Fonterra Investor Day

DECEMBER 2017
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Investor Day purpose

“Improve understanding of Fonterra’s ambition and growth strategy”

1. **We have an aspirational ambition and a strategy to achieve it**
   - $35 billion revenue from 30 billion LME by 2025
   - Demand-led strategy
   - Optimising New Zealand milk with support from global milk pools

2. **Role of our Global Consumer and Foodservice business in this strategy**
   - Key drivers of performance
   - Accelerating V3 strategy

3. **The importance of innovation**
## FY18 Investor Day – Agenda

<table>
<thead>
<tr>
<th>Session</th>
<th>Presenter</th>
<th>Objectives</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welcome</td>
<td>Simon Till</td>
<td>• Overview of the day</td>
<td>8:30-8:45</td>
</tr>
</tbody>
</table>
| Business Update    | Theo Spierings, Paul Washer, Simon Till | • Regular quarterly update  
                     |                     | • Video and Q&A                                                           | 8:45-9:30     |
| Ambition & Strategy| Theo Spierings                     | • Demand-led strategy supporting growth of C&FS  
                     |                     | • Strong V3 Co-op, Innovative Co-op and Sustainable Co-op                 | 9:30-10:15    |
| Morning Tea        |                                    |                                                                             | 10:15-10:45   |
| Innovative Co-op   | Judith Swales                      | • Showcase what we are doing to transform culture and capabilities          | 10:45-11:30   |
| GCFS Overview      | Lukas Paravicini                   | • Overview of business  
                     |                     | • Our ambition for C&FS                                                   | 11:30-12:00   |
| Acceleration       | Christina Zhu                      | • Greater China overview  
                     |                     | • Acceleration in China                                                   | 12:00-12:30   |
| Lunch              |                                    |                                                                             | 12:30-1:30    |
| Global Foodservice | Grant Watson                       | • Overview of Foodservice and growth drivers                               | 1:30-2:00     |
| Consumer           | Andy Dasgupta                      | • Affordable Nutrition                                                    | 2:00-2:30     |
| GCFS Close         | Lukas Paravicini                   | • Recap on ambition for C&FS                                               | 2:30-2:50     |
| Q&A/Close          | Lukas Paravicini, Paul Washer, Simon Till | • Q&A and Closing                                                        | 2:50-3:30     |
Fonterra – key investment attributes

- Strong industry fundamentals
- Co-operative with secure global access to quality milk
- Scale and world-class ingredients business
- Focused high-value consumer and foodservice businesses
- A strategy that’s delivering diversified and increased returns
- Financial strength and discipline
- Unique co-operative structure supports strong credit profile, including effective subordination
- Highly experienced board and management team
Fonterra Ambition and Strategy
Theo Spierings
CEO
To achieve our ambition we will need to deliver beyond V3

Three strategic horizons

- **NOW**: Demand-led optimisation of New Zealand milk, supported by milk pools
- **3 years**: Investment in technology and people for the future
- **5 years**: Creation of sustainable value for all stakeholders
- **10+ years**: Demand-led optimisation of New Zealand milk, supported by milk pools

**Competitive advantage of Cost Leadership through Scale Efficiency**
Clear financial goals

<table>
<thead>
<tr>
<th>2025 Ambition</th>
<th>Key Drivers</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>$1.2 / LME</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>20%+</td>
</tr>
<tr>
<td>Normalised EBIT</td>
<td>50-100% uplift</td>
</tr>
<tr>
<td>Return on Capital(^1)</td>
<td>11-13%</td>
</tr>
<tr>
<td>Gearing(^2)</td>
<td>40-45%</td>
</tr>
</tbody>
</table>

- Revenue growth in Consumer and Foodservice
- Sales shift to Advanced Ingredients
- Driven by mix shift to Consumer and Foodservice
- Uplift from $1b base level (2015)
- Grow contribution from Consumer and Foodservice
- Target range
- Maintain “A” band credit rating

1. Return on Capital (ROC) excludes goodwill, brands and equity accounted investments.
2. Fonterra’s target is to maintain its strong investment grade credit rating and debt payback and cash flow coverage metrics that support this.
Delivering on our V3 strategy

- STRONG V3 CO-OP
- INNOVATIVE CO-OP
- SUSTAINABLE CO-OP

NOW 3 years 5 years 10+ years

- Competitive advantage of Cost Leadership through Scale Efficiency
- Creation of sustainable value for all stakeholders
- Investment in technology and people for the future
- Demand-led optimisation of New Zealand milk, supported by milk pools
Our strategic choices are anchored by our beliefs and assessed through commercial filters

**Beliefs**

- Dairy industry is demand-led
- New Zealand milk can sustainably grow at 1.5% p.a.
- Global milk is needed to maximise Co-op value

**Filters**

- Strategic Relevance
- Economic Value-add
- Sustainability
- Market Potential
- Ability to Win

- Cost leadership
- Volume and Value now
- Long-term value protection
- Shareholder wealth
- Likelihood of success
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

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.

- **GDT**
  - Volumes aligned with lower production
- **Ingredients**
  - Lower New Zealand milk collections and record low closing inventory
  - 473m LMEs shifted to higher margin Advanced Ingredients
- **Consumer and Foodservice**
  - Added 576m LMEs
  - Normalised EBIT up 6%
Unconstrained demand will surpass Fonterra’s New Zealand supply

NZMP demand CAGR ~5% driven by category initiatives

GCFS 16% demand CAGR for cream products

GCFS 14% demand CAGR for mozzarella

2022 unconstrained demand ~26bn LME ~35bn LME in 2025

1. SMP FY14-16 is ~20% infant grade growing to ~30% in FY22 unconstrained demand (as referenced above).

Source: Business Unit unconstrained demand forecasts. Fonterra in-house data for historical supply volumes

Note: Demand growth in New Zealand milk pool plus Heerenveen
Consumer and Foodservice ambition will require organic and inorganic growth

Today Acceleration Inorganic 2025 Target

LME (billion)

5.5

Organic

Partnerships

10.0

2025 Target
Capturing projected demand will require additional non-New Zealand milk

We estimate ~22.5b LME of this supply will originate from New Zealand

Fonterra Milk Sources

1. Assumed underlying New Zealand milk growth at 1.5% CAGR.
2. Equates to the total Fonterra NZ milk collected in the 2016/17 season of 17.1 million litres. An LME is a standard measure of the amount of milk (in litres) allocated to each product based on the amount of fat and protein in the product relative to the amount of fat and protein in standardised raw milk.

Source: DairyNZ, AgriHQ
Demand-led optimisation of New Zealand milk, supported by global milk pools

Fonterra Milk Sources

- Prioritise New Zealand milk to the highest value
- Future demand exceeds New Zealand-sourced supply
- Capturing additional demand requires offshore milk sources
- Optimise Ingredients business
- Accelerate milk into higher-value Consumer & Foodservice
Milk pool strategic rationale

Primary investment

Complementing our New Zealand milk pool

- Enable growth of ingredients business to support customer demand (All)
- Secure access for our New Zealand milk exports (China)
- De-risk supply for ingredients customers (Australia and Europe)
- Optimise our ingredients manufacturing footprint (Europe and US)
- Enable our development of higher margin consumer brands and foodservice opportunities (Chile, China and Australia)
We will also accelerate growth through innovation

We will also accelerate growth through innovation

Competitive advantage of Cost Leadership through Scale Efficiency
We are embracing tomorrow’s innovation in what we do today

**AGTECH**
- Precision Farming
- Soil and Crop Tech

**ENERGY AND CLEAN TECH**
- Energy and Water Efficiency

**FOOD SAFETY AND TRACEABILITY**
- IOT
- Blockchain
- 3D Printing
- Robotics and Automation

**ROBOTICS**
- Digital Manufacturing
- Sharing Economy

**SUSTAINABLE OPERATIONS**
- Sustainable Farms
- Sustainable Operations

**DIGITAL CONSUMERS OF THE FUTURE**
- Connected Life
- New Retail
- Gamification
- AR/VR
- Genomics

**FUTURE CONSUMERS**
- Future Consumers of the Future

**ENABILERS**
- Digital
- Artificial Intelligence
- Big Data
- Behaviour Economics
And are on our way to becoming a Sustainable Co-op

- Malnutrition
- Obesity / Diet
- Water / Environment
- Climate and Energy
- Productivity

MAKING A DIFFERENCE IN THE LIVES OF 2 BILLION PEOPLE

Competitive advantage of Cost Leadership through Scale Efficiency
The Co-op has positively shifted its reputation and changed the minds of 1.5m New Zealanders.
Fonterra presents a strong investment opportunity

• Demand-led optimisation of New Zealand milk, supported by global milk pools

• Existing position provides foundation for growth strategy
  – Lowest cost production and vertically integrated milk pools
  – Strong foundation in global-scale ingredients business
  – End-to-end supply chain – providing quality and traceability

• Focused growth strategy built on
  – Targeted consumer markets for growth investment
  – Strong foodservice value proposition
  – Leverage our dairy know-how into higher-value products
Innovative Co-op
Judith Swales
COO Velocity and Innovation
Substantial magnitude of change

- Technology
- Urbanisation, rising middle class
- Glocalisation
- Healthy aging, millennials
- Health and Wellness
Building the foundations for our future success

- Creation of sustainable value for all stakeholders
- Investment in technology and people for the future
- Demand-led optimisation of New Zealand milk, supported by milk pools

Competitive advantage of Cost Leadership through Scale Efficiency
Velocity and Innovation: creating future Fonterra

**OUR 2025 AMBITION**

Make a difference in the lives of 2 billion people by 2025

<table>
<thead>
<tr>
<th>GROW AT HIGHER VALUE</th>
<th>MARKET LEADERSHIP</th>
<th>TRUST</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Billion LITRES 5-6 Milk Pools</td>
<td><strong>No.1</strong> INGREDIENTS</td>
<td><strong>TOP 3</strong> REPUTATION</td>
</tr>
<tr>
<td><strong>$35 BILLION</strong> TURNOVER</td>
<td>No.1 or 2 Consumer business in our Strategic Markets Supported by Foodservice</td>
<td><strong>WORLD CLASS</strong> Engagement</td>
</tr>
</tbody>
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**WHAT WE DO**

1. We build future revenue streams
2. We create innovative customer experiences through technology
3. We enable delivery through a central performance engine
4. We build future capability
5. We support the core business through injecting specialised expertise

**Velocity**

**R&D**

Science and Technology
Our innovation journey is well underway
We are embracing tomorrow’s innovation in what we do today.
Velocity and Innovation integral in delivering FY18 strategic priorities

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<table>
<thead>
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</table>
| **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  |

- Protect market share of New Zealand milk
- Deliver sustainable value creation in NZMP
- Deliver Everyday Nutrition focused growth path
- Target positions in Affordable Nutrition
- Deliver double-digit Foodservice diversified growth
- Revitalise the Anlene brand (Healthy Living)
- Build an Active Living portfolio
- Deliver China and Beingmate partnership at full potential
- Develop cheese / whey supply options
- Grow Australian milk pool share
- Invest to deliver future-oriented capabilities
BUILD AND GROW BEYOND CURRENT CONSUMER POSITIONS

1300+ FONterra Employees Engaged in programme
4 Ventures Invested in
$70m Revenue FY18 target
$8.5m Revenue Delivered in the first 9 months
CASE STUDY 1
NEW DIRECT-TO-CUSTOMER BUSINESS MODEL IN CHINA
CASE STUDY 2
NEW DIRECT-TO-CONSUMER BUSINESS MODEL IN SRI LANKA

Reach the Unreacheable to reach 4 million new consumers
Behavioural Hub

Amplifying Fonterra’s ability to understand and influence
Behaviour: our next generation competitive advantage

- **There is a gap**
  
  Globally 85% of grocery NPD fails in the first year (Nielsen)

- **Leveraging the facts**
  
  Emerging brain science has proven that over 80% of all decision making is driven subconsciously

- **Who**
  
  The largest, most powerful company's in the world are now investing heavily to leverage the new understanding of what really drives us all

---

‘Why are Uber, Airbnb, Google, and Amazon hiring behavioural specialists... ultimately, human insights leveraging the hidden side of our brain will shape machine learning software and algorithms.’

The New York Times
We’re building a strong R&D network
R&D focused on four platforms

**Dairy Beverage Solutions**
Improving:
- Affordability
- Convenience
- Environmental sustainability
- Functionality
- Taste and texture

**Expected outcome:**
- Differentiated products
- World-leading dairy protein portfolio
- Optimised consumer experience

**Dairy Nutrition Delivery**
Delivering specific nutritional benefits with focus on:
- Cognition
- Mobility
- Wellness

**Expected outcome:**
- Dairy nutritional solutions
- Substantiated health benefits
- Cost-effective nutrition

**Dairy Food Solutions**
Designing food solutions which provide superior functional and sensory performance across a range of applications

**Expected outcome:**
- Next generation cream cheeses, mozzarella, cheeses and creams

**Dairy Farming Systems**
Delivering ‘More of the Right Milk’ through science and technology

**Expected outcome:**
- Safe, high-quality and traceable milk
- More value to our milk
- Milk is responsibly and sustainably sourced
DEVELOPING FUTURE CAPABILITY

Transforming to an agile Co-op to better and more quickly meet our customers’ needs

PROJECT HUB project based working will become the new norm
We’re building an ecosystem of partners
Global Consumer and Foodservice (GCFS) Business Overview
Lukas Paravicini
COO Global Consumer and Foodservice
Our ambition for Global Consumer and Foodservice

**Ambition:**
To be a relevant dairy player with Fonterra’s Consumer and Foodservice brands, delivering annually +400m LMEs with an upskilled team

- No. 1 or 2 by Market Share Consumer & FS Business in our 8 strategic & leadership markets
- Most loved brand(s) in our 8 strategic & leadership markets
- Leading dairy innovation
- Global Benchmark on Consumer Engagement
- 10 Billion LMEs NZD 15 Billion Turnover 2025
Global Consumer and Foodservice brands
Combination of strategic growth, seeding and cash markets

Asia

Greater China

Latin America

Oceania
Our brands are getting global recognition
48 Awards in 18 months

- **6 CANNES LIONS**
- **11 SPIKES ASIA AWARDS**
- **8 TANGRAMS AWARDS & 1 AMES**
- **7 LONDON INTERNATIONAL AWARDS**

- **2 CLIO AWARDS**
- **10 AXIS AWARDS**
- **2 NZDM AWARDS**
- **2 BEST AWARDS**
GCFS is a highly attractive business today

Asia
- Volume (LMEs): 1.7b
- Norm\(^1\). EBIT: $201m
- GM\%: 25-30%

Oceania
- Volume (LMEs): 1.7b
- Norm\(^1\). EBIT: $101m
- GM\%: 20-25%

Greater China
- Volume (LMEs): 1.3b
- Norm\(^1\). EBIT: $209m
- GM\%: 25-30%

Latin America
- Volume (LMEs): 0.7b
- Norm\(^1\). EBIT: $103m
- GM\%: 30-35%

Note: FY17 figures
1. Refers to normalised EBIT
Growth will be delivered organically and through partnerships
Achieving our ambition

**2 WHAT**

Accelerate, Diversify
Foodservice
Culinary @ Home
Healthy Living
Affordable Nutrition

**3 HOW**

Five Must Win Battles
1. Innovation
2. Revenue Growth
   Management
3. Perfect Store
4. Cost Leadership
5. Digital

**1 ENABLERS**

PEOPLE

PARTNERSHIPS

INNOVATIVE CO-OP
> $1b innovation pipeline

1. Winning with Taste to Delight Consumers
   - 60:40 Sensory Win on ALL key products

2. Portfolio Optimisation and Rationalisation
   - Formulation Simplification
     - Agile process balancing three principles (taste, nutrition, regulatory)
   - Agile Network
     - Leverage R&D / LAC networks
   - Make Choice
     - 80% portfolio on 3 Must Win Battles (MWB)

3. Shaping the Future Consumer-led Pipeline
   - Set up Innovative Approach
     - Ideation + crowdsourcing communities
     - Robust screening best ideas to shape our MWB platforms with fast evolving consumer aspirations!

A solid and consumer relevant pipeline : > incremental $ 1b innovation pipeline
Global Revenue Growth Management – focussing on systematic value pricing

Fonterra Global RGM Programme

Overall objectives and philosophy

SEE: Situational Assessment

SET: RGM plan

GET: Execution

Enablers

Organisation and capabilities, processes, technology

PACK-PRICE
CHANNEL STRATEGY
EFFECTIVE
PROMOTIONS
TRADE INVESTMENT
MANAGEMENT
Creating the Perfect Store

Priorities:
- MCL Compliance
- Promotional Compliance

1. Revenue Growth Management.

2. 5Ps Framework

3. Perfect Store Playbook

4. Execution Tools

5. Tracking, Reporting & Lift & Shift

Establish a set of shopper based in store standards that support profitable share growth for Fonterra’s Global Consumer Brands by winning at the First Moment of Truth (FMOT)

Brand Strategies | RGM¹ Insights
---|---
Shopper Insights | Channel Strategies

Note: All Pricing, promotion and distribution decisions are at the sole discretion of the retailer. RSP = Recommended Shelf Price
1. Revenue Growth Management.
Significant conversion cost potential

World Class End to End Supply Chain
The Right Service at the Right Cost

Integrated Factory Management

- Conversion Cost
- Absolute Material Loss
- Failure Cost

Current Leadership Focus

- Making losses visible, continuously measuring and undertaking focussed intervention
- Leaders on the floor coaching
- Creating ownership at equipment level
- Line structure reorganisation driving accountability
Four key areas of growth beyond today’s trajectory

1. China Accelerate
2. Global Foodservice
3. Affordable Nutrition
4. Partnerships
Acceleration
Christina Zhu
President Greater China
## China at a glance

**Economy**
- World's **second largest economy** and **top receiver** of foreign direct investment
- Drivers changing from export and investment to **personal consumption**
- **Single-digit GDP growth** is the “new normal”
- Forward focus on **quality, innovation, and open trade and investment**

**Government/regulatory**
- **Stable governance and leadership** under President Xi Jinping and the Communist Party of China
- Strong **openness and engagement** – AIIB and One Belt, One Road
- Strong continued regulatory emphasis on **food safety and quality**
- Special **New Zealand-China trade relationship** as FTA upgrade talks continue

**Consumer trends**
- Demographic changes: continued urbanisation and population aging, relaxation of the one-child policy
- **Steady household income growth**
  - ‘Trading-up’
  - Focus on **food safety and health**
- **Increasing brand loyalty**
- **World’s most dynamic digital economy**
Chinese dairy demand is growing faster than local supply

China equilibrium model

Source: Fonterra GDI / Combined Forecast Model
China is world’s largest e-commerce market, with growth in fresh and packaged food still to come

China’s e-commerce market equals total of top 6 from the rest of the world

<table>
<thead>
<tr>
<th>Country</th>
<th>Online Retail Transaction (2017E, USD)</th>
<th>2016-18E CAGR %</th>
<th>Portion in total retail %</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>$462b</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Korea</td>
<td>$53B</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Germany</td>
<td>$64B</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Japan</td>
<td>$81B</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>UK</td>
<td>$119B</td>
<td>10%</td>
<td>19%</td>
</tr>
<tr>
<td>China</td>
<td>$812b</td>
<td>18%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: McKinsey iConsumer China 2017, Euromonitor, team analysis

2017 Online penetration rate by category in China

- Consumer electronics: 38%
- Apparel: 31%
- Personal care: 21%
- Home care: 8%
- Packaged food: 4%
- Fresh food: 2%

E-commerce Value Penetration (E-commerce market size as % of total retail value)

Purchased Online

Percent of digital consumers purchasing the category in any channel

Evaluated Online

Percent of digital consumers purchasing the category in any channel
We have a right to win with our unique integrated business model

- No other multinational dairy company in China has the same mix of businesses
- Gives us a unique strategic advantage – integrated supply chains are important to Chinese consumers and offer value to potential digital partners
- Multiple milk pools – downstream value from China Farms
China opportunity
Fonterra well positioned in every segment

<table>
<thead>
<tr>
<th></th>
<th>LME b</th>
<th>2013</th>
<th>FY17</th>
<th>Fonterra Milk Source (%)³</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Optimise NZ milk</td>
<td>8b</td>
<td>8b</td>
<td>80 10 10</td>
</tr>
<tr>
<td>2</td>
<td>Build and grow</td>
<td>8b</td>
<td>3.5b</td>
<td>90 10</td>
</tr>
<tr>
<td>3</td>
<td>Deliver on Foodservice potential</td>
<td>31b</td>
<td>1.3b</td>
<td>50 50</td>
</tr>
<tr>
<td>4</td>
<td>Grow our active living business</td>
<td>28b</td>
<td>0.4b</td>
<td>50 50</td>
</tr>
<tr>
<td>5</td>
<td>Develop leading positions in paed &amp; maternal nutrition</td>
<td>2b</td>
<td>0.2b¹</td>
<td>50 50</td>
</tr>
<tr>
<td>6</td>
<td>Selectively invest in milk pools</td>
<td>30-35b²</td>
<td>0.34b</td>
<td>77 10 7 6</td>
</tr>
<tr>
<td>7</td>
<td>Align our business and organisation</td>
<td>0.06b</td>
<td>0.02b</td>
<td>77 10 7 6</td>
</tr>
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</table>

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.

FY17 Fonterra Milk Source (%): 80, 10, 10

LME b: Fonterra b LME China market²

NZ: 77, 10, 7, 6

AU: 77, 10, 7, 6

China: 77, 10, 7, 6
Consumer brands in Greater China

- Three strong brands: **Anchor**, **Anlene** and **Anmum**
- Anchor is our leading import brand by market share
- 2017 Double 11 sales up more than 67% y.o.y., surpassing RMB 100 million across all platforms
- Wide geographic reach via a strong team and distribution channels
- Strategic e-commerce partnerships
Fonterra brands online sales to RMB 100M +67% vs. LY

Anchor exceeded the whole day sales value of D11 LY in JD.com by 10 AM
D11 full-day sales of Anchor Culinary at home exceeded the sales of entire October
Anchor POP store in JD ranked No.1 in imported foods stores
Anchor honored TOP 10 unprecedentedly on Nov.11 in JD stand-alone Foods&Beverage category
During double 11 shopping festival Anchor awarded NO.3 in dairy category of JD supermarket No.1 in imported dairy category
Annum honored TOP 10 SKU in JD IMF category
Foodservice in Greater China

- #1 in the market through the Anchor Food Professionals brand
- Key product categories: butter, UHT cream, mozzarella and cream cheese
- Key focus channels: bakery, beverage and casual dining
- Strong distribution, with a forward focus on tier 2, 3 and 4 cities
- Route-to-market transformation sparking further volume growth, value and direct customer ownership
- Fonterra Application Centres in Shanghai, Beijing, Guangzhou and Chengdu

Accelerated volume growth through Route-to-market transformation

Over 50% of pizzas in China are topped with our cheese
Over 50% of leading bakery chains choose our products

Experienced and innovative chef teams
Professional service teams
World-class dairy application experts and advanced technology
Focus on speed and agility to defend and grow market leadership

1. China is a “winner-take-all” market, requiring players to rapidly scale with sustainable margins

2. Chinese consumers are increasingly brand loyal, prefer to trade up, and adapt to “new” quickly

3. As a result, “cards can re-shuffle quickly” in the market

4. The emerging era of “New Retail” is characterised by omni-channel, instant fulfillment, and focus on fresh food

5. We are the only MNC1 uniquely positioned to create a full end-to-end value chain across consumer and foodservice

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1. Multinational Corporation
The journey to New Retail

**Stage I (Before 2010)**
Disruptive C2C

- Small medium businesses enter C2C platforms featuring cheap liquidation
  - Product distribution redefined
  - Accessibility and price as consumer priorities
  - Product and service quality less important

**Stage II (2010-2015)**
Incubating B2C

- B2C platforms taking off with most brands joining
  - Product authenticity and delivery/service quality as hygiene factors
  - Brand loyalty on the rise
  - Vertical e-tailers emerged

**Stage III (2015-)**
Crowded B2C

- B2C platforms highly competitive, with most brands homogenised
  - In-platform traffic competition around earned/paid ads
  - Social/content marketing emerging
  - Data and analytics piloting but value yet realised

**Market characteristics**

<table>
<thead>
<tr>
<th>GMV RMB Trn</th>
<th>B2C %</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>&lt;10%</td>
</tr>
<tr>
<td>5–40</td>
<td>10-50%</td>
</tr>
<tr>
<td>&gt;40</td>
<td>&gt;50%</td>
</tr>
</tbody>
</table>

**Omni-channel journeys**
**Multi-scenario triggered**
**Social embedded**
**More than standard SKUs**
**Personalisation through data**
Consumer: build scale with sustainable margin in key products and channels

**Key Products**
- Build scale through hero products:
  - Anchor import UHT portfolio (milk, skim, powder, ambient yoghurt)
  - Cross-border maternal
  - Culinary @ home
  - Fresh milk

**Key Channels**
- Deliver integrated consumer experiences via:
  - New retail and omnichannel
  - E-commerce partnerships

**Sustainable Growth**
- Invest for long-term growth without gross margin compromise
- Leverage local and offshore milk supply
Foodservice: deepen reach to defend and strengthen market leadership

**Route-to-Market**
- Optimise sales model with differentiated propositions for targeted customer segments
- Enhance distributor management playbook

**Dairy Conversion**
- Geographic expansion, with focus on improving coverage of third and fourth tier cities
- Expand category leadership from current bakery focus to beverage and casual dining

**Product Portfolio**
- Leverage local and offshore milk supply
- Local demand-driven products, e.g. AEC lighter tasting cream
Anchor Food Professionals is the high performance foodservice business of Fonterra

>50% of food $ are spent out-of-home

$1 in every $6 is dairy-intensive globally

In 2021, global foodservice is predicted to be worth US$3 trillion
Global Foodservice channel-led strategy

1. ASPIRATION
We have clear growth aspirations

| $5bn | Revenue |
| 5bn LME | 1 million MT |
| 17% | Fonterra’s global milk pool |

2. RIGHT TO PLAY
We are uniquely positioned to deliver on our growth aspirations

- Fit for purpose products
- Unique New Zealand taste and provenance
- Full dairy range and brand heritage
- Chef network and application kitchens
- World-leading technology platforms

3. CHANNEL FOCUS
We focus on three specific types of food service businesses

- ASIAN BAKERY
- ITALIAN KITCHEN
- BEVERAGE HOUSE
- QSR

4. CATEGORY FOCUS
Our innovation focuses on six hero products made for our customers’ most important applications

- Bakery Butter
- Cream Cheese
- Whipping Creams
- Culinary Creams
- Mozzarella
- Beverage Cream

5. MARKET FOCUS
We focus on 20 markets led by China, Indonesia, Australia and Global Accounts with expansion into USA and Brazil

6. RIGHT TO WIN
We will drive a step-change in accelerated growth and sustainable competitive advantage

7. ENABLERS
We are investing in new capability to enable the Channel-led System

- Accelerate markets
  - Build channel teams
  - Drive improved sales capability
  - Leverage Anchor FP brand

- Turbo-charge categories
  - Create responsive manufacturing platforms
  - Improve ex-NZ supply chain
  - Extend hero product leadership

- Strategic framework
  - Optimise pricing for full potential growth
  - Optimise sales channels within Fonterra
  - Optimise operating model

Note: Aspiration refers to 2025.
FY17 Channel Summary
Actual Volume (MT)

ASIAN BAKERY VOLUME IS UP DUE TO UHT WHIPPING CREAM AND BULK BUTTER SALES

ITALIAN KITCHEN VOLUME IS UP MOSTLY AS A RESULT OF BLOCK MOZZARELLA SALES

WESTERN QSR GROWTH IS DUE TO IQF MOZZARELLA SALES

BEVERAGE HOUSE IS A NEW CHANNEL FOCUSED ON DAIRY IN CHINA’S TEA HOUSES

1. Beverage House and Other comprises restaurants, airlines, hotels and catering institutions.
FY17 Category Summary
Actual Volume (MT)

1. DBD = Dairy Beverage Desserts.
   Note: Other Products account for a further 101,000 MTs
Deliver double-digit diversified growth

ACCELERATING OUR MOMENTUM

ANCHOR FOOD PROFESSIONALS

1. Winning in China
   1. Develop Anchor Online
   2. Leverage China Farms (White Gold)
   3. Accelerate channel-led momentum

2. Diversified Growth
   1. Accelerate Americas
   2. Scale-up Brazil entry
   3. Double Soprole by 2021

3. Must win battles
   1. Revenue Growth Management (RGM): Best-in-class RGM capabilities
   2. Low-cost operator: Best-in-class global and local distribution operating models
   3. Digital: End-to-end sales digital ecosystem
   4. Supply: Supply to meet accelerated demand
   5. Innovation: Broaden hero product portfolio
Consumer
Andy Dasgupta
Director Global Consumer Brands
Affordable Nutrition will focus on those below and just above the poverty line

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**Annual income per capita ($PPP)¹**

- **Affluent**: > 46,500
- **Middle Class**: 1,601 – 46,499
- **Bottom of the pyramid**: ~1,600

---

**Gross national income per capita ($PPP)²**

- **Switzerland**: 63,660
- **United States**: 58,030
- **Australia**: 45,970
- **New Zealand**: 37,860
- **Indonesia**: 11,220
- **Bangladesh**: 3,790
- **Ethiopia**: 1,730

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¹ Purchasing power parity (PPP) reflects the cost of a basket of goods across currencies.
² In US dollars.

1% of Affordable Nutrition spend is greater than current Fonterra sales in many markets

Current sales vs. 1% of BOP food spend

1. Assuming 1NZD=0.7USD.
2. Assuming average food spend per capita per day of $1.7 PPP USD in Balance of Payments (BOP).
Source: MGI Cityscope; World resources institute
What is Affordable Nutrition?

**Definition**
Create a **scale & profitable business** through making trusted dairy-based nutrition accessible & affordable everyday to a nutritionally deficient BOP population

<table>
<thead>
<tr>
<th>Key Pillars</th>
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<tbody>
<tr>
<td><strong>Appeal</strong></td>
<td>Ensure attractiveness of aspirational proposition and meet consumer’s nutrition needs that allow us to compete vs other players in daily purchase basket</td>
</tr>
<tr>
<td><strong>Affordability</strong></td>
<td>Fit into their daily purchase basket - $2.5-$4 per day</td>
</tr>
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<td></td>
<td>Ensure magic Price point – US$0.03-0.05</td>
</tr>
<tr>
<td></td>
<td>Right pack size and format</td>
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<td></td>
<td>Drive continuous cost reduction</td>
</tr>
<tr>
<td><strong>Accessibility</strong></td>
<td>Ensure distribution that caters to small drop sizes at higher frequency in small locations. Ensure scale of business</td>
</tr>
<tr>
<td><strong>Awareness</strong></td>
<td>Build visibility of brand proposition through relevant touch points – e.g. outdoor, digital (mobile), street play</td>
</tr>
</tbody>
</table>

- **Annual income per household**
- **50% of BOP population** has ~70% of total spending power of US$1.3tr
- **Poverty line** (~US$2.5 per day PPP)
- **TOP**
  - $3,000
- **BOP**
  - $2.5-$4/day
  - ~$1,600

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Journey to date

Aug-Sep 2017
Immerse
Ethnography and culture study in market

Sep-Oct 2017
Assess multiple options
Home visit and observation – 84 families (2-6 hour per family)

Oct 2017
Co-creation
Macro and micro ecosystems – 34 stakeholder interviews

Nov 2017
Business model
Assess multiple options – Products and RTM
Workshop to develop concepts based on immersion learning
Business case development addressing the 4 As

1. Route-to-market
From Appeal to Affordability, Accessibility and Awareness

Many commonalities exist

- Child is the centre of their world
- Milk is not necessarily perceived as daily necessity
- A great faith in tomorrow
- Milk nutrition appreciated but forced to trade off

Some differences

- Brands are much bigger in Bangladesh; Ethiopia more unbranded
- Indulgence big in Bangladesh
- Less variety in Ethiopia

Hierarchy of Eating
- Satiety
  - Nutrition (Functional)
  - Indulge/Refinement

Hierarchy of Nutrition
- Physical Development
  - Mental Development
  - Immunity
Global Consumer and Foodservice
Summary
Lukas Paravicini
COO Global Consumer and Foodservice
Achieving our ambition

2 WHAT
Accelerate, Diversify Foodservice
Culinary @ Home
Healthy Living
Affordable Nutrition

3 HOW
Five Must Win Battles
1. Innovation
2. Revenue Growth Management
3. Perfect Store
4. Cost Leadership
5. Digital

1 ENABLERS
PEOPLE
PARTNERSHIPS
INNOVATIVE CO-OP
Q&A and Close
Fonterra – key investment attributes

- Strong industry fundamentals
- Co-operative with secure global access to quality milk
- Scale and world-class ingredients business
- Focussed high-value consumer and foodservice businesses
- A strategy that’s delivering diversified and increased returns
- Financial strength and discipline
- Unique Co-operative structure supports strong credit profile, including effective subordination
- Highly experienced board and management team