Business Update

Financial Year 2020
Quarter One

5 DECEMBER 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.

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Summary[1]

FARMGATE MILK PRICE

$7.00–$7.60

per kgMS

FREE CASH FLOW[2]

$(650)

million

from $(1,245)m

REPORTED EBIT

$259

million

from $26m

NORMALISED EBIT

$171

million

from $26m

- Good progress moving to our new strategy and reporting on a triple bottom line basis
- Increased and narrowed forecast Farmgate Milk Price range to $7.00 - $7.60 per kgMS from $6.55 - $7.55 per kgMS
- Normalised EBIT of $171 million, up $145 million. Ingredients up $32 million, and Consumer and Foodservice up $56 million
- Reported EBIT of $259 million, up $233 million. Positive one-off items include $64 million from the gain on sale of foodspring™ and $22 million from Beingmate revaluation[3]
- Continued financial discipline, operating expenses down $104 million and free cash flow improved $595 million
- Earnings guidance maintained, but there are increasing pressures from higher milk prices

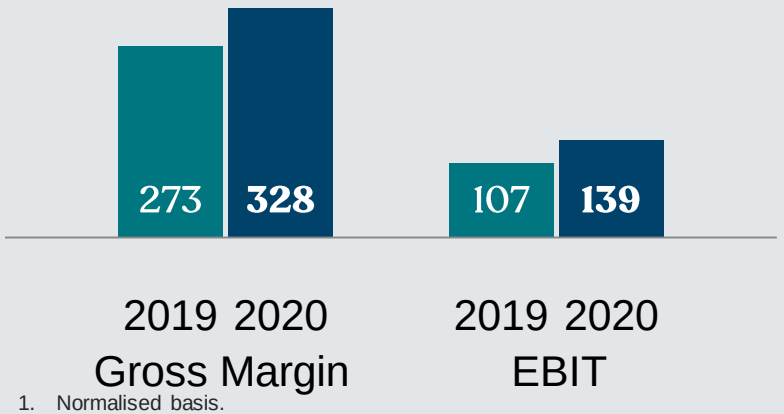
1. Previously shared full year key metrics, such as Return on Capital, will be provided at financial year end.
2. Free Cash Flow (FCF) is net cash flows from operating activities less cash flows from investing activities, and includes proceeds received from divestments. FCF represents the amount available to pay interest, dividends and reduce debt.
3. Beingmate is classified as 'held for trading'. The investment is recorded at fair value, with changes in fair value recorded in profit or loss. Fair value is calculated as the quoted share price at end of quarter, multiplied by number of shares held.

Healthy Business

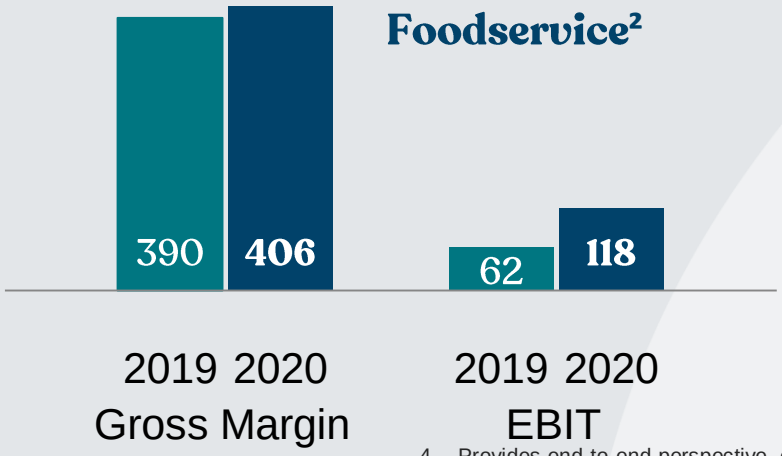
Positive start in a year of transition

REVENUE	GROSS MARGIN[1]	OPERATING EXPENSES[1]	EBIT[1]	REPORTED EBIT
$4.3 billion	$740 million	$552 million	$171 million	$259 million
From $3.8bn	From $646m	From $656m	From $26m	From $26m

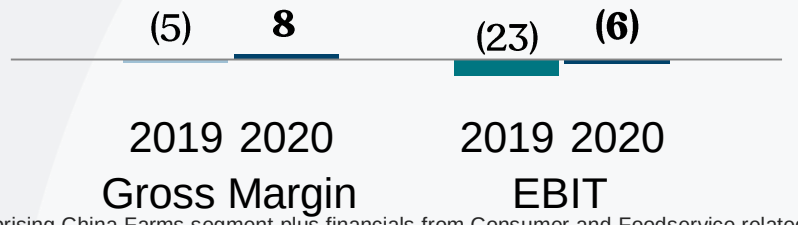
Ingredients[2,3]



Consumer and Foodservice[2]



China Farms End-to-End[2,4]

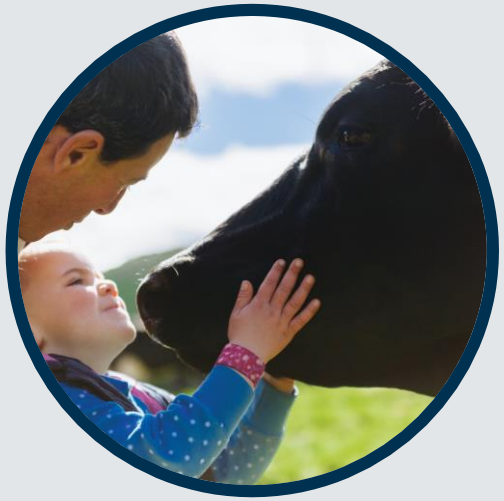


1. Normalised basis.
2. Normalised basis and does not add to total group due to including inter-segment sales.
3. Reporting of Ingredients' selling China Farm's milk on behalf of China Farms was revised in FY20 to be reported in the China Farms segment. On a comparable basis, FY19 Ingredients' gross margin and EBIT displayed would increase $4 million for the 3-month period.
4. Provides end-to-end perspective, comprising China Farms segment plus financials from Consumer and Foodservice related sales of milk from China Farms. FY19 also includes financials from Ingredients related sales of milk from China Farms.

Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative.

Healthy People

Working together to care for people and make a positive social impact



- On-track to contribute approximately $11.2 billion[1] into regional New Zealand this year through the Milk Price

- Reduced the added sugar in Fresh'n Fruity by 40% on average

- Celebrated KickStart Breakfast's 10th anniversary – one of the ways we're improving the health of our communities

- New customer-led organisational structure now in place

1. Calculated as the mid-point of the current announced Farmgate Milk Price forecast range multiplied by the total forecasted New Zealand milk solids collected by Fonterra.

Healthy Environment

Working together to achieve a healthy environment for farming and society

- Offering Fonterra Milk for Schools in 1-litre format to help reduce plastic packaging and waste going to landfill

- Launched a new partnership, Plant for Good, to reduce the cost of on-farm native planting
- 25% of farms now have Farm Environment Plans (up from 23% at end of FY19)

- Working with the Government on how we incentivise and support farmers to make changes to meet New Zealand’s international climate change obligations while maintaining profitability

Outlook for 2020

Forecast Farmgate Milk Price

$7.00 – $7.60
per kgMS

- Forecast Farmgate Milk Price has been increased and narrowed in range to $7.00 - $7.60 from $6.55 - $7.55 per kgMS, based on:
  - Strong global demand
  - Stable global milk supply
- Downside risk remains from a weakening renminbi, which tends to reduce Chinese consumer purchasing power for USD-priced dairy products

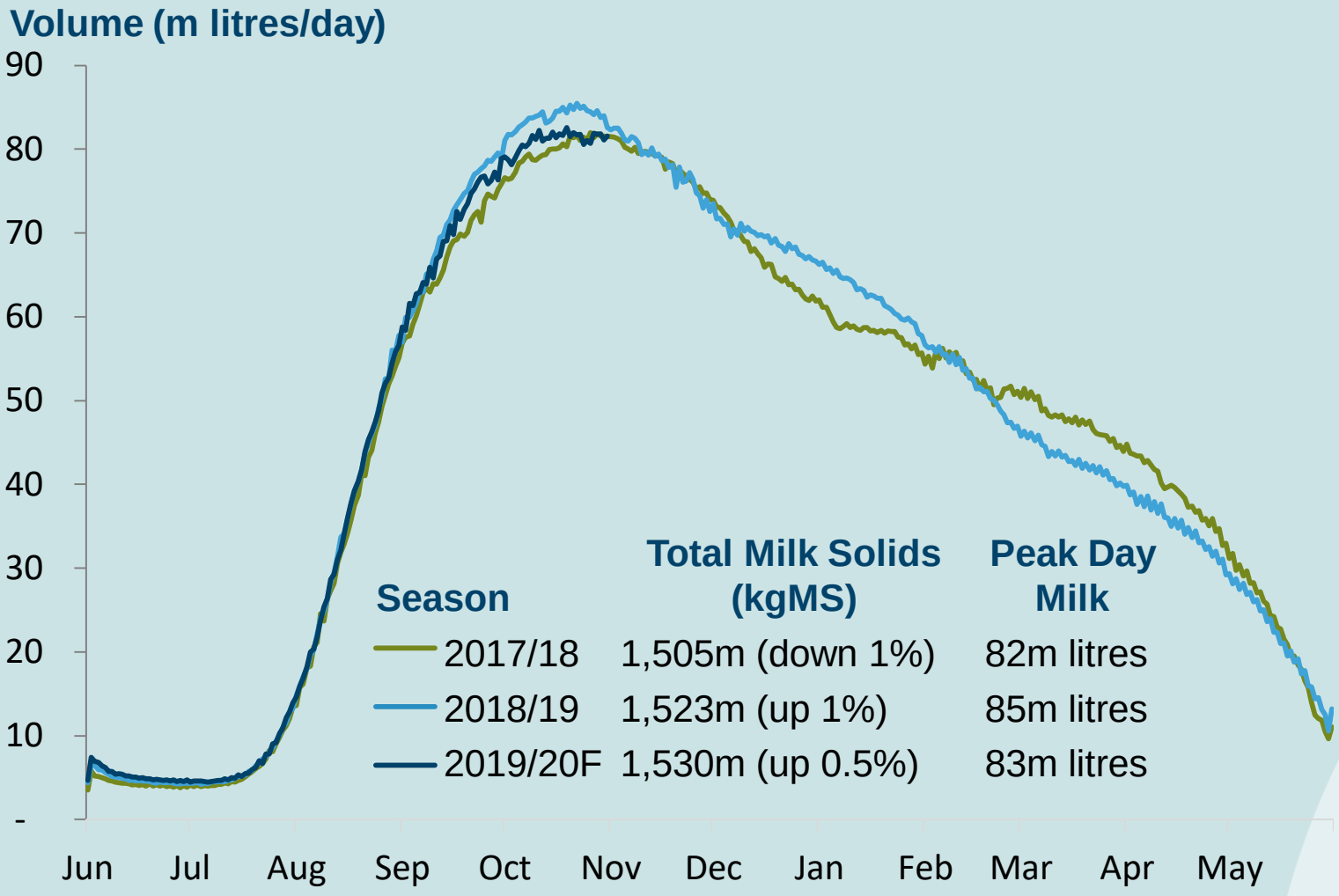
Forecast Normalised Earnings

15–25
cents
per share

- Normalised earnings per share range of 15-25 cents maintained
- Risks to earnings include:
  - Higher milk prices
  - Difficult trading conditions in Chile and Hong Kong
  - Continued drought conditions and related competition challenges for Australian Ingredients

Appendix

Milk collections

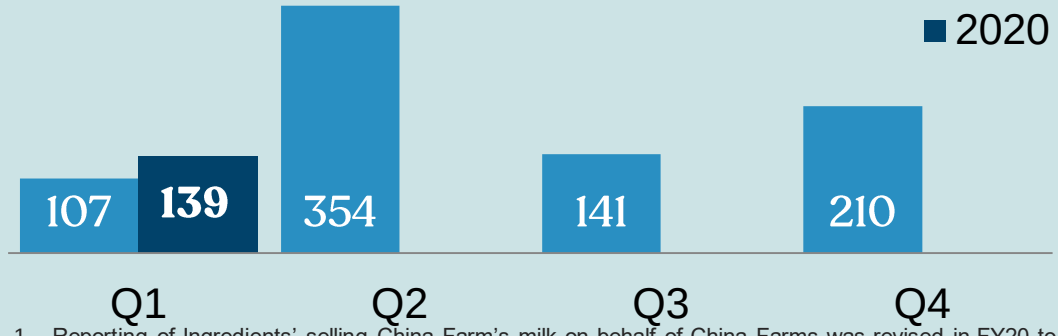


- Season to date collection, June – October, was 524.7 million kgMS, down 0.5% on last season
- Peak volume impacted by adverse weather conditions across a number of regions in New Zealand
- Full year forecast is up 0.5% on the prior season:
  - FY19 collections were adversely impacted by weather during February to April
  - FY20 is currently forecast to reflect historical norms for February to April

Ingredients

million	2019[1]	2020	%Δ [2]
Volume[3] ('000 MT)	521	**566**	9%
Revenue ($)	3,009	**3,364**	12%
Gross Margin ($)	273	**328**	20%
Gross Margin (%)	9.1%	**9.8%**	
Other[4]	36	**(8)**	
Operating Expenses ($)	(202)	**(181)**	(10)%
EBIT ($)	107	**139**	30%

EBIT by Quarter[5]



- Sales volume up 9%, due to New Zealand Ingredients benefiting from strong early demand relative to FY19 sales plan that was weighted to second quarter
- New Zealand Ingredients' gross margin up $39 million, mainly due to increased sales volume
- Prolesur's and Australia Ingredients' gross margins increased $9 million and $8 million respectively, due to improved product mix and pricing
- Australia continues to be impacted by challenging conditions
- 'Other' decreased $44 million, and this included the removal of DFE income
- Ingredients' EBIT up $32 million due to improved performance in Australia and Chile. New Zealand in line with last year

1. Reporting of Ingredients' selling China Farm's milk on behalf of China Farms was revised in FY20 to be reported in the China Farms segment. On a comparable basis, the following FY19 figures above would change; revenue $54 million decrease, operating expenses $0.4 million decrease, gross margin and EBIT $4 million increase.
2. 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.
3. Includes sales to other strategic platforms.
4. Includes other Income, net foreign exchange gain/(loss) and share of equity accounted investees.
5. Summing of EBIT margin figures may not add up to total EBIT displayed in table above due to rounding.

Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.

Ingredients by region

New Zealand Ingredients

Volume[1]

517 000 MT

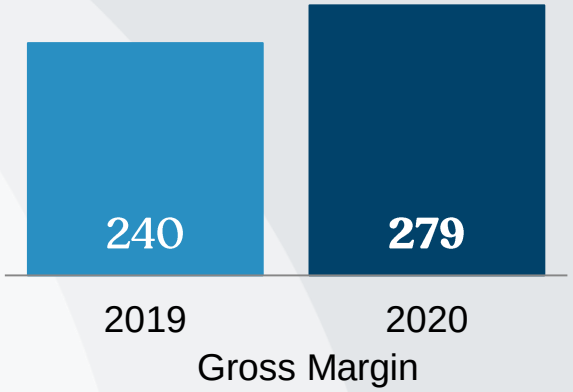
From 471,000 MT

Gross Margin

9.6%

From 9.4%

$ million



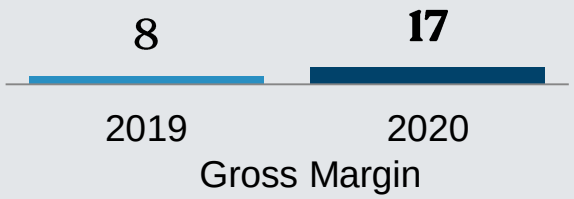
Australia

62 000 MT

From 83,000 MT

4.4%

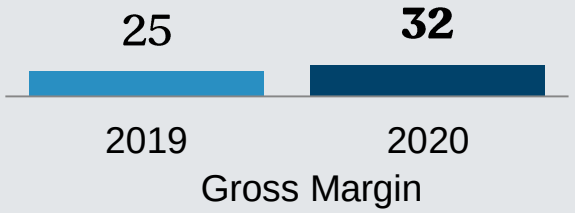
From 1.9%



Other and Eliminations

14 000 MT

From 32,000 MT



1. Includes sales to other strategic platforms.

Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.
Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

New Zealand Ingredients product mix

	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Change Q1 FY19 to Q1 FY20
Production Volume[1] ('000 MT)						
Reference	633	713	440	94	607	(4)%
Non-Reference	227	258	210	72	236	4%
Sales Volume ('000 MT)						
Reference	247	678	535	405	291	18%
Non-Reference	159	230	233	226	178	12%
Revenue ($ per MT)						
Reference	5,257	4,439	4,539	5,188	5,289	1%
Non-Reference	5,405	5,469	5,238	6,055	5,679	5%

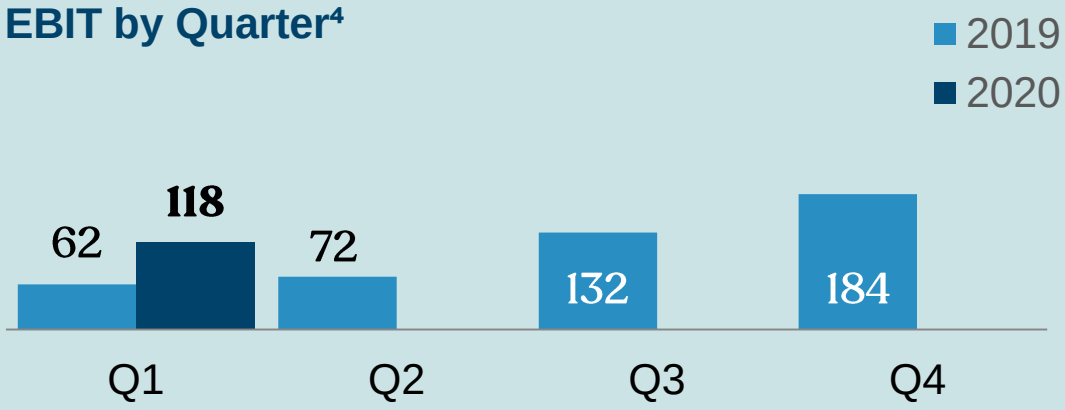
1. Includes bulk liquid milk.

Note: Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF.

Consumer and Foodservice

million	2019	2020	%Δ [1]
Volume[2], ('000 MT)	431	444	3%
Revenue ($)	1,704	1,788	5%
Gross Margin ($)	390	406	4%
Gross Margin (%)	22.9%	22.7%	
Other[3]	3	(8)	
Operating Expenses ($)	(331)	(280)	15%
EBIT ($)	62	118	89%

EBIT by Quarter[4]



- Sales volume increased 3%, largely due to Foodservice growth in Greater China from application development and city expansion
- Revenue and gross margin up $84 million and $16 million, mainly due to improved Foodservice product mix and pricing
- Operating expenses down $51 million
- Consumer and Foodservice EBIT up $56 million:
  - Consumer up $22 million, due to reduced operating expenses
  - Foodservice up $35 million, due to improved sales volume and focus on higher gross margin product

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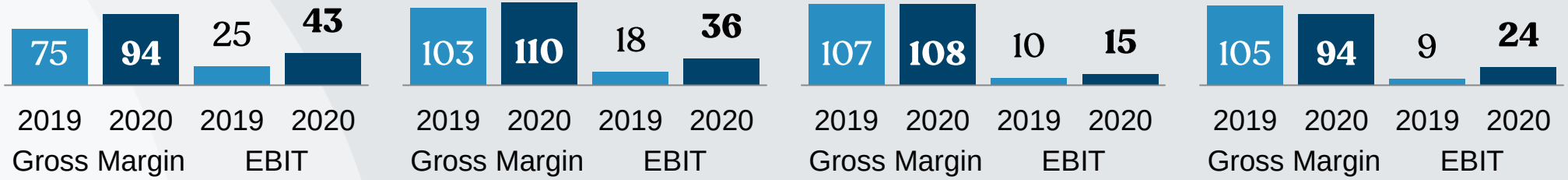
4. Summing of quarterly EBIT figures may not add up to total EBIT displayed in table above due to rounding.

Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.

Consumer and Foodservice by region

	Greater China	Asia	Latin America	Oceania
Volume[1]				
	80 000 MT	**73** 000 MT	**137** 000 MT	**154** 000 MT
	From 65,000 MT	From 72,000 MT	From 137,000 MT	From 158,000 MT
Gross Margin				
	23.9%	**22.9%**	**28.2%**	**17.6%**
	From 23.6%	From 22.6%	From 28.4%	From 19.1%

$ million



1. Includes sales to other strategic platforms.

Note:
EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.
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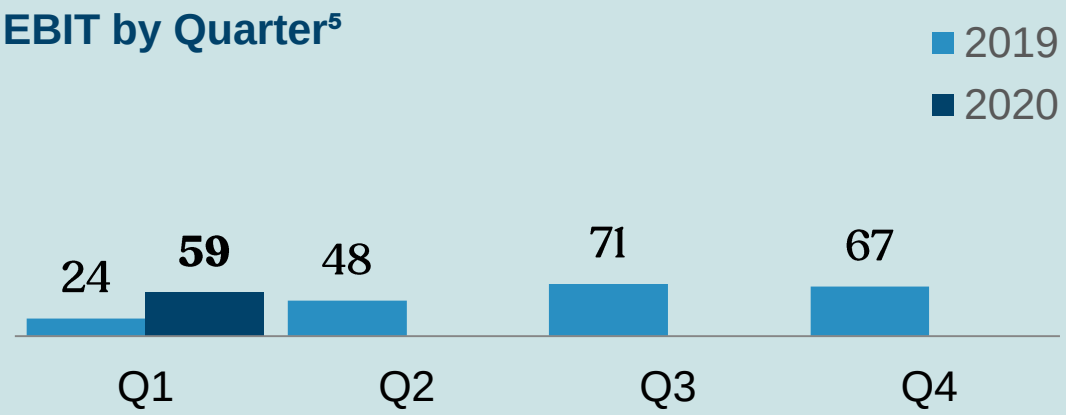
Foodservice

Million[1]	2019	2020	%Δ [2]
Volume[3] ('000 MT)	93	114	22%
Revenue ($)	515	617	20%
Gross Margin ($)	79	115	45%
Gross Margin (%)	15.4%	18.7%	
Other[4]	(1)	(0)	
Operating Expenses ($)	(54)	(56)	(3)%
EBIT ($)	24	59	146%

EBIT by Quarter[5]



- Sales volume up 22% due to Greater China:
  - Continual dairy upgrade applications across beverage, bakery and Italian kitchen channel
  - China city expansion, now in 327 cities compared to 303 cities at the end of FY19
- Gross margin up $36 million, and gross margin percentage increased from 15.4% to 18.7% due to:
  - Strong demand in Mainland China's and Philippines' bakery channels
  - Improved pricing in Indonesia, and focus on high margin products
- Operating expenses increased slightly due to growth in Greater China
- EBIT increased $35 million due to improved gross margin

1. Individual Consumer and Foodservice tables may not align to combined Consumer and Foodservice table due to rounding.
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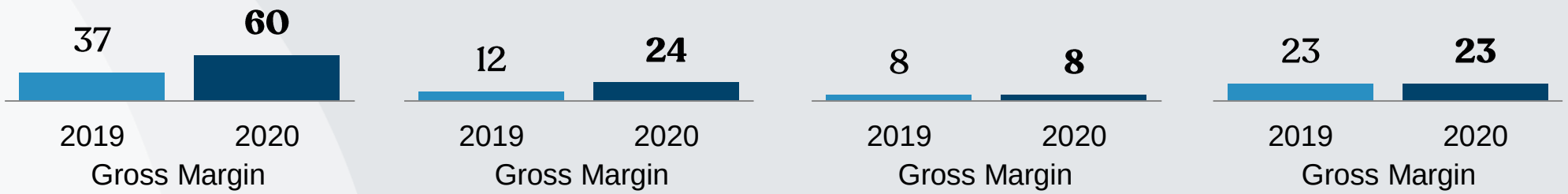
Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.

Foodservice by region

	Greater China	Asia	Latin America	Oceania
Volume[1]				
	57 000 MT	**25** 000 MT	**9** 000 MT	**23** 000 MT
	From 40,000 MT	From 21,000 MT	From 8,000 MT	From 24,000 MT
Gross Margin				
	20.6%	**14.9%**	**21.7%**	**18.5%**
	From 17.4%	From 8.8%	From 22.2%	From 17.8%

$ million



1. Includes sales to other strategic platforms.

Note:
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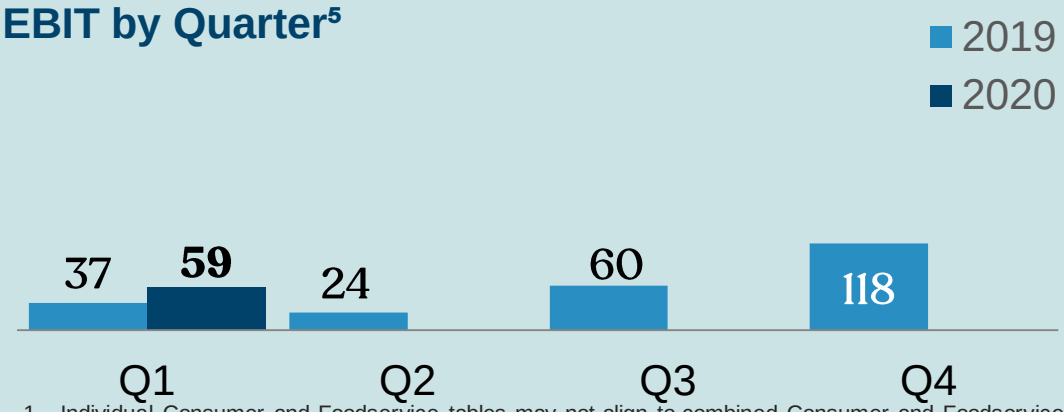
Consumer

Million[1]	2019	2020	%Δ[2]
Volume[3] ('000 MT)	338	330	(2)%
Revenue ($)	1,189	1,171	(1)%
Gross Margin ($)	310	291	(6)%
Gross Margin (%)	26.1%	24.8%	
Other[4]	4	(8)	
Operating Expenses ($)	(277)	(224)	19%
EBIT ($)	37	59	58%

EBIT by Quarter[5]



- Small decline in sales volume across all regions
- Gross margin declined $19 million mainly due to:
  - Removal of Tip Top following divestment
  - Ongoing disruption in Hong Kong
- Latin America gross margin flat on comparable period:
  - DPA Brazil benefiting from increased demand for premium yoghurt and desserts in an improving economy
  - Offset by Soprole gross margin impacted by increased milk costs
- Reduced operating expenses in all regions, down $53 million:
  - Approximately half from Oceania, which included removal of Tip Top following sale
- Consumer EBIT increased $22 million due to improved operating expenses

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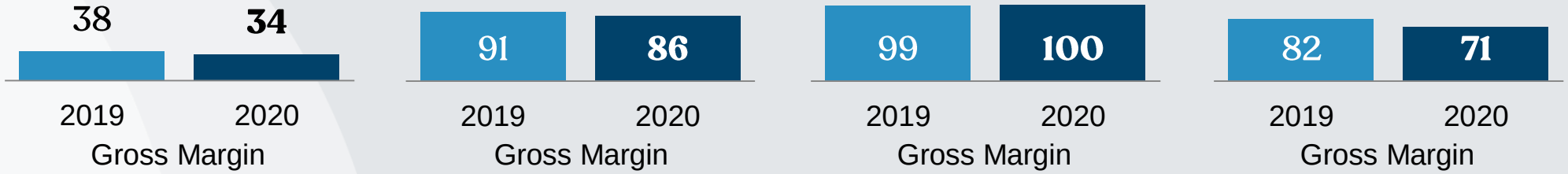
Note: EBIT is in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.

Consumer by region

	Greater China	Asia	Latin America	Oceania
Volume[1]	23 000 MT	48 000 MT	128 000 MT	132 000 MT
	From 25,000 MT	From 51,000 MT	From 129,000 MT	From 134,000 MT
Gross Margin	33.4%	27.1%	28.9%	17.4%
	From 36.3%	From 28.5%	From 29.0%	From 19.4%

$ million



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China Farms

Million	2019[1]	2020	%Δ[2]
Volume[3] ('000 MT)	4	5	18%
Revenue ($)	54	70	29%
Gross Margin[4] ($)	(2)	6	340%
Gross Margin (%)	(4.2)%	7.9%	
Operating Expenses[4] ($)	(13)	(6)	54%
Other[4,5] ($)	(4)	(7)	
China Farms EBIT[6] ($)	(19)	(8)	60%
End-to-End EBIT Perspective			
Ingredients EBIT ($)	(4)	–	
Consumer and Foodservice EBIT[7] ($)	0	2	577%
China Farms End-to-End[8] ($)	(23)	(6)	74%

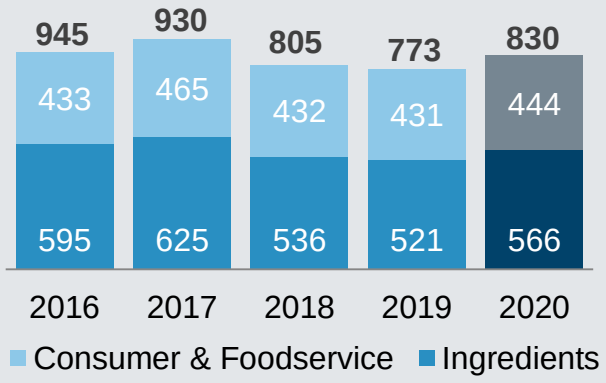
- Sales volume increased 18% due to higher productivity, feed management and recovery from flood in Yutian
- Gross margin up $8 million due to increased sales volume and improved pricing from stronger market demand
- Operating expenses down $7 million with continued cost focus
- At EBIT level, loss decreased from $19 million to $8 million:
  - Fonterra-owned farming hubs EBIT up $19 million, from $(15) million to now slightly above breakeven, but offset by
  - Joint venture farm hub losses increased from $(4) million last year to $(8) million
- Continued improvement in the average price received for our milk, 64% of our revenue was from milk sold for more than RMB 4 versus 46% in 2019

1. Reporting of Ingredients' selling China Farm's milk on behalf of China Farms was revised in FY20 to be reported in the China Farms segment. On a comparable basis, the following FY19 figures above would change; revenue $0.3 million increase, operating expenses $0.4 million decrease, gross margin and EBIT $4 million decrease.
2. 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.
3. Includes sales to other strategic platforms.
4. Fonterra-owned farms in the China Farms business segment.
5. Includes Other Income, net foreign exchange gain/(loss) and share of equity accounted investees.
6. Includes Fonterra-owned farms and the joint venture farms.
7. EBIT impact of milk from China Farms sold by Consumer and Foodservice businesses.
8. Provides end-to-end perspective, comprising China Farms segment plus financials from Consumer and Foodservice related sales of milk from China Farms.

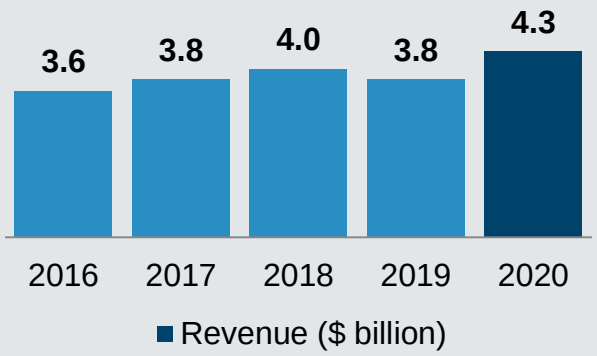
Note: Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter performance of FY19.

Key financial metrics for FY20 Q1

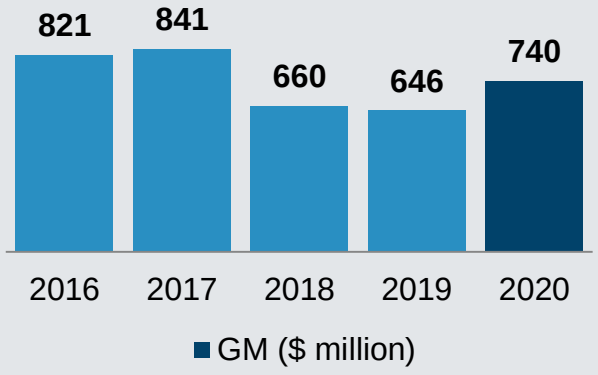
Sales Volume ('000 MT)[1]



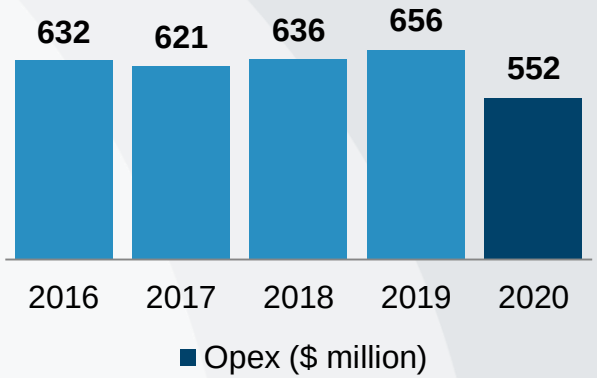
Reported Revenue



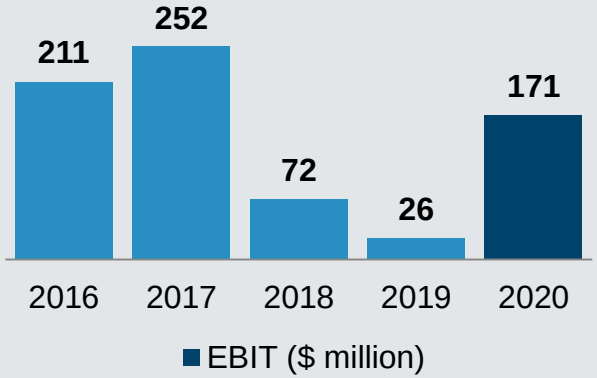
Normalised Gross Margin



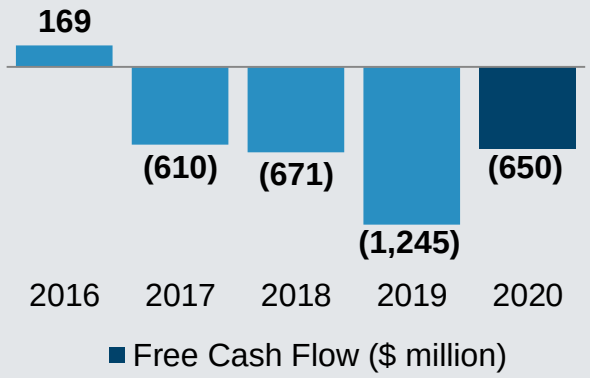
Normalised OPEX



Normalised EBIT



Free Cash Flow



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

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

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.