

John Monaghan

Chairman's Address

Our Purpose guides everything we do

OUR PURPOSE

*Our Cooperative,
Empowering people
to create goodness for generations
You, me, us together
Tātou Tātou*

Taking the best things from the past and adapting them for the future



Strengths

OUR PEOPLE

INNOVATION, RESEARCH & DEVELOPMENT

SCALE & EFFICIENCY

PASTURE BASED FARMING MODEL

LOW GREEN HOUSE GAS EMISSIONS

GLOBAL SUPPLY CHAIN

PRODUCT & MARKET OPTIONALITY

FOOD SAFETY & TRACEABILITY

AOTEAROA NEW ZEALAND

CUSTOMER RELATIONSHIPS

Our realities

INCREASING COMPETITION

CONSTRAINED CAPITAL

LARGE ASSET BASE

HIGH DEBT LEVEL

LACK OF TRUST & CONFIDENCE

BIG PART OF NEW ZEALAND

ENVIRONMENTAL INVESTMENT COSTS

RECENT UNDER PERFORMANCE



Dairy for life

We have made progress on our commitments

Reduce debt by \$800 million



Reduce capex by \$200 million



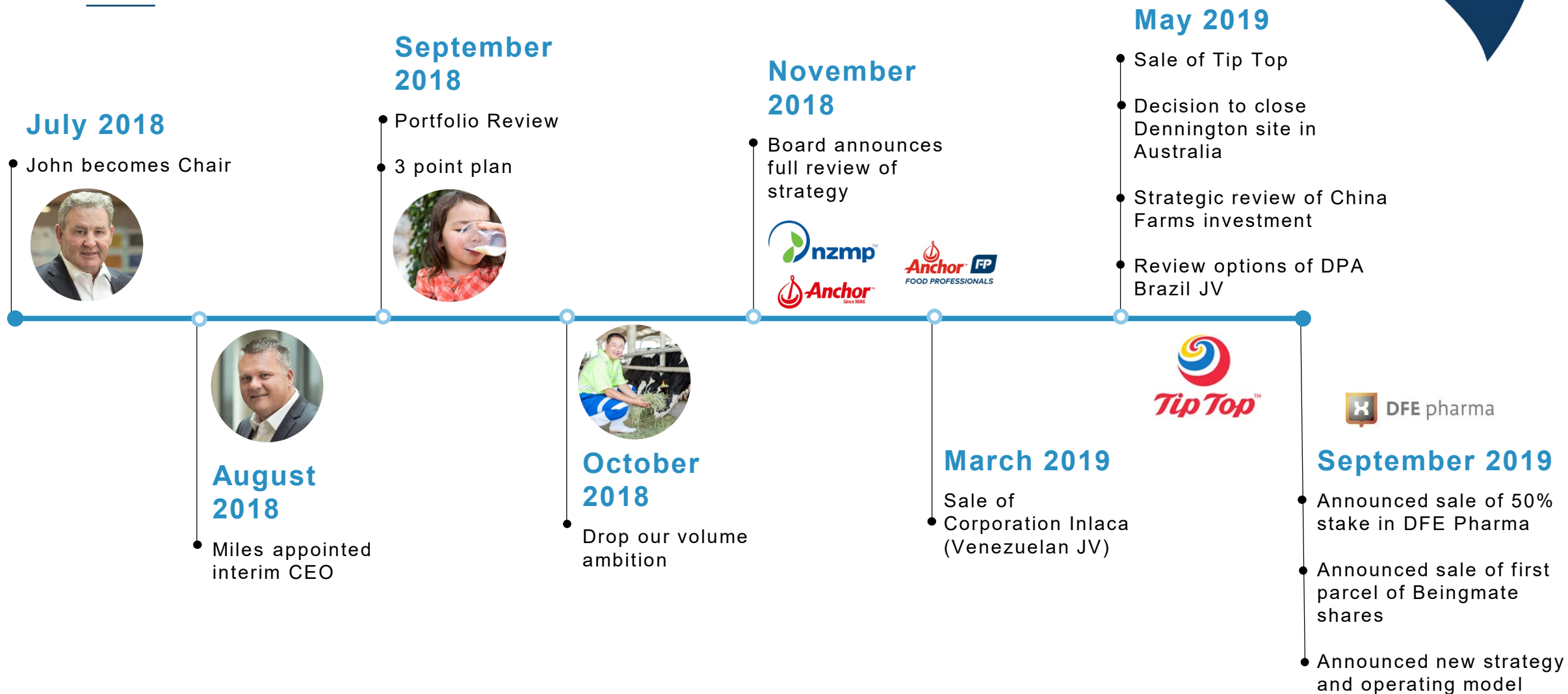
Gearing within 40-45% range
by year-end

48.2%
Down 0.2%

\$160 million decrease in
operating expense by FY20



18 months of fundamental change





Dairy for life



CONSUMER & MARKET TRENDS

SUSTAINABLE VALUE

CORE
DAIRY

FOOD
SERVICE

PAEDIATRICS

SPORTS
& ACTIVE

MEDICAL
& AGEING



Innovation

Sustainability

Efficiency

Product innovation to meet consumer needs



High protein
medical beverages

An infant formula
inspired by breast milk



High Protein Instant Milk Powder
33% of an adult's daily calcium needs



Reduced
sugar
in Kiwi
kids' diets



Protein fortified
healthy drinks and snacks



Anchor™ Food Professionals

Honour Roll for Milk Quality Excellence



Legend

Farming entities that achieved Grade Free for at least the last 10 seasons.

B L & Estate R J Mohring
B M & B C & J H Geddes
B S & P J Strang
C & H Mabey
C J & K L Ladd
C M & K M O'Donoghue
Caskey Farms
Est of M F Blake & M Blake
F A & R C M Smits Ltd
F B Bonenkamp & J B Cunningham
G B & J S Coulter
Golden Mile Farms Ltd
Inishbulfin Farm Ltd
J A & Estate of K J Jolly
J L & M A Cooke
K & S MacKenzie Farms Limited
K J & H Chalmers Ltd
Kemra Farm Ltd
Kim Steffert Family Trust
L J & L M Still
M J & L M Van Tiel
Miroc Limited
Owhango Farms Limited
R & P Woods Farms Ltd
R S & R D Gordon
Riverside Farms (Taranaki) Limited
Romill Partners
Rye Downs Ltd
Schorn Trust
Serendipity Trust
Sim Brothers Ltd
Sim Family Farms Ltd
Steffert Farms Ltd
Stephen Zink
Takitimu Trust



Achievement

Top 10 farming entities with the lowest Somatic Cell Count.

- 1 G L & G F Bell
- 2 J M Mellow
- 3 D A & M A Mullan
- 4 M C & J P Fisher
- 5 J C & F M Henschman
- 6 M & L Arnold
- 7 Ternstone Ltd
- 8 Est of M F Blake & M Blake
- 9 K J & H Chalmers Ltd
- 10 Le Emari Trust T/A Willowbridge Dairies



Gold

Farming entities that achieved Grade Free for at least the last four seasons.

S M Trust
A Holten & N Brown
A J & K L Murdoch
Abacus Dairy Limited
Abbey Farm Partnership
Acacia Farms Ltd
Ahipaipa Farms Ltd
Amberhay Limited
Aramaunga Farms Ltd
Arataki Dairies Limited
Ashgrove Dairy Farms Limited
B & D Dodunski
B N & P A Jones
B P & P N Kennedy
B S & S K Dhaliwal
Barmac Dairies Ltd
Beechbank Dairies Ltd
Bibberne Farms Ltd
Browne Pastoral Enterprises Limited
Bullot Family Trust
C B Farms Ltd
C J & C J McKenzie Ltd
C J & V K Taylor
C W & J Redshaw
C W & M Y Matthews Family Trust
C.D. Farms Ltd
Clutha Lea Ltd
Collins Family Trust
Conlan Trust
Cranief Clifton Ltd
D & D Alexander Trust
D & E J Pringle
D & K Miles Limited
D C & V F Frew
D J & R E G Goodwin
D J & S A McMillin
D J Noble & K M Jones
D R & E M Henman

D S & L R Wilson Ltd
Daisy Dairying Ltd
DDB Dairy Enterprises Limited
Drysdale Holdings Ltd
Dugald McKenzie Family Trust
E F & J A Allcock
F A & R C M Smits Ltd
Fairview Trust
Far South Farms Ltd
Fardale Dairies Ltd
Farmer Fred Ltd
Farview Farms Ltd
G A & K T Lynch
G B & D G Hodges Trust
G K & D J Landon Family Trust
G R J & R J Saddleton
Golden Mile Farms Ltd
Hard Road Dairies
Hillcrest at Fairfax Ltd
Hudson Trust
I J Oliver
J A & Estate of K J Jolly
J B & L M Suisted Limited
J E & C T Brien
J H & H R Smyth
J L & K S Gwerder Family Trust
J L & M A Cooke
J R & A T M Hale
J Van Der Kooy
J W & A M Steeghs
J W Pricor
James Lyttle
J J & AB Roskam Ltd
K & S Richards Limited
K B Olesen & R J Stephens
K J & H Chalmers Ltd
Kainui Peatlands Ltd
L J Bleakley
Lockerbie Farms 2001 Ltd
M & A Schrader Family Trust
M & C O'Grady Ltd
M & J Barker Trust
M E Hunt & Son Ltd
M R & K J Luke Ltd

Malandra Downs Limited
Mary Allen Farm Ltd
McFetridge Farms Ltd
Michael O'Connor
Miroc Limited
Molehill Farm Ltd
N J & M Bleakley
Oceanview Farms Ltd
O'Reilly Family Trust
P V & P G Mullin Trust
Parkhill Farms Ltd
Paul Turner Farm Trust
Pikowai Transport Ltd
P J Nelson Farming Ltd
Puketi Farming Enterprises Ltd
R & P Woods Farms Ltd
R J Mandeno No.2 Family Trust
R N Cornes
R P & M G Frank
R W & W J Cudby Family Trust
Rainbowcreek Farms Limited
Ritson Holdings Limited
River Heights Limited
Rodney G & S J Joblin
Roseneath Farm Limited
S & S Iorns
S G & B L Thirkell
S M Duynhoven & Estate of JB Duynhoven
S M Shead
Sea Breeze Farms
Sean McErlean Trust
Steffert Farms Ltd
Stephen Zink
Stopford Road Limited
Te Ngutu Land Holding Co Ltd
Te Repo Farms Ltd
V E & D M Grant
Valley Road Farm Ltd
W B Scott Family Trust
W A & H R Simpson Farming Ltd
Waituna Investments Ltd
Watershed Ventures Ltd
Webber Farm Ltd

Whenuakura Farm Limited
Willowfields Ltd
A H & A C Webster
Abbott Brothers
AGC Farms Limited
Airlie Lodge (Walton) Ltd
Allison Family Farms Ltd
Alton Pastures Limited
Auroam Tahi Limited
B & E V Blake
B J & D A Verryt Family Trust
B M & B C & J H Geddes
B M & R M Sarten
B S & P J Strang
Barneyco Trust Partnership
Bent River Farms
B J & D M Ahlers
Bonezco Farms Ltd
Burton Trust
C & M Tippet
C & M Young Ltd
C C J & F A Jones
Carnarvon Farms Ltd
Casey Coxhead Ltd
Cavan Downs Trust
Chetwynd
Colhaven Limited
Cotlands Ltd
Creekside Pastures Ltd
D P & T G Schumacher
Daybreak Farms Limited
Eichler Farms Limited
F B Bonenkamp & J B Cunningham
Farmbuild Milk Company Ltd
Forest Hill Downs Limited
Fowler Family Prosperity Trust
Frisia Farm Trust
G A & J M Fox
G A & V M Weir
G C & J M Knowles
G C Hall
G J Farms Ltd
G M & A J Gower
Gee 'N' Tee Ltd

Glen Eden Otago Ltd
Grat Farms Ltd
Gregory Farms Ltd
Hines Family Trust
I H & D J Bryant
I Hampton & A Golvin
I J Sutherland Partnership
Inishbulfin Farm Ltd
J & J Anderson Family Trust Partnership
J E & D M Cooper
J H & R Cotman
J L Hooper & A L Robertson
J P & J S Adams
JDQ Ltd
J E & K L Gilbert

Honour Roll for Milk Quality Excellence



Gold continued

Thank you to all our farmers who have worked so hard to provide safe, high-quality milk throughout the 2018/19 season. In addition to the honour roll, we acknowledge the effort of all of our farmers who work hard every day to produce the best possible milk.

K J & J B Argyle
K J & M T Dwyer Trusts P/S
K R Cresswell
K W & D M Blackstock
K W & D R Lowe Family Trust
Kevin Fleming Ltd
Knockinnon Farm Trust
L J & L M Still
L S & K A Phipps
Lynton Dairy Limited
M C & M Davey
M I & P M Stevenson
Family Trusts P/ship
M J & L M Van Tiel
M J & W P Van Veen
Mangatoki Partnership
MJA Farms Ltd
MW & KA Olsen
N A & K M McColl
NB & LJ Crosbie Ltd
Otu Creek Farm Limited
Owhango Farms Limited
P H S & P C Byford
R & A Tait T/A Black Cow Dairies
R S & R D Gordon
R T & E A Brown Ltd
R.L. Mathis Ltd
RK & A Hines Limited
Rogers Farming Ltd
Romill Partners
RV & LH Kokich Farms Ltd
Ryan Bennett
Ryelands Farm Company Ltd
S G McKenzie
Serendipity Trust
Sim Brothers Ltd
Sim Family Farms Ltd
Somerset Trust
T D Hall Trust
T M Mcdowall
Tawa Land Company Limited
Tawa Ridge Farms Ltd
Tayco Farm Limited
The Red Cow Company Limited

Trimor Ltd
Troy & Natalie Farming Partnership
True Blue Trusts
Vale Green Services Limited
Wainui Dairies
Waiparu Farm Ltd
Waiparu Holdings Limited
Wattle Downs Ltd
Webber & Maxwell Partnership
Westmeath Trust
Willcox Farms Ltd
A & N Harvey Family Trust
A A & L J Edward Trust
Abbott Trusts Partnership
Avon Downs Ltd
B C & K A Keller
B D Mead
B L & D J Haylock
B M & J A Ahlers
Bell Farm 2008 Limited
Bothwell Farms Ltd
Burnell Farms Ltd
C & B Jensen Family Trust
C & D Padruitt Trust
C E & D L Rogers
C M & K M O'Donoghue
Caskey Farms
Claremont Trusts Partnership
CM Farming Ltd
Cowley Dairies Ltd
D & S Farms
D A & M A Mullan
D B H Farms Limited
D J & E A Turner
D J & G M Hooper
D P & T M Stephens
D W & M E Kidd
DR & PJ Hannah Ltd
Drylands Trust
Estate E A Bonner
Fabish Bros Farms Ltd
Falcon Farms Trust
Farming Tee Jay Ltd
Florida Farms Ltd

Fonterra - O'Brien Farm
Four Roads Farms Limited
G B & J S Coulter
G E Sutherland Trust
G L & R L Burr
Glengarry (Dvke) Farming Co Ltd
GRC Farms Limited
Harrihi Farms
Hayley Buckman Family Trust
Hutton Farm Holdings Ltd
Inferno Farms Limited
J A & B E Turnwald
J D Farms
J L & H M Coatsworth
J M De Renzy
Jayland Partnership
Johnson Farm Co. Ltd
K & S MacKenzie Farms Limited
K E & V J Bond
Kaimai Dairy Ltd
Kemra Farm Ltd
Kieran McErlean Trust
Kim Steffert Family Trust
Knightlands Ltd
Kywaybre Farms Ltd
L J Hodges
L.G. & J.M. Morris Limited
Lesdale Friesians Ltd
Lizlyn Dairies Ltd
Longacre Properties Limited
Lutz Farming Company Ltd
M & C Mogg Ltd
McGee Partnership
McGowan-Weake Ltd
Meyer Family Trust
Mitchells Milky Way Limited
MR & TJ Frost Ltd
Mudspring Farms Limited
N R & L A Fox
NR Ensor Limited
P G & D M Dombroski
P L & R E Berryman
P R & V P Dawson
Placement Services Limited

Poc Ar Buille Limited
R J Troughton
R K J Allen
Rasing Farms Ltd
Rich Feet Limited
Rosebrae Farm Ltd
Southern Meadows 2011 Ltd
Springpark Farms 2008 Ltd
T D & J A Rhind
T N Langlands
Tainui Group Holdings Limited
Takitimu Trust
The D & A Roberts Family Trust
The Hyjinks Trust
TW Langford Family Trust
Two Name Farming Limited
Up At 5 Ltd
Van Rossum Ltd
Waicola Holdings Ltd
Waiotu Farms Ltd
Waiwira Holdings Ltd
Whakahora Farm Ltd
A M Bond & Estate of R G Bond
A R Mills
Aaron and Marcia Flay Partnership
ABH Trust
Aghern Holdings Ltd
Altura Dairy
Ararata Holdings Ltd
B & L Jones Ltd
B L & Estate R J Mohring
Barriball Farms Ltd
Berwick Holdings Ltd
Birchland Partnership
Bogaard Farms NZ Ltd
Boswell Dairy Ltd
Burnside Farms Ltd
C & H Mabey
C F & M T Muller
C J & K L Ladd
C T & K M A McLean
Chislehurst Farms Limited
Cressey Dairies Ltd
D & E Cole

D & I Edward Ltd
D B & K M Johnson Farms LTD
D Crofskey
D E & M E Hines
D L & S J Deeming
Derrys Farm Ltd
Est of M F Blake & M Blake
Estate Charles Bailey
Estate of Elizabeth Paretuarangi
Ormsby
F W G & J P Stanbridge
G & C Came Ltd
G A Knight
G E & V E Cooper
G H & M J Savill
G L & G F Bell
Given Family Trust
Interlaken Farms Ltd
J & LM Van Burgsteden
Jascas Trust
Jaska Farm Trust
Kerenui Ltd
Kohi Partnership
Kopane Dairies
L J & B C Torr
L J & M Pricor
Lawson Road Farm Ltd
M G & A M Hurley
M G & M Uram
M J & T M Davies
Maken Milk Ltd
Manuka Ridge Limited
Mark A Mullan Trust
Marua Partnership
Massey University Farms
Matai Farms Ltd
Mattajude Family Trust
Maude Peak Farm Trust
Maxlands Farms Limited
Mead Family Farm Ltd
Milestone Trust
Milkwell Ltd
MJ & KL Family Trust
N & M Paton

N J & W A Vollebregt
N R Dilks
Ngahape Valley Farm Ltd
Okapua Farming Company Ltd
P D & J M Bish
P D & S S Sharpe
P H & W F Iorns
P J & M L Cotter
Pharlee Trust
Port Molyneux Dairies Limited
R & S Singh
R A & J L Hamilton
R W & R R O'Brien
Riverside Farms (Taranaki) Limited
Ruakiwi Dairies Limited
RVS Farming Ltd
Rye Downs Ltd
S B & Y M Thompson
Sabin & Co Ltd
Schorn Trust
Seven of Nine Ltd
Shawlink Ltd
Shenandoah Trust
Sisley Farms Ltd
T & C Brown Limited
T G & R J Wells
T R D Reesby
The Adare Company Limited
The Herewahine Trust
VBI Ltd
W & C Candy Trust
W R & Z W Kite
W W Olsen
Whitten Holdings Ltd
WP & A Moore

The Co-operative Difference





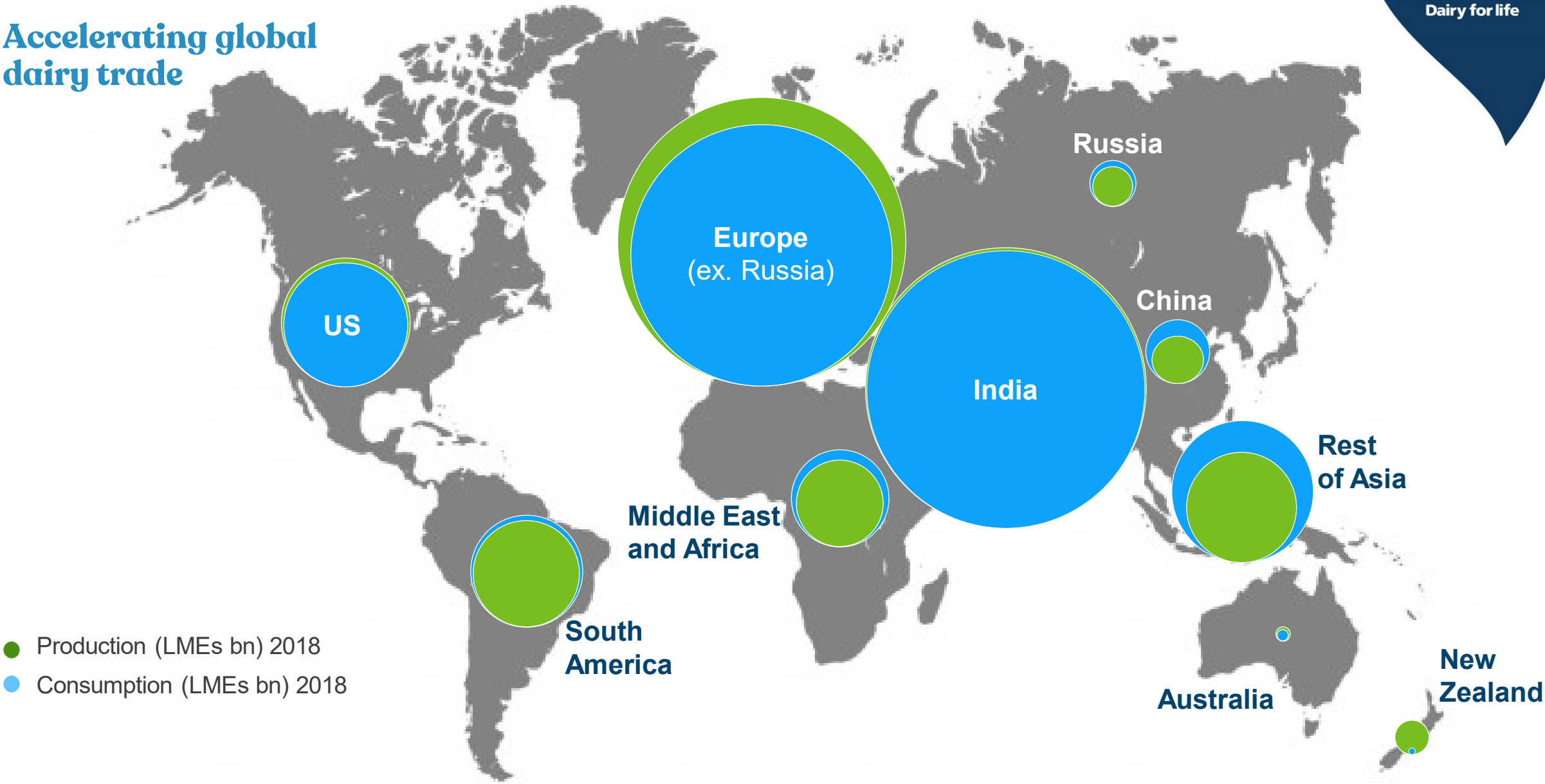
Planting for good



Dairy for life

Geographic imbalances are growing

Accelerating global dairy trade



Board priorities for 2020

**Deliver on
Milk Price**

**Improved
earnings**

**Advance
Rate
improvements**

**Implement
our
strategy**

**Capital
Structure**

**Governance
succession &
development**

**FONTERRA ANNUAL MEETING
7 NOVEMBER 2019
CHAIRMAN'S ADDRESS**

Before going into the formal business of the meeting, we'd like to take a look back at the past year, and then look ahead to the outlook for 2020.

In a few minutes, I'll ask Miles to come up and discuss the Co-op's financial results for 2019 and update us on progress with the implementation of the new strategy.

FY19 was a year of significant challenge and change within our Co-op as we continued to fundamentally change the culture and strategy of our organisation.

It was also another tough year of significant change for us as farmers with:

- The Government's policy announcements on climate change and freshwater,
- The impact that the Reserve Bank's proposal to tighten capital reserve rules had on the banks' willingness to lend,
- And the continued response to M-bovis, which is still having a real impact on our industry.

Our decision not to pay a dividend and significantly impair a number of assets came as a surprise to many of you.

I understand and share the frustration that you rightfully feel. We are well aware of the impact that our decisions have had on our share price and the balance sheets of us as owners – even if the share price has started to show some signs of recovery.

We don't make impairments lightly. Once made, most cannot be fully reversed. But they were the right decisions.

The Board's decision not to pay a dividend for the last financial year was part of our stated intention to reduce the Co-op's debt, which is in all of our long-term interests.

Our unit price finished the financial year down 26% at \$3.77. Its continued recovery will be a priority for us in FY20.

There's no question about it, it's been a tough year.

We always knew it was going to be, and should be pleased with the progress we've made.

That sounds strange for a year in which we made a record loss of more than \$600 million.

But it's real.

I'm confident that when we look back at 2019 a few years from now, it will be to mark the beginning of another period of success for our Co-op.

The Co-op is almost 150 years old. The decisions and progress we've made this year will help to ensure it's here for another 150 years.

We started to fundamentally change our Co-op by looking at our purpose.

We did a lot of listening.

What we heard was that the Co-op's intergenerational success was what motivated people. They see the Co-op as a family that needs to contribute to three outcomes: healthy people, a healthy environment, and a healthy business.

We took two things from our Purpose work.

First, that this Co-op is not broken.

We hear a lot about the Beingmates and China Farms, so it's important to bring some balance to those conversations.

We have a Milk Price that is consistently on-par with our peers in Europe and the US. It

was less than half that previously.

We should be incredibly proud of that Milk Price. It doesn't just fall from the sky. We work to deliver it every day and it benefits every New Zealand farmer, rural community and our national economy.

We have a four billion dollar revenue business in China.

We now account for 40% of dairy imports into Mainland China.

We've built a two billion dollar Foodservice business from pretty much scratch in less than 5 years.

The Co-op wasn't broken. But it did need to change.

We needed to take the best things from the past and adapt them for the future.

The second lesson we took was that we needed to do more listening.

When we listened to our farmers, unit holders, customers, partners and other stakeholders, they told us that they wanted to be part of our Co-op, but that we needed to show up differently.

I hope you've seen that change in the way we communicate with you. Doing more listening than talking, and taking what I call "the shine" off our language has improved the standing of our Co-op in many people's minds.

Our new purpose is already guiding our decision making, culture and behaviour as an organisation.

It's important to your Board that you judge us by our actions, more than our words.

When you look at our key milestones for the year, you see a Co-op doing what it said it would.

Last year I was humbled to stand up at the Annual Meeting for the first time as your Chairman.

We signalled that day that there would be fundamental change in the Co-op, and you wouldn't die wondering.

We have delivered on that commitment.

We set ourselves a target to reduce our debt by \$800 million. With the addition of the proceeds from the sale of DFE Pharma, which was completed outside the reporting period, we will put more than a billion dollars towards debt reduction.

Our average capital expenditure for the past six years has been more than \$1 billion. This year it was \$600 million.

We said we would have more respect for your invested capital and live within our means.

We have reduced our global headcount by more than 1,400 people, frozen salaries for our people earning over \$100,000 and decided not to pay performance bonuses for the financial year.

We've made a good start, but we have more to do.

We also said we would take a clinical look at everything – every business, every asset and partnership. There would be no sacred cows.

We used the word clinical for a reason.

Our portfolio review is not a fire sale. We know that, among other things, you will measure us by how well we divest some of our assets.

Our portfolio review identified assets and partnerships that were either no longer core to our strategy, or had run their course.

One of the first decisions we made was to sell Tip Top.

We knew it wouldn't be a popular decision with some of you, but it was the right call.

Was it an iconic business? Yes.

Was it on strategy and a key part of our future? Definitely not.

Once we took the emotion out of the process, making that call was easy.

We divested it as a mature asset for a great price.

Its new owner, Froneri is doing a good job of looking after the people who used to work for us – they kept their jobs as part of the deal.

And we've used the proceeds to help reduce our debt levels and give us more options for the future.

We also sold our interest in our Venezuelan consumer joint venture, Corporacion Inlaca, and our 50% share of DFE Pharma – our joint venture with FrieslandCampina.

We are considering our options for our ownership of our China Farms, Dairy Partners Americas which is our joint venture in Brazil, and have begun the process of selling-down our 18.8% shareholding in Beingmate.

That's a hell of a year by anyone's standards, but it's really only half of the story.

Developing our new strategy was a key priority for the Board and senior management in FY19.

As I said earlier, we started by thinking about what we have learned from past decisions and agreeing what we want our Co-op to stand for today.

18 months ago, we may have said we're a global dairy giant here to make a difference in the lives of two billion people, through a volume ambition of 30 billion litres of milk by

2025.

Today, we stand for value.

We're a New Zealand dairy farmers' Co-op, doing smart, innovative things with New Zealand milk to create value for our owners, customers, and our communities.

It sounds simple, but when you see yourself in a totally different light, it leads you to make fundamentally different choices.

One of the first and most significant decisions we made was to drop the volume ambition. Its impact should not be underestimated.

The clearest example of this is when you look at what we used to call 'global milk pools.'

To meet our old volume-based ambition we needed to grow our milk volumes by around 35% over the next five years.

Realistically, very little of that would have come from milk growth in New Zealand.

Which leads you to invest in overseas milk pools and the people, infrastructure and operating costs that come with them.

With that driver gone, we are prioritising your New Zealand milk and only looking to our global milk sources when needed.

Scale ingredients have always been the engine room of the Co-op.

Our new strategy builds off that by increasing our targeted research and development, energy and investment into our medical nutrition, sports, and active nutrition products that are performing well and have strong growth potential.

Alongside that, we want a leaner consumer business that is focussed on the customer -

the products, places and formats in which they want their dairy.

Our Foodservice business is already the leader in China, we want to push out further to lead in Asia Pacific and form new partnerships to help us expand into other markets without the need for large amounts of capital.

With our new strategy comes a new investment culture.

We want to first do the basics right and return our balance sheet to a position of strength. That will give us options to go for the opportunities that we create in the future.

To use a cricketing analogy, we want to build an innings off singles, before trying to hit the ball out of the park.

We won't have it all our own way, but we're confident that, implemented well, the strategy will bring a new period of success for our Co-op.

As I said before, New Zealand milk is the lifeblood of our Co-op and core to our new strategy.

We know that the unique Co-op heritage and provenance story that sits behind our milk, is what helps our sales teams earn a premium.

When a young mother in Shanghai picks up a can of our Anmum infant formula, she knows it is made with milk from grass-fed cows, farmed using sustainable methods, and ethical animal welfare practices. That's why she picks up our can, and why she's willing to pay a premium for it.

Earning that premium starts on the farm.

Last year, we started a new annual tradition of recognising our farmers who consistently deliver the best milk in the world.

The slides behind me have the names of our farms that have achieved grade free

status for at least the last 10 seasons, the last 4 seasons, or are in the Top 10 for lowest somatic cell count in the Co-op.

Please join me in acknowledging them.

I'd now like to pass to Miles who will recap our financial results for the year and update on progress in the business since they were announced.

Over to you Miles.

[at this point the Chairman hands over to Fonterra CEO, Miles Hurrell for his presentation]

Chairman: Thanks Miles.

We will move to a Q&A session in just a minute, but first I'd like to make my own comments about the outlook for 2020.

We have more big strategic decisions ahead of us this year, but I'm very confident in the progress our Co-op is making, and very optimistic about our future.

We have a turned the corner and should lift our heads.

Here at home, we have a Government that is engaging with us and considering our industry's view.

The Government has joined our Co-op, DairyNZ and other industry leaders in a partnership that will work with farmers to achieve practical outcomes on climate change under He Waka Eke Noa - the Primary Sector Climate Change Commitment.

It is a big step forward in our shared effort to find new ways to support you in responding to the challenges posed by climate change, instead of imposing a broad-based tax.

We're also in a constructive conversation with the Government on freshwater.

We understand the significant uncertainty and frustration you feel when it comes to these issues, and will continue to back you.

Your Co-op is already putting more energy and resources into the development of on-farm tools, research and solutions that will help you to continue running a healthy and sustainable business.

That includes Farm Environment Plans for all farms at no additional cost by 2025, they include tailored regional advice on effluent, riparian planting and nutrient regulations. Already 23% of our farms have one.

Planting is an important part of the solution, but it's estimated that nearly half of those plants die either because they aren't the right plant for the region, climate or soil.

So, I'm pleased to announce this morning a new initiative, 'Plant for Good'

A new partnership between Farm Source and Wildlands that will reduce the cost of on-farm native planting.

Plant for Good will deliver plants and services to all Farm Source customers nationwide at a discounted rate. Quite literally, it will mean you only have to plant once.

Plant for Good guarantees a survival rate of at least 90% for the first 24 months, achieved through expert plant selection, regionally sourced plants and ongoing maintenance.

With everything happening here at home, it's often hard to look past the farm gate.

But ultimately, this is an export business and what is happening with our key trading partners has a big bearing on our ability to pay a milk price over \$7.00.

What we are seeing is a global supply and demand picture that is largely in balance.

Demand for whole milk powder has been firm, and for the full season we're expecting it to be above last year.

Global whole milk powder production is down year to date and expected to continue to decrease for the remainder of the calendar year.

We are also continuing to sell our skim milk powder at higher prices than EU and US dairy companies in Global Dairy Trade events.

It is still pretty early in the season and a lot can change.

As always, there are some risks that we are keeping a close eye on, including current global trade tensions – particularly Brexit, the US/China relationship, and the political instability in the Middle East.

I want to finish by outlining the Board's priorities for the year ahead.

First and foremost is delivering our Milk Price. It's the main driver of our wealth as farmers and the main reason this Co-op was formed.

We want to return to respectable earnings, which will in-turn lead to a recovery in our share price.

We also want to return to paying dividends as soon as possible.

Led by our Co-operative Relations Committee, the Board is looking at improvements to the Milk Price – specifically the Advance Rate and how we might get more money to you earlier in the season.

Any changes will be subject to the continued improvement of our balance sheet and the protection of our credit rating.

We will continue with the implementation of our end-to-end strategy. Part of that is continuing to look at our capital structure to ensure that it is still fit for purpose.

Our future capital structure requirements have been a consideration as we've finalised the strategy and there is a small team from the Board and Management looking at it.

These discussions are critical to the future of our Co-op and for that reason, we won't put a timeline on the process.

It will take as long as it takes.

Finally, governance succession and development is part of the Board's agenda every year. Completing the process for Independent Director Simon Israel's replacement is an immediate priority for us.

We will discuss Simon's contribution to our Co-op and thank him later in the meeting.

On that note, I'd like to ask Miles to rejoin me at the front of the stage and we will take any questions you have on the presentations we have just given.

ENDS

Chief Executive Officer

Miles Hurrell



We know
when we
work together
we can create
goodness.

2019 performance summary

FARMGATE MILK PRICE

\$6.35
per kgMS

From \$6.69

NET LOSS AFTER TAX

\$605
million

From \$196m

DIVIDEND

0
Cents per
share

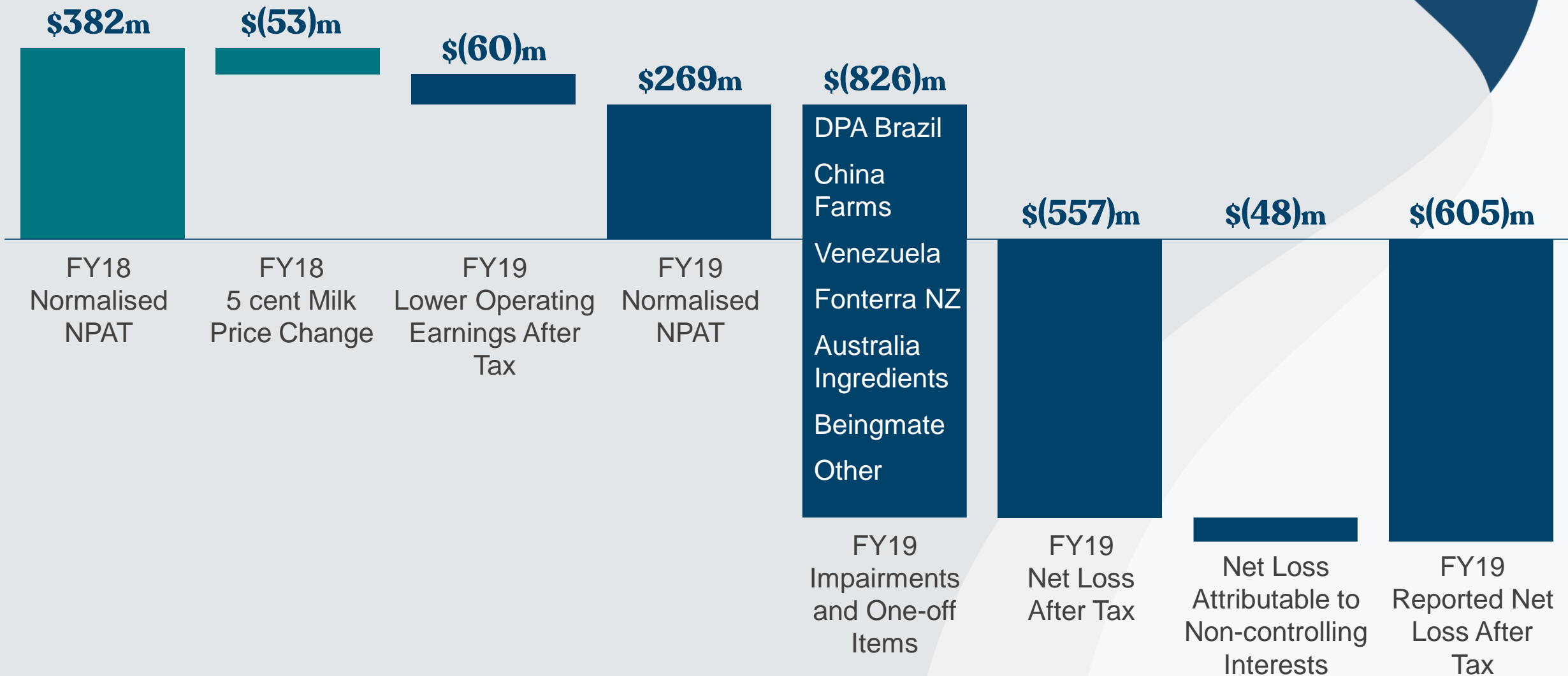
From 10 cps

RETURN ON CAPITAL

5.8
per cent

From 6.3%

Net profit after tax reconciliation



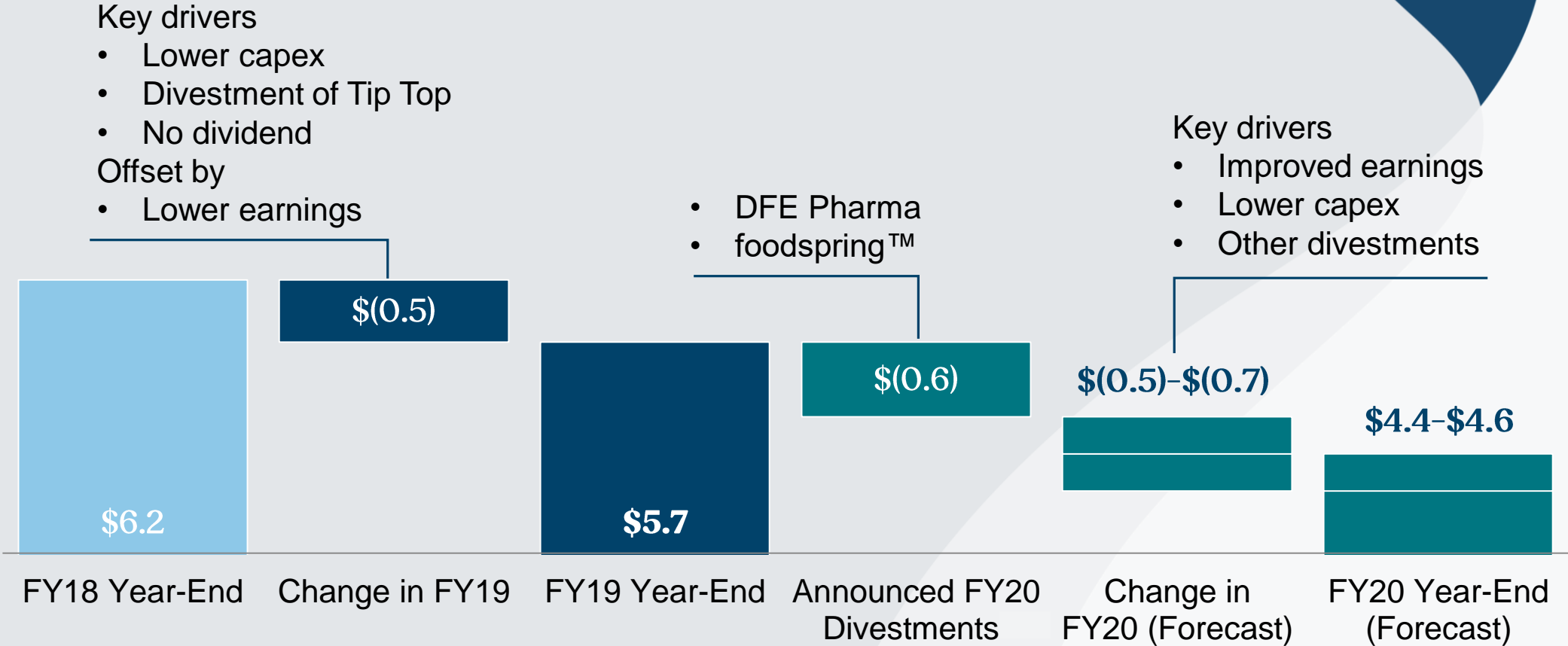
Disappointing earnings performance



Committed to strengthening our balance sheet



Economic Net
Interest-
Bearing Debt
(\$b)



Our Strategy



Volume → **Value**

Everything → **Focus**



ONALS

GREAT FOOD FOR
GREAT BUSINESS

FINDING NEW
PERFORMANCE
IN YOUR
BUSINESS



FY20 outlook

Year of transition

Forecast
Farmgate
Milk Price

\$6.55 – \$7.55

per kgMS

Forecast
Milk Collection

1,520

million kgMS

Forecast Earnings
per Share

15 – 25

cents

Our four priorities for 2020

**Build a
great
team**

**Support
regional
New Zealand**

**Hit our
financial
targets**

**Improve our
environmental
footprint**

You,
me,
us
together
tātou,
tātou

**FONTERRA ANNUAL MEETING
7 NOVEMBER 2019
CEO'S ADDRESS**

Thanks John — and thank you to everyone for joining us here today in Invercargill.

This morning I'll take you through the key points of our FY19 financial performance. But what I would like to spend most of my time talking about today is our new strategy, operating model, and where our focus will be for the next 12 to 18 months as we continue to reset our business. I'll then hand back to John and we will be happy to take any questions.

Like John, I would like to start by acknowledging the tough year we had. We didn't deliver the results we wanted to our farmer owners or unit holders. And we are aware of the impact this is having on the balance sheets of our farmer owners in an already challenging environment.

We needed to reset our business and therefore have made a lot of decisions. While some were hard to make, all of them were necessary and were the right calls to set ourselves up for future success.

I'm feeling positive about the changes we've made over the past year and am comfortable that we are well-placed to meet our commitments.

Before I go through the high-level numbers, I want to acknowledge the commitment we've seen from our people right across the Co-op.

Firstly, our farmers.

Despite the challenges we've faced, our farming families in all parts of the country continue to provide us with the best milk in the world.

We never take that for granted.

It can sometimes seem like all of the stories in the media are negative, but I know there are many more positive stories of farmers supporting each other and their communities.

We know we have more to do, but we have faced challenges before and come out the other side. I know we can do it again.

We have champions on farm – in innovation, animal welfare, and sustainability – and we need more of them.

I've been heartened over the past year or so to hear that passion — especially from our younger farmers.

I've also seen this commitment from our people who come to work every day at the Co-op to make the most of your milk. Despite undergoing a significant business reset, I've heard from our employees, from the factory floor to our markets around the globe, of how proud they are to work for the Co-op.

They are determined to turn the Co-op around and ensure it is successful and sustainable.

While we all have our own reasons why we come to work, we are beginning to see our Co-op's new purpose come through in our efforts each day — empowering people to create goodness for generations.

It's important to me that everything we do is grounded in our new purpose, from farm to customer. It's not a feel-good thing. It's about building pride, it's about creating value, and creating a strong Co-operative. It's all of us together with a common goal.

Turning now to our headline numbers. I won't spend too much time on these as I'm sure by now you're all familiar with them.

FY19 was our third year of sustainable Farmgate Milk prices. At \$6.35kgMS, our Co-op has paid nearly \$10 billion in milk payments to our farmer owners.

We made the call to reduce the carrying value of several of our assets — in particular, DPA Brazil, Fonterra Brands New Zealand and China Farms. We also had to take into account one-off accounting adjustments.

These totalled \$826 million and took us from what would have been a modest profit by our standards of \$269 million, to a Net Loss After Tax of \$605 million.

Our New Zealand Ingredients and Foodservice businesses improved, but this was offset by challenges in some markets, which I'll touch on shortly.

We made good progress on our business reset.

We significantly lowered our operating and capital expenditure, reduced debt and improved our cash flow.

Despite this, our earnings are not yet where they need to be, and this is shown in the unacceptable return on capital of 5.8%.

Let's go through the underlying performance and the impact of the adverse one-off items. I'll start on the left-hand side of this slide and work my way across.

We started from FY18 with \$382 million in normalised NPAT. As I mentioned, our underlying operating earnings were not where we need them to be, down \$60 million on an after-tax basis. This resulted in a FY19 Normalised NPAT of \$269 million, which was equivalent to 17 cents per share.

Once we included the impairments and the total of these adverse one-off items, we had a loss of \$826 million. When we took into account the net loss attributable to minority interests, our total reported net loss after tax was \$605 million.

Looking at our underlying operating earnings. We sold slightly more on a metric tonne basis, but our sales revenue was down 2% to \$20.1 billion due to lower prices and our product mix.

We had improved margins in our New Zealand Ingredients and Foodservice businesses, but this was offset by challenges in Australia Ingredients, Latin America and some of our Consumer markets.

We made great progress and reduced our operating expenses by \$185 million. Likewise, we improved our cash flow and reduced debt. However, given the disappointing earnings and significant one-off items, the Board made the decision not to pay a dividend this year.

I want to go through some of our challenges.

Australia Ingredients gross margin was down from \$77 million to \$10 million. As I'm sure you're aware, Australia was impacted by higher milk prices in response to a competitive milk market, and the ongoing drought conditions.

Prolesur, our ingredients business in Chile, experienced strong competition for milk and collections were down 16%. Our consumer business in Chile, Soprole, had a tough start but finished the year positively. That said, we are watching the market instability closely.

From a China Farms perspective, we made progress on the prior year, but we are far from where we need to be, hence our earlier announcement to undertake a strategic review. This review is now well advanced.

We measure our farms, and those of our Joint Venture on an end-to-end basis and have made progress - reducing our loss from \$38 million to \$30 million.

In FY19, we made a commitment to reduce our financial leverage and strengthen our balance sheet.

With the announced divestments of foodspring and DFE Pharma we continue to make progress towards reducing our debt as these two will contribute just over \$600 million in sale proceeds in the current year.

In addition to these announced divestments, we have a target to further reduce debt by an additional \$500 – 700 million. This will primarily be achieved by improving our earnings, lowering our CAPEX, and making some other divestments.

This results in our debt to earnings ratio being back under 4x, and on the way to our long-term target ratio of 2.5x to 3.5x.

The credit rating agencies have supported our plan to deleverage, and it gives us options for the future.

So, that covers off our financial statements.

Now I'd like to look ahead at our new strategy and focus for FY20.

Our new strategy recognises that at our heart we're a co-operative, doing amazing things with New Zealand milk to enhance people's lives and create value for our customers and our farmer owners.

It matches our strengths to customer needs by focusing on the areas in which we have a unique competitive advantage. And it will see us focus on three measures of success — healthy people, healthy environment, healthy business.

This is the right strategy for us, but it requires us to make some hard choices.

We will concentrate on five key product categories: core dairy; Paediatrics; Sports & Active Lifestyles; Medical & Healthy Ageing, and Foodservice.

We will still be in Consumer and will focus on markets throughout Asia Pacific. This is because the products we sell in these markets are made with New Zealand milk and are similar to those we sell in our Ingredients business, so we can benefit from our scale efficiencies and play to our strengths.

It does mean we will reduce our consumer product portfolio to those that create superior value.

In short, we will:

- Prioritise New Zealand milk
- Use milk components and non-dairy ingredients sourced from around the world
- Grow our sales of Sports and Active, Medical and Healthy Ageing, and Paediatric Ingredients
- Develop new Foodservice markets
- Only make consumer products where they create superior value
- Lift our research and development focus and spend
- Collaborate more based on intellectual property and skills

To do this we are going to prioritise three things:

- Innovation – where it creates value for our Co-op and our customers.
- Sustainability – to do what's right and do what's expected of us for the long-term.
- Efficiency – to create value from our unique scale and position in New Zealand.

I know the key question everyone wants answered is what's going to be different?

A lot of what is different about this strategy boils down to two changes in the way we think.

The first is a focus on value.

We dropped our volume-based ambition early on.

It's helped us cut costs dramatically and make better decisions day-to-day.

Overall, we'll be a leaner, more focused business, clear about who we are, where we are going, and where we can win.

When we talk about value, we mean the value back to the Co-op.

For example, while consumer products may have a higher gross margin this does not necessary translate to value given the higher spend needed on advertising and promotion. Therefore, decisions will be made based on true bottom line value to the Co-op.

The second decision was that we don't have to be all things to all people.

We are a New Zealand dairy farmers' Co-op and we will be prioritising New Zealand milk. We will be putting our research and development effort, energy and investment into the products and places where we know we can win.

I want to be clear about what you can expect from us. We'll be open and honest about the challenges we'll inevitably face along the way.

One example of how we are doing things differently can be seen in the recent launch of our foodservice business in India with our partner Future Group.

This is a capital light partnership which combines our dairy knowledge and know-how, with Future's Group's access to market, established customer base, and strong marketing and distribution networks. Combine these two skill sets together and you get more than the sum of its parts.

Through this partnership we will be exporting our Anchor Food Professionals products from New Zealand to India, where demand for dairy is expected to grow at 7x the rate of China over the next decade.

And the reason I raise this as an example is because I believe it highlights the change in our thinking.

In the past, we thought we needed to have physical assets on the ground in order to succeed.

We also had a wall of milk coming at us – which is not the case today.

Now, under our new strategy, we are looking to leverage our dairy know-how through partnerships, which will allow us to exploit our intellectual property and enter markets that we might not otherwise have had access to, and to do so in a capital light way. This is something we are looking to do more of under our new strategy.

Turning now to what we're expecting FY20 to look like. We are resetting the business and transitioning to the new strategy.

The FY20 milk collection forecast is similar to last year. But after our recent milk price revision, there is a higher forecast Farmgate Milk Price.

We are forecasting this to be our fourth year of milk prices over \$6.00, which will be welcome news for our farmers. The mid-point of the \$6.55 - \$7.55 range means our teams will need to continue to push hard to achieve our margins, but so far we're comfortable with how this season is shaping up in terms of underlying business performance.

Our earnings forecast of 15-25 cents per share for FY20 is built on a forecast EBIT range of \$700-800 million.

While this is down on last year, our forecast EPS is up reflecting lower interest and tax.

To get here, we can't repeat last year's disappointing performance.

The fundamentals of dairy remain strong.

The world wants more dairy, and there is a growing middle class with high disposable incomes looking for premium products.

We believe we can create value from innovation, sustainability and efficiency.

And our new strategy positions us well to leverage this.

At the same time, the global economy is showing signs of slowing and we are seeing increased trade tensions. Given our reliance on the international market, these are factors we continue to watch closely.

Before I finish, I'd like to touch on our priorities for the year ahead.

We have four key priorities that will help us take steps towards our goals of healthy people, healthy environment and healthy business.

They are: **Build a winning team** by introducing and shifting to a new customer-led operating model to support our new strategy.

Under our new operating model we will have three regional CEOs who will be better connected to our customers and consumers. They will be supported by a leaner core group, led by the newly created position of Chief Operating Officer. Last month I was pleased to announce that Fraser Whineray will take up this role, and we look forward to welcoming him to the Co-op early next year.

Support regional New Zealand. We will do this by injecting a further \$10 billion into rural communities through competitive milk price payments. So far this is tracking well, with our recent revision of the forecast Farmgate Milk Price, injecting another \$450 million into regional New Zealand.

Reduce our environmental footprint. Through the Co-operative Difference, we will work with our farmers so that a further 1,000 farms have a Farm Environment Plan, and we will prepare emission profile reports for all. We will continue to improve energy efficiency at our manufacturing sites.

Finally, we will **hit our financial targets**. To do this we will:

- Improve our debt position so that our debt is no more than 3.75x our earnings, down from 4.3.
- Reduce our capital expenditure to no more than \$500 million, which is down \$100 million on last year.
- Achieve a gross margin in excess of \$3 billion.
- And meet our earnings guidance of 15-25 cents per share.

We will be able to share our progress when we report on our first quarter next month, but I'm pleased to note that we have seen a good start to FY20.

That covers off our FY19 annual results, our new strategy, operating model and our priorities for the year ahead. I'll now hand back to John, but just before I do that, I'd like to say that I'm feeling energised and excited about the year ahead and about the future of our Co-op.

It's been a tough year, but we are building the right team and laying the foundations for a successful future.

We know we need to deliver for you - our farmer owners, our unit holders, and for all New Zealand. And I know I have 10,000 farming families and 20,000 employees behind me who are determined to make that happen.

You, me, us together. Tātou, tātou

Thank you.