

FONTERRA CO-OPERATIVE GROUP LIMITED

2016 ANNUAL MEETING

8 DECEMBER 2016



JOHN WILSON

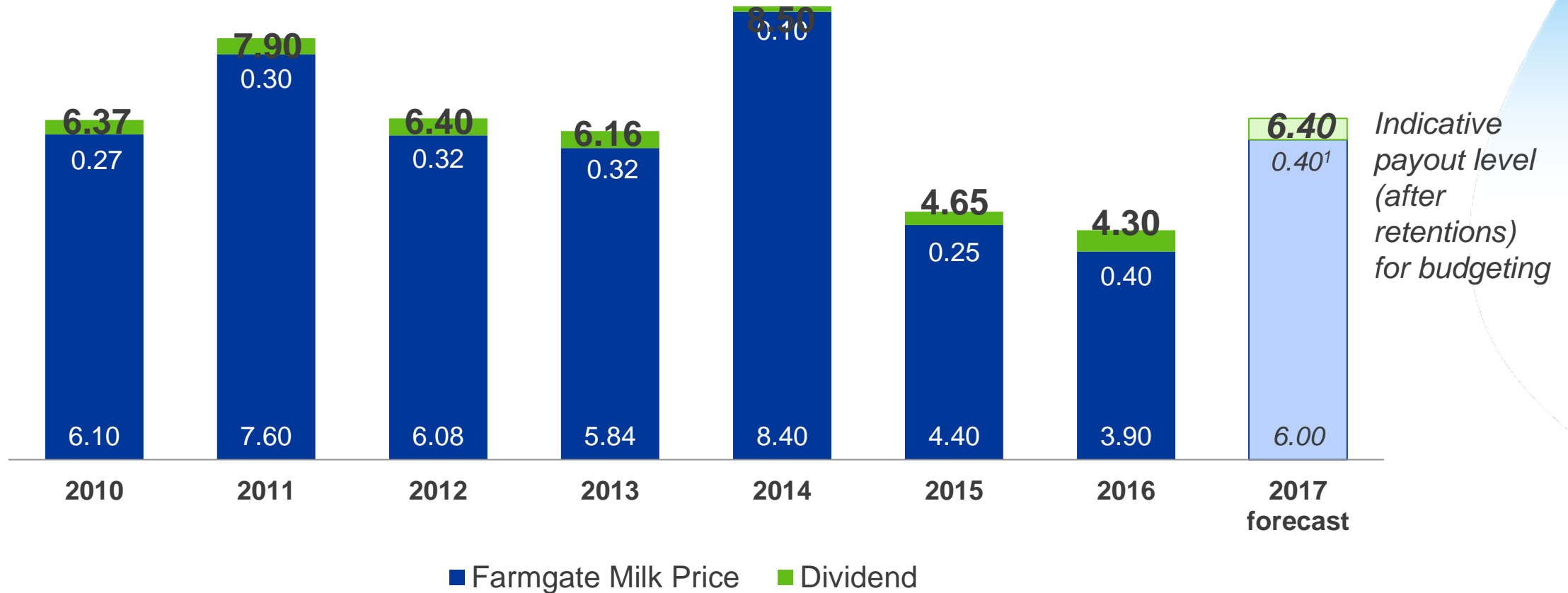
Chairman



**Co-operative spirit at work
during the earthquake response**

Tough season for farmers

But solid earnings growth and strong Co-operative



1. For farm budgeting purposes a 40 cent dividend is assumed (based on FY17 EPS forecast 50-60 cents) – this is consistent 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

Benefits from a strong Co-operative



Competitive Milk Price

Milk Price model put in place in 2009

- Changes to approaches used since then have resulted in structural increase

Additional 36c to the Farmgate Milk Price¹

- 2016 milk price would have been \$3.54 using model assumptions from 2009
 - \$560m additional to milk price

Reflects improvements by Fonterra and in our operating environment

- Improved manufacturing performance
- Improved supply chain
- Lower manufacturing and capital costs

Complemented by Co-op Initiatives



Strong Co-operative balance sheet

- Early dividend & Co-op support loan



Farm Source™ rewards & benefits

- Around \$30 million in savings for our farmers



Enhanced digital offering & apps

- Co-op updates and timely milk collection info



Business support on the ground

- Regional heads and technical reps

Continued strong business performance



VOLUME

23.7B LME

↑ 4%

REVENUE

\$17.2B

↓ 9%

NORMALISED EBIT

\$1,358M

↑ 39%

RETURN ON CAPITAL¹

12.4%

↑ Up from 8.9%

NET PROFIT AFTER TAX

\$834M

↑ 65%

ANNUAL DIVIDEND / YIELD²

40CPS 7.3%

↑ 60%

Ingredients

Volume (LME) ³	↑	22.4B
Gross Margin	↑	14.3%
Normalised EBIT	↑	\$1,204M
Return on Capital ¹	↑	13.4%

Consumer and Foodservice

Volume (LME) ³	↑	4.9B
Gross Margin	↑	28.7%
Normalised EBIT	↑	\$580M
Return on Capital ¹	↑	41.7%

China Farms

Volume (LME) ³	↑	0.2B
Gross Margin	↑	(22.4%)
Normalised EBIT	↓	(\$59M)

1. Return on Capital (ROC) excludes goodwill, brands and equity accounted investments; Group ROC including these items was 9.2% in FY16 (FY15: 6.9%)

2. FY16 dividend over volume weighted average closing FCG share price (\$5.50) across the year; 3. Includes sales to other strategic platforms



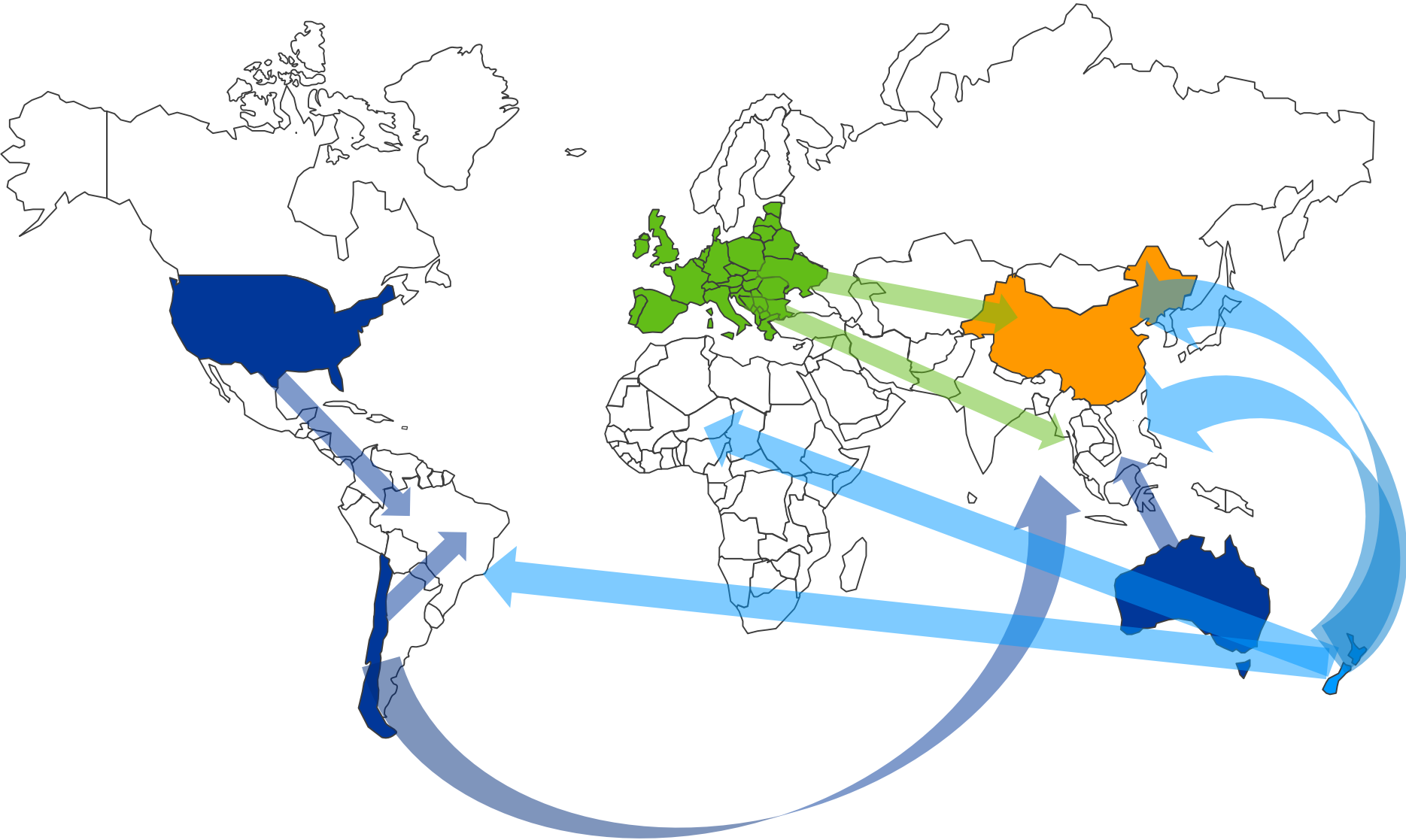
Investing for growth in Canterbury

A large industrial facility, likely a dairy processing plant, is shown at sunset. The main building is a tall, grey, rectangular structure with multiple levels and external staircases. To the right of the main building are several large, vertical, cylindrical storage tanks. The sky is filled with orange and yellow clouds, and the sun is low on the horizon. In the foreground, there is a road with a yellow diamond-shaped sign and some greenery. A blue banner with white text is overlaid on the bottom left of the image.

**Investments support efficiency
and flexibility**



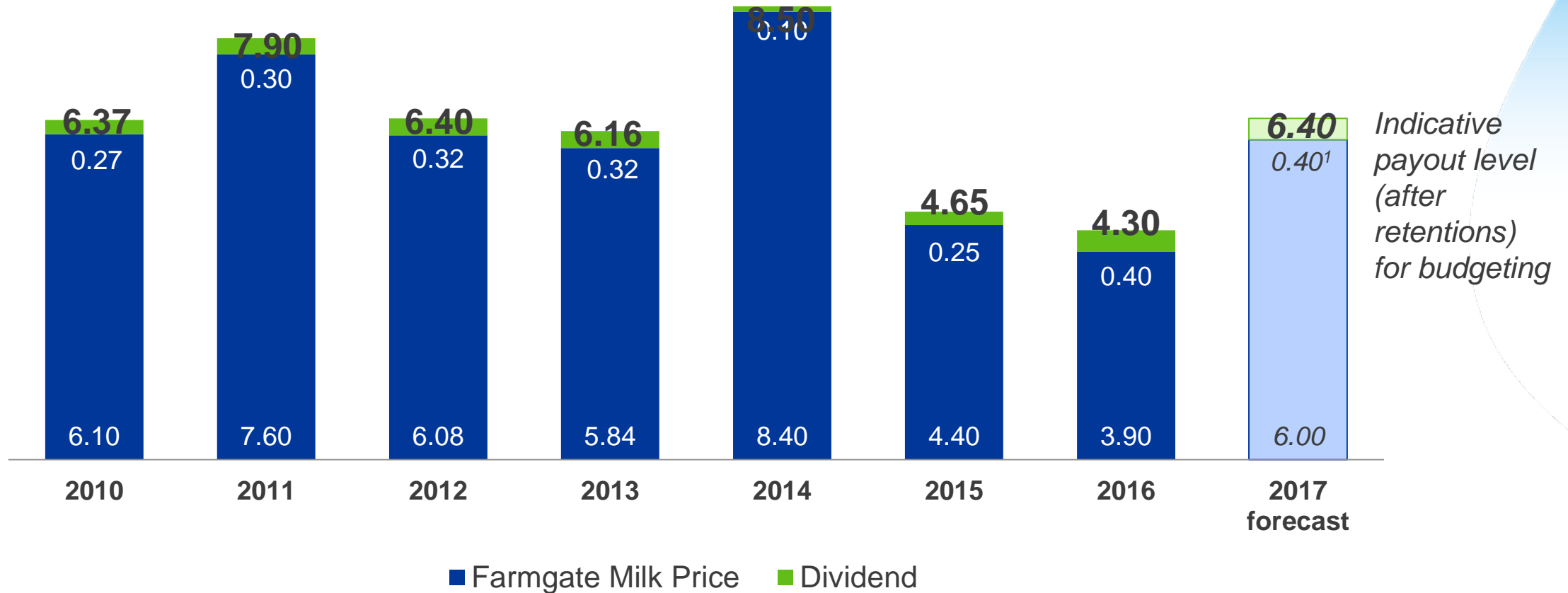
Other sources keep access secure, support growth and increase returns



- Primary Investment
- WMP / SMP
 - Whey
 - Cheese / Whey / Nutritionals
 - Fresh milk / UHT

Tough season for farmers

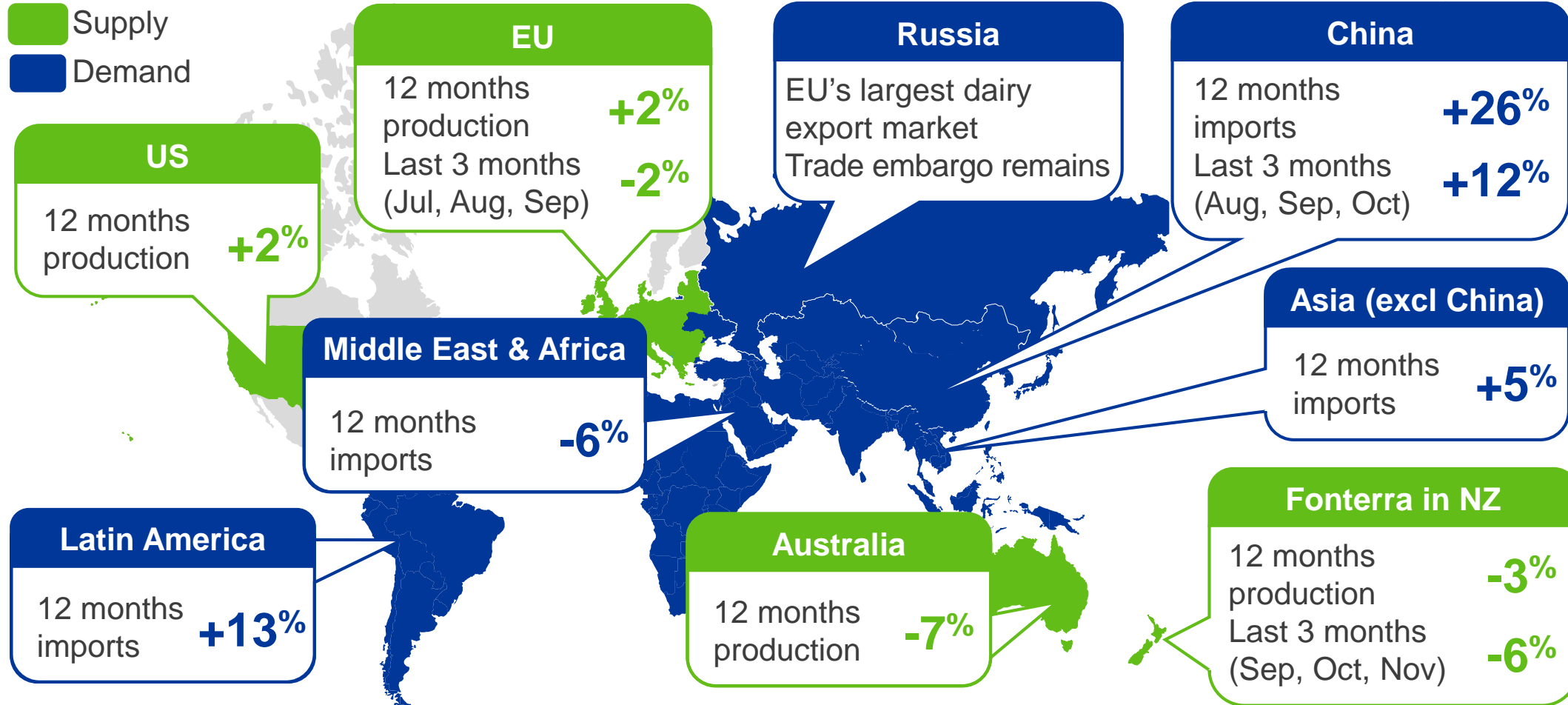
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Global dairy update – supply driven rebalancing



Note: All 12 month figures are rolling 12 months compared to previous comparable period: Australia (October), EU (September), United States (October), China (October), Asia (August), Middle East & Africa (August), Latin America (August), New Zealand (Fonterra only) (November)

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

Priorities for the coming year

1. Continued commitment to most sustainable returns
2. More momentum in strategy delivering to support higher returns
3. Expansion of Farm Source support to farmers

Fonterra

Dairy for life

