Market Announcement

16 NOVEMBER 2015

Fonterra increases forecast earnings per share range

Fonterra Co-operative Group Limited is increasing its forecast earnings per share range for the current financial year to 45-55 cents. With a forecast Farmgate Milk Price of $4.60 this lifts the total available for payout to $5.05-5.15 per kgMS and would currently equate to a total forecast cash payout of $4.95-5.00 per kgMS after retentions.

Fonterra is also increasing the rate at which farmers are paid the Co-operative Support of 50 cents per kgMS, with the total amount paid up to December going from 18 cents to 25 cents.

Chairman John Wilson said performance in the period 1 August – 31 October 2015 built on the strong second half of the 2015 financial year.

“While it is tough on farm due to low global milk prices, farmers will welcome the ongoing improvement in Fonterra’s performance delivering increased returns.

“Performance is well ahead of last year and we are hitting our targets on gross margins and operating and capital expenses.

“At the same time, the acceleration of business transformation initiatives is generating significant cash savings. We are on track, and therefore able to lift our forecast earnings per share range.”

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 cents per share, which would then be subject to Board approval. This would equate to a total forecast cash payout of $4.95 -5.00 per kgMS.

“The performance and business transformation savings mean we are also able to increase the December Co-operative Support payment and payments will now be completed by April which means that farmers have access to more of that support earlier,” said Mr Wilson.

Chief Executive Theo Spierings said: “Fonterra Co-operative Support – equalling 50 cents per kgMS on share-backed production from June to December through a loan that is interest-free until 31 May 2017 – is supporting our farmers in a low milk price environment.”

Milk volumes and inventory

The Co-operative is continuing to forecast a reduction in milk collections in New Zealand for the current season of at least 5 per cent, which is equivalent to around 150,000 MT of Whole Milk Powder.

Mr Spierings said since August Fonterra had reduced the amount of product it expects to offer on the GlobalDairyTrade (GDT) platform over the year by 146,000 MT.

“In addition, an increased portion of product is being sold through bilateral customer agreements for a premium on prices achieved on GDT. Ingredients inventory levels for the first quarter are in line with the same period last year.

“We are benefiting from the investment in new plants in New Zealand, which is improving our manufacturing options and reducing peak costs. Our strategy is moving greater volumes of milk into higher-returning products to take advantage of improved prices relative to Whole Milk Powder," said Mr Spierings.

Business performance

Mr Spierings said performance in the first quarter of 2016 built on the strong finish to 2015 with margins increasing across the group from 14 per cent to 23 per cent compared to the same period last year.

"Our first quarter ingredients performance reflects improved product stream returns and margins are tracking well. With less milk this season, and additional capacity, we have taken the opportunity to optimise our product mix.

"We are delivering continuing growth in consumer and foodservice sales volumes and value, particularly in Greater China, Asia and Latin America," said Mr Spierings.

Capital expenditure of $258 million is down 37 per cent, in line with the target. Operating expenses are also down by 4 per cent to $628 million, reflecting the continuing focus on cost control.

Mr Spierings said Fonterra has solid credit ratings which demonstrate the Co-operative's fundamental financial strength.

"Following the completion of our accelerated investment cycle and with our ongoing financial discipline, we are on track to reduce our leverage, with the gearing ratio expected to return to the 40-45 per cent range at the end of the current financial year," said Mr Spierings.

Business transformation

Fonterra's business transformation is aimed at achieving a significant and lasting performance improvement through new ways of working across the Co-operative's global network.

"The initiatives generating recurring benefits implemented in the first quarter are expected to deliver a cash benefit of $170 million in the current financial year.

"Further initiatives in the second quarter are expected to increase recurring cash benefits to $340 million and contribute to both earnings before interest and tax (EBIT), and the Farmgate Milk Price in the current financial year.

"In addition, first quarter initiatives are expected to generate a one-time cash benefit of $110 million this financial year increasing to $440 million based on initiatives being introduced in the second quarter, and will contribute to working capital and our balance sheet," said Mr Spierings.

Fonterra will provide an update on the business transformation and on the earnings range forecast at the completion of the first half of the financial year.

-ENDS-

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BUSINESS
UPDATE

NOVEMBER 2015

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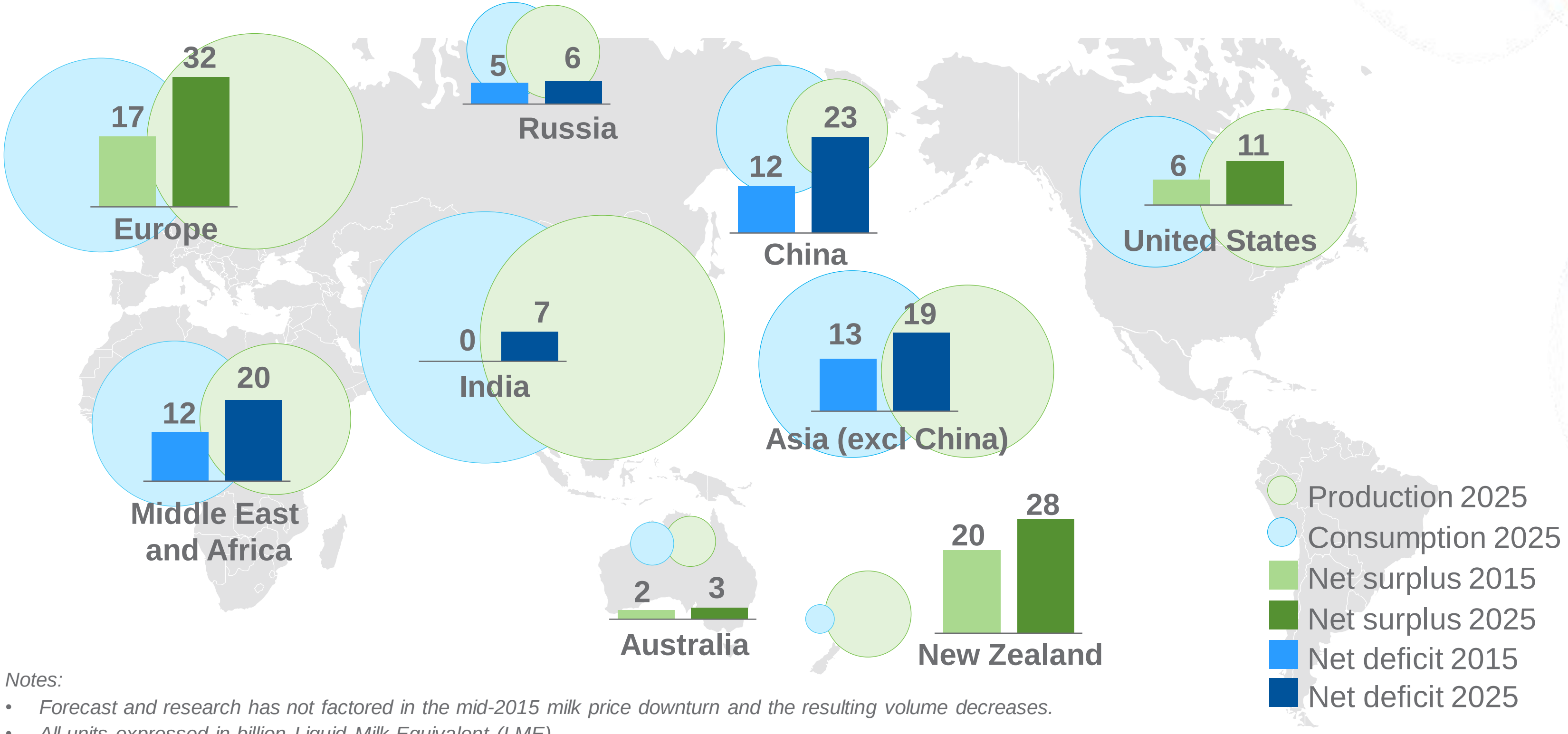
Fundamentals for dairy remain strong – 2025 view



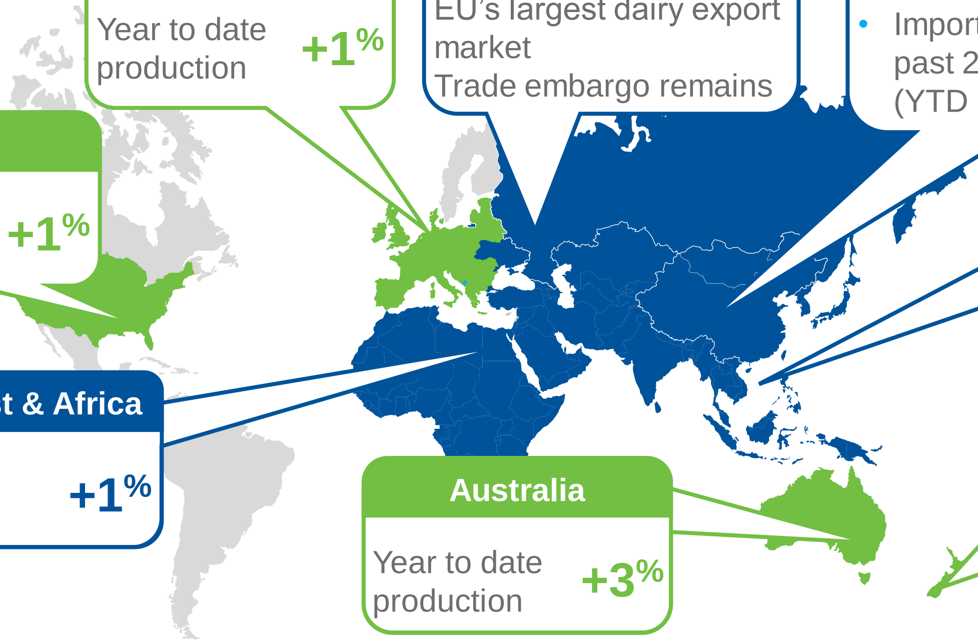
Notes:

- *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
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 -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%

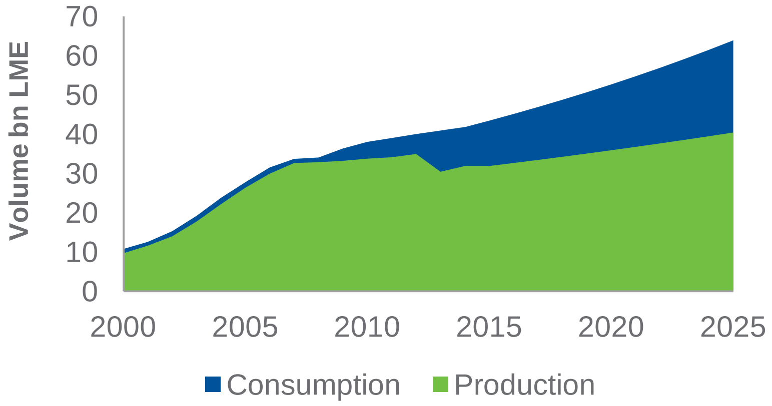
Australia
Year to date production +3%

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

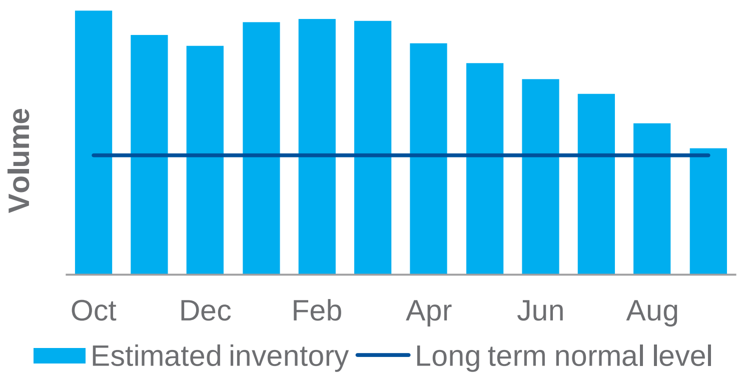
China dairy fundamentals remain strong

China Dairy Production and Consumption Gap[1]



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

Tracked Customer Inventory[2]

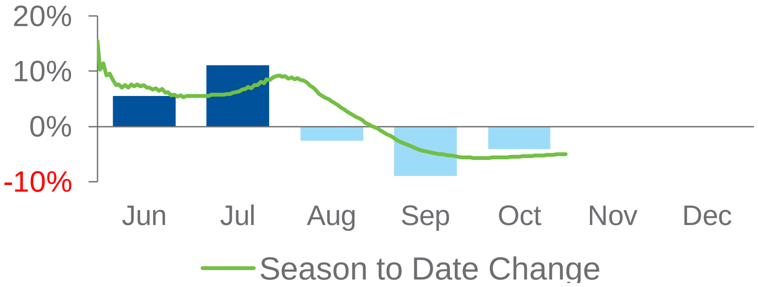


- Estimated inventory levels of core China WMP customers reduced significantly since March

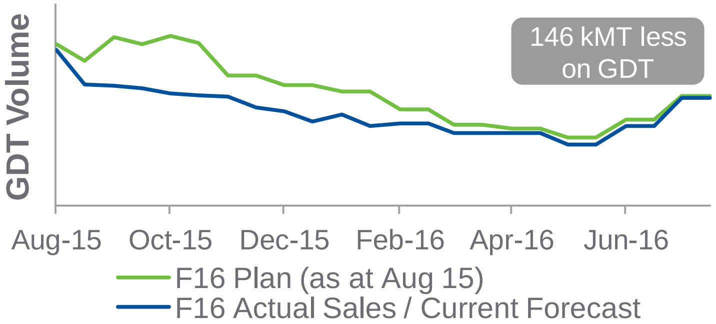
1. *IFCN Dairy Report.*
2. *Fonterra estimates.*

New Zealand milk supply down

Monthly Change in Milk Supply



Lower Collections Reflected in GDT Offering

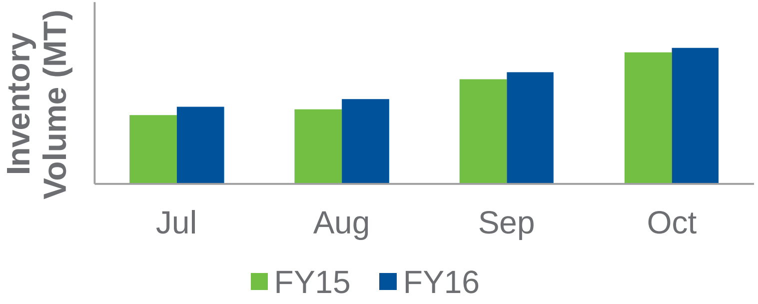


- Lower milk collections
  - October 4% down[1]
  - Season to date 5% down[2]
- 2015/16 season collection forecast
  - 5% down compared to the 2014/15 season
  - Over 85 million kgMS lower
- Lower forecast collections equivalent to around 150k MT of WMP
  - 146k MT off GDT over the next year
  - Increased sales through bilateral customer agreements
- El Nino – further uncertainty to forecast

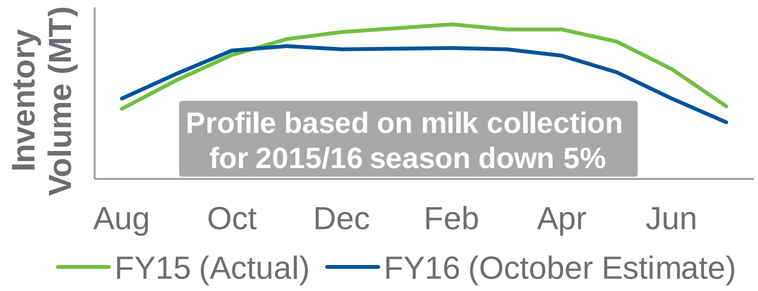
1. *October 2015 milk collection compared to October 2014*
2. *1 June 2015 to 31 October 2015 compared to same period last year*

Optimising sales in line with tightening inventory

Month End Inventory[1]



Inventory Profile[1]



- 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 Change[2]	↓	2%
Gross Margin[3] %	↑	15%

Consumer and Foodservice

Volume Change[2]	↑	3%
Gross Margin[3] %	↑	28%

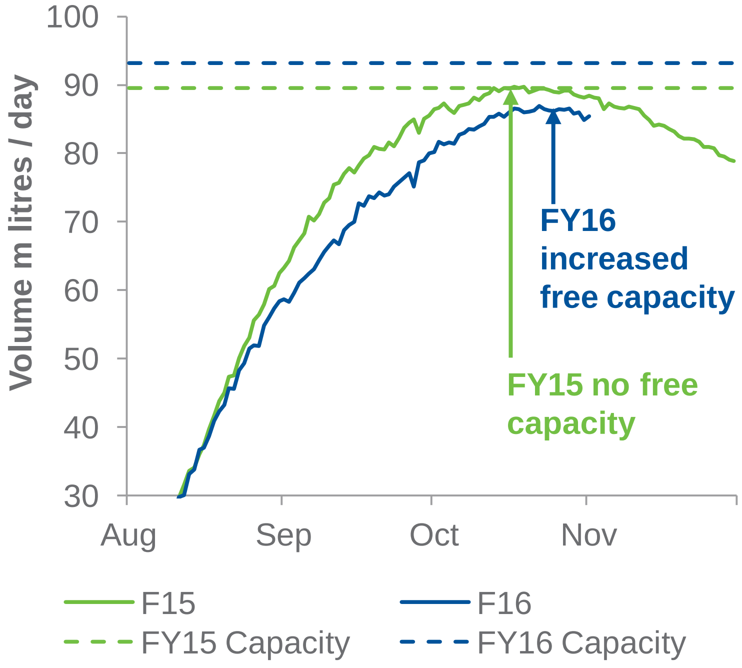
International Farming

Volume Change[2]	↑	56%
Gross Margin[3] %	↓	-5%

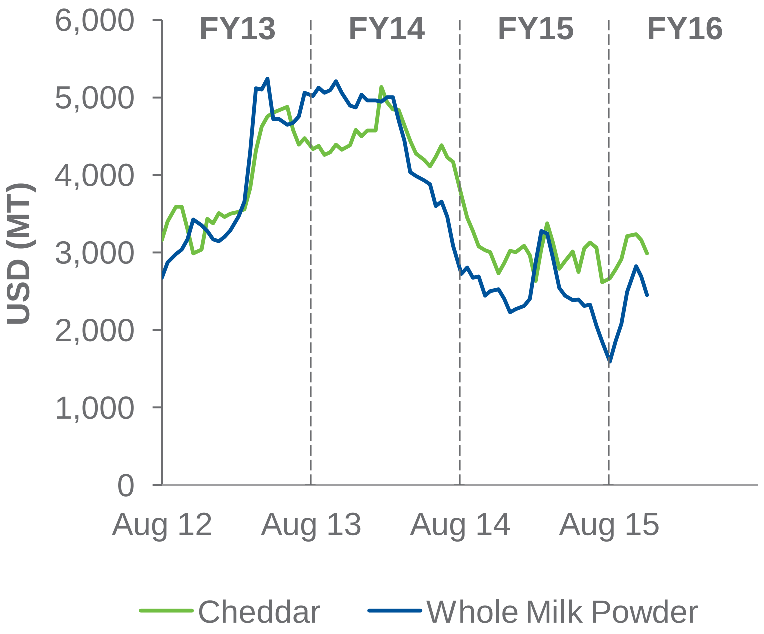
1. *Compared to the first quarter of the 2015 financial year*
2. *Volume change is FY16 Q1 relative to FY15 Q1*
3. *Gross Margin % is for FY16 Q1, the arrow represents change relative to FY15 Q1*

Optionality and product mix in NZ ingredients

Milk Supply versus Installed Capacity



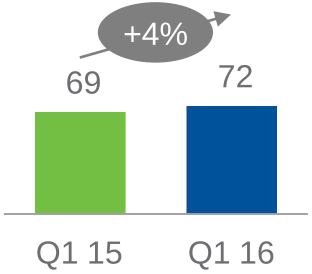
Positive Stream Returns in Q1



Consumer and foodservice growth in Q1

Asia

Volume[1]

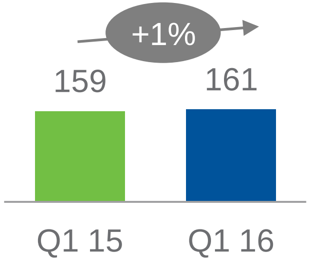


Gross Margin[2]

33%

Latin America

Volume[1]

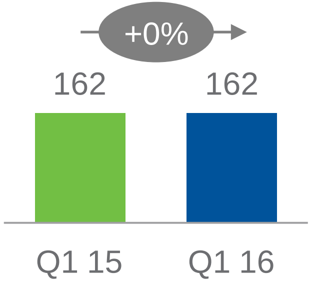


Gross Margin[2]

35%

Oceania

Volume[1]

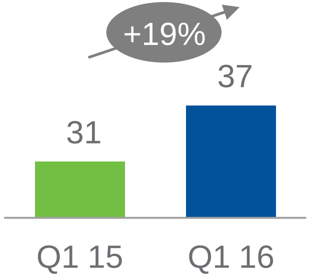


Gross Margin[2]

19%

Greater China

Volume[1]



Gross Margin[2]

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

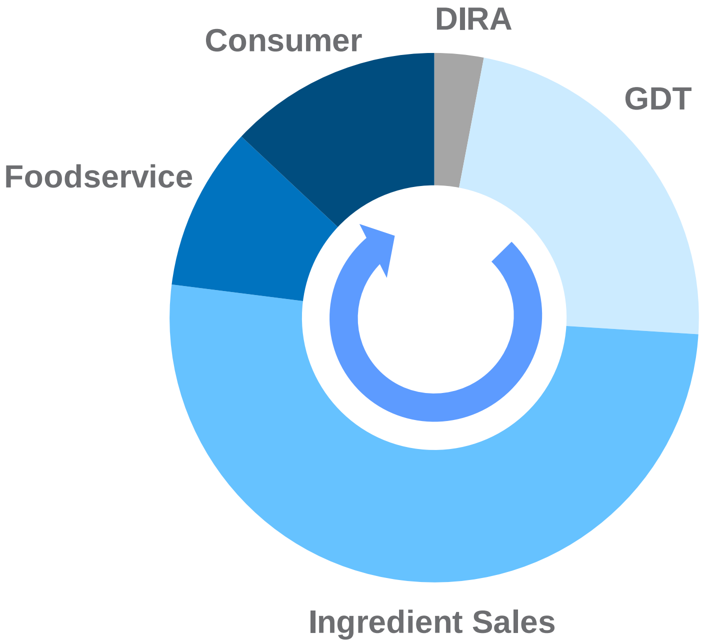
Credit Rating	Fitch	A (stable outlook)
	S&P	A- (stable outlook)
Debt Weighted Average Term to Maturity	As at 31 October 2015	4.6 years

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

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

Utilise high quality Australian nutritional assets

- Darnum JV approved by Beingmate board

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

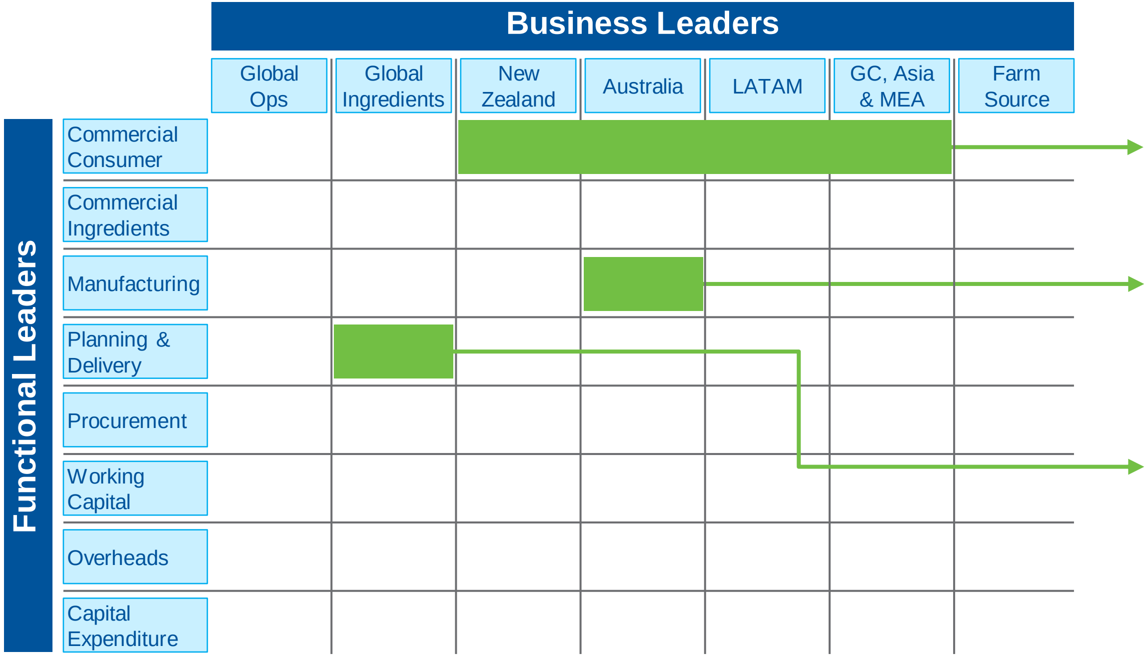
Velocity Office with dedicated **Velocity COO**

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



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

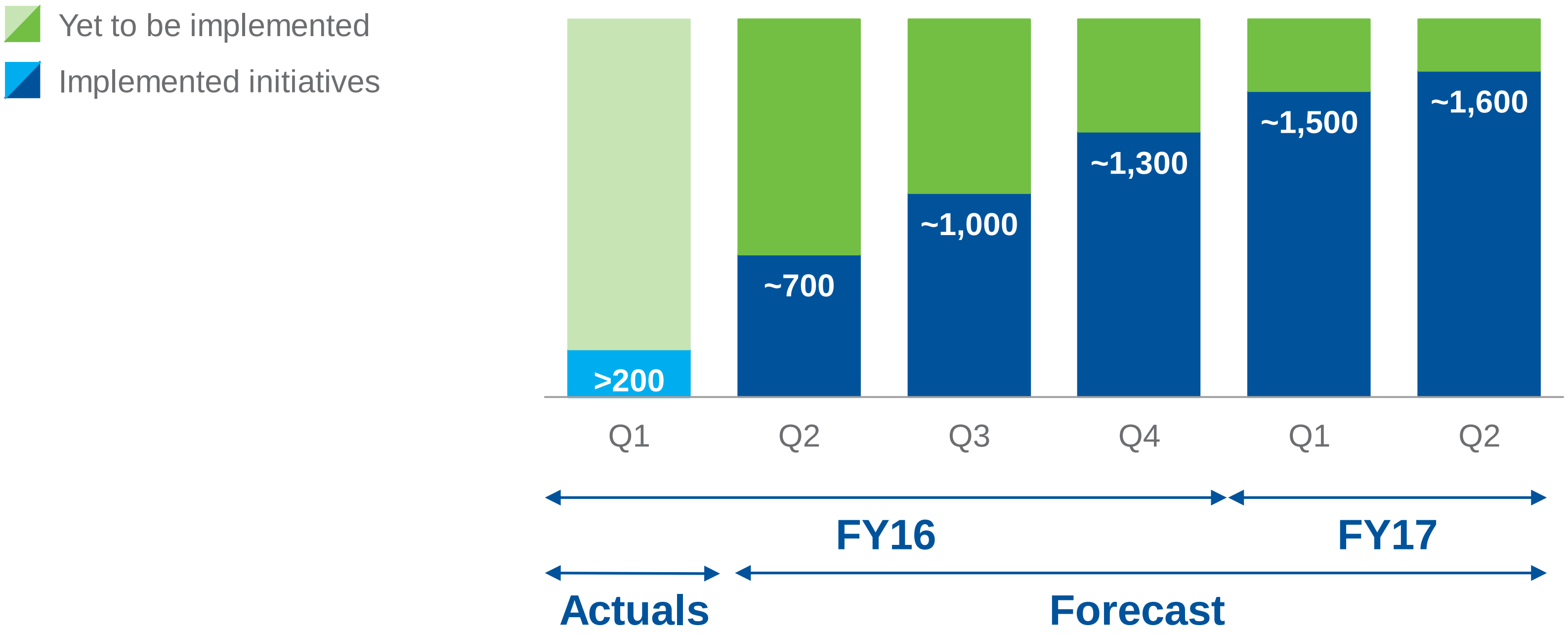
Example: ~$5m

Optimise transportation modes (rail, road, boat) across geographies in partnership with our customers

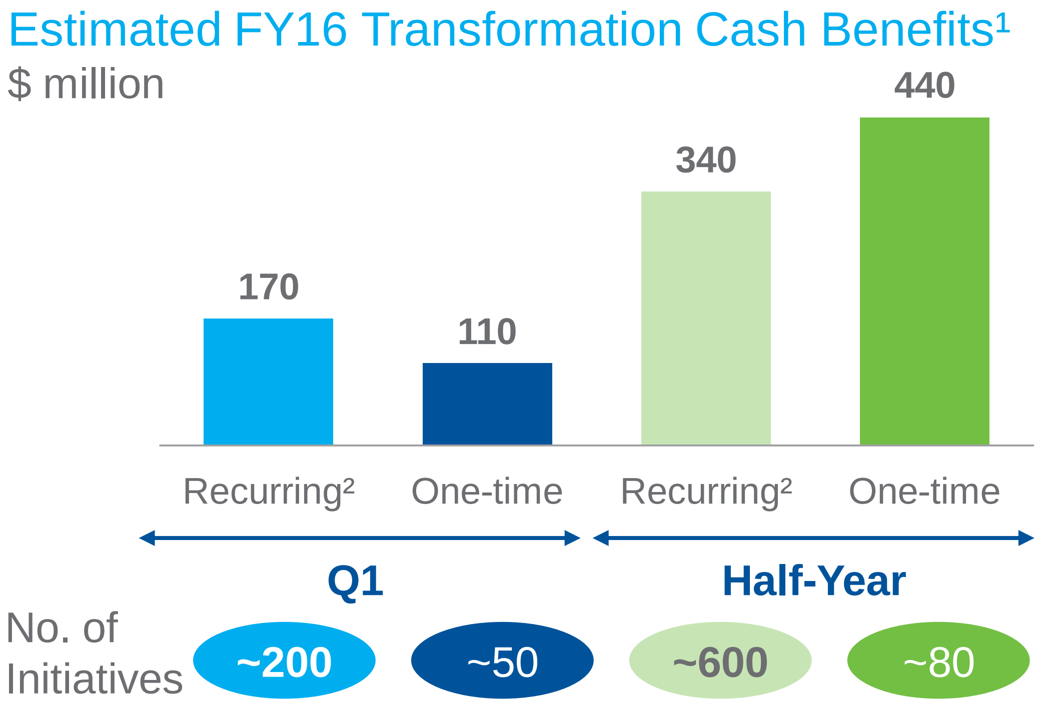
Strong pipeline of initiatives

Velocity Initiative Pipeline

No. of Initiatives



Transformation delivering cash benefits



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