



FONTERRA SHAREHOLDERS' FUND

ANNUAL MEETING
FRIDAY 3 NOVEMBER 2017





JOHN SHEWAN

Chairman

FSF Management Company



AGENDA

Welcome and introduction

Chairman's address

Fonterra Chairman address

Fonterra CEO's address

Questions

Resolution to re-elect retiring Director Pip Dunphy

Address by Pip Dunphy

General business

John Shewan

John Shewan

John Wilson

Theo Spierings

John Shewan

John Shewan



2017 – A YEAR OF SIGNIFICANT CHANGE IN MARKET CONDITIONS



FARMGATE MILK PRICE NOW
AHEAD OF DAIRY NZ'S 'ON-
FARM' BREAK-EVEN POINT...

57%  vs. 2015/16

...RESULTING IN A SHARP
INCREASE IN FONTERRA'S
INPUT COSTS...

GROSS MARGIN

10% 

CONSUMER &
FOODSERVICE
GROWTH

12% 

NORMALISED
EBIT

15% 

ADVANCED
INGREDIENTS SALES
GROWTH

9% 

NET PROFIT
AFTER TAX

11% 

CONTINUED
PROGRESS
IN OPERATING COST
MANAGEMENT

6% 

...OFFSET BY SIGNIFICANT
GROWTH IN SALES OF
HIGHER VALUE PRODUCTS...

POSITIVE FINANCIAL OUTCOME



11.1% RETURN ON CAPITAL¹

44.3% GEARING RATIO²

46CENTS EARNINGS PER SHARE

40CENTS DIVIDEND PER SHARE

¹ Return on capital excludes goodwill, brands and equity accounted investments. Return on capital including these items was 8.3%.

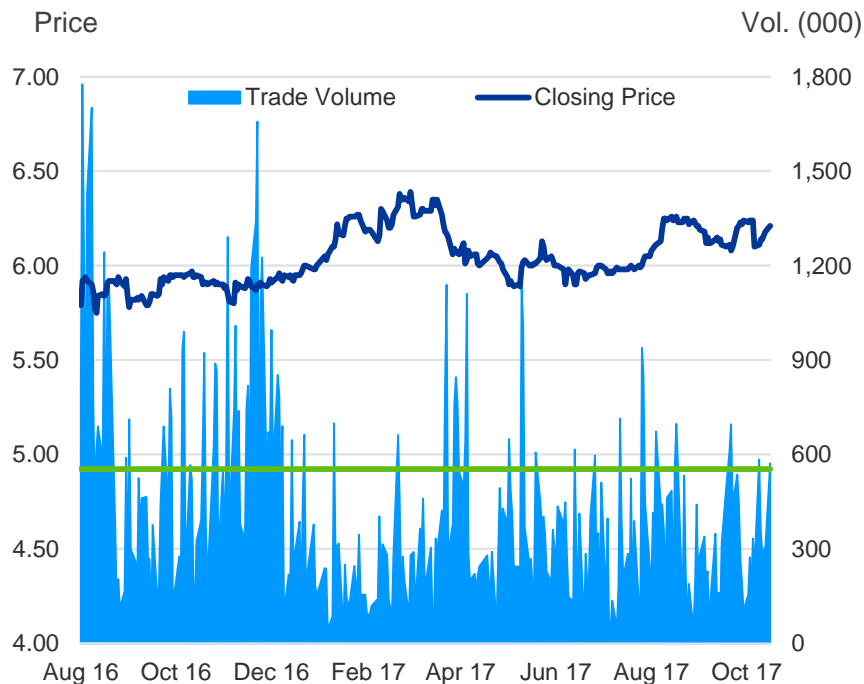
² Gearing ratio is economic net interest bearing debt divided by economic net interest bearing debt plus equity excluding hedge reserves.

KEY EVENTS IN THE YEAR



18 November 2016	Business update announced
22 March 2017	Interim results announced
20 April 2017	Interim distribution of 20 cents per unit paid
24 May 2017	Business update announced
25 September 2017	Annual results announced – EPS confirmed at 46 cents
20 October 2017	Final distribution of 20 cents per unit paid

UNIT PRICE PERFORMANCE



- FSF unit price increased 6% in FY17
 - 31 July 2016: \$5.69
 - 31 July 2017: \$6.05
- Full year distribution 40 cents per unit
 - Yield of 6.7%
- Strong liquidity in FSF units¹
 - Average daily trading volume of 554,000 units

¹ FY17 dividend over volume weighted average closing unit price (\$5.96) across the year.

FUND KEY STATISTICS



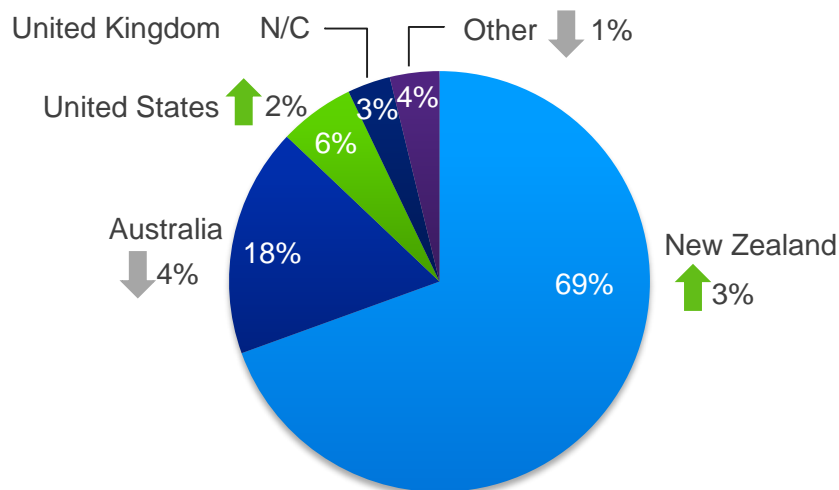
Units on Issue ¹ :	131 million	↑
Fund Market Capitalisation ¹ :	\$810 million	↑
Fonterra Market Capitalisation ¹ :	\$10 billion	↑
Fund Size ¹ :	8.1% of Fonterra shares on issue	↑
12-month High/Low ² :	\$6.40 (21 Feb 17) / \$5.80 (7 Nov 16)	

¹ At 24 October 2017

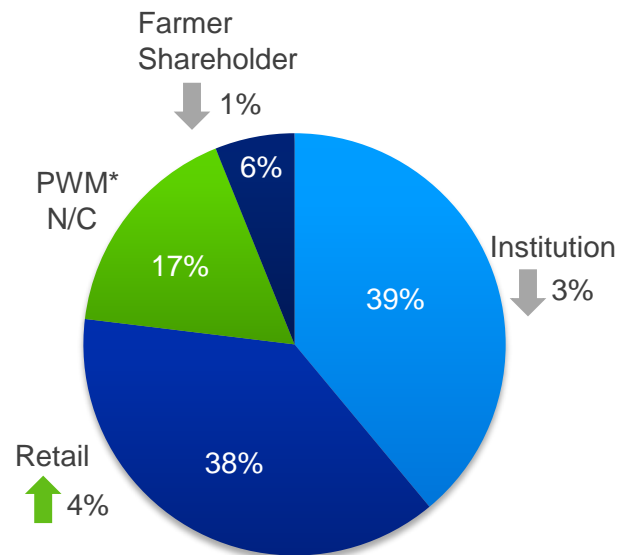
² 24 October 2016 – 24 October 2017

UNIT REGISTER ANALYSIS

Holding by country



Holding by investor type



* PWM = Private Wealth Management

As at 23 October 2017 – comparison 28 October 2016

DIRECTOR CHANGES

Fonterra Co-operative Group

Independent director changes

- David Jackson – retired 2 Nov 2017
- Bruce Hassall – appointed 2 Nov 2017

Farmer director changes

- Michael Spaans – retired 31 July 2017
- David MacLeod – retired 2 Nov 2017
- Leonie Guiney – retired 2 Nov 2017
- John Monaghan – retired by rotation and re-elected 2 Nov 17
- Andrew MacFarlane – elected 2 Nov 2017
- Brent Goldsack – elected 2 Nov 2017

FSF Management Company

- Ian Farrelly – retired 12 Dec 2016
- Scott St John – appointed 12 Dec 2016

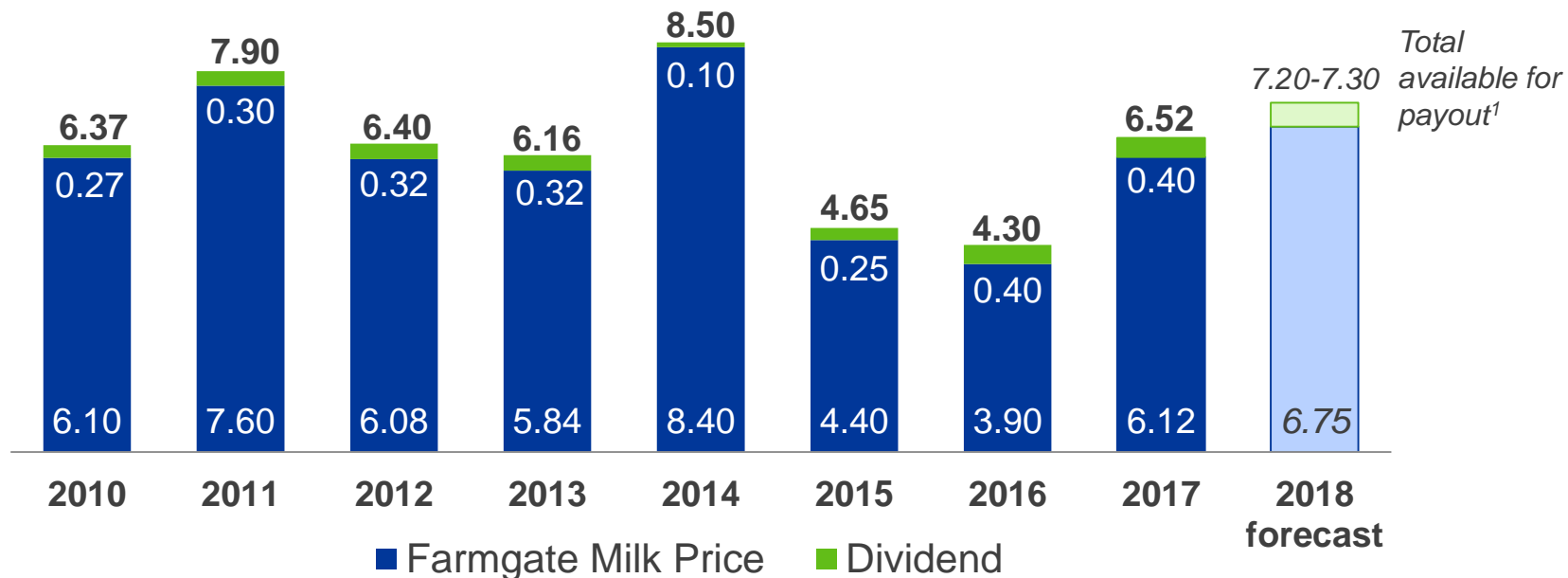


YEAR IN REVIEW

John Wilson, Fonterra 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 Capital ¹	↓	10.3%

Consumer and Foodservice

Volume (LME) ³	↑	5.5 B
Gross Margin (%)	↓	26.8%
Normalised EBIT	↑	\$614M
Return on Capital ¹	↑	47.2%

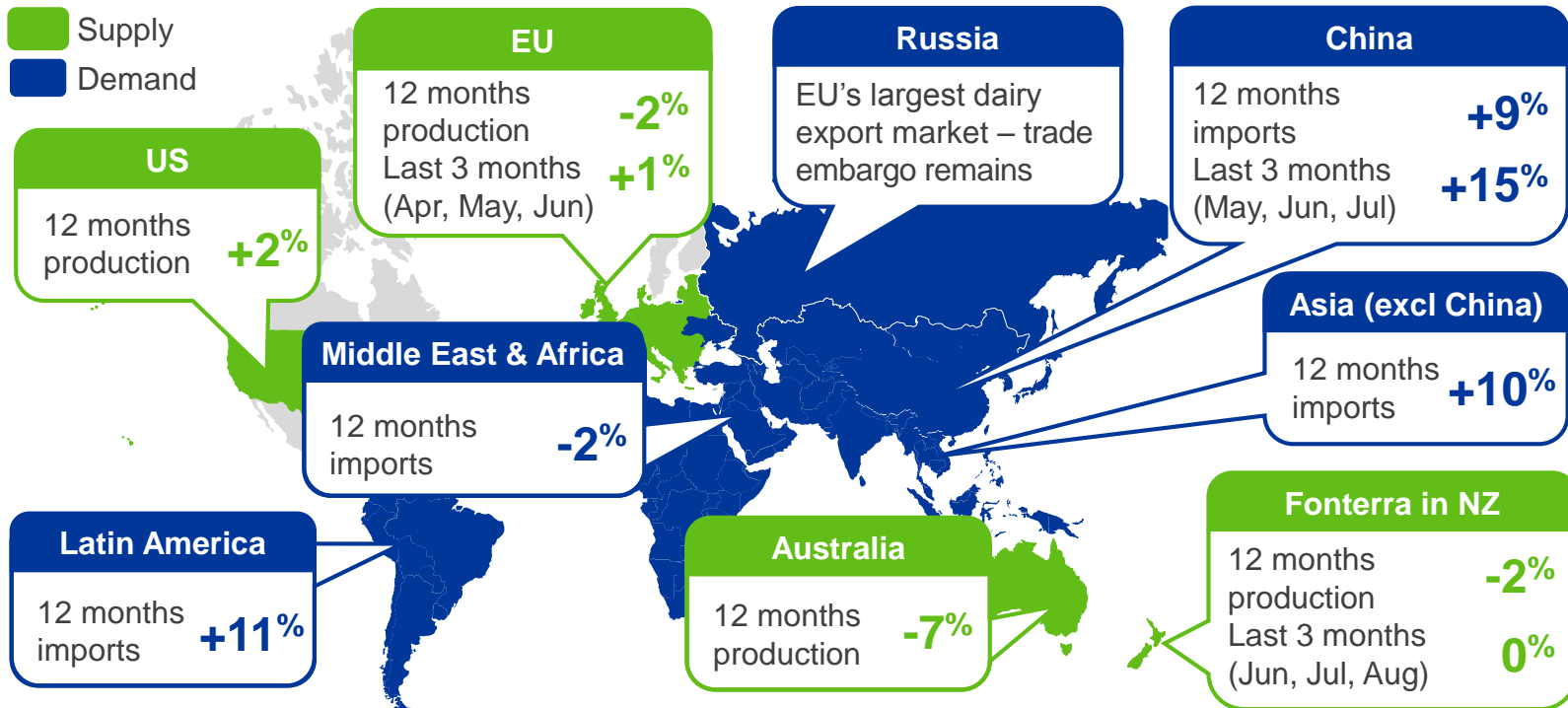
China Farms

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.

Global dairy market – positive outlook with continued balancing of supply and demand



Note: All 12 month figures are rolling 12 months compared to previous comparable period: Australia (Jun), EU (Jun), United States (Jul), China (Jul), Asia (May), Middle East & Africa (May), Latin America (May)

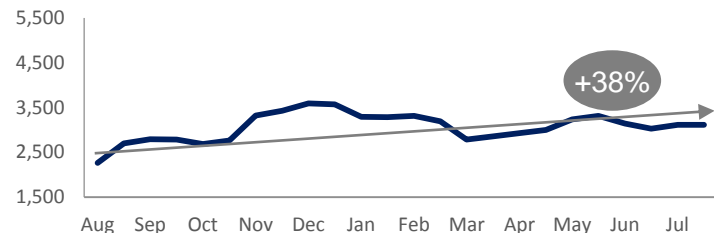
Source: Government milk production statistics; GTIS trade data; Fonterra analysis]

Dairy prices rose strongly over the year

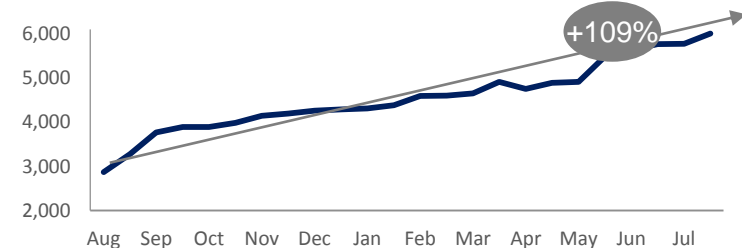
Improved Farmgate Milk Price put pressure on margins

Products informing milk price up significantly

Whole Milk Powder

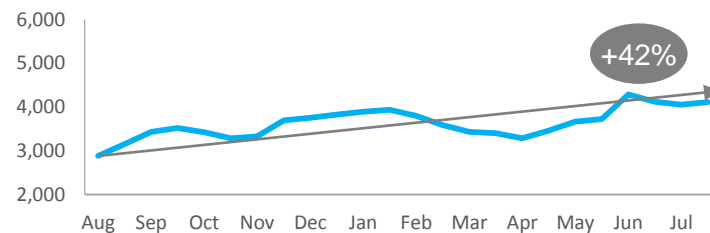


Butter

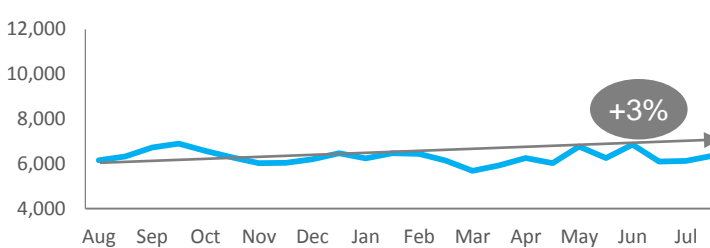


Other products up but to a lower degree

Cheddar



Rennet Casein



Note: All prices in US dollars per MT

Source: GDT data









Dairy for life

FINANCIAL PERFORMANCE

Theo Spierings, CEO



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

40cPS

Stable

YIELD²

6.7%

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

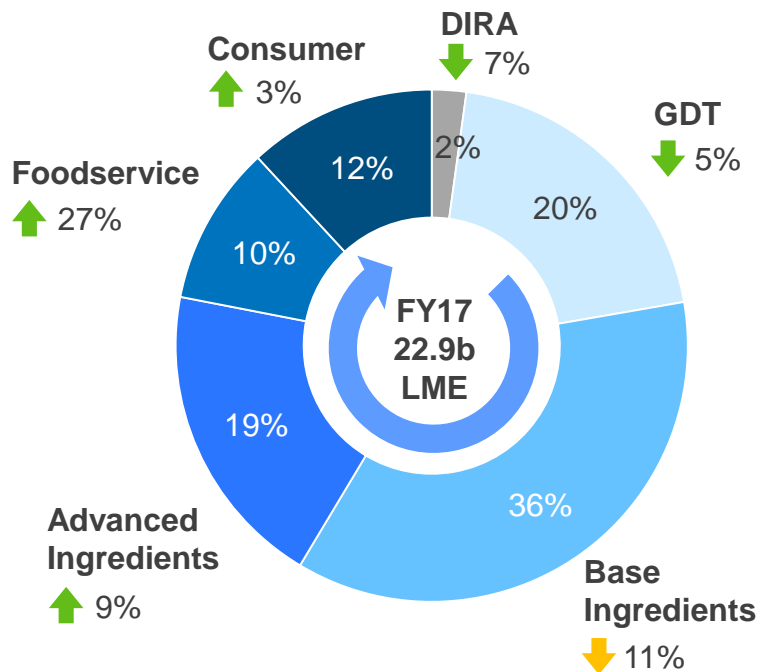
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2. FY17 dividend over volume weighted average FCG price of \$5.96 across the year; 3. Includes sales to other strategic platforms.

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

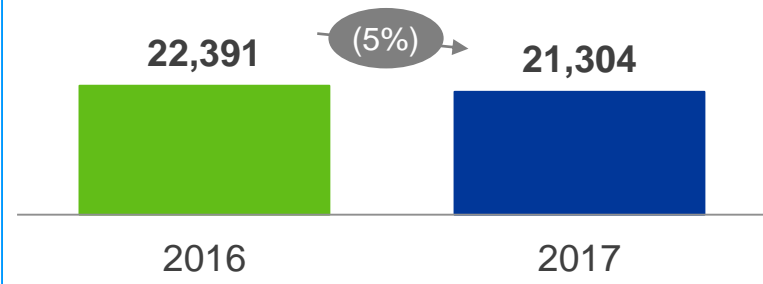
46c

Note: Return on Capital (ROC) excludes goodwill, brands and equity accounted investments; Group ROC including these items was 8.3% (2016: 9.2%)

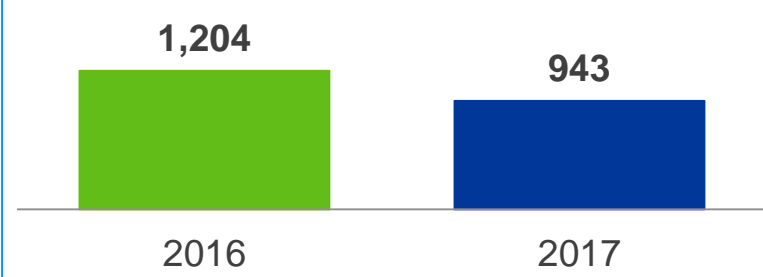
Ingredients

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

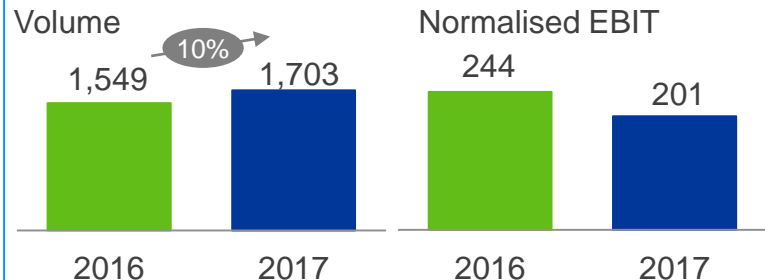
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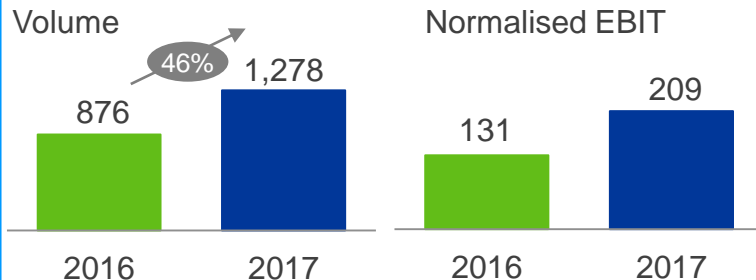
Consumer and Foodservice

Solid performance led by Greater China

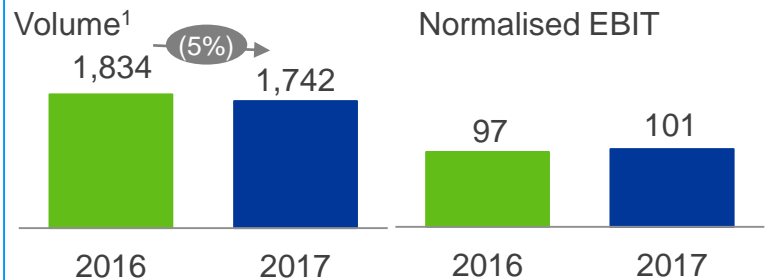
Asia



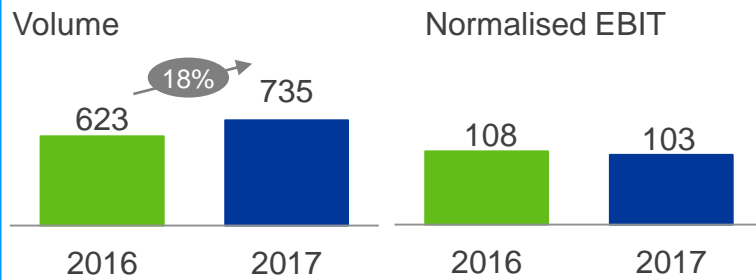
Greater China



Oceania



Latin America

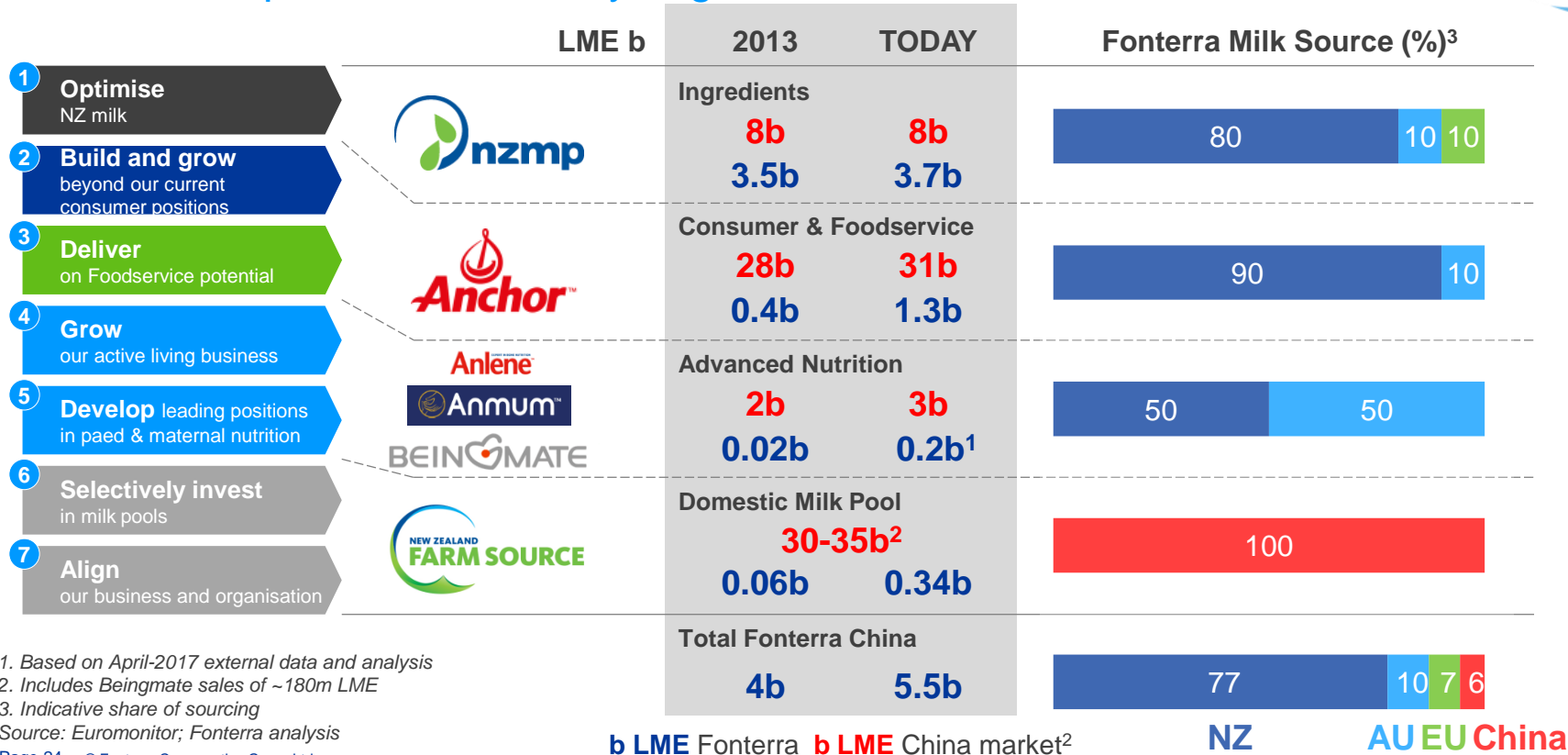


1. Sales volume growth of (1%) when excluding impact of discontinued businesses

Note: All volumes include intercompany sales

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

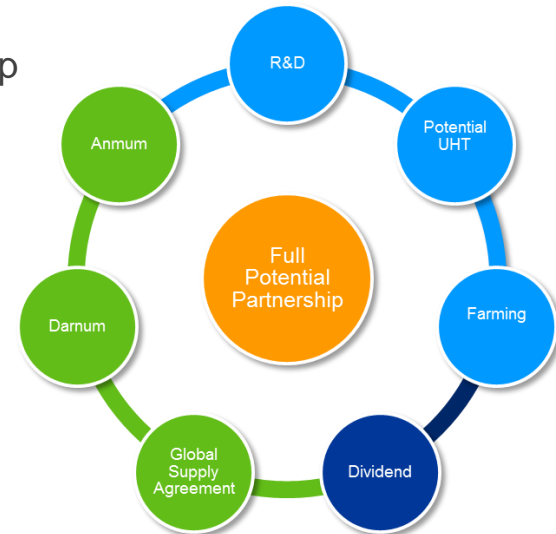
Beingmate is an important investment

Challenging last 12 months

- Regulatory changes
 - Long-term, brand rationalisation will benefit major domestic players
 - New regulations in place on 1 January 2018
 - Beingmate in first wave of approvals
- Competitive environment
 - Over-supply from non-approved players
 - Price competition and de-stocking
 - Impacted Beingmate sales and profitability
- Financial impact
 - Recognised share of one-off losses
 - Impairment in carrying value

Strong strategic rationale remains

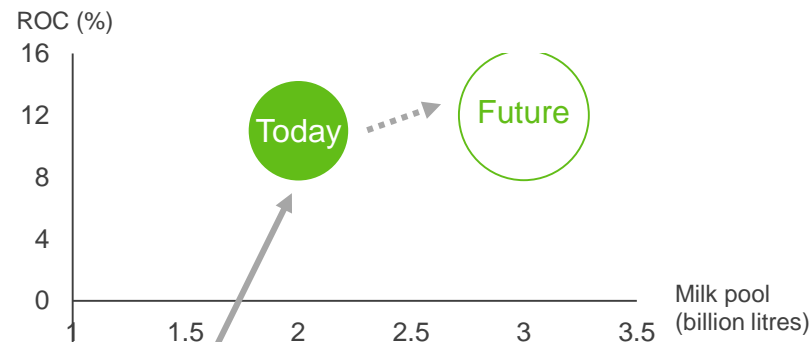
1. Market fundamentals are strong
2. Partnership with Beingmate part of a larger, profitable Greater China business
3. Strategic partnership value extends beyond direct investment



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

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

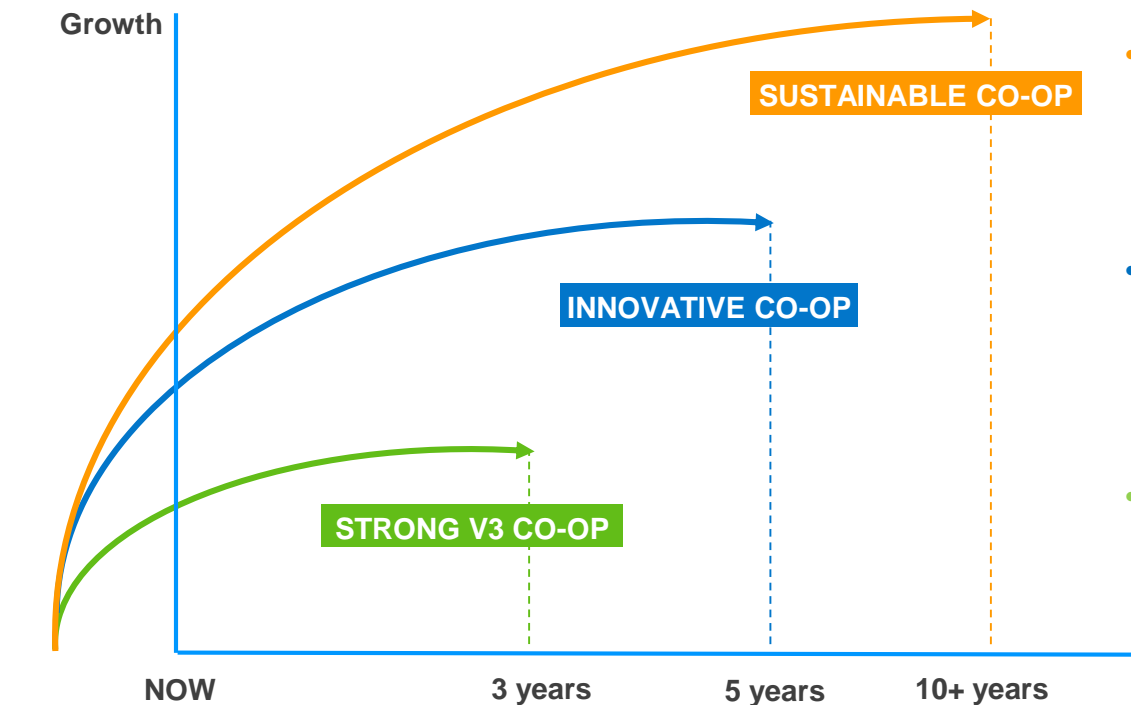


Dairy for life

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

ROBOTICS



BLOCKCHAIN



SUSTAINABLE OPERATIONS



3D PRINTING



DIGITAL MANUFACTURING



SHARING ECONOMY

DIGITAL LIVING

CONSUMERS OF THE FUTURE

HYPER-PERSONALISATION



NEW RETAIL



CONNECTED LIFE



FUTURE CONSUMERS



GENOMICS



GAMIFICATION



AR/VR

ENABLERS

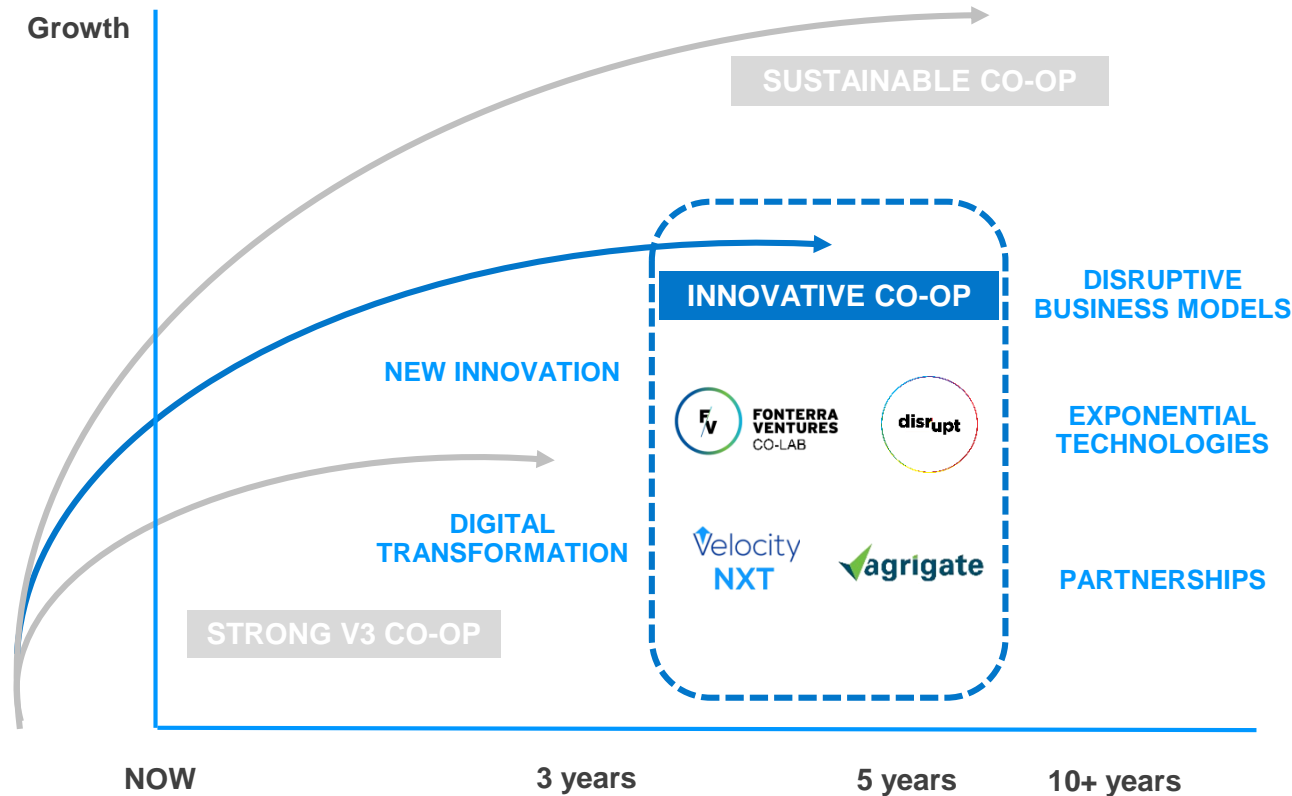
DIGITAL

ARTIFICIAL INTELLIGENCE

BIG DATA

BEHAVIOUR ECONOMICS

We have already begun the innovation journey



QUESTIONS





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RESOLUTION 1

That Pip Dunphy, who retires by rotation and, being eligible, offers herself for re-election, be re-elected as Director of the Manager of the Fund





PIP DUNPHY

Director

FSF Management Company



VOTING

- In respect of each resolution, please tick the “for”, “against” or “abstain” box.
- Once you have completed your voting, please place your vote in a ballot box.
- Please raise your hand if you require a pen.
- Results will be announced to the NZX and ASX as soon as they are available.

FONTERRA
SHAREHOLDERS'
FUND.



FONTERRA SHAREHOLDERS' FUND

ANNUAL MEETING
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GENERAL BUSINESS



FONTERRA
SHAREHOLDERS'
FUND.



THANK YOU MEETING CLOSED.

