



PERFORMANCE REVIEW

Business Update

MAY 2017

OUR CO-OPERATIVE

OUR POTENTIAL

OUR PERFORMANCE

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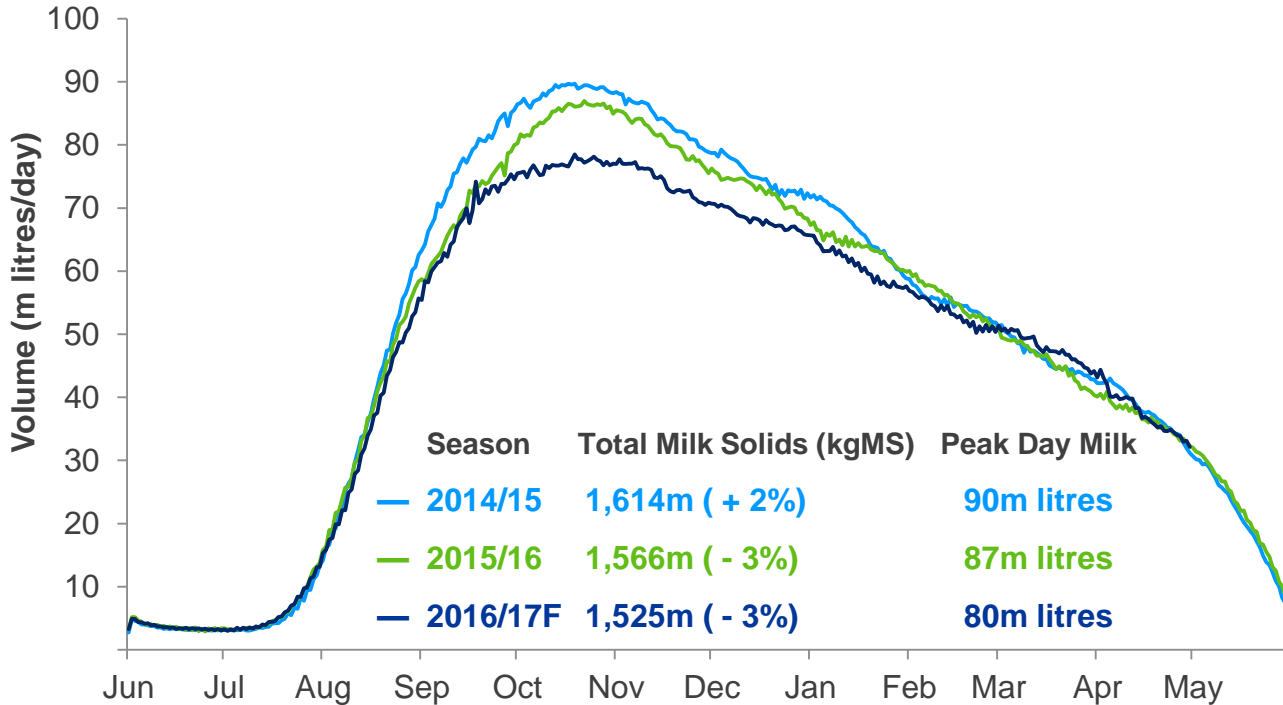
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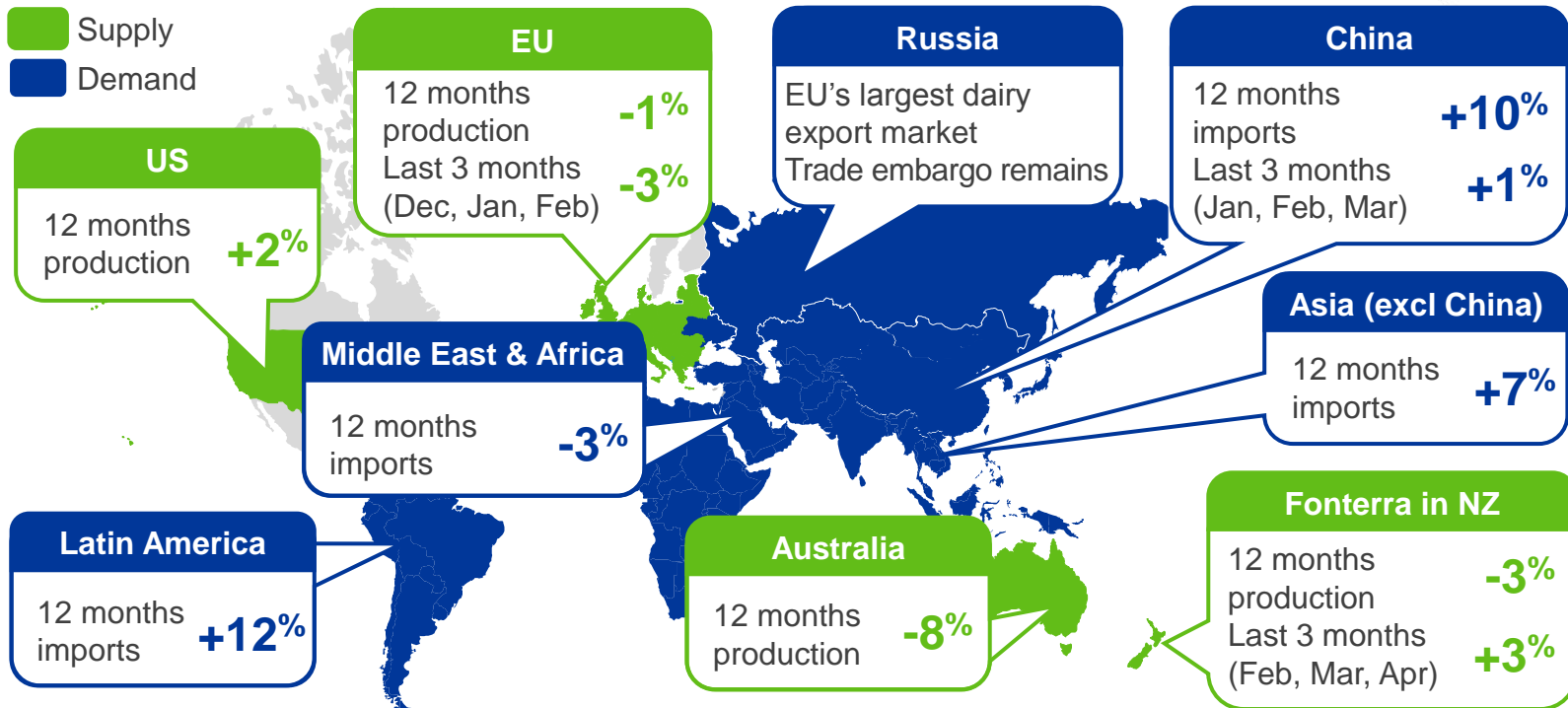
Strong late season milk production

Partly offsetting lower milk volumes during the peak



- Volume down 3% for season to 30 April
 - North Island down 4%
 - South Island flat
- Stronger production in March and April partly offsetting lower peak production
- Season forecast down 3% on last season

Global dairy market – continued rebalancing



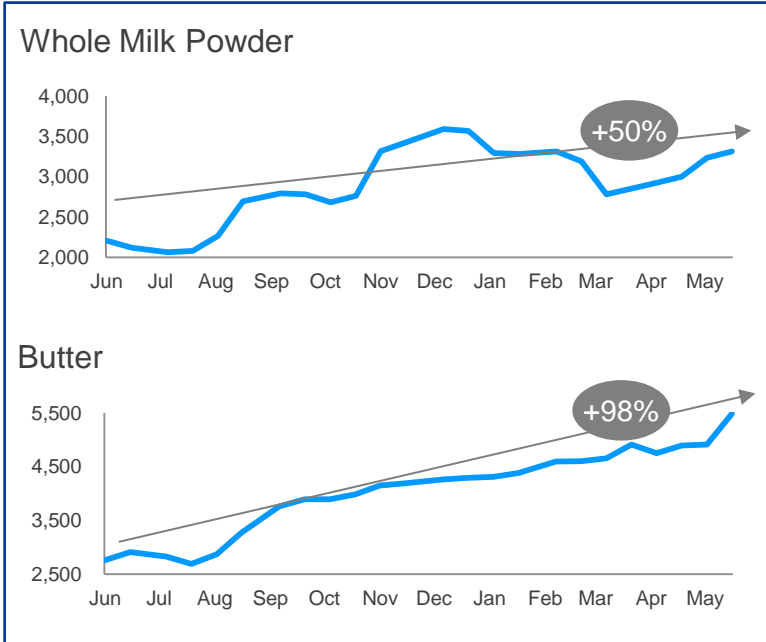
Note: All 12 month figures are rolling 12 months compared to previous comparable period: Australia (Mar), EU (Feb), United States (Apr), China (Mar), Asia (Jan), Middle East & Africa (Jan), Latin America (Jan), New Zealand (Apr)

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

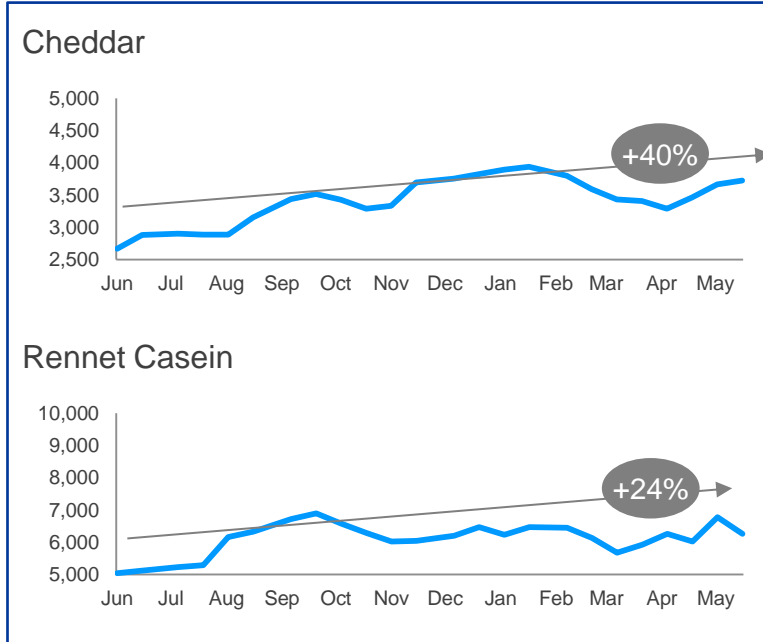
Dairy prices rose strongly over the season

Impacting stream returns in Ingredients

Products informing milk price up significantly



Other products up but to a lower degree



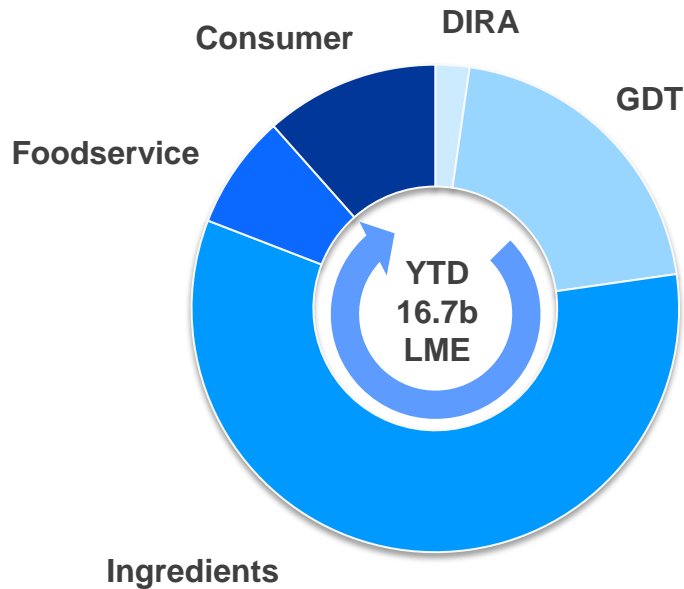
Note: All prices in US dollars per MT

Source: GDT data

Volume to higher Value at Velocity

Late season milk will lead to increased sales in final quarter

- 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



- **Ingredients**
 - Lower opening inventory and collections in first half resulted in 8% lower sales year-to-date
 - Strong milk production in March and April will support higher sales in the last quarter
- **Consumer & Foodservice**
 - 350M additional LME year-to-date

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

FY17 nine-month performance summary



VOLUME (LME)	REVENUE	GROSS MARGIN	OPEX	CAPEX
16.7B	\$13.9B	18%	\$1.8B	\$433M
↓ 6%	↑ 8%	↓ FROM 22%	↓ 4%	↓ 32%

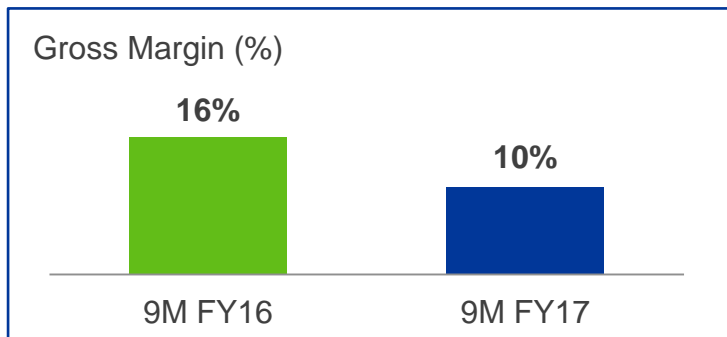
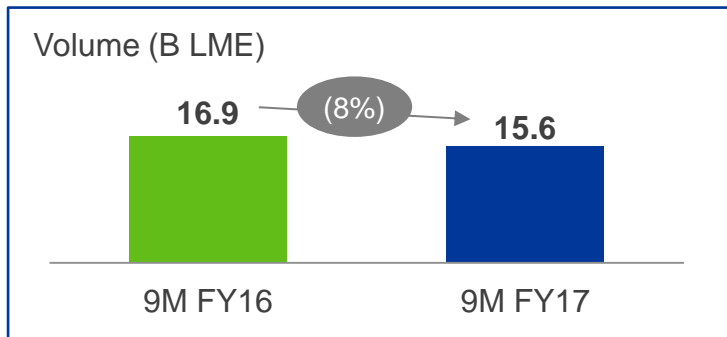
Ingredients		Consumer & Foodservice		China Farms	
Volume	↓ 15.6B DOWN 8%	Volume	↑ 4.0B UP 10%	Volume	↑ 0.2B UP 51%
Gross Margin	↓ 10% FROM 16%	Gross Margin	= 28%	Gross Margin	↑ 1% FROM -15%

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

Ingredients

Lower Q3 volumes, stronger Q4 sales due to late season milk

Nine-month performance



Volume

- Sales volumes down 8% reflecting lower milk collections earlier in the season and lower opening inventory
- Strong milk production in March and April providing more volume to sell in the final quarter

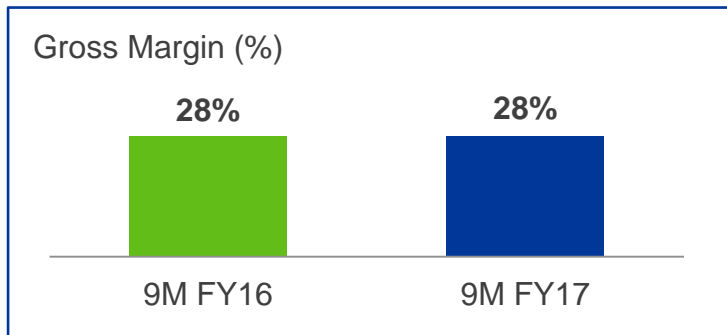
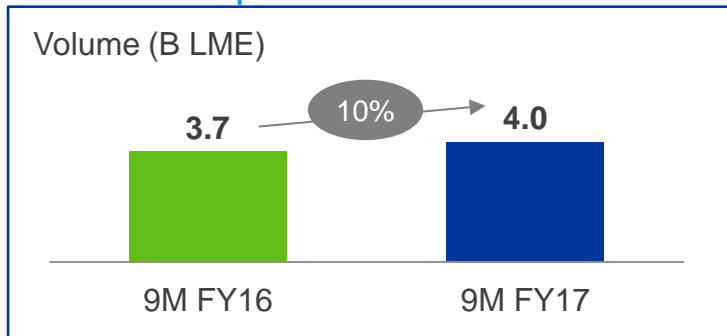
Value

- Increased price achievement and good operating performance
- Increase in reference product prices relative to other products materially lowering stream returns
- Increased manufacturing optionality helping to limit impact

Consumer & Foodservice

Strong margins and volume growth achieved at higher milk price

Nine-month performance



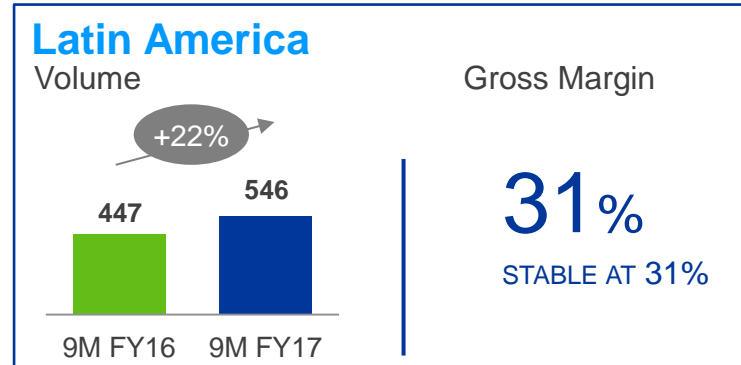
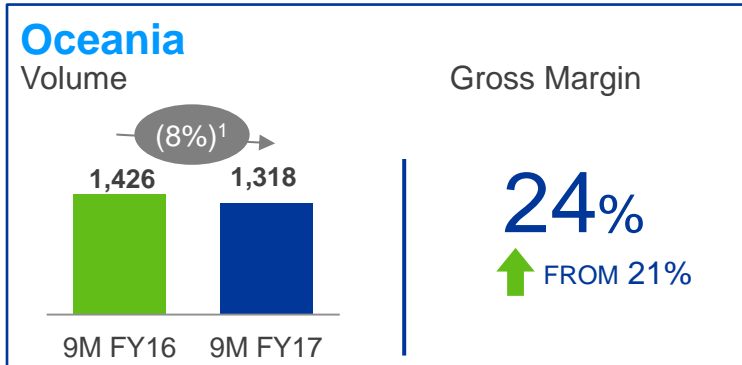
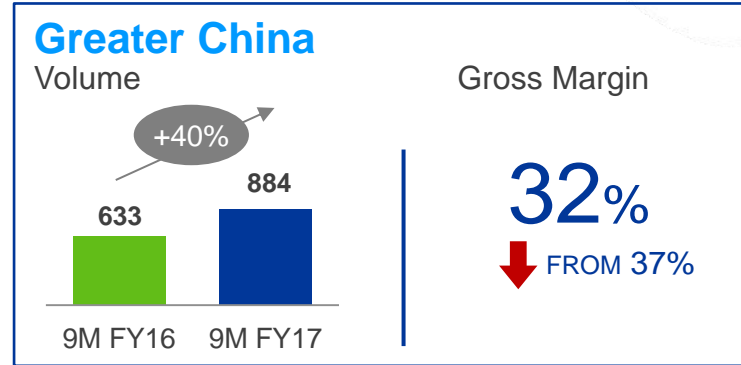
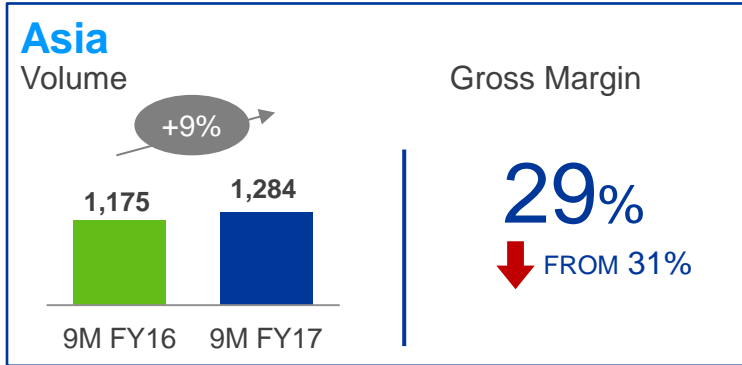
Volume

- Another strong quarter of growth
- Additional 350m LME converted into higher-value products year-to-date
 - Growth lead by Greater China, up 40%
 - Latin America up 22%, lead by Soprole

Value

- Strong gross margin percentage achieved at a higher milk price
- Higher milk costs in the third quarter lowered gross margins to be in line with last year
- Continued strong performance in Australia

Consumer & Foodservice – 350M additional LME



1. Volumes up 1% on like-for-like basis (sale of businesses in Australia and transfer of UHT production in NZ to Ingredients)

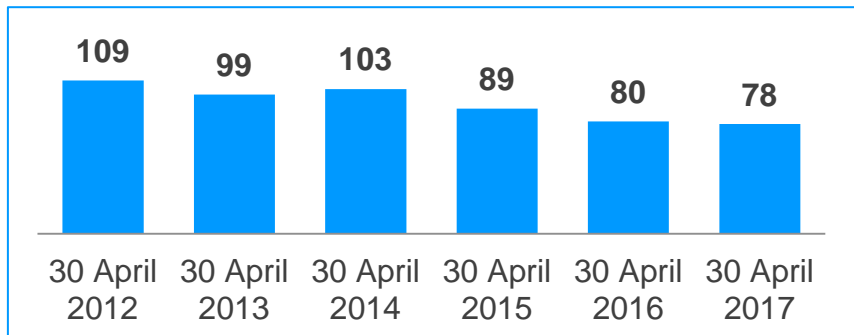
Note: Volume is in million LME; All changes are expressed relative to first nine-months of FY16

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 2017	4.1 years

Reduced working capital days – 9 month average



Financial discipline continued

- Capex of \$433M to 30 April with \$900M projected for the full year
 - Expecting lower capex in FY18 due to reduced investment in capacity and on-going efficiencies in spend
- Continued improvements in working capital
- Forecast FY17 year-end gearing ratio within 40-45% range

Continued momentum in 2017

Forecast for 2016/17



- Improved forecast Farmgate Milk Price of \$6.15 per kgMS
 - GDT prices continued to rise for WMP, AMF and Butter, products that inform the milk price
 - Global demand has remained strong while supply has been slightly constrained
 - Strong opening forecast for 2017/18 season of \$6.50 per kgMS
- Maintaining 45-55 cents per share earnings guidance
 - Strong performance projected across the business in the final quarter, particularly from Ingredients sales
 - Previously highlighted headwinds expected to continue, including lower stream returns in Ingredients and lower gross margins in the Consumer and Foodservice business
- Target dividend maintained at 40 cents per share
 - Supported by our strong balance sheet and continued financial discipline



Appendix

Glossary

Acronyms and Definitions

AMF

Anhydrous Milk Fat.

BMP

Butter Milk Powder.

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.

LME (Liquid Milk Equivalent)

A standard measure of the amount of milk (expressed in litres) allocated to each product based on the amount of fat and protein (“milksolids”) in the product relative to the amount of fat and protein in a standardised raw milk.

kgMS

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

Non-Reference Products

All dairy products, except for Reference, produced by the NZ Ingredients business.

Reference Products

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

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.

WMP

Whole Milk Powder

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.

