Fonterra Co-operative Group Limited
Results for Announcement to the Market

Reporting Period	6 months to 31 January 2019
Previous Reporting Period	6 months to 31 January 2018

	Amount (m's)	Percentage Change
Revenue from ordinary activities	NZ$9,746	(1)%
Profit (loss) from ordinary activities after tax attributable to security holder[1]	NZ$80	123%
Net profit (loss) attributable to security holders	**NZ$76**	**121%**

1 Net profit attributable to shareholders of the company is equivalent to profit from ordinary activities after tax attributable to shareholders of the company (as required to be disclosed pursuant to Clause 2.2 of Appendix 1 of the Fonterra Shareholders' Market Listing Rules, and Clause 2.2 of Appendix 1 of the NZX Debt Market Listing Rules).

Interim/Final Dividend	Amount per Security	Imputed Amount per Security
No interim dividend to be paid	-	-

Record Date	-
Dividend Payment Date	-

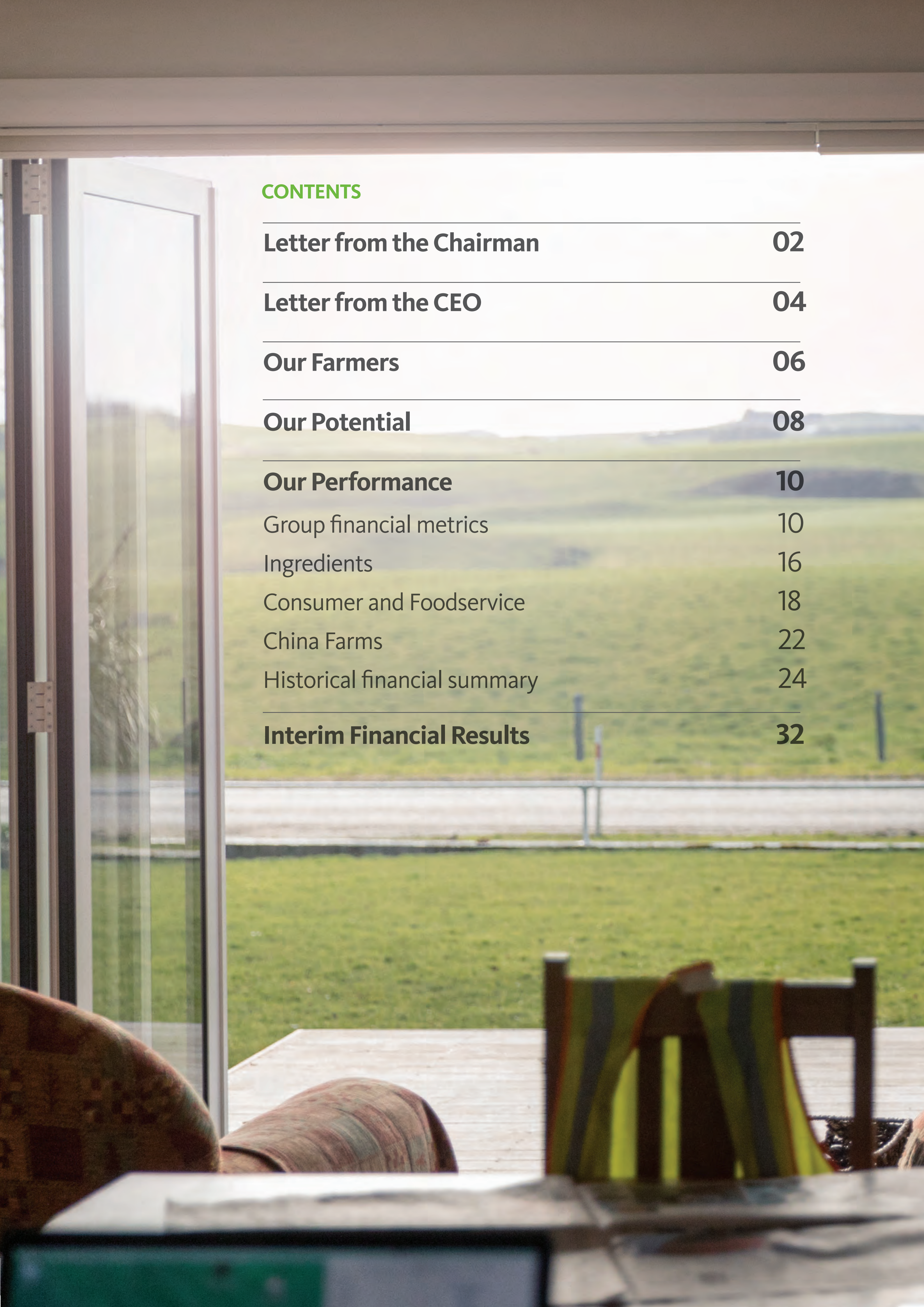
Comments	-

To be followed by the balance of the information required in the report pursuant to Appendix 1 – Including the Net Tangible Asset amount per security for the current and previous reporting period.

Fonterra Interim Report

2019

Fonterra
Dairy for life



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Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised segment earnings, normalised EBIT, EBIT, normalisation adjustments and payout. These are non-GAAP financial measures and are not defined by NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends.

These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. These non-GAAP measures are not subject to audit unless they are included in Fonterra's annual financial statements.

Please refer to page 56 for the reconciliation of the NZ IFRS measures to the non-GAAP measures and page 57 for definitions of the non-GAAP measures used by Fonterra.

Earnings performance a clear signal that fundamental change is needed

John Monaghan
Chairman

Our rising forecast Farmgate Milk Price reflects a global export market in which we expect demand to remain stronger relative to supply for the rest of the season. It is welcome relief for our farmers who have faced difficult conditions since the start of the year.

Global supply, while still up on last season, has slowed due to challenging weather conditions in some of the world's largest milk producing regions. It's a similar story here in New Zealand where recent hot, dry weather means our forecast milk collections are down on earlier expectations at 1,510 million kgMS, up just 0.3% on last year.

Stronger global demand, being driven predominantly by China and Asia, has seen an upward trend in global prices for our reference products over the last quarter. That is putting pressure on the margins for non-reference products, and they significantly contribute to our earnings.

Alongside those input prices, three main pressure points on our earnings have remained constant across the first half of the year – challenges in our Australian Ingredients business, in our Foodservice businesses in Greater China where higher butter prices and inventories slowed demand, and the impact of global geopolitical issues – particularly in our markets in Latin America.

Interim financial results and interim dividend decision

At a range of $6.30-$6.60 per kgMS, our forecast Farmgate Milk Price is strong but the Co-op's earnings performance is not where it needs to be.

As announced in February, our forecast earnings per share range is down at 15-25 cents and we have decided there will be no interim dividend payment. A decision on any full year dividend will be made once the Board has a complete picture of the full year earnings and balance sheet position.

Our performance is not something that will be fixed overnight. It will require the courage to make difficult decisions and a culture of accountability and performance right across the organisation.

Farmers and unit holders expect a respectable return on their investment and your Board is making solid progress on a fundamental review of the business strategy to deliver it.

New leadership

As I've said, our performance is not something that will be fixed overnight. However, the Board has been impressed by Miles Hurrell's leadership and commercial skills since he took up the role of interim CEO in August last year. Our decision to appoint Miles as the permanent CEO was a clear one.

Strategy timeline

Vision + Purpose

Portfolio Review

Strategy Review
Kick off in January

Progress update in May
(MyConnect conference and Q3 business update)

Full Strategy Announced
at 2019 Annual Results

His work alongside the Board as we progress our full strategy review, and the portfolio review we began back in late 2018 to re-evaluate our investments, major assets and partnerships, make him uniquely qualified to be our CEO. His permanent appointment will bring much needed continuity and stability to the Co-op during this critical period of change.

Full strategy review

The Board is progressing well with a full review of the Co-op's business strategy. This isn't mere tinkering around the edges. There will be fundamental change. We are taking a hard look at our end-to-end business, where we can win in the world, and the products where we have a real competitive advantage.

Our Co-operative values of the last 148 years won't change. Your quality, pasture-based milk will always be collected, processed and sold for the highest possible returns. You'll always be paid on the 20th of the month – every month.

Outside of that, there are no sacred cows. The business strategies designed to secure the highest possible returns will change, but some underlying principles will remain.

The emerging themes from the strategic review are listed in full to the right, but there are a few worth calling out.

Sustainability must be at the core of everything we do. Healthy, strong communities and environments underpin sustainable, profitable dairy farming. We have shown our ability to adapt farm management systems to work within increasingly stringent rules and still contribute to healthy lifestyles and a healthy economy. But more will be required.

Our future is a farming system that uses advancements in technology and innovation, including adaptations from other industries, to help protect or enhance the premium qualities and reputation of our milk.

We are a New Zealand dairy farmers' Co-op. Maximising the value of our home milk supply will always be our number one priority. We believe there's a premium to be earned from products backed by our co-operative heritage and provenance, supplemented by offshore milk components where required to meet demand.

Our portfolio review has given us the information we need to simplify our business and concentrate on getting the basics right. We are already simplifying our portfolio of investments back to those that target higher value. Within that, there is still an important role for our base ingredients products where we already have a competitive advantage.

Achieving our ambition will rely on us maintaining premium quality right across the supply chain. It starts on farm and flows through to the premiumisation of the products we make, and the type of customers we sell to.

It sounds simple. Experience tells us that the best strategies often are.

John Monaghan
Fonterra Chairman

Key numbers

Forecast Farmgate Milk Price range 2018/2019 season

$6.30-$6.60 per kgMS

New Zealand milk collection for the 2018/2019 season

1,510m kgMS

0.3%

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 advantage.

Increase focus on return on capital.

Resetting the business

Miles Hurrell
Chief Executive Officer

We are taking the right steps in the three-point plan to turn our business around. What these interim results show is that more is clearly needed to increase our earnings and ensure they're sustainable. This requires a fundamental reset of the business.

I want to update you on our progress on the three-point plan, share our half year results and let you know our priorities for the rest of the year, which are focused on the reset.

Three-point plan

The first measure in our three-point plan is to **take stock of the business** and re-evaluate every investment, major asset and partnership to ensure it still meets the needs of the Co-op. We also have a target to reduce our debt by $800 million by the end of FY19, as previously announced, and this is going to require us to divest some assets. We have identified three assets as no longer core to our business through our portfolio review. We are in discussion with interested parties for Tip Top and DFE Pharma, and actively considering options for our shareholding in Beingmate.

I understand that we have strong ties with all our businesses and the people who work in them. This is only natural for a Co-op with a strong heritage. But we need to ensure the Co-op is delivering financially for farmers and their families, and unit holders. Right now, this means making strategic decisions to let things go, get our debt down and focus on those assets that we can scale up and grow value from. We also need to get comfortable with the idea of constant movement in and out of our asset portfolio because we need to continuously review our assets and ensure they are meeting the changing needs of the Co-op.

The second measure is to **get the basics right** and lift the level of financial discipline in the Co-op. This is about living within our means. We're on track to meet our capital expenditure target of $650 million – over $200 million less than last year – and the tide is turning on our normalised operating expenses which we have reduced by $31 million compared to the first half of last year.

The third measure is to **ensure more accurate forecasting**. Our industry is one of the most volatile in the world and we are dealing with factors that have a big impact on us but are not in our control – for example, weather, political uncertainty in markets we trade with, and the flow on effects of these factors on milk prices. We can't predict these but we can acknowledge them early and respond or adapt quickly. This is why we're now talking about ranges for our forecast milk price. I also have a no-surprises policy and will quickly share all news, whether it's good or bad.

First half operating performance

Coming from the loss we made last year, it is pleasing to see we're back in the black and have returned to profitability in the first half of FY19 with a reported Net Profit After Tax (NPAT) of $80 million.

However, we obviously have plenty more work to do with a normalised Earnings Before Interest and Tax (EBIT) of $323 million, down 29% compared to the first half of last year. Our earnings performance at half year is not where it should be and this is why we reduced our full year earnings guidance to 15-25 cents per share in February.

The steady performance of New Zealand Ingredients has been offset by challenges in Australia Ingredients and this has seen our total Ingredients EBIT decline by 17% to $461 million. Our Australia Ingredients business continues to feel the impact of the drought. We can see it clearly in the decline of Australian milk collections, the aggressive competition on milk prices, the underutilisation of assets and tightening margins.

Consumer and Foodservice is tracking behind last year with an EBIT of $134 million. This part of the business has been held back by disruptive economic and geopolitical conditions in Latin America. In addition to this, demand slowed in China due to higher prices at the end of FY18 and growing in-market inventory levels for butter. Our performance in Sri Lanka was impacted by price constraints.

Priorities for the second half

To increase our earnings and ensure they're sustainable we're going to have to work our existing assets harder and create more demand for our milk so we have more levers to pull, especially when times are tough. I'm excited about the reset of our business which is our focus for the second half of FY19 and beyond.

It will involve meeting our earnings guidance range of 15-25 cents per share. To shed some light on what it will take to achieve the mid-point of this range, it assumes Ingredients has a slightly softer second half but there is a significant increase in Consumer and Foodservice earnings.

Our forecast increase in our Consumer and Foodservice performance is based on a strong improvement in our Foodservice business, in Greater China in particular, Brazil's economy improving, which will support stronger consumer demand for chilled dairy, and Sri Lanka's price environment improving.

The second half also involves delivering our three-point plan. We need to take these steps to firm up our foundations and strengthen our balance sheet.

But as I've already said it's clear that more is needed and the second half will also see us continuing the work on developing a new strategy to support the change in direction and accelerate the much-needed lift in our performance. We need to simplify and improve the Co-op so we can grow value.

Thank you for your ongoing support and commitment. I am confident that together we can back each other to deliver the Co-op's full potential for the benefit of generations to come.

I'm looking forward to leading this Co-op as we make this happen.

Miles Hurrell
Chief Executive Officer

Key performance metrics

Net Profit After Tax (NPAT)

$80m

123%

Normalised Earnings Before Interest and Tax (EBIT)

$323m

29%

Three-point plan

Take stock of our business

Three assets identified as no longer core to our business.

Reducing year end debt by $800 million.

Get the basics right

Bringing our operating expenses back to FY17 levels over the next two years.

Capital expenditure target for FY19 set at $650 million, down from $861 million last year.

More accurate forecasting

Providing ranges for our forecast Farmgate Milk Price.

Quickly sharing good news and bad news.

Working for farmers

$21.3m

in Farm Source™ Reward Dollars, discounts on everyday farming supplies, and partnership deals in the first half of the year.

$7m
earned in Reward Dollars.

$8.5m
saved by farmers through in store discounts on farming supplies.

92
Mazda vehicles were purchased with a combined discount of **$1.3 million.**

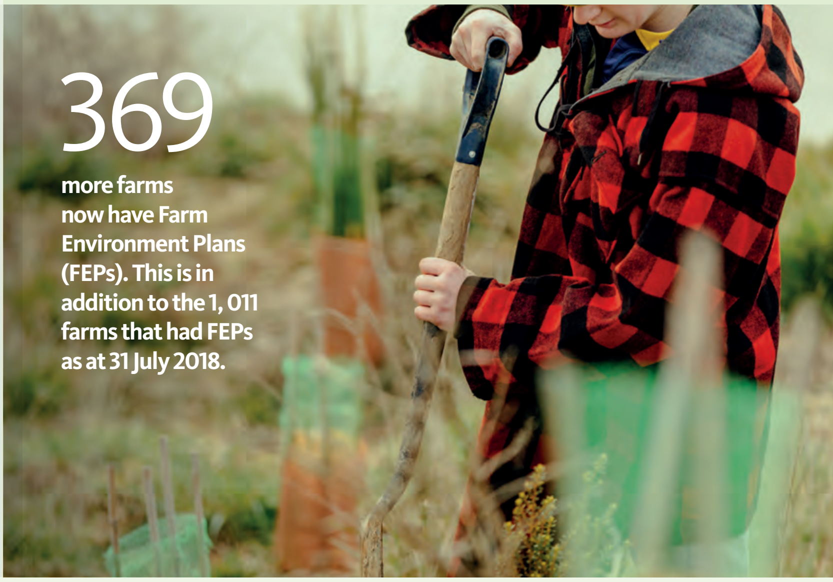
$4.4m
in partnership savings on power and fuel.

Recognising farmers' good work

With cross-country farmer workshops now complete, the Co-op is finalising a new programme set to begin for the 2019/2020 season that will recognise farmers who go beyond the minimum standards to produce high-quality milk, care for their cows, protect the environment, empower their people and keep the Co-op strong for generations to come.

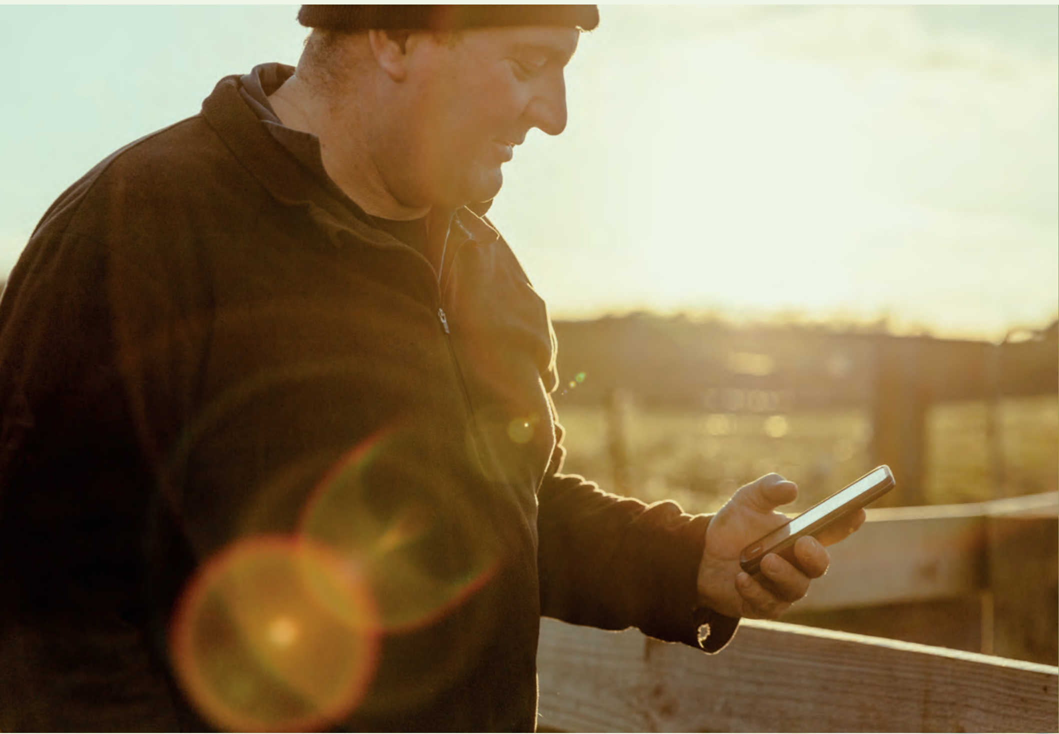
Connecting your Co-op

A further 90 farmers attended the Understanding Your Co-operative programme in the first half of this year, expanding their knowledge of the Co-op's global, national and local operations.



369

more farms now have Farm Environment Plans (FEPs). This is in addition to the 1, 011 farms that had FEPs as at 31 July 2018.



4,500 farms

have downloaded the new Dairy Diary app.

90%

More than 90% of farmers use our smartphone apps, and **60%** connect with the Co-op using more than one of our digital channels regularly.

Providing more financial tools

Fixed Milk Price was introduced as a new financial tool to help farmers manage some of the risk they face from unpredictable global milk prices. For the 2019/20 season, farmers will have the opportunity to fix the price they receive for a portion of their milk supply.

26

Sustainable Dairying Advisors are now on the ground working **one-on-one** with farmers to help them make their farms more sustainable.

240

farmer events were held across the country.

Growing Demand

Around the globe, our teams are working hard to maximise the value of New Zealand's milk for farmers and unitholders.

We're a demand-led business, and we're working to grow the demand for higher-value products with New Zealand milk to bring value to our Co-op and New Zealand communities. We always prioritise New Zealand milk and where we can't meet a customer's shopping list with this, we source it globally through partnerships or establish new supply arrangements.

50% growth

Nearly **50% growth** in our Foodservice Beverage House Channel which captures the rapid global expansion of dairy beverage trends by putting high-value products like cream and cream cheese right at the chef's table. Off the back of growth in China, we've launched Beverage House in other key markets across the wider Asia, the Middle East and Africa region, and plans are underway in USA and Chile.

6% growth

In the first half of FY19 we achieved 6% growth in NZMP sales volumes due to increased New Zealand milk collections, availability of product and strong demand for powders in China and South East Asia.

Complementing diets

We've taken a minor stake in Motif Ingredients, a US-based food ingredients company focused on developing and commercialising bio-engineered animal and plant ingredients. Dairy nutrition will always be at our core but exploring how we capture more value from new types of nutrition is a key part of our strategy to futureproof our Co-op.

High growth in the ready-to-drink market

We lifted our high-value milk protein concentrate sales in the United States as we teamed up with key customers experiencing high-growth in ready-to-drink beverages, such as sports drinks.

Launching in India

The equivalent of more than **2 billion glasses of milk** are drunk in India every day. That's why we set up a joint venture partnership with Future Consumer. We're looking forward to our first products hitting shelves in India this year, in a market worth $21 billion annually that's forecast to grow seven times faster than China.

A pack selling every second

40% of Australian households use Western Star™. It's one of the most popular brands in Australia, with a pack selling every second. It's now worth over $200 million in retail sales per year.

Driving high-value demand

Our third mozzarella plant at Clandeboye and new cream cheese plant at Darfield are now up and running. We built these plants to meet growing demand for high-value products around the world, particularly in China.

Fresh Milk in China

We launched a co-branded Anchor™ premium fresh milk range with global supermarket Carrefour, following on from our successful Hema Daily range with Alibaba. This year we're tapping into this growing market by expanding our fresh milk products to more channels and customers, straight from our China Farms to consumers.

Clever engineering to lift capacity

Thanks to some clever engineering at Hautapu, we expect to lift our Lactoferrin capacity by 10% to help meet a growing demand in Asia for one of our highest value products, commonly referred to as 'pink gold'.

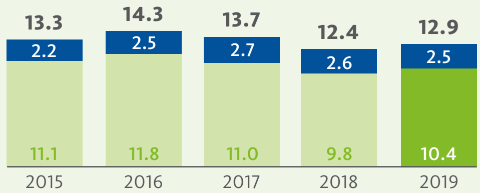
Group financial metrics

These charts have been selected to represent the half year financial metrics for Fonterra.

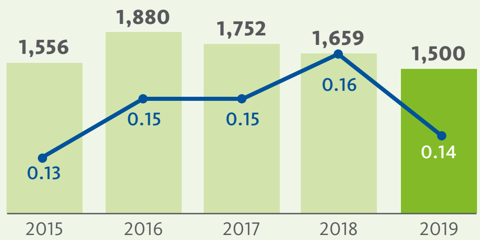
Previously shared full year metrics, for example Return on Capital, will be shared in our Annual Report.

HALF YEAR FINANCIAL METRICS

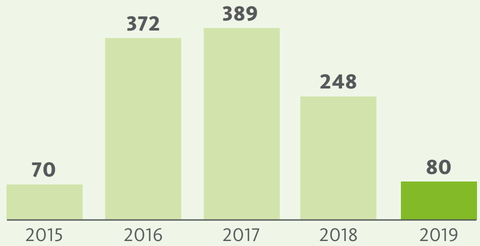
Sales Volume (LME bn)[1]



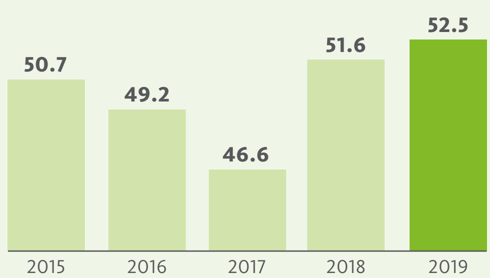
Normalised Gross Margin



Normalised NPAT ($ millions)[4]



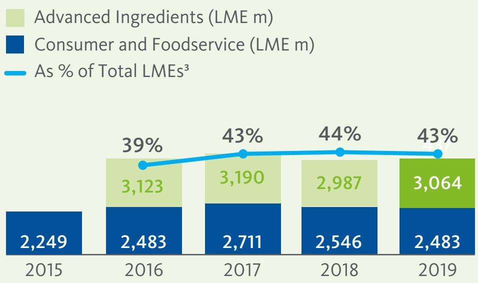
Gearing (%)



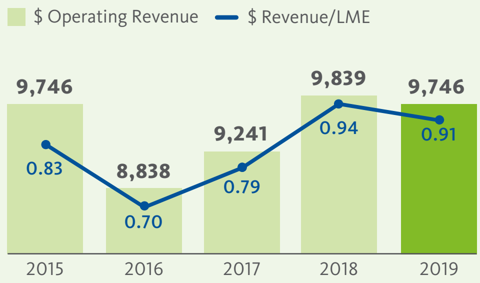
1 Does not add to total due to inter-group eliminations.

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.

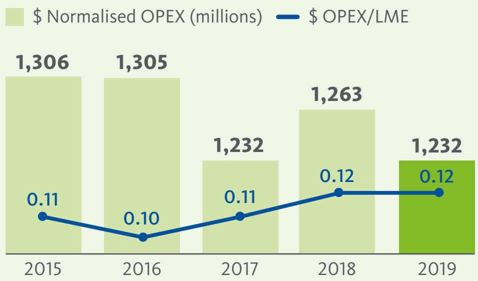
Volume to Higher Value[2]



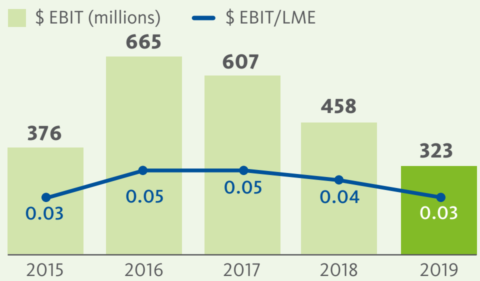
Reported Revenue ($ millions)



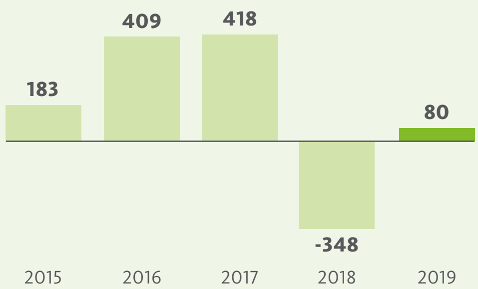
Normalised OPEX



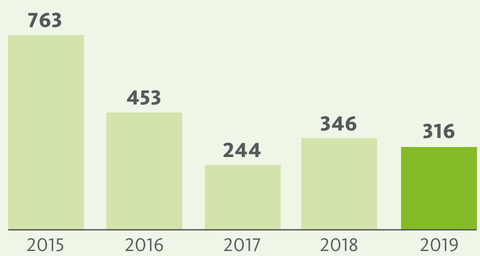
Normalised EBIT



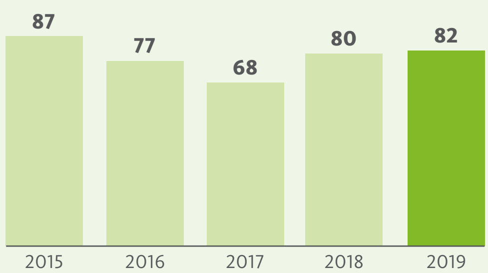
Reported NPAT ($ millions)[4]



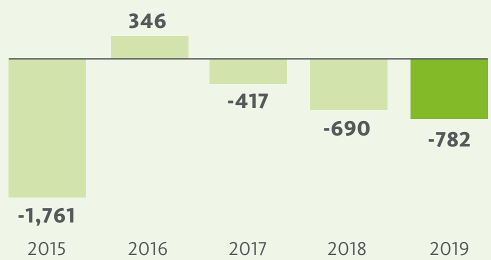
CAPEX[5] ($ millions)



Working Capital Days



Free Cash Flow ($ millions)



3 Comprises Advanced Ingredients and Consumer and Foodservice products.

4 Includes non-controlling interests.

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.

Group Overview

We have a mixed set of results. The forecast Farmgate Milk Price looks solid, and New Zealand Ingredients and Consumer and Foodservice in Oceania have performed steadily. However, this has been offset by challenges in our offshore milk pools and a slow start in our Latin America Consumer and Greater China Foodservice businesses.

We have returned to profitability in the first half of FY19 with a reported Net Profit After Tax (NPAT) of $80 million. However, with normalised Earnings Before Interest and Tax (EBIT) of $323 million, down 29% compared to the same period last year, our earnings performance at half year is not where it needs to be. This has seen us reduce our full year earnings guidance from 25-35 cents per share to 15-25 cents per share.

We have also decided not to pay an interim dividend. The primary reason for this is that while we are focused on reducing our debt and strengthening our balance sheet, it is appropriate that any dividend decisions are made with a complete picture of our full year earnings and the outcome of our portfolio review, which will include the divestment of assets.

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 Represents total external sales.

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

4 Includes non-controlling interests.

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

6 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.

	SIX MONTHS ENDED		
NZD MILLION	31 JAN 2019	31 JAN 2018	CHANGE[1]
Volume (LME, billion)[2]	**10.7**	10.5	2%
Volume ('000 MT)[2]	**2,055**	2,003	3%
Normalised sales revenue[3]	**9,746**	9,836	(1%)
Normalised gross margin[3]	**1,500**	1,659	(10%)
Normalised gross margin percentage[3]	**15%**	17%	
Reported operating expenses	**(1,232)**	(1,864)	(34%)
Normalised operating expenses[3]	**(1,232)**	(1,263)	(2%)
Reported EBIT	**323**	(176)	284%
Normalised EBIT[3]	**323**	458	(29%)
Net finance costs	**(205)**	(201)	2%
Tax (expense)/credit	**(38)**	29	(230%)
Net profit after tax[4]	**80**	(348)	123%
Earnings per share (cents)	**5**	(22)	122%
Dividend per share (cents)	**–**	10	(100%)
Gearing ratio[5]	**53%**	52%	
Free cash flow	**(782)**	(690)	13%
Capital expenditure[6]	**316**	346	(9%)

Net Profit After Tax (NPAT)

$80m ▲ 123%

Normalised EBIT

$323m ▼ 29%

Volume

10.7b LME ▲ 2%

Group Overview CONTINUED

Consistent with our seasonal milk collection profile in New Zealand, our production and inventory built in the second quarter. This flowed through to strong sales volumes which were up 2% to 10.7 billion Liquid Milk Equivalents (LMEs) for the first six months to 31 January 2019 compared to the same period last year.

The sales volume growth was driven by a 6% increase in sales volume in Ingredients. However, Consumer and Foodservice sales volumes were down 2% to 2.5 billion LMEs which was mainly because of a 17% decrease in Greater China Foodservice sales volume. This was due to demand slowing at the end of the last quarter of FY18 and in-market inventory levels growing, especially for butter. The butter market corrected sharply in the first half of FY19, and this has helped with clearing excess inventories. Butter shipments to China started again in the second half of the year.

Our total normalised sales revenue declined 1% to $9.7 billion despite the strong volume growth. In Ingredients, normalised sales revenue was up 4% on the back of higher sales volume but overall prices were lower. In Consumer and Foodservice, sales revenue was flat on last year and despite higher product prices being achieved they were offset by lower sales volumes.

Total normalised gross margin was $1.5 billion, down 10% which is a $159 million decrease. Our Ingredients' gross margins were still strong at 10%, but less than the first half of last year which was a strong performance. We also had pricing challenges in a number of markets which impacted Consumer and Foodservice's gross margin. For example, in Latin America we experienced disruptive economic conditions combined with high input costs, in China higher butter prices and inventories at the end of FY18 slowed demand, and in Sri Lanka we faced price constraints.

The increase in operating expenses seen in FY18 and in the first quarter of FY19 has been reversed with our normalised operating expenses down 2%. There is a concerted effort right across the business to reduce costs and to date, significant reductions have been made in selling and marketing costs, including a significant reduction in corporate brand advertising and overheads.

Our normalised EBIT of $323 million was down 29% compared to the same period last year.

While New Zealand Ingredients delivered a steady result, challenges in our offshore milk pools have caused Ingredients' normalised EBIT to decrease 17% on last year to $461 million.

Our New Zealand Ingredients business manufactures five ingredient products that inform the Farmgate Milk Price range. These are referred to as reference products, while all other products are referred to as non-reference products. As the five reference products drive the cost of milk used to make non-reference products, the relative price differences and movements of the two sets of products is an important contributor to our EBIT performance. Their price relativities were favourable, but less than the comparable period last year.

In Consumer and Foodservice, the challenges across Latin America, Greater China and Sri Lanka have resulted in a 30% decline in Consumer and Foodservice normalised EBIT to $134 million. Oceania was the only region to report growth in normalised EBIT in Consumer and Foodservice and this was driven by Australia's strong performance predominantly in butter sales to consumers.

Our China Farms reported a total loss of $21 million which was flat on the same period last year. This is made up of a direct loss of $17 million, which is a 43% increase in the loss on the first half of last year, a $5 million loss in Ingredients and a $1 million profit in our Consumer and Foodservice business. Continuous rainstorms and floods in Yutian have impacted milk production and, consequently, sales volumes from our China Farms so far this year. We've also incurred additional effluent and animal management costs. Our Ingredients business is responsible for purchasing the raw milk from China Farms and selling it for the highest possible price. We have seen an improvement in the average price Ingredients has been selling this milk at but it is still less than what Ingredients buys it for. Our Consumer and Foodservice business has continued to make small steps to capitalise on China's trend towards fresh milk with the launch of a premium milk range with global supermarket Carrefour.

Our total reported EBIT has increased 284% to $323 million for the first six months of FY19. The significant increase reflects the two large one-off items in FY18, being the payment for the Danone arbitration award and the Beingmate write-down, that significantly impacted our reported EBIT last year.

Economic net interest bearing debt and gearing are both typically higher for the Co-operative at the end of the first six months of the year, reflecting the seasonal profile of our business. This usual scenario occurred in the first half of FY19 too but we have not needed as much new debt in the first half of this year compared to last year. This is because the lower earnings were offset by reduced capital expenditure and investments, and, furthermore, we did not pay a final dividend for FY18, resulting in an improved net cashflow by 16%.

We started the year with economic net interest bearing debt at $6.2 billion, up 11% on the previous year's $5.6 billion. As at 31 January 2019, economic net interest bearing debt was $7.4 billion and our gearing ratio is 53%. This is up 0.9% on the same period last year and is due to the higher debt at the start of the year as opposed to us needing greater levels of debt during the first half. We continue to be committed to our target end of year gearing range of 40-45% and achieving this will require receiving sale proceeds from the asset sales being progressed under our portfolio review.

Our working capital days have increased by two days to 82 days, mainly due to higher inventory levels following the increased collections. This is considered a temporary increase as we are seeing continuing strong demand for our Ingredients' products in the second half of the year.

There is a reduction in the level of capital expenditure on larger projects this year, which is consistent with the strong focus on financial discipline and keeping our capital expenditure within our $650 million target for the year. This is forecast to be more than $200 million down on last year. We are on track to meet our target with capital expenditure sitting at $316 million at half year and 9% down on the same time last year.

Normalised operating expenses

$1,232m 2%

Ingredients

Our sales volumes in Ingredients were 10.4 billion LMEs, up 6% in the first half of FY19 compared to the same period last year, but normalised EBIT declined 17% to $461 million.

We saw Australia Ingredients' gross margin decline significantly due to drought conditions, declining milk collections and high milk prices. This was in addition to tightening margins in New Zealand Ingredients.

Ingredients Performance

	SIX MONTHS ENDED		
NZD MILLION	31 JAN 2019	31 JAN 2018	CHANGE[1]
Volume (LME, billion)	**10.4**	9.8	6%
Volume ('000 MT)	**1,556**	1,441	8%
Normalised sales revenue[2]	**8,196**	7,903	4%
Normalised total gross margin[2]	**791**	871	(9%)
– New Zealand Ingredients	**669**	734	(9%)
Reference products	**345**	372	(7%)
Non-reference products	**324**	362	(10%)
– Australia Ingredients	**6**	50	(87%)
– China raw milk[3]	**(5)**	(9)	
– Other gross margin	**121**	96	26%
Normalised EBIT[4]	**461**	558	(17%)
Gross margin ($ per MT) – New Zealand Ingredients			
Reference products ($ per MT)	**373**	413	(10%)
Non-reference products ($ per MT)	**915**	1,309	(30%)

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

3 China raw milk gross margin represents the net benefit/(loss) from the external sales of milk produced by China Farms and sold to the Ingredients business in China at an internal raw milk price.

4 Normalised EBIT for Ingredients excludes unallocated costs. There were no normalisation adjustments for the six months ended 31 January 2019.

Volume

Sales volumes in New Zealand Ingredients were up. This was supported by strong collections for the first half of the 2018/19 milk season, which were up 5% on last year to 1,083 million kgMS.

In Australia, our sales volumes were also up mainly due to strong opening inventory levels. However, sales were constrained due to the 16% decline in milk collections to 83 million kgMS for the first half of the year. The Australian dairy industry, including our business, is experiencing a heavy decline in milk collections due to severe drought conditions.

In Latin America, Prolesur's milk collections were down 9% due to strong competition for farmers' milk. In China, our Ingredients business bought 15% less milk from our China Farms due to lower milk production. This flowed through to smaller sales volumes from both these offshore milk pools in the first half compared to the same period last year.

Despite the challenges in our offshore milk pools, total Ingredients sales volumes were 10.4 billion LME, up 6% compared to the same period last year. This was due to the increased New Zealand milk collections and hence availability of product combined with strong demand for powders in China and South-East Asia.

The increase in sales volumes has flowed through to $8,196 million of revenue in the first half, up 4% or $290 million on the same period last year.

At the end of the first half our inventory levels were up 47,000 metric tonnes on last year to 943,000 metric tonnes primarily due to the higher milk collections.

Value

Overall Ingredients' normalised gross margin for the first half was $791 million, down 9% on the first half of FY18. Total Ingredients' EBIT was $461 million, down 17% or $97 million on the same period last year.

Our New Zealand Ingredients business manufactures five ingredient products that inform the Farmgate Milk Price range. These are referred to as reference products, while all other products are referred to as non-reference products. As the five reference products are used to price the milk used to make non-reference products, the relative price differences and movements of the two sets of products is an important contributor to EBIT performance.

Although still strong, New Zealand Ingredients' gross margin declined 9% in the first half to $669 million. The gross margin on our reference products was $345 million, down 7% on the first half of last year. However, the main contributor to the overall gross margin decline was the reduced margin in our non-reference products to $324 million, down 10%. This was because of a number of factors: the increased conversion costs, associated with bringing new plants online; additional costs of processing larger volumes of milk; and the reference product prices declining less than non-reference product prices.

Our Australia Ingredients business had a difficult first half with gross margins down 87% from $50 million to $6 million. We have continued to increase our milk price in response to the market and in February we announced an increase in the milk price to AUD$6.05. Lower milk collections meant some factories have been underutilised. In addition to the higher milk prices, this has increased our cost of goods and significantly impacted gross margins.

In January we repurchased a 51% share in the Darnum factory in Australia from Beingmate. We structured the transaction to ensure we did not pay any cash up front and have entered into a multi-year supply contract for Beingmate to purchase ingredients from us. By taking full control of Darnum, we will now be able to look for new partners, improve efficiencies and produce the product mix that creates the greatest value. However, in the meantime, we need to recover all Darnum's fixed costs and, in the first half of this year, this was an additional $11.3 million.

Our Ingredients' gross margin was also impacted by a $5 million loss in the first half representing the difference between the domestic milk price and the internal raw milk price paid to China Farms. This is a 44% improvement on the first half of last year and reflects a strengthening of the domestic milk price. We include the China Farms' sales volumes and earnings in Ingredients as we use our sales expertise to maximise sales revenue of the raw milk, leaving China Farms to focus on efficient milk production.

Margins in "Other gross margin" were up 26% in the first half to $121 million. The main contributor was an increase in the profitability of our globally sourced products.

Normalised Sales Revenue

$8,196m ▲ 4%

Normalised Total Gross Margin

$791m ▼ 9%

New Zealand Ingredients' Gross Margin

$669m ▼ 9%

Australia Ingredients' Gross Margin

$6m ▼ 87%

New Zealand Ingredients' Revenue and Volume[1]

	SIX MONTHS ENDED		
NZD MILLION	31 JAN 2019	31 JAN 2018	CHANGE[2]
Production Volume ('000 MT)			
Reference products	**1,346**	1,266	6%
Non-reference products	**485**	483	0%
Sales Volume ('000 MT)[3]			
Reference products	**924**	900	3%
Non-reference products	**354**	277	28%
Revenue Per MT (NZD)[3]			
Reference products	**4,658**	4,783	(3%)
Non-reference products	**5,294**	5,726	(8%)

1 Figures exclude bulk liquid milk. The bulk liquid milk for the six months ended 31 January 2019 was 34,000 MT (six months ended 31 January 2018 was 34,000 MT).

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 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.

Consumer and Foodservice

After three years of growth, our Consumer and Foodservice business had a slower start in the first half of this year with both volumes and earnings down due to market-specific challenges. In particular, disruptive economic conditions and high input costs in Latin America, demand slowing due to higher prices at the end of FY18 and in-market inventory levels growing for butter in China, and price constraints in Sri Lanka.

Overall Consumer and Foodservice volumes were down 2% to 2,487 million LMEs but Oceania sales volumes were up 3% on last year. Total revenue was flat on last year at $3,470 million with Oceania and Asia revenues up 2% and 3%, respectively, and Greater China and Latin America down 6% and 1%, respectively.

Our gross margin decreased by 7% to $766 million and our normalised EBIT decreased by 30% to $134 million due to a combination of price competition and the economic conditions in various markets. We reduced Consumer and Foodservice's operating expenses by $1 million despite additional sales, storage and distribution costs.

Consumer and Foodservice Performance

	SIX MONTHS ENDED		
NZD MILLION	31 JAN 2019	31 JAN 2018	CHANGE[1]
Volume (LME, billion)	**2.5**	2.6	(2%)
– Consumer	**1.5**	1.4	4%
– Foodservice	**1.0**	1.1	(11%)
Volume ('000 MT)	**888**	877	1%
Sales revenue	**3,470**	3,473	0%
Gross margin	**766**	821	(7%)
Gross margin percentage	**22%**	24%	–
– Consumer	**25%**	27%	–
– Foodservice	**16%**	17%	–
Normalised EBIT[2]	**134**	193	(30%)

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

Normalised EBIT: Key performance drivers

	SIX MONTHS ENDED	
NZD MILLION	31 JAN 2019	31 JAN 2018
Normalised EBIT prior year	**193**	313
– Volume	**10**	(20)
– Price	**(49)**	301
– Cost of goods sold	**(18)**	(420)
– Operating expenses	**1**	4
– Other[1]	**(3)**	15
Normalised EBIT[2]	**134**	193

1 Includes net other operating income, net foreign exchange gains/losses and share of profit/loss of equity-accounted investees.

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

By region

Greater China

Greater China sales volumes were down 13% to 524 million LMEs in the first half compared to the same period last year and normalised EBIT was $61 million, down 34%. The main reason for this was a 17% decrease in Foodservice volumes due to demand slowing at the end of the last quarter of FY18 and in-market inventory levels growing, especially for butter. The butter market corrected sharply in the first half of FY19, clearing excess inventories and enabling China butter shipments to resume in the second half of the year.

Foodservice's gross margins were down 21% to $85 million in the first half of last year. While gross margins were down for butter, Anchor Food Professionals UHT culinary cream range and mozzarella continued to perform well.

Consumer gross margins were up 4% to $77 million. This was mainly due to the lift in margin percentage we have achieved on Anchor™ UHT and, since bringing it back in house, Anmum™ in Mainland China. Consumer volumes were also up 29% to 81 million LMEs. Two consumer products now hold number one position, based on market share, in their categories: Anchor™ UHT skim milk and Anchor™ UHT milk.

Latin America

At the EBIT level, we made a loss of $3 million in Latin America in the first half. Our sales volumes were up 5% to 388 million LMEs compared to the same period last year and gross margin was down 16% to $185 million.

While we grew Soprole sales volumes, we saw a decrease in Soprole's gross margins, following a 'buy local' marketing campaign, which impacted the sales of a number of foreign owned companies, including our own. An increase in milk input costs in Brazil due to its weak, but now improving, economy also impacted our gross margin. Brazil was able to offset some of its gross margin challenges with supply chain savings.

In Venezuela, volumes were down due to the challenging socio-economic situation which is restricting consumers' ability to access basic goods and services, including dairy products. There are also difficulties accessing the raw ingredients and packaging materials to run our factories. This impacted our gross margins.

Greater China Normalised EBIT

$61m 34%

Latin America Normalised EBIT

($3m) 111%

Consumer and Foodservice CONTINUED

Consumer and Foodservice Regional Performance

	LME (BILLION)			NORMALISED EBIT ($M)[1]		
SIX MONTHS ENDED	31 JAN 2019	31 JAN 2018	CHANGE[2]	31 JAN 2019	31 JAN 2018	CHANGE[2]
Consumer and Foodservice	**2.5**	2.6	(2%)	**134**	193	(30%)
Greater China	**0.5**	0.6	(13%)	**61**	92	(34%)
Asia	**0.7**	0.8	(4%)	**44**	56	(22%)
Latin America	**0.4**	0.4	5%	**(3)**	30	(111%)
Oceania	**0.8**	0.8	3%	**32**	15	110%

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

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.

Asia

Asia's normalised EBIT was $44 million in the first half, down 22% on the same period last year. Political uncertainty in Sri Lanka dampened the overall performance in Asia, where ongoing price constraints and weakened currency eroded gross margins by 22%. Our sales volumes in Asia were also down 4% to 733 million LMEs in the first half. This was due to a 16% drop in Foodservice volumes as a result of high levels of inventory already in the markets following our strong volume sales into the region at the end of last year.

We grew our Asia consumer business by 5% to 461 million LMEs. While gross margins were down 3%, Asia continued to be a profitable region. The exit of a key competitor in Singapore and Malaysia helped Fernleaf™ increase its market share in powders, leading gross margins to double on the back of better pricing. Malaysia performed well with Consumer continuing to perform strongly and saw strong growth in adult milk and growth in Anmum™ Essential.

Gross margins in Asia Foodservice were down 13%. This was due to product mix and absorbing higher input costs to defend market share in Vietnam and Thailand.

Oceania

We improved our performance in Oceania and delivered a normalised EBIT of $32 million in the first half, up 110% on last year. Sales volumes in Oceania were also up 3% to 843 million LMEs on same period last year. Earnings were up in both Consumer and Foodservice, mainly led by Australia.

In our Consumer business, gross margin increased by 2% to $171 million. In Australia, increased demand, new business and strategic cost management all helped to drive growth. Australia's Consumer volumes grew across all core categories with market share of 26% in chilled spreads and 19% in cheese. Western Star butter and spreads is performing strongly, reaching an annualised retail sales value of over $200 million.

In Foodservice, our margins were up 15% to $47 million, with strong results from our Australian business.

While our operational performance in New Zealand continues to improve, increased competition in cheese and yoghurt has seen our market share decline in these categories. New Zealand Consumer and Foodservice was flat with strong competition impacting volumes but this was offset by continued improvements in our operational performance and pricing strategies.

Asia Normalised EBIT

$44m

22%

Oceania Normalised EBIT

$32m

110%

China Farms

Our seven farms across two hubs are producing premium fresh milk for the China ingredients, foodservice and consumer markets. In the first six months of FY19 domestic milk prices have improved and 40% of our milk volumes sold for more than 4RMB versus 17% in FY18.

Volume

We milk more than 31,000 cows on our farming operations in China on two farm hubs – around 17,000 at Yutian and around 14,000 at Ying.

Sales volumes were down 15% to 113 million LMEs in the first half of this year compared to the same period last year. One of the factors contributing to this result was the continuous rainstorms and floods in Yutian, which reduced milk production and increased the cost of feed.

Our plan is to shift more milk from our China Farms into our higher-value products. We have a target of 15% of our milk volume going into consumer brands and foodservice products this financial year, up from 5% in FY18.

Value

China Farms reported total losses of $21 million EBIT, flat on the first half of last year. This is made up of a $17 million direct loss from China Farms, a further $5 million loss in Ingredients and a $1 million profit in Consumer and Foodservice.

The reasons for the loss from the farms, which is a 43% increase on the loss in the first half of last year, are lower production volumes, additional effluent and animal management costs, and increasing feed commodity prices due to trade disputes between China and the US. Several initiatives to drive efficiencies on-farm and reduce our cost base, including our award-winning Eco-Win programme, cost controls, and feed procurement efficiencies, in combination with our seasonal lift in production, will improve performance in the second half.

Our Ingredients business is responsible for purchasing the raw milk from China Farms and selling it. We have seen an improvement in the average price Ingredients has been achieving for this milk. This has seen our loss from China Farms in Ingredients improve by $4 million. The loss in the first half for Ingredients was $5 million.

Having farms in China means we can supply premium fresh milk to customers like Alibaba's Hema Fresh which stocks our Daily Fresh milk range. We continue to look for new opportunities and have launched a new Anchor co-branded fresh milk product with Carrefour in November, our second consumer fresh product in China. The product is sold in all 31 Carrefour hypermarkets across Shanghai and thanks to strong sales was ranked the number two fresh milk in the last quarter.

Launched our second premium fresh milk range with global supermarket Carrefour in 31 stores across Shanghai.

Volume

113 m LME

15%

	SIX MONTHS ENDED		
NZD MILLION	31 JAN 2019	31 JAN 2018	CHANGE[1]
Volume (LME, billion)	**0.1**	0.1	(15%)
Volume ('000 MT)	**9**	10	(13%)
Sales revenue	**108**	123	(12%)
Normalised EBIT[2]	**(17)**	(12)	(43%)

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

Historical Financial Summary

Commodity Prices

	JAN 2019	JAN 2018	JAN 2017	JAN 2016	JAN 2015
Weighted average commodity prices ($ USD per MT FOB)					
Whole Milk Powder[1]	**2,845**	3,087	2,580	2,064	2,813
Skim Milk Powder[1]	**2,050**	2,000	2,135	1,758	2,826
Butter[1]	**4,460**	5,879	3,434	2,731	2,899
Cheese[2]	**3,522**	3,897	3,554	3,088	3,931

Group Overview[3]

	JAN 2019	JAN 2018	JAN 2017	JAN 2016	JAN 2015
Income					
Volume (liquid milk equivalents, billion)	**10.67**	10.45	11.71	12.59	11.70
Volume (000s MT)	**2,055**	2,003	2,131	2,324	2,189
Normalised sales revenue ($ million)	**9,746**	9,836	9,232	8,838	9,746
Normalised EBITDA ($ million)[4]	**607**	733	896	951	659
Normalised earnings ($ million)[5]	**323**	458	607	665	376
Normalised NPAT ($ million)[6]	**76**	242	384	367	52
Reported earnings per share	**0.05**	(0.22)	0.26	0.25	0.10
Normalised earnings per share	**0.05**	0.15	0.24	0.23	0.03
Revenue Margin Analysis[7]					
EBITDA[8]	**6.2%**	7.4%	9.7%	10.8%	6.8%
EBIT[9]	**3.3%**	4.7%	6.6%	7.5%	3.9%
NPAT[10]	**0.8%**	2.5%	4.2%	4.2%	0.5%
Cash flow ($ million)					
Operating cash flow[11]	**(612)**	(292)	(167)	924	(1,014)
Free cash flow	**(782)**	(690)	(417)	346	(1,761)
Net working capital[12]	**5,451**	5,356	4,838	4,623	5,378
Capital Measures					
Equity excluding hedge reserve ($ million)	**6,643**	6,624	7,005	7,137	6,937
Economic net interest-bearing debt ($ million)[13]	**7,352**	7,060	6,115	6,908	7,134
Economic debt to debt plus equity ratio[14]	**52.5%**	51.6%	46.6%	49.2%	50.7%
Capex ($ million)[15]	**316**	346	244	453	763

Ingredients[3, 16]

	JAN 2019	JAN 2018	JAN 2017
Sales Volume (000 MT)[17]			
Reference Products	**924**	900	973
Non-reference Products	**354**	277	338
Revenue ($/MT)[17]			
Reference Products	**4,658**	4,783	3,873
Non-reference Products	**5,294**	5,726	5,201
Gross Margin ($/MT)			
Reference Products	**373**	413	253
– Margin	**8.0%**	8.6%	6.5%
Non-reference Products	**915**	1,309	1,178
– Margin	**17.3%**	22.9%	22.6%
Ingredients[7]			
Volume (liquid milk equivalents, million)[18]	**10,396**	9,777	10,981
Volume (000s MT)[18]	**1,556**	1,441	1,543
Revenue ($ million)	**8,196**	7,903	7,219
Gross margin ($ million)	**791**	871	792
Gross margin %[19]	**9.6%**	11.0%	11.0%
Normalised earnings ($ million)[20]	**461**	558	510
Normalised earnings margin %[21]	**5.6%**	7.1%	7.1%

Historical Financial Summary CONTINUED

Divisional Breakdown – Ingredients[3, 7, 22]

	JAN 2019	JAN 2018	JAN 2017
Global Ingredients and Operations			
Volume (liquid milk equivalents, million)[18]	**9,416**	8,763	9,998
Volume (000s MT)[18]	**1,457**	1,342	1,465
Revenue ($ million)	**7,318**	7,006	6,607
Gross margin ($ million)	**722**	766	730
Gross margin %[19]	**9.9%**	10.9%	11.0%
Fonterra Ingredients Australia			
Volume (liquid milk equivalents, million)[18]	**843**	836	833
Volume (000s MT)[18]	**175**	148	155
Revenue ($ million)	**919**	855	727
Gross margin ($ million)	**6**	50	27
Gross margin %[19]	**0.7%**	5.9%	3.7%
Other and Eliminations			
Volume (liquid milk equivalents, million)[18]	**137**	178	150
Volume (000s MT)[18]	**(76)**	(49)	(77)
Revenue ($ million)	**(41)**	42	(115)
Gross margin ($ million)[19]	**63**	55	35

Regional Breakdown – Consumer and Foodservice[3, 7, 22, 23]

	JAN 2019	JAN 2018	JAN 2017
Oceania			
Volume (liquid milk equivalents, million)[18]	**843**	819	912
Volume (000s MT)[18]	**315**	309	335
Revenue ($ million)	**1,108**	1,087	988
Gross margin ($ million)	**218**	208	243
Gross margin %[19]	**19.6%**	19.2%	24.6%
Normalised earnings ($ million)	**32**	15	58
Normalised earnings margin %[21]	**2.9%**	1.4%	5.9%
Asia			
Volume (liquid milk equivalents, million)[18]	**733**	763	857
Volume (000s MT)[18]	**149**	145	156
Revenue ($ million)	**933**	905	933
Gross margin ($ million)	**200**	211	288
Gross margin %[19]	**21.5%**	23.3%	30.9%
Normalised earnings ($ million)	**44**	56	124
Normalised earnings margin %[21]	**4.7%**	6.2%	13.3%
Greater China			
Volume (liquid milk equivalents, million)[18]	**524**	599	583
Volume (000s MT)[18]	**144**	129	112
Revenue ($ million)	**688**	731	567
Gross margin ($ million)	**163**	182	198
Gross margin %[19]	**23.6%**	24.9%	34.9%
Normalised earnings ($ million)	**61**	92	96
Normalised earnings margin %[21]	**8.9%**	12.6%	16.9%
Latin America			
Volume (liquid milk equivalents, million)[18]	**388**	368	358
Volume (000s MT)[18]	**280**	294	305
Revenue ($ million)	**741**	750	751
Gross margin ($ million)	**185**	220	234
Gross margin %[19]	**25.0%**	29.3%	31.1%
Normalised earnings ($ million)	**(3)**	30	35
Normalised earnings margin %[21]	**(0.4%)**	4.0%	4.7%
Total Consumer and Foodservice			
Volume (liquid milk equivalents, million)[18]	**2,487**	2,550	2,711
Volume (000s MT)[18]	**888**	877	908
Revenue ($ million)	**3,470**	3,473	3,239
Gross margin ($ million)	**766**	821	963
Gross margin %[19]	**22.1%**	23.9%	29.7%
Normalised earnings ($ million)	**134**	193	313
Normalised earnings margin %[21]	**3.9%**	5.6%	9.7%

Historical Financial Summary CONTINUED

Regional Breakdown – Consumer[3, 7, 22, 23]

	JAN 2019	JAN 2018	JAN 2017
Oceania			
Volume (liquid milk equivalents, million)[18]	**630**	610	685
Volume (000s MT)[18]	**267**	260	285
Revenue ($ million)	**846**	832	768
Gross margin ($ million)	**171**	168	199
Gross margin %[19]	**20.2%**	20.1%	25.9%
Asia			
Volume (liquid milk equivalents, million)[18]	**461**	439	558
Volume (000s MT)[18]	**104**	96	111
Revenue ($ million)	**646**	587	682
Gross margin ($ million)	**166**	171	227
Gross margin %[19]	**25.7%**	29.1%	33.3%
Greater China			
Volume (liquid milk equivalents, million)[18]	**81**	63	49
Volume (000s MT)[18]	**45**	40	28
Revenue ($ million)	**199**	183	121
Gross margin ($ million)	**77**	74	60
Gross margin %[19]	**38.8%**	40.6%	50.1%
Latin America			
Volume (liquid milk equivalents, million)[18]	**334**	321	305
Volume (000s MT)[18]	**265**	280	288
Revenue ($ million)	**672**	693	693
Gross margin ($ million)	**170**	207	216
Gross margin %[19]	**25.3%**	29.8%	31.2%
Total Consumer			
Volume (liquid milk equivalents, million)[18]	**1,506**	1,433	1,597
Volume (000s MT)[18]	**680**	676	712
Revenue ($ million)	**2,363**	2,295	2,263
Gross margin ($ million)	**584**	619	702
Gross margin %[19]	**24.7%**	27.0%	31.0%

Regional Breakdown – Foodservice[3, 7, 22, 23]

	JAN 2019	JAN 2018	JAN 2017
Oceania			
Volume (liquid milk equivalents, million)[18]	**213**	209	227
Volume (000s MT)[18]	**48**	49	51
Revenue ($ million)	**262**	255	220
Gross margin ($ million)	**47**	41	44
Gross margin %[19]	**17.8%**	16.1%	20.1%
Asia			
Volume (liquid milk equivalents, million)[18]	**272**	323	299
Volume (000s MT)[18]	**45**	49	45
Revenue ($ million)	**287**	318	252
Gross margin ($ million)	**35**	40	61
Gross margin %[19]	**12.1%**	12.6%	24.4%
Greater China			
Volume (liquid milk equivalents, million)[18]	**443**	535	534
Volume (000s MT)[18]	**99**	89	84
Revenue ($ million)	**489**	548	446
Gross margin ($ million)	**85**	108	137
Gross margin %[19]	**17.5%**	19.7%	30.8%
Latin America			
Volume (liquid milk equivalents, million)[18]	**54**	46	53
Volume (000s MT)[18]	**16**	14	16
Revenue ($ million)	**69**	57	59
Gross margin ($ million)	**15**	13	18
Gross margin %[19]	**21.4%**	22.8%	30.1%
Total Foodservice			
Volume (liquid milk equivalents, million)[18]	**982**	1,113	1,114
Volume (000s MT)[18]	**208**	201	197
Revenue ($ million)	**1,107**	1,178	976
Gross margin ($ million)	**181**	202	261
Gross margin %[19]	**16.4%**	17.1%	26.7%

Historical Financial Summary CONTINUED

Operating Performance – China Farms[3,7]

	JAN 2019	JAN 2018	JAN 2017
China Farms			
Volume (liquid milk equivalents, million)[18]	**113**	132	156
Volume (000s MT)[18]	**9**	10	13
Revenue ($ million)	**108**	123	122
Gross margin ($ million)	**(8)**	(8)	(6)
Gross margin %[19]	**(7.0%)**	(6.1%)	(5.3%)
Normalised earnings ($ million)	**(17)**	(12)	(24)
Normalised earnings margin %[21]	**(15.7%)**	(9.8%)	(19.7%)

Notes to the Historical Financial Summary

1 Source: Fonterra Farmgate Milk Price data representing the weighted-average United States Dollar contract prices of Reference Commodity Products.

2 Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.

3 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.

4 Normalised earnings before interest, tax, depreciation and amortisation and is calculated as profit for the period before net finance costs, tax, depreciation and amortisation, including normalised adjustments.

5 Represents segment earnings before unallocated finance income, finance costs and tax. For the six months ended 31 January 2016, and 2015 Greater China has been disclosed separately in alignment with the disclosures in the segment note. The six months ended 31 January 2015 has been restated to reflect changes to the organisation of business units that occurred in the six months ended 31 January 2016.

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

7 Includes normalisation adjustments.

8 Normalised EBITDA divided by normalised sales revenue.

9 Normalised EBIT divided by normalised sales revenue.

10 Normalised net profit after tax divided by normalised sales revenue.

11 Cash flow generated by normal business operations, less net taxes paid.

12 Working Capital is calculated as current trade receivables plus inventories, less current trade payables and accruals. It excludes amounts owing to suppliers and employee entitlements.

13 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.

14 Economic debt to debt plus equity ratio is calculated as economic net interest-bearing debt divided by economic net interest-bearing debt plus equity excluding hedge reserves.

15 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.

16 Figures exclude bulk liquid milk. The bulk liquid milk volume for the six months 31 January 2019 was 34,000 MT of kgMS equivalent (six months ended 31 January 2018 was 34,000 MT of kgMS equivalent).

17 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.

18 Includes sales to other strategic platforms.

19 Normalised gross margin divided by normalised sales revenue.

20 Normalised EBIT for Ingredients excludes unallocated costs.

21 Normalised EBIT divided by normalised revenue.

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

23 Includes share of Consumer and Foodservice overhead allocations, the total impact of which is $37 million.

Interim Financial Results

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

Contents

Directors' Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

The Directors of Fonterra Co-operative Group Limited (Fonterra) present to Shareholders the financial statements for Fonterra and its subsidiaries (together the Group) and the Group's interest in its equity accounted investments for the six months ended 31 January 2019.

The Directors present financial statements for the six months, which fairly present the financial position of the Group and its financial performance and cash flows for that period.

The Directors consider the financial statements of the Group have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

The Directors hereby approve and authorise for issue the financial statements for the six months ended 31 January 2019.

For and on behalf of the Board:

JOHN MONAGHAN

Chairman

19 March 2019

BRUCE HASSALL

Director

19 March 2019

Income Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

		GROUP $ MILLION		
		SIX MONTHS ENDED		YEAR ENDED
	NOTES	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Revenue from sale of goods	2	**9,746**	9,839	20,438
Cost of goods sold	3	**(8,246)**	(8,177)	(17,279)
Gross profit		**1,500**	1,662	3,159
Other operating income		**45**	52	192
Selling and marketing expenses		**(326)**	(346)	(651)
Distribution expenses		**(291)**	(278)	(572)
Administrative expenses		**(439)**	(461)	(873)
Other operating expenses		**(176)**	(178)	(400)
WPC80 recall costs		**–**	(196)	(196)
Impairment of equity accounted investees		**–**	(405)	(405)
Net foreign exchange losses		**(10)**	(29)	(12)
Share of profit of equity accounted investees		**20**	3	20
Profit/(loss) before net finance costs and tax		**323**	(176)	262
Finance income		**8**	11	23
Finance costs		**(213)**	(212)	(439)
Net finance costs		**(205)**	(201)	(416)
Profit/(loss) before tax		**118**	(377)	(154)
Tax (expense)/credit		**(38)**	29	(42)
Profit/(loss) after tax		**80**	(348)	(196)
Profit/(loss) after tax is attributable to:				
Equity holders of the Co-operative		**76**	(354)	(221)
Non-controlling interests		**4**	6	25
Profit/(loss) after tax		**80**	(348)	(196)

	GROUP $		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Earnings per share:			
Basic and diluted earnings per share	**0.05**	(0.22)	(0.14)

Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Profit/(loss) after tax	**80**	(348)	(196)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges and other costs of hedging, net of tax	**204**	(128)	(459)
Net investment hedges and translation of foreign operations, net of tax	**(58)**	209	188
Hyperinflation gains/(losses) attributable to equity holders	**14**	(1)	17
Share of equity accounted investees' movements in reserves	**–**	(1)	–
Other reserve movements	**2**	1	(1)
Total items that may be reclassified subsequently to profit or loss	**162**	80	(255)
Items that will not be reclassified subsequently to profit or loss:			
Net fair value gains on investments in shares	**–**	4	8
Foreign currency translation (loss)/gain attributable to non-controlling interests	**(1)**	12	(2)
Hyperinflation movements attributable to non-controlling interests	**9**	–	12
Total items that will not be reclassified subsequently to profit or loss	**8**	16	18
Total other comprehensive income/(expense) recognised directly in equity	**170**	96	(237)
Total comprehensive income/(expense)	**250**	(252)	(433)
Total comprehensive income/(expense) is attributable to:			
Equity holders of the Co-operative	**238**	(270)	(468)
Non-controlling interests	**12**	18	35
Total comprehensive income/(expense)	**250**	(252)	(433)

Statement of Financial Position

AS AT 31 JANUARY 2019

		GROUP $ MILLION		
		AS AT		
	NOTES	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
ASSETS				
Current assets				
Cash and cash equivalents		**348**	359	446
Trade and other receivables		**2,237**	2,328	2,355
Inventories		**5,076**	5,017	2,917
Tax receivable		**47**	41	47
Derivative financial instruments		**162**	395	59
Other current assets		**117**	332	141
Total current assets		**7,987**	8,472	5,965
Non-current assets				
Property, plant and equipment		**6,917**	6,555	6,810
Equity accounted investments		**633**	609	615
Livestock		**278**	298	288
Intangible assets		**3,189**	3,200	3,227
Deferred tax assets		**504**	507	583
Derivative financial instruments		**261**	196	204
Other non-current assets		**372**	324	323
Total non-current assets		**12,154**	11,689	12,050
Total assets		**20,141**	20,161	18,015
LIABILITIES				
Current liabilities				
Bank overdraft		**57**	7	161
Borrowings	7	**618**	1,383	831
Trade and other payables		**2,121**	2,242	2,116
Owing to suppliers		**2,734**	2,737	1,579
Tax payable		**35**	39	35
Derivative financial instruments		**103**	91	296
Provisions		**16**	79	14
Other current liabilities		**77**	41	101
Total current liabilities		**5,761**	6,619	5,133
Non-current liabilities				
Borrowings	7	**7,136**	6,229	5,907
Derivative financial instruments		**471**	466	480
Provisions		**128**	142	130
Deferred tax liabilities		**9**	9	5
Other non-current liabilities		**56**	8	11
Total non-current liabilities		**7,800**	6,854	6,533
Total liabilities		**13,561**	13,473	11,666
Net assets		**6,580**	6,688	6,349
EQUITY				
Subscribed equity		**5,887**	5,877	5,887
Retained earnings		**1,013**	961	934
Foreign currency translation reserve		**(422)**	(343)	(364)
Hedge reserves	6	**(63)**	64	(267)
Other reserves		**42**	9	29
Total equity attributable to equity holders of the Co-operative		**6,457**	6,568	6,219
Non-controlling interests		**123**	120	130
Total equity		**6,580**	6,688	6,349

Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

GROUP $ MILLION	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							
As at 1 August 2018	**5,887**	**934**	**(364)**	**(267)**	**29**	**6,219**	**130**	**6,349**
Profit after tax	–	76	–	–	–	76	4	80
Other comprehensive income/(expense)	–	3	(58)	204	13	162	8	170
Total comprehensive income/(expense)	–	**79**	**(58)**	**204**	**13**	**238**	**12**	**250**
Transactions with equity holders in their capacity as equity holders:								
Acquisition of subsidiaries	–	–	–	–	–	–	1	1
Dividend paid to non-controlling interests	–	–	–	–	–	–	(20)	(20)
As at 31 January 2019 (unaudited)	**5,887**	**1,013**	**(422)**	**(63)**	**42**	**6,457**	**123**	**6,580**
As at 1 August 2017	5,858	1,637	(552)	192	5	7,140	108	7,248
(Loss)/profit after tax	–	(354)	–	–	–	(354)	6	(348)
Other comprehensive (expense)/income	–	(1)	209	(128)	4	84	12	96
Total comprehensive (expense)/income	–	(355)	209	(128)	4	(270)	18	(252)
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(321)	–	–	–	(321)	–	(321)
Equity instruments issued	19	–	–	–	–	19	15	34
Dividend paid to non-controlling interests	–	–	–	–	–	–	(21)	(21)
As at 31 January 2018 (unaudited)	5,877	961	(343)	64	9	6,568	120	6,688
As at 1 August 2017	5,858	1,637	(552)	192	5	7,140	108	7,248
(Loss)/profit after tax	–	(221)	–	–	–	(221)	25	(196)
Other comprehensive income/(expense)	–	–	188	(459)	24	(247)	10	(237)
Total comprehensive (expense)/income	–	(221)	188	(459)	24	(468)	35	(433)
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Co-operative	–	(482)	–	–	–	(482)	–	(482)
Equity instruments issued	29	–	–	–	–	29	15	44
Dividend paid to non-controlling interests	–	–	–	–	–	–	(28)	(28)
As at 31 July 2018 (audited)	5,887	934	(364)	(267)	29	6,219	130	6,349

Cash Flow Statement

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Cash flows from operating activities			
Profit/(loss) before net finance costs and tax	**323**	(176)	262
Adjustments for:			
Foreign exchange (gains)/losses	**(11)**	127	239
Depreciation and amortisation	**284**	275	544
Impairment of equity accounted investees	**–**	405	405
Other	**(7)**	26	5
	266	833	1,193
(Increase)/decrease in working capital:			
Inventories	**(2,137)**	(2,419)	(313)
Trade and other receivables	**19**	3	75
Amounts owing to suppliers	**978**	1,273	277
Payables and accruals	**34**	227	98
Other movements	**(61)**	8	42
Total	**(1,167)**	(908)	179
Cash flows from operations	**(578)**	(251)	1,634
Net taxes paid	**(34)**	(41)	(86)
Net cash flows from operating activities	**(612)**	(292)	1,548
Cash flows from investing activities			
Cash was provided from:			
– Proceeds from disposal of property, plant and equipment	**31**	4	26
– Proceeds from sale of livestock	**18**	58	79
– Proceeds from sale of investments	**8**	6	7
– Co-operative support loans	**177**	138	149
– Other cash inflows	**2**	1	6
Cash was applied to:			
– Acquisition of property, plant and equipment	**(320)**	(400)	(858)
– Acquisition of livestock (including rearing costs)	**(20)**	(24)	(45)
– Acquisition of intangible assets	**(38)**	(74)	(147)
– Advances to and investments in equity accounted investees	**(2)**	(92)	(151)
– Other cash outflows	**(26)**	(15)	(14)
Net cash flows from investing activities	**(170)**	(398)	(948)
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from borrowings	**2,905**	2,811	4,334
– Interest received	**7**	9	18
Cash was applied to:			
– Interest paid	**(212)**	(199)	(446)
– Repayment of borrowings	**(1,874)**	(1,589)	(4,077)
– Dividends paid to non-controlling interests	**(20)**	(21)	(27)
– Dividends paid to equity holders of the Co-operative	**–**	(302)	(453)
– Other cash outflows	**(1)**	(58)	(74)
Net cash flows from financing activities	**805**	651	(725)
Net increase/(decrease) in cash	**23**	(39)	(125)
Opening cash	**285**	382	382
Effect of exchange rate changes	**(17)**	9	28
Closing cash	**291**	352	285
Reconciliation of closing cash balances to the statement of financial position:			
Cash and cash equivalents	**348**	359	446
Bank overdraft	**(57)**	(7)	(161)
Closing cash	**291**	352	285

Basis of Preparation

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

a) General information

Fonterra Co-operative Group Limited (Fonterra, the Company or the Co-operative) is a co-operative company incorporated and domiciled in New Zealand. Fonterra is registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001.

These interim financial statements, as at and for the six months ended 31 January 2019, comprise Fonterra and its subsidiaries (together referred to as the Group) and the Group's interest in its equity accounted investees after adjustments to align to the accounting policies of the Group.

The Group operates predominantly in the international dairy industry. The Group is primarily involved in the collection, manufacture and sale of milk and milk-derived products and in fast-moving consumer goods and foodservice businesses.

b) Basis of preparation

These interim financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting. They have also been prepared in accordance with Generally Accepted Accounting Practice (GAAP) applicable to for-profit entities. These interim financial statements are unaudited, and should be read in conjunction with the financial statements for the year ended 31 July 2018.

These interim financial statements are presented in New Zealand dollars ($ or NZD), which is Fonterra's functional currency, and rounded to the nearest million, except where otherwise stated.

The preparation of interim financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements for the year ended 31 July 2018. Further details on specific key estimates and judgments can be found in Note 8.

Impact of a forecast Farmgate Milk Price on the 31 January 2019 interim financial statements

The Farmgate Milk Price is the average price paid by Fonterra in a season, which is the 12 months ending 31 May, for each kilogram of milk solids (kgMS) supplied by farmer shareholders under Fonterra's standard terms of supply. The Farmgate Milk Price for a season is finalised after the end of that milk season. Global dairy commodity prices that inform the Farmgate Milk Price revenue are the most significant driver of the level of each season's Farmgate Milk Price.

Within the forecast Farmgate Milk Price, the majority of the milk sourced up until 31 January 2019 is contracted for sale at hedged NZD/USD exchange rates. This means that the Farmgate Milk Price revenue that would be earned from the milk sourced during the period ended 31 January 2019 is largely known.

The full season forecast Farmgate Milk Price remains uncertain. This is because the Farmgate Milk Price revenue that will be earned from milk supplied during the remainder of the milk season ending 31 May 2019 is impacted by future global dairy commodity prices. Future global dairy commodity prices in USD are uncertain as they are influenced by global supply and demand dynamics, and their conversion to NZD is uncertain because the conversion of these USD selling prices to NZD depends on the NZD/USD exchange rate and associated hedging.

Basis of Preparation CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

c) Accounting policies

The same accounting policies are followed in these interim financial statements as were applied in the Group's financial statements for the year ended 31 July 2018 with the exception of the impact of adopting NZ IFRS 15 Revenue from Contracts with Customers.

Impact of adopting NZ IFRS 15 Revenue from Contracts with Customers

Fonterra adopted NZ IFRS 15 from 1 August 2018.

Fonterra is not materially impacted by the adoption of NZ IFRS 15 for the following reasons:

- Fonterra has historically recognised revenue at the time the risks and rewards of ownership of the products pass to the customer. Management has determined that the customer obtains control of the products at the same time as risks and rewards of ownership pass to the customer. The timing of revenue recognition is therefore unchanged by the adoption of NZ IFRS 15.
- In relation to the contract price, management has not identified any material changes to the accounting for rebates, discounts, or other items of variable consideration.

On transition to NZ IFRS 15 Fonterra has taken advantage of the practical expedient to only apply NZ IFRS 15 to contracts that were not completely fulfilled at 1 August 2018.

Accounting standards issued but not yet effective

NZ IFRS 16 Leases

Fonterra has established a project to ensure operational readiness for the adoption of NZ IFRS 16 on 1 August 2019.

During the six months to 31 January 2019 Fonterra has progressed with collecting and validating the Groups' portfolio of leases, commenced implementation of an IT system solution for lease accounting under NZ IFRS 16, and continued to assess the changes required to internal processes and controls.

Fonterra has elected to utilise the modified retrospective transition approach. This will require an adjustment to equity as at 1 August 2019, however prior year comparatives will not be restated. Fonterra has also chosen to retain the current accounting treatment for short-term leases and low value assets.

The adoption of NZ IFRS 16 is not expected to have a significant impact on Fonterra's net profit after tax. However, there will be an increase in profit before net finance costs and tax, because a portion of the lease costs currently reported in cost of goods sold or operating expenses will be recorded as finance costs. On the statement of financial position, many of Fonterra's current operating leases will be recognised as 'right of use assets' and a lease liability.

There are no other new or amended standards that are issued but not yet effective that are expected to have a material impact on the Group.

d) Assets portfolio review

During the period, Fonterra announced it is undertaking an asset portfolio review. This is a full strategic review of Fonterra's assets, investments and joint venture arrangements. While the review will take time to complete the following progress has been made to date.

Beingmate arrangements

In January 2019 Fonterra regained full ownership of the Darnum manufacturing plant in Australia, unwinding the joint arrangement with Beingmate, and renegotiating commercial terms for product purchases by Beingmate.

The transaction price of $126 million (AU$120 million) represents the 51 per cent share of the Darnum manufacturing plant and associated working capital balances. No cash payments have been made in the period to 31 January 2019.

Amounts owed to Fonterra by Beingmate of $64 million (AU$61 million) have been settled against the transaction price. As at 31 January 2019 Fonterra has an amount payable to Beingmate of $62 million (AU$59 million) in relation to this transaction. The amount payable is unsecured and accrues interest at a market interest rate. It is repayable in four equal annual instalments. The arrangement with Beingmate also includes an off-setting supply agreement of the same timeframe, that commits Beingmate to purchase minimum volumes of product from the Darnum plant.

Status as at 31 January 2019

The review has identified other investments, including Tip Top, Fonterra's ice cream business in New Zealand, that will be considered for their strategic alignment, capital requirements and future earnings potential. As at 31 January 2019, Fonterra is in the process of investigating a range of options for these investments, no decisions have been made.

Progress since 1 February 2019

During the period since 1 February 2019 Fonterra has continued to investigate a range of options for certain investments, including those noted above and DMV Fonterra Excipients GmbH & Co KG. No decisions have been made in relation to those investments.

Fonterra has made the decision to sell its consumer and foodservice business operations in Venezuela. The Venezuelan economy has been in a period of political and economic instability resulting in uncertainties over the exchange and inflation rates. The overall impact arising from the transaction, which includes the derecognition of assets and liabilities relating to this business (including the foreign currency translation reserve) is currently being estimated.

Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

PERFORMANCE

1 SEGMENT REPORTING

a) Operating segments

Operating segments reflect the way financial information is regularly reviewed by the Fonterra Management Team (FMT). The measure of profit or loss used by the FMT to evaluate the underlying performance of operating segments is normalised segment earnings before net finance costs and tax. To enable underlying segment performance to be compared between reporting periods a normalised segment income statement has been presented.

Transactions between segments are based on estimated market prices, with the exception of the sale of milk from China Farms to Ingredients. The transfer price used for these transactions is an amount reflective of long-term milk price trends in China.

Unallocated costs represent corporate costs including Corporate Affairs and Group services.

REPORTABLE SEGMENT	DESCRIPTION
Ingredients	Represents the collection, processing and distribution of the ingredients business in New Zealand, global sales and marketing of New Zealand and non-New Zealand ingredients products, Fonterra Farm Source™ stores, the ingredients business in Australia (including Milk Supply and Manufacturing) and the ingredients business in South America.
Consumer and foodservice	
– Oceania	Represents the fast-moving consumer goods (FMCG) and foodservice businesses in New Zealand and Australia (including export to the Pacific Islands).
– Asia	Represents FMCG and foodservice businesses in Asia (excluding Greater China), Africa and the Middle East.
– Greater China	Represents FMCG and foodservice businesses in Greater China.
– Latin America	Represents FMCG and foodservice businesses in Latin America and the Caribbean.
China Farms	Represents farming operations in China.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

a) Operating segments

	GROUP $ MILLION								
	31 JANUARY 2019 (UNAUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Normalised segment income statement									
External revenue	6,376	1,033	912	686	739	3,370	–	–	9,746
Inter-segment revenue	1,820	75	21	2	2	100	108	(2,028)	–
Revenue from sale of goods	8,196	1,108	933	688	741	3,470	108	(2,028)	9,746
Cost of goods sold	(7,405)	(890)	(733)	(525)	(556)	(2,704)	(116)	1,979	(8,246)
Segment gross profit	791	218	200	163	185	766	(8)	(49)	1,500
Operating expenses	(387)	(190)	(153)	(107)	(189)	(639)	(12)	(194)	(1,232)
Net other operating income	35	4	2	5	3	14	6	(10)	45
Net foreign exchange gains/(losses)	2	–	(5)	–	(4)	(9)	1	(4)	(10)
Share of profit/(loss) of equity accounted investees	20	–	–	–	2	2	(4)	2	20
Normalised segment earnings before net finance costs and tax[1]	461	32	44	61	(3)	134	(17)	(255)	323
Finance income									8
Finance costs									(213)
Profit before tax									118
Other segment information:									
Volume[2] (liquid milk equivalents, billion)	10.40	0.84	0.73	0.52	0.39	2.48	0.11	(2.32)	10.67
Volume[2] (metric tonnes, thousand)	1,556	315	149	144	280	888	9	(398)	2,055
Depreciation and amortisation ($ million)	(205)	(14)	(6)	(1)	(16)	(37)	(13)	(29)	(284)
Capital expenditure[3] ($ million)	251	22	3	–	16	41	6	18	316
Equity accounted investments ($ million)	320	–	–	214	10	224	79	10	633

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

2 Includes sales to other strategic platforms. Total column represents total external sales.

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.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

a) **Operating segments** continued

	GROUP $ MILLION								
	31 JANUARY 2018 (UNAUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Normalised segment income statement									
External revenue[1]	6,448	1,002	905	731	750	3,388	–	–	9,836
Inter-segment revenue	1,455	85	–	–	–	85	123	(1,663)	–
Revenue from sale of goods	7,903	1,087	905	731	750	3,473	123	(1,663)	9,836
Cost of goods sold	(7,032)	(879)	(694)	(549)	(530)	(2,652)	(131)	1,638	(8,177)
Segment gross profit	871	208	211	182	220	821	(8)	(25)	1,659
Operating expenses	(391)	(192)	(154)	(98)	(196)	(640)	(14)	(218)	(1,263)
Net other operating income	32	1	2	7	3	13	8	(1)	52
Net foreign exchange gains/(losses)	15	(2)	(3)	1	1	(3)	4	(37)	(21)
Share of profit/(loss) of equity accounted investees	31	–	–	–	2	2	(2)	–	31
Normalised segment earnings before net finance costs and tax	558	15	56	92	30	193	(12)	(281)	458
Normalisation adjustments:									
Reduction in the carrying value of investment in Beingmate[2]	–	–	–	(433)	–	(433)	–	–	(433)
WPC80 recall costs[3]	(196)	–	–	–	–	–	–	–	(196)
Time value of options[4]	(5)	–	–	–	–	–	–	–	(5)
Segment earnings before net finance costs and tax	357	15	56	(341)	30	(240)	(12)	(281)	(176)
Finance income									11
Finance costs									(212)
Loss before tax									(377)
Other segment information:									
Volume[5] (liquid milk equivalents, billion)	9.78	0.82	0.76	0.60	0.37	2.55	0.13	(2.01)	10.45
Volume[5] (metric tonnes, thousand)	1,441	309	145	129	294	877	10	(325)	2,003
Depreciation and amortisation ($ million)	(198)	(15)	(7)	(1)	(14)	(37)	(14)	(26)	(275)
Capital expenditure[6] ($ million)	268	26	5	1	16	48	(30)	60	346
Equity accounted investments ($ million)	275	–	–	244	10	254	73	7	609

1 Total Group revenue from the sale of goods is $9,839 million, the difference of $3 million relates to the normalisation of time value of options.

2 Of the $433 million normalisation adjustment, $405 million relates to the impairment of equity accounted investees and $28 million to the share of losses of Beingmate.

3 The $196 million normalisation adjustment relates to operating expenses.

4 Of the $5 million normalisation adjustment, $3 million relates to revenue offset by $8 million of net foreign exchange losses.

5 Includes sales to other strategic platforms. Total column represents total external sales. Volume (MT's and LME's) have been restated to reflect consistently internal transactions between segments. There was no impact on gross margin or EBIT from this restatement.

6 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.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

a) Operating segments continued

	GROUP $ MILLION								
	31 JULY 2018 (AUDITED)								
	INGREDIENTS	CONSUMER AND FOODSERVICE					CHINA FARMS	UNALLOCATED COSTS AND ELIMINATIONS	TOTAL
		OCEANIA	ASIA	GREATER CHINA	LATIN AMERICA	TOTAL			
Normalised segment income statement									
External revenue[1]	13,485	2,001	1,849	1,564	1,532	6,946	–	–	20,431
Inter-segment revenue	2,821	158	16	–	2	176	262	(3,259)	–
Revenue from sale of goods	16,306	2,159	1,865	1,564	1,534	7,122	262	(3,259)	20,431
Cost of goods sold	(14,834)	(1,726)	(1,409)	(1,229)	(1,075)	(5,439)	(257)	3,251	(17,279)
Segment gross profit	1,472	433	456	335	459	1,683	5	(8)	3,152
Operating expenses	(808)	(373)	(289)	(183)	(368)	(1,213)	(31)	(444)	(2,496)
Net other operating income	111	8	18	14	24	64	22	(5)	192
Net foreign exchange gains/(losses)	50	(1)	(9)	(1)	(2)	(13)	–	(37)	–
Share of profit/(loss) of equity accounted investees	54	–	–	–	4	4	(5)	1	54
Normalised segment earnings before net finance costs and tax	879	67	176	165	117	525	(9)	(493)	902
Normalisation adjustments:									
Reduction in the carrying value of investment in Beingmate[2]	–	–	–	(439)	–	(439)	–	–	(439)
WPC80 recall costs[3]	(196)	–	–	–	–	–	–	–	(196)
Time value of options[4]	(5)	–	–	–	–	–	–	–	(5)
Segment earnings before net finance costs and tax	678	67	176	(274)	117	86	(9)	(493)	262
Finance income									23
Finance costs									(439)
(Loss)/profit before tax									(154)
Other segment information:									
Volume[5] (liquid milk equivalents, billion)	20.52	1.66	1.55	1.41	0.75	5.37	0.27	(3.96)	22.20
Volume[5] (metric tonnes, thousand)	2,986	623	298	266	578	1,765	22	(650)	4,123
Depreciation and amortisation ($ million)	(389)	(26)	(13)	(2)	(29)	(70)	(26)	(59)	(544)
Capital expenditure[6] ($ million)	644	62	17	2	61	142	(25)	100	861
Equity accounted investments ($ million)	308	–	–	204	10	214	85	8	615
Capital employed[7] ($ million)	9,156	515	95	(65)	332	877	788	(1,269)	9,552

1 Total Group revenue from the sale of goods is $20,438 million. The difference of $7 million relates to the normalisation of time value of options.

2 Of the $439 million normalisation adjustment, $405 million relates to impairment of equity accounted investees and $34 million relates to Fonterra's equity accounted share of Beingmate's losses.

3 The $196 million normalisation adjustment relates to operating expenses.

4 Of the $5 million normalisation adjustment, $7 million relates to revenue offset by $12 million of net foreign exchange losses.

5 Includes sales to other strategic platforms. Total column represents total external sales. Volume (MT's and LME's) have been restated to reflect consistently internal transactions between segments. There was no impact on gross margin or EBIT from this restatement.

6 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.

7 Capital employed is calculated as the average for the period of: net assets excluding net-interest bearing debt, deferred tax balances and brands, goodwill and equity accounted investments.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

b) Geographical revenue

	GROUP $ MILLION								
	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	UNITED STATES	EUROPE	LATIN AMERICA	REST OF WORLD	TOTAL
Geographical segment external revenue:									
Six months ended 31 January 2019 (unaudited)	**2,208**	**2,681**	**877**	**1,082**	**376**	**385**	**1,047**	**1,090**	**9,746**
Six months ended 31 January 2018 (unaudited)	2,094	2,650	860	1,021	321	337	1,095	1,461	9,839
Year ended 31 July 2018 (audited)	3,980	5,684	1,836	2,076	793	681	2,272	3,116	20,438

Revenue is allocated to geographical segments on the basis of the destination of the goods sold.

c) Non-current assets

	GROUP $ MILLION							
	INGREDIENTS		OCEANIA		ASIA	GREATER CHINA	LATIN AMERICA	TOTAL GROUP
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA				
Geographical segment non-current assets:								
As at 31 January 2019 (unaudited)	**5,522**	**497**	**1,330**	**1,034**	**817**	**1,114**	**1,075**	**11,389**
As at 31 January 2018 (unaudited)	5,409	424	1,300	868	774	1,167	1,044	10,986
As at 31 July 2018 (audited)	5,538	467	1,324	928	827	1,127	1,052	11,263

	GROUP $ MILLION AS AT		
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Reconciliation of geographical segment's non-current assets to total non-current assets:			
Geographical segment non-current assets	**11,389**	10,986	11,263
Deferred tax assets	**504**	507	583
Derivative financial instruments	**261**	196	204
Total non-current assets	**12,154**	11,689	12,050

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

2 REVENUE FROM SALE OF GOODS

a) Ingredients revenue

Revenue from the Ingredients business, a reportable segment, is disaggregated by division. Revenue attributable to Global Ingredients and Operations is further disaggregated primarily into revenue from reference and non-reference products.

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 UNAUDITED
Reference products[1]	**4,304**	4,305	8,703
Non-reference products[2]	**1,874**	1,586	3,495
Other[3]	**1,141**	1,115	2,366
Global Ingredients and Operations	**7,319**	7,006	14,564
Fonterra Ingredients Australia	**919**	855	1,877
Other	**(42)**	42	(135)
Total revenue	**8,196**	7,903	16,306

1 Represents revenue from the sale of five ingredient products that inform the Farmgate Milk Price, and that are manufactured using New Zealand-sourced milk. Currently these five products are whole milk powder, skim milk powder, butter milk powder, butter and anhydrous milk fat (otherwise known as 'reference products').

2 Represents revenue from the sale of all ingredient products, except reference products, that are manufactured using New Zealand-sourced milk.

3 'Other' primarily consists of Global Sourcing revenue, which is revenue from the sale of ingredient products manufactured using non-New Zealand-sourced milk.

b) Consumer and Foodservice revenue

Revenue attributable to the consumer and foodservice businesses is disaggregated by region. Geographic regions are consistent with the reportable segments for Consumer and Foodservice as a whole.

	CONSUMER			FOODSERVICE			TOTAL CONSUMER AND FOODSERVICE		
	SIX MONTHS ENDED		YEAR ENDED	SIX MONTHS ENDED		YEAR ENDED	SIX MONTHS ENDED		YEAR ENDED
GROUP $ MILLION	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 UNAUDITED	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 UNAUDITED	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Oceania	**846**	832	1,644	**262**	255	515	**1,108**	1,087	2,159
Asia	**646**	587	1,238	**287**	318	627	**933**	905	1,865
Greater China	**199**	183	343	**489**	548	1,221	**688**	731	1,564
Latin America	**672**	693	1,418	**69**	57	116	**741**	750	1,534
Total revenue	**2,363**	2,295	4,643	**1,107**	1,178	2,479	**3,470**	3,473	7,122

3 COSTS OF GOODS SOLD

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Opening inventory	**2,917**	2,593	2,593
Cost of milk:			
– New Zealand sourced	**6,377**	6,580	10,115
– Non-New Zealand sourced	**599**	737	1,245
Other costs	**3,429**	3,284	6,243
Closing inventory	**(5,076)**	(5,017)	(2,917)
Total cost of goods sold	**8,246**	8,177	17,279

DEBT AND EQUITY

4 SUBSCRIBED EQUITY INSTRUMENTS

Co-operative shares, including shares held within the Group

Co-operative shares may only be held by a shareholder supplying milk to the Company (farmer shareholder), by former farmer shareholders for up to three seasons after cessation of milk supply, or by Fonterra Farmer Custodian Limited (the Custodian). Voting rights in the Company are dependent on milk supply supported by Co-operative shares.[1]

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2018	**1,611,923**
Shares issued under the Farm Source Rewards scheme	**69**
Balance at 31 January 2019 (unaudited)	**1,611,992**
Balance at 1 August 2017	1,606,933
Shares issued under the dividend reinvestment plan[2]	3,309
Balance at 31 January 2018 (unaudited)	1,610,242
Balance at 1 August 2017	1,606,933
Shares issued under the dividend reinvestment plan[2]	4,990
Balance at 31 July 2018 (audited)	1,611,923

1 These rights are also attached to vouchers when backed by milk supply (subject to limits).

2 Total value of $19 million and $29 million for periods ending 31 January 2018 and 31 July 2018 respectively.

The rights attaching to Co-operative shares are set out in Fonterra's Constitution, available in the 'About Us/Governance' section of Fonterra's website.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 January 2019, 110,573,858 Co-operative shares (31 January 2018: 137,366,342; 31 July 2018: 111,423,603) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2018	**111,424**
Units issued	**14,923**
Units surrendered	**(15,773)**
Balance at 31 January 2019 (unaudited)	**110,574**
Balance at 1 August 2017	126,047
Units issued	19,504
Units surrendered	(8,185)
Balance at 31 January 2018 (unaudited)	137,366
Balance at 1 August 2017	126,047
Units issued	20,946
Units surrendered	(35,569)
Balance at 31 July 2018 (audited)	111,424

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2018 Annual Report, available in the 'Investors/Fonterra Shareholders' Fund' section of Fonterra's website.

5 DIVIDENDS PAID

No dividend was paid during the six months ended 31 January 2019.

The Dividend Reinvestment Plan applied to all dividends in the table below.

	$ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
DIVIDENDS	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
2018 Interim dividend – 10 cents per share[1]	–	–	161
2017 Final dividend – 20 cents per share[2]	–	321	321

1 Declared on 20 March 2018 and paid on 20 April 2018 to all Co-operative shares on issue at 6 April 2018.

2 Declared on 23 September 2017 and paid on 20 October 2017 to all Co-operative shares on issue at 9 October 2017.

6 EQUITY RESERVES

a) Hedge reserves

The hedge reserves predominately relate to cash flow hedges, which are used as part of the Group's risk management strategy to manage variability in cash flows due to changes in foreign currency and interest rates.

The Group uses cash flow hedges to manage its foreign currency exposure on forecast foreign currency sales transactions and borrowings denominated in foreign currencies.

A cash flow hedge provides certainty of cash flows. Gains or losses relating to the difference between the hedge rate and the current market rate are recognised in the hedge reserve. They are transferred to profit or loss when the forecast transaction occurs.

The foreign currency forward contracts, foreign currency options and interest rate swaps used to hedge the forecast cash flows are recognised on the balance sheet as 'Derivative financial instruments'.

b) Foreign currency translation reserve ('FCTR')

The foreign currency translation reserve primarily relates to the translation of Fonterra's net investments in overseas businesses from their local currency to New Zealand dollars.

Foreign currency gains / losses on the translation of the overseas business are deferred in the foreign currency translation reserve. The accumulated amount attributed to an overseas business is transferred to profit or loss, as part of the gain or loss in sale, when the overseas business is sold.

Movements in the foreign currency translation reserve relate to changes in foreign currency exchange rates from the beginning of the period to the end of the period, and changes in the net assets of the overseas businesses.

The foreign currency translation reserve of ($422) million includes balances relating to, the Group's consumer & foodservice operations in Venezuela ($126 million), Consumer and Foodservice business in Brazil ($92 million), and the investment in Beingmate ($58 million).

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

7 BORROWINGS

Economic net interest-bearing debt

Economic net interest-bearing debt reflects the effect of debt hedging in place at balance date.

	GROUP $ MILLION		
	AS AT		
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Net interest-bearing debt position			
Total borrowings	**7,754**	7,612	6,738
Cash and cash equivalents	**(348)**	(359)	(446)
Interest-bearing advances	**(171)**	(323)	(332)
Bank overdraft	**57**	7	161
Net interest-bearing debt	**7,292**	6,937	6,121
Value of derivatives used to manage changes in hedged risks on debt instruments	**60**	123	78
Economic net interest-bearing debt	**7,352**	7,060	6,199

Total borrowings in the table above are represented by:

	GROUP $ MILLION		
	AS AT		
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Commercial paper	**354**	239	304
Bank loans	**1,947**	1,763	1,128
Finance leases[1]	**72**	134	131
Capital notes[2]	**35**	35	35
NZX-listed bonds	**600**	500	500
Medium-term notes	**4,746**	4,941	4,640
Total borrowings[3]	**7,754**	7,612	6,738
Included within the statement of financial position as follows:			
Total current borrowings	**618**	1,383	831
Total non-current borrowings	**7,136**	6,229	5,907
Total borrowings	**7,754**	7,612	6,738

1 Finance leases are secured over the related item of property, plant and equipment.

2 Capital notes are unsecured subordinated borrowings.

3 All other borrowings are unsecured and unsubordinated.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

LONG-TERM ASSETS

8 KEY ESTIMATES AND JUDGEMENTS

Judgements and estimates that have the most significant effect on the amounts recognised in the interim financial statements for the period ended 31 January 2019 are those used to assess the recoverable amounts of the following assets: the investment in Beingmate, the China Farms assets and the goodwill attributed to the consumer and foodservice businesses in New Zealand and Brazil.

The key assumptions used in determining the recoverable amounts of these assets at 31 July 2018 have been re-assessed at 31 January 2019 to reflect any changes in circumstances during the period.

a) Investment in Beingmate Baby & Child Food Co., Ltd. (Beingmate)

As at 31 January 2019 Fonterra holds 192.23 million shares in Beingmate, representing an 18.8 per cent investment. There have been no changes to the shareholding during the period.

The assumptions used to support the carrying value of the investment in Beingmate have been reassessed at 31 January 2019 to reflect changes in the quoted market price of Beingmate shares. No indicator of impairment was identified.

The assumptions underlying the calculation of the fair value of the 18.8 per cent investment in Beingmate are shown below:

	AS AT		
RMB PER SHARE	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Weighted average share price period	**30 trading days up to 31 January 2019**	15 trading days from 22 January 2018	30 trading days up to 31 July 2018
Weighted average base price	**5.05**	5.36	4.91
Net premium (including costs to sell)	**0.49**	0.52	0.48
Implied value per share	**5.54**	5.88	5.39

Using these assumptions, as at 31 January 2019 the carrying value of the investment is supported by the fair value assessment.

b) China Farms

The key assumptions used in determining the recoverable amount of the China Farms assets as at 31 July 2018 were the forecast future milk price of RMB 4.00 per kg and a discount rate of 9.1 per cent.

The forecast average external milk price for the year ending 31 July 2019 is higher than the average price achieved in the year ended 31 July 2018 of RMB 3.56 per kg. The average milk price is steadily increasing, with 41 per cent of sales in the period achieving more than RMB 4.00 per kg, a substantial increase on the prior year. Therefore RMB 4.00 per kg continues to be an appropriate milk price to use in the impairment assessment as it reflects the medium-term average milk price forecast to be achieved based on continued execution of the premium fresh milk business strategy in China. The discount rate applied remains appropriate.

An assessment of impairment indicators has not triggered an impairment assessment as at 31 January 2019.

c) Consumer and foodservice New Zealand

The key assumptions used in determining the recoverable amount of intangible assets in the business as at 31 July 2018 were revenue growth, productivity savings and operating expense efficiencies over a five-year forecast period.

The business is executing its five-year business turnaround plan. Although progress is slower than planned, improvements in key underlying operating metrics support management's assessment that the business can execute on the business plan and deliver the forecast results in years two to five.

Based on this, the assessment of impairment indicators has not triggered an impairment assessment as at 31 January 2019.

d) Consumer and foodservice Brazil

The intangible assets attributable to the consumer and foodservice business in Brazil arose in the financial year ended 31 July 2015 when Fonterra acquired a controlling interest in DPA Brazil.

Since that time the economic environment in Brazil has been challenging. However, the cash flow forecast used to support the carrying value of the business shows significant year-on-year growth. This growth is supported by the strategic business plan and associated initiatives.

The key assumptions used in determining the recoverable amount of these intangible assets as at 31 July 2018 were revenue growth and productivity savings over a three-year forecast period.

The achievement of the revenue growth assumptions is dependent on the extent and timing of the economic recovery in Brazil because performance of the chilled dairy sector is highly correlated to Brazil's economic performance.

The productivity and cost saving initiatives are progressing in line with expectations.

Political uncertainty in Brazil has resulted in short-term volatility impacting key macro-economic indicators. The level of uncertainty is such that management considers more time is required to gain a clear view of the outcome. In the interim, the economic performance is sufficiently close to the key assumptions included in the 31 July 2018 impairment assessment that no impairment assessment is required as at 31 January 2019.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

The sensitivity of the 31 July 2018 impairment assessment to changes in the key assumptions is shown below. A change in the assumptions by the amount shown in the table would lead to elimination of the $124 million excess of recoverable amount over carrying amount.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	SENSITIVITY
Revenue growth (year 1 to year 3 CAGR)	9.6 per cent	Decrease by 166 basis points
Productivity savings per year (year 1 to year 3 average)	$10 million	Decrease by $3 million per annum

Due to the uncertainty in the macro-economic indicators, the impact on the impairment assessment of a reasonably possible change in the economic growth and inflation rates in Brazil is shown below.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	POSSIBLE CHANGE	IMPACT ON VALUATION
Brazil economic growth from year 3	3.8 per cent	Decrease by 100 basis points	Decrease by $25 million
Inflation rates from year 3 (including the long term rate)	4.5 per cent	Decrease by 50 basis points	Decrease by $39 million

9 PROPERTY, PLANT AND EQUIPMENT

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Additions	**366**	310	781
Disposals	**(10)**	(7)	(32)
Capital commitments	**89**	236	149

INVESTMENTS

10 EQUITY ACCOUNTED INVESTMENTS

The Group's significant equity accounted investments are listed below. The ownership interest in these entities is 51 per cent or less and the Group is not considered to exercise a controlling interest.

Equity accounted investees with different balance dates from that of the Group are due to legislative requirements in the country in which the entities are domiciled, or are aligned with their other investors' balance dates or with the milk season.

		OWNERSHIP INTERESTS (%)		
		AS AT		
EQUITY ACCOUNTED INVESTEE NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
DMV Fonterra Excipients GmbH & Co KG	Germany	**50**	50	50
Beingmate Baby & Child Food Co., Ltd	China	**18.8**	18.8	18.8
Falcon Dairy Holdings Limited	Hong Kong	**51**	51	51

All investees have balance dates of 31 December.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

OTHER

11 CONTINGENT LIABILITIES, PROVISIONS AND COMMITMENTS

Contingent liabilities

In the normal course of business, Fonterra, its subsidiaries and equity accounted investees, are exposed to claims and legal proceedings that may in some cases result in costs to the Group.

In January 2014, Danone initiated legal proceedings against Fonterra in the High Court of New Zealand and separate Singapore arbitration proceedings against Fonterra in relation to Fonterra's Whey Protein Concentrate 80 (WPC80) precautionary recall in August 2013. The New Zealand High Court proceedings have been stayed pending completion of the Singapore arbitration.

The Singapore arbitration panel issued its award (judgement), finding in favour of Danone and ordered Fonterra to pay to Danone €105 million ($183 million) in recall costs. In addition, Fonterra also paid Danone €29 million ($49 million) representing interest on the award amount and Danone's costs in connection with the arbitration proceedings. Fonterra paid these amounts during the financial year ended 31 July 2018.

It is unclear whether Danone will continue to pursue the New Zealand High Court proceedings that were stayed pending the decision in the Singapore arbitration. Due to the uncertainty regarding whether Danone will seek to re-initiate these proceedings, and the nature and scope of these potential proceedings in light of the arbitration findings and award, no amount has been recognised in relation to these proceedings.

There are no additional claims or legal proceedings in respect of this matter that require provision or disclosure in these interim financial statements.

The Group has no other contingent liabilities as at 31 January 2019 (31 January 2018: nil; 31 July 2018: nil).

12 FAIR VALUE

Fair value hierarchy

The fair value hierarchy described below is used to provide an indication of the level of estimation or judgement required in determining fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The following table shows the fair value hierarchy for assets and liabilities measured at fair value on the statement of financial position:

	GROUP $ MILLION								
	LEVEL 1			LEVEL 2			LEVEL 3		
	AS AT			AS AT			AS AT		
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED	**31 JAN 2019 UNAUDITED**	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED	**31 JAN 2019 UNAUDITED**	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Derivative assets									
– Commodity derivatives	**21**	21	15	**4**	5	3	**–**	–	–
– Foreign exchange derivatives	**–**	–	–	**186**	390	45	**–**	–	–
– Interest rate derivatives[1]	**–**	–	–	**212**	175	200	**–**	–	–
Derivative liabilities									
– Commodity derivatives	**(8)**	(4)	(12)	**(6)**	–	(2)	**–**	–	–
– Foreign exchange derivatives	**–**	–	–	**(90)**	(77)	(308)	**–**	–	–
– Interest rate derivatives[1]	**–**	–	–	**(470)**	(476)	(454)	**–**	–	–
Investments in shares	**6**	12	13	**16**	15	16	**14**	7	6
Livestock	**–**	–	–	**–**	–	–	**278**	298	288
Fair value	**19**	29	16	**(148)**	32	(500)	**292**	305	294

1 Includes cross-currency interest rate swaps.

Notes to the Financial Statements CONTINUED

FOR THE SIX MONTHS ENDED 31 JANUARY 2019

The following table shows the fair value hierarchy for each class of financial asset and liability where the carrying value in the statement of financial position differs from the fair value:

	GROUP $ MILLION								
	CARRYING VALUE			LEVEL 1			LEVEL 2		
	AS AT			AS AT			AS AT		
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Financial assets									
Long-term advances	**171**	138	154	**–**	–	–	**172**	133	148
Financial liabilities									
Borrowings									
– NZX-listed bonds	**(600)**	(500)	(500)	**(619)**	(512)	(513)	**–**	–	–
– Capital notes	**(35)**	(35)	(35)	**(32)**	(34)	(34)	**–**	–	–
– Medium-term notes	**(4,746)**	(4,941)	(4,640)	**–**	–	–	**(4,960)**	(5,223)	(4,883)
– Finance leases	**(72)**	(134)	(131)	**–**	–	–	**(78)**	(149)	(143)

13 NET TANGIBLE ASSETS PER SECURITY

	GROUP		
	AS AT		
	31 JAN 2019 UNAUDITED	31 JAN 2018 UNAUDITED	31 JUL 2018 AUDITED
Net tangible assets per security[1]			
$ per listed debt security on issue	**4.83**	5.79	5.18
$ per equity instrument on issue	**2.10**	2.17	1.94
Listed debt securities on issue (million)	**703**	603	603
Equity instruments on issue (million)	**1,612**	1,610	1,612

1 Net tangible assets represents total assets less total liabilities less intangible assets.

Independent Review Report

TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

REPORT ON THE INTERIM FINANCIAL STATEMENTS

We have reviewed the accompanying interim financial statements of Fonterra Co-operative Group Limited (the Company) and its controlled entities (the Group) on pages 34 to 53, which comprise the statement of financial position as at 31 January 2019, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended on that date, and selected explanatory notes.

DIRECTORS RESPONSIBILITY FOR THE INTERIM FINANCIAL STATEMENTS

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

OUR RESPONSIBILITY

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

Independent Review Report CONTINUED

AUDITOR INDEPENDENCE

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Bruce Hassall was appointed an Independent Director and Chair of the Audit and Finance Committee (AFC) of the Company on 2 November 2017. Bruce Hassall was Chief Executive Officer of PricewaterhouseCoopers to 30 September 2016 when he retired from the firm. At the time of his appointment, the Board of the Company (the Board) made the decision that Bruce Hassall would not be involved in the appointment of the Group's auditor or the setting of audit fees for three years from the date of his appointment. Scott St John, Independent Director and member of the AFC, would act as Chair of the AFC for these matters and the Chair of the Board will join the AFC for deliberation. In addition, the engagement partner on the audit has direct access to the Chair of the Board to address any actual or perceived auditor independence threats.

Brent Goldsack was appointed a Director of the Company on 2 November 2017. Brent Goldsack retired as a partner of PricewaterhouseCoopers on 22 September 2017. Brent Goldsack was not involved in the provision of any audit services to the Group during his time as a partner of PricewaterhouseCoopers. Bruce Hassall and Brent Goldsack had no financial relationship with PricewaterhouseCoopers upon their appointment as Directors of the Company.

Our firm carries out vendor due diligence services for the Group, Board strategy workshop facilitation and attestation services. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group.

These matters have not impaired our independence as auditor of the Group.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 January 2019, and of its financial performance and cash flows for the six months then ended, in accordance with IAS 34 and NZ IAS 34.

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
Auckland
19 March 2019

Non-GAAP Measures

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the glossary on page 57. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Reconciliations for the NZ IFRS measures to certain non-GAAP measures referred to by Fonterra are detailed below.

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBITDA

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019	31 JAN 2018	31 JUL 2018
Profit/(loss) for the period	80	(348)	(196)
Add: Depreciation	234	229	446
Add: Amortisation	50	46	98
Add: Net finance costs	205	201	416
Add/(Less): Taxation expense/(credit)	38	(29)	42
Total EBITDA	607	99	806
Add: WPC80 recall costs	–	196	196
Add: Reduction in the carrying value of investment in Beingmate	–	433	439
Add: Time value of options	–	5	5
Total normalisation adjustments	–	634	640
Normalised EBITDA	607	733	1,446

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised EBIT

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019	31 JAN 2018	31 JUL 2018
Profit/(loss) for the period	80	(348)	(196)
Add: Net finance costs	205	201	416
Add/(Less): Taxation expense/(credit)	38	(29)	42
Total EBIT	323	(176)	262
Add: Normalisation adjustments (as detailed above)	–	634	640
Total normalised EBIT	323	458	902

Reconciliation from the NZ IFRS measure of profit for the period to Fonterra's normalised earnings per share

	GROUP $ MILLION		
	SIX MONTHS ENDED		YEAR ENDED
	31 JAN 2019	31 JAN 2018	31 JUL 2018
Profit/(loss) for the period	80	(348)	(196)
Add: Normalisation adjustments (as detailed above)	–	634	640
Add: Normalisation adjustment to net finance costs	–	26	26
Less: Tax on normalisation adjustments	–	(64)	(63)
Total normalised earnings	80	248	407
Less: Share attributable to non-controlling interests	(4)	(6)	(25)
Net normalised earnings attributable to equity holders of the Parent	76	242	382
Weighted average number of shares (thousands of shares)	1,611,969	1,608,821	1,610,005
Normalised earnings per share ($)	0.05	0.15	0.24

Glossary

NON-GAAP MEASURES

Fonterra refers to non-GAAP financial measures throughout the Interim Report, and these measures are not prepared in accordance with NZ IFRS. The definitions below explain how Fonterra calculates the non-GAAP measures referred to throughout the Interim Report.

EBIT	means earnings before interest and tax and is calculated as profit for the period before net finance costs and tax.
EBITDA	means earnings before interest, tax, depreciation and amortisation and is calculated as profit for the period before net finance costs, tax, depreciation and amortisation.
Economic net interest-bearing debt	means net interest-bearing debt including the effect of debt hedging.
Farmgate Milk Price	means the base price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12-month milk season of 1 June to 31 May.
Gearing ratio	is calculated as economic net interest-bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest-bearing debt.
Normalisation adjustments	means transactions that are unusual by nature and size. Excluding these transactions can assist users with forming a view of the underlying performance of the business. Unusual transactions by nature are the result of specific events or circumstances that are outside the control of the business, or relate to major acquisitions, disposals or divestments, or are not expected to occur frequently. It also includes fair value movements if they are non-cash and have no impact on profit over time. Unusual transactions by size are those that are unusually large in a particular accounting period.
Normalised EBIT	means profit for the period before net finance costs and tax, and after normalisation adjustments.
Normalised earnings per share (EPS)	means normalised profit after tax attributable to equity holders divided by the weighted average number of shares for the period.
Normalised profit after tax	means net profit after tax after normalisation adjustments, and the interest and tax impacts of those normalisation adjustments.
Normalised segment earnings	means segmental profit for the period before net finance costs and tax, and after normalisation adjustments.
Payout	means the total cash payment to farmer shareholders. It is the sum of the Farmgate Milk Price (kg/MS) and the dividend per share. Both of these components have established policies and procedures in place on how they are determined.
Retentions	means net profit after tax attributable to farmer shareholders divided by the number of shares at 31 May, less dividend per share.
Return on capital	is calculated as normalised EBIT less equity accounted investees' earnings divided by capital employed. Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt, deferred tax balances and brands, goodwill and equity accounted investments.
Segment earnings	means segmental profit for the period before net finance costs and tax.
Working capital	is calculated as current trade receivables plus inventories, less current trade payables and accruals. It excludes amounts owing to suppliers and employee entitlements.
Working capital days	is calculated as average period to date working capital divided by external revenue, multiplied by the number of days in the period.

Directory

FONTERRA BOARD OF DIRECTORS

John Monaghan
Clinton Dines
Brent Goldsack
Leonie Guiney
Bruce Hassall
Simon Israel
Andrew Macfarlane
Peter McBride
John Nicholls
Donna Smit
Scott St John

FONTERRA MANAGEMENT TEAM

Miles Hurrell
Marc Rivers
Robert Spurway
Judith Swales
Kelvin Wickham
Mike Cronin
Deborah Capill

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Market Announcement

20 MARCH 2019

Fonterra announces 2019 Interim Result

- Key numbers in Interim Results
    - Sales volumes 10.7 billion liquid milk equivalents (LME), up 2%
    - Revenue $9.7 billion, down 1%
    - Normalised EBIT: $323 million, down 29%
    - NPAT: $80 million, up 123%
    - Total normalised gross margin: $1.5 billion
        - Ingredients Gross Margin: $791 million, down 9%
        - Consumer and Foodservice Gross Margin: $766 million, down 7%
    - Full year forecast earnings: 15-25 cents per share
    - Forecast Farmgate Milk Price: $6.30-$6.60 per kgMS
- Sales process started for Fonterra's 50% share of DFE Pharma
- Completed the sale of Corporacion Inlaca to Mirona
- Update on full strategy review

Fonterra Co-operative Group Limited today announced its 2019 Interim Results which show the Co-op has returned to profitability with a Net Profit After Tax (NPAT) of $80 million, but normalised Earnings Before Interest and Tax (EBIT) are down 29% on the same period last year to $323 million.

Fonterra CEO Miles Hurrell says that while it is good to see the Co-operative back in the black, the Co-operative's earnings performance is not where it should be and this was the reason for revising the full year earnings guidance down to 15-25 cents per share in February.

"The steady performance from New Zealand Ingredients in the first half of FY19 has been offset by challenges in Australia Ingredients and this has seen our total Ingredients EBIT decline by 17% to $461 million.

"Our Australia Ingredients business continues to feel the impact of the drought. We can see it in the decline of Australian milk collections and aggressive price competition for milk, which is resulting in the underutilisation of manufacturing assets and tightening margins.

"Consumer and Foodservice is tracking behind last year with an EBIT of $134 million. This part of the business has been held back by disruptive political and economic conditions as well as high input costs in Latin America. In addition, in our China Foodservice business, demand slowed due to higher prices and in-market inventory levels growing for butter at the end of FY18. In Sri Lanka our performance was impacted by price constraints."

Outlook for the second half of the year

In talking about priorities for the Co-operative in the second half of the year, Mr Hurrell says the focus is to meet the earnings guidance, deliver the three-point plan and fundamentally reset the business so it can deliver sustainable earnings.

"We have a forecast Farmgate Milk Price of $6.30-$6.60 per kgMS but we also have to meet our earnings guidance range of 15-25 cents per share. This range builds in an expectation of a slightly softer second half for our Ingredients business, but a meaningful increase in Consumer and Foodservice earnings," says Mr Hurrell.

"Our forecast increase in our Consumer and Foodservice performance is based on a few key factors. It needs a strong improvement in our Foodservice business in Greater China, stronger consumer demand for Soprole in Chile and chilled dairy in Brazil, and an improvement in our Sri Lankan business.

"Our three-point plan involves taking stock of our business and conducting a portfolio review, getting the basics right and improving our forecasting. We've made good progress so far and we will continue to take these steps in the second half to firm up our foundations and strengthen our balance sheet.

"The second half will also see us continuing the work on developing a new strategy to support a much-needed change in direction. We are doing the right things but it's clear more is needed to lift our performance. We need to simplify and improve the Co-op so we can grow value."

Portfolio review update

As part of taking stock of the business, Fonterra has let its farmer owners and unit holders know today that the third asset it has identified in its portfolio review is DFE Pharma, a 50/50 joint venture established in 2006 between Fonterra and FrieslandCampina.

DFE Pharma is one of the largest suppliers of pharmaceutical excipients which are used as a carrier agent in medicines such as tablets and powder inhalers.

Mr Hurrell says Fonterra has let FrieslandCampina know that it has started a sales process for our 50% share of DFE Pharma.

"At the same time, we have confirmed that we are committed to maintaining our lactose service and supply agreements from Fonterra's Kapuni operation in Taranaki and supporting the ongoing operations of the DFE Pharma business.

"Together with our partner, we have grown DFE Pharma from relatively small beginnings into a significant and successful business. While continuing to perform well, ownership of DFE is not core to our strategy."

In addition to this sales process, the Co-op has received strong interest in Tip Top and is actively considering its options for its shareholding in Beingmate.

"We are well on track to meet our target to reduce end of year debt by $800 million," says Mr Hurrell.

Mr Hurrell also advised that Fonterra has sold its interest in its Venezuelan consumer joint venture, Corporacion Inlaca, to Mirona, an international food business.

"The decision to sell Inlaca is the result of ongoing instability in Venezuela which has led to challenging operating conditions.

"The economic situation in Venezuela is not expected to improve in the foreseeable future, so we have made the decision to act now to minimise the impact on Fonterra," he says.

Fonterra received $16 million cash for the Inlaca sale. Like any multi-national business, Fonterra is exposed to currency risk on its overseas operations and the impact of changes is held in a foreign currency translation reserve (FCTR). When a business is sold there is a non-cash accounting adjustment that releases the accumulated FCTR to the profit and loss statement. The full impact of this transaction, including the devaluation of the Venezuelan currency which has resulted in a negative FCTR balance of approximately $126 million, will be reflected in the profit and loss statement.

This sale is not directly included in Fonterra's half-year results, and the impact of the FCTR on the profit and loss statement has not been reflected in the forecast earnings per share range. Fonterra expects there to be a number of one-off transactions and adjustments over the course of its financial year (some positive and some negative). The sale of Inlaca would have an eight cents per share negative impact on earnings. As Fonterra has other one-off transactions that are underway but not yet completed, such as the potential sale of Tip Top and DFE Pharma, it is too early to assess the overall impact of our divestment programme on the Co-op's FY19 earnings.

As a result, the announced forecast earnings will continue to reflect only the underlying performance of the business. Fonterra will advise any one-off impacts of a transaction on its FY19 earnings when that transaction is announced, and will provide details of the overall impact of its divestment programme on FY19 earnings as part of its full-year financial statements.

Fundamental change in direction

Fonterra Chairman John Monaghan used today's announcement to give the Co-operative's farmer owners and unit holders a progress update on the full review of its business strategy. He says that the review isn't mere tinkering around the edges.

"There will be fundamental change. We are taking a hard look at our end-to-end business, where we can win in the world and the products where we have a real competitive advantage.

"Our Co-operative values of the last 148 years won't change. Our farmers' quality, pasture-based milk will always be collected, processed and sold for the highest possible returns. They'll always be paid on the 20th of the month – every month.

"Outside of that, there are no sacred cows. The business strategies designed to secure the highest possible returns will change, but some underlying principles will remain."

Mr Monaghan says the Co-operative's strategy will focus on sustainability and provenance throughout the value chain.

"We are a New Zealand dairy farmers' Co-op. Maximising the value of our home milk supply will always be our number one priority. We believe there's a premium to be earned from products backed by our co-operative heritage and provenance.

"Our future will be built on our owners' farming businesses that use advancements in technology and innovation, including adaptations from other industries, to help protect or enhance the premium qualities and reputation of our milk."

Fonterra's portfolio review will simplify its business and concentrate on getting the basics right. It is changing its portfolio of investments to achieve higher return on capital.

"Achievement of our ambition will rely on us maintaining premium quality right across the supply chain - starting on-farm and flowing through to the products we make, and the customers we sell to. It will need the support and commitment of all our people – our farmer owners and our employees.

"It sounds simple. The best strategies often are," says Mr Monaghan.

-ENDS-

For further information contact:

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Interim Results 2019

March 2019

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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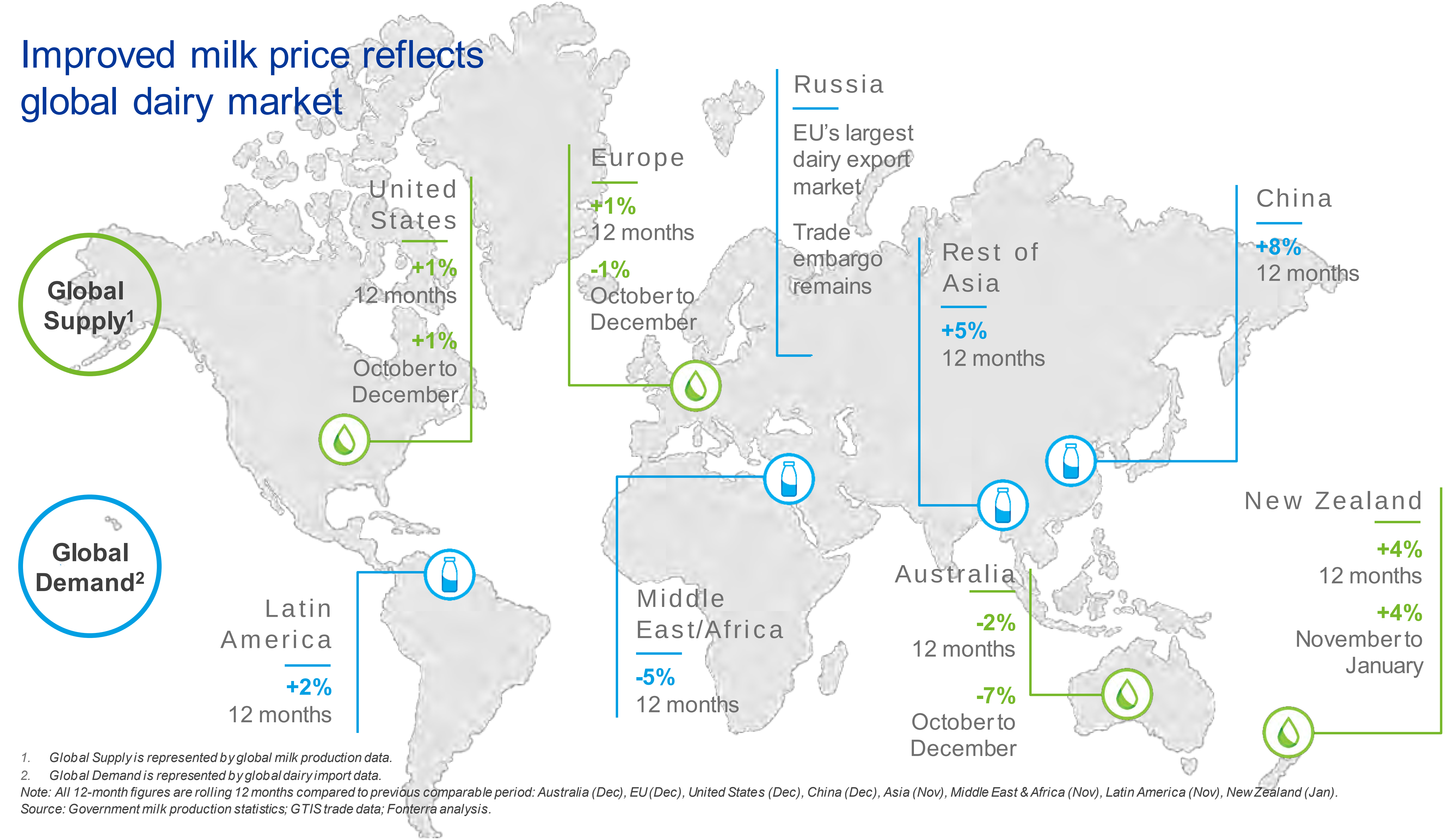
Headlines

- 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



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
10.7bn	$9.7bn	$1.5bn	$1.2bn	$323m	$80m	$80m	$7.4bn
2%	1%	$159m	2%	29%	68%	123%	4%

Ingredients

Volume LME[2]	10.4b	6%
Gross Margin[1]	$791m	$80m
	9.6%	from 11.0%
EBIT[1]	$461m	$97m

Consumer & Foodservice

Volume LME[2]	2.5b	2%
Gross Margin[1]	$766m	$55m
	22.1%	from 23.6%
EBIT[1]	$134m	$59m

China Farms[3] (End to End)

Volume LME[2]	113m	15%
Gross Margin[1]	$(10)m	$6m
	(7.8)%	from (13.0)%
EBIT[1]	$(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	In discussion with interested parties for Tip Top and DFE Pharma, and actively considering options for our shareholding in Beingmate
Gearing within 40-45% range by year-end	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	On track for the full-year
Reduce opex back to FY17 levels over the next two years	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

Gearing[1]

52.5%

0.9%

Net Debt[2]

$7.4bn

4%

Interim Dividend

$0

0cps

Working Capital

82 days

2 days

Capex[3]

$316m

9%

Net Cash Flow[4]

$(1.0)bn

16%

Credit Rating

A Negative

Fitch

A- Stable

S&P

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 or 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 EPS[1]

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

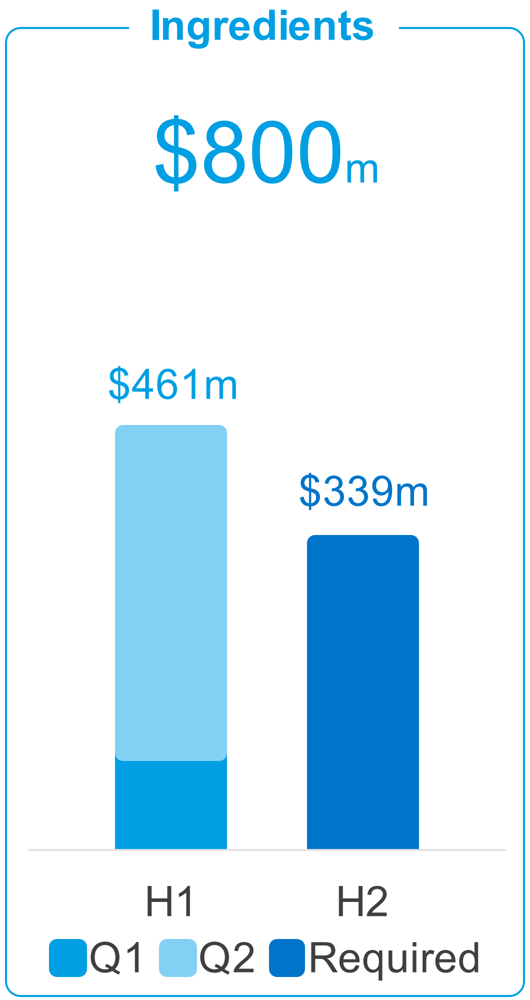
$475 - $525 million

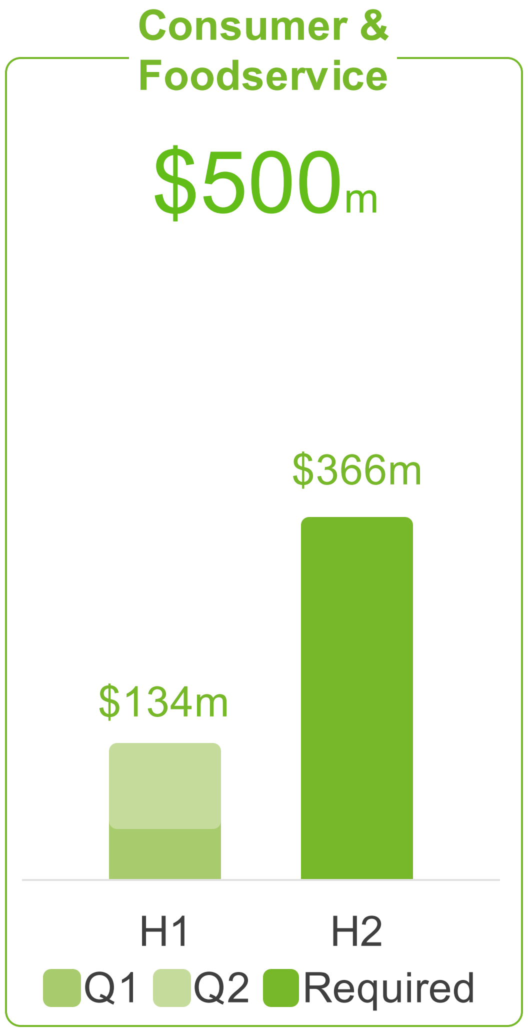
1. *Earnings per share.*

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

Forecast EBIT[1]

EBIT[2]





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

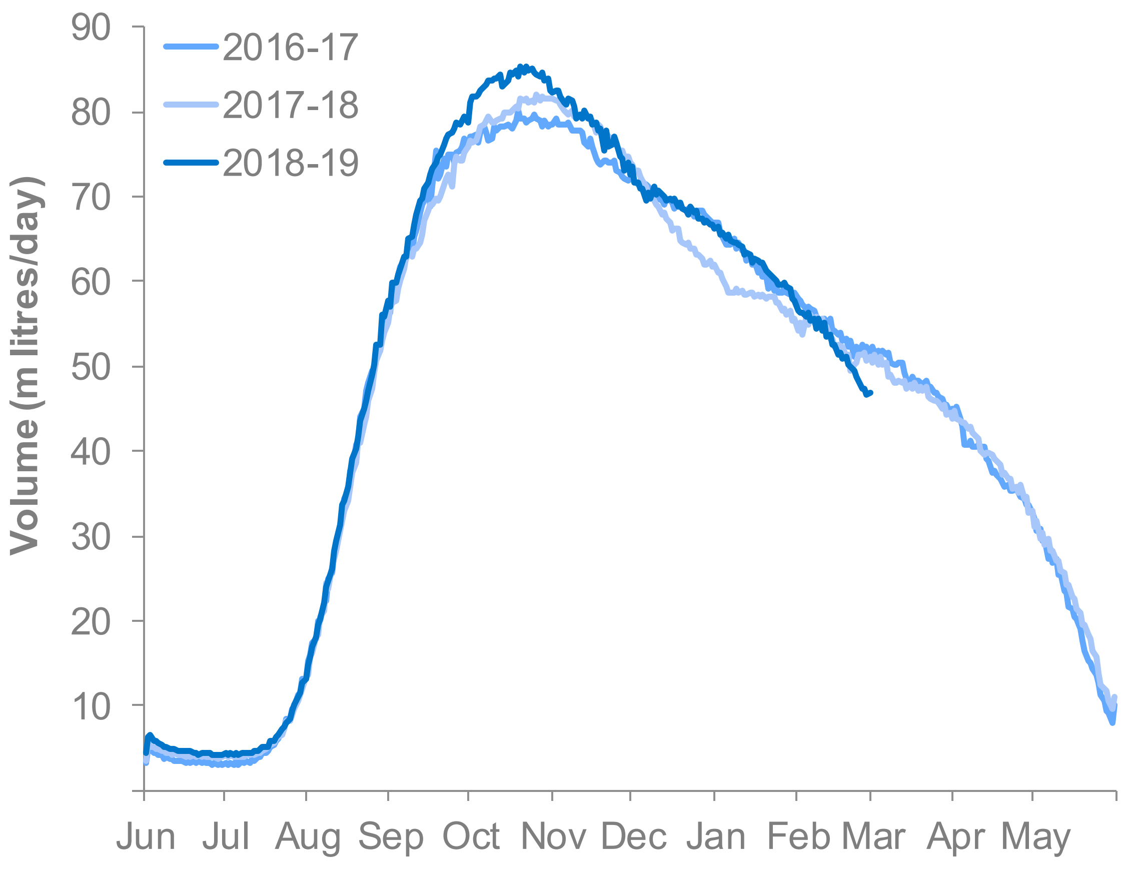
Timeline

- 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

APPENDIX

Milk collections forecast for season recently reduced

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

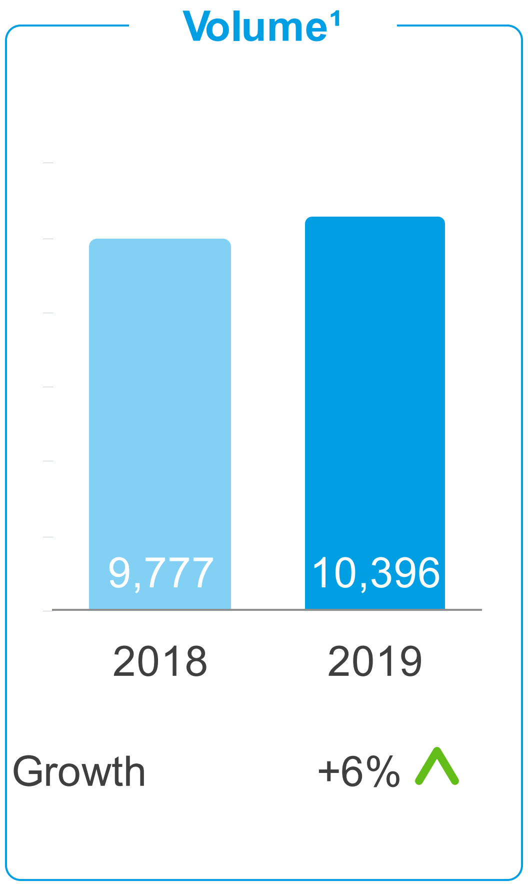


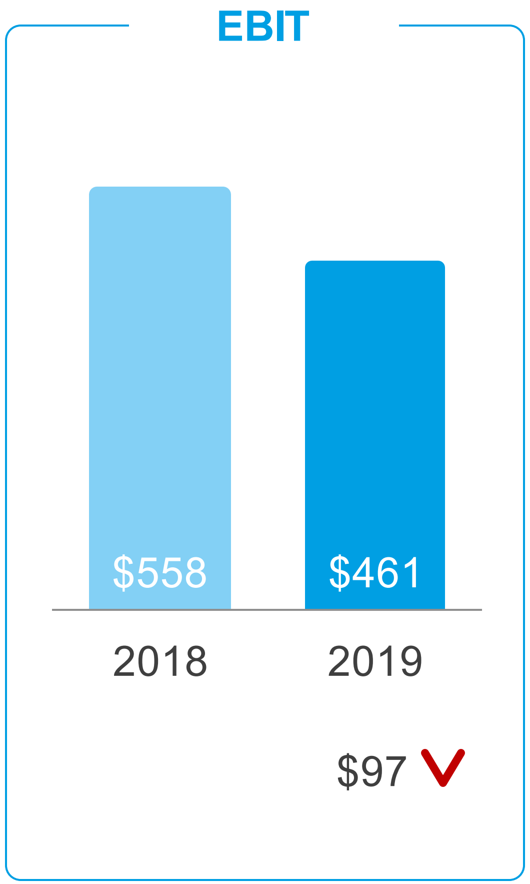
- New Zealand milk collections forecast is 1,510 million kgMS
  - 1% reduction from previous forecast due to ongoing dry weather in New Zealand, particularly North Island
  - Slightly above last season's 1,505 million kgMS, a season also impacted by poor on-farm conditions
- On-farm conditions will continue 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	–
Revenue[1]				
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 sales[2]
- 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

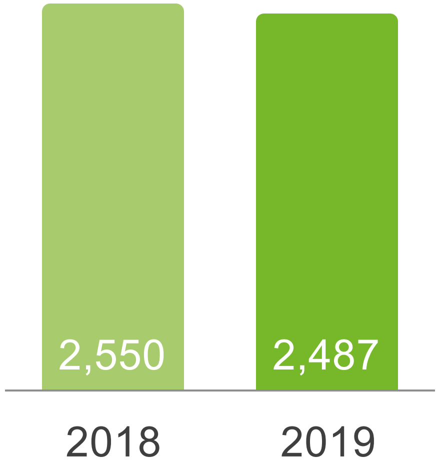
1. *Excludes bulk liquid milk. Bulk liquid milk for the six months to 31 January 2019 was 34,000 MT (six months ended 31 January 2018: 34,000 MT).*
2. *The way in which Ingredients presents certain inter-segment sales between Ingredients and Foodservice was revised in FY19. This increased sales volumes 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

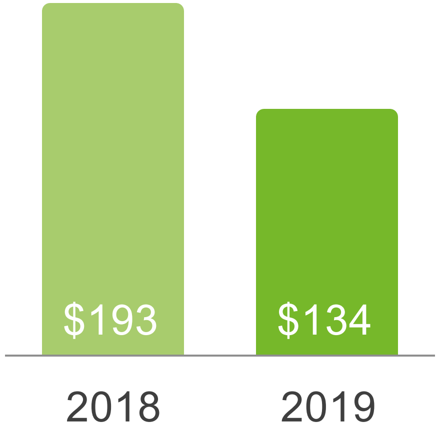
Tighter margins in Consumer and lower volumes and margins in Foodservice

Volume[1]



Growth -2%

EBIT



$59

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 Anmum in-house

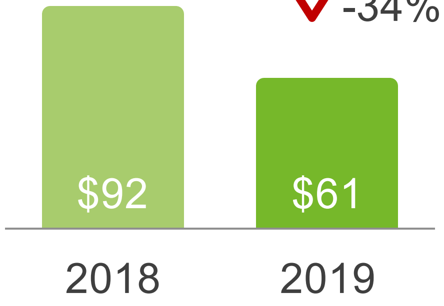
1. Includes sales to other strategic platforms.

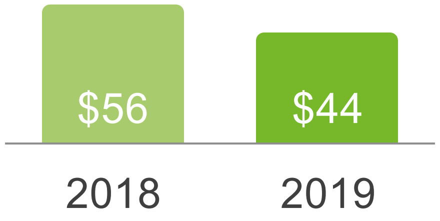
Note: Volume is in million LME. EBIT is in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.

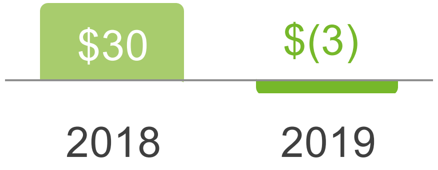
Consumer and Foodservice by region

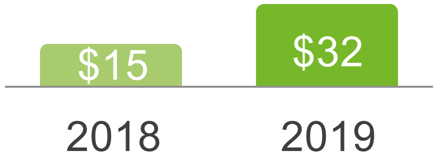
Challenges in China Foodservice and Latin America Consumer outweigh growth in Australia

	Greater China		Asia		Latin America		Oceania	
Volume[1]	524m	-13%	733m	-4%	388m	+5%	843m	+3%
Gross Margin	$163m	-11%	$200m	-5%	$185m	-16%	$218m	+4%
	24%	from 25%	21%	from 23%	25%	from 29%	20%	from 19%
EBIT[2]		-34%		-22%		-111%		+110%







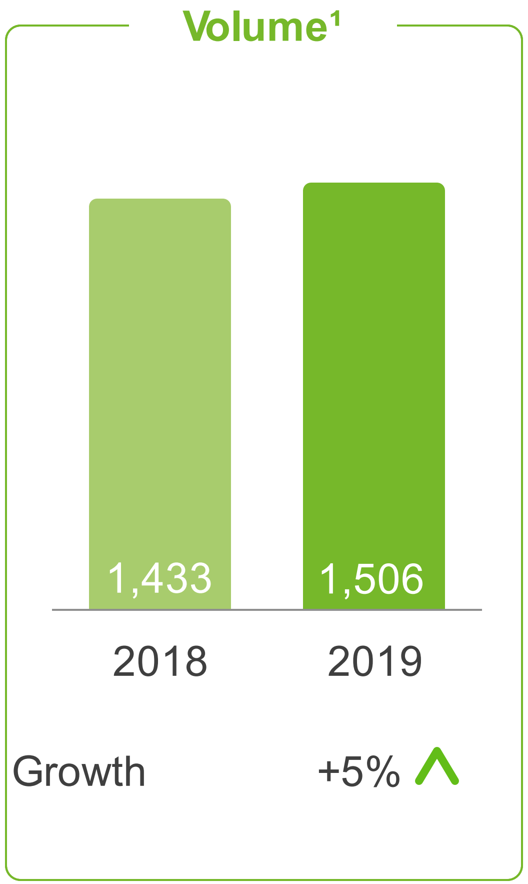


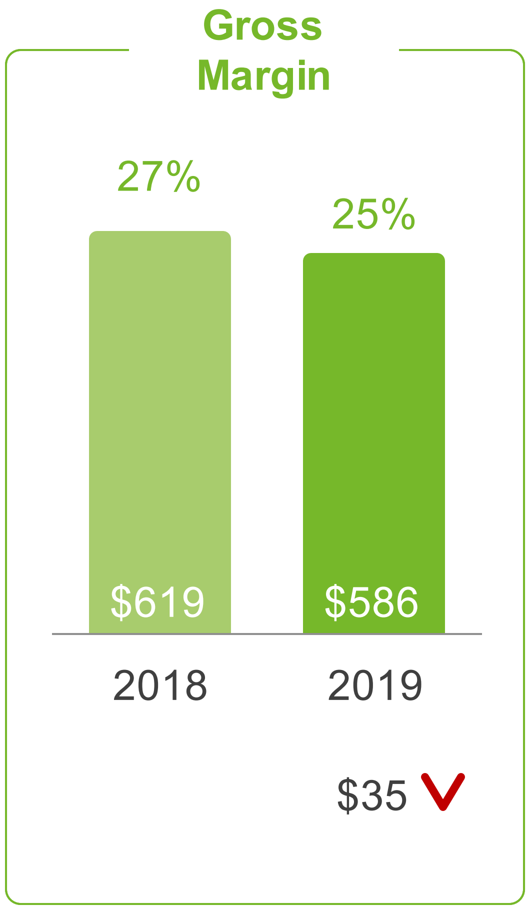
1. *Includes sales to other strategic platforms.*
2. *Percentages as shown in tables may not align to the calculation of percentages based on numbers in the tables due to rounding of reported figures.*

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

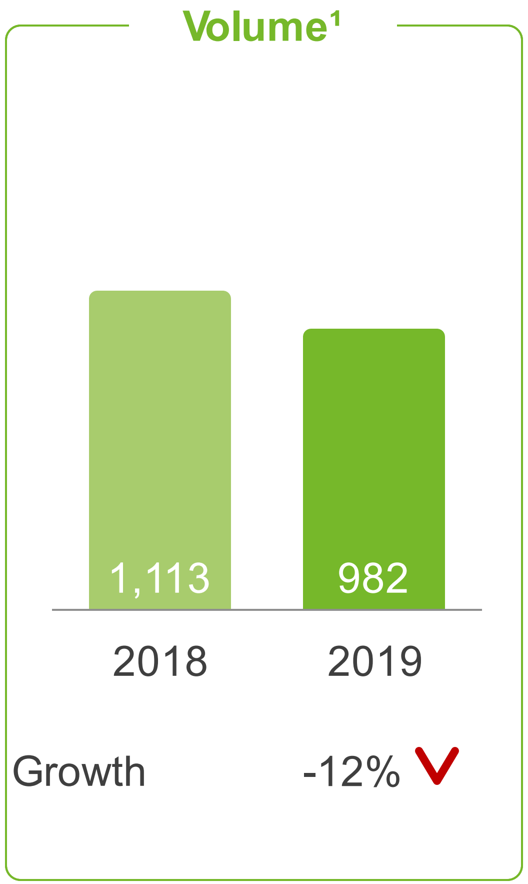
	Greater China		Asia[1]		Latin America		Oceania	
Volume[2]	81m	+29%	461m	+5%	334m	+4%	630m	+3%
Gross Margin[3,4]	39%	from 41%	26%	from 29%	25%	from 30%	20%	from 20%
		+4%		-3%		-18%		+2%
2018	$74		$171		$207		$168	
2019	$77		$166		$170		$171	

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

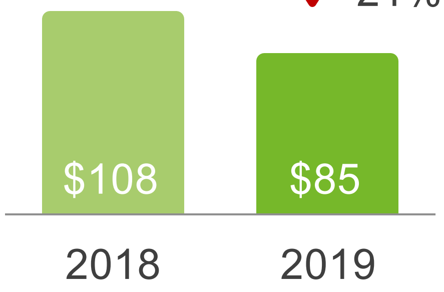
1. *Includes sales to other strategic platforms.*

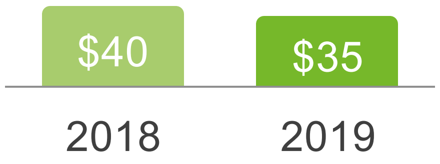
Note: Volume is in million LME. Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to the first half of FY18.

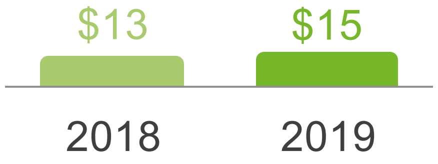
Foodservice

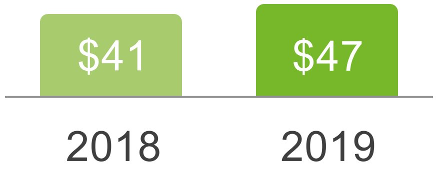
Greater China volumes and margin down due to challenges in butter category

	Greater China	Asia	Latin America	Oceania
Volume[1]	443m -17%	272m -16%	54m +17%	213m +2%
Gross Margin[2,3]	18% from 20%	12% from 13%	21% from 23%	18% from 16%
	-21%	-13%	+13%	+15%









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 Anmum 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**
Other[1]	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**

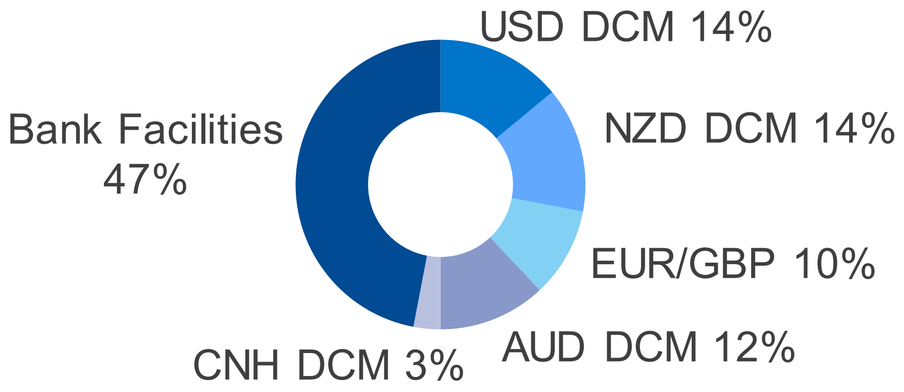
- Distribution and administration up in Consumer and Foodservice due to taking Anmum back in-house
- Selling and marketing reduced across all parts of the business
  - Corporate branding advertising not repeated in FY19
  - Reduction across Ingredients and Consumer and Foodservice as part of realignment 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.*

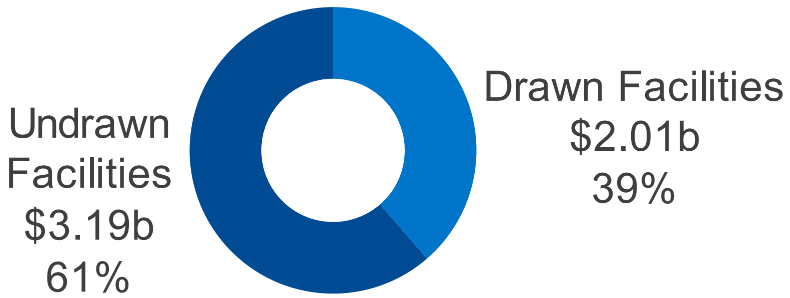
Diversified and prudent funding position

Strong liquidity and access to funds

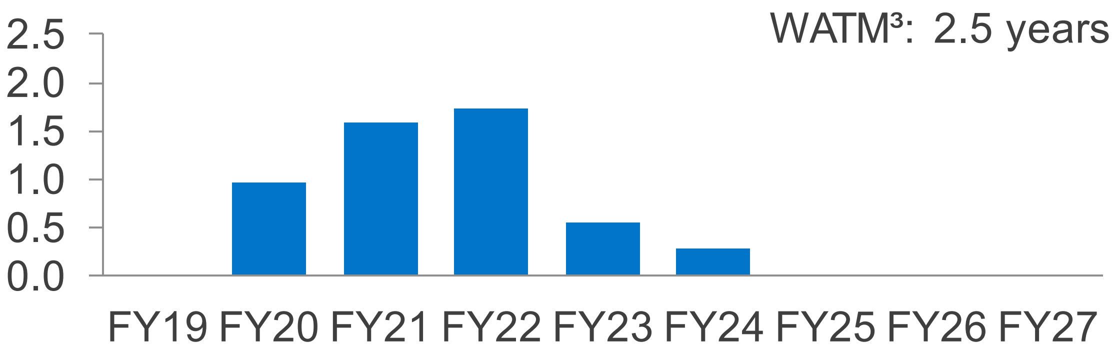
Diversified Profile[1]



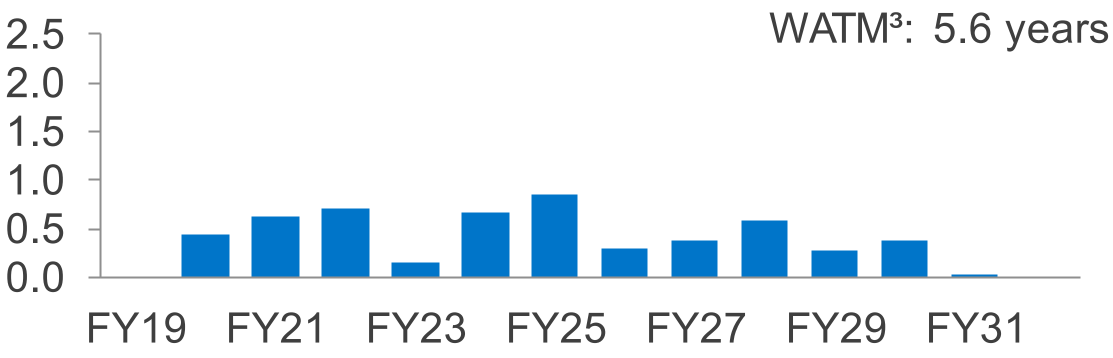
Prudent Liquidity



Bank Facility Maturity Profile



DCM Maturity Profile[2]

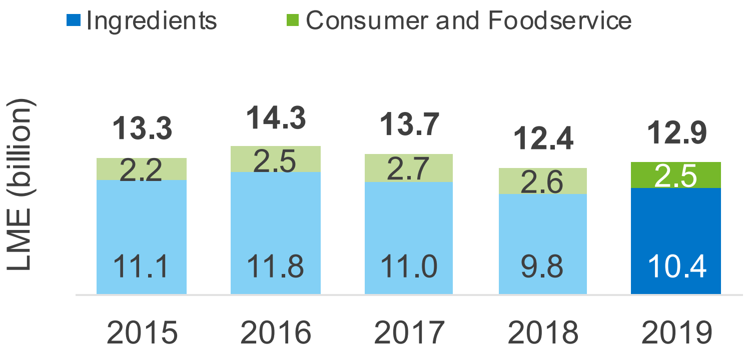


1. *Includes undrawn facilities and commercial paper.*
2. *Excluding commercial paper.*
3. *WATM is weighted average term to maturity.*

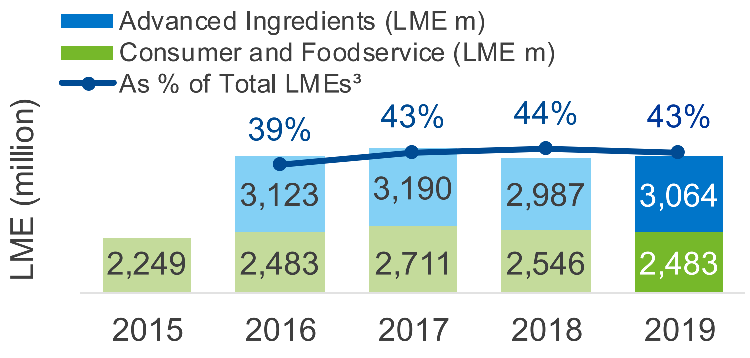
Note: NZD billion, as at 31 January 2019.

Key financial metrics for half year

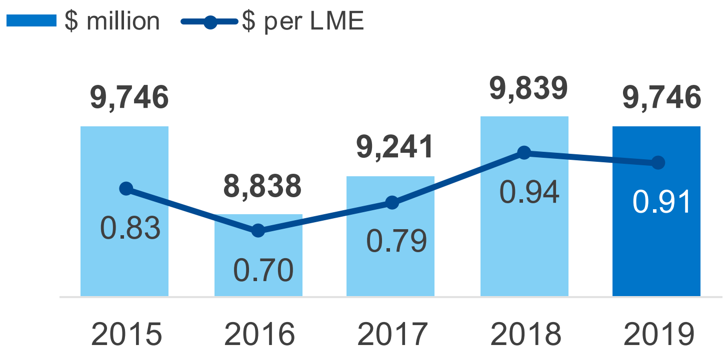
Sales Volumes[1]



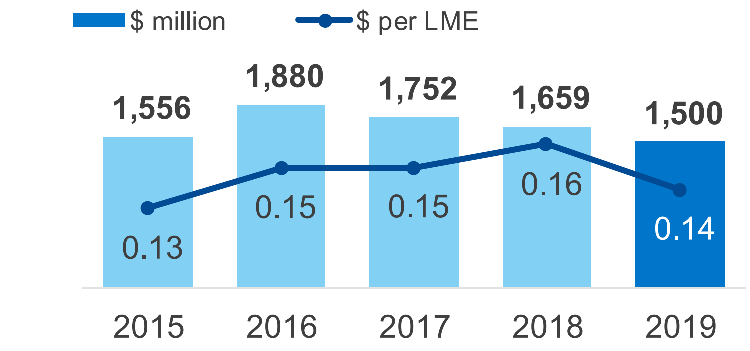
Volume to Higher Value[2]



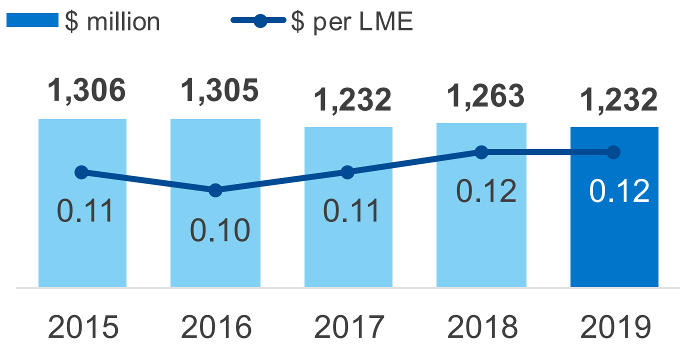
Reported Revenue



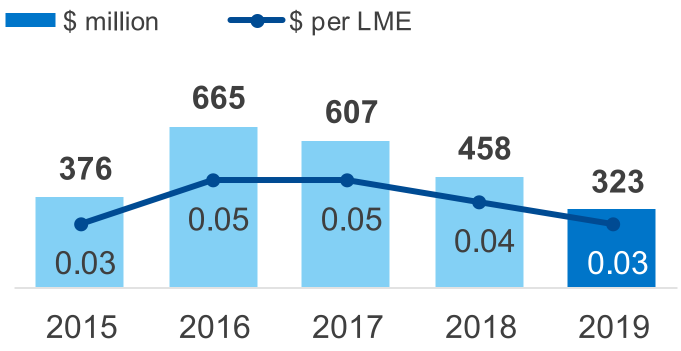
Gross Margin[4]



Operating Expenses[4]



Normalised EBIT[4]

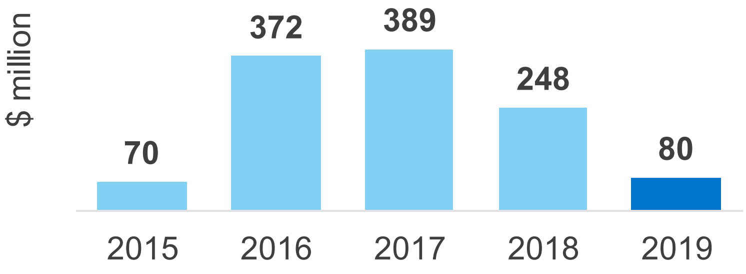


1. *Does not add to total due to inter-group eliminations.*
2. *Represents total volumes in the period rather than cumulative changes. It is not meaningful to report on a cumulative change half year to half year basis.*
3. *Comprises Advanced Ingredients and Consumer and Foodservice products.*
4. *There were no normalisation adjustments for the six months ended 31 January 2019.*

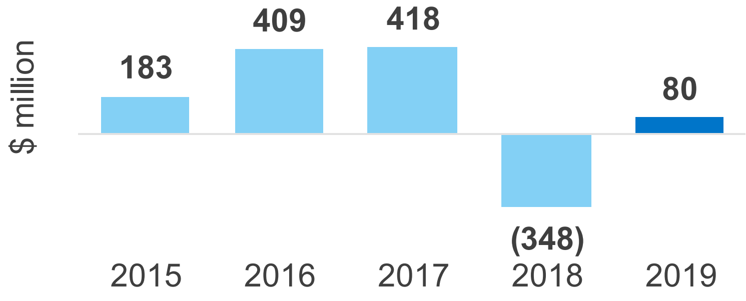
Note: All periods are for the first half of the financial year ended 31 January.

Key financial metrics for half year

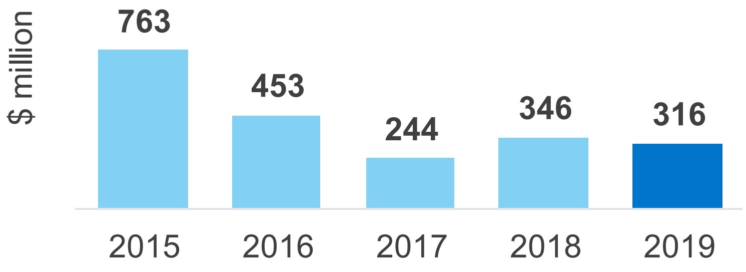
Normalised NPAT[1,2]



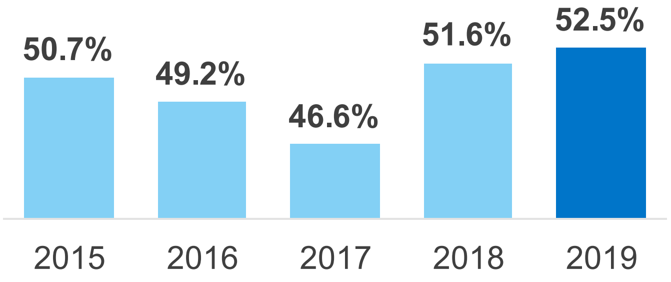
Reported NPAT[1,2]



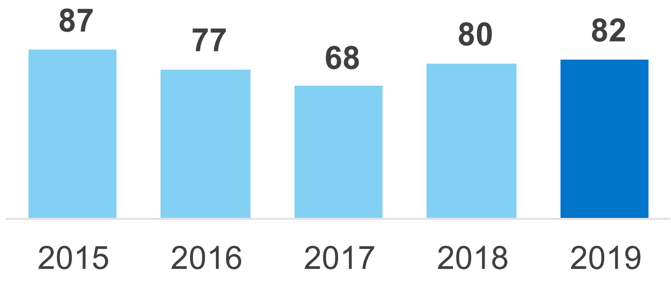
Capital Expenditure[3]



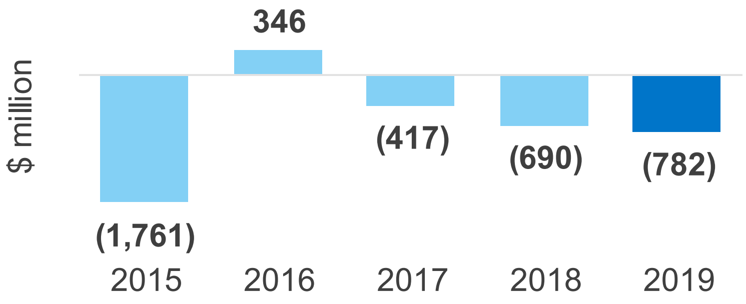
Gearing



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 or 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.