

FONTERRA CO-OPERATIVE GROUP LIMITED

2017 ANNUAL MEETING

2 NOVEMBER 2017

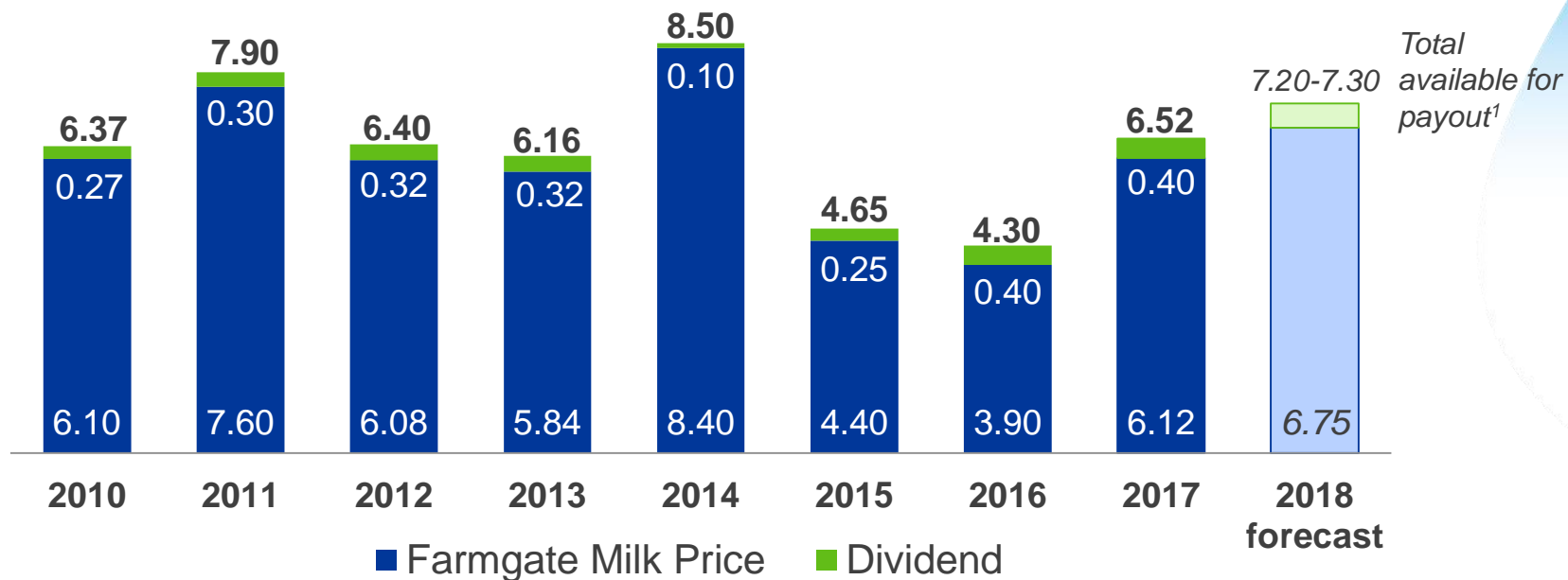


JOHN WILSON

Chairman

Good season for our farmers

Return to solid results after two seasons of unusually low milk prices



1. Total available for payout = Forecast Farmgate Milk Price + Forecast Earnings Per Share (EPS) of 45-55 cents; For farm budgeting purposes the likely dividend will be calculated in accordance with Fonterra policy of paying out 65-75 per cent of adjusted net profit after tax over time

Note: Farmgate Milk Price: \$ per kgMS; Dividend: \$ per share

Solid business performance



VOLUME

22.9B LME

↓ 3%

REVENUE

\$19.2B

↑ 12%

NORMALISED EBIT

\$1,155M

↓ 15%

RETURN ON CAPITAL¹

11.1%

↓ Down from 12.4%

NPAT

\$745M

↓ 11%

EPS

46c

ANNUAL DIVIDEND YIELD²

40cPS 6.7%

Stable

Ingredients

Volume (LME)³ ↓ 21.3 B

Gross Margin (%) ↓ 9.7%

Normalised EBIT ↓ \$943M

Return on Capital¹ ↓ 10.3%

Consumer and Foodservice

Volume (LME)³ ↑ 5.5 B

Gross Margin (%) ↓ 26.8%

Normalised EBIT ↑ \$614M

Return on Capital¹ ↑ 47.2%

China Farms

Volume (LME)³ ↑ 0.3B

Gross Margin (%) ↑ 8.6%

Normalised EBIT ↑ \$1M

1. Return on Capital (ROC) excludes goodwill, brands and equity accounted investments; Group ROC including these items was 8.3% in FY17 (FY16: 9.2%)

2. FY17 dividend over volume weighted average FCG price of \$5.96 across the year; 3. Includes sales to other strategic platforms.









TI AKI

Fonterra
Dairy for life



A DEDICATED TEAM OF EXPERTS

Our Sustainable Dairying Advisors
are in every region of New Zealand
offering one-on-one support – tailored
to meet farmer's regional requirements
and individual on-farm needs.

Benefits from a strong Co-operative

Competitive Milk Price

Farmgate Milk Price put in place in 2009

- Changes to approaches used since then have resulted in increase

Additional 45c to the Farmgate Milk Price¹

- 2017 milk price would have been 45 cents lower using model assumptions from 2009
 - \$600m additional to milk price

Complemented by Co-op Initiatives



Farm Source™ rewards & benefits

- Delivered more than \$50 million in value of dollars, discounts and deals to farmers.



Tiaki: Farm Source™ sustainable dairying

- Tiaki brings together our Co-op's on-farm sustainability tools and services, tailored to individual farm needs.



Enhanced digital offering & apps

- Launch of Agrigate in partnership with LIC



Business support on the ground

- Regional model and technical assistance



THEO SPIERINGS

Chief Executive Officer

Solid business performance



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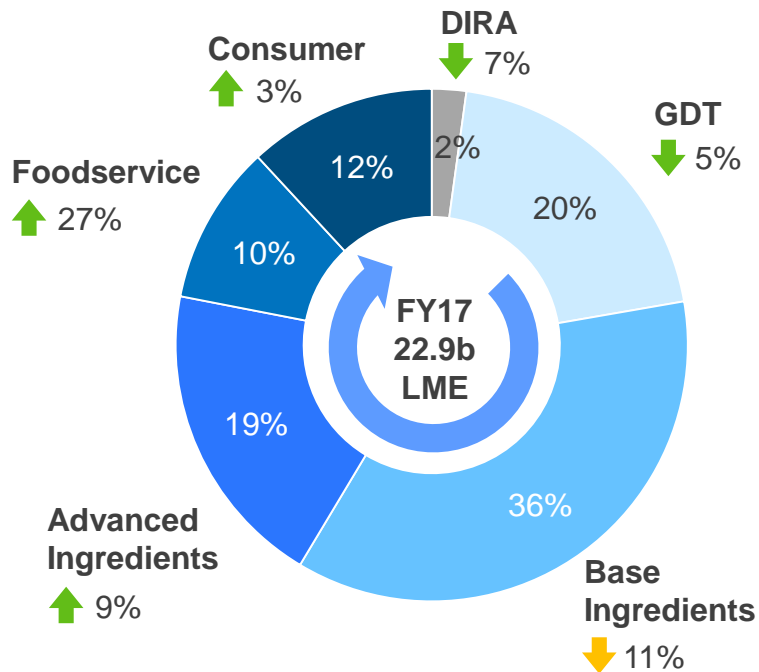
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More volume to higher value

1 billion LMEs shifted to Consumer, Foodservice and Advanced Ingredients

- 1 **Optimise**
NZ milk
- 2 **Build and grow**
beyond our current
consumer positions
- 3 **Deliver**
on Foodservice potential
- 4 **Grow**
our active living business
- 5 **Develop**
leading positions in paediatric
& maternal nutrition
- 6 **Selectively invest**
in milk pools
- 7 **Align**
our business and organisation



- **GDT**
 - Volumes aligned with lower production
- **Ingredients**
 - Lower NZ milk collections and record low closing inventory
 - 473m LMEs shifted to higher margin Advanced Ingredients
- **Consumer & Foodservice**
 - Added 576m more LMEs
 - Normalised EBIT up 6%



*FY17 sales volume
growth over FY16*

Note: Wheel shows percentage of total FY17 external sales (LME); Consumer, Foodservice and Ingredients growth rates include intercompany sales

Value creation

Solid profit with ongoing financial discipline



RETURN ON CAPITAL

11.1%

↓ Down from 12.4%

GROSS MARGIN

17.0%

↓ Down from 21.1%

CAPEX

\$851M

↓ 10%

OPEX

\$2,370M

↓ 6%

WORKING CAPITAL

75 DAYS

↓ 2 days

NORMALISED EBIT

\$1,155M

↓ 15%

NPAT

\$745M

↓ 11%

EPS

46c

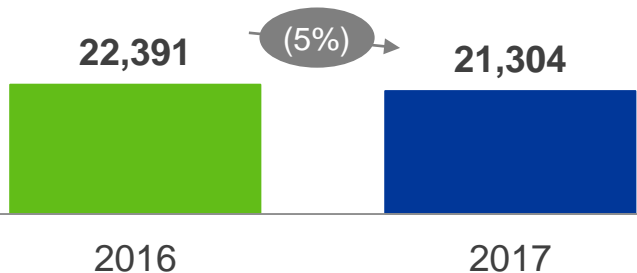
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Ingredients

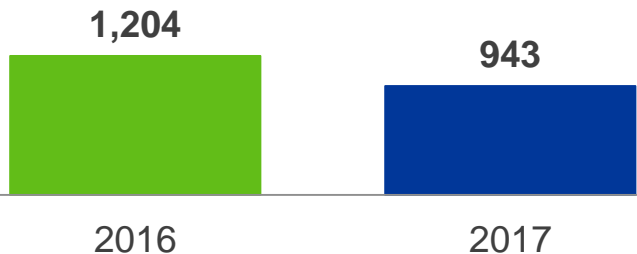
Return on capital of 10.3%



Volume (m LME)¹



Normalised EBIT (\$m)



Volume

- Challenging NZ milk collection profile
- Lower closing inventory carried into this year
- Growth in Advanced Ingredients of 9% (473m LME)

Value

- NZ Ingredients margins impacted by rising reference product prices relative to non-reference
 - Stream returns down significantly from last year
- Australia: \$62m normalised EBIT from recurring business
- China milk: (\$38m) impact of ongoing lower domestic prices

Velocity

- Targeted capex with Foodservice focus and Stanhope rebuild
- Optionality used to prioritise higher value production
- Yield improvements and efficient peak management

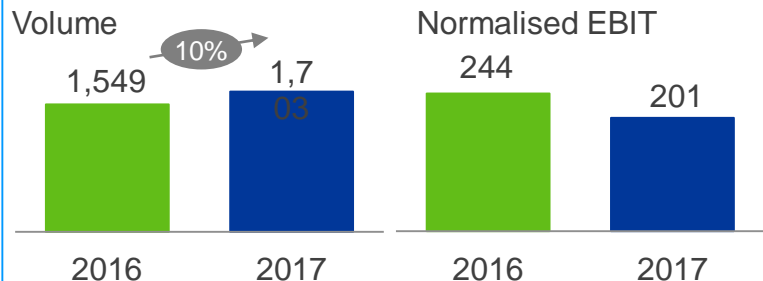
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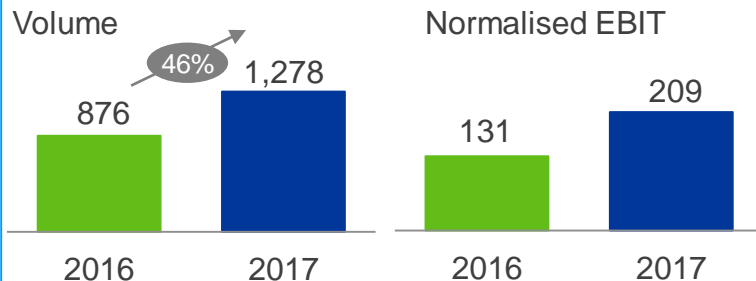
Consumer and Foodservice

Solid performance led by Greater China

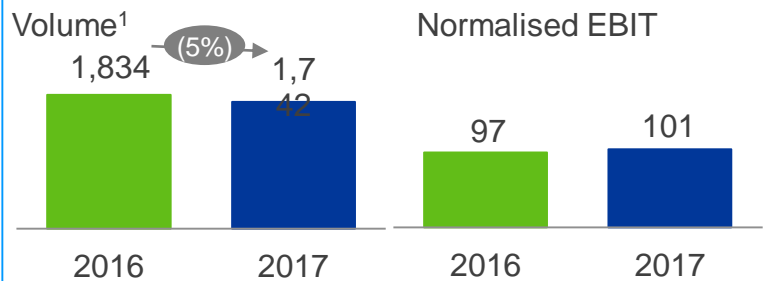
Asia



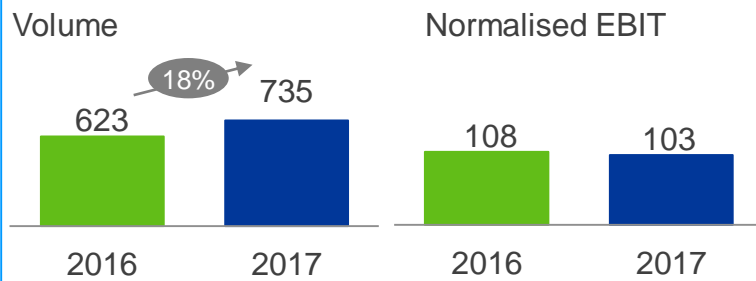
Greater China



Oceania



Latin America

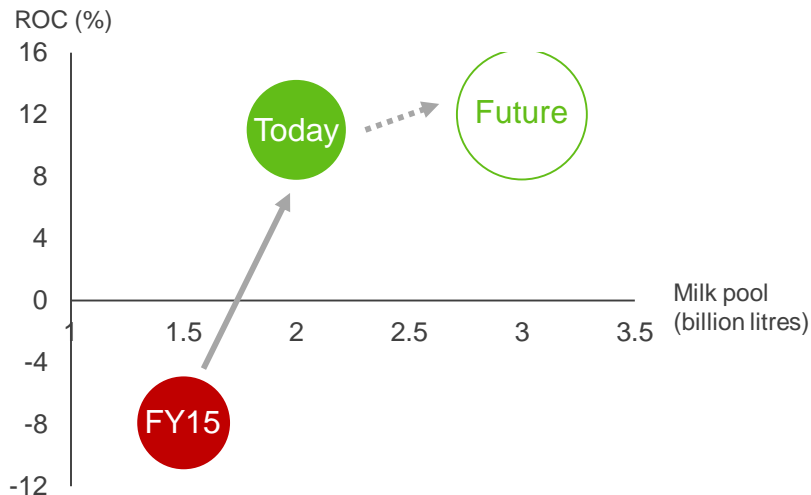


1. Sales volume growth of (1%) when excluding impact of discontinued businesses

Note: All volumes include intercompany sales

Australian growth plans to meet strong global demand

Growing volume and value in Australia

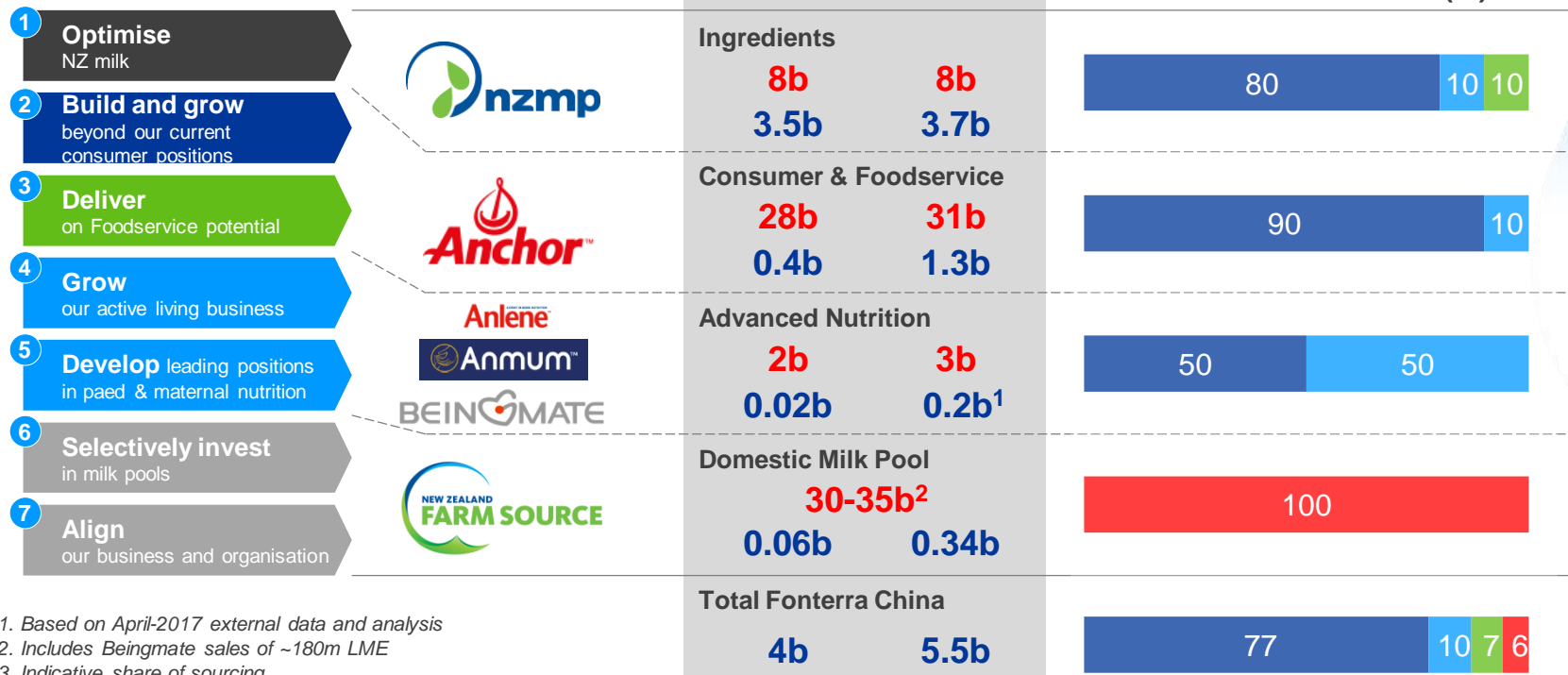


> Our growth plans

- Fonterra Australia has reached full milk processing capacity at 2 billion litres
- Invest initial \$100m immediately to de-bottleneck plants in Australia
- Unlock 500 million litres of milk processing capacity
- Evaluating opportunity to introduce co-op model to Fonterra
- Strongly aligned with our integrated cheese/whey/nutrionals milk pool strategy

China opportunity

Fonterra well positioned in every segment



1. Based on April-2017 external data and analysis

2. Includes Beingmate sales of ~180m LME

3. Indicative share of sourcing

Source: Euromonitor; Fonterra analysis

b LME Fonterra b LME China market²

NZ

AU EU China

Financial discipline

Strength of the balance sheet underpins our Co-op



GEARING¹

44.3%

= Stable

NET DEBT²

\$5.6B

↑ Up 2%

DEBT / EARNINGS³

3.5

↑ Up from 2.8x

TOTAL EQUITY

\$7.2B

↑ Up 4%

CREDIT RATING

A
STABLE

Fitch

A-
STABLE

S&P

1. Gearing ratio is economic net interest bearing debt divided by economic net interest bearing debt plus total equity excluding hedge reserves

2. Economic net interest-bearing debt

3. Debt payback ratio is economic net interest bearing debt divided by EBITDA. Both debt and EBITDA are adjusted for the impact of operating leases

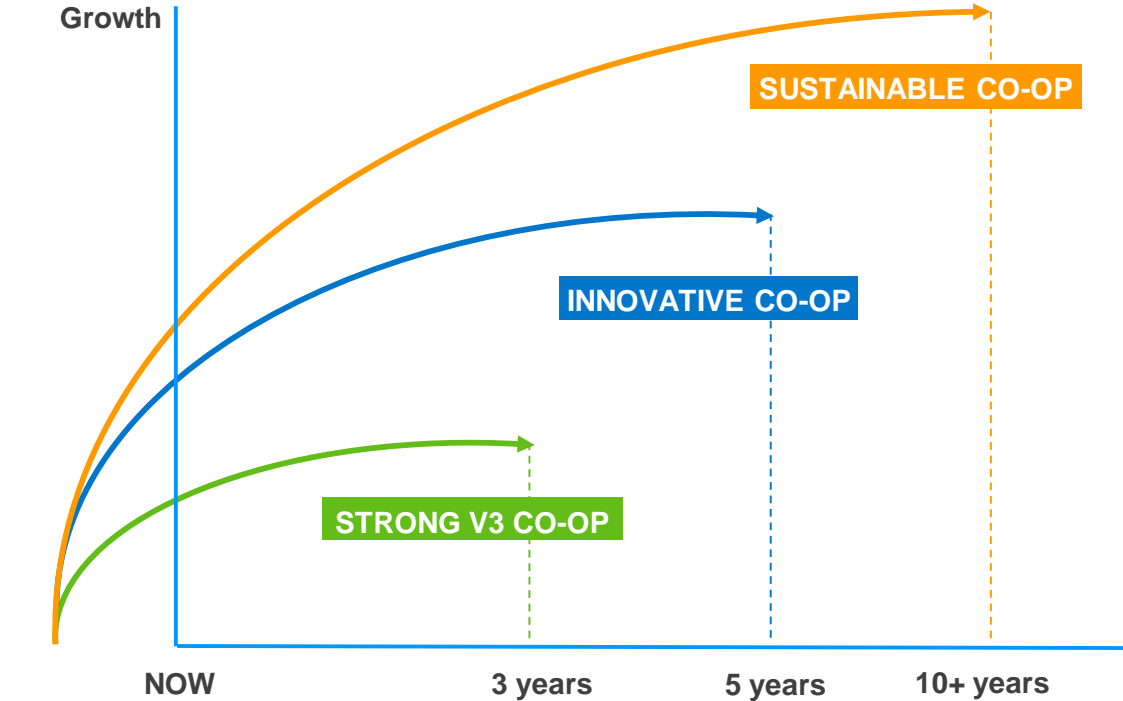


Dairy for life

BUILDING THE WORLD'S LEADING SUSTAINABLE DAIRY CO-OP

Strategy focused on achieving our ambition

Three strategic horizons



- Creating sustainable value for all stakeholders
- Investing in technology and people for the future
- Demand-led strategy to optimise NZ milk, supported by milk pools

Competitive advantage of **Cost Leadership through Scale Efficiency**

FY18 strategic priorities driving value

1

Optimise NZ milk

- Protect market share of NZ milk
- Deliver sustainable value creation in NZMP

2

Build and grow beyond our current consumer positions

- Deliver Everyday Nutrition focused growth path
- Target positions in Affordable Nutrition

3

Deliver on Foodservice potential

- Deliver double-digit Foodservice diversified growth

4

Grow our active living business

- Revitalise the Anlene brand (Healthy Living)
- Build an Active Living portfolio

5

Develop leading positions in paediatric & maternal nutrition

- Deliver China and Beingmate partnership at full potential

6

Selectively invest in milk pools

- Develop cheese / whey supply options
- Grow Australian milk pool share

7

Align our business and organisation

- Invest to deliver future-oriented capabilities

We are embracing tomorrow's innovation in what we do today



AGTECH

ENERGY & CLEAN TECH



PRECISION
FARMING



SUSTAINABLE
FARMS



SOIL &
CROP TECH



ENERGY &
WATER
EFFICIENCY

FOOD SAFETY & TRACEABILITY



BLOCKCHAIN



3D PRINTING

SUSTAINABLE
OPERATIONS

ROBOTICS



DIGITAL
MANUFACTURING



SHARING
ECONOMY

DIGITAL LIVING

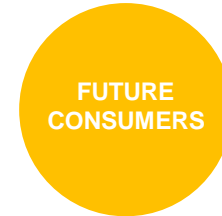


NEW
RETAIL



CONNECTED
LIFE

CONSUMERS OF THE FUTURE



FUTURE
CONSUMERS



GENOMICS

HYPER- PERSONALISATION



GAMIFICATION



AR/VR

ENABLERS

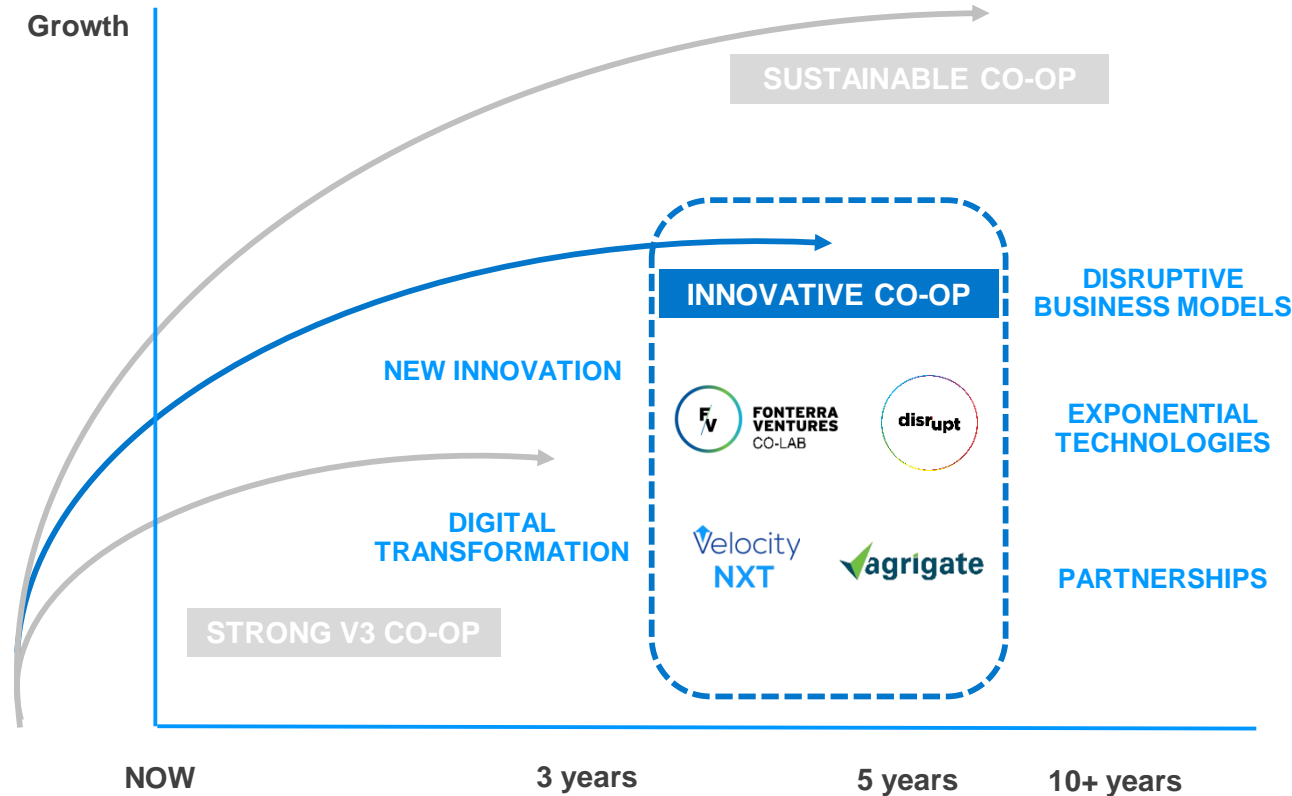
DIGITAL

ARTIFICIAL INTELLIGENCE

BIG DATA

BEHAVIOUR ECONOMICS

We have already begun the innovation journey





Sharing our story

In the last year, the Co-op has shifted its reputation from 9th to 5th and changed the minds of 1.5 million New Zealanders.

April 2016

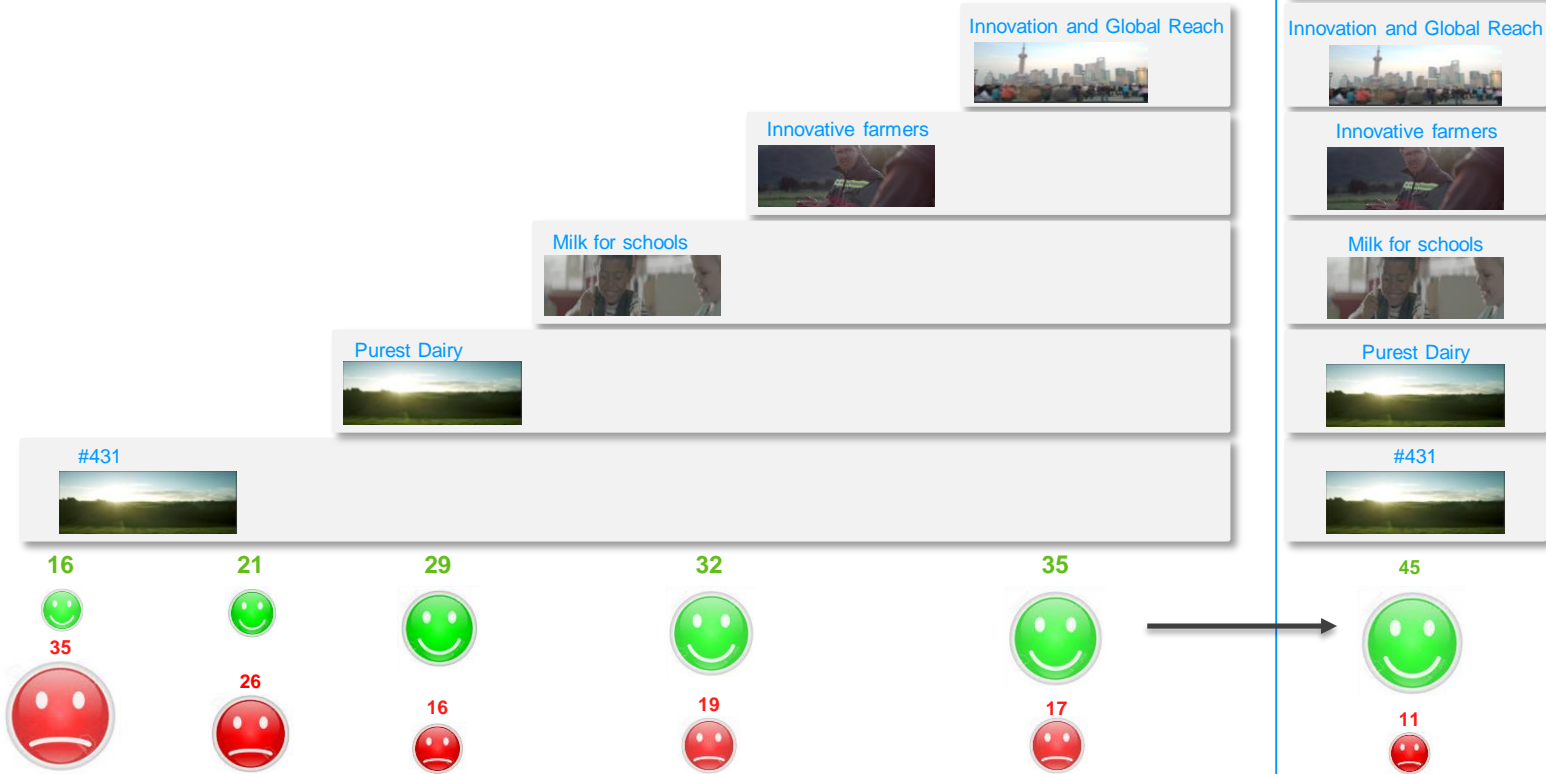
June 2016

December 2016

March 2017

July 2017

FY18 Objective



DUNCAN COULL

Chairman

Fonterra Shareholders' Council

Statement of Intentions

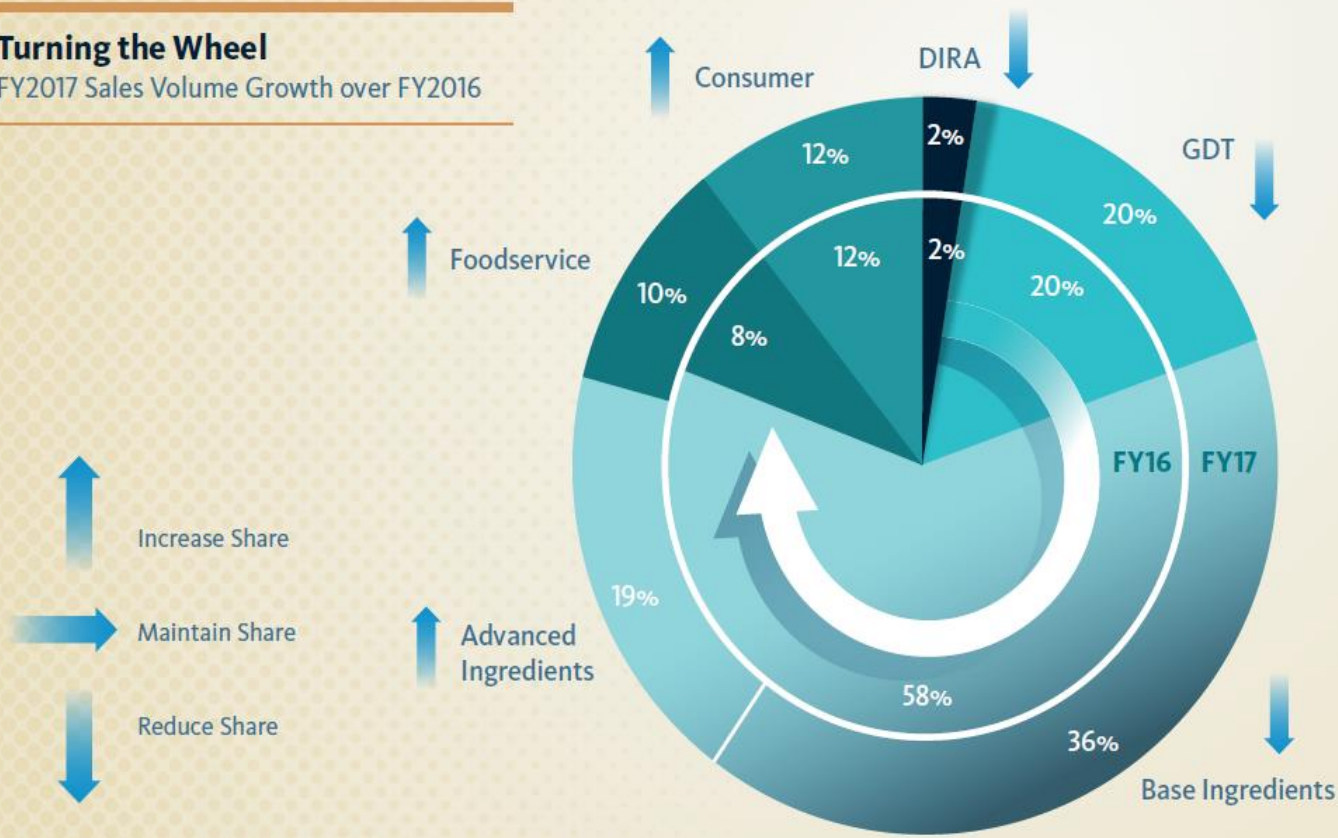
for the year ending 31 July 2017

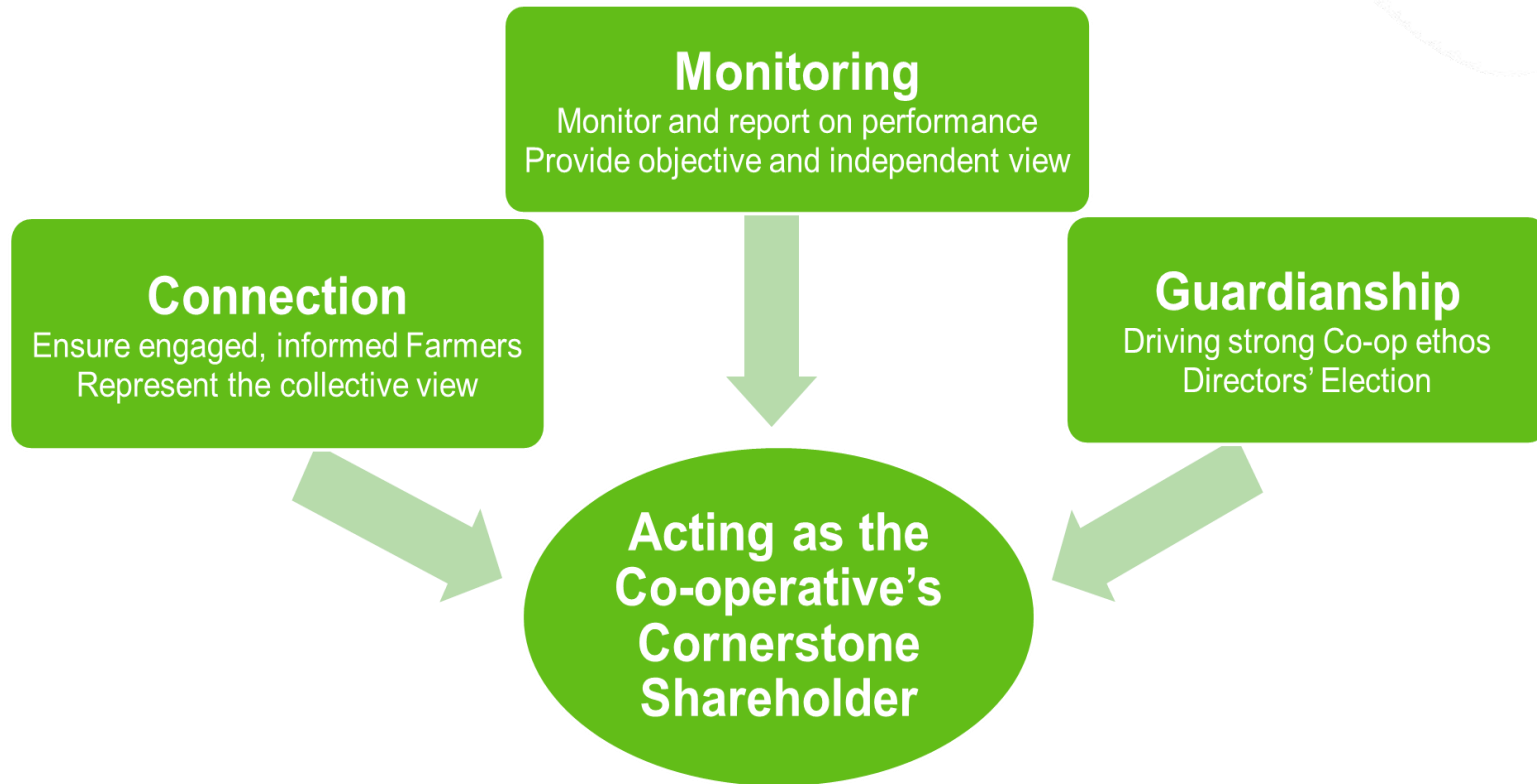


KPI	FY2017 Target	FY2017 Actual	
Available for Payout	\$4.75 - \$4.85	\$6.52	✓
Consumer and Foodservice Volume	5.0 billion	5.0 billion	✓
Farmgate Milk Price	\$4.25	\$6.12	✓
Earnings per Share	\$0.50 - \$0.60	\$0.46	X
Gearing Ratio	44.0%	44.3%	—
Working Capital Days	77	75	✓
Return on Capital	13.2%	11.1%	X
Milk Solids (Retain and Grow)	82.2%	82.4%	✓
Employee TRIFR	5.2	5.2	✓

Turning the Wheel

FY2017 Sales Volume Growth over FY2016





Proposed Budget FY2018



	FY2016 Actual \$000	FY2017 Budget \$000	FY2017 Actual \$000	FY2018 Budget \$000
Total Operating Costs	2,473	2,459	2,557	2,435
Total Co-operative Culture Committee Costs	626	611	357	602
Total Governance & Ethics Committee Costs	9	33	0	0
Total Performance Committee Costs	52	50	37	55
Governance Development Programme	105	171	129	146
Total	3,265	3,324	3,080	2,238

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