Agenda

- Global marketplace
- Worldwide demand
- Trends and their impact
- What does this mean for dairy?
- Dairy in New Zealand and Fonterra
- Worldwide supply

Global marketplace

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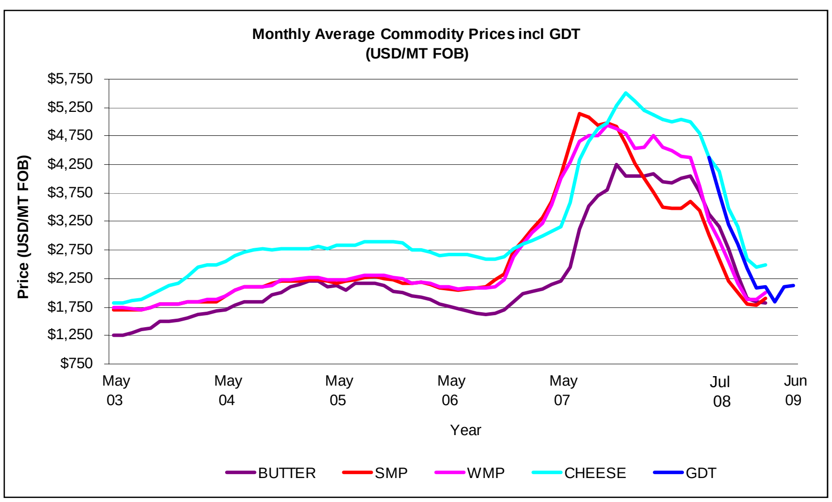
Summary & outlook

- Our assessment of the macro environment outlook suggests we're in for a ***difficult 12 months***
- Consumer buying patterns have changed but clear trends have yet to emerge, ***making forecasting difficult***
- Dairy commodity ***demand recently picked up*** as lower price levels improved margins and opportunities emerged
- This provided welcome ***relief and renewed confidence*** after a challenging period of extreme price volatility and a lower consumption response
- The rate of ***global milk growth is slowing*** with the current oversupply onto the market, particularly within protected markets likely to slow further

Summary & outlook

- Milk prices, with above average ***input costs will continue to constrain milk growth***
- The materiality and speed of supplier responses to ***cash pressures*** will be a key dynamic over the next 6 –12 months
- Slower US & EU consumption growth for higher value fresh dairy and cheese means ***more SMP & Butter*** (& EU WMP), with SMP prices aligned near support levels
- A build up of ***public stock dampens the prospect for price recovery***
- Politically driven ***protectionist responses*** have become a real threat to market stability

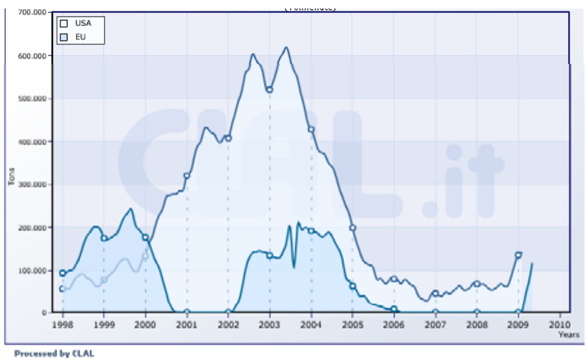
Commodity prices have seen unprecedented levels of volatility



Source: Agricultural Marketing Service, U.S Department of Agriculture, www.globaldairytrade.info

Government intervention could cause more volatility for commodity prices over longer period

SMP Government Stocks

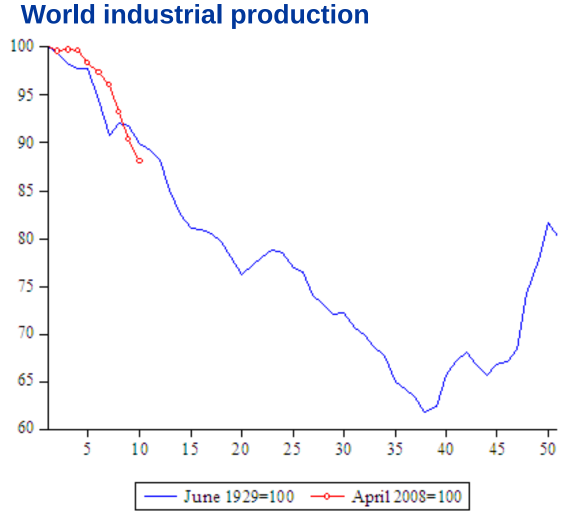


US & EU have now reinstated Export Subsidies

Common Refunds:	
SMP	€190/MT
WMP	€290/MT
82% Butter	€555/MT
Butteroil	€666/MT
Cheddar	€220/MT

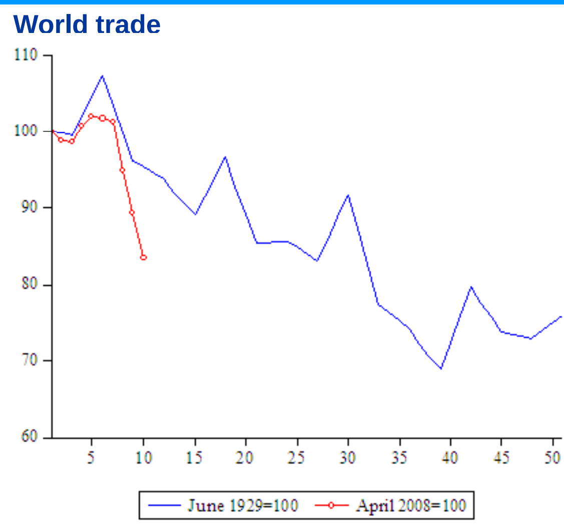
The world has entered its deepest financial and business crisis in more than 60 years

World industrial production



Source:Eichengreen and O'Rourke

…and the world trade collapse is steep



Source:Eichengreen and O'Rourke

Recent economic headlines have been mostly dismal

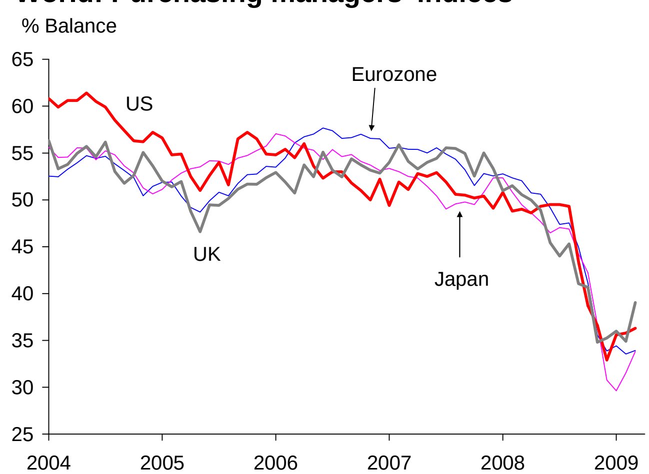
- Japan's economy shrank a record 15.2% in the first quarter of 2009
- Russia's economy contracted 9.5% in the first quarter of 2009
- Europe's economy contracted at the fastest pace in at least 13 years during Q1 2009 as companies cut output and jobs to survive
- UK GDP fell by 1.9% Q1 2009 vs Q4 2008, the steepest quarterly decline in 30 years

… but amongst the negative there are signs of improvement

- IMF report highlighted "acute lack of confidence" and world GDP declining -1.3% in 2009
- In April the J P Morgan Global Manufacturing PMI was 41.8, the eleventh successive month reading below the neutral mark of 50
- However, rising from 37.3 in March, the PMI posted its greatest month-on-month gain in the series history and reached a seven-month high
- Ferocious de-stocking rates appear to be slowing
- Recovery still seems some way off but the pace of global economic contraction is beginning to slow

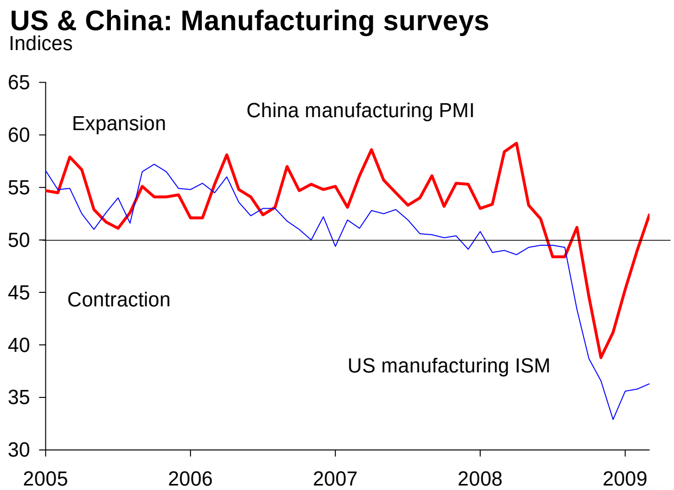
Some 'green shoots' of hope are appearing…

World: Purchasing managers' indices



Source: Haver Analytics

…especially in China



Source : Oxford Economics/Haver Analytics

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These factors result in an uncertain and dynamic marketplace for our products

- Today's world is a very uncertain world
- Key uncertainties continue around:
  - milk production reduction in response to lower farm gate milk price
  - the levels of demand recovery as retailer promotional activity and lower commodity prices begin to reach consumers
- The global economic recession and increased government interventions still leaves uncertainty over the market and its implications on the dairy supply and demand balance

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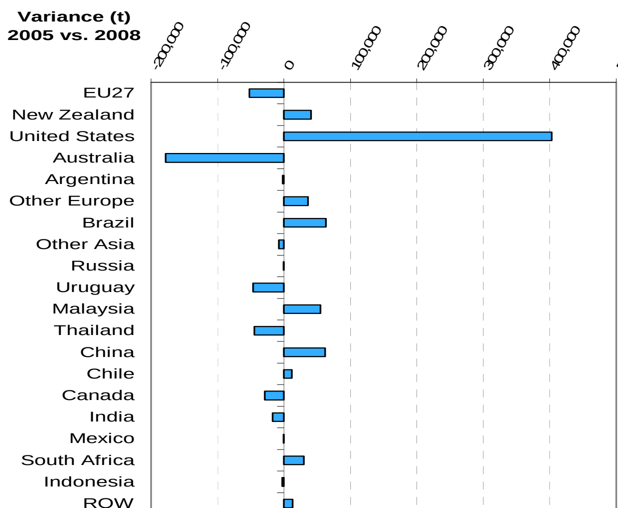
Global milk growth continues at a lower rate

- Even with the combined impact of sluggish consumption, low milk prices and weather, 2008 global milk growth was still +2.0%
- We estimate 2009 global milk growth to be 0.8%
- We estimate 2010 global milk growth to be 1.0%
- Key drivers of milk growth remain:
  - Domestic policy settings
  - Trade access
  - Currency relativities

The US accounted for >60% of dairy commodity export growth from 2005 to 2008



Other Europe principally Ukraine and Belarus. Malaysia involves significant re-export.

Worldwide demand

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Cheese consumption underpins the global dairy engine

- Over the past decade, cheese has underpinned dairy consumption growth in Europe and USA
- Declining cheese consumption has driven milk back into powder and butter pushing up stock holdings and putting pressure on prices
- EU Cheese consumption growth has slowed and is flat at -0.05%, but signs of pick up are emerging on the back of retail promotions in some markets e.g. France and Germany
- USA Cheese consumption growth is -0.6% but signs of increased promotional activity are emerging which should help recover and stabilise consumption patterns
- Consumer confidence is expected to remain weak through 2009, demand recovery is likely to be slow

Growth rates:12 months to end March 2009

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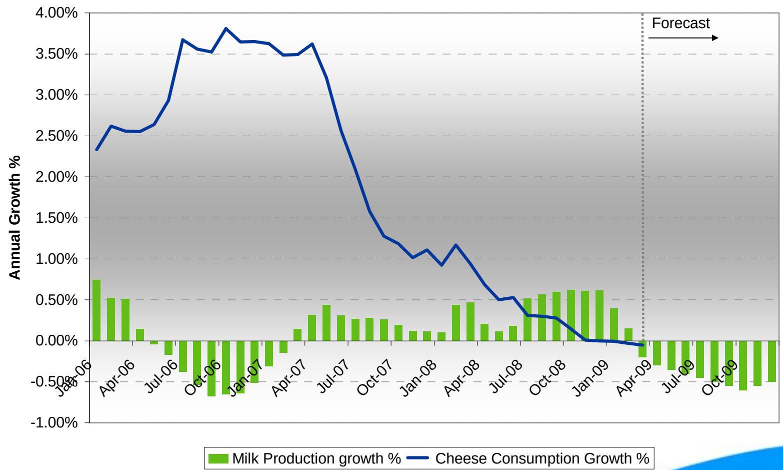
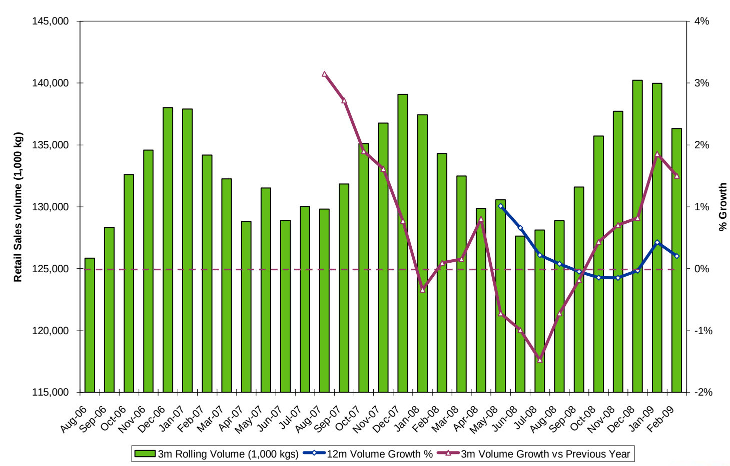
In Europe, cheese consumption underpins EU market prices and production

European Milk Production & Cheese Consumption* Trends 2006-9

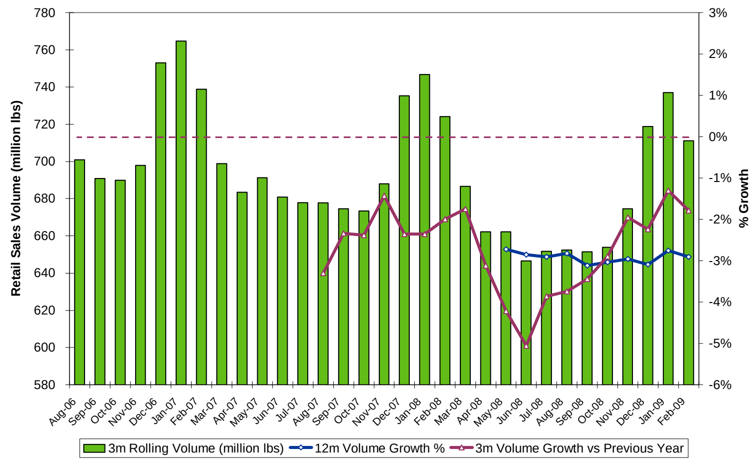


* Cheese Consumption = Total Production + Imports – Exports

French retail cheese sales have been recovering and are in positive growth territory



US retail cheese consumption growth is negative, but price has assisted volume recovery



* AC Nielsen Retail Scan Data

The demand sentiment is mixed

- Dairy markets have been steady over recent weeks with no clear direction evident. After a flurry of sales activity the market has gone quiet - June US NFDM orders are not materialising for Dairy Am
- International buyers really only have Northern hemisphere supply options through the short term and demand is not running hot
- Sentiment is a mixed bag - some customers are reporting early signs of recovery while others have cash flow issues or remain over stocked
- Sustained low pricing is supporting promotional activity and there's evidence of increased A&P spend which should help
- Seasonal and religious festival demand will hopefully assist in coming months

The pricing outlook is for gradual recovery in 2010

- The outlook for the balance of 2009 has prices bouncing along in a trough
- Evidence of a sustained supply side correction and demand recovery are required before prices re-bound
- We expect a gradual recovery to emerge in 2010
- **Upsides**: speedy supply side correction or shock; oil price recovery; corn price increase, emerging economic recovery; favourable weather patterns; water access issues
- **Downsides**: lower prices fail to stimulate a demand rebound; tit for tat retaliatory action by the EU and the US; 'toughing it out' delays the supply side correction

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Trends and their impact

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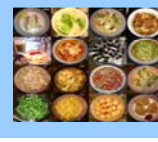
Consumer trends

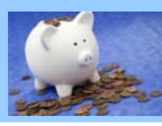
Unbalanced diet & obesity

Valuing food qualities

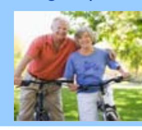


Time pressures

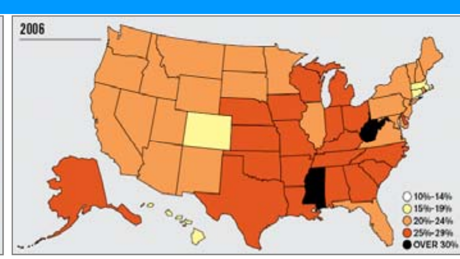
Value for food dollar spend

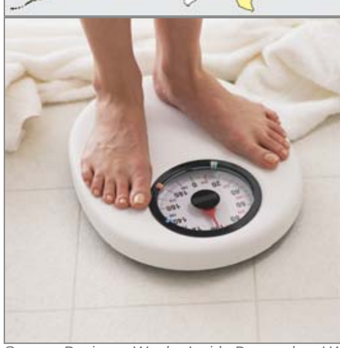


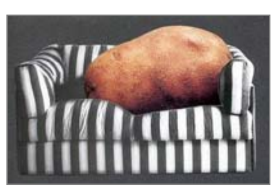
Older & younger age groups



The obesity burden is rising – the US is gaining weight fast but…

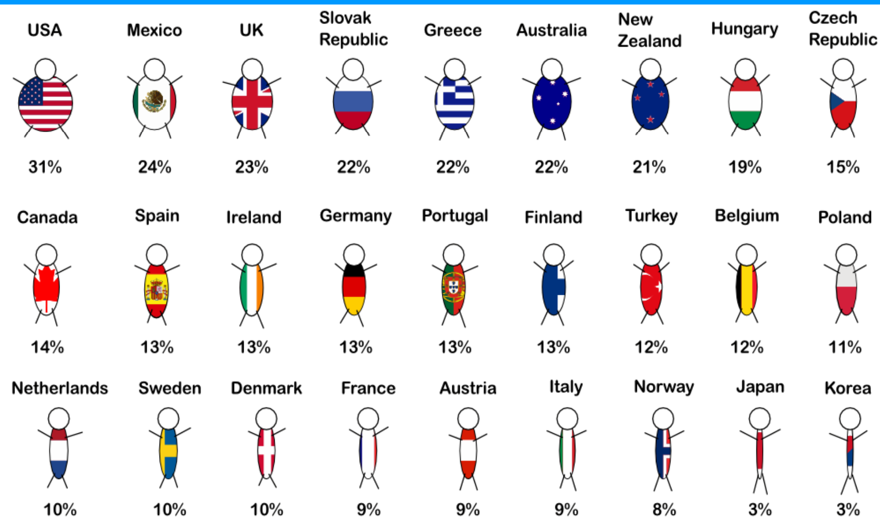






Source: Business Week - Inside Drugmakers' War on Fat, March 2008: Data on 30 pounds or more over weight

… this is not just a US problem



Source: OECD Factbook 2005 – Percentage of population older than 15 with a body-mass index greater than 30 (classified as obese)

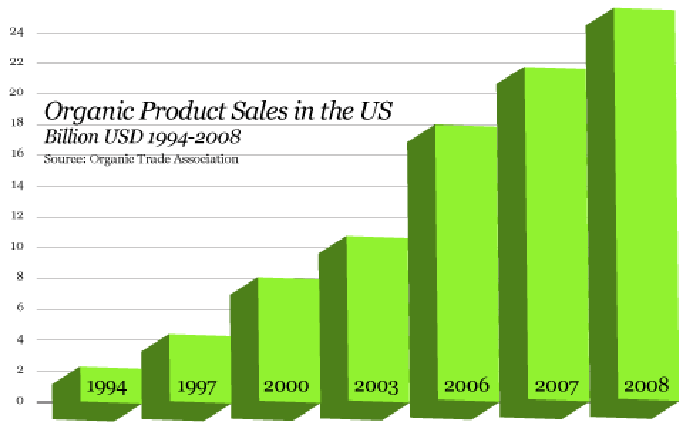
Developing countries spend a greater portion of disposable income on food

US 9%
UK 11%
Germany 12%
NZ 15%
Mexico 22%
CHINA 28%
Russia 37%
Indonesia 50%
INDIA 53%

Amount of disposable income spent on food at home

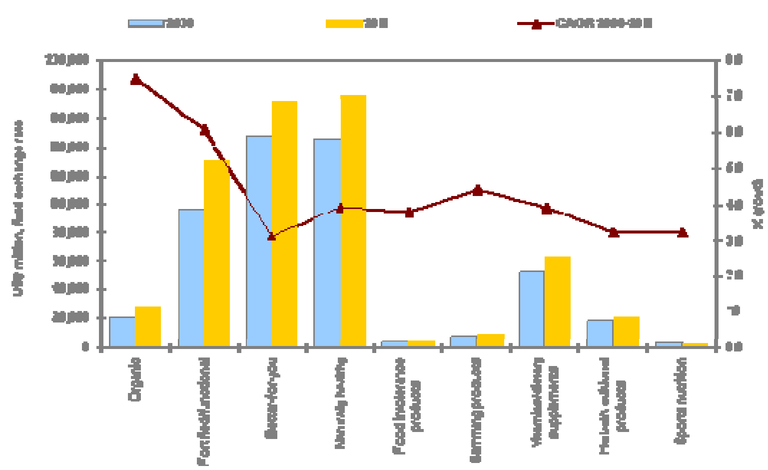
USDA Economic Research Service, 2005

More consumers are buying organic food



- *Organic food sales are anticipated to increase an average of 18 percent each year from 2007 to 2010*

Health and wellness trends are expected to grow

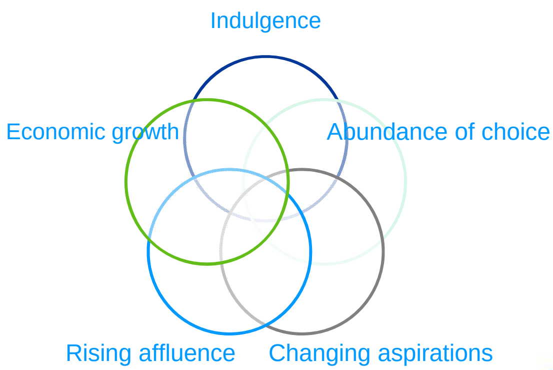


Euromonitor International
Note: Organic, Better for you and Naturally healthy products include food and beverages

…and the ‘premiumisation’ trend is still apparent

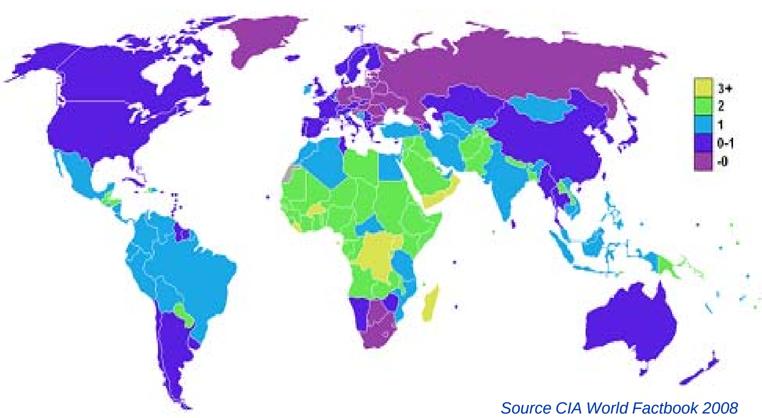
- **Premiumisation:** consumers seeking better quality products, services and experiences across the board

- **Key drivers:**



Birth rates are higher in developing regions

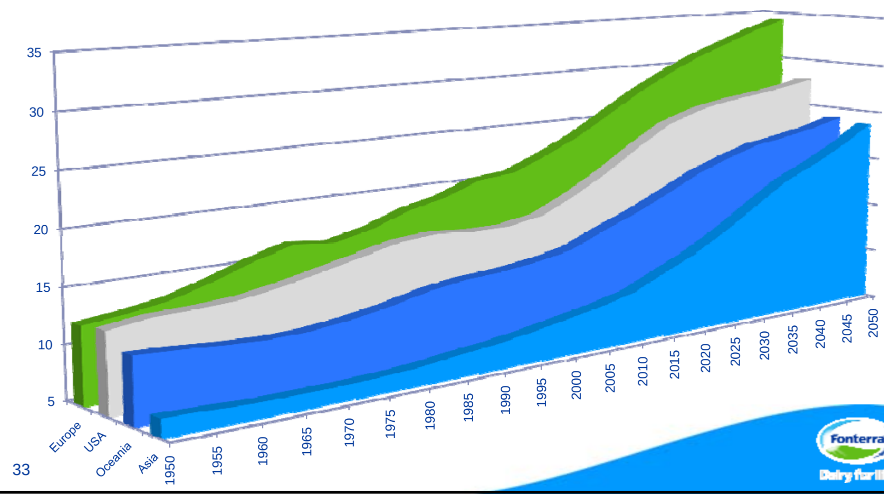
World net birth rate percentages 2008



Source CIA World Factbook 2008

… and there is a growing older population

Proportion of the Population over 60 years of age



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Customers are responding to these consumer trends

Unbalanced diet & obesity
Health & wellness offerings including functional foods

Valuing food qualities
Differentiated flavours & textures

Time pressures
On-the-go & out-of-home eating offers

Value for food dollar spend
Reduced cost in use

Older & younger age groups
Targeted paediatric & senior product offerings

Dairy offers innovative dairy solutions to consumer trends

Unbalanced diet & obesity
Protein ingredients with unique health & wellness benefits

Valuing food qualities
New ingredients & processing systems that deliver differentiated flavours & textures

Time pressures
Flexibility in product functionality

Value for food dollar spend
Cost effective ingredients, processes & services

Older & younger age groups
Specialised ingredients to address nutrition, digestion & immunity

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What does this mean for the dairy industry?

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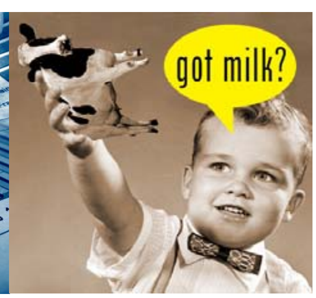
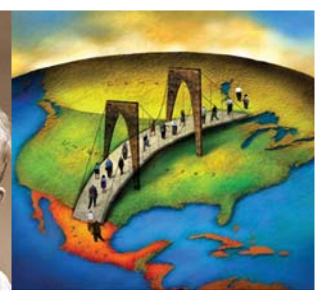
Current financial turmoil, medium term trend is expected to be positive

Demand for dairy will continue to grow, although rate of growth may be slower in short term



Recent re-introduction of subsidies in EU & US, longer term possibility of increased FTAs

Changing supply in dairy producing countries



Short term global stocks of dairy, possibility of longer term shortages

The impact of environmental issues will remain

Dairying in New Zealand & Fonterra

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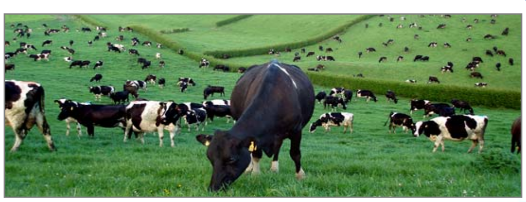
Today New Zealand is the most deregulated dairy industry in the world

Key Features

- No subsidies
- Grass-based milk production
- Scale
- Temperate climate
- Geographic isolation
- Strict border controls and food safety regulations
- Herd quality

Regulatory Framework

- Dairy Industry Restructuring Act 2001 and Dairy Industry Restructuring Amendment Act 2007
- Removal of exclusive rights to export dairy products
- Supply milk to all who seek it
- Open entry
- Open exit



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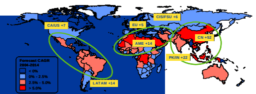
Dairy farming in New Zealand has a long history



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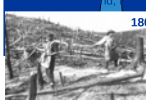

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- 18million acres cleared by hand - fired, and cleared from swamp, bush, and tussock land impacted by rabbit infestation – average life expectancy 72yrs
- Larger than the entire English pasture lands

Dairy farming in New Zealand today

- 11,500 farms
- 4 million cows
- Average farm size - 115 hectares
- Average herd size - 337 cows
- Average production per herd - 113,182 kgMS
- Average production per cow - 330 kgMS
- Average total capital value - NZ$3.3 million

Source: LIC New Zealand Dairy Statistics 2006-2007

Fonterra today

- Co-operative owned by 10,900 supplier shareholders
- Operating revenue of USD $14 billion
- Produce 2.9 million tonnes of products annually
- Export 96% of production to more than 140 markets around the world
- Employ 16,400 people worldwide
- Approximately 20% of New Zealand's export earnings
- Handles more than 40% of the world's traded dairy commodities

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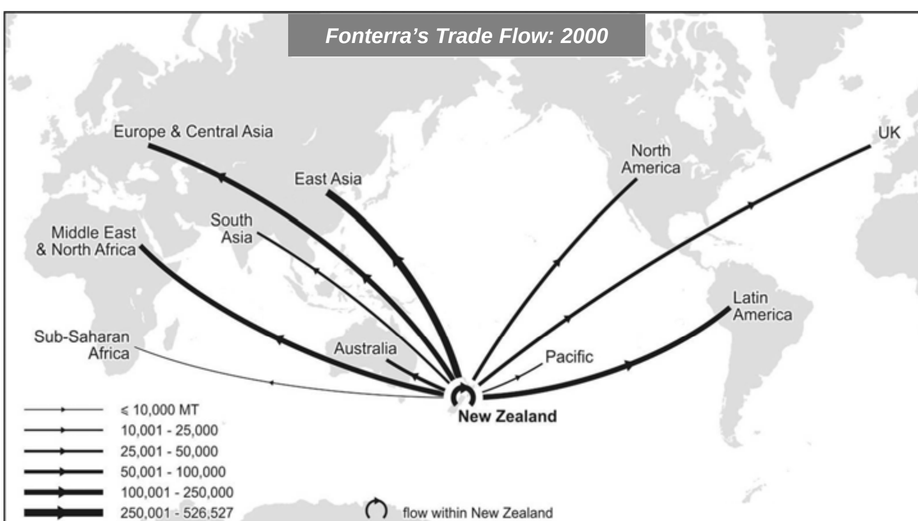
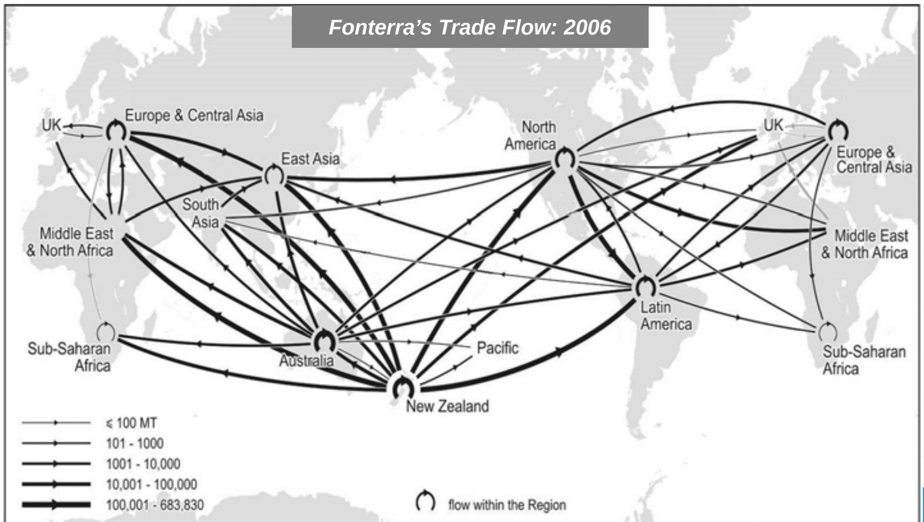
Fonterra - evolving from New Zealand based exporter



… to a major global player



Global dairy consumption and trade

Worldwide supply

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Fonterra's Supply Outlook

- Summer conditions proved challenging in key regions but great autumn weather helped most farmers' cause
- Following recent cold weather the season has ended earlier than forecast:
  - pasture growth has been restricted increasing herd dry off rates
  - F09sn milk production is expected to reach ~ 1,280m kgs milk solids or approx 15.1 billion litres, a record
  - milk growth comparisons with the drought effected F08sn are misleading
- The outlook for F10 is for milk production to increase +2%

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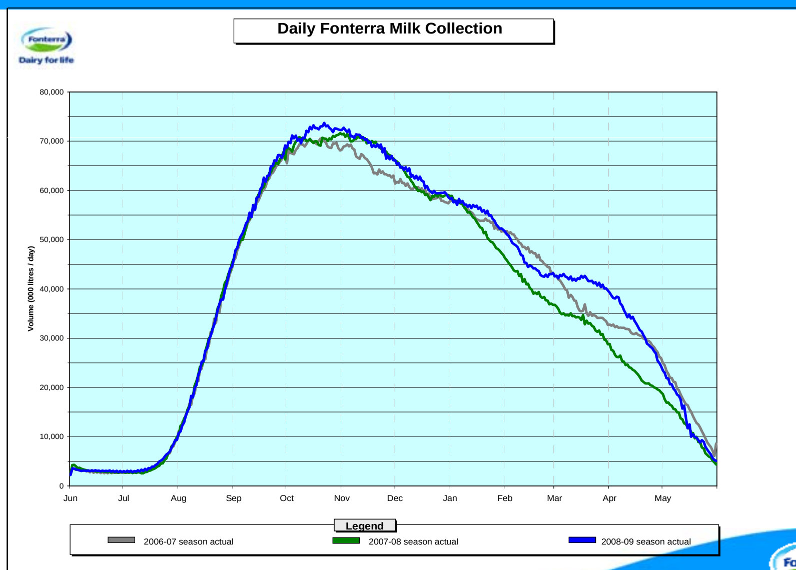
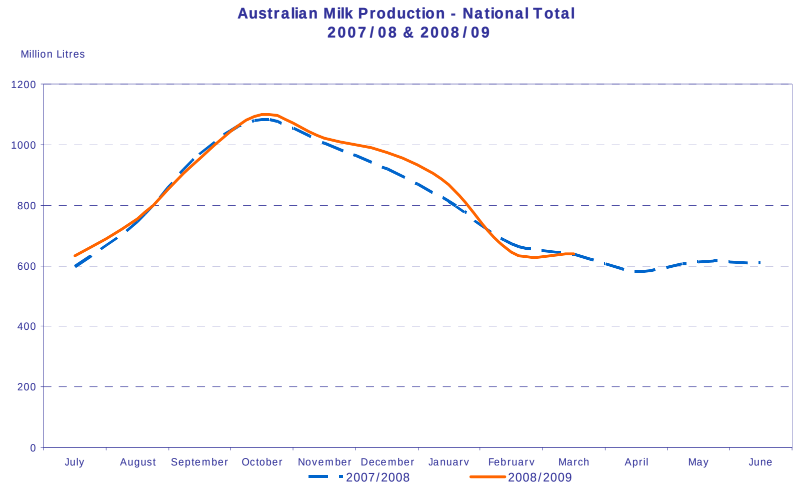
Fonterra milk collection is back on track



Australian supply outlook is for growth this season, but maybe not for the next season

- F09 season has been characterised by:
  - rain at the right times and in the right places
  - relatively mild temperatures through the end of 2008
- Australia's milk production is up 2.2% on last season (through March 09). Latest FYF is +2% to 9.4b litres.
- Forecast lower average prices for F10 is influencing more farmers to keep milking later despite payout step downs
- Availability has tightened after a strong sales campaign over recent months
- Farmer confidence is mixed. Those with high debt levels particularly in the North Victoria are under pressure. Dairy Aust F10 forecast is 9.0b litres

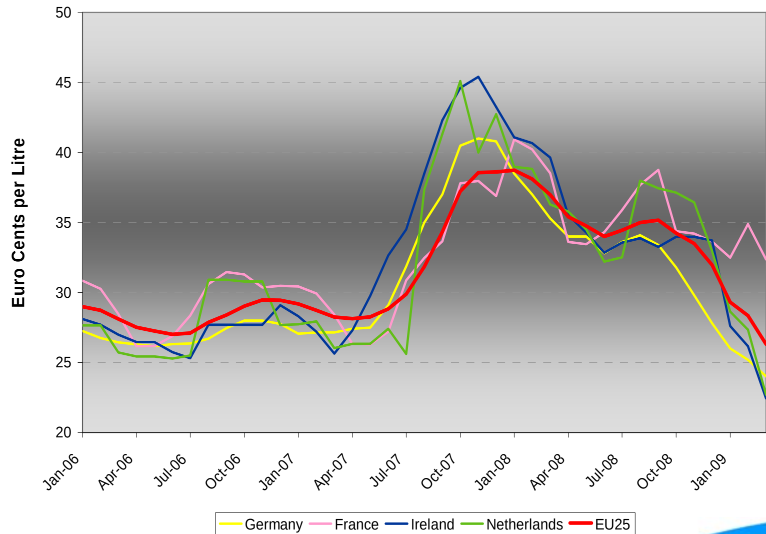
Australian milk production is ahead of last in most months



The EU27 are now reliant on EC support for market floors

- EU milk production is 0.5% below same time last year with this trend expected to hold through the WTO year
- EU milk prices have declined rapidly with most processors paying around the EUR 25c/litre range today
- The EU Commission are maintaining domestic market stability through a combination of intervention, PSA and export refunds, with the latter a temporary measure
- Pressure to increase support is strong and will only increase following the DEIP re-activation
- Intervention butter stocks are 77,000MT and SMP stocks are 161,000MT

European milk prices have fallen away dramatically over recent months

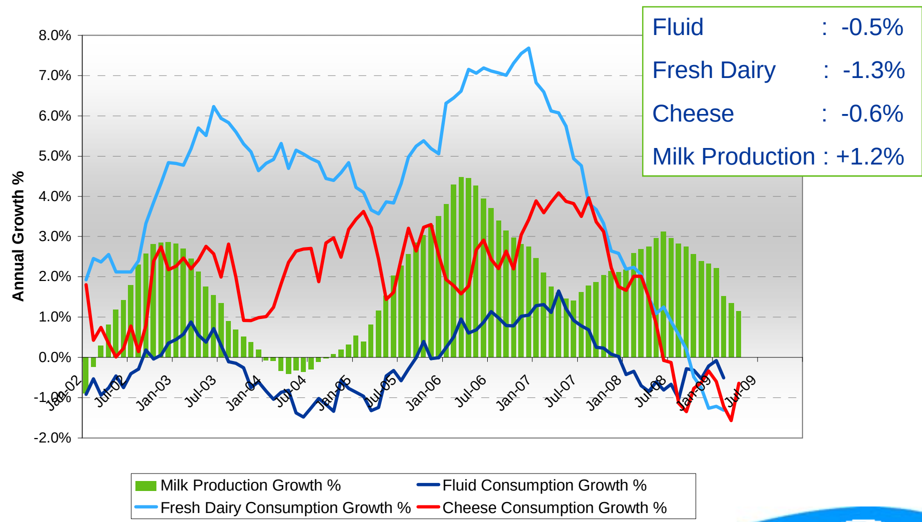


EU Milk Management Committee Statistics May 20, 2009

The United States farmers are under significant pressure

- US milk production is forecast to contract -0.3% in CY2009
- CWT culling initiatives will assist but more is required - still too many cows in the US herd
- CCC support for domestic school lunch and food bank programmes was a positive step, but the re-introduction of DEIP wasn't
- DEIP only encourages greater international market uncertainty, invites a response from the EU and doesn't assist US dairymen
- USDA's outlook for CY2010 milk production is for a further -0.5% reduction
- How many dairymen are 'toughing it out' until September when prices are forecast to increase…….the slope of hope?

The United States production surpluses have resulted in stock builds



* Consumption = Total Production + Imports – Exports

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For the Southern Cone, Argentina is unlikely to feature on export stage until later in 2009

- Drought has impacted milk production in CY2009 with the latest forecast now 10.2b litres (+2% on 2008)
- With a 20% structural surplus and milk prices aligned with international commodity levels, Argentina is well placed to compete on export markets
- But a combination of factors has kept Argentine supply contained:
  - export activity into Brazil earlier in the year
  - good domestic consumption
  - and now drought impacted milk collection
- Looking further ahead
  - the 5% export tax and government retentions are now removed
  - domestic demand may falter as economic conditions worsen
  - the Peso has devalued

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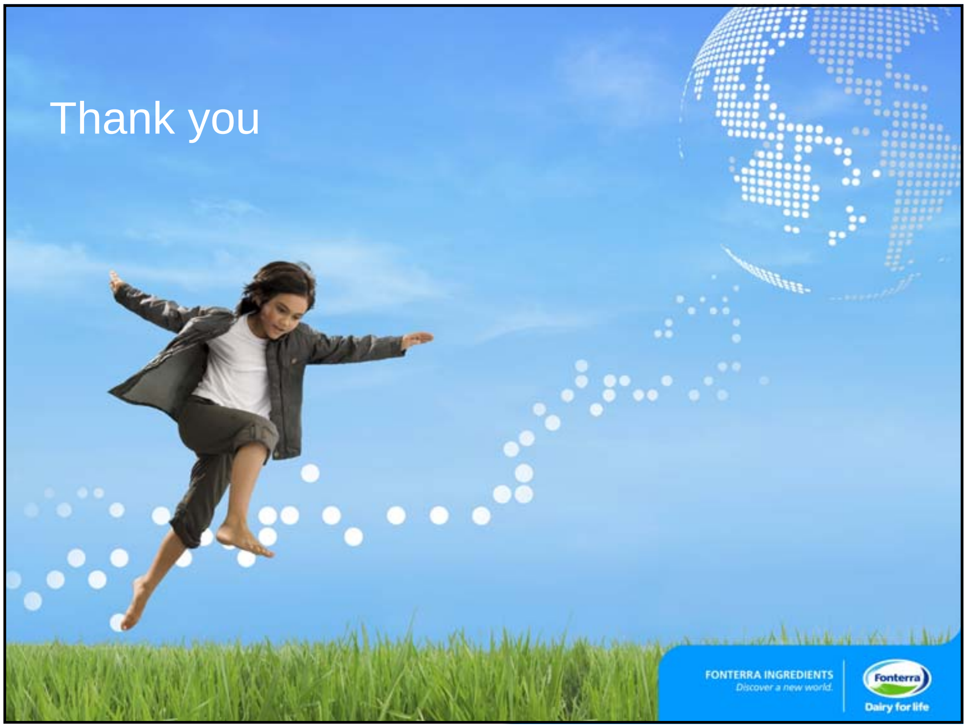
With the Brazilian local market strong there is little incentive to overproduce

- Drought in the south (Rio Grande del Sul) and lower milk prices paid to farmers is forecast to hold milk production flat at 29b litres (vs +4% in 2008)
- Drought and strong domestic demand meant imports from Argentina and Uruguay were required to cover the deficit
- Brazilian milk prices remain above world market levels which should limit exports until at least early 2010
- While marginal milk can be turned on or off very quickly the high milk price is a disincentive even with a weaker Brazilian Real.

In China, despite high Chinese stocks import demand remains robust

- Local milk powder stocks are building – some reports suggest anywhere from 100k to 300k MT is in store without a home - though 100 to 150k MT is probably more realistic
- Stocks of local WMP are unlikely to have a major impact on imported WMP demand or the global market
  - domestic stock will deteriorate as it ages and summer arrives
  - what can be re-worked for fresh applications will be
  - likely to be used as domestic aid in poor areas
  - Government may provide subsidies to manufacturers and allow them to write off the value and use in feed applications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