

Fonterra Shareholders' Fund

ANNUAL MEETING
11 NOVEMBER 2019

FONTERRA
SHAREHOLDERS'
FUND.



John Shewan

Chairman

FSF Management Company

FONTERRA
SHAREHOLDERS'
FUND.



Agenda



Welcome and introduction

John Shewan

FSF Management Company Chairman's address

John Shewan

Fonterra Chairman's and CEO's addresses

John Monaghan,
Miles Hurrell

Questions

Resolution to re-elect Kim Ellis

John Shewan

Address by Kim Ellis

Kim Ellis

General business

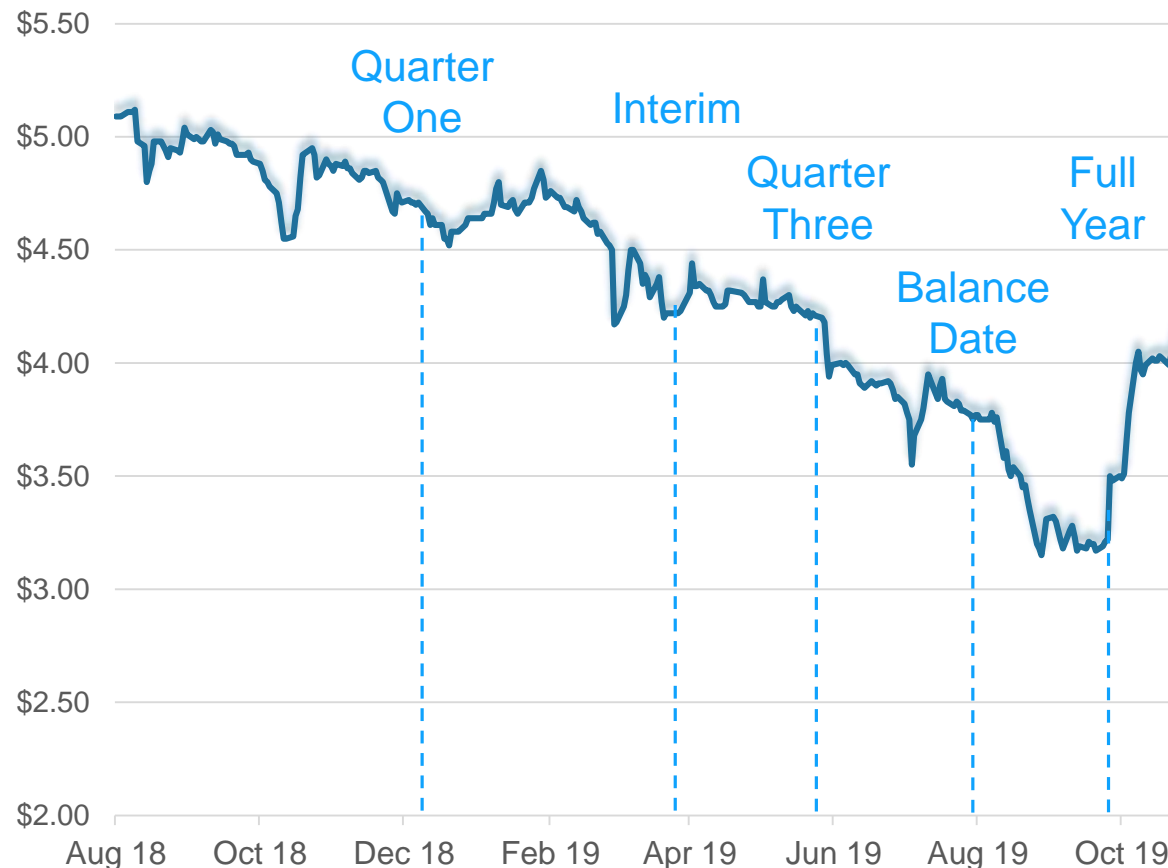
John Shewan

Continued poor performance in 2019

- Disappointing and unsatisfactory result
- Significant decline in unit price
- No distribution
- Fonterra progressing its business reset
- The role of the board of the Manager of the Fund

26% decline in unit price for FY19 period

FY19 impacted by poor earnings performance and investor uncertainty on earnings outlook



- **FY19 balance date**
Down 26%, from \$5.12 to \$3.77
(1 August 2018 – 31 July 2019)
- **Release of FY19 results**
Down 32%, from \$5.12 to \$3.50
(1 August 2018 – 26 September 2019)
- **As at 25 October**
Down 19%, from \$5.12 to \$4.15
(1 August 2018 – 25 October 2019)

Key Fund statistics



Units on Issue ¹ :	102 million	↓	0.6m
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Fund Market Capitalisation ¹ :	\$424 million	↓	70m
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Fonterra Market Capitalisation ¹ :	\$5.6 billion	↓	1.7b
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Fund Size ^{1,2} :	6.3%	↓	0.04%
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Unit Price 12-month High/Low ³ :	\$4.83 (26 Oct 18) / \$3.15 (28 Aug 19)
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1. At 25 October 2019, relative to 25 October 2018.

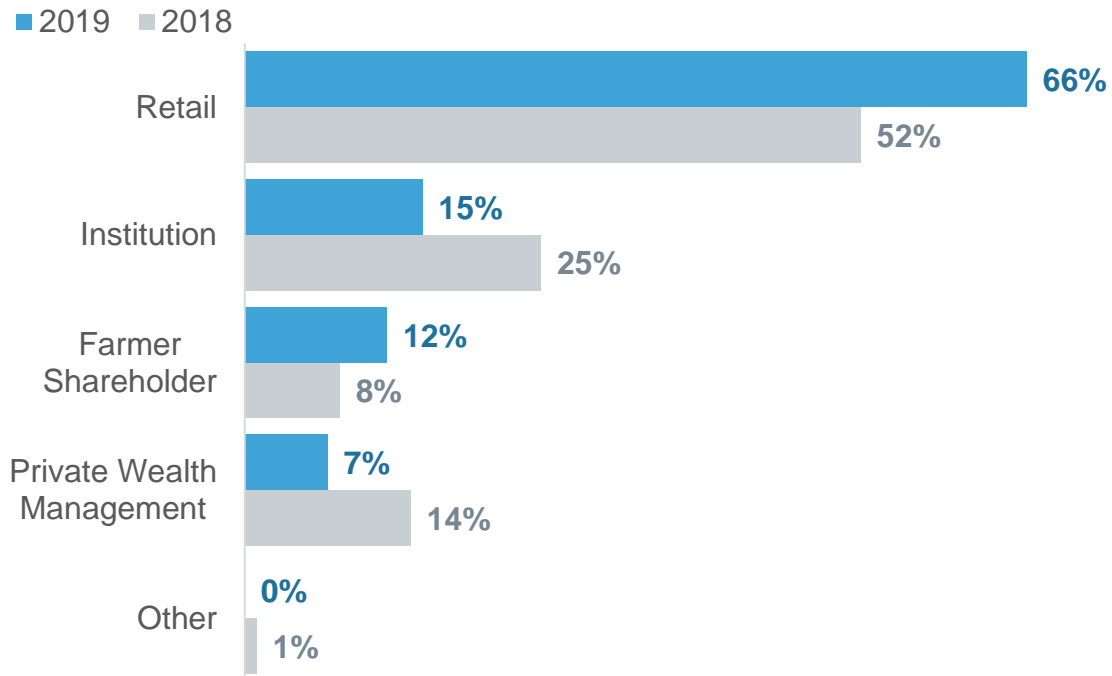
2. Fonterra Shareholders' Fund units on issue as a percentage of Fonterra Co-operative Group shares on issue

3. 12 month period, 26 October 2018 – 25 October 2019.

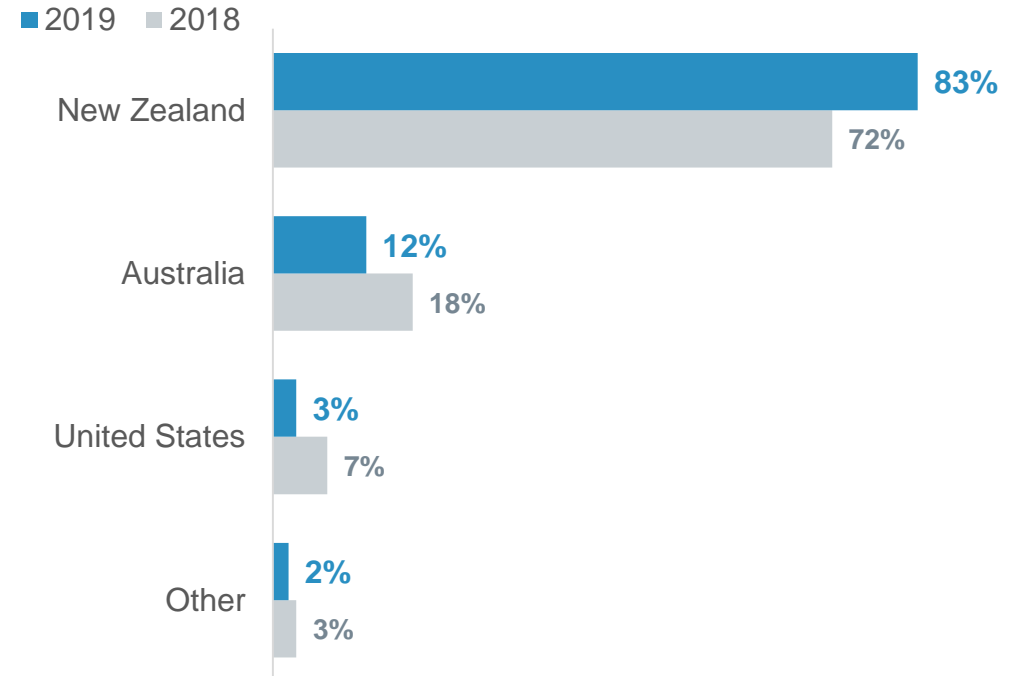
Unit register analysis

- Reduction in institution and private wealth holdings picked up by retail investors and farmer shareholders
- Majority of register held in New Zealand, with further reduction in offshore holdings

Investor Type



Investor Location



Note: Register data for 2018 and 2019 is as at 30 September.

Outlook for the Fonterra Shareholders' Fund

The Fund's performance is tied inextricably to Fonterra's performance



Fonterra's performance measures

3-Year & 5-Year Plan

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

1. There can be no certainty of outcome in relation to the matters to which these plans or forward-looking statements relate. They involve risks, uncertainties, assumptions and other important factors (some of which may be out of Fonterra's control) that could cause the actual outcomes to be materially different from the results expressed or implied. No assurance or guarantee is given as to the likelihood of fulfilment of any such statement or projection.
2. Excludes amounts attributable to non-controlling interests.
3. For comparative purposes divestments proceeds have been excluded from free cash flow.

John Monaghan

Chairman

Fonterra Co-operative Group

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**FY19 a year of
significant
challenge**

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

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

July 2018

- John becomes Chair



September 2018

- Portfolio Review
- 3 point plan



November 2018

- Board announces full review of strategy



May 2019

- Sale of Tip Top
- Decision to close Dennington site in Australia
- Strategic review of China Farms investment
- Review options of DPA Brazil JV



August 2018

- Miles appointed interim CEO



October 2018

- Drop our volume ambition

March 2019

- Sale of Corporation Inlaca (Venezuelan JV)



September 2019

- Announced sale of 50% stake in DFE Pharma
- Announced sale of first parcel of Beingmate shares
- Announced new strategy and operating model



SUSTAINABLE VALUE

CORE
DAIRY

FOOD
SERVICE

PAEDIATRICS

SPORTS
& ACTIVE

MEDICAL
& AGEING



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



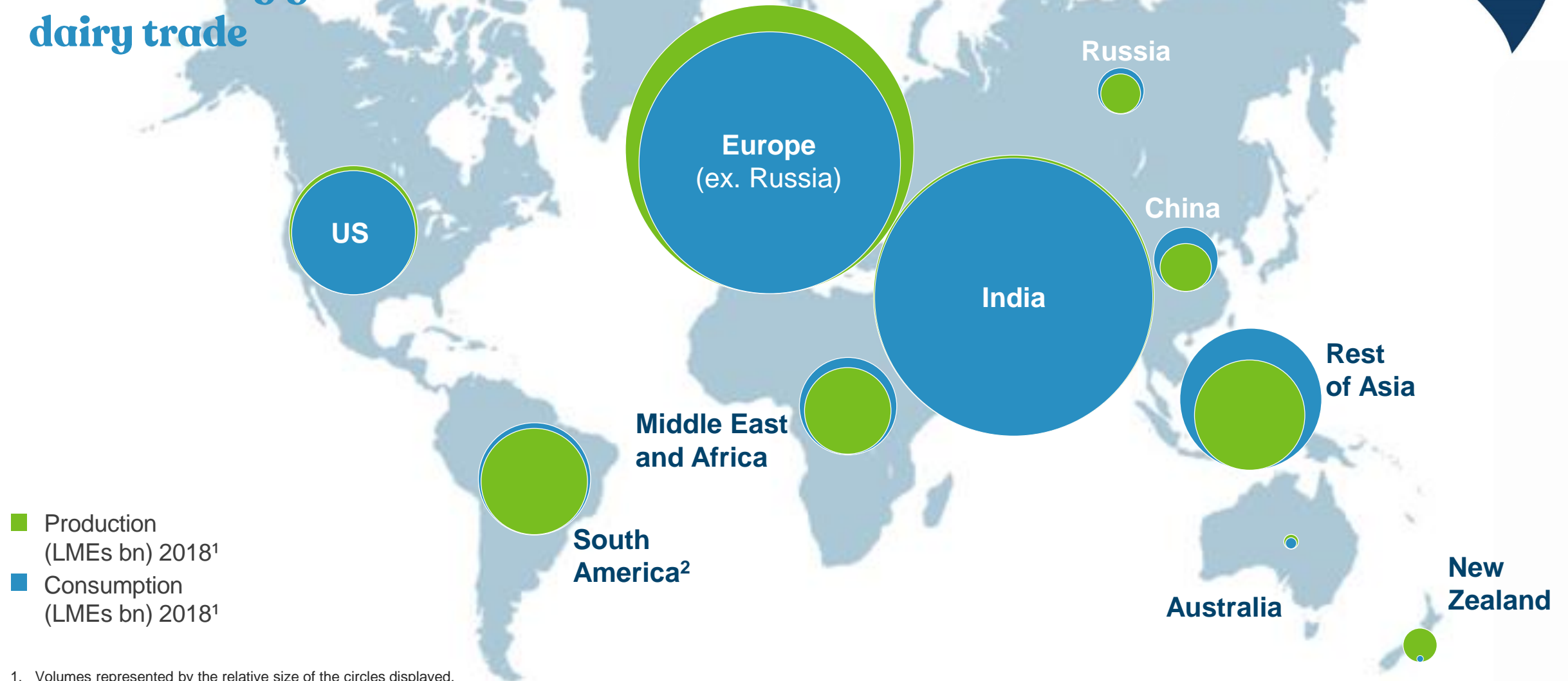
Protein fortified
healthy drinks and snacks



Anchor™ Food Professionals

Geographic imbalances are growing

Accelerating global
dairy trade



1. Volumes represented by the relative size of the circles displayed.

2. Includes all 12 South American countries including Brazil, Chile, Argentina and Uruguay.

Source: International Farm Comparison Network (IFCN)

Board priorities for 2020

**Deliver on
Milk Price**

**Improved
earnings**

**Advance
Rate
improvements**

**Implement
Our
strategy**

**Capital
Structure**

**Governance
succession &
development**

Miles Hurrell

Chief Executive Officer
Fonterra Co-operative Group

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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

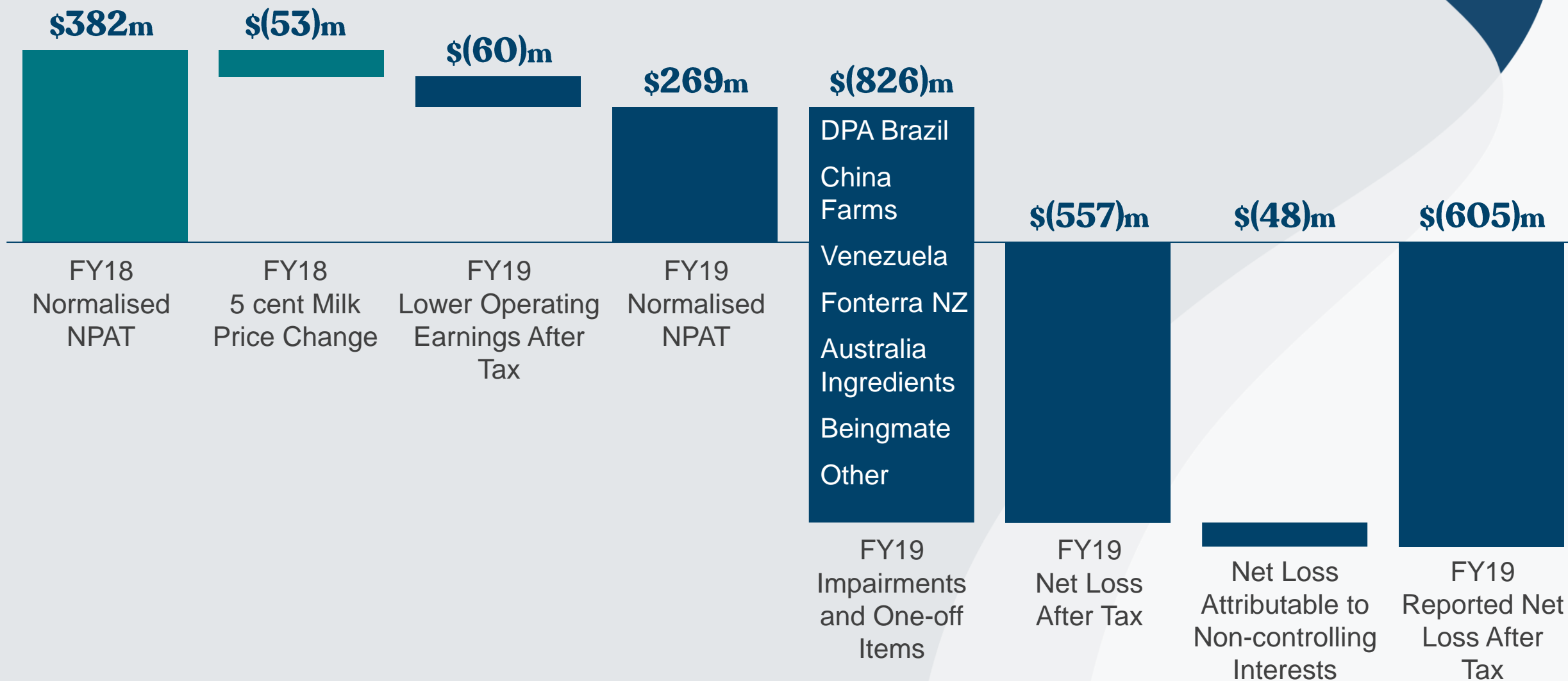
From 10 cps

RETURN ON CAPITAL

5.8
per cent

From 6.3%

Net profit after tax reconciliation



Disappointing earnings performance

REVENUE

\$20.1
billion

From \$20.4 bn

GROSS MARGIN

\$3,015
million

From \$3,152m

OPERATING EXPENSES

\$2,311
million

From \$2,496m

EBIT

\$819
million

From \$902m

DIVIDEND

0
cps

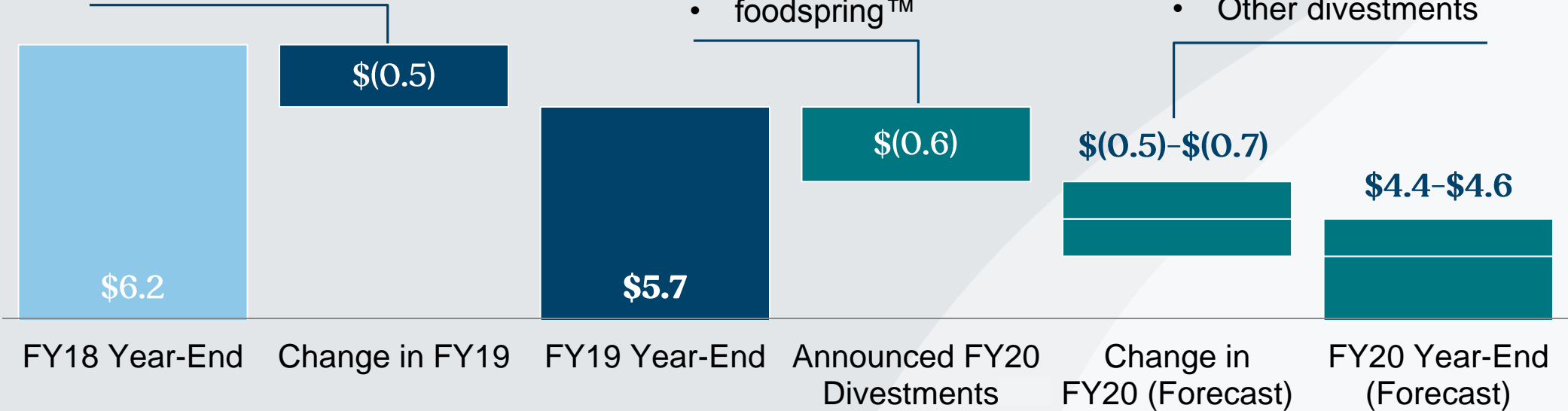
From 10 cps

Committed to strengthening our balance sheet

- Key drivers
- Lower capex
 - Divestment of Tip Top
 - No dividend
- Offset by
- Lower earnings

- Key drivers
- Improved earnings
 - Lower capex
 - Other divestments

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**

Closing remarks

Questions

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Resolution 1

RE –ELECTION OF KIM ELLIS

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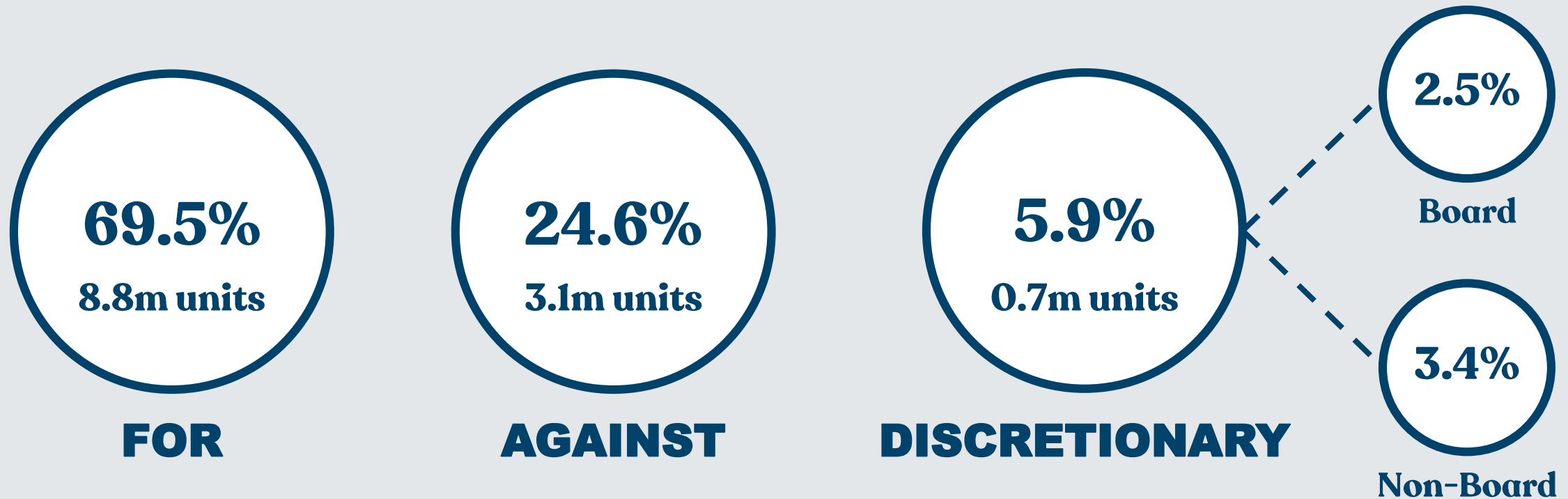
Resolution 1

- To re-elect Kim Ellis, who retires by rotation and stands for re-election, as a director of the Manager of the Fund.

Proxy voting

Re-elect Kim Ellis

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As at 10am Saturday 9 November 2019

Kim Ellis

Director
FSF Management Company

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Resolution 1

- To re-elect Kim Ellis, who retires by rotation and stands for re-election, as a director of the Manager of the Fund.

Voting

- In respect of the resolution, please tick the “for”, “against” or “abstain” box.
- Once you have completed your voting, please place your vote in a ballot box.
- Please raise your hand if you require a pen.
- Results will be announced to the NZX and ASX as soon as they are available.

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General business

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**Thank you,
meeting closed**



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