Interim Result 2017

22 MARCH 2017
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Our Co-operative
Higher forecast payout for farmers
Improved Farmgate Milk Price and strong earnings performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Farmgate Milk Price</th>
<th>Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6.37</td>
<td>0.27</td>
</tr>
<tr>
<td>2011</td>
<td>7.90</td>
<td>0.30</td>
</tr>
<tr>
<td>2012</td>
<td>6.40</td>
<td>0.32</td>
</tr>
<tr>
<td>2013</td>
<td>6.16</td>
<td>0.32</td>
</tr>
<tr>
<td>2014</td>
<td>8.50</td>
<td>0.10</td>
</tr>
<tr>
<td>2015</td>
<td>4.65</td>
<td>0.25</td>
</tr>
<tr>
<td>2016</td>
<td>4.30</td>
<td>0.40</td>
</tr>
<tr>
<td>2017 forecast</td>
<td>6.40</td>
<td>0.40¹</td>
</tr>
</tbody>
</table>

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

**US**
- 12 months production: +2%
- Last 3 months (Oct, Nov, Dec): -4%

**EU**
- 12 months production: 0%
- EU’s largest dairy export market
- Trade embargo remains

**Russia**
- 12 months imports: +12%
- Last 3 months (Nov, Dec, Jan): -1%

**China**
- 12 months imports: +5%
- Last 3 months (Nov, Dec, Jan)

**Asia (excl China)**
- 12 months imports: +5%

**Middle East & Africa**
- 12 months imports: -4%

**Latin America**
- 12 months imports: +13%

**Australia**
- 12 months production: -7%
- Last 3 months (Dec, Jan, Feb): -3%

**Latin America**
- 12 months production: -7%

**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

Global milk prices (USD / litre)

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

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

• Doing what we said we would do
• Investing in our communities, sustainability and our future
• Fully focused on consistent performance
## Continued strong business performance

<table>
<thead>
<tr>
<th>VOLUME</th>
<th>REVENUE</th>
<th>GROSS MARGIN</th>
<th>OPEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.7B LME</td>
<td>$9.2B</td>
<td>$1,761M</td>
<td>$1,232M</td>
</tr>
<tr>
<td>7%</td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NORMALISED EBIT</th>
<th>NET PROFIT AFTER TAX</th>
<th>INTERIM DIVIDEND</th>
<th>NET DEBT²</th>
</tr>
</thead>
<tbody>
<tr>
<td>$607M</td>
<td>$418M</td>
<td>20 CPS</td>
<td>$6.1B</td>
</tr>
<tr>
<td>9%</td>
<td>2%</td>
<td>Dividend Yield 6.8%¹</td>
<td>11%</td>
</tr>
</tbody>
</table>

### 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)

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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

- 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

1. **Optimise NZ milk**
   - Optimisation & Price Achievement
   - Fonterra story

2. **Build and grow beyond our current consumer positions**
   - Accelerate growth in our 8 strategic and leadership markets
   - Brazil transformation
   - Maximise Beingmate partnership

3. **Deliver on Foodservice potential**
   - China Farms – Downstream Value
   - Australian endgame

4. **Grow our Anlene™ business**
   - Disrupt
   - Velocity / Engagement

5. **Develop leading positions in paed & maternal nutrition**

6. **Selectively invest in milk pools**

7. **Align our business and organisation**

- 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 Anmum 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

- Food production makes up 30% of global greenhouse gas emissions
- Serious land degradation affects 20% of world’s arable land
- A third of food produced is wasted
- Current food productivity growth is 1% per annum – at 2-3% we could help alleviate world poverty
- Dairy is 20% of agricultural land
- Resurgence of nationalism brings uncertainty
- Protectionism threatens global trade
- Volatility in commodity prices to prevail
- Food has a massive global impact:
  - 40% of global employment
  - 10% of global consumer spend
- Dairy contributes $12b to the NZ economy
Building a strong Co-op into the future

1-3 years
V3 Strategy

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 farmers
Our Performance
## Value creation

Strong performance in higher milk price environment

<table>
<thead>
<tr>
<th>NPAT</th>
<th>$418M</th>
<th>2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROSS MARGIN</td>
<td>19.1%</td>
<td>Down from 21.2%</td>
</tr>
<tr>
<td>OPEX</td>
<td>$1,232M</td>
<td>6%</td>
</tr>
<tr>
<td>NORMALISED EBIT</td>
<td>$607M</td>
<td>9%</td>
</tr>
<tr>
<td>NET FINANCE COSTS</td>
<td>$157M</td>
<td>41%</td>
</tr>
</tbody>
</table>
Ingredients
Lower volumes and stream returns impacting overall contribution

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
• 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

Volume (m LME)¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (m LME)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2,484</td>
</tr>
<tr>
<td>2017</td>
<td>2,711</td>
</tr>
</tbody>
</table>

Normalised EBIT ($m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Normalised EBIT ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>241</td>
</tr>
<tr>
<td>2017</td>
<td>313</td>
</tr>
</tbody>
</table>

1. Includes intercompany sales
Consumer and Foodservice
Strong growth in both channels

<table>
<thead>
<tr>
<th></th>
<th>Consumer</th>
<th></th>
<th>Foodservice</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume (m LME)¹</td>
<td></td>
<td>Volume (m LME)¹</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,531</td>
<td>4%</td>
<td>953</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>1,597</td>
<td>4%</td>
<td>1,114</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Gross Margin (%)</td>
<td>29%</td>
<td>31%</td>
<td>28%</td>
<td>27%</td>
</tr>
</tbody>
</table>

¹ Includes intercompany sales
# Consumer and Foodservice

Greater China and Oceania driving profit growth

<table>
<thead>
<tr>
<th>Region</th>
<th>Volume</th>
<th>Normalised EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Volume</td>
<td>783</td>
<td>857</td>
</tr>
<tr>
<td>Normalised EBIT</td>
<td>108</td>
<td>124</td>
</tr>
<tr>
<td><strong>Greater China</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Volume</td>
<td>440</td>
<td>583</td>
</tr>
<tr>
<td>Normalised EBIT</td>
<td>68</td>
<td>96</td>
</tr>
<tr>
<td><strong>Oceania</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Volume</td>
<td>960</td>
<td>912</td>
</tr>
<tr>
<td>Normalised EBIT</td>
<td>33</td>
<td>58</td>
</tr>
<tr>
<td><strong>Latin America</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>Volume</td>
<td>301</td>
<td>358</td>
</tr>
<tr>
<td>Normalised EBIT</td>
<td>32</td>
<td>35</td>
</tr>
</tbody>
</table>

Note: Volume shown is million LME (includes intercompany sales) and normalised EBIT is million NZ $.
Financial discipline
Lower debt further strengthening balance sheet

<table>
<thead>
<tr>
<th>GEARING(^1)</th>
<th>NET DEBT(^2)</th>
<th>WORKING CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>46.6%</td>
<td>$6.1 B</td>
<td>68 DAYS</td>
</tr>
<tr>
<td>Down from 49.2%</td>
<td>↓ 11%</td>
<td>Down 8 days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CAPEX</th>
<th>CREDIT RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>$244 M</td>
<td>A STABLE</td>
</tr>
<tr>
<td>↓ 46%</td>
<td>Fitch</td>
</tr>
<tr>
<td></td>
<td>A- STABLE</td>
</tr>
<tr>
<td></td>
<td>S&amp;P</td>
</tr>
</tbody>
</table>

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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

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

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

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

- Bank Facility 47%
- USD DCM 14%
- NZD DCM 13%
- AUD DCM 9%
- CNY DCM 6%
- EUR DCM 5%
- GBP DCM 6%

**Prudent liquidity**
At 31 January 2017

- Drawn Facilities $1.2b 25%
- Undrawn Facilities $3.7b 75%

**Bank facility maturity profile**
At 31 January 2017 ($ billion)

WATM³: 2.5 years

**DCM maturity profile²**
At 31 January 2017 ($ billion)

WATM³: 6.2 years

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1. Includes undrawn facilities and commercial paper
2. Excluding commercial paper
3. WATM is weighted average term to maturity

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