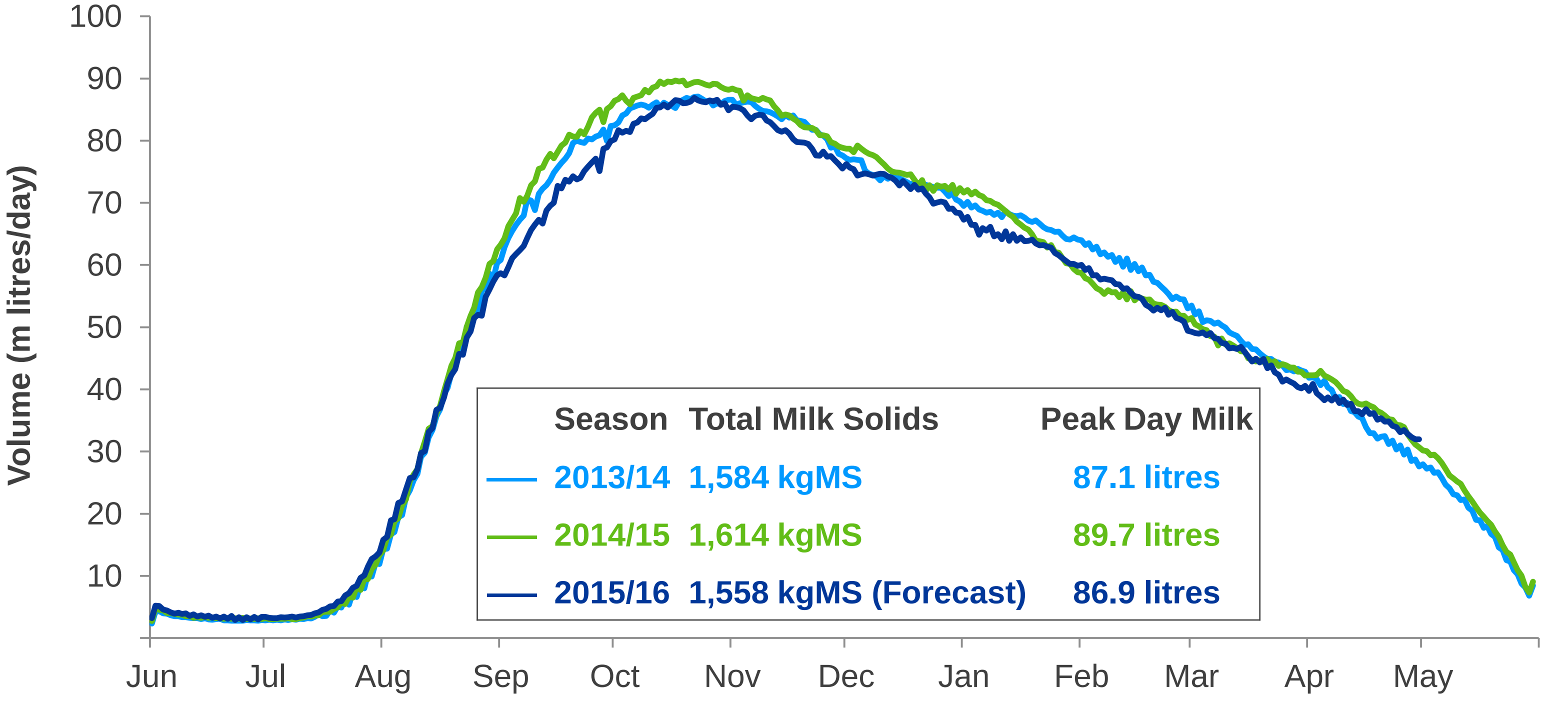
MAY 2016 BUSINESS UPDATE

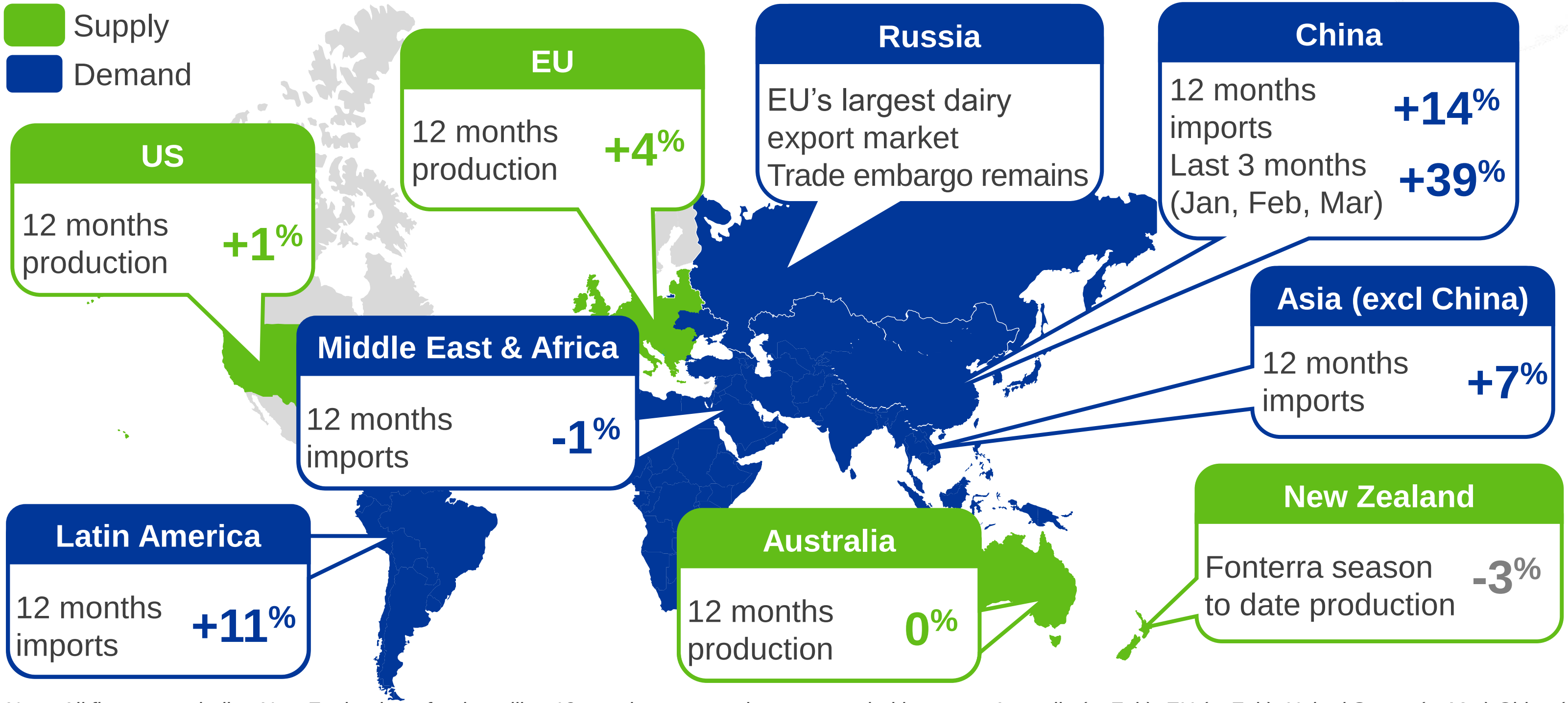
FONTERRA
DAIRY FOR LIFE

Milk supply in NZ lower than last season

2015/16 season forecast to be 3% lower



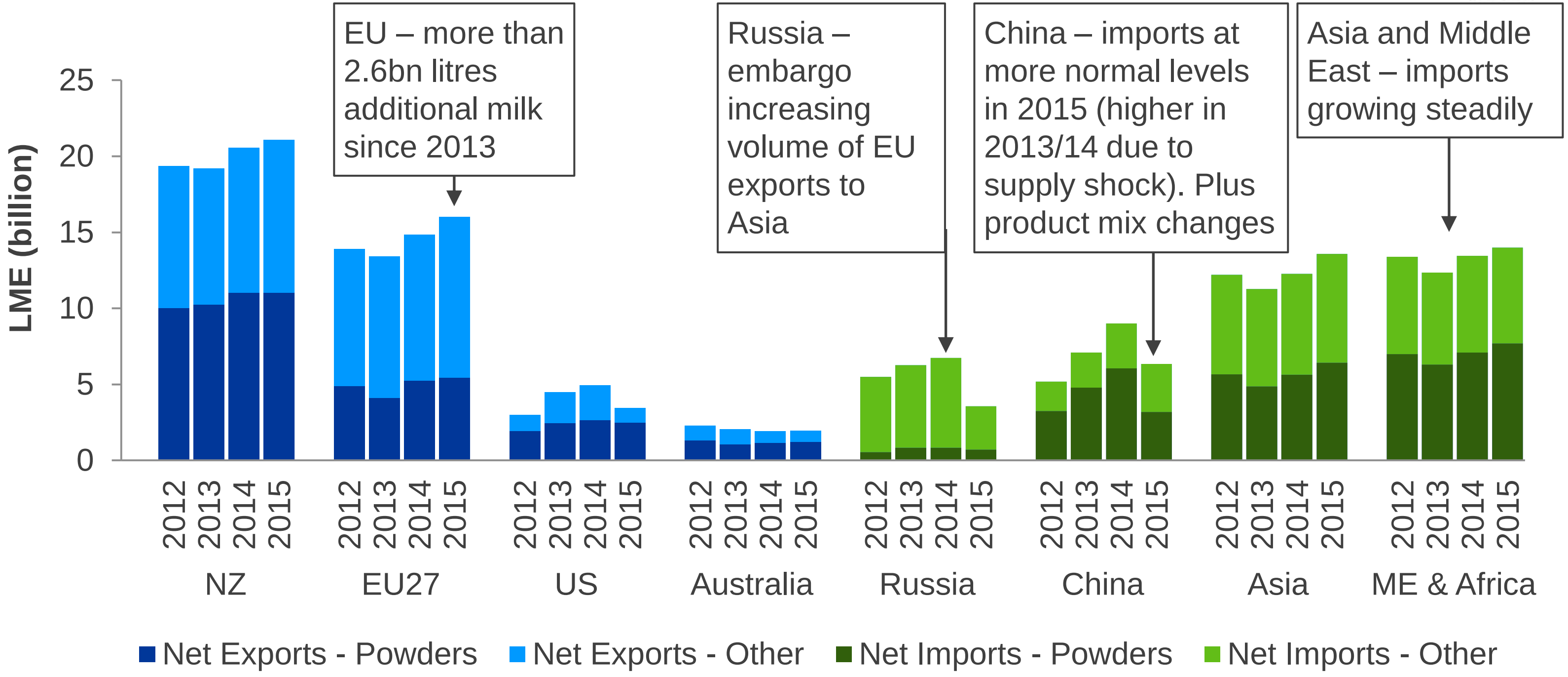
Dairy supply/demand imbalance changing



Note: All figures excluding New Zealand are for the rolling 12 months compared to same period last year: Australia (to Feb), EU (to Feb), United States (to Mar),China (to Mar), Asia (to Jan), Middle East & Africa (to Jan), Latin America (to Jan). New Zealand is for the season from 1 June to April.

Source: Government milk production statistics / GTIS trade data / Fonterra analysis

Globally traded market continues to impact prices



Note: Trade expressed in terms of tonnes of Liquid Milk Equivalent (milk standardized to 4.2% fat and 3.5% protein).

Nine-month performance summary 2016

VOLUME (LME)	REVENUE	GROSS MARGIN	OPEX	CAPEX
17.8BN	$12.9BN	22%	$1.9BN	$634M
↑ 2%[1]	↓ 10%[1]	↑ FROM 17%[1]	↓ 3%[1]	↓ 37%[1]

Ingredients

Volume LME (BN)[2]		16.9
Volume Change[3]	↑	2%
Gross Margin[4] %	↑	16%

Consumer & Foodservice

Volume LME (BN)[2]		3.7
Volume Change[3]	↑	9%
Gross Margin[4] %	↑	28%

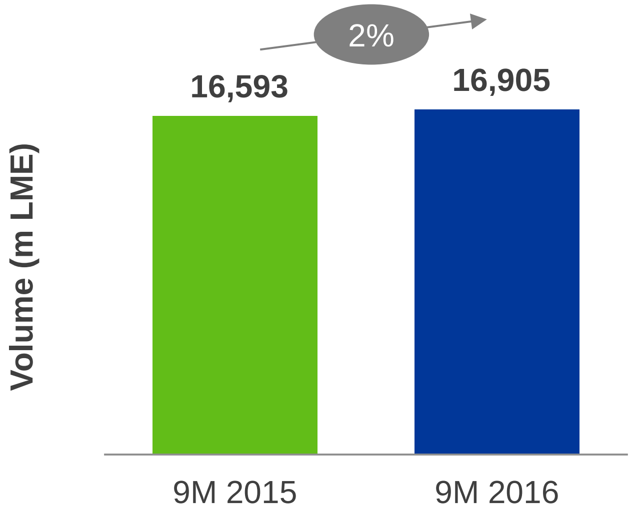
International Farming

Volume LME (BN)[2]		0.2
Volume Change[3]	↑	49%
Gross Margin[4] %	↓	-15%

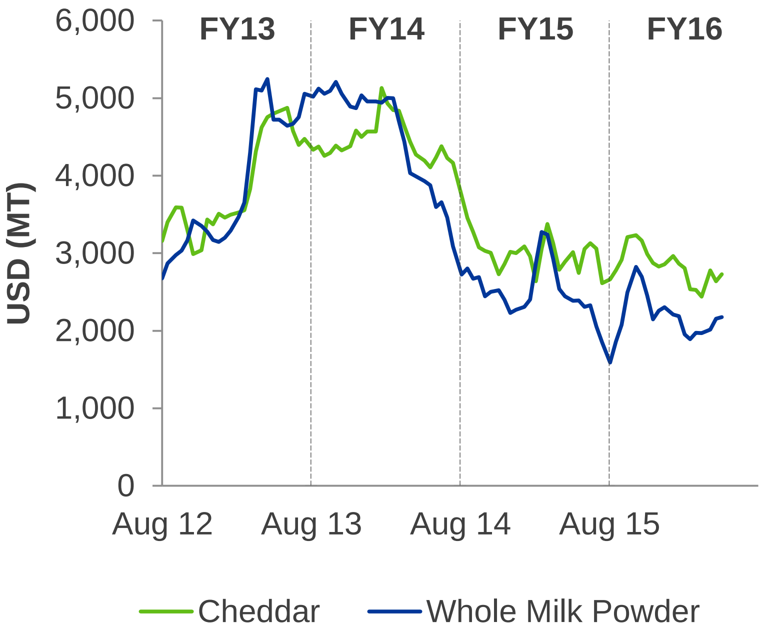
1. *Compared to FY15 nine-month period.*
2. *Volumes by strategic platform include inter-company sales between business units and therefore in total this exceeds the group external sales volume of 17.8bn*
3. *Volume change is FY16 nine-months relative to FY15 nine-months.*
4. *Gross Margin % is for FY16 nine-months, the arrow represents change relative to FY15 nine-months.*

Ingredients volume growth and positive stream returns

Good volume growth



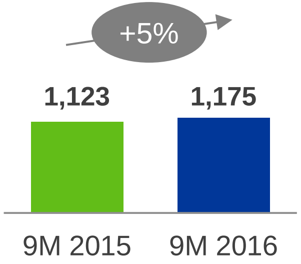
Positive stream returns year to date in NZ



Consumer and foodservice – nine-month growth

Asia

Volume[1]

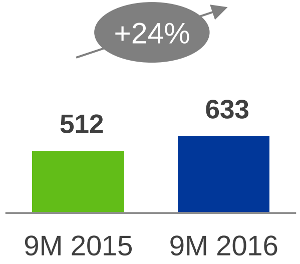


Gross Margin[2]

31%

Greater China

Volume[1]

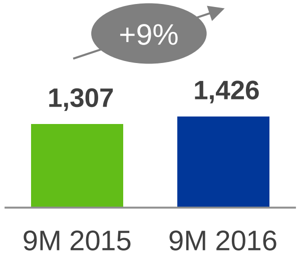


Gross Margin[2]

37%

Oceania

Volume[1]

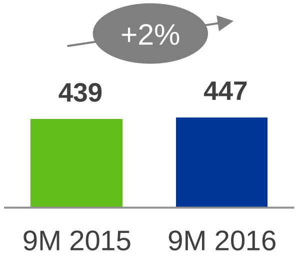


Gross Margin[2]

21%

Latin America

Volume[1]



Gross Margin[2]

31%

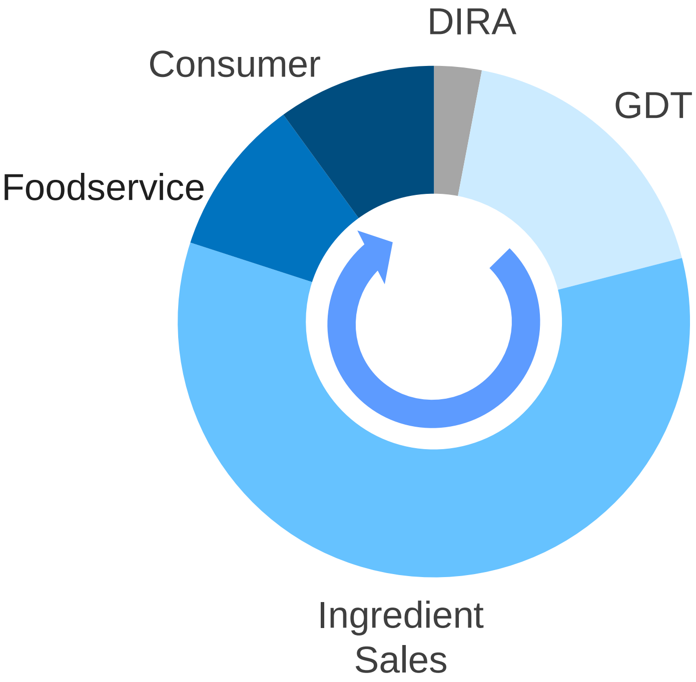
1. *Volume (m LME).*
2. *The percentage is for FY16 nine-months and the arrow shows the directional change.*

Australian Milk Price update

- Milk price reduced to AUD5.00 from AUD5.60 per kgMS
  - Farmer support loan of 60 cents per kgMS – interest-bearing and linked to supply contract
- Reflects reality of supply / demand imbalance in global dairy market
- Reduces ingredients operating losses
  - Expect input costs to reduce by AUD48 million
- Priority is a long-term sustainable business for:
  - Fonterra Australia
  - Our farmer suppliers in Australia
- On target to return to profitability

Strategy delivering

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



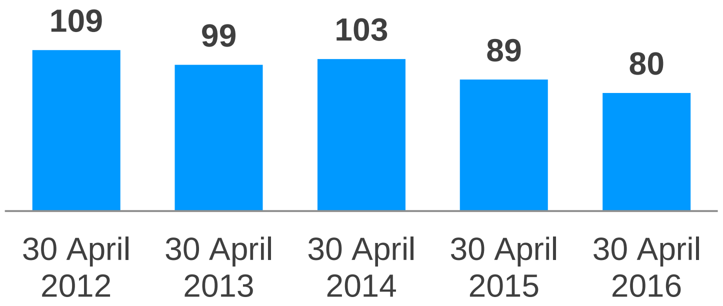
- Optimising NZ milk
  - Optionality at peak
  - More stable earnings
  - Higher returns
- Increasing volume through value-add consumer and foodservice
  - Moved additional 300m LME into consumer and foodservice in nine months

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 30 Apr 2016	4.2 years

Reduced working capital days – 9 month average



Financial discipline continued

- Lower capex following planned investment cycle
- Advance rate within guidelines
- Strong cash flow due to
  - Higher earnings
  - Working capital improvements
- Leverage reducing to plan
  - FY16 year-end gearing ratio expected to be within 40-45% range

Outlook

- Good operating performance to continue
- Early part payment of final dividend to be paid on 7 June – 10 cents
  - Payment date accommodates the dividend reinvestment plan
- Forecast earnings remain at 45-55 cents per share. Range reflects:
  - Timing of completion of announced business sales in Australia
  - Normal impact of end-of-season milk production on NZ ingredients earnings
  - No further geopolitical deterioration in Venezuela and Brazil
- Leverage reducing to plan – gearing of 40 to 45% by year-end
- Forecast total dividend continues to be 40 cents per share
  - Current intention to declare another 10 cents per share in August