

PERFORMANCE REVIEW

Business Update

NOVEMBER 2016

OUR CO-OPERATIVE

OUR POTENTIAL

OUR PERFORMANCE

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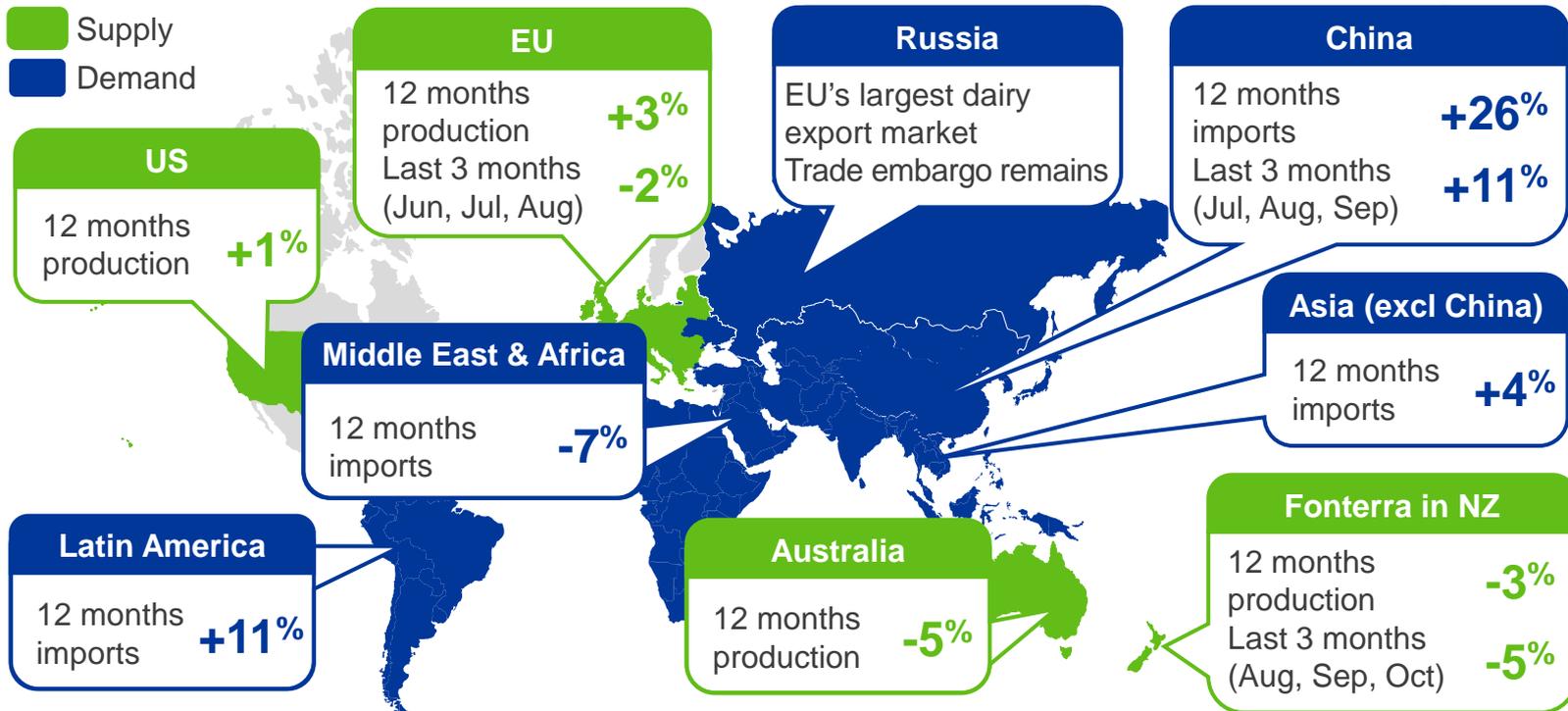
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Our Co-Operative

Global dairy update – supply driven rebalancing

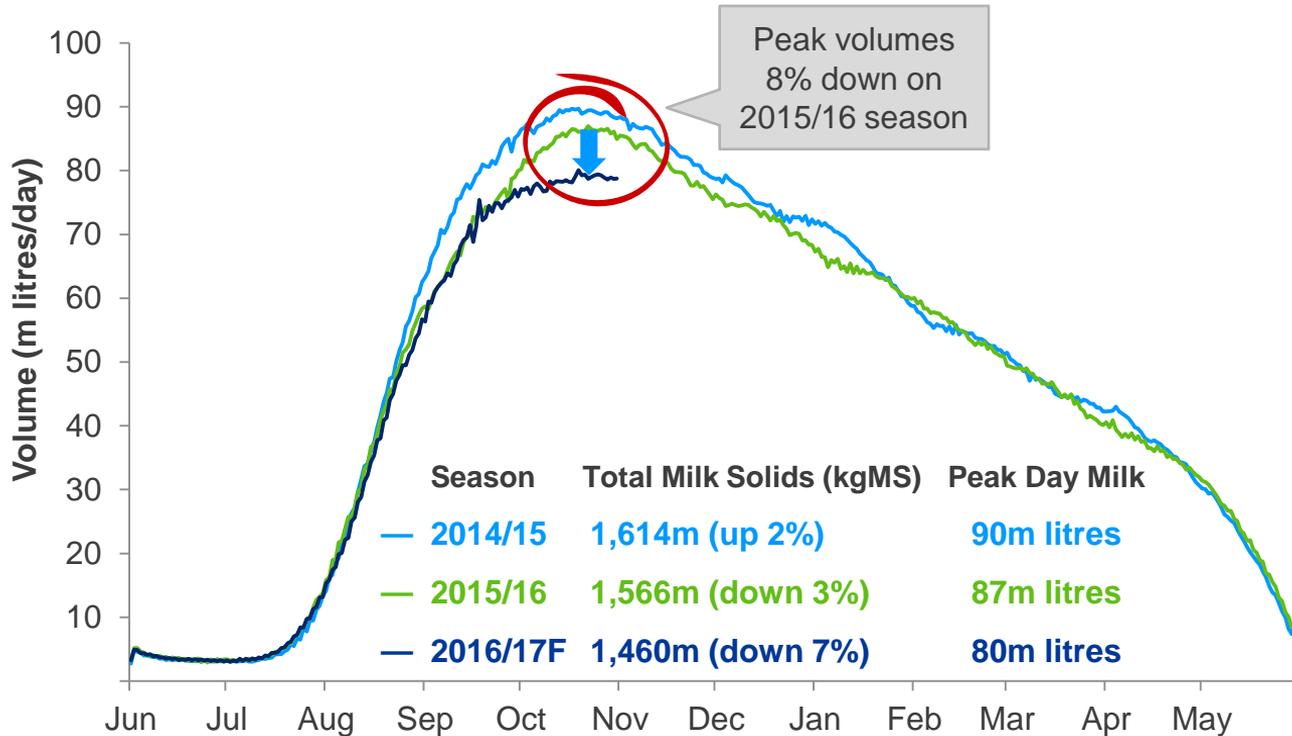


Note: All 12 month figures are rolling 12 months compared to previous comparable period: Australia (September), EU (August), United States (September), China (September), Asia (July), Middle East & Africa (July), Latin America (July), New Zealand (Fonterra only) (October)

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

Unprecedented decline in NZ supply

Weather-driven but outlook is for lower volume across season



- Season forecast revised to 1,460m kgMS down 7% on last season
 - 5% decline season-to-date
- Driven predominantly by higher rainfall in central and northern North Island
 - North Island down 8%
 - South Island flat
- Impacting global prices and available supply

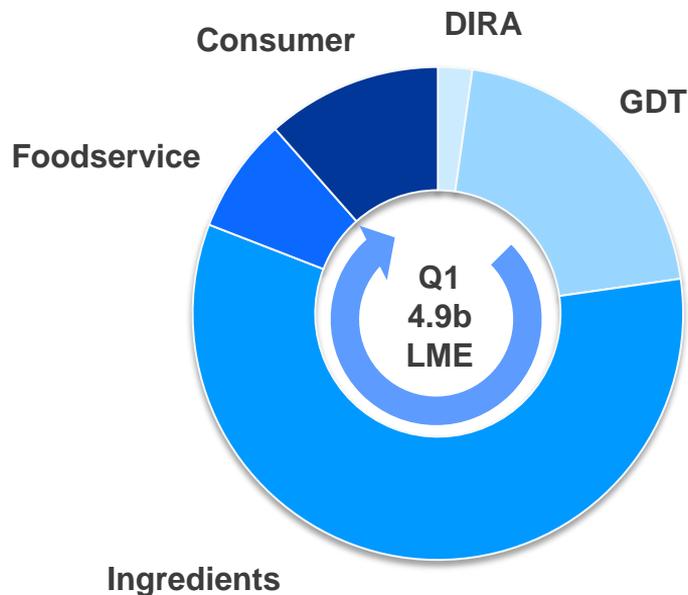
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Our Potential

Delivering our strategy

Volume to higher Value at Velocity

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



- GDT
 - Rebalanced volumes in response to lower production
- Ingredients
 - Lower collections
 - Actively managing availability to maximise returns:
 - Stream returns
 - Price achievement
- Consumer & Foodservice
 - Another strong quarter
 - 128M additional LME

Note: Wheel shows percentage of total FY16 external sales (LME) for illustration

Doing what we said we will in FY17



- Optimising for lower volumes
- Launched 'Trusted Goodness'
- Volumes and margins up on last year
- Gross margin increased due to strategic pricing in anticipation of higher milk prices
- New structure delivering but tough market
- Darnum JV operational
- Annum volumes up 78%
- Integrating China businesses
- Turnaround delivering
- Two new start-ups established
- Additional Velocity benefits identified



Our Performance

FY17 Q1 performance summary



VOLUME (LME)	REVENUE	GROSS MARGIN	OPEX	CAPEX
4.9B	\$3.8B	21.9%	\$621M	\$116M
↑ 2.0%	↑ 5.9%	↓ FROM 22.6%	↓ 1.7%	↓ 55%

Ingredients

Volume	↑ 4.5B UP 2%
Gross Margin	↓ 12% FROM 15%

Consumer & Foodservice

Volume	↑ 1.3B UP 11%
Gross Margin	↑ 31% FROM 28%

China Farms

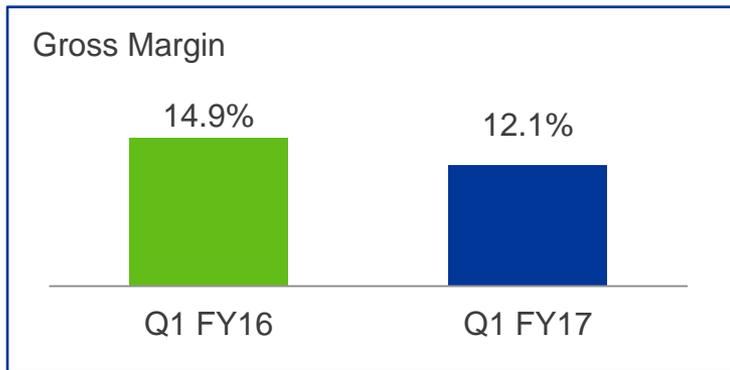
Volume	↑ 0.1B UP 62%
Gross Margin ¹	↓ -12% FROM -8%

1. Impacted by one-off sale of inventory below cost – gross margin excluding this impact was 4%

Note: Volume is in billion LME; All changes are expressed relative to first quarter of FY16

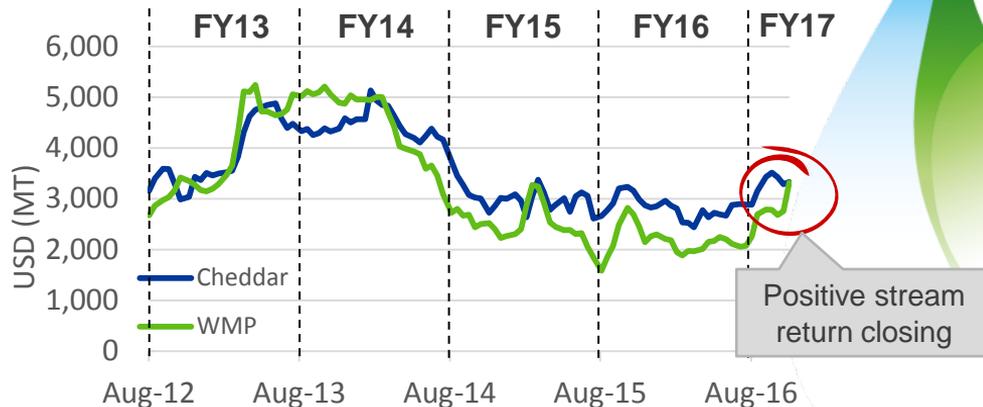
Ingredients – performance and outlook

Q1 performance



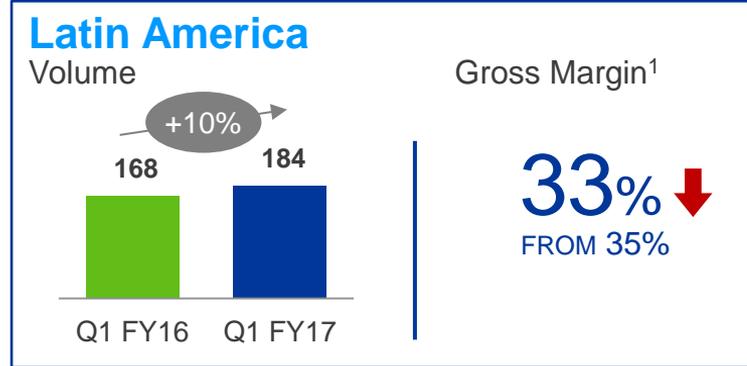
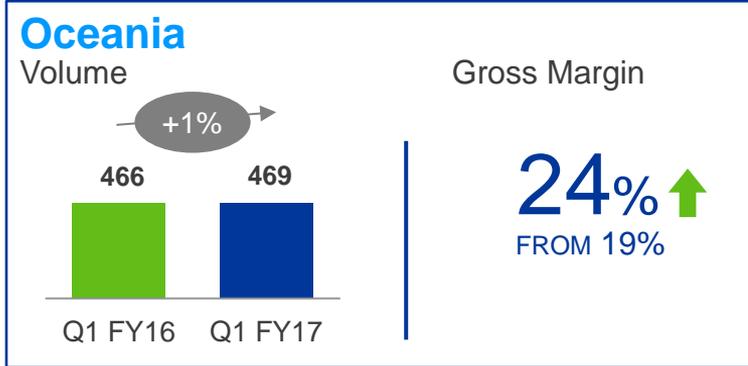
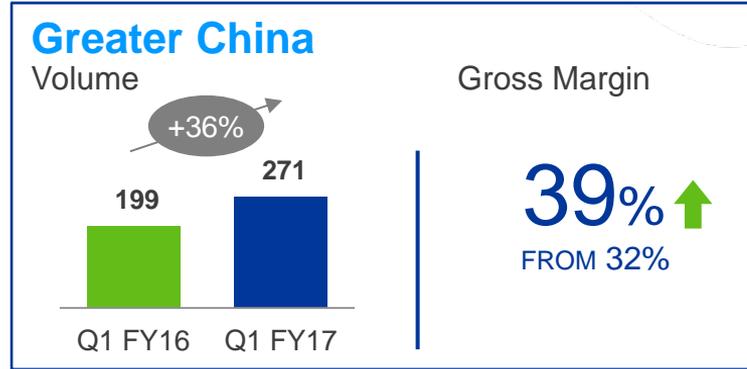
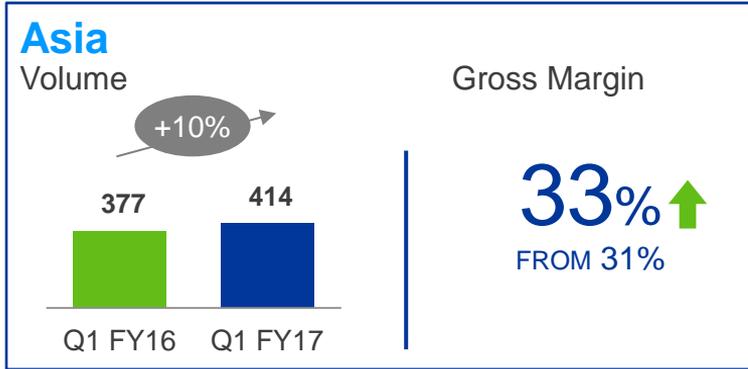
- Milk volumes lower but sales up due to selling from inventory
- Comparative quarter gross margin impacted by:
 - Change to milk price manual (5c per kgMS year-to-date)
 - Lower margins on bulk liquid sales

FY outlook



- Milk price model return on assets not impacted by lower volumes
- Improving operating performance relative to milk price model
- Stream returns will be impacted by WMP rising faster than non-milk price products
- Lower volumes putting pressure on price achievement

Consumer & Foodservice – 128M additional LME



1. Latin America gross margin is down due to price competition in Brazil and reduced volumes in Venezuela

Note: Volume is in million LME; All changes are expressed relative to first quarter of FY16

Continued momentum in 2017

Forecast for 2016/17



- A forecast Farmgate Milk Price of \$6.00 per kgMS reflects expected rebalancing
 - Reduced supply globally helping lift prices to more sustainable levels
 - Reflected in results of GDT auctions since September
 - Global short-term demand is stable
 - Volumes will continue to be under pressure
- Maintaining forecast earnings of 50-60 cents per share reflecting on-going solid business performance. Management remains focused on emerging headwinds
 - Unprecedented decline in NZ collection increases headwinds for Ingredients
 - Potential impact with WMP rising faster than non-milk price products
 - Consumer & Foodservice markets focused on strategic pricing in response to rising milk costs
 - Strong NZ dollar impacting translation of overseas earnings