



PERFORMANCE REVIEW

Interim Result 2018

21 MARCH 2018
FONTERRA CO-OPERATIVE GROUP LIMITED

OUR CO-OPERATIVE

OUR POTENTIAL

OUR PERFORMANCE

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Global Context

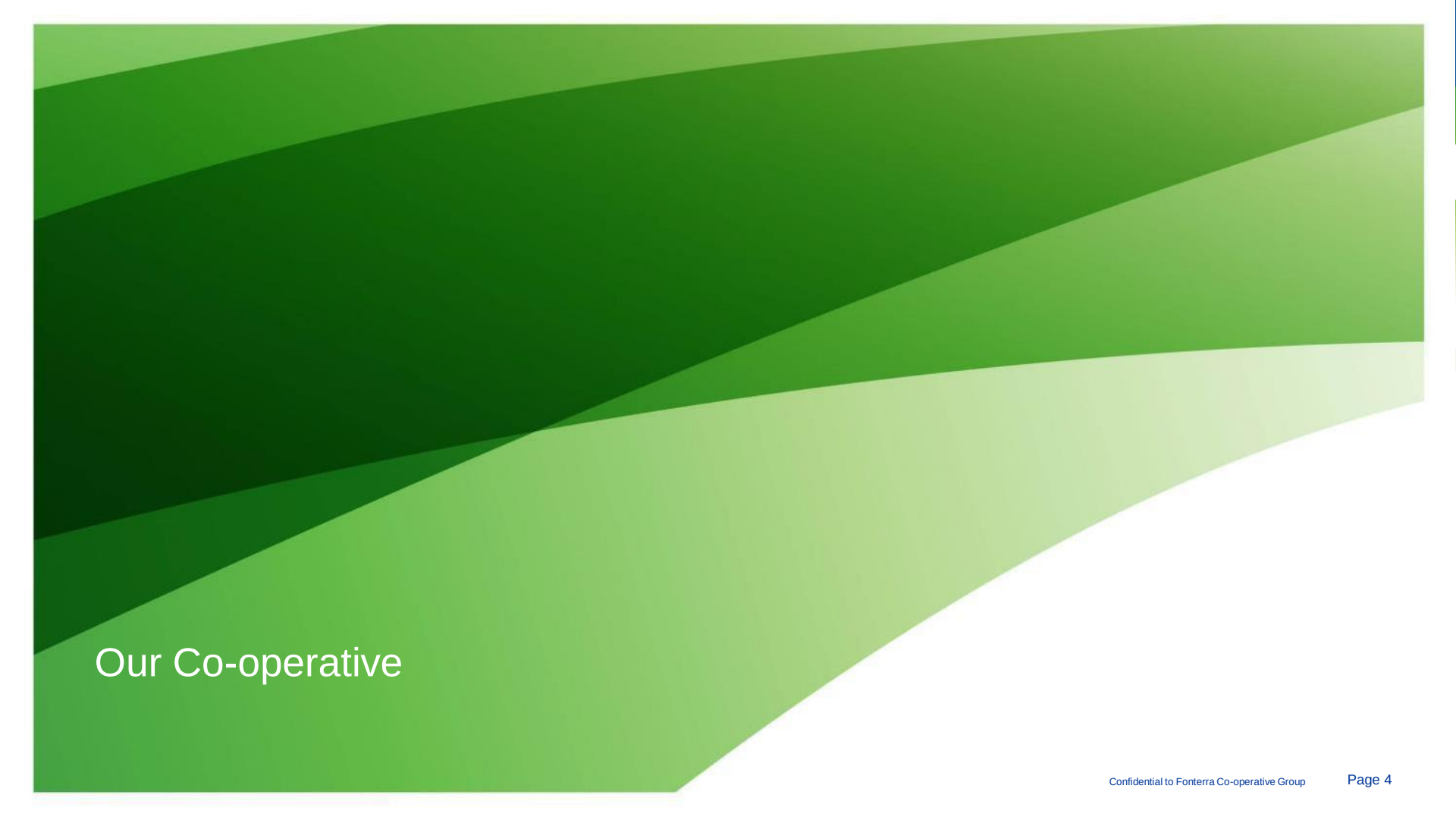
- Industry outlook continues to be positive
- Global dairy prices reflect ongoing strong demand
- An increase in EU production may cause price volatility

Value Creation

- Operating performance in line with expectations
- Danone costs and Beingmate impairment impacted our result
- Greater China operations making a significant contribution

Trust

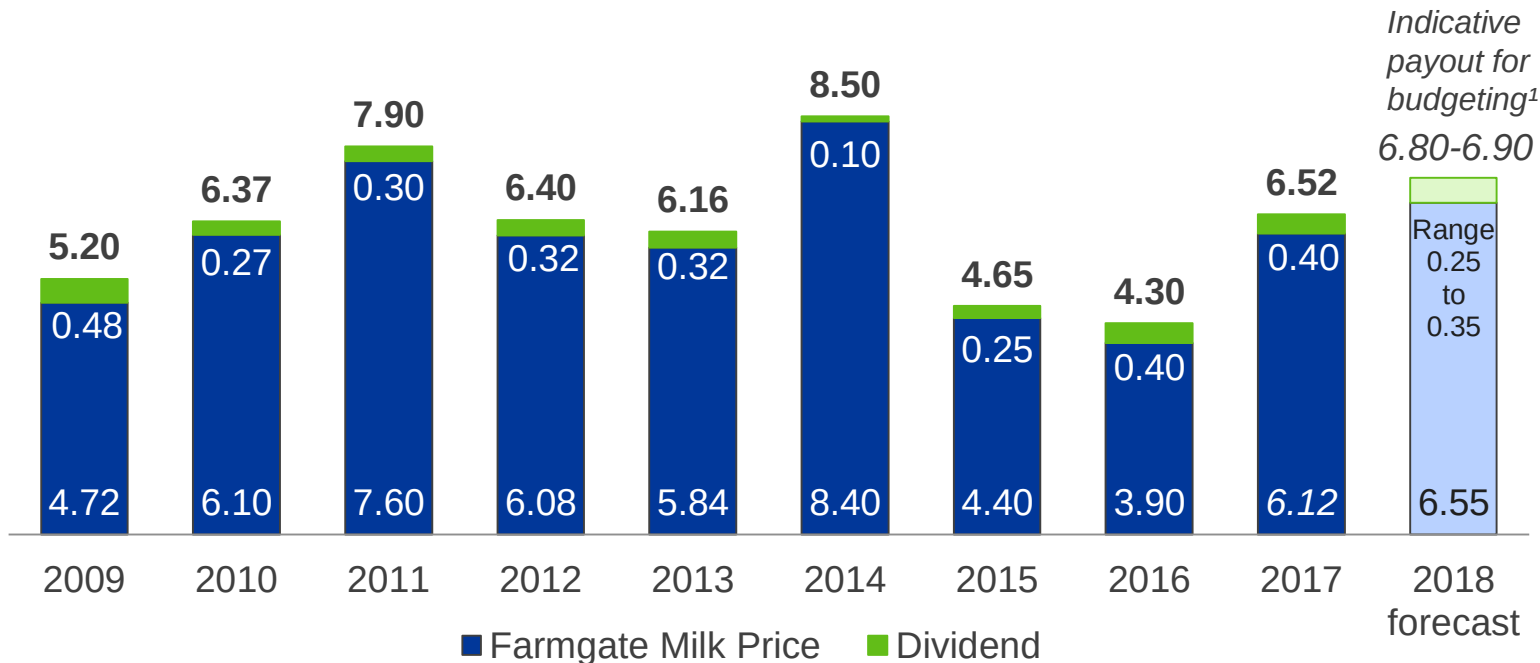
- Comprehensive sustainability report issued
- Creating strong, healthy local environments and communities
- Advancing innovation and investing in the future



Our Co-operative

Higher forecast pay-out for farmers

Improved Farmgate Milk Price, plus forecast dividend range

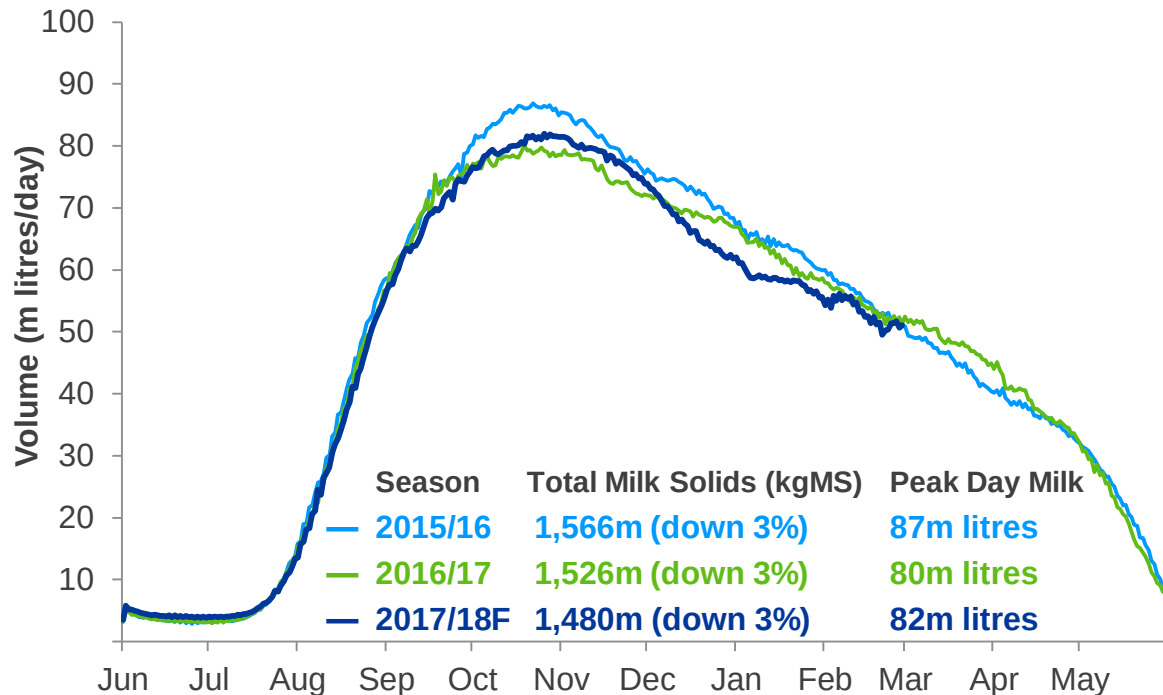


1. For farm budgeting purposes a target full year dividend range of 25-35 cents per share is assumed. The dividend will be calculated in accordance with Fonterra policy of paying out 65-75 per cent of adjusted net profit after tax over time.

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

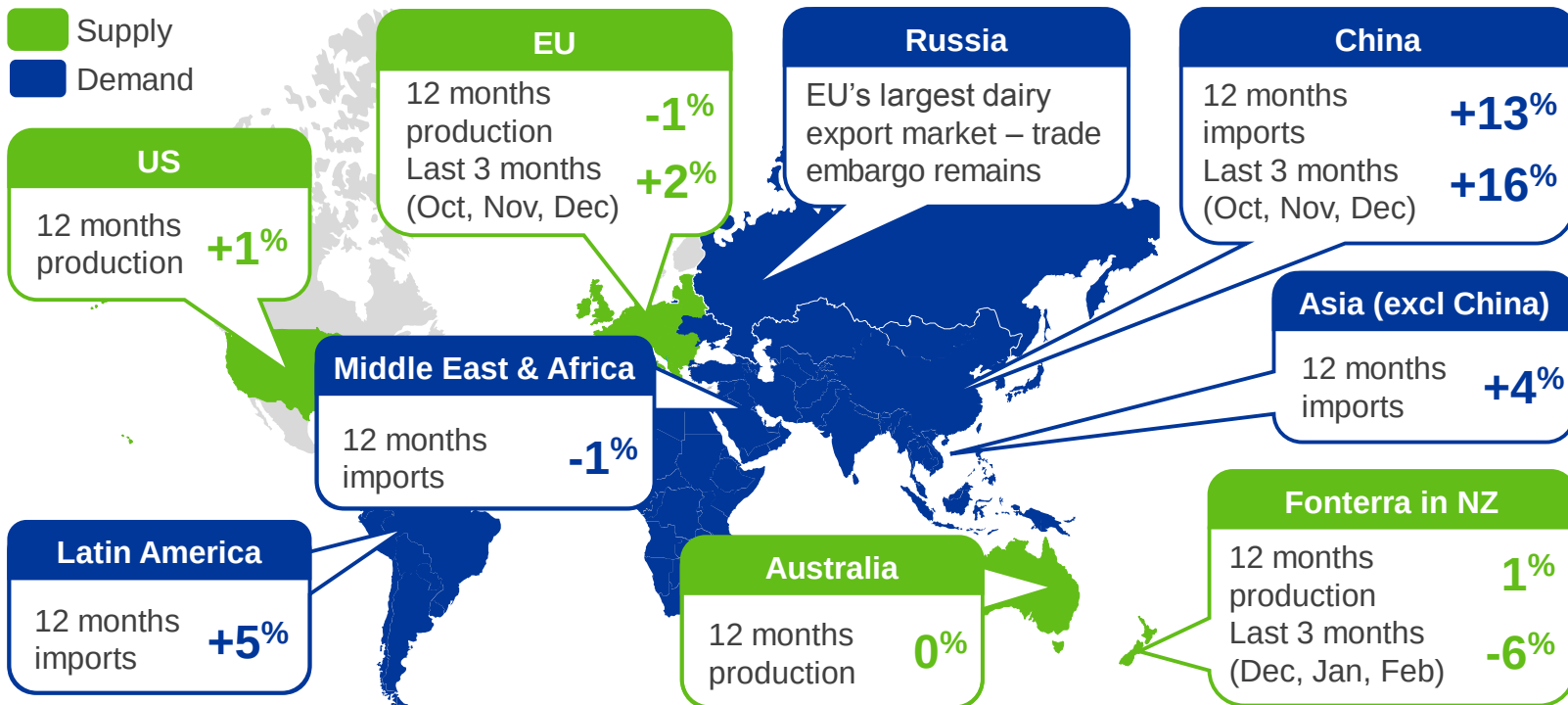
Difficult weather conditions impacted New Zealand supply

Outlook for lower volumes overall this season



- Season forecast is 1,480 million kgMS, 3% down on last year
- Driven by difficult weather conditions impacting pasture growth
- Last season benefited from strong late season collections

Global demand for dairy remains strong



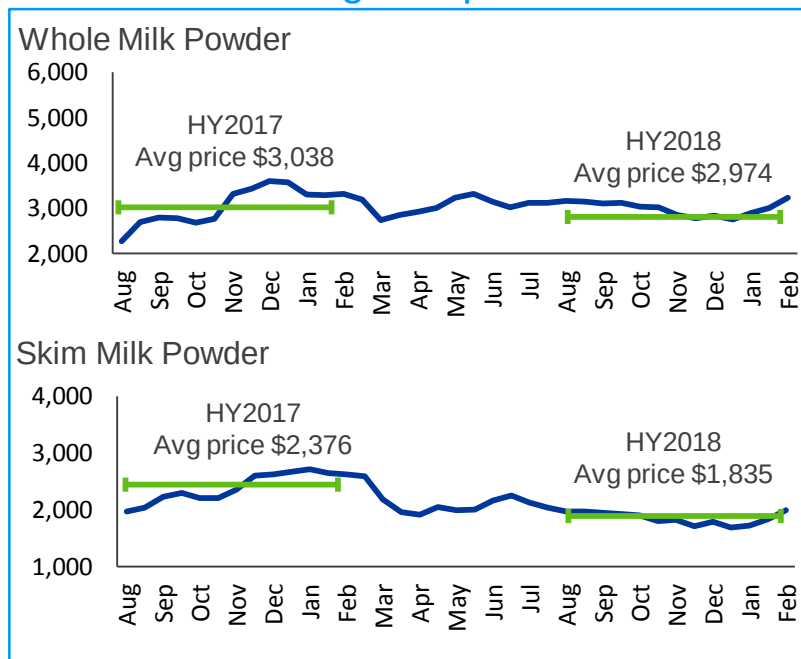
Note: All 12 month figures are rolling 12-months compared to previous comparable period: Australia (Jan), EU (Dec), United States (Dec), China (Dec), Asia (Oct), Middle East & Africa (Oct), Latin America (Oct)

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

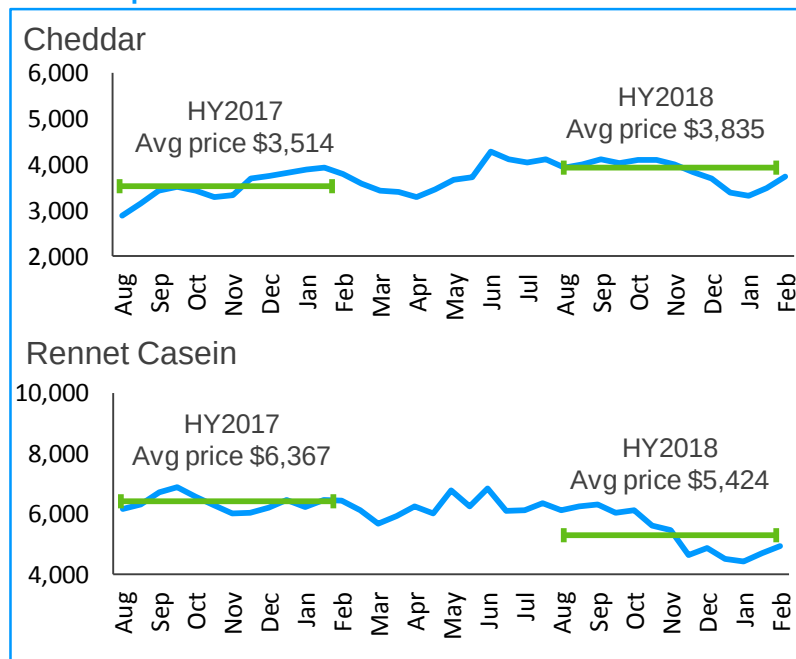
Stable WMP prices – key driver of milk price

Positive stream returns contribute to earnings this half

Products informing milk price



Other products

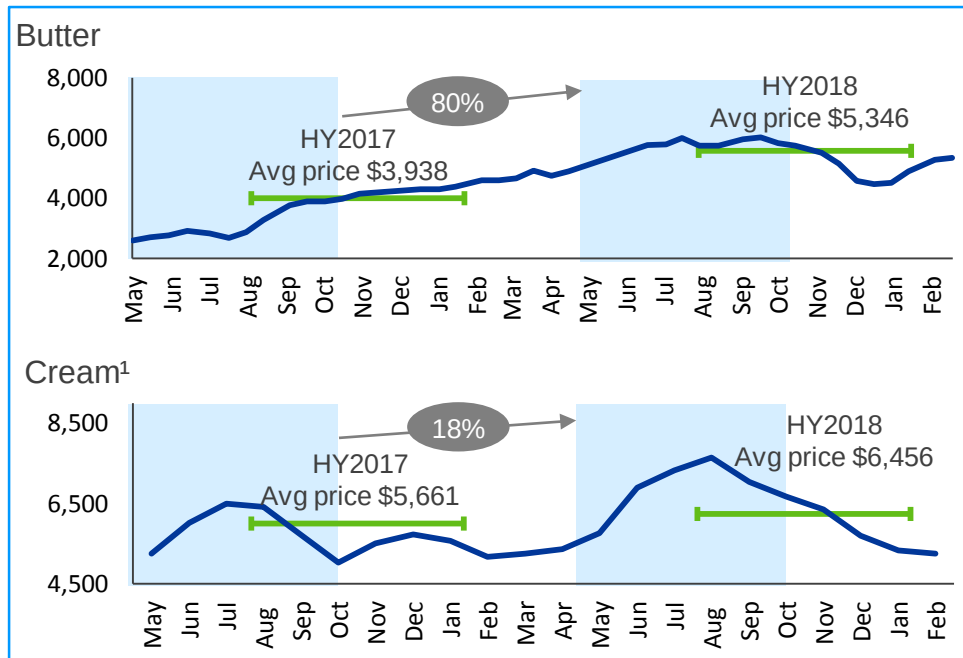


Note: All prices in US dollars per MT, growth rate percentages represent growth for the six months to 31 January 2018. Source: GDT data

HY refers to the six month period ended 31 January

Higher input costs impacting returns

Significant increase in fat prices, particularly butter



- Transfer price for Consumer and Foodservice set quarterly
 - Based on market prices
 - 3-month lag
- Significant increase in commodity prices HY18 vs. HY17
 - Butter prices up 80%
 - Cream¹ prices up 18%

- Pricing period determining the transfer price from Ingredients to Consumer and Foodservice for the six months ended 31 Jan
- Year-on-year growth between pricing periods of May to October
- Average price for the reporting period August to January

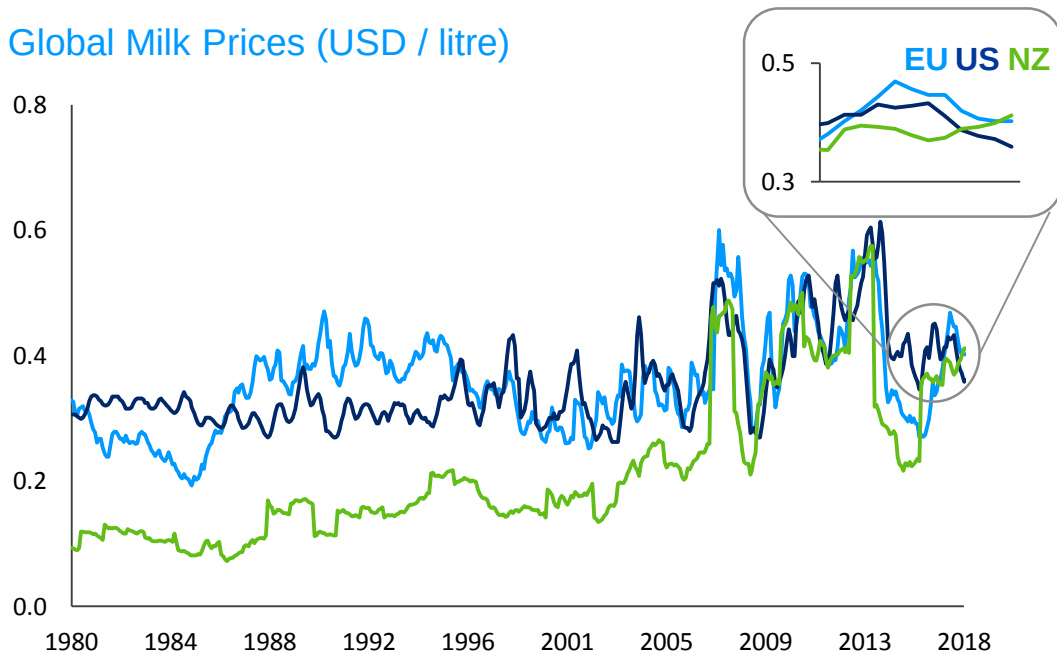
1. Prices for fresh cream have been used as a proxy for UHT cream.

Note: All prices in US dollars per MT, Source: GDT data, Dairy Australia and UDSNZ. HY refers to the six month period ended 31 January

Globally competitive cash pay-out

Driven by our demand-led strategy

Global Milk Prices (USD / litre)



- Higher NZ pay-out this season
- Farmgate Milk Price Manual reinforces competitive milk price
- The 2016 manual change has added six cents per kgMS to milk price for the 2017/18 season-to-date

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 Dec 2017); Fonterra announced pay-out (milk price and dividend) (NZ from Jan 2018); USDA; European Milk Market Observatory (Netherlands milk price)



Our Potential

Operating performance in line with expectations

Result impacted by lower volumes and abnormal items

VOLUME	REVENUE	GROSS MARGIN	NORMALISED OPEX ¹
10.5B LME	\$9.8B	\$1,662M	\$1,263M
↓ 11%	↑ 6%	↓ 6%	↑ 3%

NORMALISED EBIT	NORMALISED NPAT ²	NET PROFIT AFTER TAX	INTERIM DIVIDEND
\$458M	\$248M	\$(348M)	10CPS
↓ 25%	↓ 36%, EPS ² 15c	↓ 183%	

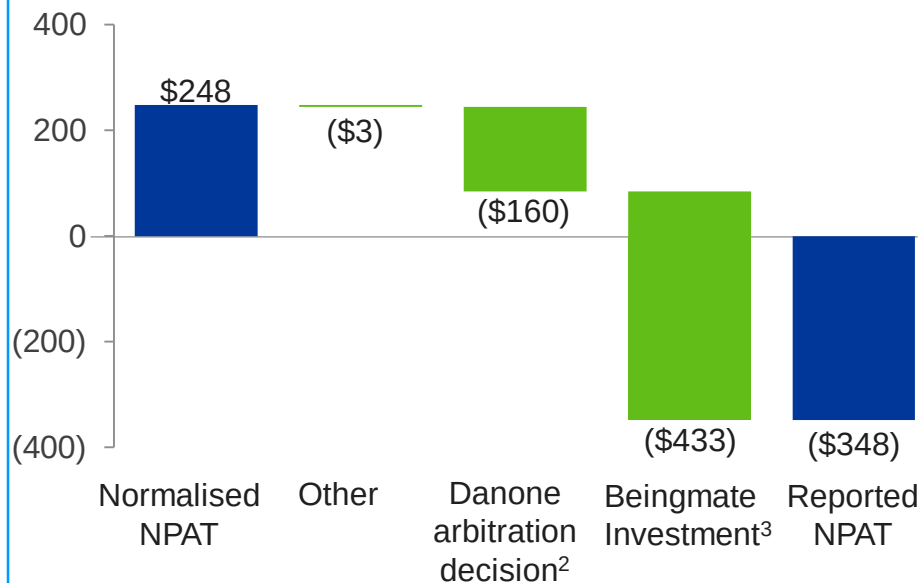
Ingredients	Consumer and Foodservice	China Farms
Volume (LME) ³ ↓ 9.8B	Volume (LME) ³ ↓ 2.7B	Volume (LME) ³ ↓ 0.1B
Gross Margin — 11.1%	Gross Margin ↓ 23.6%	Gross Margin ↓ (6.1)%
Normalised EBIT ↑ \$558M	Normalised EBIT ↓ \$193M	Normalised EBIT ↑ \$(12)M

1. Reported OPEX has been adjusted to normalise the impact of the Danone arbitration. 3. Includes inter-company sales. Prior year volumes include 30m LME of milk powders not included this year.
2. Adjusted to reflect abnormal items this period.

Result impacted by Danone costs and Beingmate

Normalised earnings better reflect operating performance

Half Year NPAT¹ reconciliation (\$m)



- Normalised NPAT of \$248m
 - Equates to normalised Earning Per Share of 15 cents
 - Total normalisations of \$596m
- Beingmate investment normalisation includes unrealised impairment and share of operating losses
- Danone arbitration decision amount includes the finance costs of the payment and a tax credit

1. NPAT is net profit after tax.

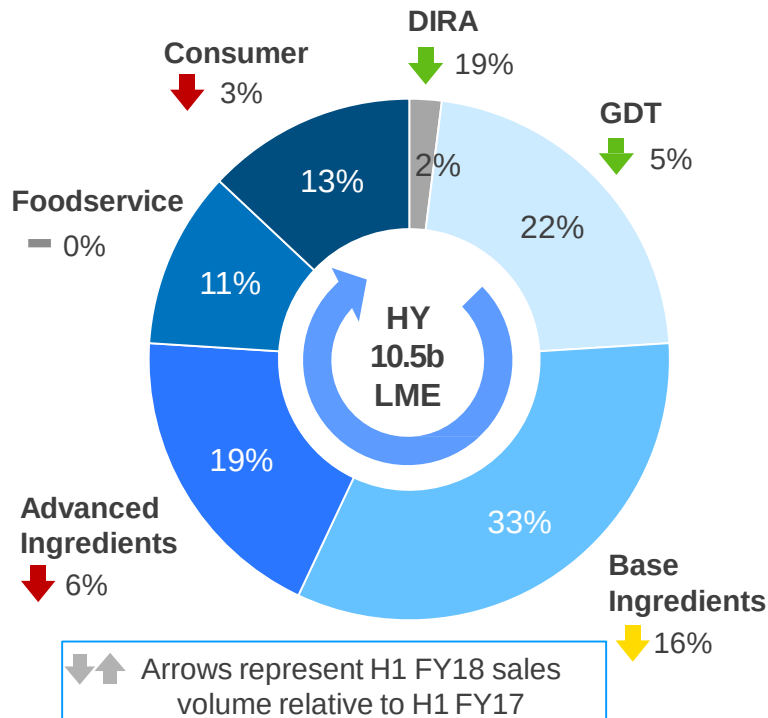
2. Includes \$26m of net finance costs, and \$62m of tax credits.

3. Beingmate investment includes \$405m of impairment and \$28m share of operating losses.

Strategy focussed on moving volume to value

Lower volumes but increased proportion in higher value categories

- 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

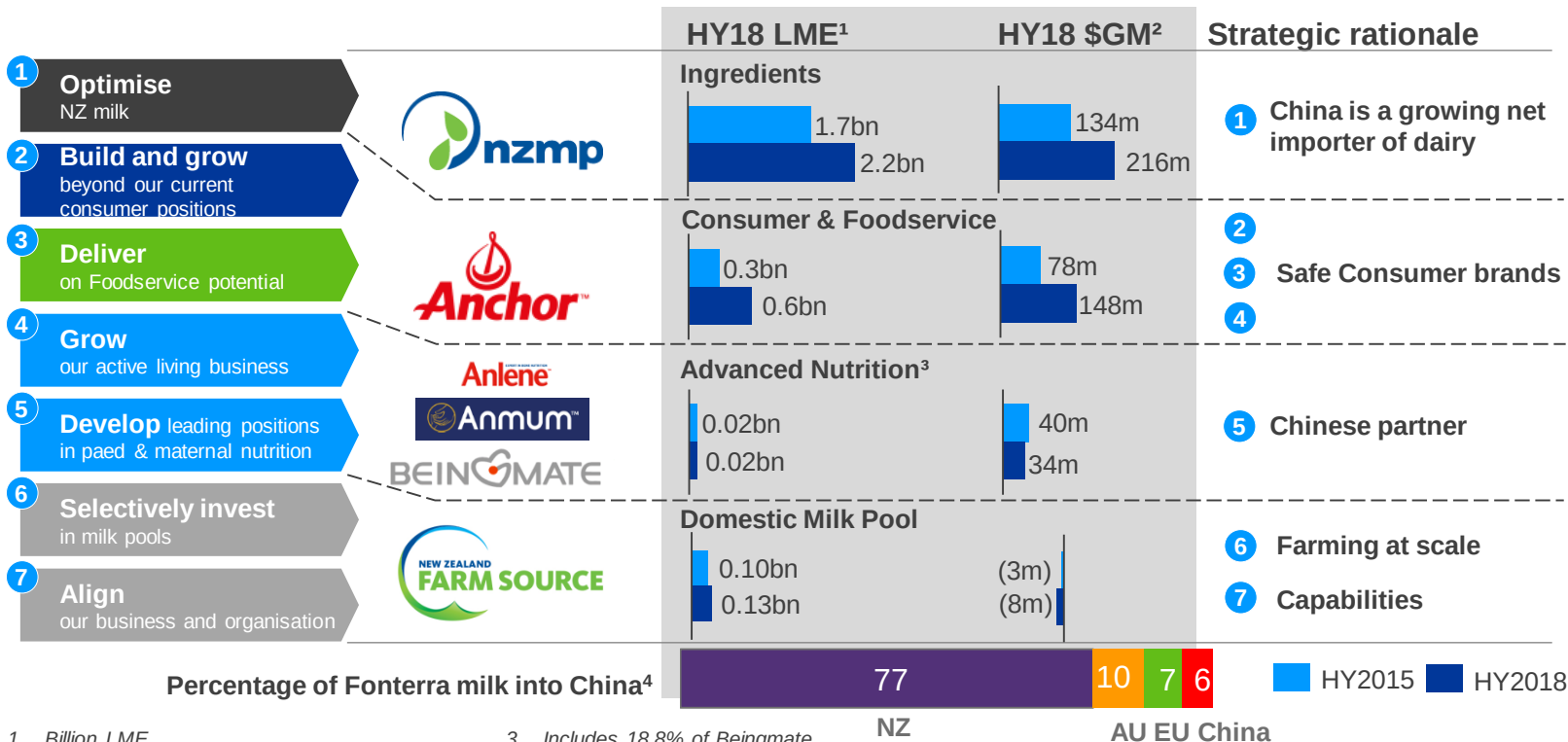


- Volumes down 11% to 10.5b LME
- GDT
 - Volumes aligned with lower production
- Ingredients
 - Lower milk collections, low opening inventory
- Consumer & Foodservice
 - Moved from butter to higher margin cream
 - Challenges in NZ impacting Consumer

Note: Wheel shows percentage of total first six months external sales (LME); Consumer, Foodservice and Ingredients growth rates include intercompany sales

Greater China integrated strategy

Growing volume and value in our most important market



1. Billion LME.

2. Gross margin in \$ million.

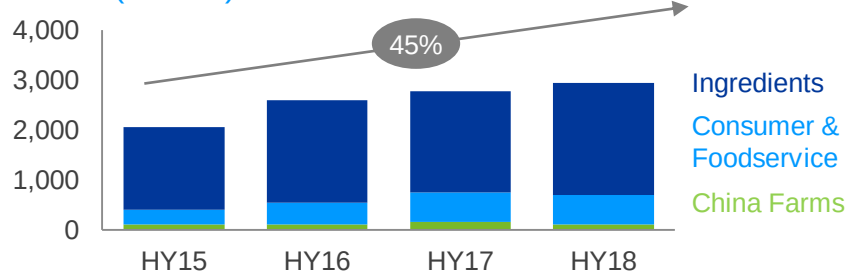
3. Includes 18.8% of Beingmate.

4. Indicative share of sourcing.

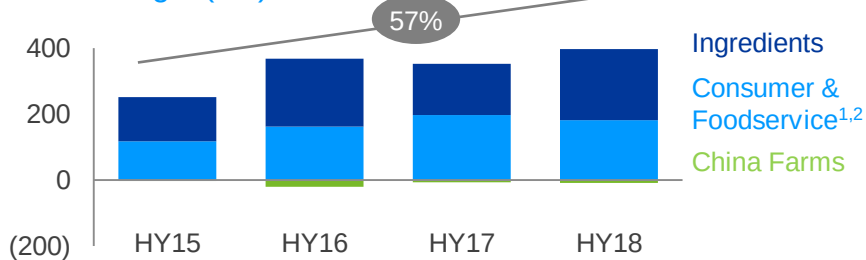
Greater China growing volumes and earnings

Currently 23% of Fonterra total gross margin and 28% of volume

Volume (m LME)



Gross Margin (\$m)



- Our integrated business in Greater China, including Taiwan and Hong Kong, is delivering value
- Gross margin of \$390 million, 23% of total Fonterra gross margin
- From HY15 to HY18:
 - Volume growth of 45% and gross margin growth of 57%
 - Consumer and Foodservice volumes have doubled and gross margin is up 54%
 - Ingredients volumes and gross margin up 36% and 61%

1. Consumer and foodservice includes Quick Service restaurants and corporate overheads allocation.

2. H1 2018 includes normalisation adjustment for Beingmate impairment and share of losses.

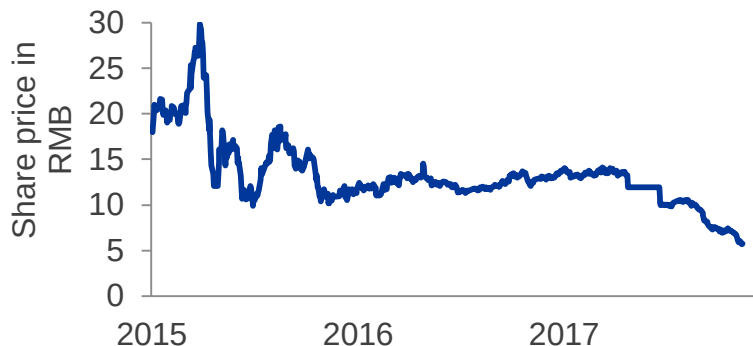
Impairment of Beingmate investment

Asset value now aligned to current share price

Fair value approach

- Estimate of what a market participant would pay for a similar long-term strategic stake
- Based on current share price
- Equivalent to a RMB 5.88 share price
- Reduction in asset value to \$244m after impairment of \$405m and \$28m share of losses
- Can be revalued as share price changes

Declining share price



1 Strategic rationale continues

- Infant formula market growth
- Regulatory opportunity
- Brand equity

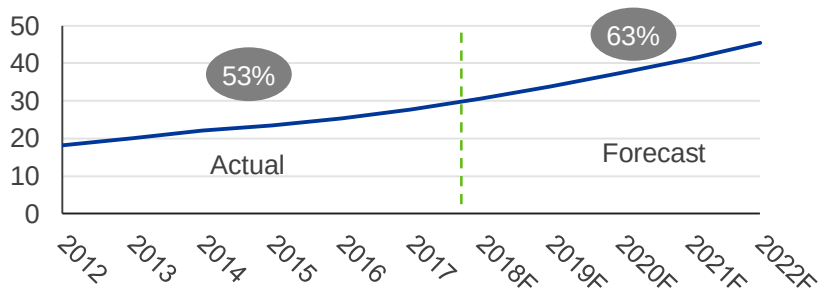
2 Way forward

- Appointment of new CEO
- Implement business transformation
- Continue utilising existing governance structure

China Farms – fresh milk in China

Well positioned for increasing demand for fresh milk

Fresh milk consumption in China – retail sales (RMB bn)¹



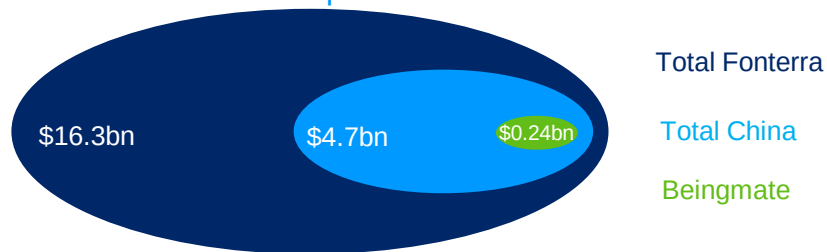
1. Milk consumption in China – packaged food retail sales.

Source: Euromonitor data

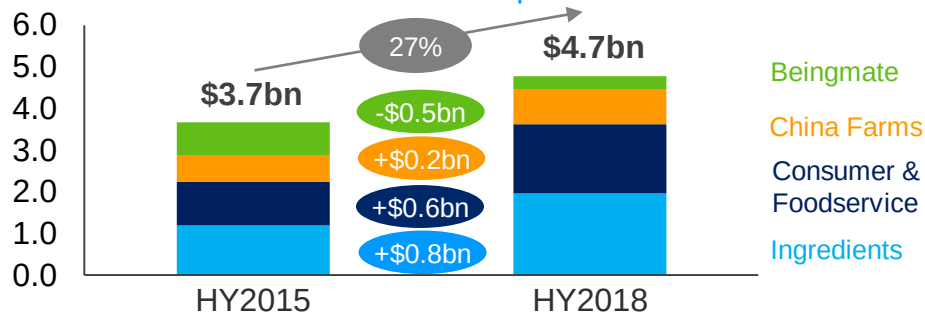
- Market in China is shifting from ambient to fresh milk
 - 6-year growth of 53%, forecast to grow a further 63% in the next five years
- Fonterra is well positioned for this, with current capacity exceeding 400 million LME
- Already moving milk to higher value products
 - Daily fresh milk now in Alibaba's Hema stores
 - Anchor™ barista milk in Starbucks
- Fresh milk sales at a premium

Greater China operations are a substantial business

Breakdown of Fonterra's Enterprise Value for HY2018



Breakdown of Greater China's Enterprise Value



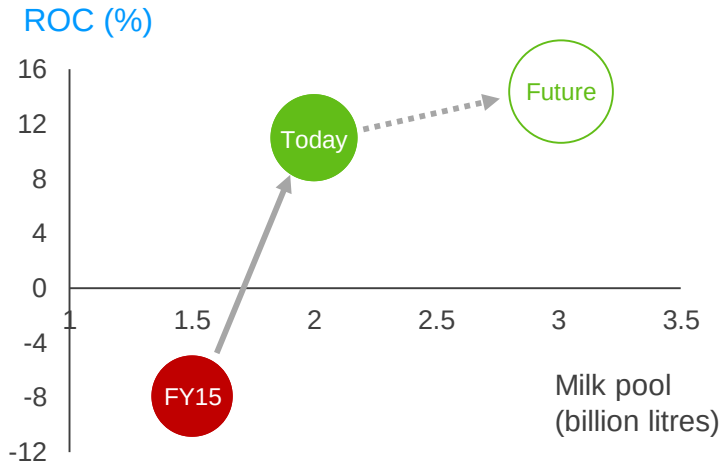
- Based on our current share price, Fonterra's Enterprise Value (EV)¹ exceeds \$16bn
- Greater China's share of EV estimated to be \$4.7bn Beingmate and China Farms included at current book value and balance based on pro-rata share of gross margin
- Conservative estimate relative to valuation of similar China businesses, plus upside potential of China Farms
- Since 2015 the EV of Fonterra's business in Greater China has grown by \$1.0bn or 27%

1. Enterprise value ("EV", being market value of equity plus net economic debt) is based on Fonterra's share price and shares outstanding as at 31 January, plus average net debt for the respective half year period. 2. Greater China's share of EV is calculated as a sum of book value of Farms, plus Fonterra's carrying value of its investment in Beingmate as at 31st January 2018, plus a pro-rata share of EV (excluding Beingmate and Farms) on the basis of gross margin (16% HY15, 23% HY18)

Australia – strategic update

Growing volume and value in Australia

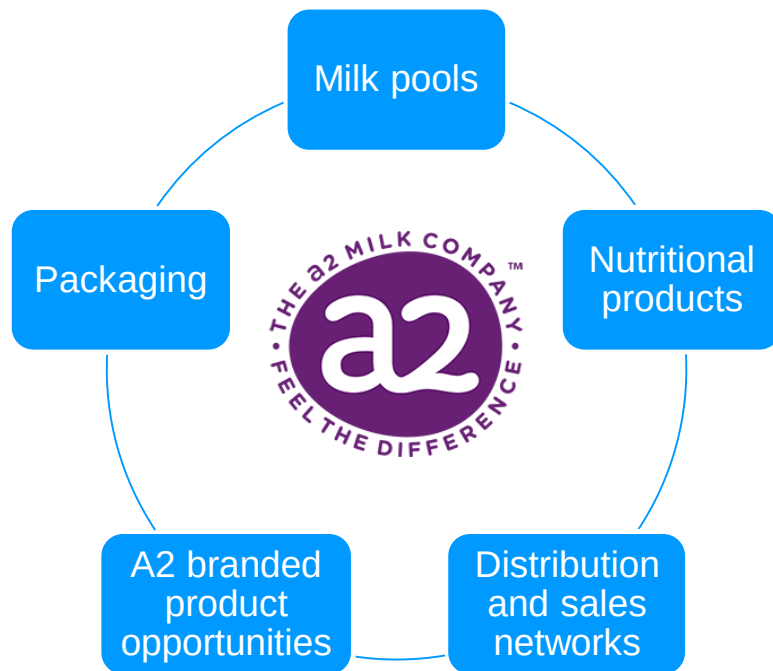
- Continued strong performance from Australia this half year
 - Total Australia normalised EBIT of around \$38m
 - Ingredients gross margin up \$23m or 86%
 - C&FS normalised EBIT stable despite the significant increase in input costs
- We are now Australia's largest milk processor
 - Milk pool has grown by 400m litres of milk this season
 - Our market share has increased 4% – now around 22%
- Playing to our strengths in cheese, whey and nutritionals
 - Stanhope expansion will almost double the size of our new cheese plant over the next two years
 - Further investment in debottlenecking our plants across sites over the next two years



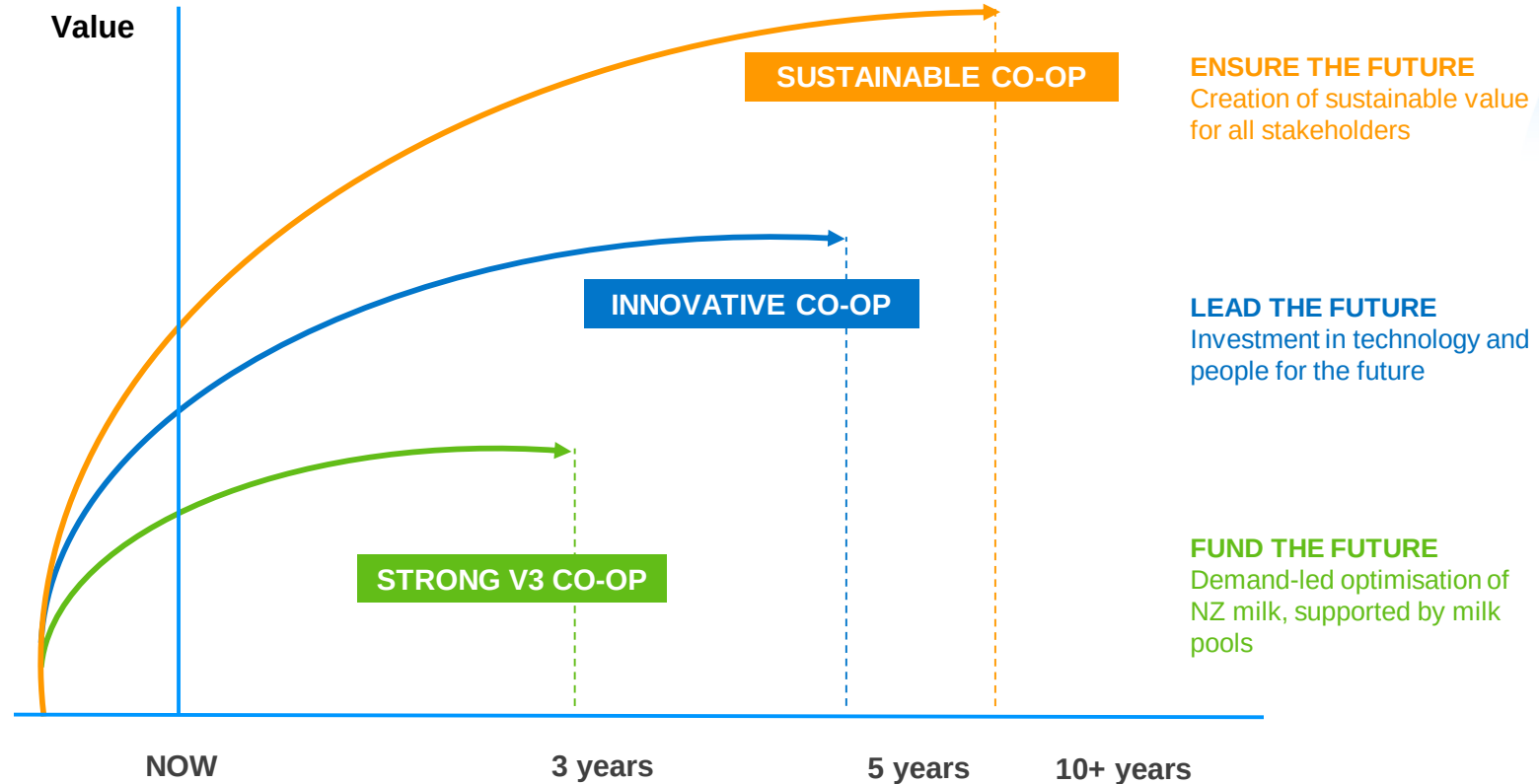
1. FY17 compared with FY15.

A win-win strategic relationship with a2 Milk Company

- Milk pools
 - Source A2 milk from Fonterra farmers in NZ and Australia
 - Expand those pools over time
- Nutritional products
 - Supply of nutritional milk powder products from Fonterra facilities in NZ and Australia
- Distribution and sales networks
 - Opportunity to utilise Fonterra's distribution and sales networks in South East Asia and the Middle East
- a2MC branded product opportunities
 - Exclusive period to develop a2MC butter, and cheese for Australia and NZ and China-sourced fresh milk
- NZ consumer opportunities
 - Exclusive rights to produce, distribute, sell and market a2 Milk™ fresh milk in New Zealand



Our journey to making a difference to the lives of 2 billion people

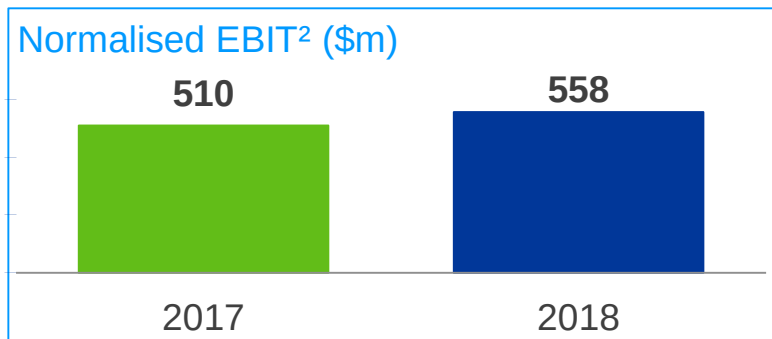
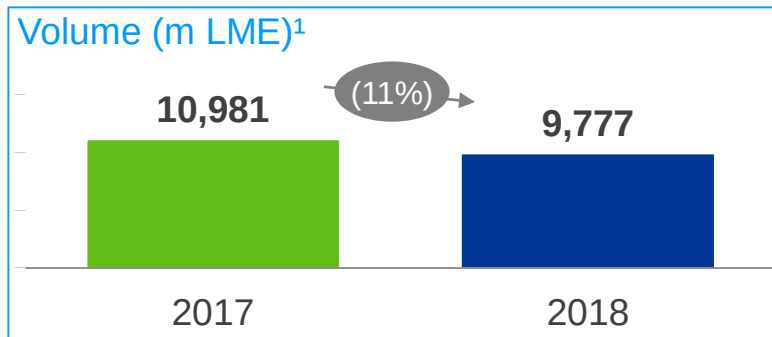




Our Performance

Ingredients

Solid result and with lower collection volumes



1. Includes sales to other strategic platforms.

Volume

- Record low opening inventory
- Unusual profile of milk collection in New Zealand due to difficult weather conditions

Value

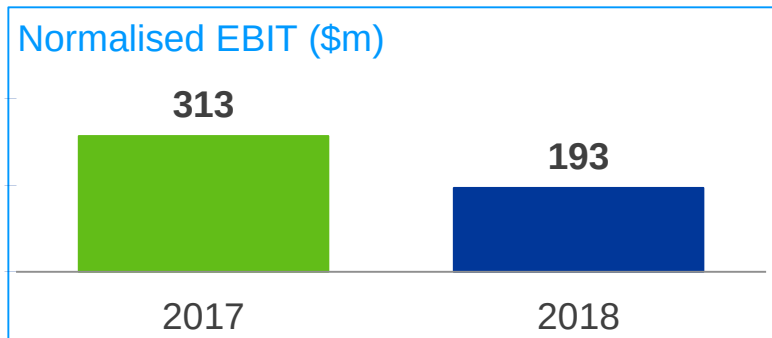
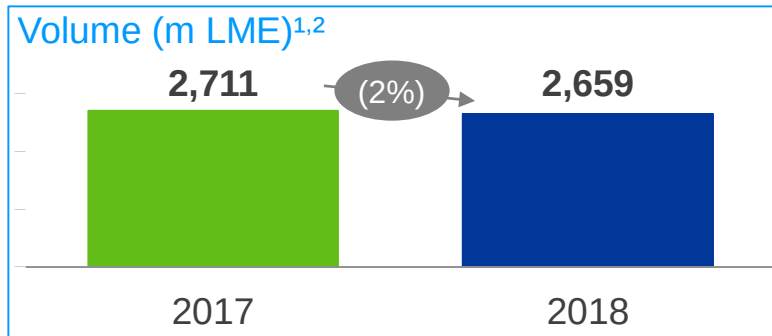
- Normalised EBIT growth of \$48m, an increase of 9%
- Positive stream returns of \$90m, \$50m ahead of prior period
- Lower price achievement due to increased competition in our protein portfolio
- Improvements in our Australian product mix

Velocity

- UHT expansion at Waitoa, cream cheese plant at Darfield and a new mozzarella plant at Clandeboyne
- Our innovation pipeline is continuing to drive new products in our Advanced Ingredients portfolio

Consumer and Foodservice

Areas of volume growth but tighter margins from higher input costs



1. Includes sales to other strategic platforms.

2. On a comparable business basis volumes were down 1% due to transferred/discontinued businesses this period

Volume

- Holding volumes despite shift in product mix away from butter, as consumer demand responds to higher prices
- Consumer volumes impacted by exit from parts of our private label portfolio and operational challenges in NZ
- Full year target of an additional 400m LME remains

Value

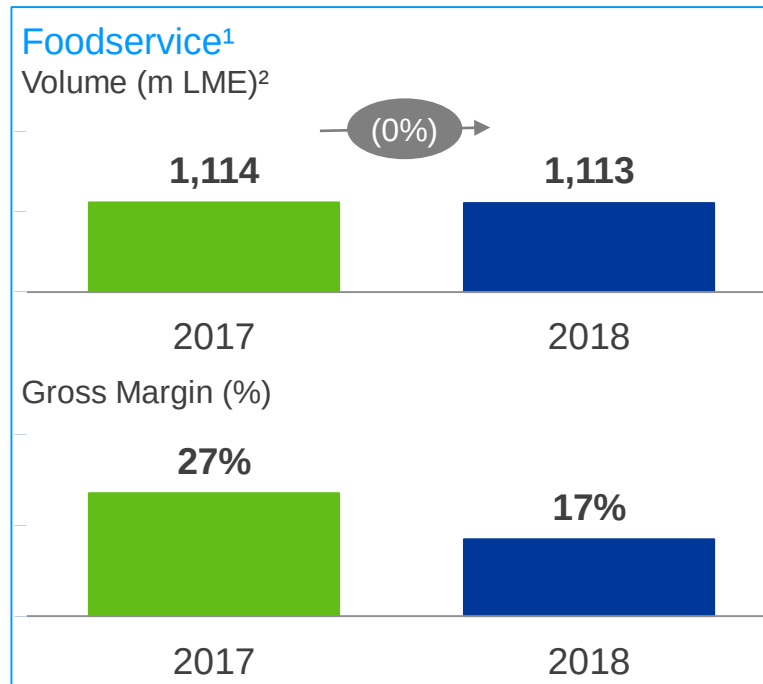
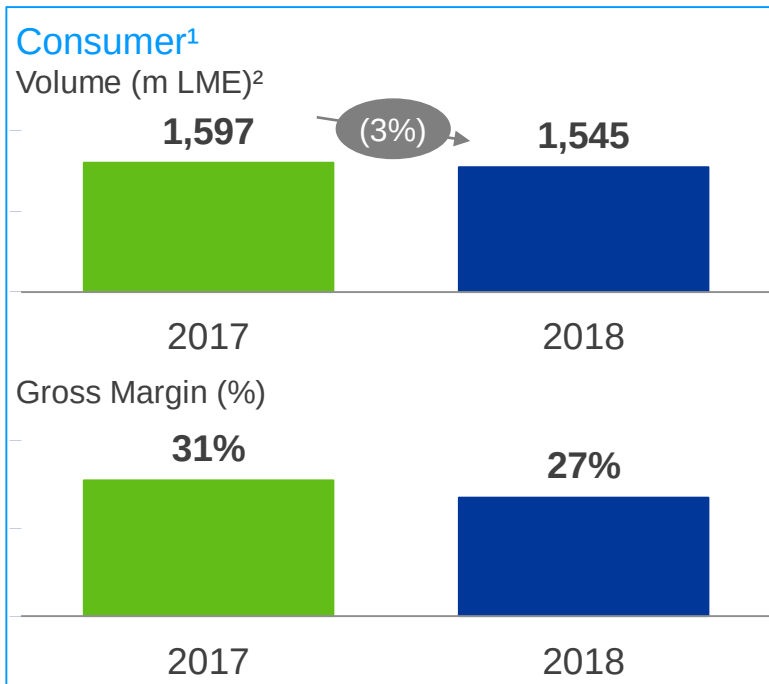
- Tighter margins compared to HY17
 - Increased pricing contributed \$301m to earnings
 - However not able to fully recover the \$420m impact of significantly higher input costs
- NZ operational challenges impacting Oceania

Velocity

- Successful relaunch of Anlene in South East Asia
- Accelerated product development in China
 - Fresh milk into Alibaba's Hema Fresh stores

Consumer and Foodservice

Robust consumer margins largely absorb higher input costs



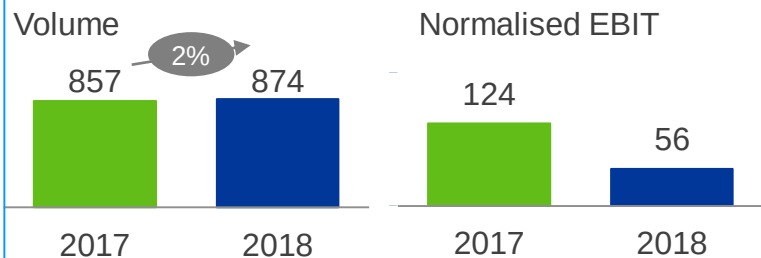
1. On a comparable business basis Consumer volumes were 2% down due to transferred/discontinued businesses this period.

2. Includes sales to other strategic platforms.

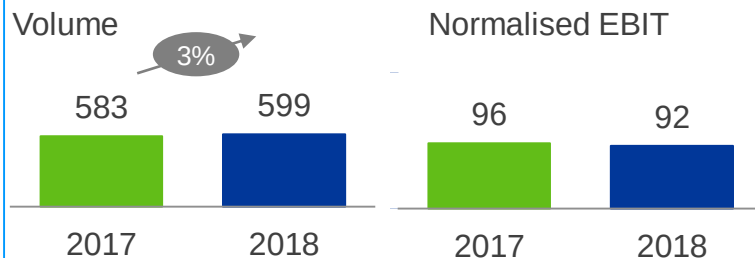
Consumer and Foodservice

Solid performance in Greater China and Latin America

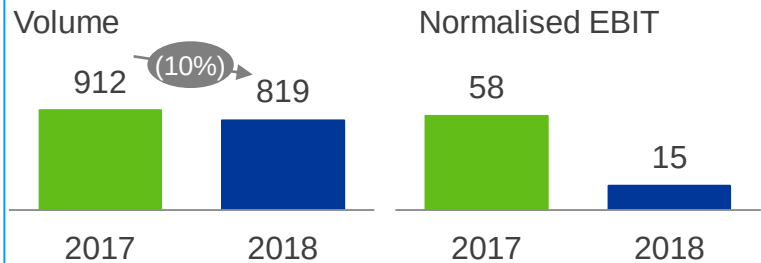
Asia



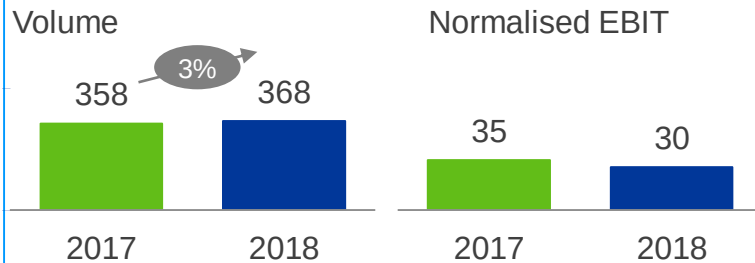
Greater China



Oceania¹



Latin America¹



1. On a comparable business basis volumes in Oceania were 8% down due to transferred/discontinued businesses this period.

Note: All volumes include intercompany sales

Strong Co-op and financial discipline continues

Higher half year debt and gearing but reducing at full year

GEARING¹

51.6%

↑ Up from 46.6%

NET DEBT²

\$7.1B

↑ 15%

WORKING CAPITAL

80 DAYS

↑ Up 12 days

CAPEX

\$346M

↑ 42%

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.

Summary and outlook for second half of FY18

Operating performance in line with expectations

- Solid Ingredients' results with low opening inventory and lower collection volumes
- Consumer and Foodservice achieved areas of volume growth but tighter margins from higher input costs
- Danone costs and Beingmate impairment impacted overall result
- Balance sheet and cash flows remain strong

Forecast Farmgate Milk Price of \$6.55 per kgMS

- Strong global demand reflected in prices
- Full-year New Zealand milk collection forecast is 3% lower than last year

Forecast payout range for budgeting \$6.80-\$6.90

- Forecast normalised earnings range maintained
- Earnings will be weighted towards the second half of FY18
- A full year dividend range of 25-35 cents per share

The background of the slide is an abstract composition of several overlapping, flowing shapes in various shades of blue and green. The shapes create a sense of movement and depth, with some areas being more saturated than others. The overall effect is modern and professional.

Supplementary Information

Normalised EBIT reconciliation

\$ million	Six months ended 31 January 2018	Six months ended 31 January 2017
Profit after tax	(348)	418
Add: Net finance costs	201	157
(Less):Add: Taxation (credit)/expense	(29)	69
Total reported EBIT	(176)	644
Add: Danone recall costs	196	—
Add: Reduction in carrying value of Beingmate	433	—
Less: Gain on Darnum sale (part share to JV)	—	(42)
Add: Time value of options	5	5
Total normalisation adjustments	634	(37)
Total normalised EBIT	458	607

New Zealand Ingredients product mix

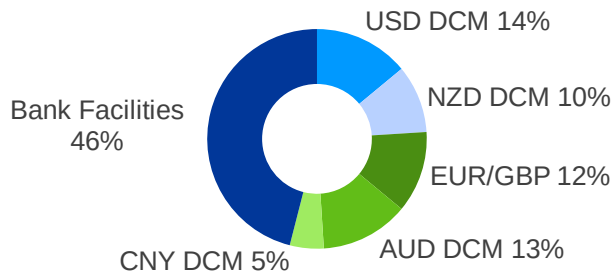
	Six months ended 31 January 2018		Six months ended 31 January 2017	
	\$ million	\$ per MT	\$ million	\$ per MT
Sales volume (000 MT)				
Reference products	900	–	973	–
Non-reference products	277	–	338	–
Revenue				
Reference products	4,305	4,783	3,768	3,873
Non-reference products	1,586	5,726	1,758	5,201
Cost of milk				
Reference products	3,316	3,684	2,901	2,982
Non-reference products	830	2,995	1,013	2,997
Gross margin				
Reference products	372	413	246	253
Non-reference products	362	1,309	398	1,178

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 488 million kgMS reference and 146 million kgMS non-reference (previous comparable period 547 million kgMS reference and 190 million non-reference)

Diversified and prudent funding position

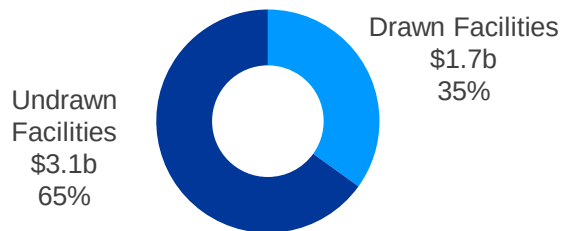
Diversified profile¹

At 31 January 2018



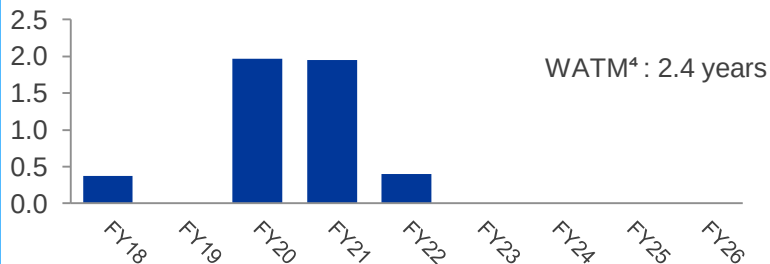
Prudent liquidity

At 31 January 2018 (\$ billion)



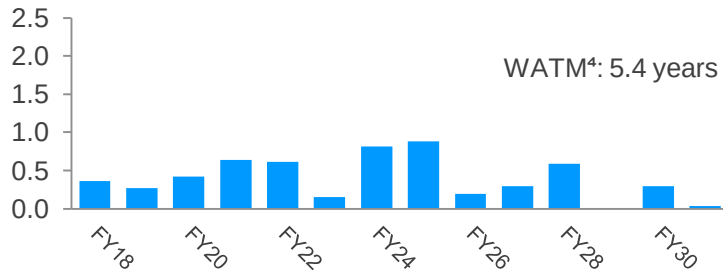
Bank facility maturity profile²

At 31 January 2018 (\$ billion)



DCM maturity profile³

At 31 January 2018 (\$ billion)



1. Includes undrawn facilities and commercial paper.

2. FY18 maturity represents short-term working capital borrowings subsidiaries.

3. Excluding commercial paper.

4. WATM is weighted average term to maturity.