



Dairy for life

Interim Results 2019

March 2019



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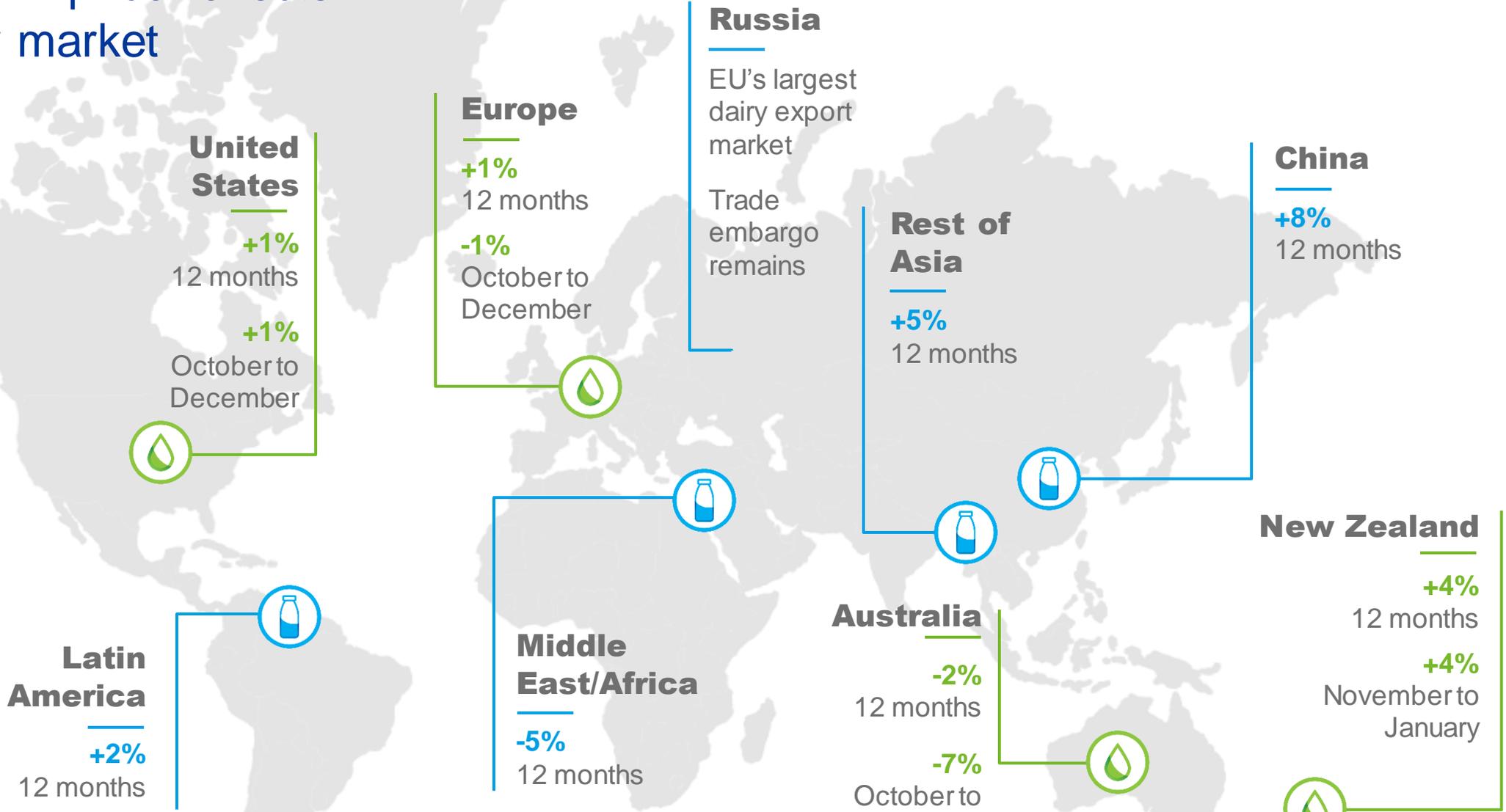
Headlines

- Forecast Farmgate Milk Price range \$6.30-\$6.60 per kgMS but forecast New Zealand collections flat on last year
- Earnings performance reinforces need for fundamental change – full strategy review is well underway
- Good progress made on three point plan
 - Processes well advanced (Beingmate, Tip Top and DFE Pharma) and key to \$800 million year-end debt reduction
 - On track with capex and opex reductions
 - Increased disclosures to deal with forecast volatility
- Full year earnings guidance revised to 15-25 cents per share in February – no interim dividend
 - Ingredients softer second half forecasted
 - Requires substantial second half improvement in Consumer and Foodservice
- Committed to financial discipline – final dividend decision depends on full-year earnings and balance sheet

Improved milk price reflects global dairy market

Global Supply¹

Global Demand²



1. Global Supply is represented by global milk production data.
 2. Global Demand is represented by global dairy import data.

Note: All 12-month figures are rolling 12 months compared to previous comparable period: Australia (Dec), EU (Dec), United States (Dec), China (Dec), Asia (Nov), Middle East & Africa (Nov), Latin America (Nov), New Zealand (Jan).
 Source: Government milk production statistics; GTIS trade data; Fonterra analysis.

Earnings performance not where it needs to be

New Zealand Ingredients' steady performance offset by Australia Ingredients and Consumer and Foodservice

Volume LME	Revenue	Gross Margin ¹	Opex	Normalised EBIT ¹	Normalised NPAT ¹	Reported NPAT	Net Debt
10.7 bn	\$9.7 bn	\$1.5 bn	\$1.2 bn	\$323 m	\$80 m	\$80 m	\$7.4 bn
2%	1%	\$159m	2%	29%	68%	123%	4%

Ingredients

Volume LME²

10.4b 6%

Gross Margin¹

\$791 m \$80m

9.6% from 11.0%

EBIT¹

\$461 m \$97m

Consumer & Foodservice

Volume LME²

2.5b 2%

Gross Margin¹

\$766 m \$55m

22.1% from 23.6%

EBIT¹

\$134 m \$59m

China Farms³

(End to End)

Volume LME²

113m 15%

Gross Margin¹

\$(10)m \$6m

(7.8)% from (13.0)%

EBIT¹

\$(21)m no change

1. There were no normalisation adjustments for the six months ended 31 January 2019.

2. Includes inter-segment sales.

3. Provides end-to-end perspective, comprising China Farm segment plus financials from Ingredients and Consumer and Foodservice related to China Farms.

Note: All changes are expressed relative to the first half of FY18.

Good progress with three-point plan

Take stock, getting the basics right, more accurate forecasting

Take Stock

- Reduce debt by \$800 million

- Gearing within 40-45% range by year-end

- In discussion with interested parties for Tip Top and DFE Pharma, and actively considering options for our shareholding in Beingmate

- Improved net cashflows but higher half year gearing reflects milk curve and higher opening debt levels

- Full-year gearing target requires asset divestments

Getting the basics right

- Reduce capex to \$650 million in FY19

- Reduce opex back to FY17 levels over the next two years

- On track for the full-year

- Down at half year following good progress in second quarter

More accurate forecasting

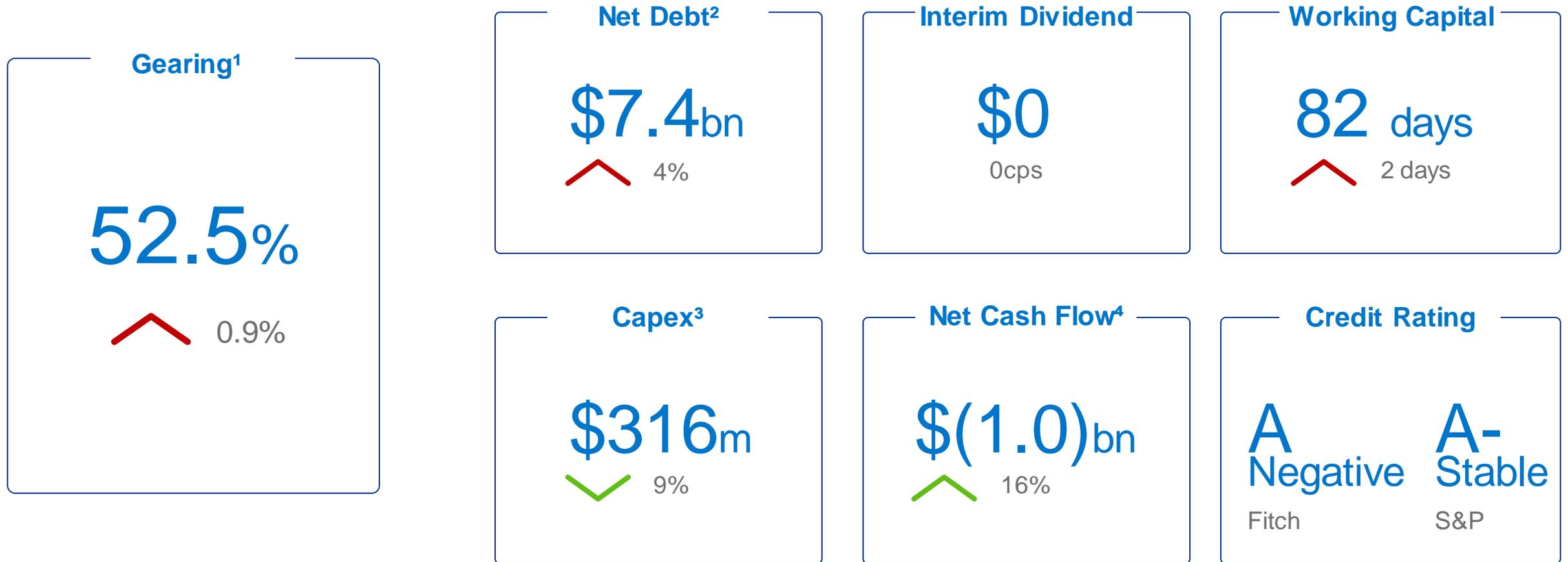
- Improved disclosures to deal with forecast volatility

- Introduced milk price range

- No surprises policy

Higher debt at half year reflects milk curve

Better financial discipline but higher net debt due to higher opening debt level



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 reflects total borrowings less cash and cash equivalents and non-current interest-bearing advances adjusted for derivatives used to manage changes in hedged risks.

3. Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.

4. Net Cash Flow is calculated as Free Cash Flow less amounts paid for interest and dividends in the same period.

Full-year earnings guidance reduced in February

Challenges at Q1 continue and margins on non-reference products have reduced

Forecast EPS¹

15-25
cents

Forecast 2019 Farmgate Milk Price

\$6.30 - \$6.60
kgMS

Forecast 2019 Milk Collections

1,510
million kgMS

INGREDIENTS

Forecast Gross Margin

8% - 10%

Forecast EBIT

\$750 - \$850 million

CONSUMER AND FOODSERVICE

Forecast Gross Margin

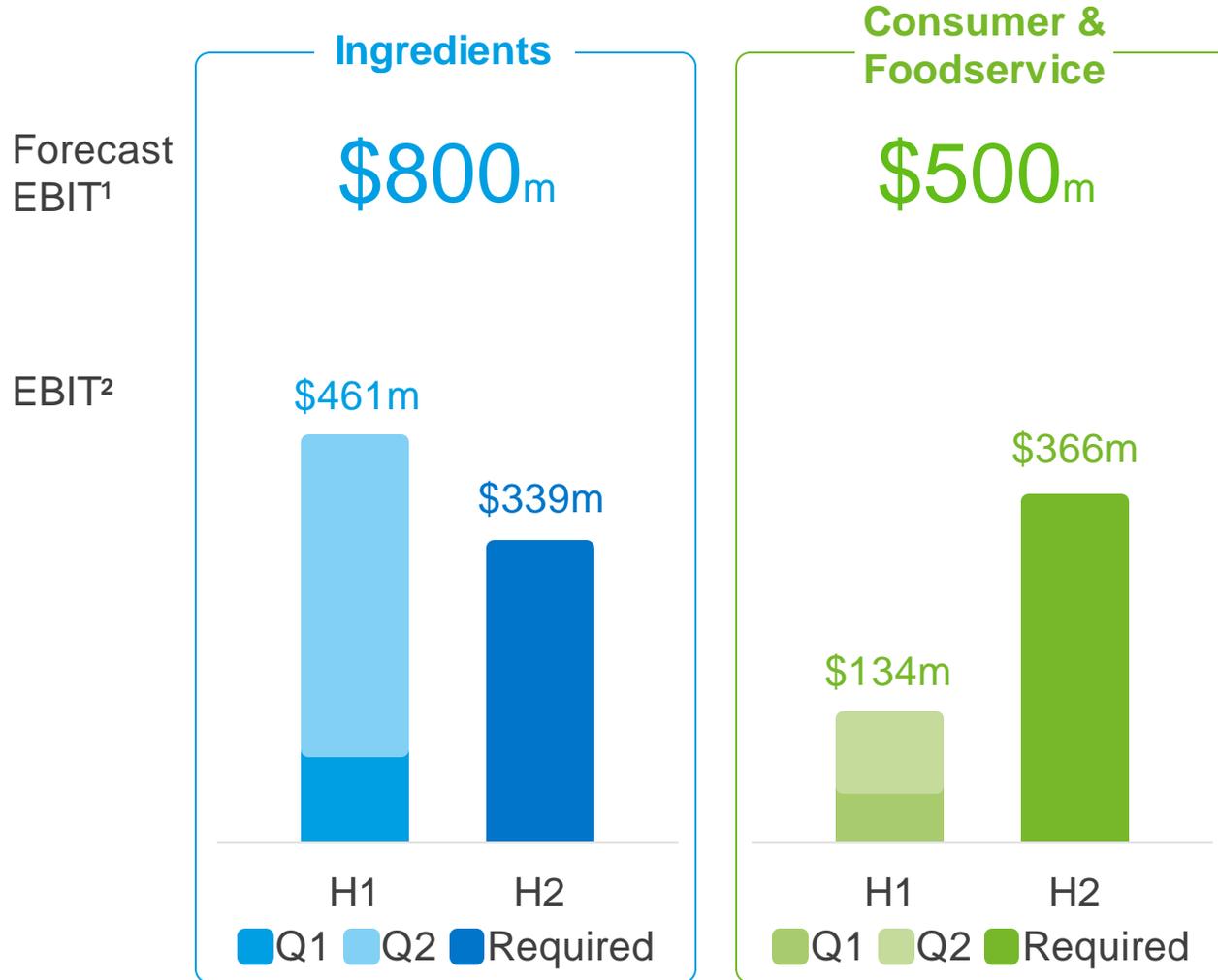
23% - 26%

Forecast EBIT

\$475 - \$525 million

1. Earnings per share.

What we need to do in the second half to achieve the midpoint of earnings guidance



Ingredients

- \$339 million second half EBIT:
 - Sell similar volumes to first half
 - Achieve gross margin of at least 8%
- Risks:
 - Tighter New Zealand milk supply impacting operational efficiency and product mix
 - Increased Milk Price further reducing non-reference gross margin

Consumer and Foodservice

- \$366 million second half EBIT:
 - \$34 million more than second half FY18
 - Sell 2.8 billion LME, up 13% on first half
 - Increase gross margin to at least 26%
- Risks:
 - Ongoing margin pressure in key markets
 - Lower sales volumes

1. Midpoint of the forecast EBIT range that supports the EPS guidance of 15-25 cps.

2. H1 represents actual reported EBIT in the first half and H2 is the amount required in the second half to achieve the midpoint of the full year earnings guidance.

Full strategy review well underway to fundamentally reset the Co-op

Looking at all aspects of our business

Strategic review – emerging themes

- A globally competitive New Zealand dairy co-op
- Sustainability at the heart of everything we do
- Value rather than volume
- Prioritise our New Zealand milk supply and earn a premium from our heritage and provenance
- Simplify our global portfolio to focus on where we have competitive advantages
- Increase focus on return on capital

Timeline



Strategy Review kicked-off in January



Progress updates (Interim Results, MyConnect conference in May and Q3 business update)



Full strategy announced at 2019 Annual Results



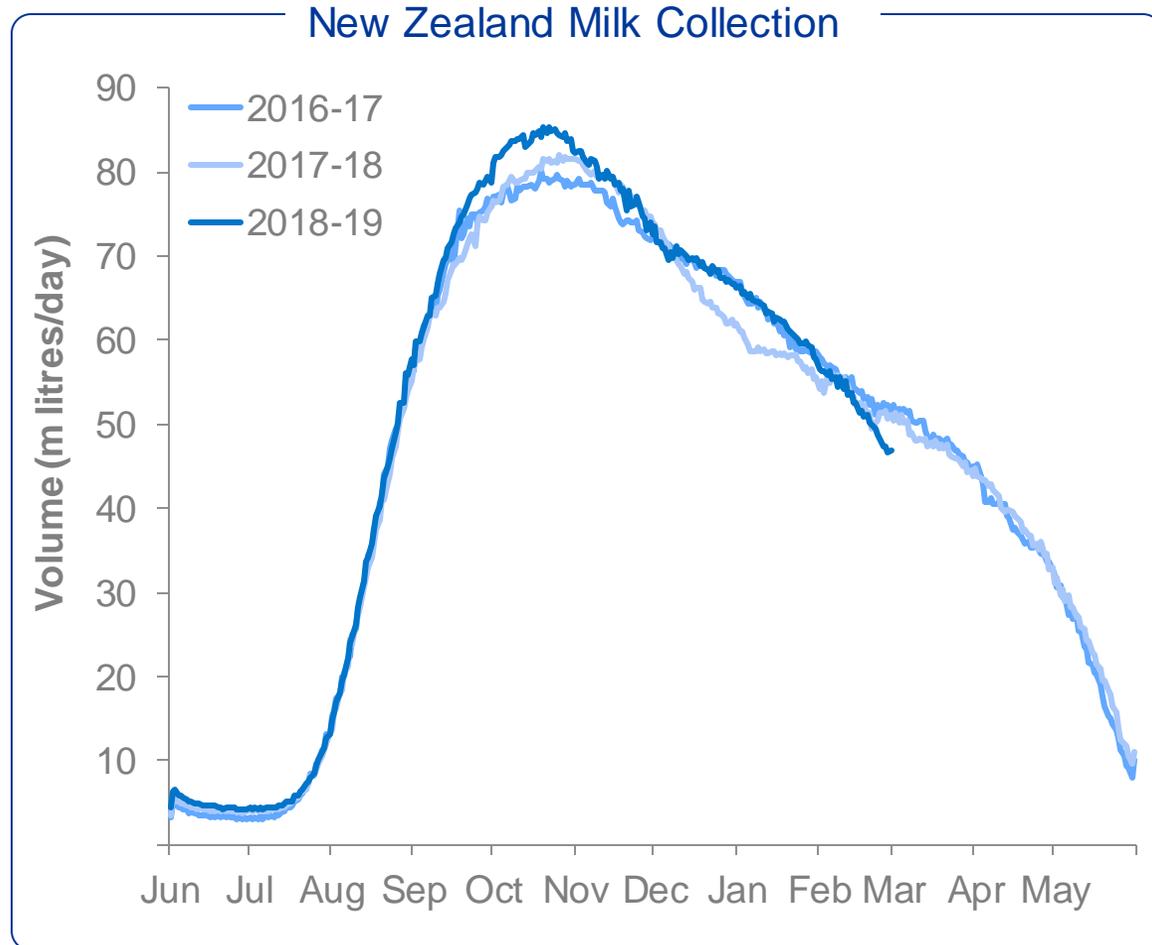
Dairy for life

APPENDIX



Milk collections forecast for season recently reduced

Strong start to the season, collections impacted by on-farm conditions



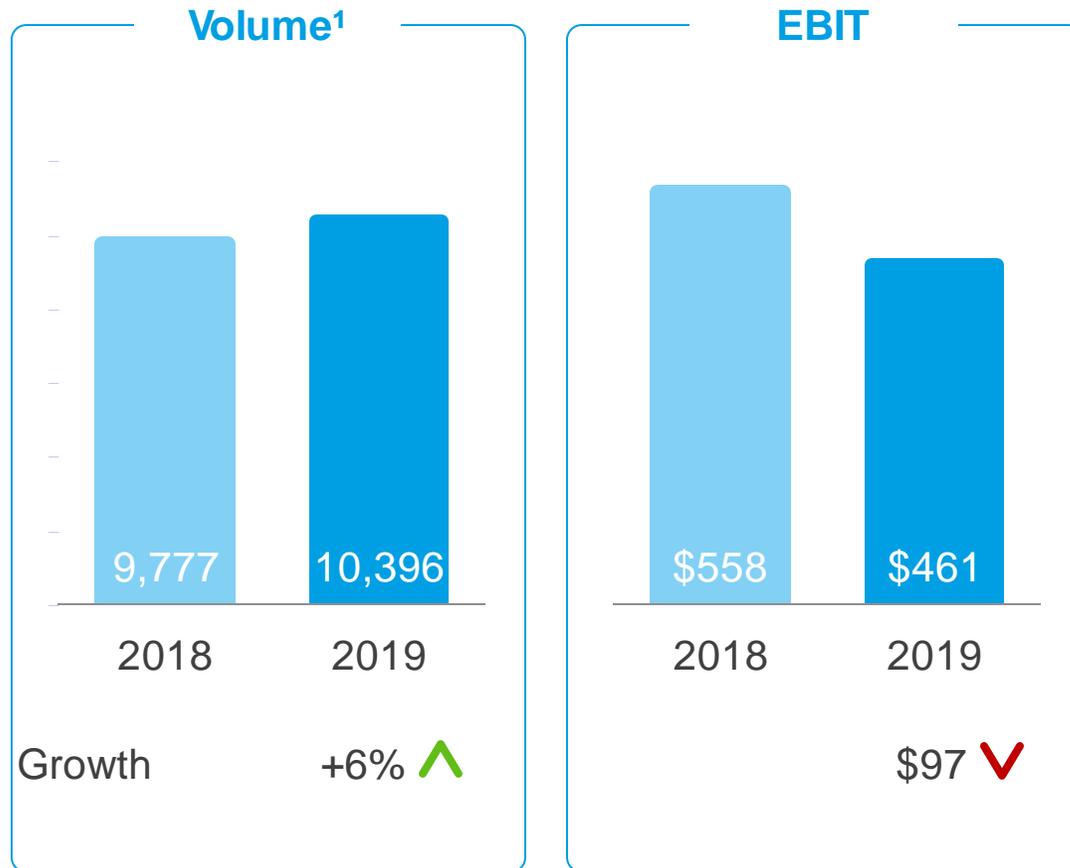
- New Zealand milk collections forecast is 1,510 million kgMS
 - 1% reduction from previous forecast due to ongoing dry weather in New Zealand, particularly North Island
 - Slightly above last season's 1,505 million kgMS, a season also impacted by poor on-farm conditions
- On-farm conditions will continue to be an important factor for milk supply in the remainder of the season

Season	Total Milk Solids (kgMS)	Peak Day Milk
2016/17	1,526m (down 3%)	80m litres
2017/18	1,505m (down 1%)	82m litres
2018/19F	1,510m (up 0.3%)	85m litres



Ingredients

Steady New Zealand performance, challenging environment in offshore milk pools



Performance

- New Zealand Ingredients steady performance
 - Sales volume and inventory up reflecting higher milk collection
 - Overall solid margins but non-reference margins down slightly on last year
- Challenging environment in Australia
 - Lower milk collections due to severe drought and aggressive price competition
 - Integration of the full costs of Darnum following taking back full ownership
 - Under utilisation of asset base due to lower collections
- Prolesur
 - Lower milk collections due to price competition

1. Includes sales to other strategic platforms.

Note: Volume is in million LME. EBIT is in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.



New Zealand Ingredients product mix

	2018		2019	
	\$ million	\$ per MT	\$ million	\$ per MT
Sales Volume (000 MT)¹				
Reference	900	–	924	–
Non-Reference	277	–	354	–
Revenue¹				
Reference	4,305	4,783	4,304	4,658
Non-Reference	1,586	5,726	1,874	5,294
Cost of Milk				
Reference	3,316	3,684	3,231	3,495
Non-Reference	830	2,995	1,052	2,973
Gross Margin (\$)				
Reference	372	413	345	373
Non-Reference	362	1,309	324	915

- Increased volume
 - Reference products due to higher first half milk collections
 - Non-reference due to including intercompany Foodservice sales²
- Margin relativities between non-reference and reference products, while favourable, are lower than last year due to sales pricing, product mix and costs
- Gross margins impacted by higher conversion costs associated with commissioning of new plants

1. Excludes bulk liquid milk. Bulk liquid milk for the six months to 31 January 2019 was 34,000 MT (six months ended 31 January 2018: 34,000 MT).

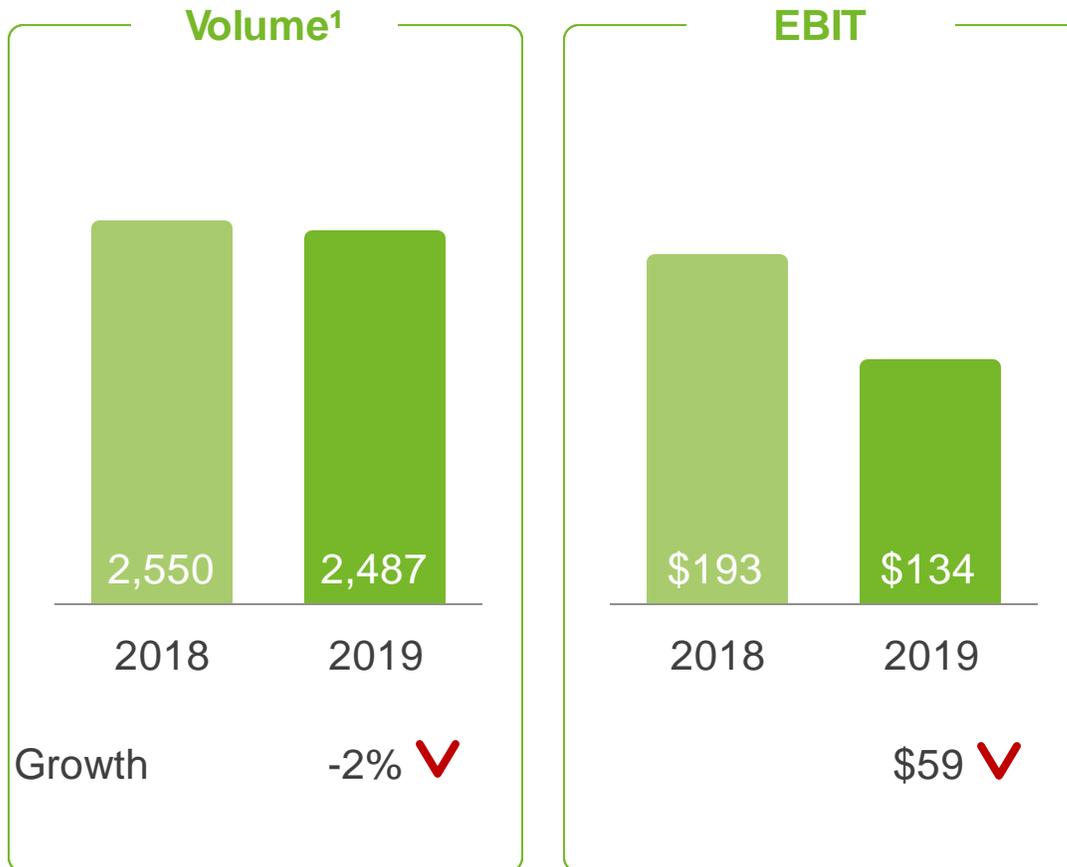
2. The way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice was revised in FY19. This increased sales volumes for the six months ended 31 January 2019 by 4,000 MT and 79,000 MT on reference and non-reference products respectively, and increased sales revenue by \$34 million and \$360 million on reference and non-reference products respectively. This change had no impact to the reported gross margin for the Ingredients business.

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 515 million kgMS in reference and 178 million kgMS non-reference (previous comparable period 547 million kgMS reference and 190 million non-reference).



Consumer and Foodservice

Tighter margins in Consumer and lower volumes and margins in Foodservice



Performance

- Improved sales volume in Q2 but down for the half year due to strong sales at end of last year
- Localised challenges in Greater China, Chile and Sri Lanka resulted in a decline in normalised EBIT
 - Lower sales volume and margin in Greater China Foodservice
 - Lower margins in Soprole
- Oceania normalised EBIT up 110% to \$32 million
 - Growth in Australia Consumer and Foodservice
 - New Zealand flat on comparable period
- Overall operating costs down despite additional costs of bringing Annum in-house

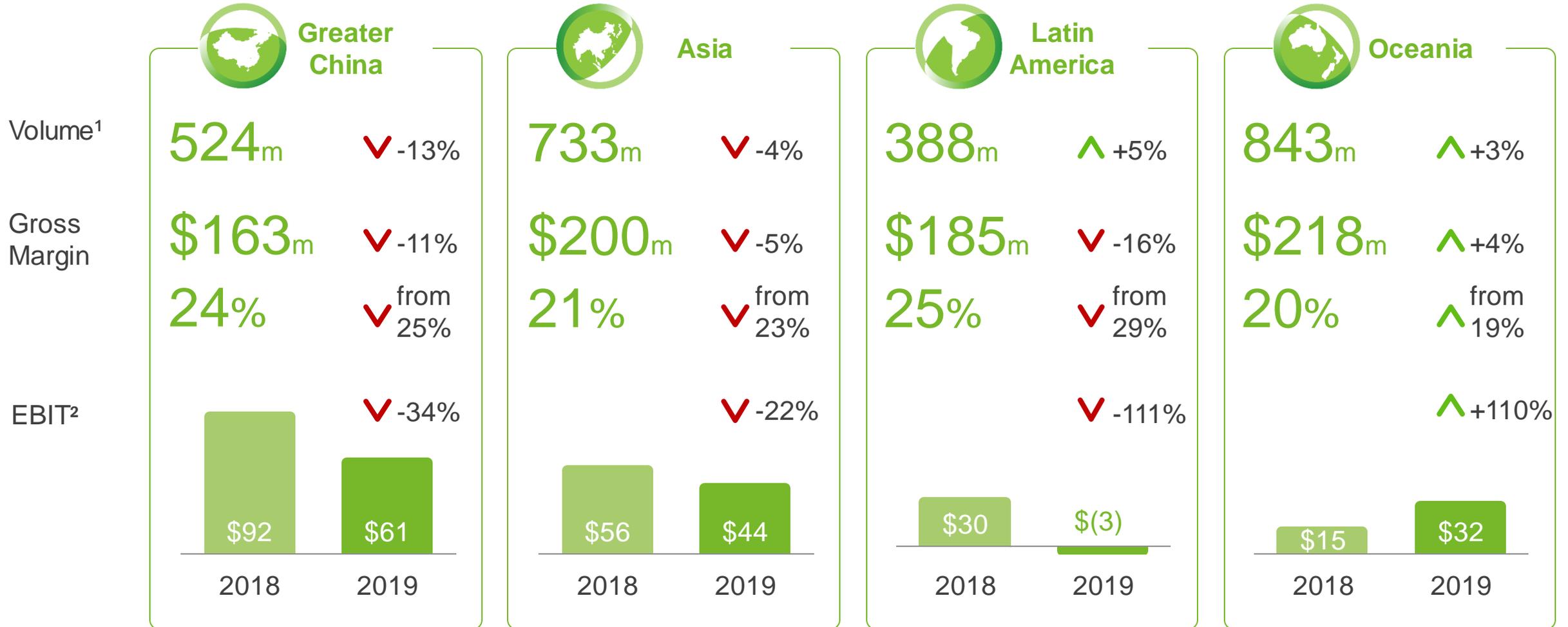
1. Includes sales to other strategic platforms.

Note: Volume is in million LME. EBIT is in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.



Consumer and Foodservice by region

Challenges in China Foodservice and Latin America Consumer outweigh growth in Australia



1. Includes sales to other strategic platforms.

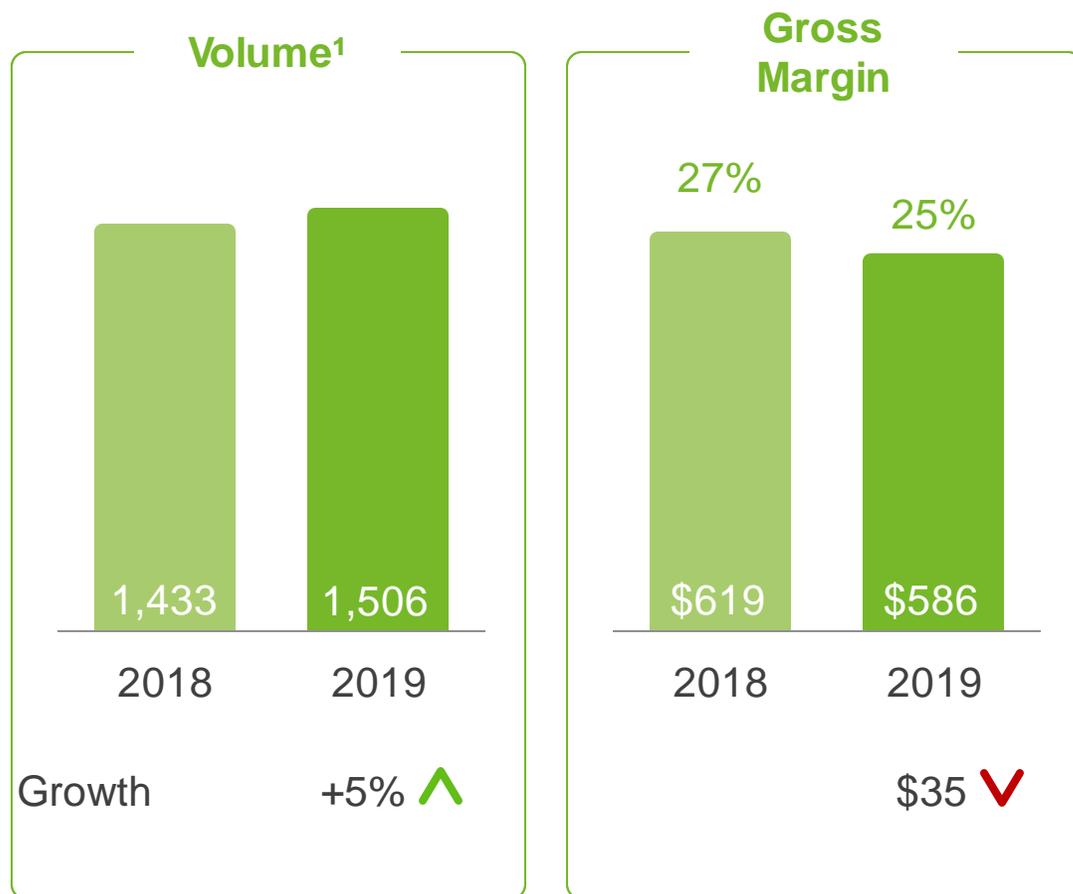
2. Percentages as shown in tables may not align to the calculation of percentages based on numbers in the tables due to rounding of reported figures.

Note: Volume is in million LME. EBIT and gross margin are in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.



Consumer

Growth in Australia and Malaysia but challenges in Latin America



Performance

- Volume growth up in all regions, particularly in
 - Australia (liquid milk and spreads)
 - Malaysia (Fernleaf powders)which has flowed through to positive gross margins in these markets
- Decline in Latin America impacted gross margin
 - Soprole: strong competition from aggressive 'buy local' campaign
 - DPA Brazil: reduced gross margin due to lower pricing driven by competition in yoghurt category
- Asia gross margin slightly down due to inability to recover increasing commodity costs in Sri Lanka

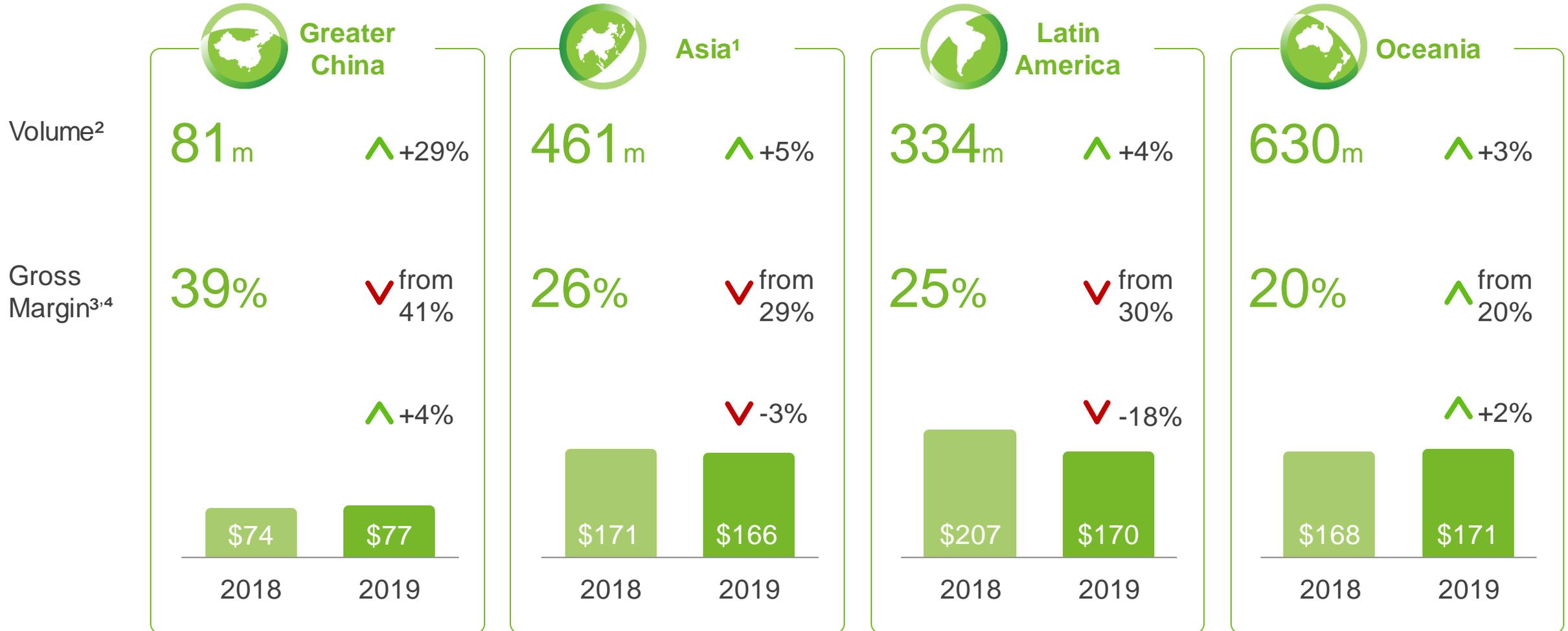
1. Includes sales to other strategic platforms.

Note: Volume is in million LME. Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.



Consumer

Steady performance across the regions except Latin America



1. FY18 LME volume has been adjusted for the inclusion of eliminating entries to improve comparability.
 2. Includes sales to other strategic platforms.
 3. Sum of individual numbers from the regional and divisional breakdown may

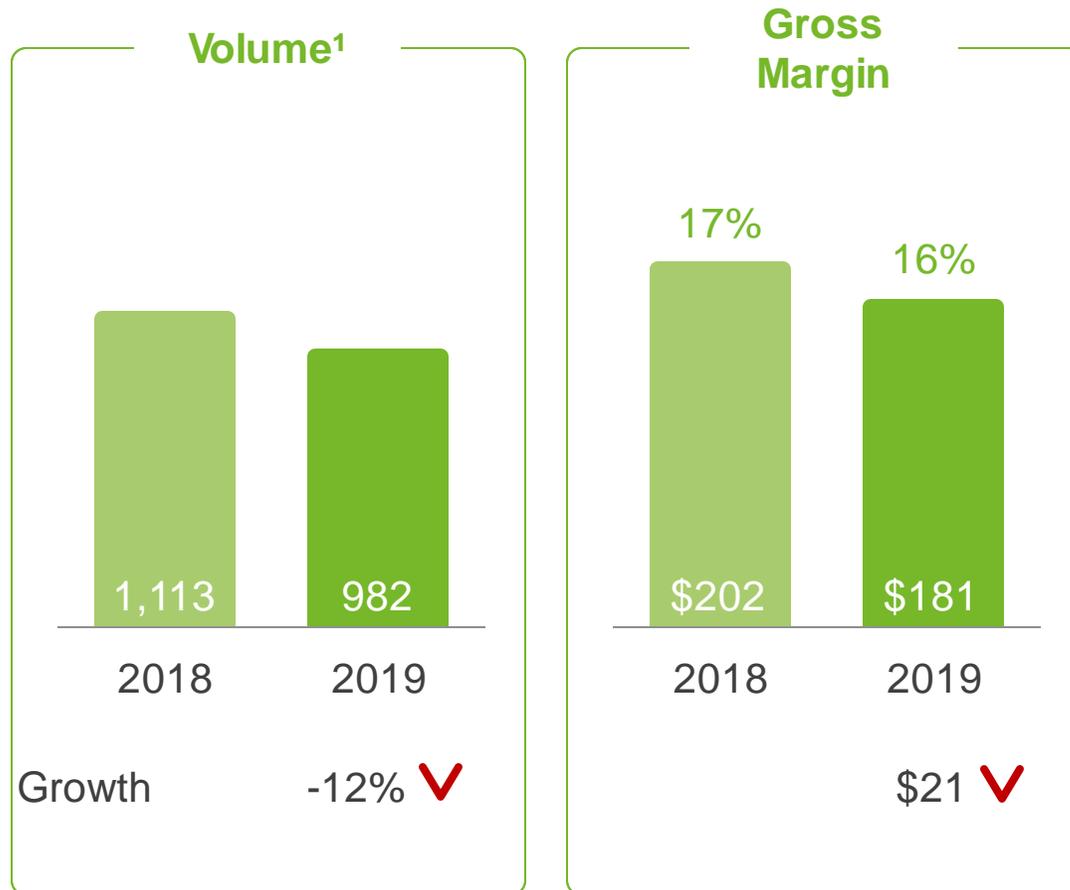
not add to the totals in each category due to rounding.
 4. Percentages as shown in tables may not align to the calculation of percentages based on numbers in the tables due to rounding of reported figures.

Note: Volume is in million LME. Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.



Foodservice

Challenges in Greater China and Asia impact on Foodservice performance



Performance

- Volume down due to Greater China and parts of Asia
 - Impacted by challenges in butter category
 - Both displayed improved Q2 sales on Q1
- Strong sales in UHT cream and beverage milk in Greater China
- Greater China gross margin down 21% due to challenges in the butter category but now starting to improve
- Asia gross margin down 13%. Due to product mix and absorbing higher input costs to maintain market share in Vietnam and Thailand
- Oceania gross margin up 14%, driven by tight supply in Australian cheese and butter markets

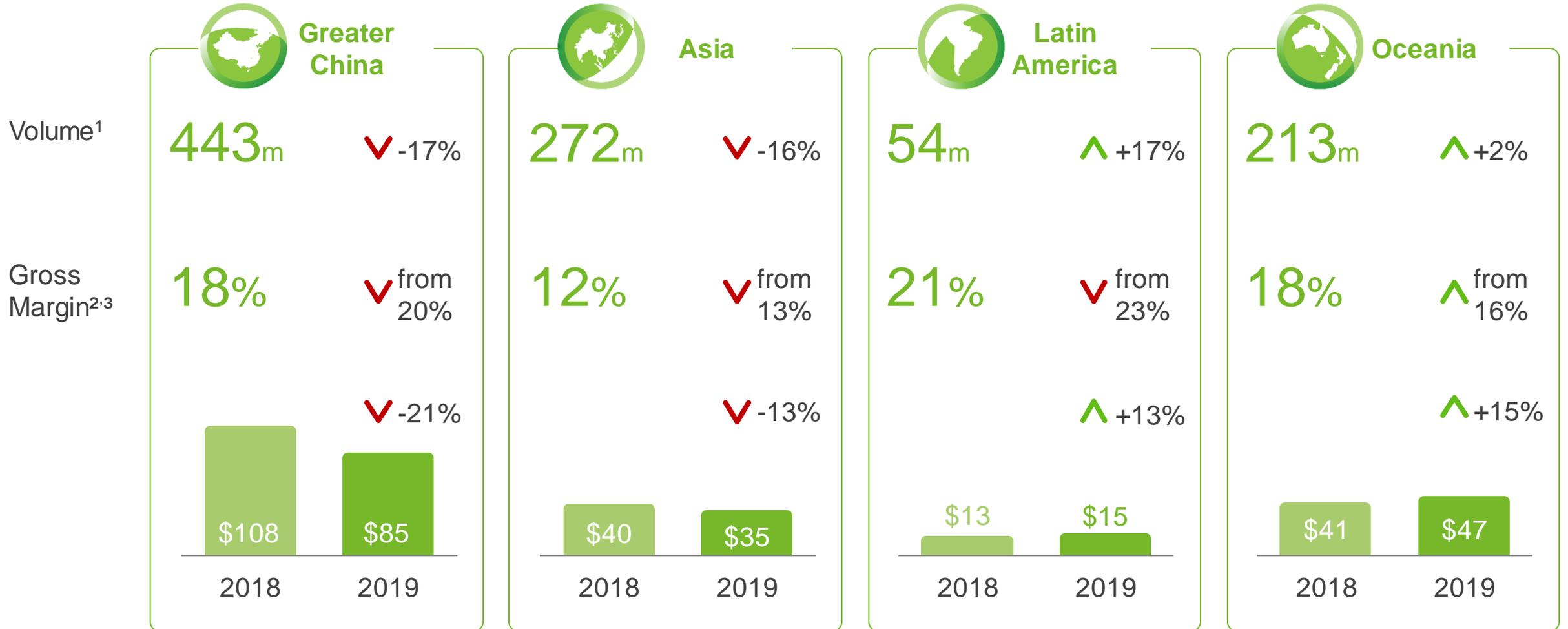
1. Includes sales to other strategic platforms.

Note: Volume is in million LME. Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.



Foodservice

Greater China volumes and margin down due to challenges in butter category



1. Includes sales to other strategic platforms.

2. Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

3. Percentages as shown in tables may not align to the calculation of percentages based on numbers in the tables due to rounding of reported figures.

Note: Volume is in million LME. Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.

Operating expenses

Improved operating expenses despite bringing Annum in-house from Beingmate

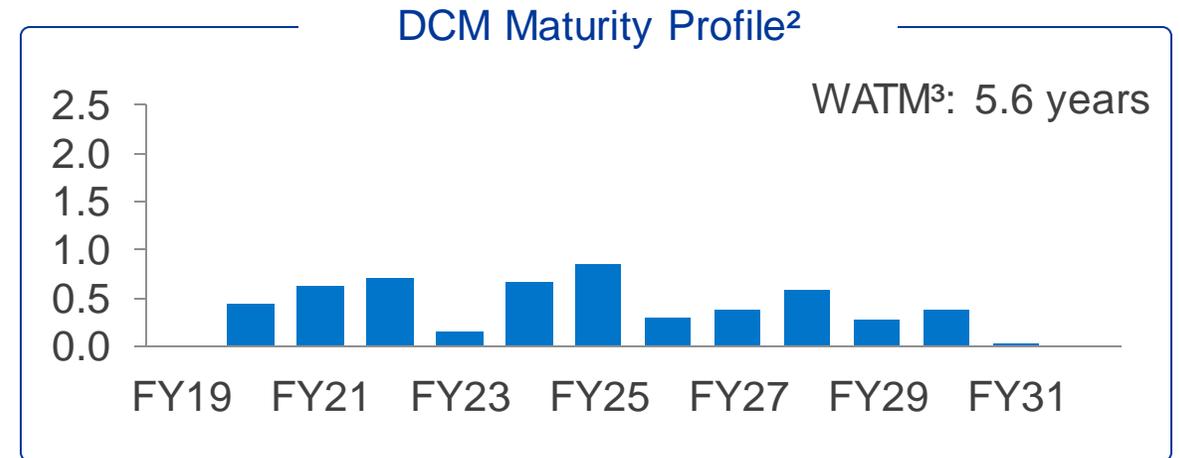
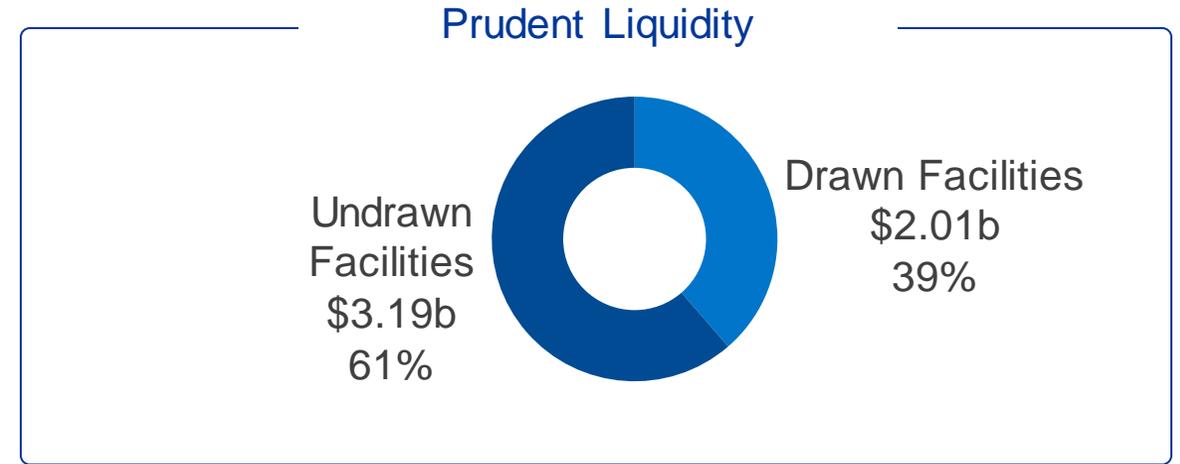
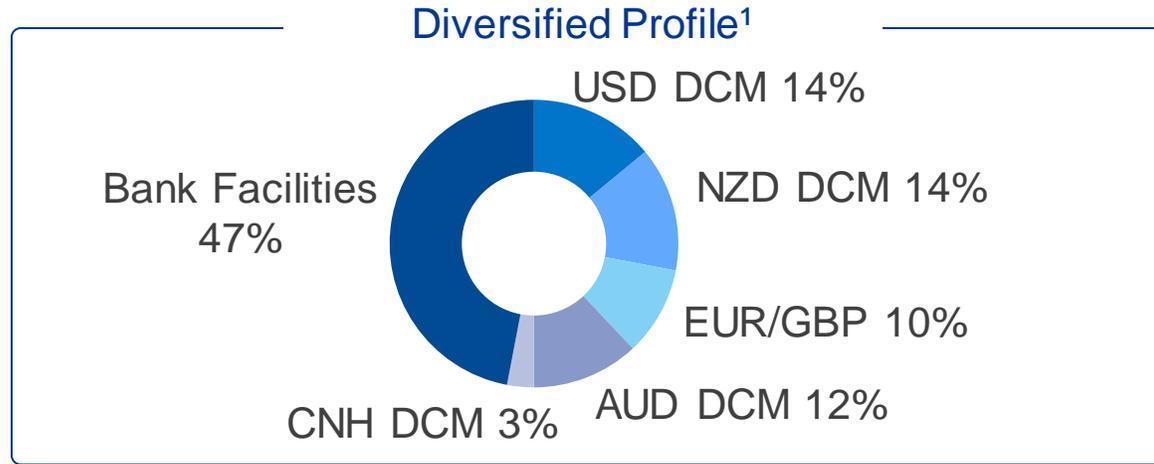
\$ million as at 31 January		2017	2018	2019
Ingredients	Selling and marketing	56	64	62
	Distribution	116	116	119
	Administrative expenses	161	175	168
	Research and development	1	2	3
	Other expenses	33	34	35
	Total	367	391	387
Consumer and Foodservice	Selling and marketing	258	264	256
	Distribution	166	162	171
	Administrative expenses	127	123	130
	Research and development	5	6	6
	Other expenses	82	85	76
	Total	638	640	639
China Farms		20	14	12
Other¹	Operating and administration	179	184	165
	Research and development	28	34	29
	Total	207	218	194
Total Normalised Operating Expenses		1,232	1,263	1,232

- Distribution and administration up in Consumer and Foodservice due to taking Annum back in-house
- Selling and marketing reduced across all parts of the business
 - Corporate branding advertising not repeated in FY19
 - Reduction across Ingredients and Consumer and Foodservice as part of realignment to FY17 levels
- On track to provide breakdown of Group allocations for full year results

1. Other includes Eliminations: Administrative Expenses, Operating Expenses and Research and Development.

Diversified and prudent funding position

Strong liquidity and access to funds



1. Includes undrawn facilities and commercial paper.

2. Excluding commercial paper.

3. WATM is weighted average term to maturity.

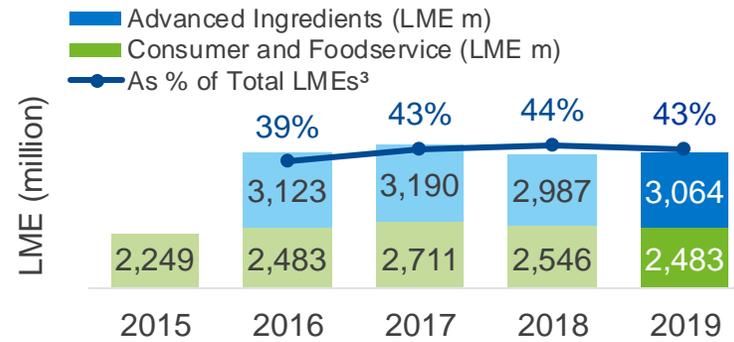
Note: NZD billion, as at 31 January 2019.

Key financial metrics for half year

Sales Volumes¹



Volume to Higher Value²



Reported Revenue



Gross Margin⁴



Operating Expenses⁴



Normalised EBIT⁴



1. Does not add to total due to inter-group eliminations.
 2. Represents total volumes in the period rather than cumulative changes. It is not meaningful to report on a cumulative change half year to half year basis.

3. Comprises Advanced Ingredients and Consumer and Foodservice products.
 4. There were no normalisation adjustments for the six months ended 31 January 2019.

Note: All periods are for the first half of the financial year ended 31 January.

Key financial metrics for half year

Normalised NPAT^{1,2}



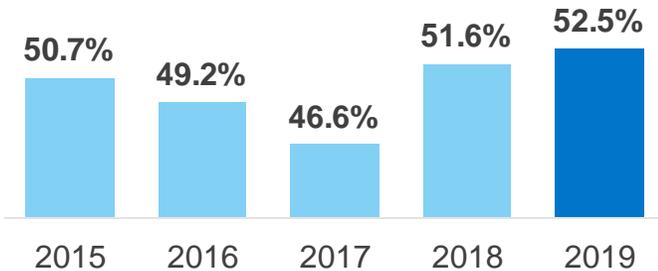
Reported NPAT^{1,2}



Capital Expenditure³



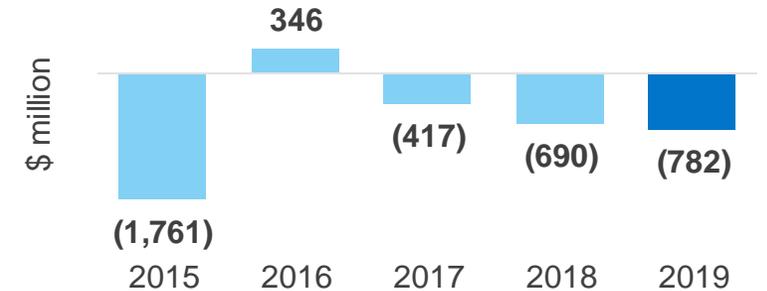
Gearing



Working Capital Days



Free Cash Flow



1. There were no normalisation adjustments for the six months ended 31 January 2019.

2. Includes non-controlling interests.

3. Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.

Note: All periods are for the first half of the financial year ended 31 January.

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

Global Dairy Trade, 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.