



Dairy for life

PERFORMANCE REVIEW

Interim Results 2016

MARCH 2016

OUR CO-OPERATIVE

OUR MARKETS

OUR PERFORMANCE

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OVERVIEW

A tough season for farmers

Low milk price, but our Co-op delivered a strong result



2015/16 forecast payout

- Farmgate Milk Price \$3.90 PER KGMS
- Available for payout¹ \$4.35 – \$4.45 PER KGMS
- Forecast full year dividend 40 cents PER SHARE
- Cash payout² \$4.30 PER KGMS

Strong interim results (6 months)

- Normalised EBIT \$665 MILLION
- Interim earnings per share 25 CENTS
- Interim dividend per share 20 CENTS

Strength of the Co-op to support farmers

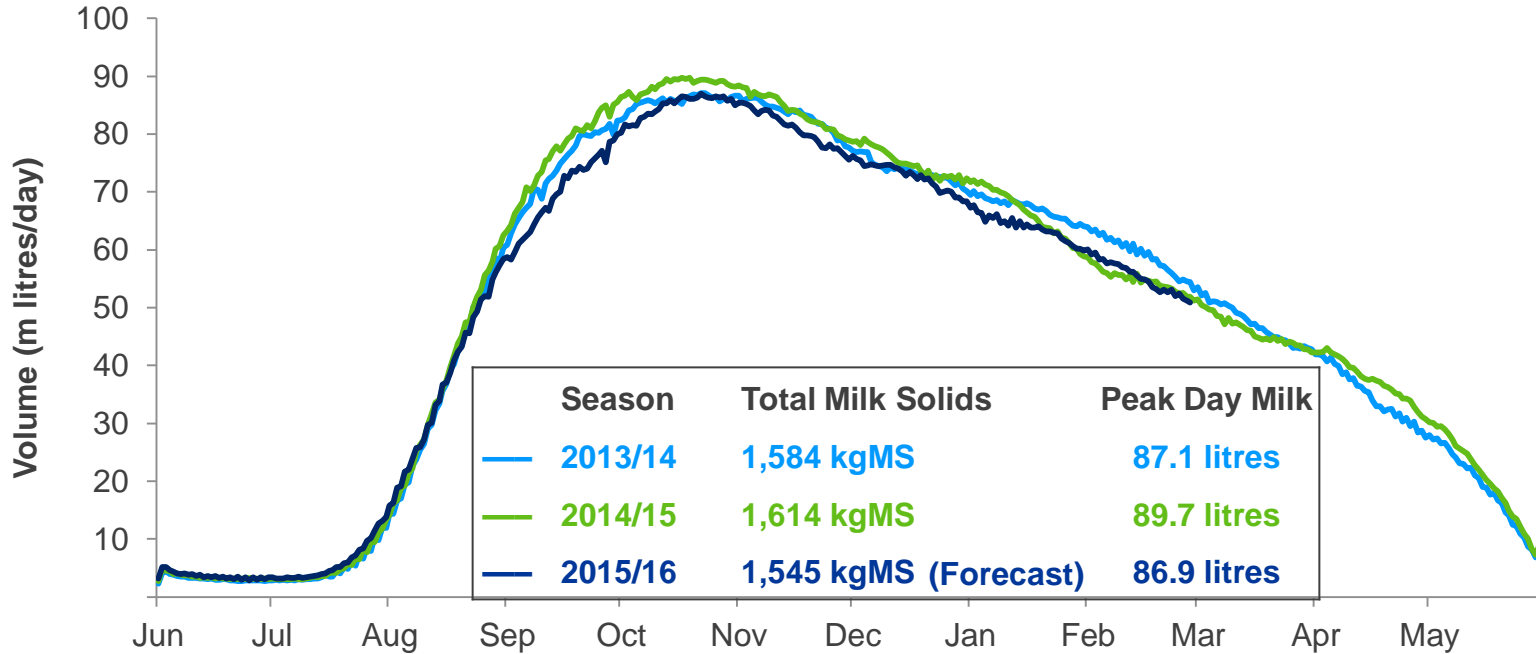
- Co-operative Support loan
- Farm Source™ deferred payment terms
- Higher interim dividend
- Intention to pay final dividend earlier

1. Total available for payout is forecast Farmgate Milk Price plus forecast earnings per share.

2. Cash payout is forecast Farmgate Milk Price plus forecast dividend per share.

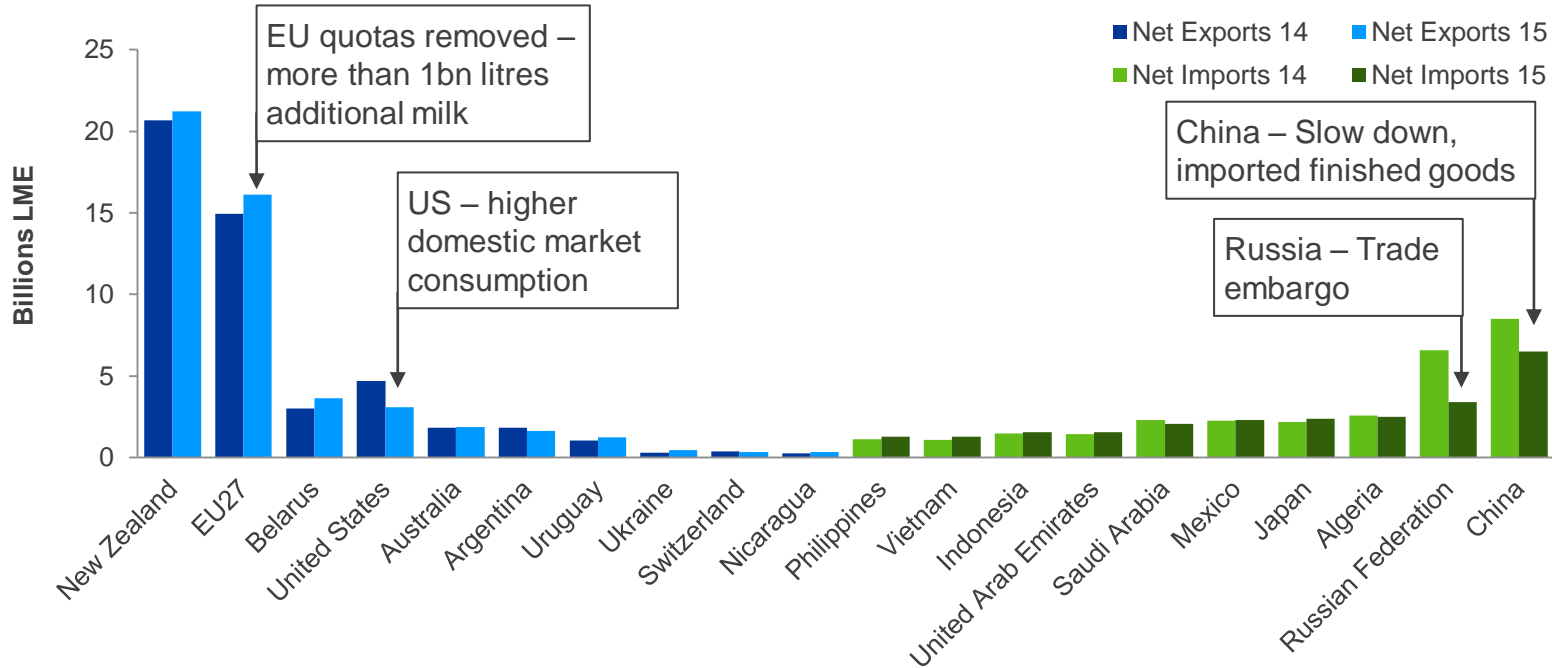
Milk supply in NZ lower than last season

2015/16 season forecast to be 4% lower



Global trade in dairy – temporary imbalance

Key changes in net trade from 2014 to 2015



Note: Trade expressed in terms of tonnes of Liquid Milk Equivalent (milk standardized to 4.2% fat and 3.5% protein). These are the top 10 net importing and the top 10 exporting markets

Outlook

- Good operating performance to continue
- Forecast 2015/16 total available for payout:
 - A forecast Farmgate Milk Price of \$3.90 per kgMS
 - A strong forecast earnings performance of 45-55 cents per share
- Intention to pay final dividend earlier
- Dairy market outlook
 - WMP price expected to lift through balance of 2016
 - Expecting EU to revert to normal growth of 1% per annum
 - Expecting China WMP imports to grow steadily at 4-5% per annum
 - Either a supply or demand shock could significantly change this outlook



Strong Co-op



- Driving performance
 - Volume to higher value and increased earnings
 - Cash flow focus
 - Strong balance sheet
 - Higher dividend



- Fonterra Co-op Support loan
- Intention to pay final dividend earlier
- More support on the ground: regional heads
- Fonterra Farm Source™
 - Extended credit – \$31 million
 - Rewards programme delivered \$8.5 million in benefits to farmers



PERFORMANCE

Performance has been strong



VOLUME

12.6BN LME

↑ 8%

REVENUE

\$8.8BN

↓ 9%

GROSS MARGIN

21%

↑ Up from 16%

NORMALISED EBIT

\$665M

↑ 77%

NET PROFIT AFTER TAX

\$409M

↑ 123%

INTERIM DIVIDEND PER SHARE

20CPS

↑ 100%

Ingredients¹

Volume (LME) ↑ 6% chg

Gross Margin ↑ 15%

Normalised EBIT ↑ \$617m

Consumer and Foodservice

Volume (LME) ↑ 10% chg

Gross Margin ↑ 28%

Normalised EBIT ↑ \$241m

International Farming

Volume (LME) ↑ 54% chg

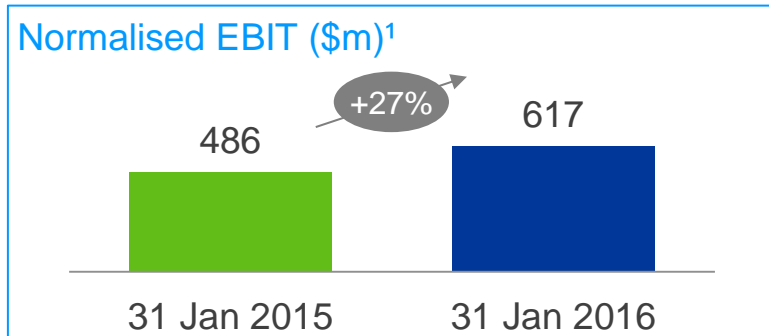
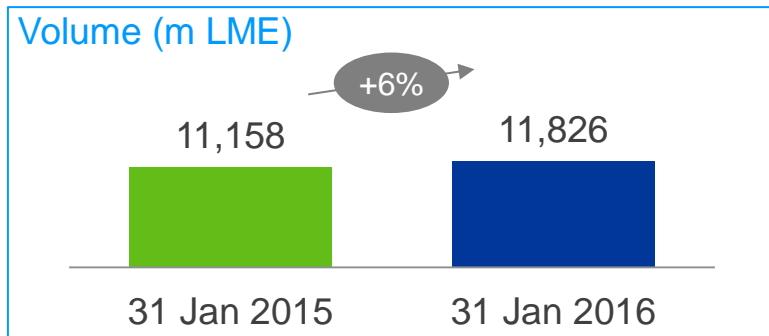
Gross Margin ↓ (21%)

Normalised EBIT ↓ (\$29m)

1. Ingredients excludes unallocated costs.

Ingredients

Delivered a strong performance



1. Ingredients normalised EBIT excludes unallocated group costs.

Volume

- Higher sales of non-reference products
- Late season inventory from 2015 cleared

Value

- Investments in NZ capacity – efficiencies, better yields
- NZ ingredients
 - No peak costs
 - Improved optionality and manufacturing performance
 - Positive stream returns – favourable product mix
- Australia ingredients – adverse product mix
 - EBIT \$28 million loss



Global dairy market – strong long-term fundamentals

New Zealand

- Significant participant in tradable market



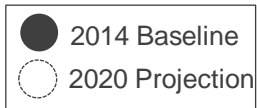
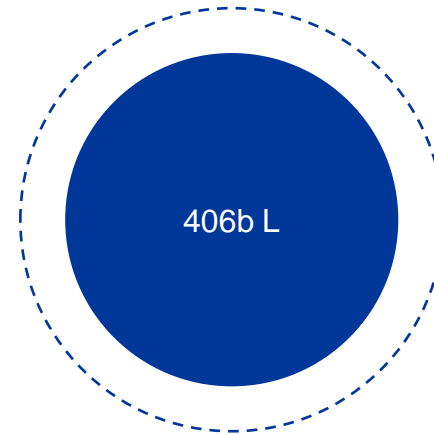
Globally Traded Dairy Market^{1,3}

- Global export/import market
- Informs Farmgate Milk Price



Formal Dairy Market^{2,3}

- Reflects total dairy demand



1. Source: International Farm Comparison Network (IFCN), Economist Intelligence Unit (EIU), Euromonitor, Fonterra analysis. Measured as total global imports.

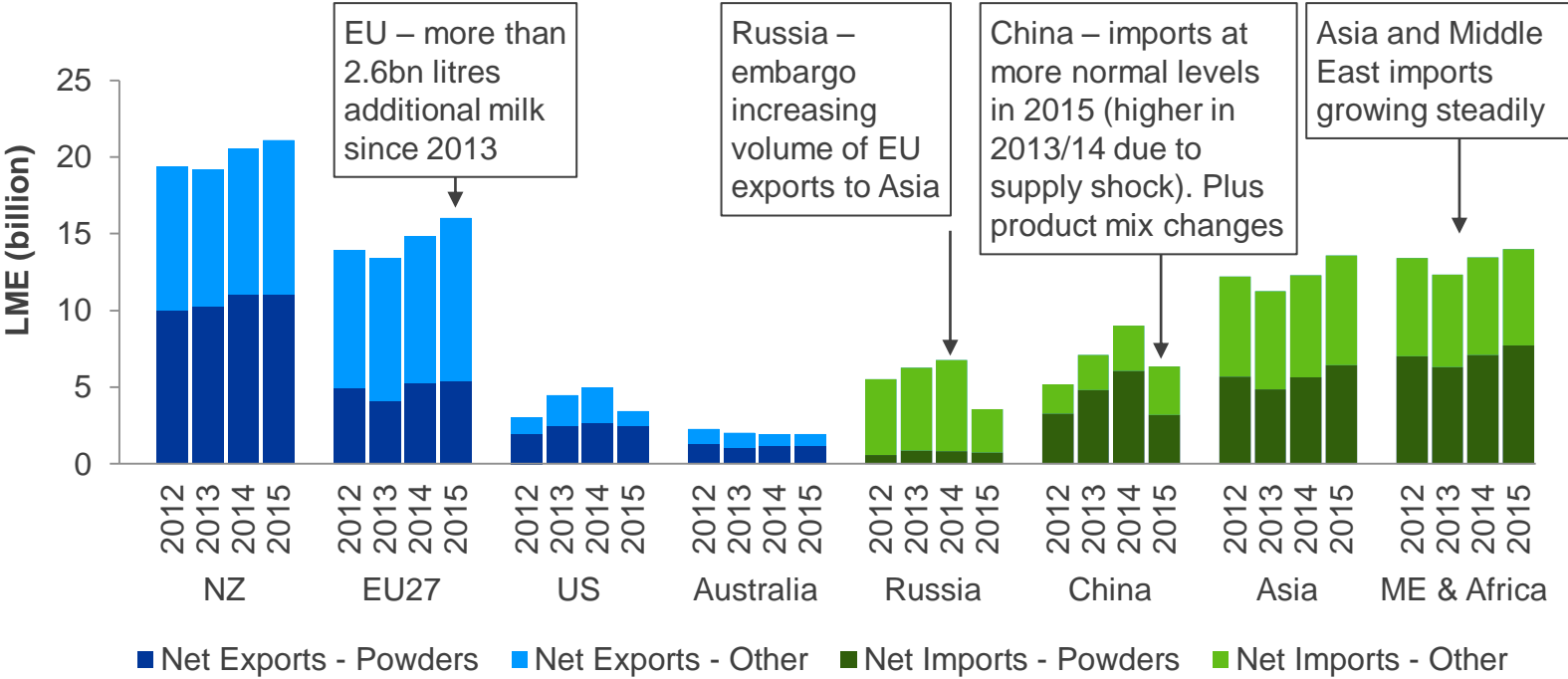
2. Source: Euromonitor.

3. Volume expressed on an LME basis with standardised composition of milk, 4.2% fat and 3.5% protein

4. Growth is compound annual growth.

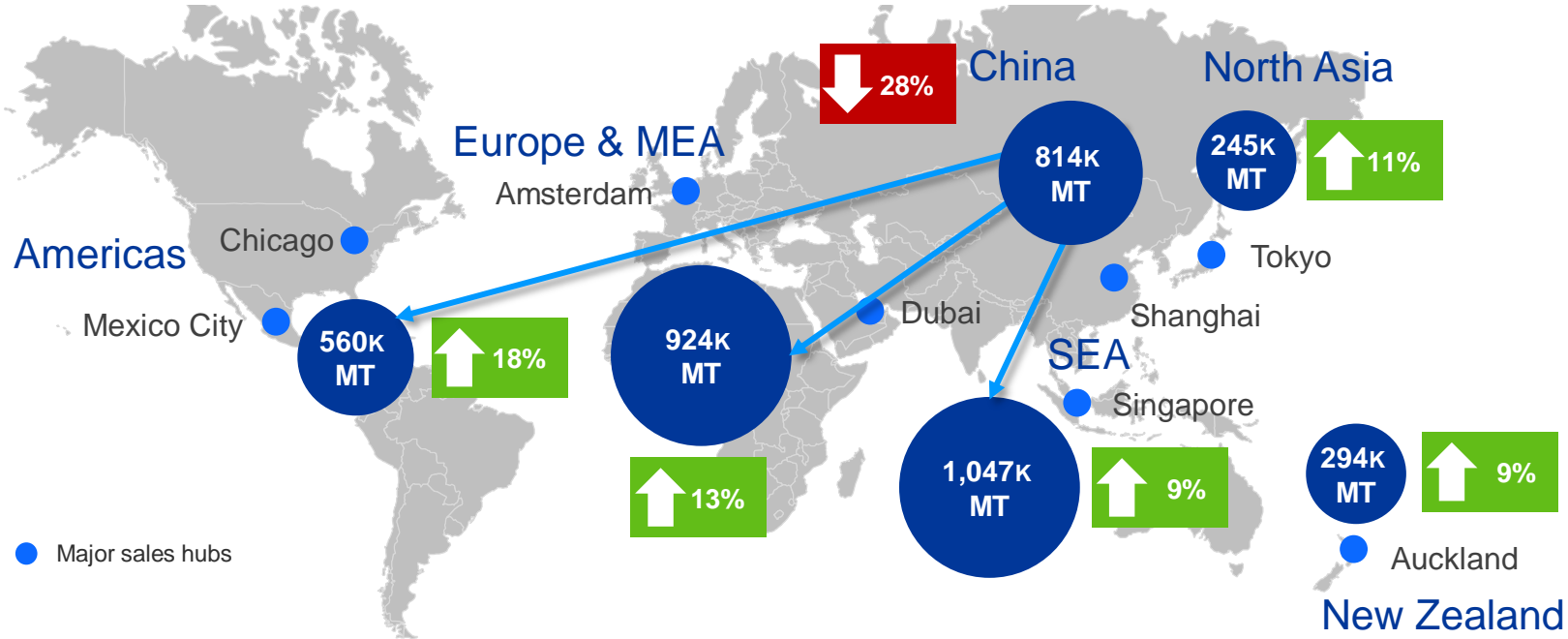
Changes in the globally traded market impacting prices

Significant change in imports and exports



New Zealand ingredients market reach

Past 18 months lower sales to China offset by higher volume into other markets



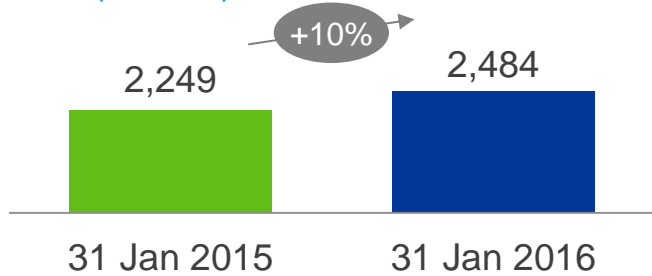
Note: Major sales hub rounded volumes for 18 months to 31 Jan 2016 and percentage compared to 18 months to 31 Jan 2015.
Note: Sales are reported based on the Global Ingredients and Operations management structure and not on a shipped to basis.

Consumer and foodservice

Strong volume and margin growth – generating higher value demand



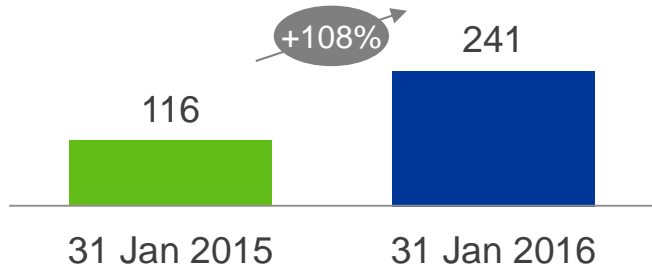
Volume (m LME)



Volume

- 235 million of additional LME
- More volume higher up the value chain
- Strong foodservice volume growth

Normalised EBIT (\$m)



Value

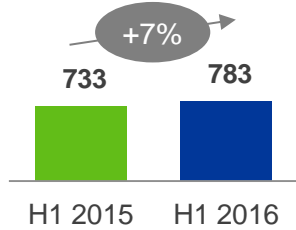
- Continued to build on strong result of second half 2015
- Broad-based performance
- Volume growth, strength of our brands and lower input costs

Consumer and foodservice

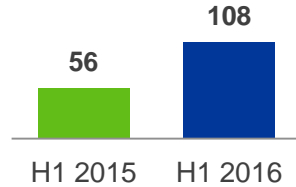
Strong performance across the business – generating higher volume demand

Asia

Volume¹

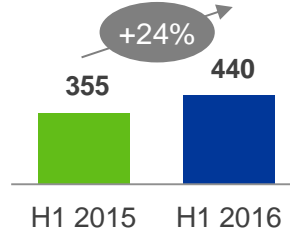


Normalised EBIT

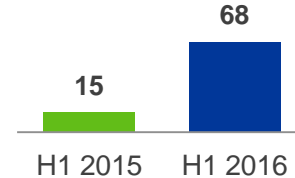


Greater China

Volume¹

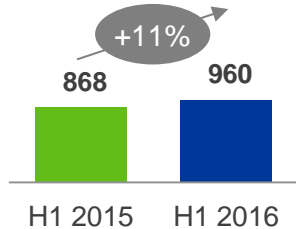


Normalised EBIT

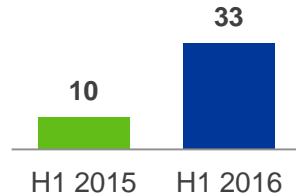


Oceania

Volume¹

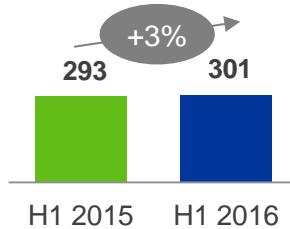


Normalised EBIT

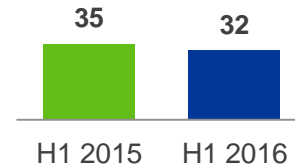


Latin America

Volume¹



Normalised EBIT²



1. Volume (m LME).

2. Venezuela has been impacted by the currency translation. Excluding Venezuela, Latin America normalised EBIT was 50% higher.

Australia – cheese, whey and nutritional focus

A clear plan and progress made on returning business to profitability



Review



Fix leaks



Improve
Portfolio



Transform
Business
In progress

A profitable business

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

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

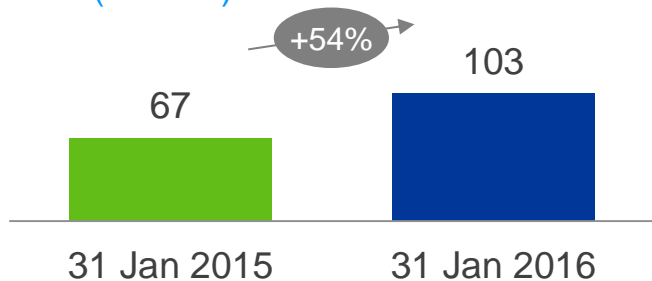
- Stanhope rebuild underway
- Major supply agreements at Darnum
- Sale of non-strategic assets

- Profitable end game
- Key priorities:
 - Complete Stanhope
 - Fill Darnum
 - Grow brands

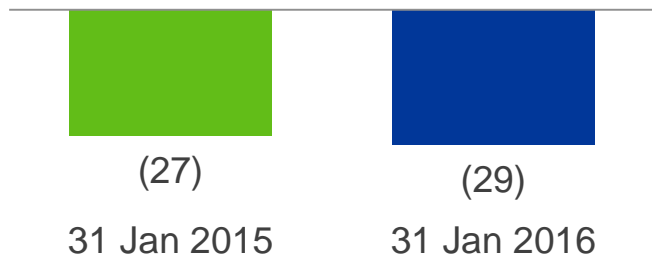
International farming ventures

Key to integrated dairy business

Volume (m LME)



Normalised EBIT (\$m)



Volume

- New farms coming on stream
- Two hubs complete – 10 farms in total
- Access to secure, high quality milk supply

Value

- Scale achieved to capture downstream value
- Lower milk price and higher volumes increased operating deficit
 - RMB0.95 reduction in milk price
- Largely offset by operational improvements

International farming ventures

Roadmap to integrated business in China following major industry change



Key milestones

A Clear Plan, Support 2008

- Trigger point – industry change
- Clear business plan:
 - Support NZ exports
 - Develop safe, secure local supply
 - Build integrated business
 - Built first farm

Test, Build and Learn 2009-13

- Developed Hub 1 (Yutian)
- Biosecurity/food safety
- Effluent management

Scale and Efficiency 2014-15

- Developed Hub 2 (Ying)
- On-farm efficiencies
- Milk supply at scale

Downstream value 2016-18

- Local partnerships
- Developing higher-value demand
- Abbott JV (Hub 3)

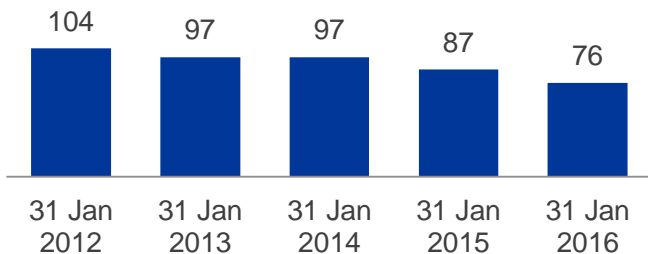
#1 strategic market
Integrated China business



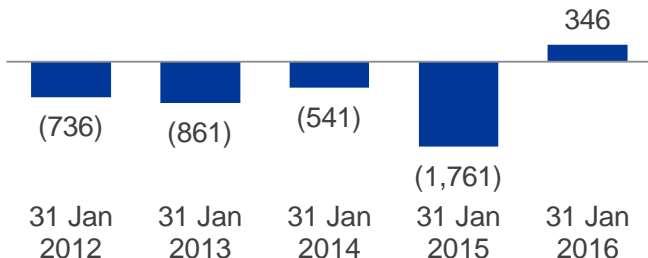
Strong financial discipline delivering results

Working capital improvements and strong cash flow

Reduced working capital days¹



Strong free cash flow²



1. Working capital days excludes milk suppliers payable.

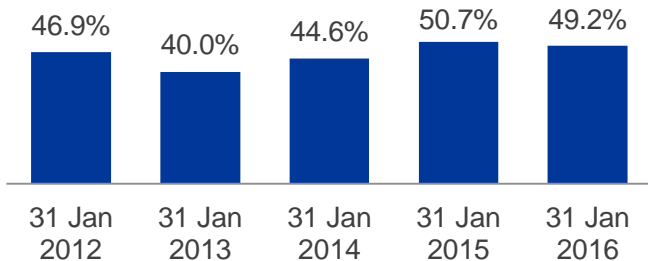
2. Free cash flow is funds available for dividend, interest and debt.

- Key focus of transformation
 - Supply chain improvements and inventory volumes lower
 - Improved terms for receivables and payables
-
- Strong cash flow benefited from
 - Higher earnings
 - Working capital improvements, including milk suppliers payable returning to normal
 - Reduced capex and sale of non-strategic assets
 - Free cash flow at the half year typically negative reflecting seasonal business

Financial strength of the Co-op

Strong balance sheet and solid credit rating

Gearing¹



Strong credit rating

Credit Rating	Fitch	A (stable outlook)
	S&P	A- (stable outlook)
Debt Weighted Average Term to Maturity	As at 31 Jan 2016	4.3 years

- Reduced gearing achieved after
 - Paying a higher dividend
 - Funding Beingmate acquisition
 - Completion of expansion capex
- Lower net debt of \$6.9bn, higher earnings and equity
- On track for gearing of 40-45% by financial year-end

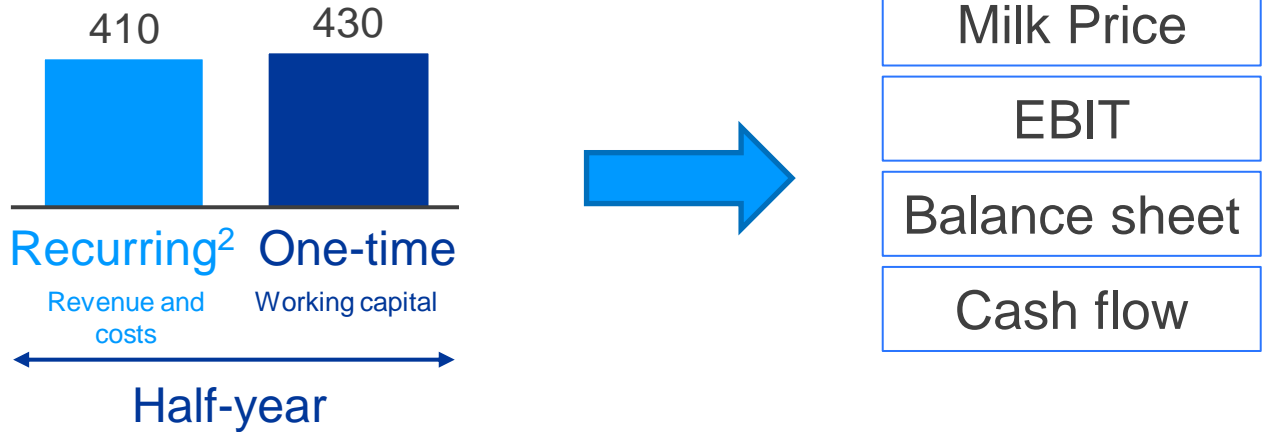
- Ratings reflect Co-op's strength
 - Highest rated agricultural co-op globally
- Strong access to capital
- Conservative funding maturity

1. Gearing ratio is economic interest bearing debt divided by economic net interest bearing debt plus equity excluding cash flow hedge reserve.

Transformation – delivering cash benefits



Transformation Cash Benefits¹ \$ million



1. The estimated FY16 cash benefits of business transformation initiatives implemented in H1.

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

SUPPLEMENTARY SLIDE

Normalised EBIT reconciliation



\$ million	Six months to 31 January 2016	Six months to 31 January 2015
Profit after tax	409	183
Add: Net finance costs	266	303
Add/(less): Taxation expense/(credit)	77	(3)
Total EBIT	752	483
Less: Gain on DairiConcepts sale	(68)	-
Add: Impairment of assets in Australia	12	-
(less)/Add: Time value of options	(31)	22
Net gain on Latin America strategic realignment	-	(129)
Total normalisation adjustments	(87)	(107)
Total normalised EBIT	665	376