Fonterra
Dairy for life

PERFORMANCE REVIEW

Business Update

MAY 2018
FONTERRA CO-OPERATIVE GROUP LIMITED

OUR CO-OPERATIVE
OUR POTENTIAL
OUR PERFORMANCE

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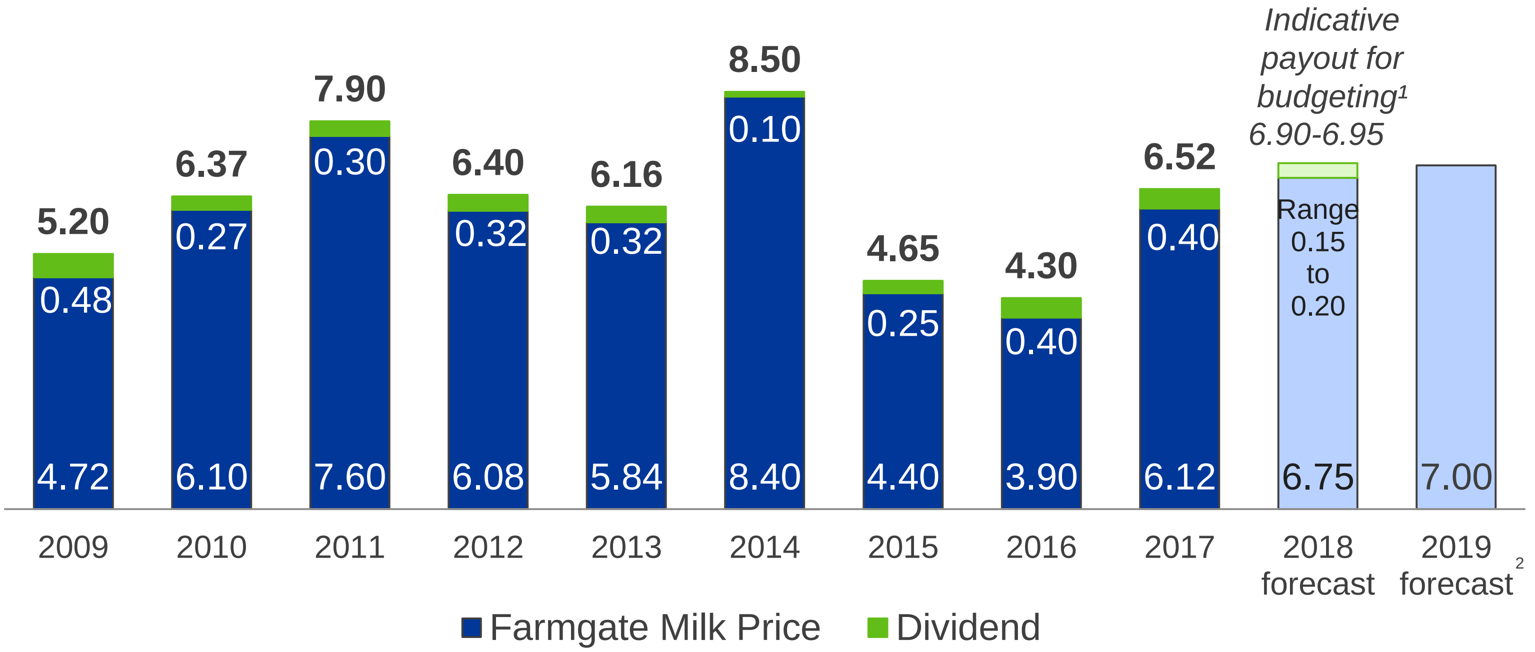
Higher forecast pay-out for farmers

Improved Farmgate Milk Price, lower forecast dividend range

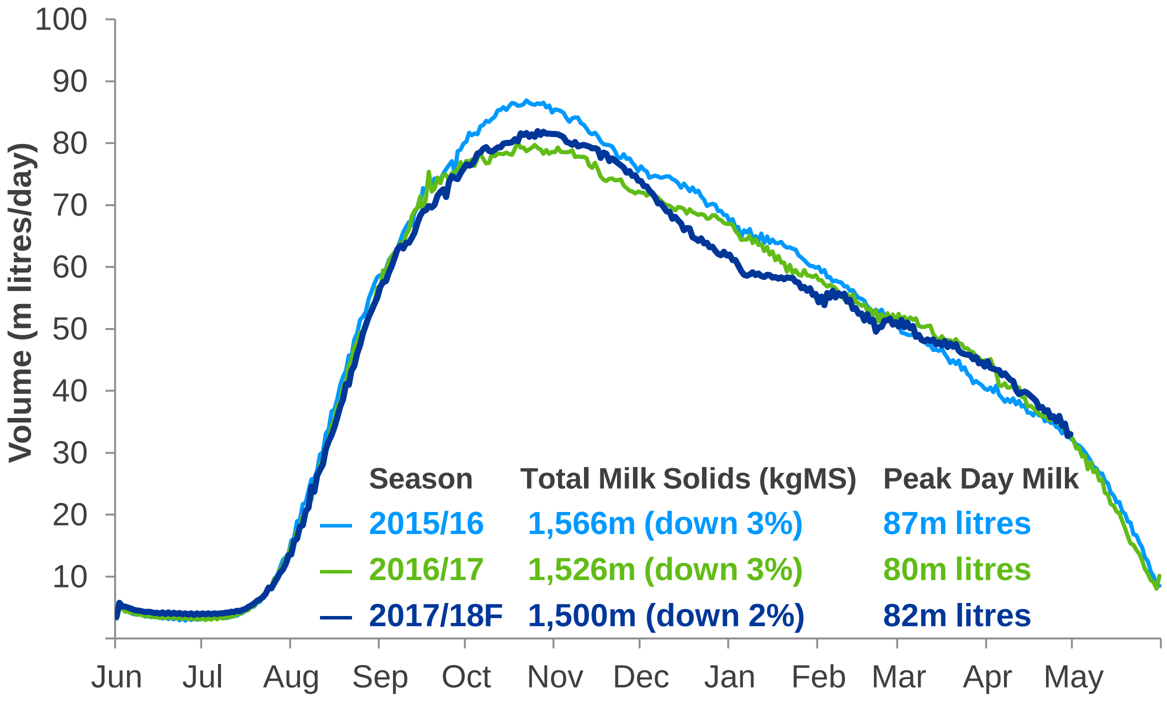


1. *For farm budgeting purposes a target full year dividend range of 15-20 cents per share is assumed. The dividend will be calculated in accordance with Fonterra policy of paying out 65-75 per cent of adjusted net profit after tax over time. 2. The forecast earnings range for FY2019 will be provided at a later date.*

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

Strong late season collections

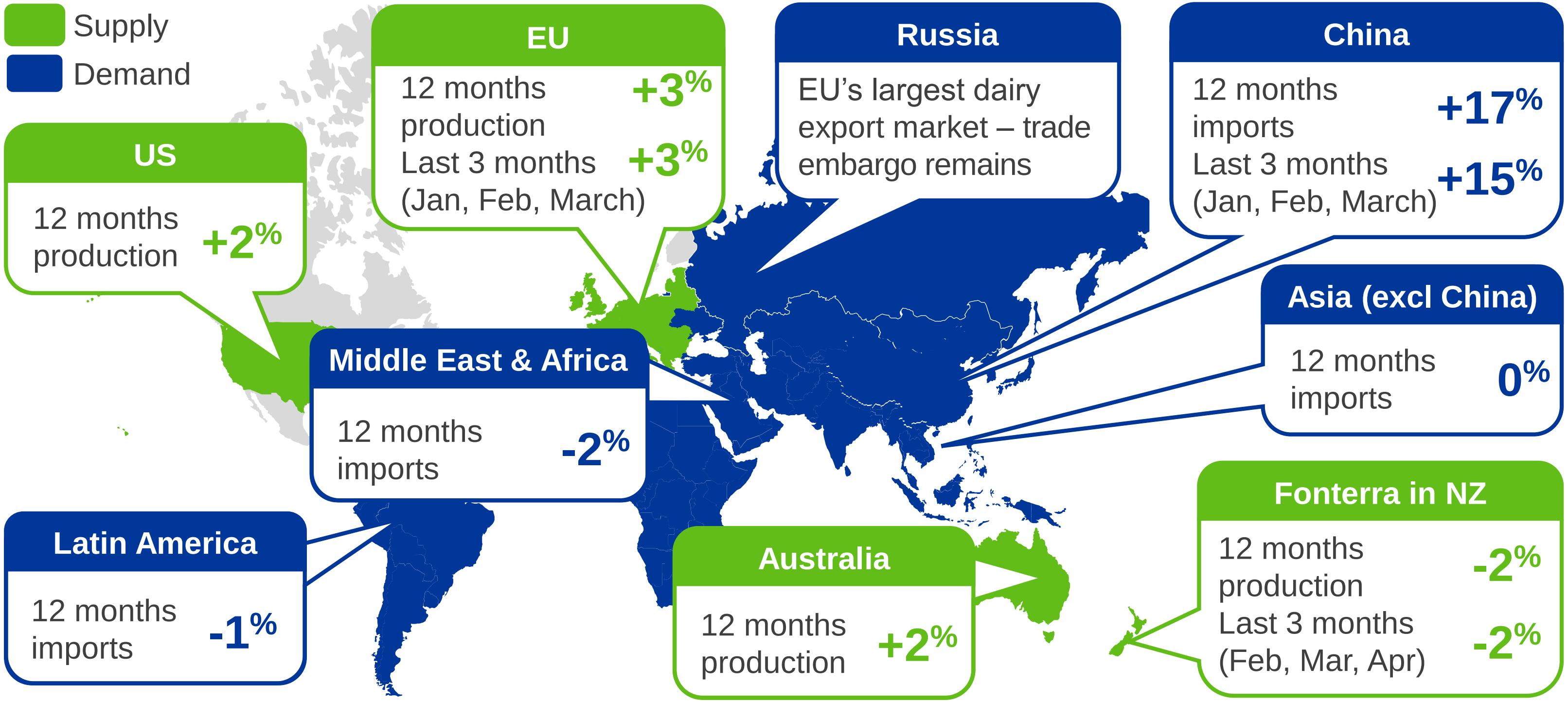
But lower overall volumes this season



Season	Total Milk Solids (kgMS)	Peak Day Milk
2015/16	1,566m (down 3%)	87m litres
2016/17	1,526m (down 3%)	80m litres
2017/18F	1,500m (down 2%)	82m litres

- Season forecast increased to 1,500 million kgMS, from 1,480 million kgMS
- Driven by favourable late season conditions
- Full season forecast down 2% on last year due to difficult weather conditions impacting pasture growth

Strong dairy demand continues



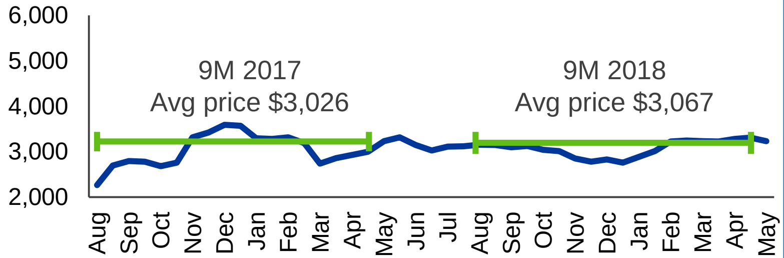
Note: All 12 month figures are rolling 12-months compared to previous comparable period: Australia (Mar), EU (Mar), United States (Feb), China (Mar), Asia (Jan), Middle East & Africa (Jan), Latin America (Jan)

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

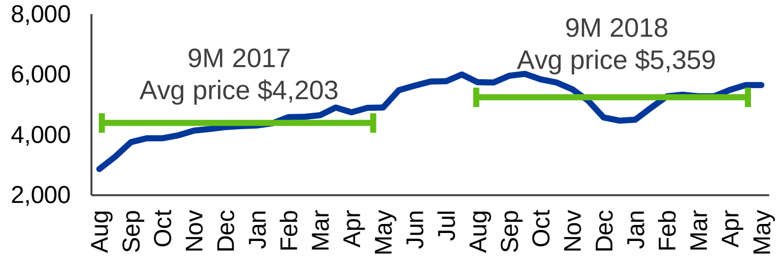
Strength in commodity prices supports a higher milk price

Continued margin pressure from higher prices, particularly for fat products

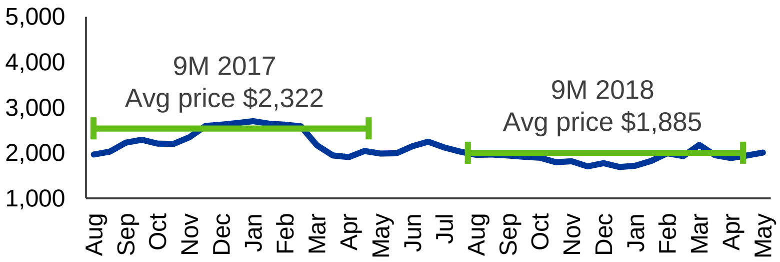
Whole Milk Powder



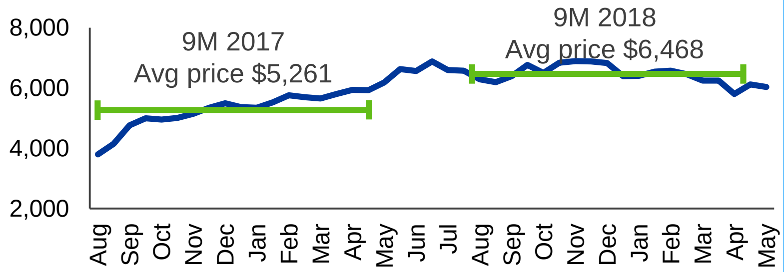
Butter



Skim Milk Powder



Anhydrous Milk Fat

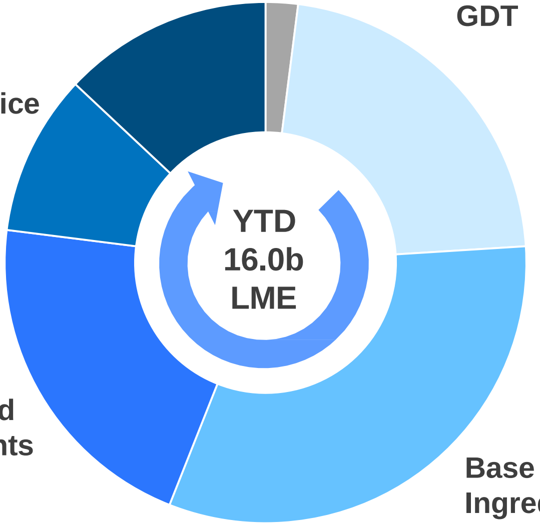


Note: All prices in US dollars per MT. 9M refers to the nine-month period ended 30 April.
Source: GDT data

Continued focus on Volume to higher Value

Growth in Q3 but revised full year target for additional LME

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 5% to 16.0b LME comparable year-to-date
- Ingredients
  - Lower collections and opening inventory resulted in 5% lower sales volumes comparable year-to-date
- Consumer & Foodservice
  - Volume growth in three regions, but overall below expectations
  - Full year target of additional LME revised to 130M LME

FY18 nine-month performance summary

Strong commodity prices continue to put pressure on margins

VOLUME (LME)	REVENUE	GROSS MARGIN	OPEX	CAPEX[1]
16.0B	$14.8B	16%	$1.9B	$584M
↓ 5%	↑ 7%	↓ FROM 18%	↑ 2%	↑ 35%

Ingredients

Volume	↓	14.8B
		DOWN 5%
Gross Margin	=	10%

Consumer & Foodservice

Volume	=	4.0B
Gross Margin	↓	24%
		FROM 28%

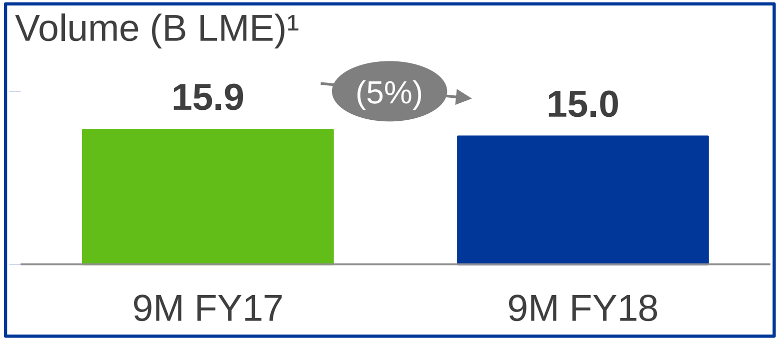
China Farms

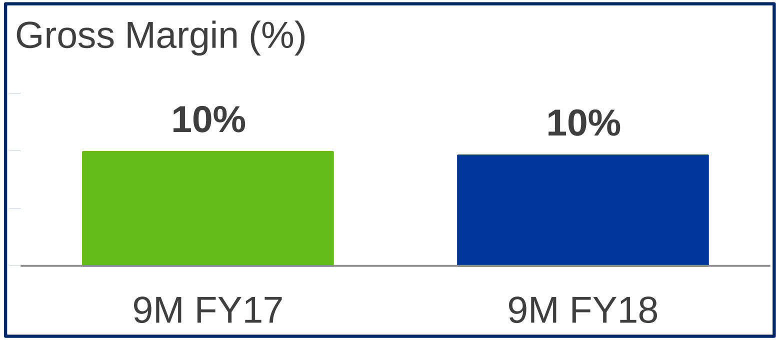
Volume[2]	↑	0.2B
		UP 4%
Gross Margin	↓	-5%
		FROM 1%

1. Full year capex forecast range of $800 - 850M   2. This is the volume of milk collections.
Note: Volume is in billion LME; All changes are expressed relative to first nine-months of FY17

Ingredients

Strengthening commodity prices tightened margins in Q3





Volume

- Q3 volumes up 9% on last year
- Year-to-date volumes down 5% compared to last year due to:
  - Lower opening inventory and collections
  - Product mix

Value

- Year-to-date margins in-line with last year
- Strengthening commodity prices tightened margins in Q3 due to:
  - The natural pricing lag inherent in our sales contracts in a rising milk price environment
  - Lower price achievement, in particular, increased competition from US and Europe in cheese and proteins

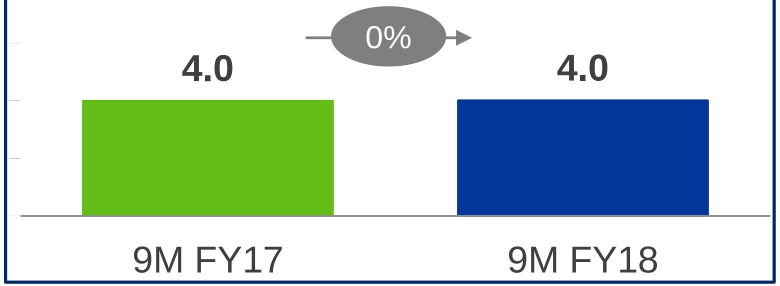
1. Includes sales to other strategic platforms

Note: Volume is in billion LME. All changes are expressed relative to the first nine-months of FY17

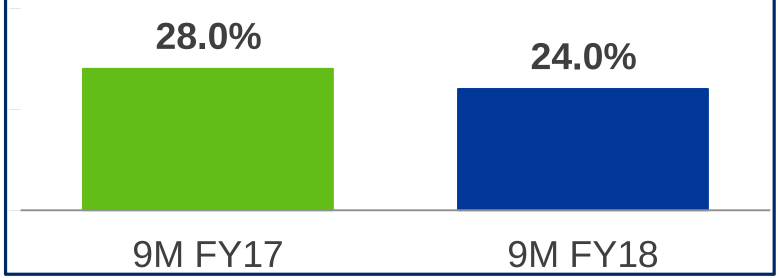
Consumer & Foodservice

High input costs for fats continue to put pressure on volumes and margins

Volume (B LME)



Gross Margin (%)



Volume

- Volume growth in three regions (up 3%) but down in Oceania (8%). Oceania impacted by NZ performance challenges
- Continued growth in Greater China, Q3 volumes up 12% but lower than anticipated
- Lower volumes from butter products than expected

Value

- Sales growth of 6% year-to-date but continued pressure on margins from:
  - High input prices, especially fat products
  - Increased competition in Greater China Foodservice, including from European imports
- Further constraints on our ability to pass on higher input costs in some Asian markets

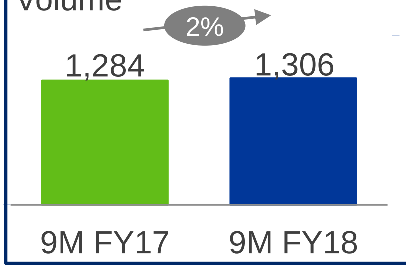
Note: Volume is in billion LME. All changes are expressed relative to the nine-months of FY17

Consumer and Foodservice

Continued growth in Greater China, Asia and LATAM

Asia

Volume



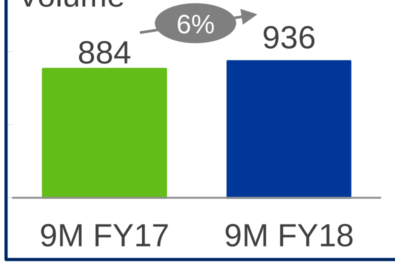
Gross Margin

24%

FROM 29%

Greater China

Volume



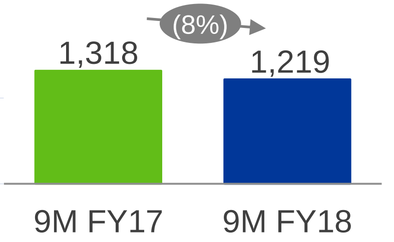
Gross Margin

22%

FROM 32%

Oceania

Volume



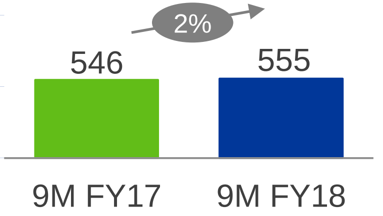
Gross Margin

20%

FROM 24%

Latin America

Volume



Gross Margin

29%

FROM 31%

Note: Volume is in million LME. All changes are expressed relative to the nine-months of FY17

Beingmate update

Progress but challenges continue

- CEO appointment progressing
- Q1 result announced:
  - A small profit, including a one-off government grant
  - Lower sales, partly due to market-wide clearing of unregistered products as new regulations apply

1 Strategic rationale continues

- Infant formula market growth
- Regulatory opportunity
- Brand equity

2 Way forward

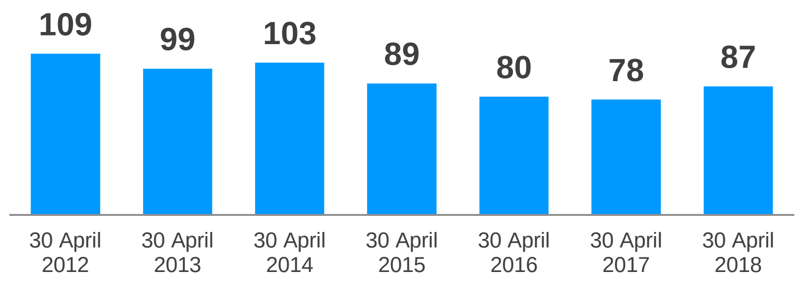
- Appointment of new CEO
- Implement business transformation
- Continue utilising existing governance structure

Financial strength and discipline

Solid credit rating reflects strong fundamentals

Credit Rating	Fitch	A (stable outlook)
	S&P	A- (stable outlook)
Debt Weighted Average Term to Maturity	As at 30 Apr 2018	3.8 years

Working capital days – 9 month average



Financial discipline continued

- Strong cash flow and liquidity
- Full year capex forecast range of $800 - 850M
- Year-end gearing likely to be above 40-45% target range
  - due to abnormal items announced at interim and the lower earnings
  - returning within range next year
- Working capital days are up 9 days on last year due to higher commodity prices, reflected in higher inventory and receivables
- Year-end inventory volume expected to be in-line with last year

Summary and outlook for balance of 2018

Farmgate Milk Price to rise to $6.75 per kgMS

- Strong dairy demand continues

Operating performance impacted by higher commodity prices

- Ingredients’ lower margins in the third quarter are expected to continue due to pricing lags and lower price achievement
- Consumer and Foodservice’ additional LME target revised down and gross margin forecast to remain at current levels
- Balance sheet and cash flows remain strong

Forecast cash payout range of $6.90-$6.95

- Forecast normalised earnings range of 25-30 cents per share
- Forecast full year dividend range of 15-20 cents per share

Glossary

Acronyms and Definitions

AMF
Anhydrous Milk Fat

BMP
Butter Milk Powder

Base Price
Prices used by Fonterra's sales team as referenced against GDT prices and other relevant benchmarks

DIRA
Dairy Industry Restructuring Act 2001 (New Zealand)

GDT
GlobalDairyTrade, the online provider of the twice monthly global auctions of dairy ingredients

Gearing Ratio
Economic net interest bearing debt divided by economic net interest bearing debt plus equity excluding cash-flow hedge reserves

Farmgate Milk Price
The price for milk supplied in New Zealand to Fonterra by farmer shareholders

Fluid and Fresh Dairy
The Fonterra grouping of skim milk, whole milk and cream – pasteurised or UHT processed, concentrated milk products and yoghurt

kgMS
Kilogram of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra

LME (Liquid Milk Equivalent)
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

Non-Reference Products
All dairy products, except for Reference, produced by the NZ Ingredients business

Price Achievement
Revenue achieved over the base price less incremental supply chain costs above those set out in the Milk Price model

Reference Products
The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF

Regulated Return
The earnings component of Milk Price generated from a WACC return on an assumed asset base

Season
New Zealand: A period of 12 months to 31 May in each year

Australia: A period of 12 months to 30 June in each year

SMP
Skim Milk Powder

Stream Returns
The gross margin differential between Non-Reference Product streams and the WMP stream (based on base prices)

WACC
Weighted Average Cost of Capital

WMP
Whole Milk Powder

Glossary

Fonterra Strategic Platforms

Ingredients

The Ingredients platform comprises bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia, Europe and Latin America, or sourced through our global network, and sold to food producers and distributors in over 140 countries. It also includes Fonterra Farm Source™ retail stores.

Consumer

The Consumer platform comprises branded consumer products, such as powders, yoghurts, milk, butter, and cheese. Base products are sourced from the ingredients business and manufactured into higher-value consumer dairy products.

Foodservice

The Foodservice platform comprises a range of branded products and solutions for commercial kitchens, including bakery butter, culinary creams, and cheeses.

China Farms

The China Farms platform comprises the farming operations in China, which produce high quality fresh milk for the Chinese market.

