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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.

Source: International Farm Comparison Network (IFCN), Economist Intelligence Unit (EIU), Euromonitor, Fonterra analysis
Dairy supply/demand imbalance reducing

Supply: EU, Russia, China, Middle East & Africa, Australia, New Zealand
Demand: China, EU, Russia, Middle East & Africa, Australia, New Zealand

- EU: Year to date production +1%
- Russia: EU’s largest dairy export market, Trade embargo remains
- China: Year to date imports -15%
  - Imports up in past 2 months (YTD up from -21%)
- Asia (excl China): Year to date imports +11%
- Middle East & Africa: Year to date imports +1%
- Australia: Year to date production +3%
- New Zealand: Fonterra 2014/15 season production +2%
  Forecast for 2015/16 season production -5%

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

Tracked Customer Inventory²

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

1. IFCN Dairy Report.
2. Fonterra estimates.
New Zealand milk supply down

Monthly Change in Milk Supply

- October 4% down\(^1\)
- Season to date 5% down\(^2\)

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

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

- 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

Inventory Profile¹

1. Month end inventory volumes for NZ ingredients.
## 2016 Q1 performance summary

<table>
<thead>
<tr>
<th>Category</th>
<th>Volume (MT)</th>
<th>Revenue</th>
<th>Gross Margin</th>
<th>OPEX</th>
<th>CAPEX</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ingredients</strong></td>
<td>945K MT</td>
<td>$3.6BN</td>
<td>22.7%</td>
<td>$628M</td>
<td>$258M</td>
</tr>
<tr>
<td>Volume Change</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>↑ 0.6%</td>
<td>↓ 17.6%</td>
<td>↑ FROM 14.1%</td>
<td>↓ 3.5%</td>
<td>↓ 36.5%</td>
</tr>
<tr>
<td>Gross Margin%</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>↑ 15%</td>
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<tr>
<td><strong>Consumer and Foodservice</strong></td>
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<tr>
<td>Volume Change</td>
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<tr>
<td></td>
<td>↑ 3%</td>
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<tr>
<td>Gross Margin%</td>
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<tr>
<td></td>
<td>↑ 28%</td>
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<tr>
<td><strong>International Farming</strong></td>
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</tr>
<tr>
<td>Volume Change</td>
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<tr>
<td></td>
<td>↑ 56%</td>
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<td></td>
</tr>
<tr>
<td>Gross Margin%</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>↓ -5%</td>
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</tr>
</tbody>
</table>

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

FY16 increased free capacity
FY15 no free capacity

- F15
- F16
- FY15 Capacity
- FY16 Capacity

USD (MT)

Cheddar
Whole Milk Powder
Consumer and foodservice growth in Q1

### Asia

**Volume¹**

- Q1 15: 69
- Q1 16: 72

**Gross Margin²**

- +4%

### Oceania

**Volume¹**

- Q1 15: 162
- Q1 16: 162

**Gross Margin²**

- +0%

### Latin America

**Volume¹**

- Q1 15: 159
- Q1 16: 161

**Gross Margin²**

- +1%

### Greater China

**Volume¹**

- Q1 15: 31
- Q1 16: 37

**Gross Margin²**

- +19%

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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

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>Fitch</th>
<th>A  (stable outlook)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P</td>
<td>A-    (stable outlook)</td>
<td></td>
</tr>
</tbody>
</table>

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

Utilise high quality Australian nutritional assets
- Darnum JV approved by Beingmate board

Platform to grow whey specialty ingredients
- Heerenveen factory commissioned

Access to fast growing $18bn infant formula market
- Investment in Beingmate, #1 domestic infant formula company
- Anmum™ distribution launched in June
- Governance structure in place
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, Anmum**
- 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

<table>
<thead>
<tr>
<th>Functional Leaders</th>
<th>Business Leaders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Ops</td>
<td>Global Ops</td>
</tr>
<tr>
<td>Commercial Ingredients</td>
<td>Global Ingredients</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>New Zealand</td>
</tr>
<tr>
<td>Planning &amp; Delivery</td>
<td>Australia</td>
</tr>
<tr>
<td>Procurement</td>
<td>LATAM</td>
</tr>
<tr>
<td>Working Capital</td>
<td>GC, Asia &amp; MEA</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>Farm Source</td>
</tr>
</tbody>
</table>

**Example:** ~$5m
New product development time reduced by 12 months stripping out internal processes

**Example:** ~$0.5m
Improve lactose line at Australian dryer to increase milk processing peak capacity

**Example:** ~$5m
Optimise transportation modes (rail, road, boat) across geographies in partnership with our customers

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Strong pipeline of initiatives

Velocity Initiative Pipeline
No. of Initiatives

- Yet to be implemented
- Implemented initiatives

<table>
<thead>
<tr>
<th>Quarter</th>
<th>FY16 Actuals</th>
<th>FY17 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>~700</td>
<td>~1,500</td>
</tr>
<tr>
<td>Q2</td>
<td>~1,000</td>
<td>~1,600</td>
</tr>
<tr>
<td>Q3</td>
<td>~1,300</td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quarter</th>
<th>No. of Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>&gt;200</td>
</tr>
<tr>
<td>Q2</td>
<td>~700</td>
</tr>
<tr>
<td>Q3</td>
<td>~1,000</td>
</tr>
<tr>
<td>Q4</td>
<td>~1,300</td>
</tr>
<tr>
<td>Q1</td>
<td>~1,500</td>
</tr>
<tr>
<td>Q2</td>
<td>~1,600</td>
</tr>
</tbody>
</table>
Transformation delivering cash benefits

Estimated FY16 Transformation Cash Benefits¹
$ million

- Recurring²: 170 (Q1), 340 (Half-Year)
- One-time: 110 (Q1), 440 (Half-Year)

No. of Initiatives

- Q1: ~200 (Recurring²), ~50 (One-time)
- Half-Year: ~600 (Recurring²), ~80 (One-time)

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