



Dairy for life

Fonterra Annual Results 2019

26 September 2019



Important Information



Disclaimer

This presentation may contain forward-looking statements and projections. There can be no certainty of outcome in relation to the matters to which the forward-looking statements and projections relate. These forward-looking statements and projections involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements and projections. Those risks, uncertainties, assumptions and other important factors are not all within the control of Fonterra Co-operative Group Limited (Fonterra) and its subsidiaries (the Fonterra Group) and cannot be predicted by the Fonterra Group.

While all reasonable care has been taken in the preparation of this presentation, none of Fonterra or any of its respective subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (Relevant Persons) makes any representation, assurance or guarantee as to the accuracy or completeness of any information in this presentation or likelihood of fulfilment of any forward-looking statement or projection or any outcomes expressed or implied in any forward-looking statement or projection. The forward-looking statements and projections in this report reflect views held only at the date of this presentation.

Statements about past performance are not necessarily indicative of future performance.

Except as required by applicable law or any applicable Listing Rules, the Relevant Persons disclaim any obligation or undertaking to update any information in this presentation.

This presentation does not constitute investment advice, or an inducement, recommendation or offer to buy or sell any securities in Fonterra or the Fonterra Shareholders' Fund.

Summary

FARMGATE
MILK PRICE

\$6.35
per kgMS

From \$6.69

FREE CASH
FLOW¹

\$1,095
million

From \$600m

NET LOSS
AFTER TAX²

\$605
million

From \$196m

RETURN
ON CAPITAL³

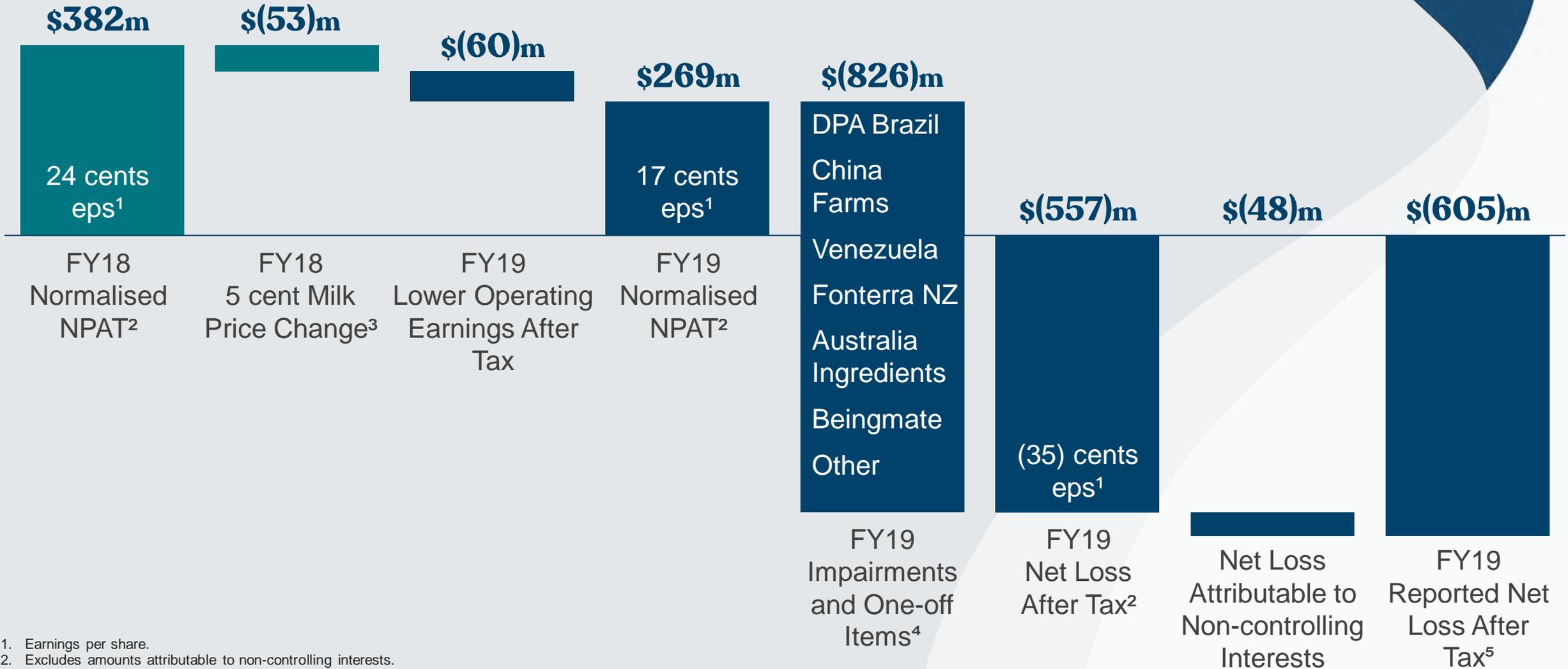
5.8
per cent

From 6.3%

- Significant one-off adverse items resulting in a net loss of \$605 million
- Continued progress with business reset and implementation of new strategy
- New Zealand Ingredients solid but challenges in Australia and Latin America
- Growth in Foodservice gross margin but offset by challenges in some consumer markets
- Financial discipline resulted in lower operating expenditure, reduced capital expenditure, improved cash flow and lower debt
- \$6.35 Farmgate Milk Price and small increase in milk collections

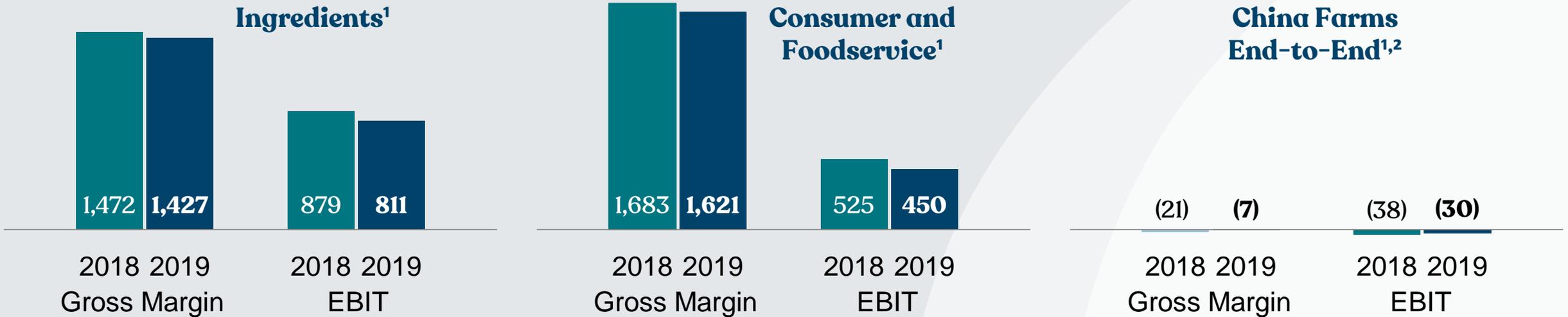
1. Free Cash Flow (FCF) is net cash flows from operating activities less cash flows from investing activities, and includes proceeds received from divestments. FCF represents the amount available to pay interest, dividends and reduce debt.
2. Includes amounts attributable to non-controlling interests.
3. Based on normalised earnings, and capital employed includes brands, goodwill, and equity accounted investments.

Net profit after tax reconciliation



1. Earnings per share.
 2. Excludes amounts attributable to non-controlling interests.
 3. \$53 million is the after tax amount of the \$74 million impact from the change in Farmgate Milk Price in FY18.
 4. Total accounting impact of the strategy review is \$829 million losses recorded in EBIT, plus \$56 million of additional tax expense, less \$59 million relating to the non-controlling interest in Fonterra's DPA Brazil joint venture. Therefore, the after tax amount attributable to equity holders is \$(826) million.
 5. Includes amounts attributable to non-controlling interests.

Disappointing earnings performance



1. Normalised basis and does not add to total group due to including inter-segment sales.

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

Key drivers of FY19 business performance

Progress

Capital expenditure.....	down \$261m to \$600m
Operating expenditure.....	down \$185m to \$2,311m
New Zealand Ingredients.....	gross margin up \$35m to \$1,332m
Greater China Foodservice.....	gross margin up \$17m to \$203m
Asia Foodservice.....	gross margin up \$14m to \$93m

Disappointing

Australia Ingredients.....	gross margin down \$67m to \$10m
Latin America Consumer.....	gross margin down \$62m to \$367m
Asia Consumer.....	gross margin down \$18m to \$359m
Prolesur, Chile.....	gross margin down \$13m to \$(4)m

Progress on the three-point plan

Take stock

Reduce debt by \$800 million



Gearing within 40-45% range by year-end

48.2%²
Down 0.2%

Get the basics right

Reduce capex by \$200 million



\$160 million decrease in operating expense by FY20



More accurate forecasting

- Work in progress
- Providing timely and realistic updates
- Providing additional information for greater transparency
- Increased use of digital analysis

1. The announced divestments of our interest in foodspring™ and DFE Pharma will result in sale proceeds of \$0.6 billion in FY20.
 2. Gearing ratio is economic net interest-bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.
 3. Includes the impact of not paying performance bonuses in relation to FY19.

Committed to strengthening our balance sheet



Key drivers

- Lower capex
- Divestment of Tip Top
- No dividend

Offset by

- Lower earnings

- DFE Pharma
- foodspring™

Key drivers

- Improved earnings
- Lower capex
- Other divestments

Economic Net Interest-Bearing Debt (\$b)



Adjusted Debt/EBITDA²

4.5x

4.3x

3.3x-3.9x

Gearing³

48.4%

48.2%

37%-39%

1. The divestment of foodspring™ and DFE Pharma have been announced and the sale proceeds will be received in FY20.

2. Ratio is economic net interest bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). Both debt and EBITDA are adjusted from reported amounts for the impact of operating leases, certain normalisations and non-cash amounts.

3. Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.

Our Strategy

Our strategy focuses on using New Zealand milk to meet market needs.

We will create sustainable value for our customers and farmers through innovation, sustainability and efficiency.



We've made some big choices

From

Volume

Global Milk Pools

Maximum volume into consumer

Dairy only

Partner with cash investments

Debt funded growth

Global giant with HQ
in New Zealand

Invest widely based on
aggressive growth plans



To

Value

Prioritise New Zealand Milk
+ complementary components

Focus on key categories to deliver superior value

Supplement with non-dairy where makes sense

Partner with IP and skills and lift R&D

Conservative balance sheet

Celebrate Aotearoa New Zealand
and take it to the world

Divest non-core businesses and
focus where we have a competitive advantage

Our goals for a sustainable Co-operative

We will measure success with a triple bottom line

Healthy People

Valuable nutrition
Strong relationships
Supporting communities

Healthy Environment

Lower footprint
Zero waste
Restoring nature

Healthy Business

Sustainable payout
Return on capital
Reliable dividends

What's going to be different

- A proud co-operative delivering for our farmer owners, our people, our customers, New Zealand and the world
- A leaner, more focused business, clear about who we are and where we are going
- Re-setting the business to get our balance sheet in order and focusing where we add superior value
- Well positioned to create value from exciting market trends

What you can expect from us

- We're changing our culture and behaviours to focus on building a great team
- We'll be open and honest, even when there are challenges along the way
- We'll deliver on our triple bottom line commitments
- We'll live our Purpose and Values and put sustainability at the heart of everything we do

The future of our Co-op is in our hands.

Tātou, tātou

Our priorities for 2020

Build a great team

- Live our Purpose and Values through our actions
- Successfully shift to new customer-led operating model
- Create a culture that empowers our people

Support regional New Zealand

- Inject \$10 billion into rural communities through competitive milk price payments
- Support communities through nutritional and environment programmes

Hit our financial targets

- Debt no more than 3.75x earnings
- Capital expenditure no more than \$500 million
- Gross margin in excess of \$3 billion
- Meet earnings guidance of 15-25 cents per share

Improve our environmental footprint

- Support farmers to complete a further 1,000 Farm Environment Plans
- Provide climate emissions reports for all our farmers
- Reduce emissions, improve energy efficiency and water use at our sites

FY20 outlook

Year of transition



Group

Forecast Farmgate
Milk Price

\$6.25 – \$7.25

per kgMS

Forecast
Milk Collection

1,520

million kgMS

Forecast Earnings per Share

15 – 25

cents

Ingredients

Forecast
Gross Margin

7% – 9%

from 8.4%

Forecast EBIT

\$600 – \$700

million

from \$811 million

Consumer and Foodservice

Forecast
Gross Margin

22% – 24%

from 23.1%

Forecast EBIT

\$430 – \$530

million

from \$450 million

Appendix



Our Purpose guides everything we do

OUR PURPOSE

*Our Cooperative,
Empowering people
to create goodness for generations*

*You, me, us together
Tātou Tātou*

Let's be straight...

- When you go through tough times, you ask yourself hard questions
- Before starting the strategy review we took a hard look in the mirror
- And asked ourselves who we really are and what we have learned
- 18 months ago we might have said we're a global dairy giant, here to make a difference in the lives of 2 billion people
- When times get tough, you reflect. We've been here nearly 150 years – we want at least 150 more
- At our heart, we're a co-operative, doing amazing things with New Zealand milk to enhance people's lives and create value for customers and our farmer owners
- It may not sound so radical, but this simple change of how we think of ourselves takes us to a really different place
- And a stronger long term future together

We looked at what's happening in the world



Opportunities

RISING INCOMES IN DEVELOPING WORLD

URBANISATION

ENVIRONMENTAL IMPACT

OUT OF HOME EATING

VALUE OF NATURAL FOOD

AGEING POPULATION

CONVENIENCE & HEALTHY SNACKING

SOCIAL IMPACT

FOOD AS NUTRITION

Growing risks

TRADE TENSIONS

INDUSTRY DISRUPTIONS

ENVIRONMENTAL IMPACT

REGULATION CHANGES

CLIMATE CHANGE

SOCIAL MEDIA

FOOD SAFETY

FINANCIAL SHOCKS

NEW FOODS

We're clear on our strengths as a Co-op and the realities we face

Strengths

OUR PEOPLE

INNOVATION, RESEARCH & DEVELOPMENT

SCALE & EFFICIENCY

PASTURE BASED FARMING MODEL

LOW GREEN HOUSE GAS EMISSIONS

GLOBAL SUPPLY CHAIN

PRODUCT & MARKET OPTIONALITY

FOOD SAFETY & TRACEABILITY

AOTEAROA NEW ZEALAND

CUSTOMER RELATIONSHIPS

Our realities

INCREASING COMPETITION

CONSTRAINED CAPITAL

LARGE ASSET BASE

HIGH DEBT LEVEL

LACK OF TRUST & CONFIDENCE

BIG PART OF NEW ZEALAND

ENVIRONMENTAL INVESTMENT COSTS

RECENT UNDER PERFORMANCE

Product innovation to meet consumer needs



High protein and great tasting **medical beverages**

An infant formula composition inspired by breast milk



High Protein Instant Milk Powder cost-effective option providing 33% of an adult's daily calcium needs



Reduced sugar in Kiwi kids diets



Protein fortified healthy drinks and snacks in high demand



Anchor™ Food Professionals high quality, fit-for-purpose products and solutions for foodservice professionals

Healthy business

Measuring success

(Normalised)	FY19 Actual	3-Year Plan ¹	5-Year Plan ¹
Gross Margin %	15.0%	15.2%	15.6%
EBIT	\$819m	\$950m	\$1,100m
NPAT ²	\$269m	\$650m	\$800m
Capital Expenditure	\$600m	\$500m	\$500m
Free Cash Flow ³	\$699m	\$900m	\$1,050m
Debt/EBITDA	4.3x	2.5-3.5x	2.5-3.5x
Return on Capital	5.8%	8.5%	10%
Earnings per Share	17c	40c	50c

1. There can be no certainty of outcome in relation to the matters to which these plans or forward-looking statements relate. They involve risks, uncertainties, assumptions and other important factors (some of which may be out of Fonterra's control) that could cause the actual outcomes to be materially different from the results expressed or implied. No assurance or guarantee is given as to the likelihood of fulfilment of any such statement or projection.

2. Excludes amounts attributable to non-controlling interests.

3. For comparative purposes divestments proceeds have been excluded from free cash flow.



Dairy for life

Healthy people

Measuring success

	Current	2025	2030
Nutrition¹	71% ²	100%	100%
Health and Safety	4.9 ³	<5	<5
Employee engagement⁴	3 rd quartile	World Class (Top Quartile)	World Class (Top Quartile)
Farmer Satisfaction⁵	-17	10	≥10
Customer Satisfaction⁶	8.2	≥8	≥8
Public Perception⁷	62	65	67

1. Fonterra's nutritional guidelines for consumer branded products that is independently endorsed (New Zealand Nutritional Foundation) – the target is to reach 100% for everyday and advanced products.
2. Current performance represents FY18 due to timing of data availability.
3. TRIFR (Total Recordable Injury Frequency Rate) – Zero harm philosophy. World class = <5 per million work hours.
4. Independent staff engagement survey (MySay survey) – rating is on a 5 point scale, and we are currently at 4. World class is 4.11. Top quartile refers to fourth quartile.
5. Net Promoter Score – Farmer sentiment measure. This is for Fonterra not Farm Source. World class is 30-40, anything above 20 is favourable.
6. Customer Value Monitor – Customer satisfaction measure. These results are for NZMP globally. World class is 8, and the measure is out of 10.
7. RepZ – Public perception measure. Results and targets are for NZ only. RepZ gives a score out of 100. Our score is slightly above the national average of 61.3.



Healthy environment

Measuring success

	Current	Target
Reduce Greenhouse Gas Emissions ¹	3%	30% by 2030
Reduction in Water use ²	New Target	30% by 2030
Solid Waste to Landfill	15,430MT ³	0MT by 2025

1. Reduction in absolute manufacturing emissions from FY15 baseline. Current performance represents FY18 due to timing of data availability.
2. Reduction at manufacturing sites in water stressed regions. Water stressed (constrained) regions are determined by a combination of attributes.
3. No solid waste sent to landfill – current performance represents FY18 due to timing of data availability.



New dividend policy

- Over time we expect to distribute half of our net earnings, excluding abnormal gains
- This will be subject to not borrowing to pay dividends and the serviceability of existing debt remaining within the Board's specified guidelines

Parameters and guidelines

Net Earnings

- Payout ratio of 40-60% of Reported NPAT, but excluding abnormal gains
- Distributions of any abnormal gains considered separately

Not borrowing to pay dividends

- Dividend not to exceed 100% of Available Net Cash Flows
- Available Net Cash Flow defined as cash flows available to reduce debt, but excluding any material working capital changes considered highly likely to reverse in future periods

Debt serviceability

- Measured based on Debt to EBITDA ratio
- Dividend payment will not result in Debt to EBITDA ratio in current and forecast year exceeding level required to maintain 'A' band credit rating

Continued focus on financial discipline



Net Cash Flow¹
Up by \$1,030m



Adjusted Debt/EBITDA²
Down 0.2x



Working Capital
No change



Gearing³
Down 0.2%



Net Debt⁴
Down by \$469m



Capex⁵
Down by \$261m



Operating Expenses
Down by \$185m



Credit Rating

1. Net Cash Flow is calculated as Free Cash Flow less net interest paid and dividends paid in the same period.
2. Ratio is economic net interest-bearing debt divided by earnings before interest, tax, depreciation and amortisation (EBITDA). Both debt and EBITDA are adjusted from reported amounts for the impact of operating leases, certain normalisations and non-cash amounts.
3. Gearing ratio is economic net interest-bearing debt divided by total capital. Total capital is equity excluding hedge reserves, plus economic net interest-bearing debt.
4. 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, and bank overdraft.
5. 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.

Normalisation adjustments: Accounting impact of the Strategy Review

FY19 NZD million	Intangible Impairment	PP&E Impairment	Total Impairment	(Loss) on Net Profit Disposal & Other	Before Tax	Tax Impact	Total Group	Non- controlling Interests	Attributable to Equity Holders
Fonterra New Zealand	(189)	(7)	(196)	(48)	(244)	34	(210)		(210)
China Farms		(203)	(203)		(203)		(203)		(203)
Brazil	(133)		(133)	(16)	(149)	(110)	(259)	59	(200)
Venezuela			0	(134)	(134)		(134)		(134)
Australia Ingredients	(9)	(23)	(32)	(36)	(68)	18	(50)		(50)
Beingmate			0	(12)	(12)		(12)		(12)
Other ¹			0	(19)	(19)	2	(17)		(17)
Total	(331)	(233)	(564)	(265)	(829)	(56)	(885)	59	(826)

1. Includes strategic reset costs not assigned to the other categories within the table.

Operating expenses¹

\$ million		2017	2018	2019
Ingredients	Selling and marketing	117	128	114
	Distribution	229	237	239
	Administrative expenses	301	331	303
	Research and development	3	3	0
	Other expenses	75	109	79
	Total	725	808	735
Consumer and Foodservice	Selling and marketing	491	492	459
	Distribution	321	335	322
	Administrative expenses	229	223	225
	Research and development	11	13	12
	Other expenses	140	150	155
	Total	1,192	1,213	1,173
China Farms		31	31	21
Unallocated Costs	Operating and administration	331	380	319
	Research and development	56	64	63
	Total	387	444	382
Total Normalised Operating Expenses		2,335	2,496	2,311

- Operating expenses reduced \$185 million, and includes the impact of not paying performance bonuses in relation to FY19
 - Ingredients down \$73 million
 - Consumer and Foodservice down \$40 million
 - China Farms down \$10 million
 - Unallocated costs down \$62 million
- Unallocated costs breakdown provided on the following slide

1. Normalised basis.

Unallocated costs

Illustrative Business Unit Distribution of 2019 Unallocated Costs¹

Unallocated Costs ² (\$ million)	2018	2019
Research & Development	64	63
Group Finance and Support	66	57
IT	67	59
IT impairment ³	–	29
Farmer Services ⁴	65	43
People & Culture	22	21
Advertising and Promotion Costs	30	16
Food Safety & Quality	15	14
Property	11	12
Trade Relations and Compliance	10	10
Governance	9	9
Other	85	49
Total	444	382

Ingredients	Consumer and Foodservice		Not Allocated	Total
	Ingredients	Foodservice		
42	21	–	63	
–	–	57	57	
38	21	–	59	
13	7	9	29	
43	–	–	43	
13	8	–	21	
–	–	16	16	
9	5	–	14	
8	4	–	12	
6	4	–	10	
–	–	9	9	
–	–	49	49	
172	70	140	382	

1. For illustrative purposes, in this table the unallocated costs for 2019 have been shown against the business units where the primary function of the cost item is to support the business units. The distribution is based on sales volume. The balance is retained as “Not Allocated”.

2. Normalised basis.

3. One-off impairment of IT assets due to change in IT strategy.

4. The majority of the reduction in 2019 was because of a reclassification of milk testing to the Ingredients business.

Number of full time employees decreasing

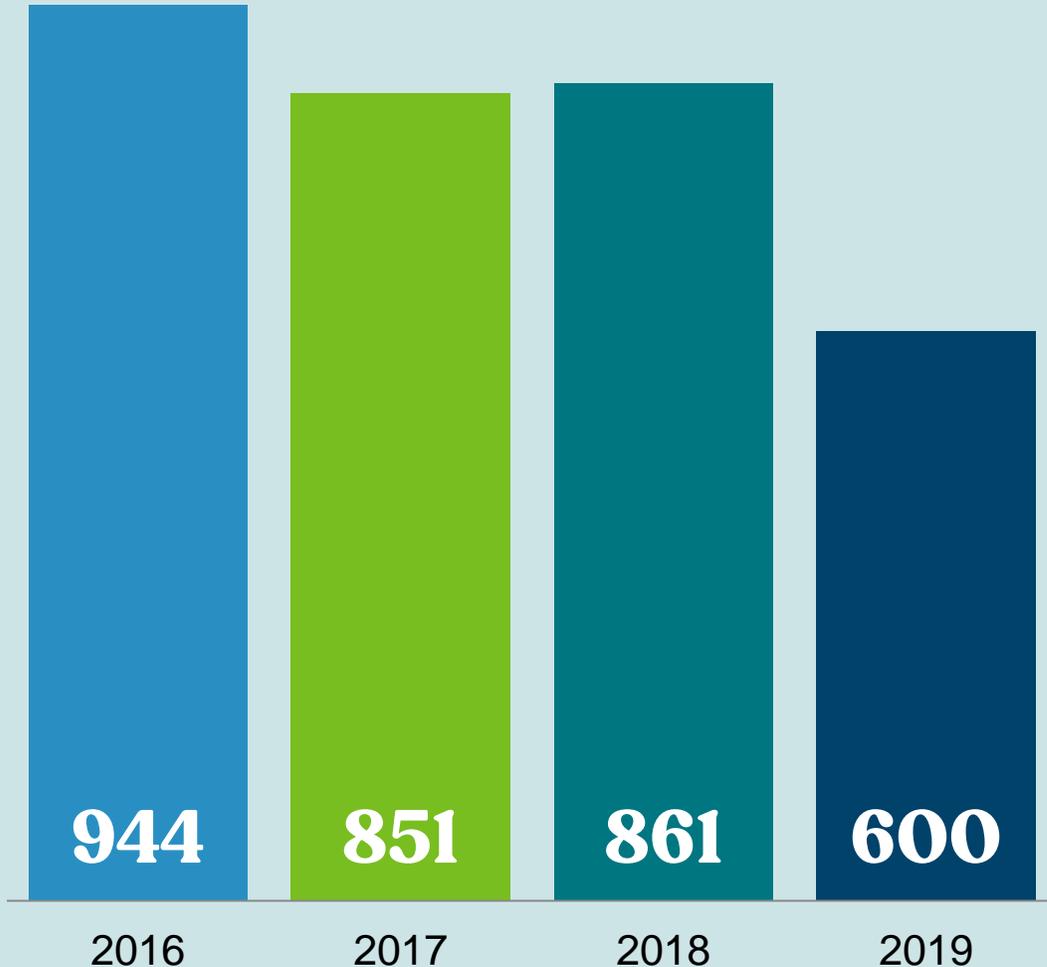
- Continual focus on efficiency and reduction of duplication
 - Decrease in the number of full time employees across the business
 - Decrease in consumer and foodservice numbers reflects divestment of Tip Top and our Venezuelan business
 - In addition, over FY19 the number of contractors has reduced from 1,165 to 784

Breakdown of 2019 by Geographic Region

Function	FY17	FY18	FY19	Breakdown of 2019 by Geographic Region						Total
				New Zealand	Australia	Asia and MEA	Greater China	Latin America	Rest of World	
Ingredients	10,235	10,391	10,318	8,435	1,029	95	90	424	245	10,318
Consumer and Foodservice	8,343	8,245	6,892	1,513	243	1,872	603	2,634	27	6,892
China Farms	1,071	1,065	1,103	–	–	–	1,103	–	–	1,103
Group Functions	1,675	1,780	1,700	1,526	45	93	9	26	1	1,700
Total	21,324	21,481	20,013	11,474	1,317	2,060	1,805	3,084	273	20,013

Capital expenditure

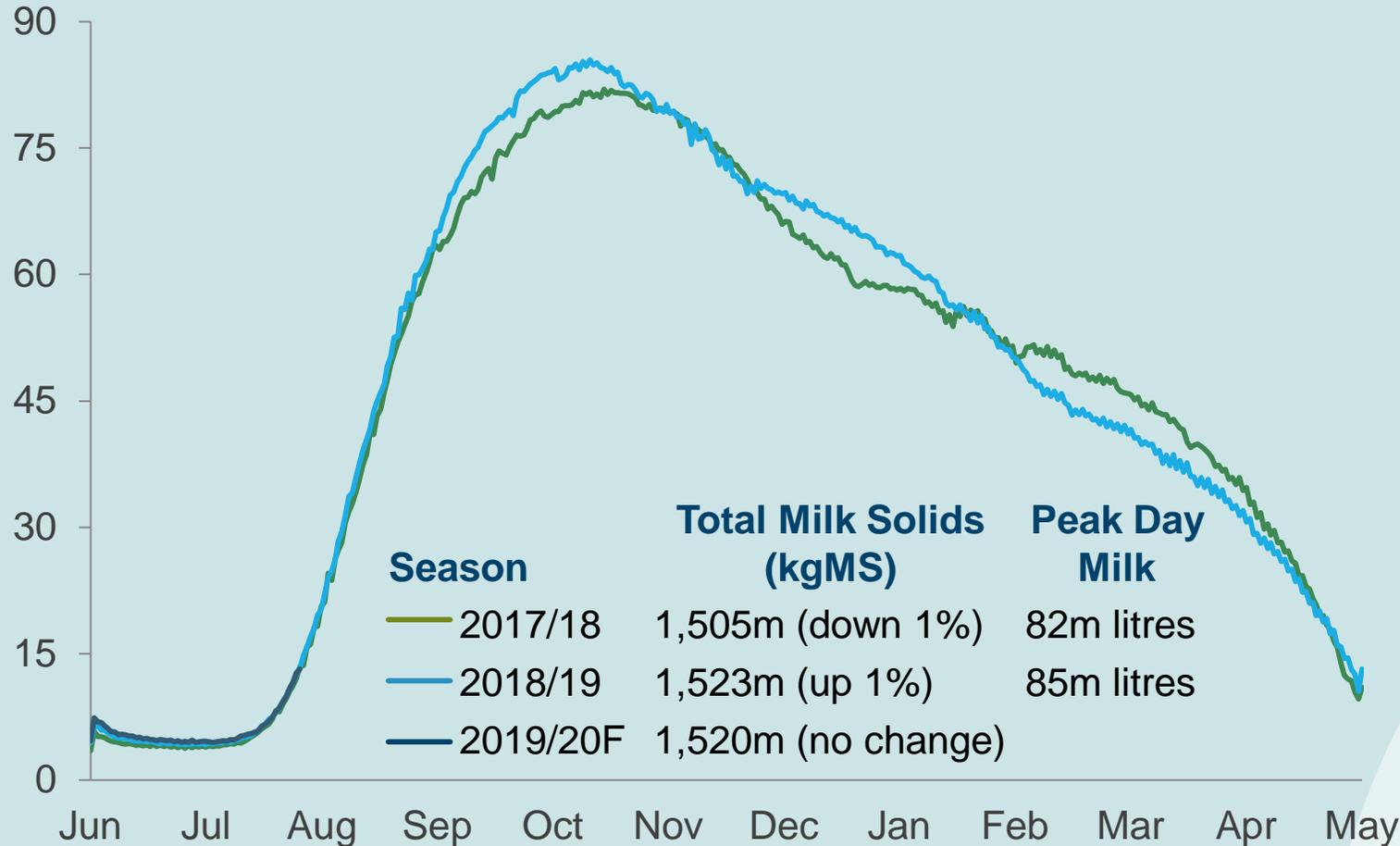
\$ million



- Significant reduction in capital expenditure achieved
 - Down \$261 million to \$600 million
- Key drivers of the reduction:
 - Essential spend decreased from \$367 million to \$340 million, down 7%
 - Growth spend decreased from \$494 million to \$260 million, down 47%
- 53% of growth spend was for carry-over projects from previous years, including:
 - Stanhope Cheese Expansion \$61 million
 - Clandeboye Mozzarella Expansion \$43 million
 - Darfield Cream Cheese Plant \$17 million
 - Darnum \$17 million
- FY20 forecast capital expenditure of no more than \$500 million

Milk collections

Volume (m litres/day)



- 2018/19 season New Zealand milk collections were 1,523 million kgMS
- 18 million kgMS or 1.2% increase on last season
- Peak day collections were up due to favourable weather conditions in first half
- Unfavourable on-farm conditions in second half reduced impact of strong first half
- 2019/20 season forecast milk collection of 1,520m kgMS

Ingredients

million	2018	2019	%Δ ¹
Volume ² (LME)	20,520	21,421	4%
Revenue (\$)	16,306	17,035	4%
Gross Margin ³ (\$)	1,472	1,427	(3)%
Gross Margin ³ (%)	9.0%	8.4%	
Operating Expenses ³ (\$)	(808)	(735)	(9)%
EBIT ³ (\$)	879	811	(9)%

EBIT by Quarter⁴



- New Zealand Ingredients' performance improved but offset by challenges in offshore businesses – Australia Ingredients and Prolesur in Chile
- New Zealand Ingredients gross margin up 3% due to favourable pricing but partially offset by bringing new plants online and peak volume costs
- Australia gross margin down from \$77 million to \$10 million:
 - Higher milk price in response to competitive market and factories underutilised due to lower collections
 - Announced closure of Dennington to address overcapacity and undertook business simplification process – expect future cost savings
- Prolesur experienced strong competition for milk in Chile, collections down 16%. Gross margin down \$13 million to \$(4) million

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

2. Includes sales to other strategic platforms.

3. Normalised basis.

4. Summing of EBIT margin figures may not add up to total EBIT displayed in table above due to rounding. Note: EBIT is in NZD millions. All changes are expressed relative to FY18.



Ingredients by region

New Zealand Ingredients

Volume¹

19,494 million LME

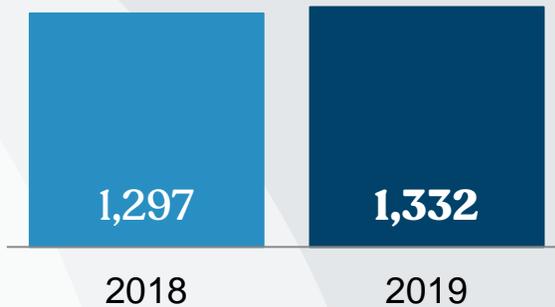
From 18,427 million

Gross Margin^{2,3}

8.7%

From 8.9%

\$ million³



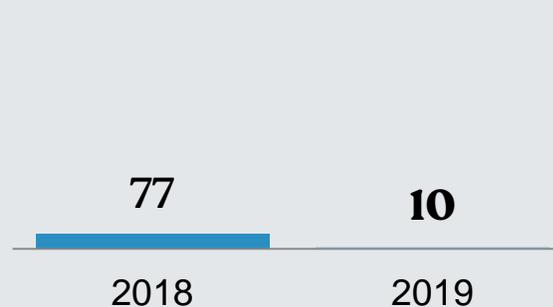
Australia

1,659 million LME

From 1,755 million

0.6%

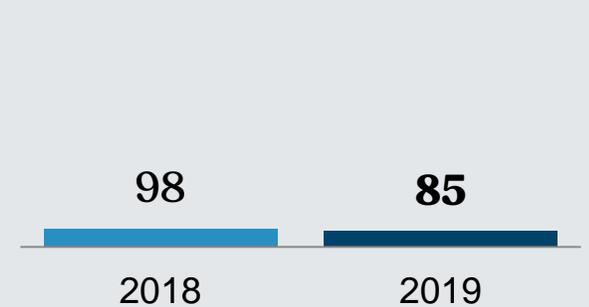
From 4.1%



Other and Eliminations

268 million LME

From 338 million



1. Includes sales to other strategic platforms.
2. Not meaningful to show gross margin for "Other and Elimination".
3. Normalised basis.

Note:

Gross margin is in NZD millions. All changes are expressed relative to FY18.

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.

New Zealand Ingredients product mix

	2018		2019	
	\$ million	\$ per MT	\$ million	\$ per MT
Sales Volume (000 MT)^{1,2}				
Reference	1,794	–	1,864	–
Non-Reference	620	–	774	–
Revenue^{1,2}				
Reference	8,703	4,851	8,833	4,739
Non-Reference	3,495	5,637	4,202	5,427
Cost of Milk				
Reference	6,810	3,796	6,673	3,580
Non-Reference	1,849	2,982	2,398	3,098
Gross Margin				
Reference	555	309	626	336
Non-Reference	791	1,275	701	905

- Reference product gross margin up due to lower cost of fat following decline in fat prices
- Non-reference gross margin down due to the increased cost of protein

1. Excludes bulk liquid milk. Bulk liquid milk for the year ended 31 July 2019 was 73,000 MT (year ended 31 July 2018: 68,000 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 year ended 31 July 2019 by 21,000 MT and 167,000 MT and increased sales revenue by \$153 million and \$748 million on reference and non-reference products respectively. This change had no impact to the reported gross margin for the Ingredients business.

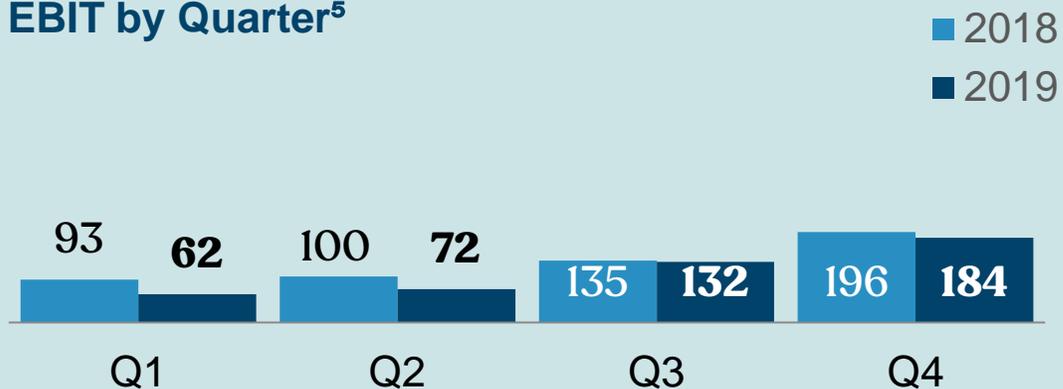
Note: Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF. Milk solids used in the products sold were 1,046 million kgMS in reference and 397 million kgMS non-reference (previous comparable period 997 million kgMS reference and 328 million non-reference).

Consumer and Foodservice



million	2018	2019	%Δ ¹
Volume ^{2,3} (LME)	5,365	5,129	(4)%
Revenue (\$)	7,122	7,011	(2)%
Gross Margin ⁴ (\$)	1,683	1,621	(4)%
Gross Margin ⁴ (%)	23.6%	23.1%	
Operating Expenses ⁴ (\$)	(1,213)	(1,173)	(3)%
EBIT ⁴ (\$)	525	450	(14)%

EBIT by Quarter⁵



- Foodservice gross margin up but offset by challenges in Consumer business in some markets
- Volume down due to lower sales of butter in Greater China and Asia in first half
- Overall performance improved in second half relative to first half, in particular Greater China and Latin America recovered from a slow start, with 70% of earnings in second half
- Foodservice's gross margin improved 10%, from \$388 million to \$426 million, with improvement in all regions
- Consumer's gross margin down 8%, from \$1,295 million to \$1,195 million, mainly due to pricing pressure in Latin America and Asia
- Oceania Consumer and Foodservice business improved, with normalised EBIT of \$92 million, up 37% from last year
- Lower gross margin partially offset by reduced operating expenses, down \$40 million, but lower 'Other Income' resulted in lower EBIT

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
 2. Includes sales to other strategic platforms.
 3. FY18 LME volume adjusted for the exclusion of discontinued inter-company sales to improve comparability. FY18

volumes were restated for 224m LMEs.
 4. Normalised basis.
 5. Summing of quarterly EBIT figures may not add up to total EBIT displayed in table above due to rounding.
 Note: EBIT is in NZD millions. All changes are expressed relative to FY18.



Consumer and Foodservice

Greater China

Volume²

1,208 million LME

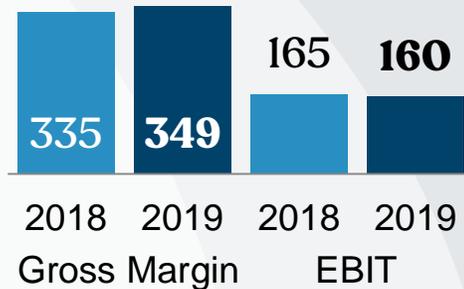
From 1,413 million

Gross Margin³

23.5%

From 21.4%

\$ million



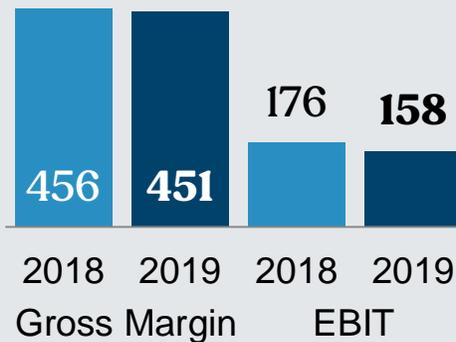
Asia¹

1,450 million LME

From 1,549 million

24.2%

From 24.5%



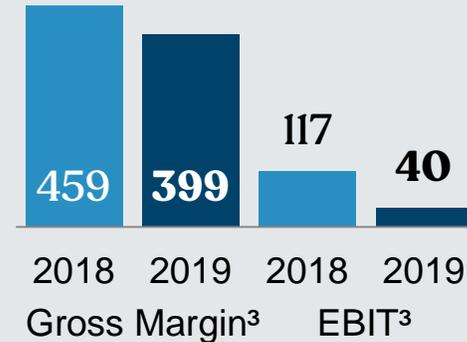
Latin America

779 million LME

From 747 million

26.5%

From 29.9%



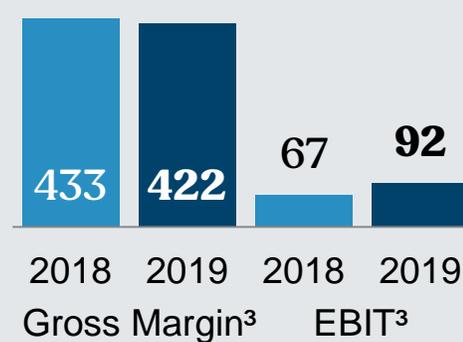
Oceania

1,692 million LME

From 1,656 million

19.5%

From 20.1%



1. FY18 LME volume adjusted for the exclusion of discontinued inter-company sales to improve comparability. FY18 volumes were restated for 224m LMEs.
 2. Includes sales to other strategic platforms.
 3. Normalised basis.

Note:
 EBIT and gross margin are in NZD millions. All changes are expressed relative to FY18.
 Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

Foodservice



million	2018	2019	%Δ ¹
Volume ² (LME)	2,437	2,185	(10)%
Revenue (\$)	2,479	2,369	(4)%
Gross Margin (\$)	388	426	10%
Gross Margin (%)	15.7%	18.0%	

- Volume down mainly due to lower sales of butter in Greater China and Asia in first half:
 - Greater China had higher in market inventories at start of the year
 - In Asia there were challenging economic conditions in Middle East and in Indonesia we moved away from lower margin butter sales
- Gross margin growth in all regions:
 - Greater China had growth in Anchor Food Professionals™ UHT milk and Anchor Food Professionals™ UHT culinary cream
 - Asia reflected improved performance from Indonesia with increased focus on higher value products
 - In Oceania the Australia business improved both margin and volume

Gross Margin by Quarter³



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

2. Includes sales to other strategic platforms.

3. Summing of quarterly gross margin figures may not add up to total gross margin displayed in table above due to rounding.

Note: Gross margin is in NZD millions. All changes are expressed relative to FY18.



Greater China

Volume¹

1,083 million LME

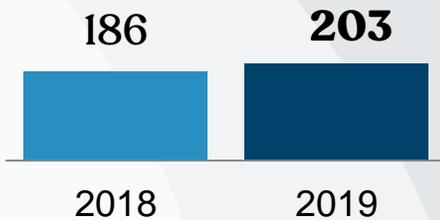
From 1,273 million

Gross Margin

18.1%

From 15.2%

\$ million



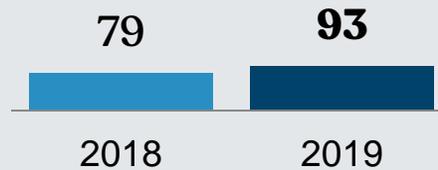
Asia

559 million LME

From 643 million

15.8%

From 12.6%



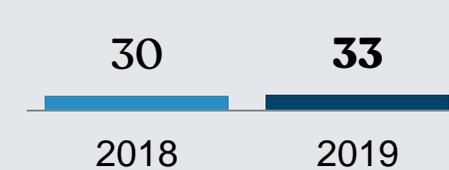
Latin America

109 million LME

From 94 million

22.8%

From 25.9%



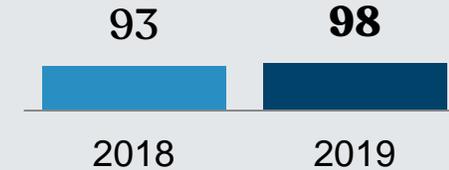
Oceania

433 million LME

From 427 million

18.9%

From 18.1%



Foodservice

1. Includes sales to other strategic platforms.

Note:

Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to FY18.

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

Consumer



million	2018	2019	%Δ ¹
Volume ^{2,3} (LME)	2,928	2,944	1%
Revenue (\$)	4,643	4,642	0%
Gross Margin (\$)	1,295	1,195	(8)%
Gross Margin (%)	27.9%	25.7%	

Gross Margin by Quarter⁴



- Sales volume up 1%, strong growth in Australia partially offset by lower butter sales in the Middle East and challenges in Sri Lanka
- Overall Consumer gross margin down due to tighter margins from pricing pressure in Latin America and Asia Consumer:
 - Latin America down due to a ‘buy local’ marketing campaign in Chile impacting Soprole
 - Asia down mainly due to pricing constraints in Sri Lanka
- Mainland China’s Consumer business was offset by subdued retail sales in Hong Kong
- Soprole’s performance returning to historical earnings levels in last quarter

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
 2. Includes sales to other strategic platforms.
 3. FY18 LME volume adjusted for the exclusion of discontinued inter-company sales to improve comparability. FY18

volumes were restated for 224m LMEs.
 4. Summing of quarterly gross margin figures may not add up to total gross margin displayed in table above due to rounding.
 Note: Gross margin is in NZD millions. All changes are expressed relative to FY18.



Greater China

Volume²

126 million LME

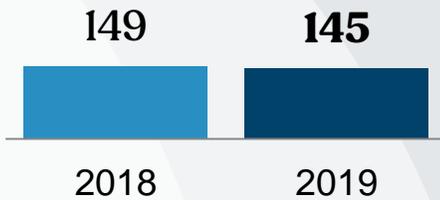
From 139 million

Gross Margin

40.2%

From 43.5%

\$ million



Asia¹

890 million LME

From 906 million

28.1%

From 30.5%



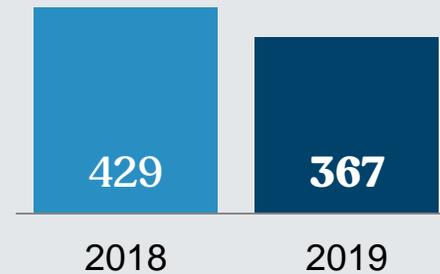
Latin America

670 million LME

From 653 million

26.9%

From 30.3%



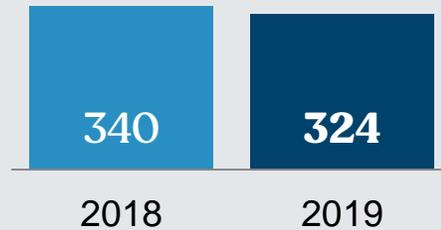
Oceania

1,258 million LME

From 1,228 million

19.7%

From 20.7%



Consumer

- 1. FY18 LME volume adjusted for the exclusion of discontinued entries to improve comparability. FY18 volumes were restated for 224m LMEs.
- 2. Includes sales to other strategic platforms.

Note:

Gross margin is in NZD millions. All changes are expressed relative to FY18. Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

China Farms



million	2018	2019	%Δ ¹
Volume ² (LME)	273	259	(5)%
Revenue (\$)	262	249	(5)%
Gross Margin ^{3,4} (\$)	5	5	(6)%
Gross Margin ⁴ (%)	1.9%	2.1%	
Operating Expenses ³ (\$)	(31)	(21)	(33)%
Other Income and Other ³ (\$)	22	21	(2)%
China Farms EBIT ^{4,5} (\$)	(9)	(14)	(59)%
End-to-End EBIT Perspective			
Ingredients EBIT ⁶ (\$)	(30)	(20)	33%
Consumer EBIT ⁶ (\$)	1	4	194%
China Farms End-to-End ⁷ (\$)	(38)	(30)	21%

- Sales volumes decreased 5% due to milk production being impacted by floods in Yutian and animal health
- Operating expenses down 33% on last year to \$21 million
- At EBIT level, loss increased from \$9 million to \$14 million with improvements in Fonterra-owned hubs being offset by increased losses in joint venture farm hub:
 - Fonterra-owned farming hubs EBIT up \$9 million, from \$(4) million to \$5 million
 - Joint venture farm hub losses increased from \$(5) million last year to \$(19) million
- End-to-end China Farms had a total loss of \$30 million
 - \$(14) million, China Farms – inclusive of joint venture
 - \$(20) million, Ingredients
 - \$4 million, Consumer and Foodservice
- Continued improvement in the average price received for our milk, 39% of our revenue was from milk sold for more than RMB 4 versus 19% in 2018

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

2. Includes sales to other strategic platforms.

3. Fonterra-owned farms in the China Farms business segment.

4. Normalised basis.

5. Includes Fonterra-owned farms and the joint venture farms.

6. Includes EBIT impact of milk from China Farms sold by the Fonterra Ingredients and Consumer businesses.

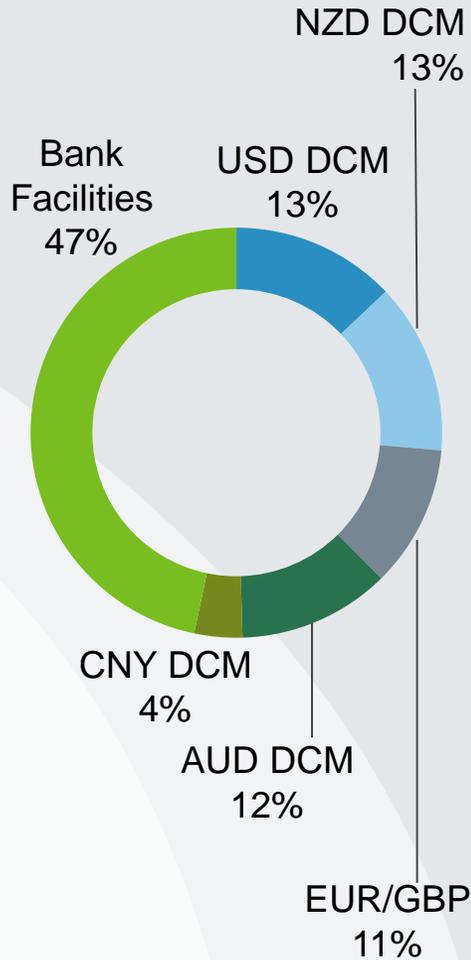
7. Provides end-to-end perspective, comprising China Farms segment plus financials from Ingredients and Consumer and Foodservice related sales of milk from China Farms.

Note: All changes are expressed relative to FY18.

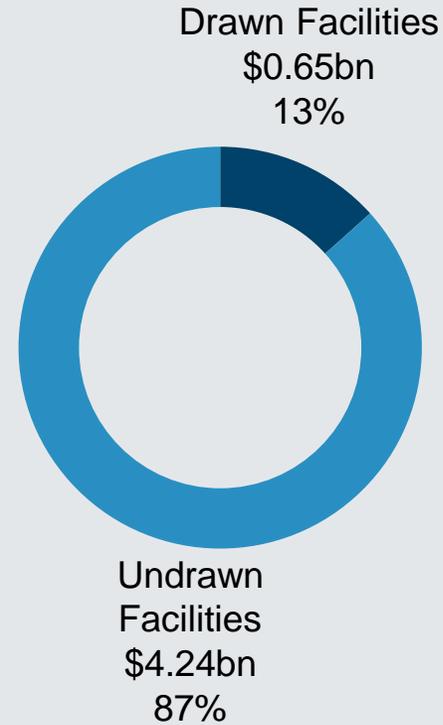


Diversified and prudent funding position

Diversified Profile¹

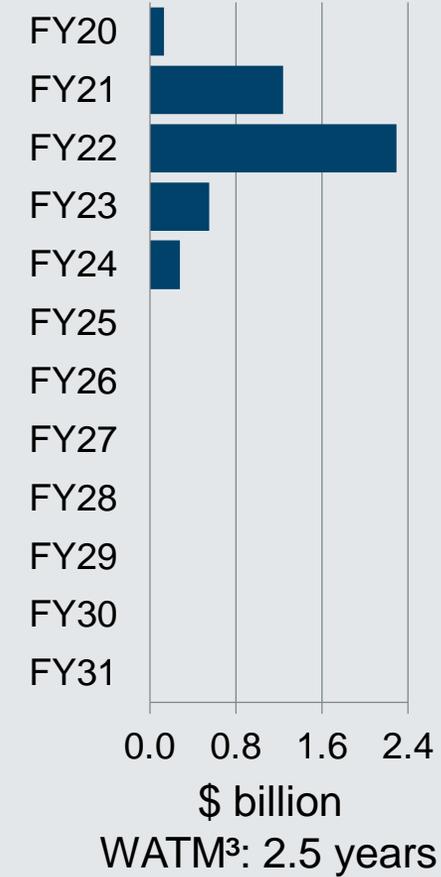


Prudent Liquidity



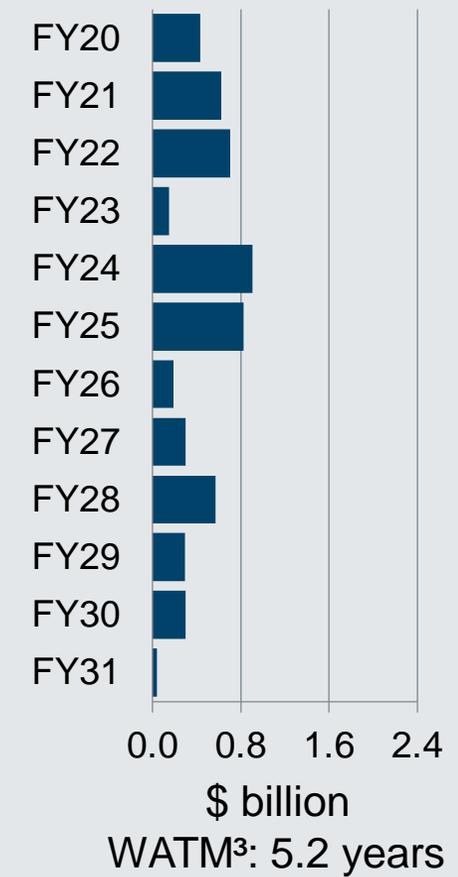
Bank Facilities

Maturity Profile



Debt Capital Markets²

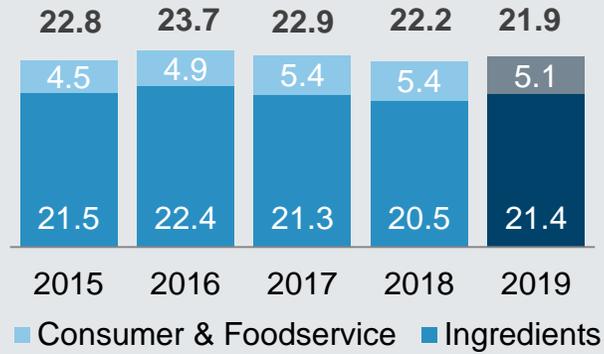
Maturity Profile



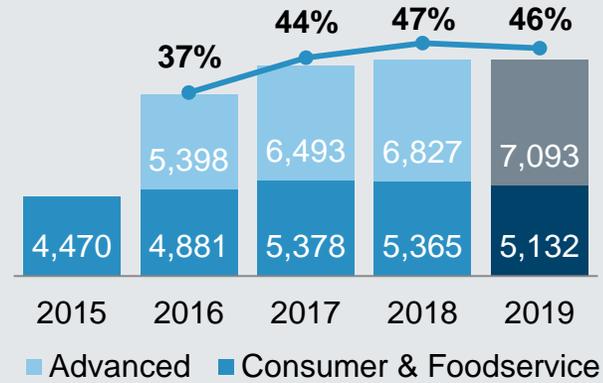
1. Includes undrawn facilities and commercial paper.
 2. Excluding commercial paper.
 3. WATM is weighted average term to maturity.
 Note: As at 31 July 2019.

Key financial metrics for FY19

Sales Volume (LME bn)¹



Total Value-Add²



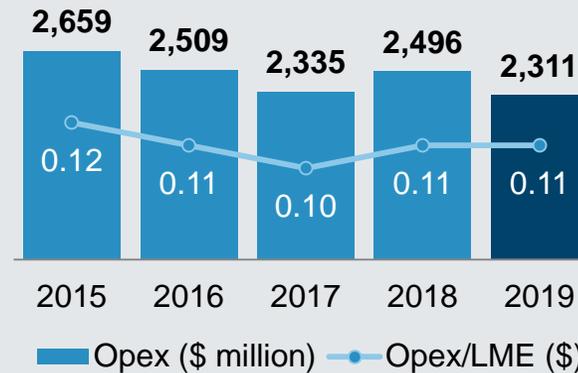
Reported Revenue



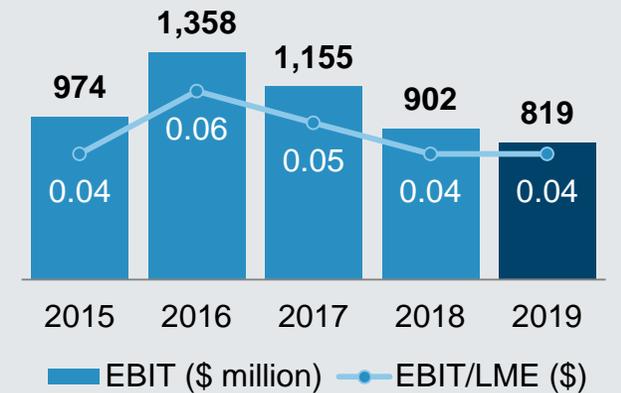
Normalised Gross Margin



Normalised Opex



Normalised EBIT

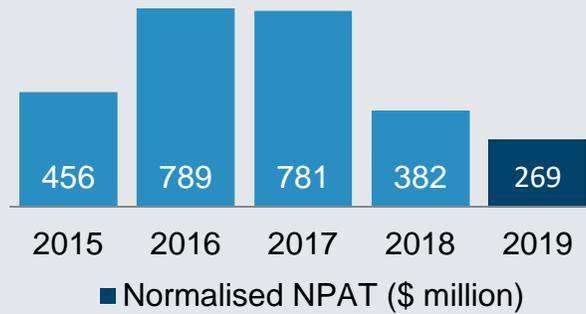


1. Does not add to total due to inter-group eliminations.

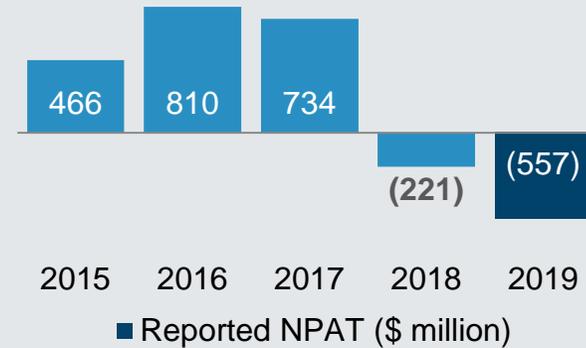
2. Advanced Ingredients split only from 2016. Percentages displayed represent higher value products as a percentage of total LMEs.

Key financial metrics for FY19

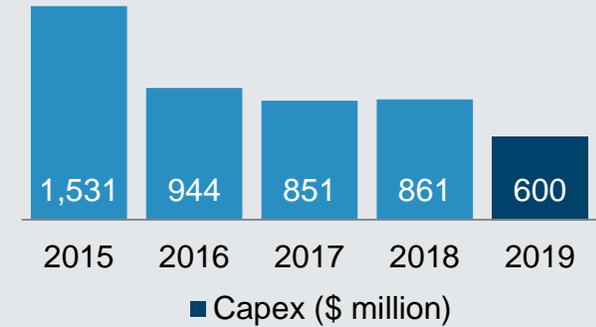
Normalised NPAT¹



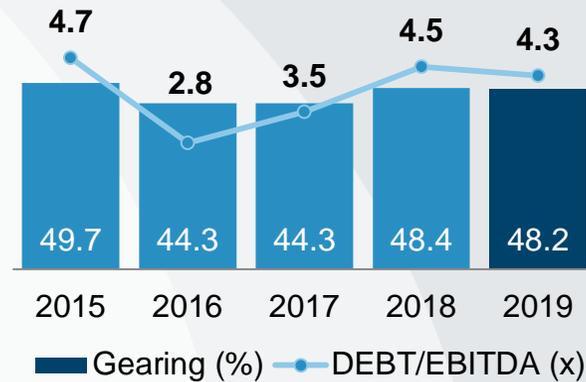
Reported NPAT¹



Capex²



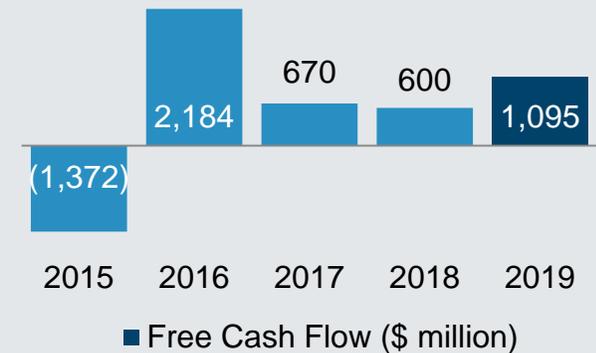
Leverage



Working Capital Days



Free Cash Flow

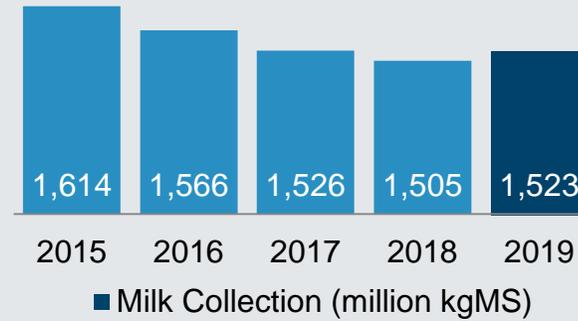


1. Net Profit after Tax attributable to equity holders of the Parent.

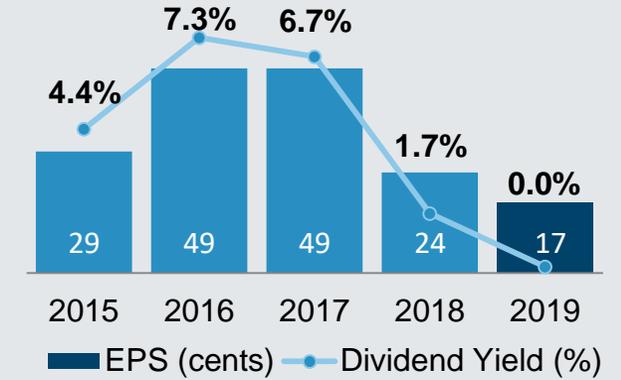
2. Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock.

Key financial metrics for FY19

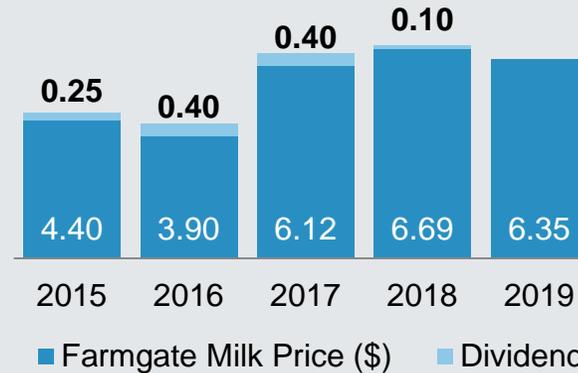
Milk Collection



Normalised EPS and Dividend Yield¹



Total Cash Payout



Return on Capital²



1. Dividend over volume weighted average share price from 1 August to 31 July.
 2. Including intangibles and equity accounted investments.

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

Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.

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.

Thank you.