



PERFORMANCE REVIEW

Interim Result 2017

22 MARCH 2017

OUR CO-OPERATIVE

OUR POTENTIAL

OUR PERFORMANCE

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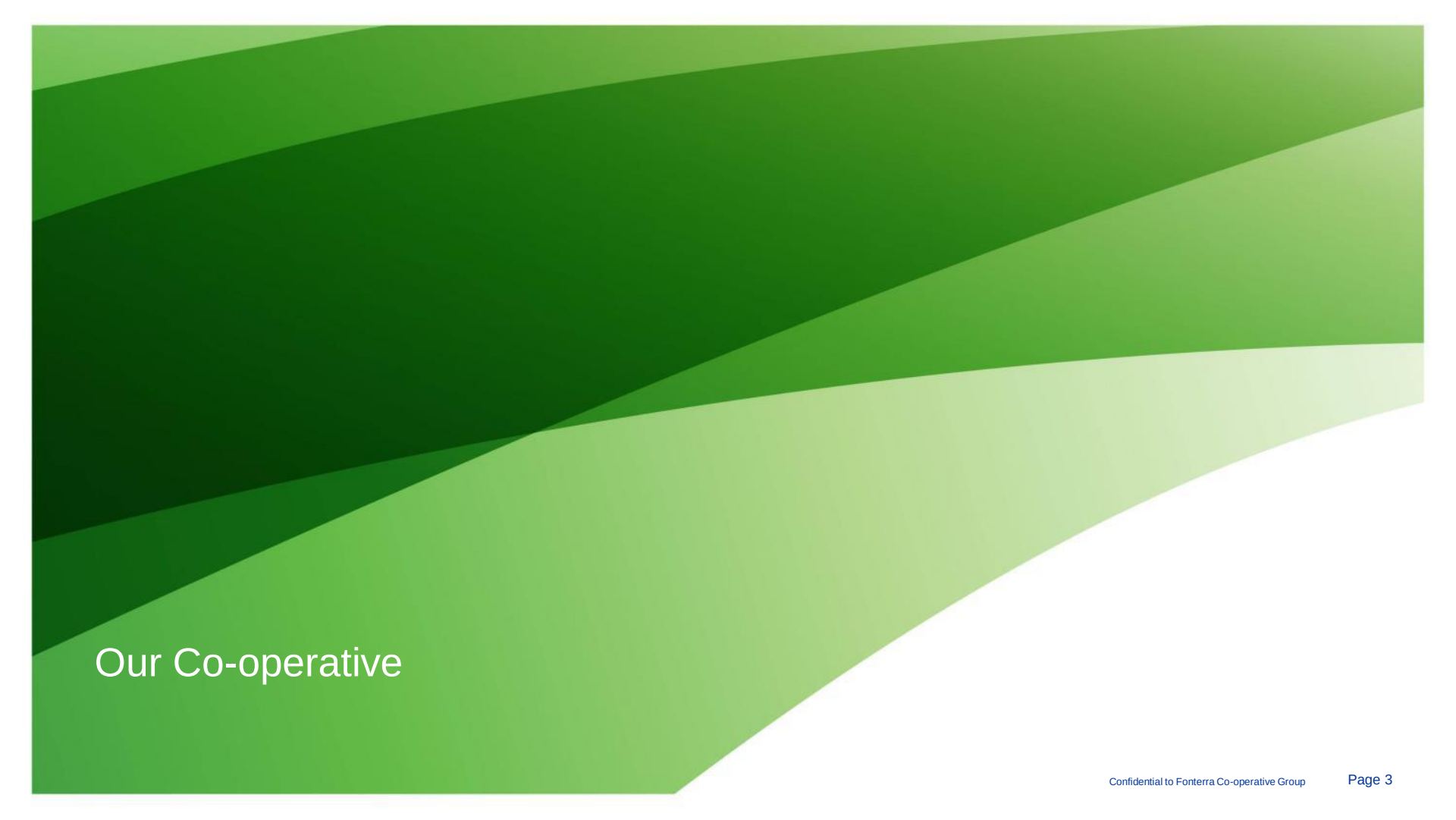
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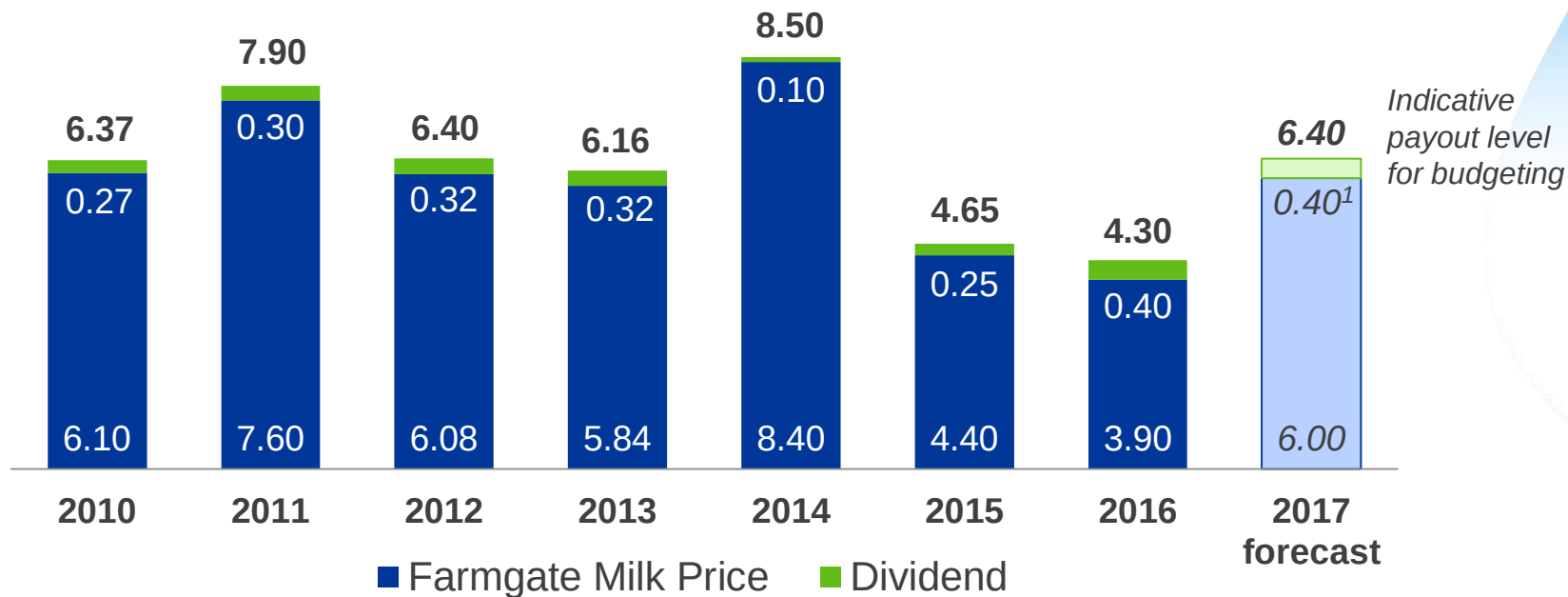
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Our Co-operative

Higher forecast payout for farmers

Improved Farmgate Milk Price and strong earnings performance

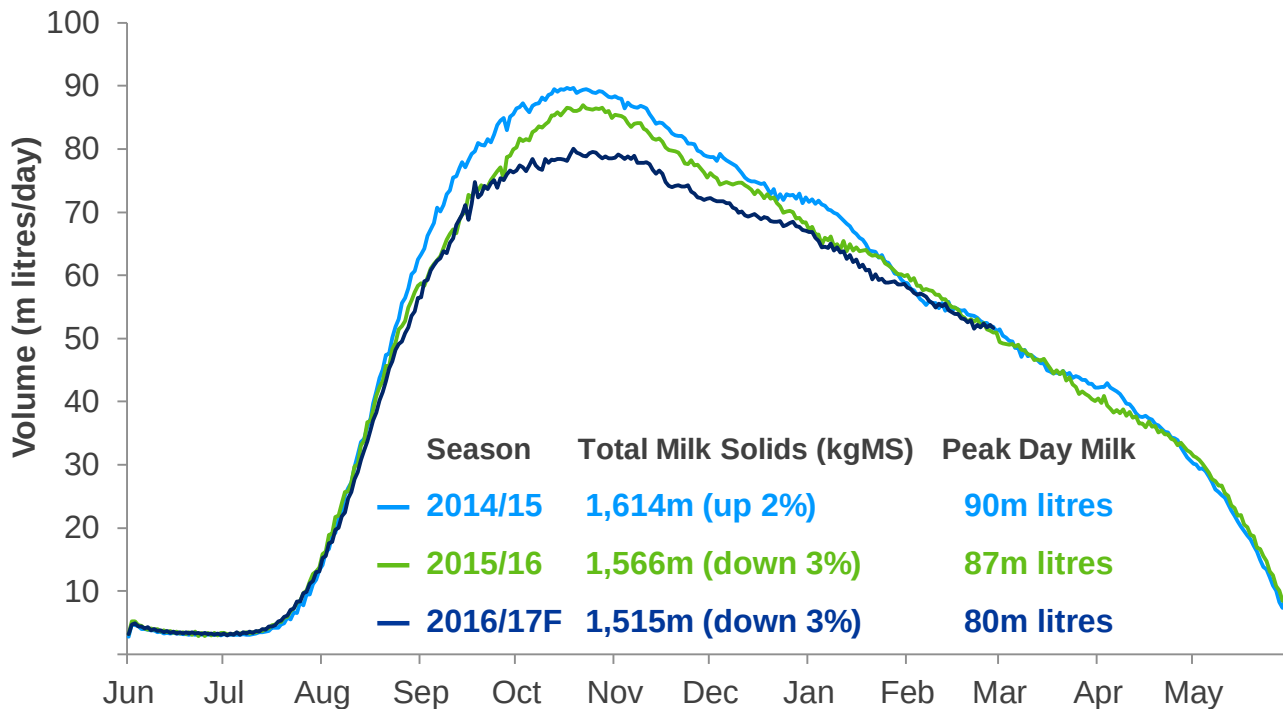


1. For farm budgeting purposes a target full year dividend of 40 cents per share is assumed

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

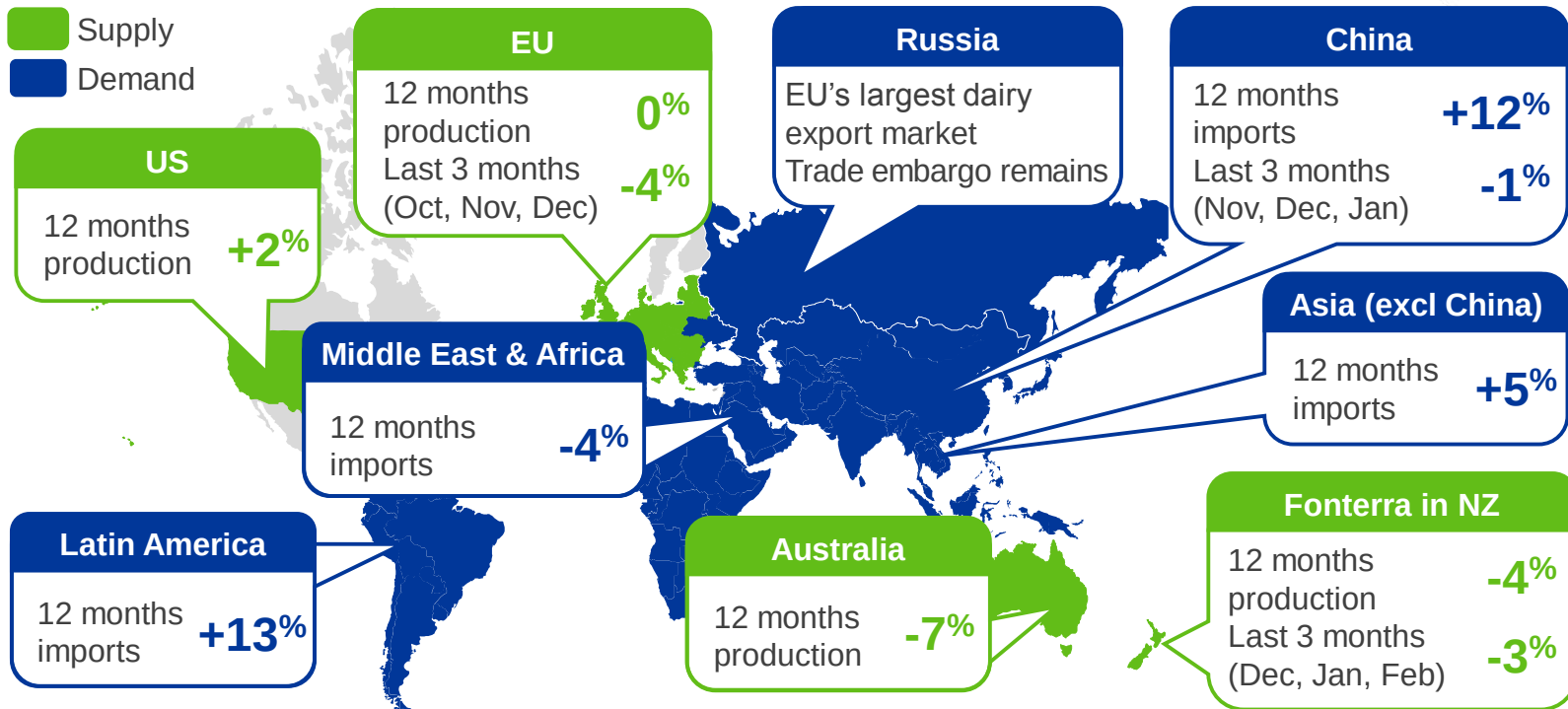
Lower milk volumes during the peak

Improved weather in late season increasing the forecast



- Season forecast revised to 1,515m kgMS down 3% on last season
- Volume down 5% for season to 28 February mainly due to more rain in central North Island
 - North Island down 7%
 - South Island down 1%
- Impacted available supply and global prices

Global dairy market – supply-led rebalancing

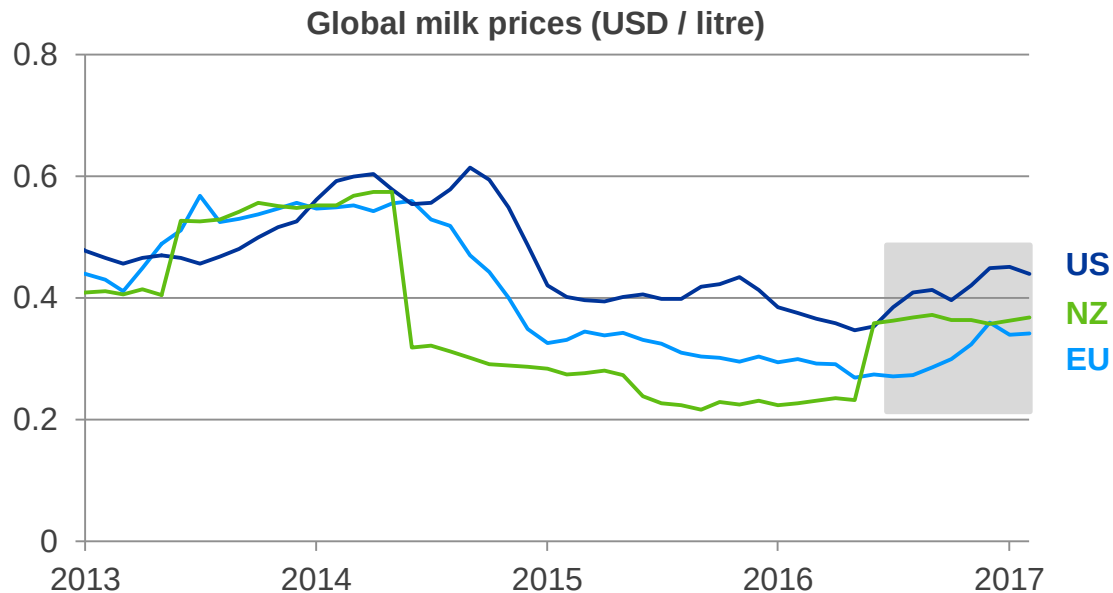


Note: All 12 month figures are rolling 12 months compared to previous comparable period: Australia (Dec), EU (Dec), United States (Jan), China (Jan), Asia (Nov), Middle East & Africa (Nov), Latin America (Nov), New Zealand (Feb)

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

Competitive NZ cash payout

NZ farmers benefiting from higher global prices



- Strong NZ payout
- A \$6 milk price would put \$3 billion more into the NZ economy than last season
- Milk Price Manual change reinforces competitive milk price
 - Six cents per kgMS season-to-date
- Volatility in global prices will continue

Note: All prices are adjusted to a milk composition of 3.5% protein and 4.2% fat and for spot exchange rates

Source: DairyNZ (NZ to May 2014); Fonterra announced payout (milk price and dividend) (NZ from June 2014); USDA; European Milk Market Observatory (Netherlands milk price)



Our Potential

Global Context

- Future for dairy remains strong
- Improved prices but volatility will continue
- Increased geopolitical uncertainty

Value Creation

- Strategy delivering – strong profit and higher milk price
- Strong Co-op – continuing to invest in our strategy
- Shaping the future – building on existing strategy

Trust

- Doing what we said we would do
- Investing in our communities, sustainability and our future
- Fully focused on consistent performance

Continued strong business performance



VOLUME

11.7B LME

↓ 7%

REVENUE

\$9.2B

↑ 5%

GROSS MARGIN

\$1,761M

↓ 6%

OPEX

\$1,232M

↓ 6%

NORMALISED EBIT

\$607M

↓ 9%

NET PROFIT AFTER TAX

\$418M

↑ 2%

INTERIM DIVIDEND

20CPS

Dividend Yield 6.8%¹

NET DEBT²

\$6.1B

↓ 11%

Ingredients

Volume (LME)³ ↓ 11.0B

Gross Margin ↓ 11.1%

Normalised EBIT ↓ \$510M

Consumer and Foodservice

Volume (LME)³ ↑ 2.7B

Gross Margin ↑ 29.8%

Normalised EBIT ↑ \$313M

China Farms

Volume (LME)³ ↑ 0.2B

Gross Margin ↑ (5.7%)

Normalised EBIT ↑ (\$24M)

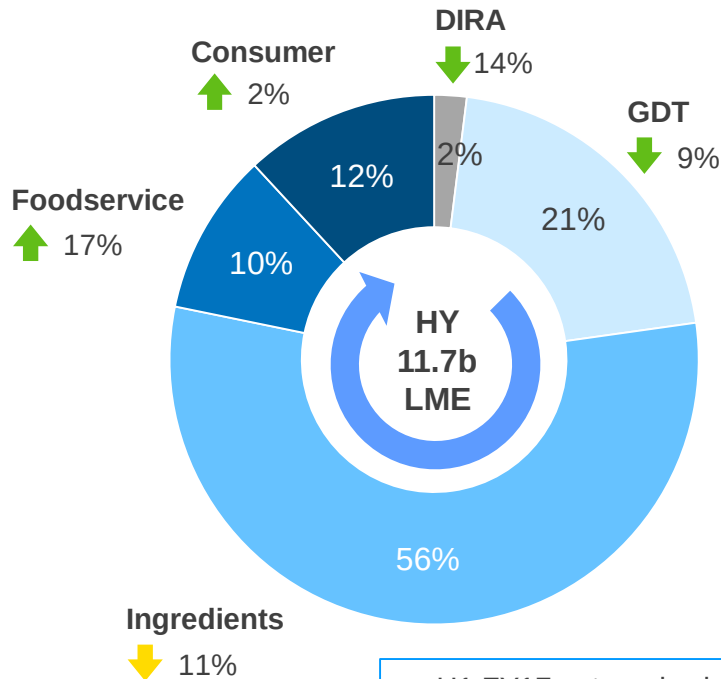
1. Interim dividend over volume weighted average closing FCG share price (\$5.92) across the six month period (annualised)

2. Economic net interest-bearing debt; 3. Includes inter-company sales

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

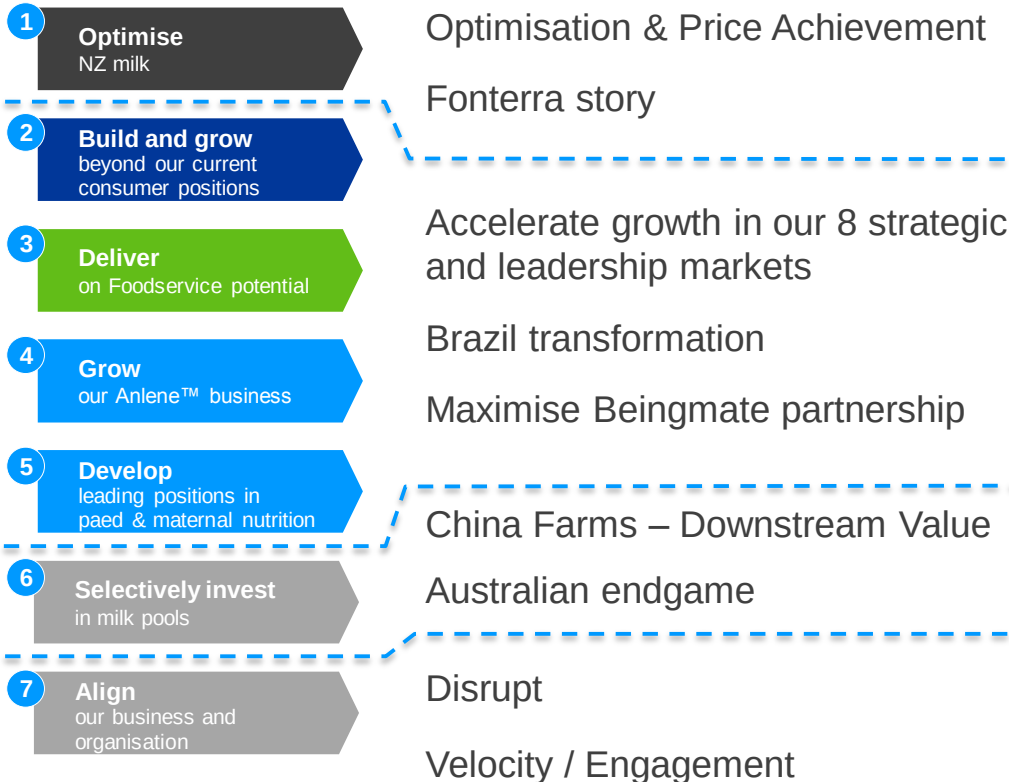


↑ H1 FY17 external sales
volume over H1 FY16

- GDT
 - Rebalanced volumes in response to lower production
- Ingredients
 - Lower milk collections and inventory levels
 - Strong sales and optionality to maximise returns:
 - Stream returns
 - Price achievement
- Consumer & Foodservice
 - 227m additional LME
 - On-target for 400m full year

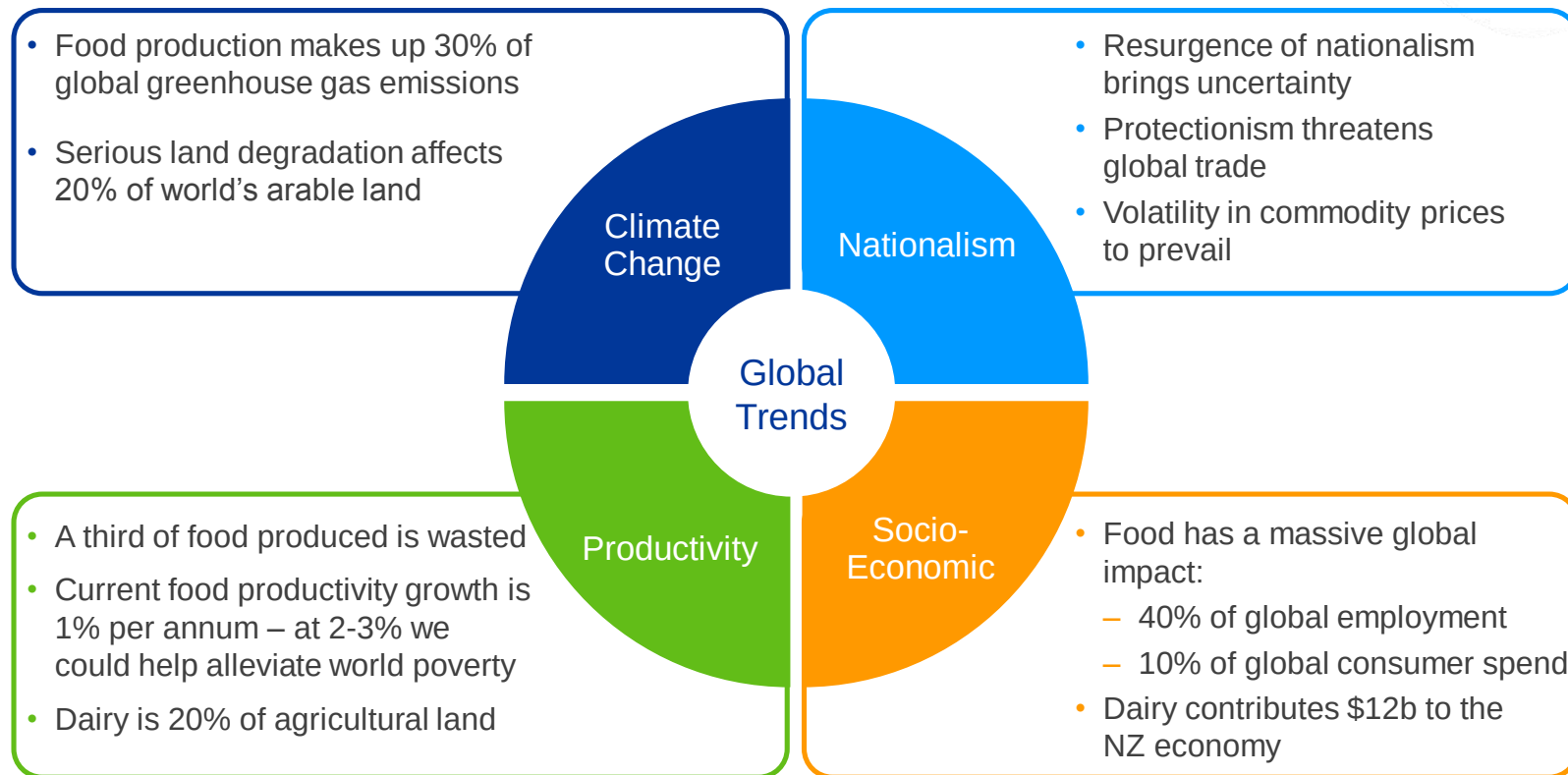
Note: Wheel shows percentage of first six months FY17 external sales (LME)

Doing what we said we would in FY17



- Higher price achievement per MT
- 11% improvement in inventory levels
- Improving NZ reputation ranking
- 227m more LMEs into higher value categories
- \$240m mozzarella plant at Clandeboye
- Grown share, lifted prices and reduced costs in still challenging market
- Well-placed for infant formula regulatory change
- Increasing Annum volumes
- 7% reduction in operating costs per kg
- Stanhope construction progressing well
- Disrupt businesses already launched
- Launched Disrupt for 2017 globally
- Focus on people & capability

Aware of long term mega trends



Building a strong Co-op into the future



1-3 years
V3 Strategy



Our farmers



3-5 years
Future Growth
Platforms

Disruption
Digital Transformation
& M&A

5-10 years
Sustainable
Long-Term Model

Future consumers
Sustainable production &
Future state operations



Our Performance

Value creation

Strong performance in higher milk price environment



NPAT

\$418M

↑ 2%

GROSS MARGIN

19.1%

↓ Down from 21.2%

OPEX

\$1,232M

↓ 6%

NORMALISED EBIT

\$607M

↓ 9%

NET FINANCE COSTS

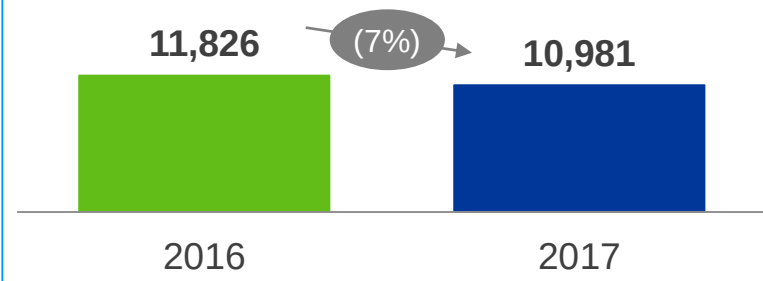
\$157M

↓ 41%

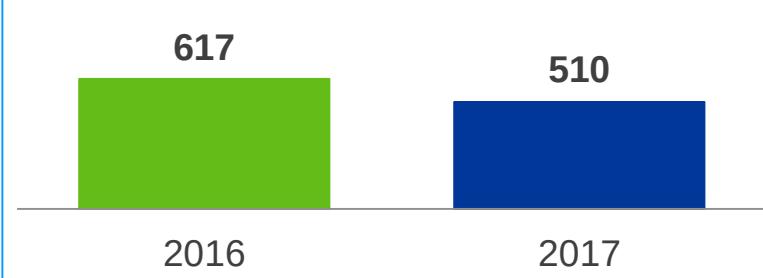
Ingredients

Lower volumes and stream returns impacting overall contribution

Volume (m LME)¹



Normalised EBIT (\$m)



Volume

- Lower opening inventory and milk collection in NZ
- Held gains in inventory levels from last financial year end
- Shifted mix to non-reference products (UHT and cheese)

Value

- NZ Ingredients: normalised EBIT decreased \$125m
 - Positive stream returns but down on last year
 - Stable price achievement through higher margins
 - Good operating and sales performance
- Australia: \$37m improvement in normalised EBIT

Velocity

- Improved operating performance with higher yields and increased plant utilisation
- Capex spend down in line with expectations

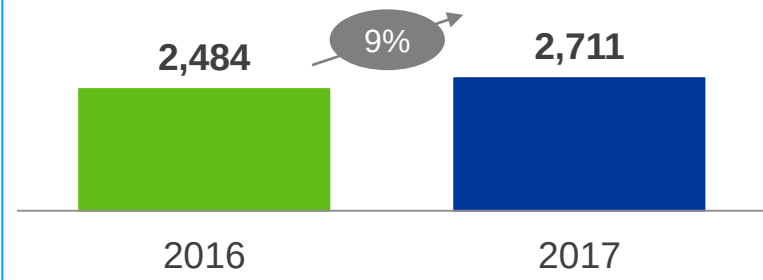
1. Includes intercompany sales

Consumer and Foodservice

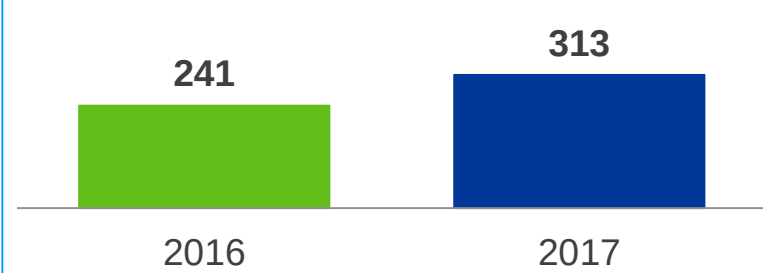
Strong volume growth and significant increase in normalised EBIT



Volume (m LME)¹



Normalised EBIT (\$m)



Volume

- 227m more LME into higher-value (on-track for 400m target again this financial year)
- Higher e-commerce sales and foodservice growth in China
- New product launches driving sales in key markets

Value

- Normalised EBIT significantly up by 30%
- Gross margins higher but will be pressured in second half
- Australia performing well

Velocity

- Gaining market share in Brazil to offset category decline
- Focus on point-of-sale execution and improved efficiency

1. Includes intercompany sales

Consumer and Foodservice

Strong growth in both channels

Consumer

Volume (m LME)¹

1,531

4%

1,597

2016

2017

Gross Margin (%)

29%

31%

2016

2017

Foodservice

Volume (m LME)¹

953

17%

1,114

2016

2017

Gross Margin (%)

28%

27%

2016

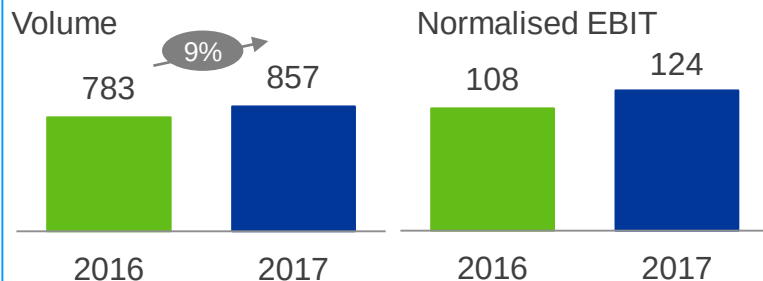
2017

1. Includes intercompany sales

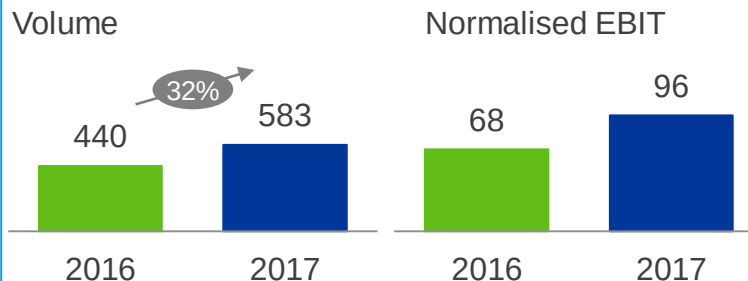
Consumer and Foodservice

Greater China and Oceania driving profit growth

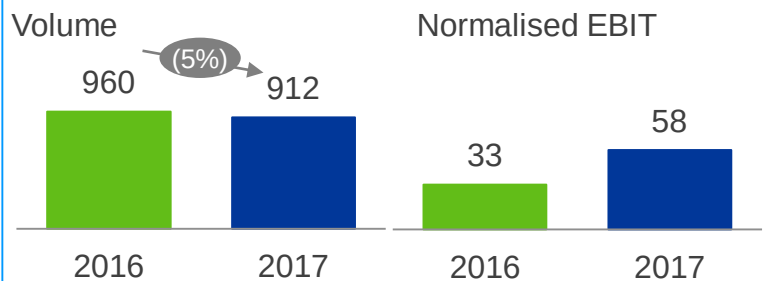
Asia



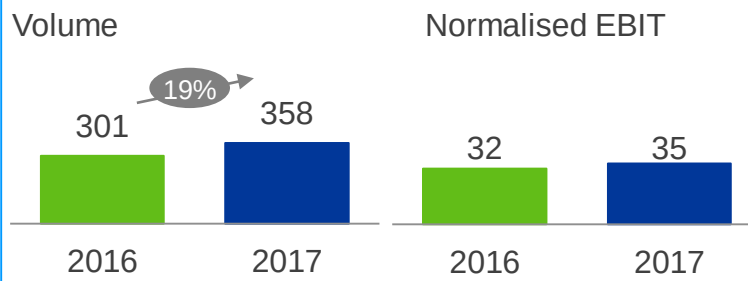
Greater China



Oceania



Latin America



Financial discipline

Lower debt further strengthening balance sheet



GEARING¹

46.6%

↓ Down from 49.2%

NET DEBT²

\$6.1B

↓ 11%

WORKING CAPITAL

68 DAYS

↓ Down 8 days

CAPEX

\$244M

↓ 46%

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 equity excluding cash flow hedge reserve

2. Economic net interest-bearing debt

Outlook for second half of FY17



Strong Co-op with strong balance sheet

- Target full year gearing ratio of 40-45% and solid working capital
- Farmers restoring the financial strength of their businesses

Increased confidence in forecast Farmgate Milk Price of \$6.00 per kgMS

- Global supply and demand more balanced
- Increased late-season production focused into higher value products

Targeting full year dividend of 40 cents per share and cash payout of \$6.40

- Adjusting forecast earnings range to 45-55 cents per share
 - Ingredients business impacted by product stream returns
 - Tighter margins in the second half for Consumer and Foodservice
 - Impact of possible extra autumn milk in NZ



Supplementary Information

Normalised EBIT reconciliation

\$ million	Six months ended 31 January 2017	Six months ended 31 January 2016
Profit after tax	418	409
Add: Net finance costs	157	266
Add/(Less): Taxation expense (credit)	69	77
Total reported EBIT	644	752
Add: Impairment of assets in Australia	-	12
Less: Gain on DairiConcepts sale	-	(68)
Less: Gain on Darnum sale (part share to JV)	(42)	-
(Less)/Add: Time value of options	5	(31)
Total normalisation adjustments	(37)	(87)
Total normalised EBIT	607	665

NZ Ingredients product mix



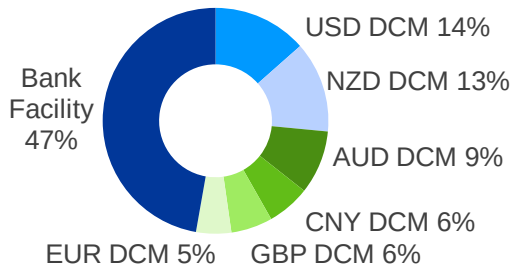
	Six months ended 31 January 2017	Six months ended 31 January 2017	Six months ended 31 January 2016	Six months ended 31 January 2016
	\$ million	\$ per MT	\$ million	\$ per MT
Sales volume (000 MT)				
Reference products	973	-	1,061	-
Non-reference products	338	-	343	-
Revenue				
Reference products	3,768	3,873	3,405	3,209
Non-reference products	1,758	5,201	1,728	5,038
Cost of milk				
Reference products	2,901	2,982	2,197	2,071
Non-reference products	1,013	2,997	799	2,329
Gross margin				
Reference products	246	253	351	331
Non-reference products	398	1,178	485	1,414

Note: Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF; Milk solids used in the products sold were 547 million kgMS reference and 190 million kgMS non-reference (previous comparable period 602 million kgMS reference and 203 million non-reference)

Diversified and prudent funding position

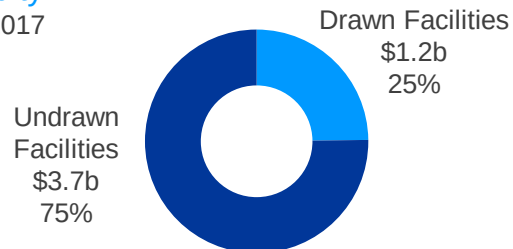
Diversified profile¹

At 31 January 2017



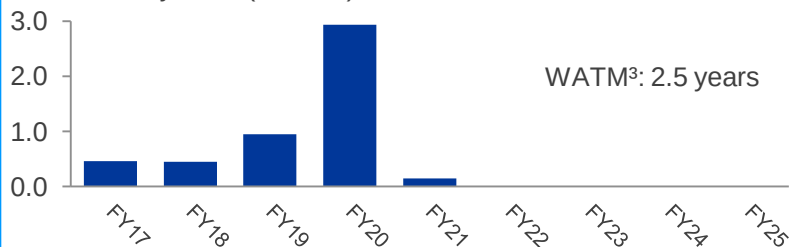
Prudent liquidity

At 31 January 2017



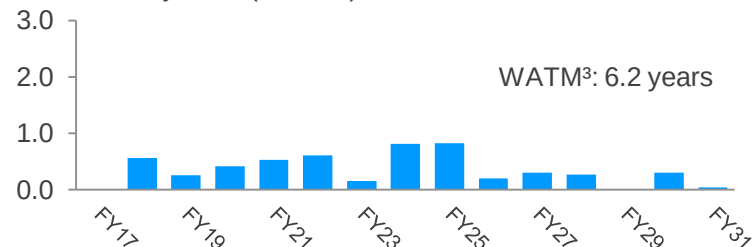
Bank facility maturity profile

At 31 January 2017 (\$ billion)



DCM maturity profile²

At 31 January 2017 (\$ billion)



1. Includes undrawn facilities and commercial paper

2. Excluding commercial paper

3. WATM is weighted average term to maturity