres
Milking cows	7,000
Young stock	13,400
Yield	28.5 litres per cow per day

Yutian Hub east of Beijing

Capacity	200 million litres
Milking cows	17,800
Young stock	15,300
Yield	29 litres per cow per day

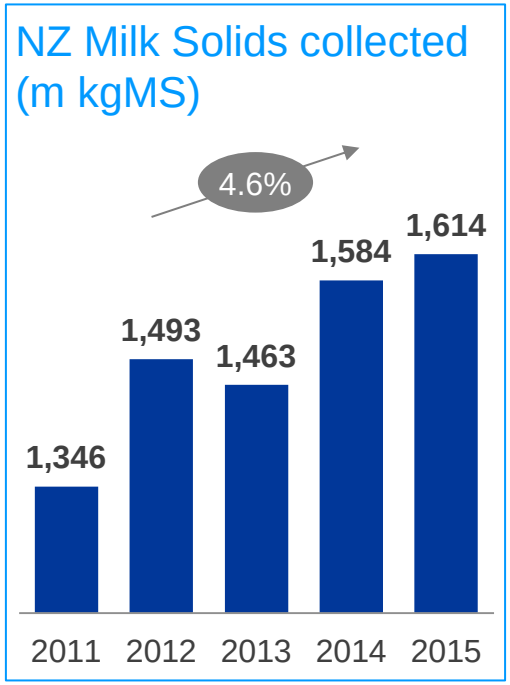


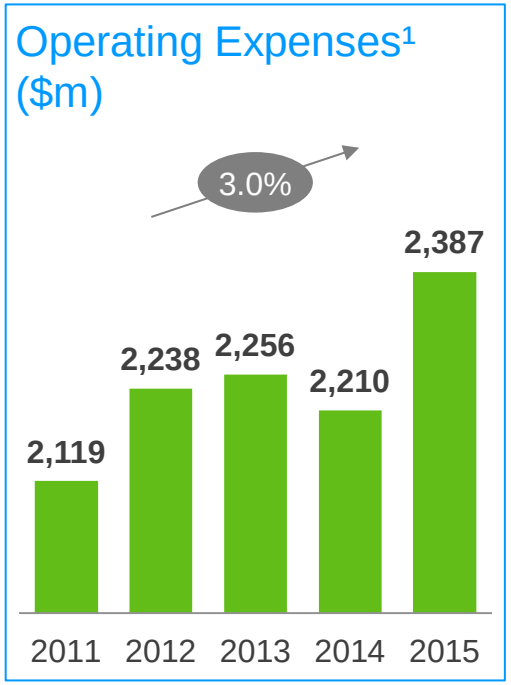
Normalised EBIT ($44m)

- Chinese milk price has decreased 10% over last 12 months
- Managed production in low milk price environment by reducing volume and variable costs
- Farm development costs and livestock revaluation further impacted earnings

OPERATING EXPENSES CONTROLLED

Growing at a slower rate than milk collection



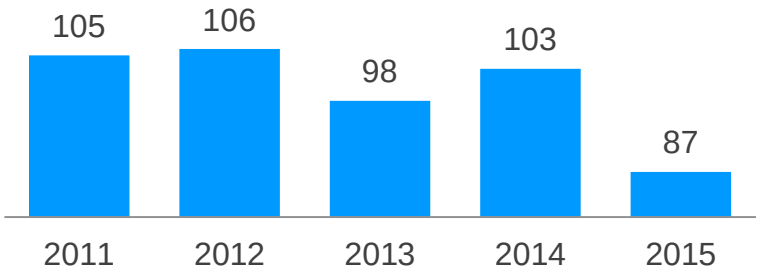


- Higher operating expenses of $177m in 2015 comprise:
  - One-off costs of $100 million relating to yoghurt and dairy desserts and restructuring
  - $77 million including distribution expenses, other operating costs and FX translation

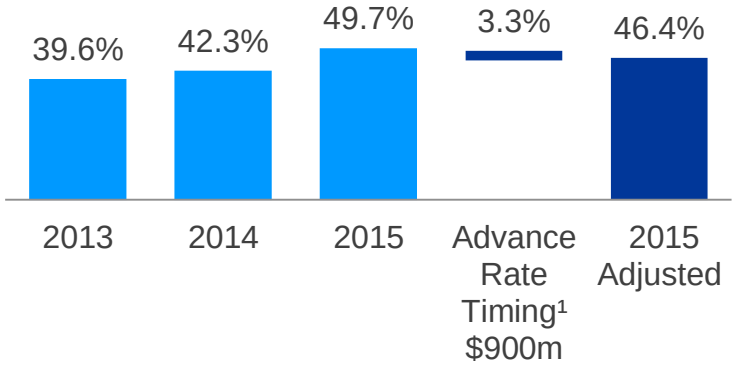
1. *2015 operating expenses exclude impact of DPA consolidation.*

FINANCIAL STRENGTH AND DISCIPLINE

Working Capital Days



Gearing



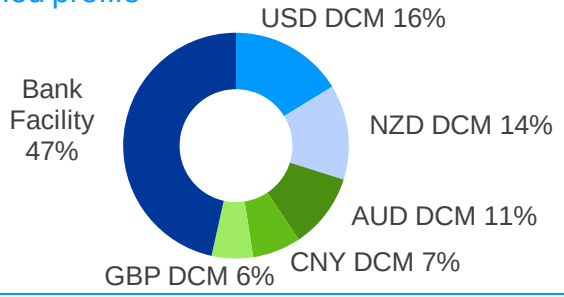
Strong fundamentals

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

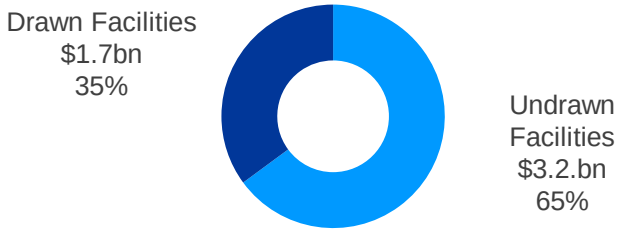
1. *Adjustment to show impact of Advance Rate timing.*

DIVERSIFIED AND PRUDENT FUNDING PROFILE

Diversified profile[1]

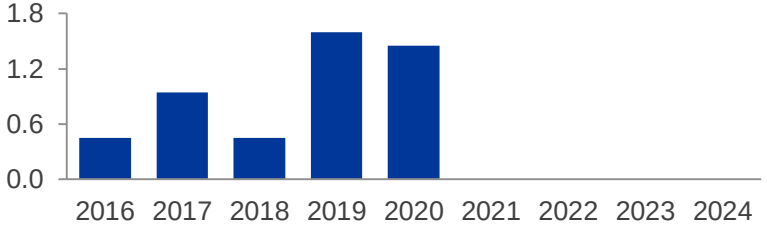


Prudent liquidity



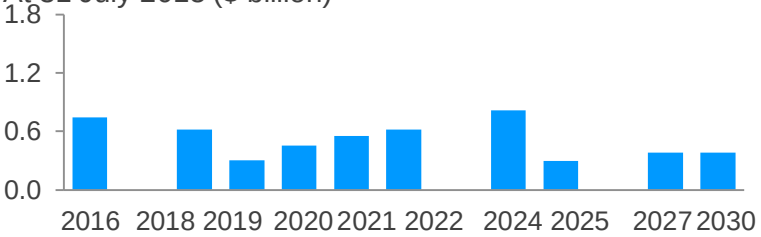
Bank facility maturity profile[2]

At 31 July 2015 ($ billion)



DCM maturity profile[3]

At 31 July 2015 ($ billion)



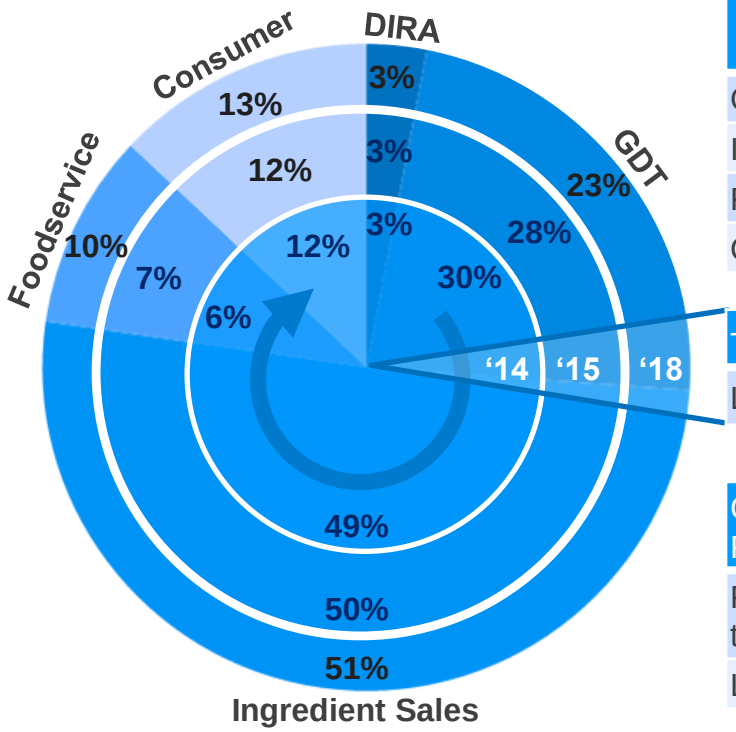
1. *Includes undrawn facilities and commercial paper.*
2. *Since balance date, $280 million of bank facilities maturing in FY17 have been extended until FY20 and FY21. Facilities maturing in FY16 comprise short term subsidiary working capital facilities.*
3. *Excluding commercial paper.*

THEO SPIERINGS – CEO

DRIVE PERFORMANCE

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



	CAGR *(FY14-FY18)*
GDT	-2.4%
Ingredient Sales	+4.9%
Foodservice	+16.3%
Consumer	+8%

Total	FY14	FY15	FY18
LME (bn)	22.2	22.8	25.8

Consumer and Foodservice	FY14	FY15	FY18
Percentage of total LME	18%	19%	23%
LME[1] (bn)	3.9	4.5	5.9

1. *Includes inter-company sales to other strategic platforms*

ON-GOING TRANSFORMATION

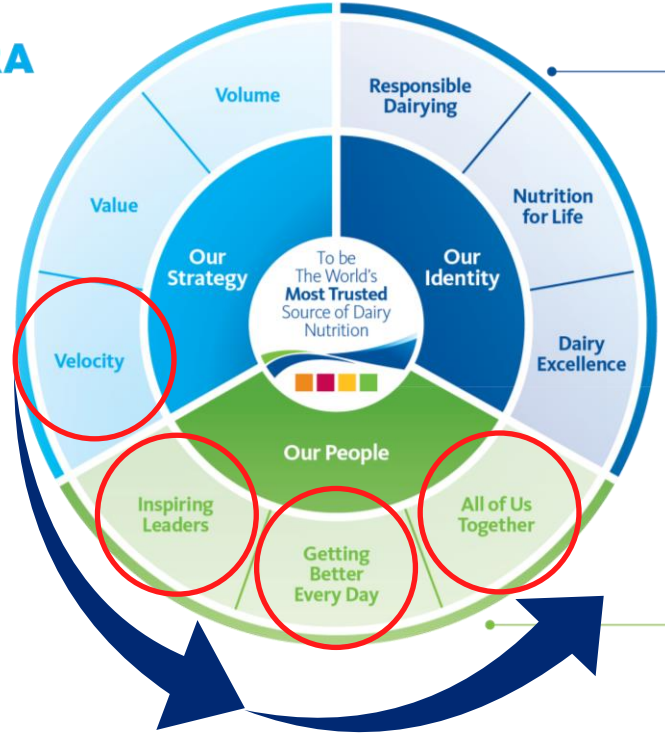
THIS IS FONTERRA FRAMEWORK

With our purpose, story and values at the heart, our 'This is Fonterra framework' brings together our people, identity and strategy commitments to guide us 'to be the world's most trusted source of dairy nutrition'.

OUR STRATEGY

The V3 strategy is all about driving volume, value and velocity through our seven strategic paths:

- Optimise New Zealand milk.
- Build and grow beyond our current consumer positions.
- Deliver on Foodservice potential.
- Grow our Anlene™ business.
- Develop leading positions in paediatrics and maternal nutrition.
- Selectively invest in milk pools.
- Align our business and organisation to enable the strategy.



OUR IDENTITY

Responsible Dairying
- Committed to helping our dairying communities thrive.
- Champion of the health of our farms and waterways.

Nutrition for Life
- Delivering superior products to improve health at key life stages.
- Making dairy nutrition accessible.

Dairy Excellence
- Global leader in dairy safety and quality.
- Innovation, expertise and openness.

OUR PEOPLE

Inspiring Leaders
- Trusted leaders inspiring exceptional performance.

Getting Better Every Day
- Simplicity, clarity and focus in everything we do.
- Capable, passionate people, growing every day.
- High performing teams who own our collective success.

All of Us Together
- A collaborative and connected culture.
- Caring for our people and our consumers.
- Accountable to our customers, communities and shareholders.

CASH + MINDSET = PERFORMANCE

BUSINESS TRANSFORMATION

Recurring and one-off savings building over 24 months

Transformation Scope

- Sales mix / pricing
- Operations
- Procurement
- Supply Chain
- Overheads
- Working Capital
- Capex

Cash Impact

- Milk Price
- Earnings
- Balance Sheet
- Cash flow

- Total Shareholder Returns

EXECUTING OUR STRATEGY TO DELIVER SUPERIOR PERFORMANCE

	From (2015)	Ambition
Revenue	$0.8 / LME	$1.2 / LME
	$10 / kgMS	$14 / kgMS
Gross Margin	17%	20%+
Normalised EBIT	$974m	50%–100% uplift
Return on Capital	8.9%	11%–13%
Gearing[1]	45%–50%	40%–45%

1. *Fonterra's target is to maintain its strong investment grade credit rating and debt payback and cash flow coverage metrics that support this.*

STRONGER TOGETHER

Our Ambition
Making a difference in the lives of 2 billion people

Fonterra
Dairy for life

A promise we keep from our farms to your home

nzmp
Anchor
Anlene
Anmum
New Zealand Farm Source

From our Co-operative
30,000 strong

SUPPLEMENTARY SLIDE

NORMALISATION ADJUSTMENTS

$ million	Year ended 31 July 2015	Year ended 31 July 2014
Total EBIT	**942**	**503**
Gain on Latin America strategic realignment	**(129)**	**-**
Impairment of assets in Australia	**108**	**-**
Restructuring and redundancy provisions	**33**	**-**
Time value of options	**20**	
Total normalisation adjustments	**32**	**-**
Total normalised EBIT	**974**	**503**