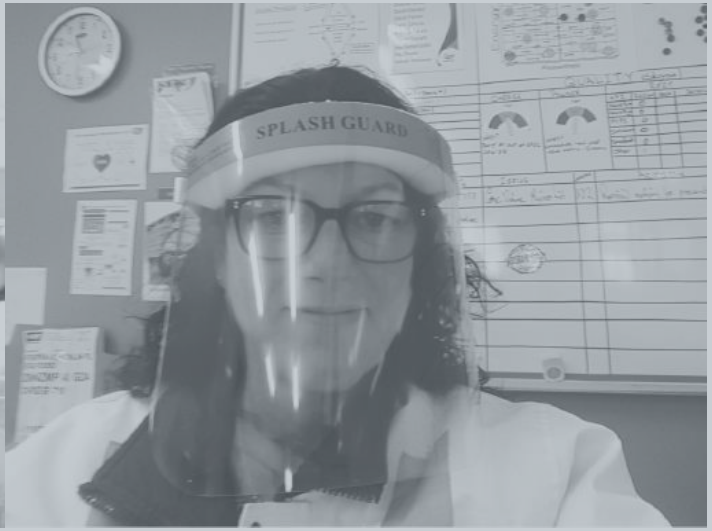
John Monaghan

Chairman's Address



You can't talk about 2020 without mentioning Covid-19. We are proud of the way our Co-op pulled together, played by the rules, and looked out for each other to get the job done.

#1 Delivered a strong Milk Price

Honour Roll for On-farm Excellence: **LEGEND**

LEGEND

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

Kemra Farm Ltd

B L & Estate R J Mohring

K J & H Chalmers Ltd

Clutha Lea Ltd

F A & R C M Smits Ltd

C M & K M O'Donoghue

B M & B C & JH Geddes

Ashgrove Dairy Farms Limited

Waicola Holdings Ltd

A Holten & N Brown

Owhango Farms Limited

Serendipity Trust

R S & R D Gordon

J E & D M Cooper

Marua Partnership

Sim Family Farms Ltd

Sim Brothers Ltd

D C & V F Frew

J L & M A Cooke

L J & L M Still

W J & J G Pile Family Trust

Schorn Trust

G E & V E Cooper

C & H Mabey

C J & K L Ladd

F B Bonenkamp & J B Cunningham

Black & White Cow Company Limited

Riverside Farms (Taranaki) Limited

Shawlink Ltd

Miroc Limited

Caskey Farms

Fowler Family Prosperity Trust

R & P Woods Farms Ltd

Golden Mile Farms Ltd

#2 Delivered a dividend

Fonterra
Dairy for life

#3

Continued with the implementation of our strategy


FARM SOURCE
Fonterra
Dairy for life
Supporting farmers
37
Sustainable Dairy Advisors
FS$
$70m
Deals
$53m
Discounts
$110m

#4 Delivered stable governance

Fonterra
Dairy for life

Delivering for future generations

Owned and controlled by Kiwi farming families

FONTERRA ANNUAL MEETING
5 NOVEMBER 2020
CHAIRMAN'S ADDRESS

Before I hand over to Miles to take us through the business review of the year, I will make a few comments about 2020 and some observations about the future of our Co-op.

You can't talk about 2020 without mentioning Covid-19. It's been incredibly disruptive to people's lives all over the world. We were grateful to be recognised by the Government as an essential business, allowing us to continue operating. The milk kept flowing out to market, but it did put pressure on our people.

I was proud of the way our Co-op pulled together, played by the rules, and looked out for each other to get the job done. We are in no way immune to Covid-19, but this year's performance shows the diversity of our earnings, which has helped us to manage the impact of the global pandemic.

International scale is one of the reasons our Co-op was established, and it remains a key strength. Our people have worked hard to leverage that scale, shifting our New Zealand milk into the products and places where we can earn the highest possible value under the circumstances. This year has also shown us that even in the middle of a global pandemic, our strategy will deliver.

Across the Co-op, our people have been calm and considered when responding to the new challenges that Covid-19 creates on a daily basis. We have stayed focused on our core business and delivered what we said we would, rather than let the pandemic be an excuse to veer away from strategy.

To me, that demonstrates that the much-needed cultural change – which has been a key focus for our leadership for over two years – is starting to bed-in.

Like we do most years, our Co-op has had to manage geo-political events, civil unrest and other non-Covid disruptions in our key markets. Our consumer businesses in Hong Kong and Chile, for example, continue to be hit hard by long-running civil unrest.

Within that context, it's pleasing to stand here today and report that we have delivered all four Board priorities for the year.

Our first priority was to deliver a strong Milk Price. The final Farmgate Milk Price of 7.14 per kilogram of milk solids was the fourth highest for our Co-op so far. That Milk Price doesn't just happen. It's the result of a serious amount of hard work and considered judgement. It starts with our commitment as farmers to our pasture-based model, ethical and sustainable farming practices, and finishes with our sales teams in-market, which we have shifted to be closer to our customers.

We announced some important changes to the way we pay for your milk this year. In June, we implemented three improvements to the Advance Rate that improve cashflow on-farm and simplify the guidelines.

We've announced a proposal to remove the Capacity Adjustment and Peak Volume Adjustment parameters from our Milk Price calculation. We no longer see a future of milk growth in New Zealand, which means these adjustments are no longer fit for purpose.

Finally, we announced our intention to introduce a new milk payment parameter linked to the Co-operative Difference from June 2021. Initially that payment will be up to 10 cents per kilogram of milk solids to support our strategy of creating sustainable value from our New Zealand Milk through innovation, sustainability and efficiency.

Milk is the life blood of this Co-op and it is important that we recognise quality. Two years ago, I started a tradition at the Annual Meeting of celebrating the farms that produce the highest quality milk in the Co-op. I won't be doing that today.

I'm pleased to say that just two years in, there's now too many farms to fit on the slides. So instead, behind me are our Legend status farms – these are farms that have achieved grade free status for at least the last 10 seasons. Please join me in acknowledging these farms.

Our second priority was to deliver a dividend. This year marks a return to paying dividends, a position we expect to maintain in the future, assuming normal operating conditions.

At 5 cents per share, the dividend is at the lower end of the 5-to-7 cent range calculated under the Board's dividend policy guidelines. In the context of so much uncertainty, distributing a 5-cent dividend is a prudent decision and one that balances our aims of further reducing debt and distributing earnings.

To me, what's more important than the number, is what it represents. Which, as I say is an expectation that we will pay a dividend every year, assuming those normal operating conditions.

The past 12 months have been focused on the continued implementation of our strategy. Alongside refinements to that strategy, the Board has continued to refresh our Co-op's Risk Appetite Statement.

We have developed a more conservative approach to risk across the business, be it our balance sheet, investment decisions and general business operations. It is a critical piece of work that gives us a much clearer view of the risk adjusted return, particularly for offshore investments, before we make our investment decisions.

Our capital structure review is also critical to helping us execute the strategy successfully. The objective of our review is to ensure our capital structure is fit for the future. We're not trying to fix something that is broken.

We started by identifying what the key elements of a financially sustainable Co-op are, and then defined our 'problems to solve'. To address these challenges, we are now looking at a whole range of alternative structures, as well as options within our current structure, and we are thoroughly testing them against the design principles. There is no easy answer. Every structure involves trade-offs.

When we are in a position to do so, we will work with farmers and the Shareholders' Council to reach a decision that takes us forward, together.

Farm Source is a core part of our strategy as we look to support you through the significant regulatory, environmental and other changes to our farming businesses. We came up with the model to put our senior people out into the regions, closer to our farmers and their communities. It also gives farmers better access to technical experts and resources to help you maintain sustainable farming businesses.

Farm Source is five years' old this year. In that time, it has grown from the original Regional Head and Area Manager teams, to now include 37 Sustainable Dairy Advisors. To date, these advisors have helped 34% of our farmers to produce a Farm Environment plan.

In its first 5 years, Farm Source has returned $233 million in Farm Source Dollars, deals and discounts to farmers. Stable governance has been incredibly important as our Co-op has undergone fundamental change over the past two years.

As part of our commitment to planned governance succession, in June your Board selected Peter McBride as our Chairman-elect. This early announcement provided the Co-op with the stability to push on with embedding our strategy and cultural change. Since June, Peter and I have worked together closely to ensure we maintain our momentum as he takes over the reins at the end of today's meeting.

In other changes, we also selected a new Independent Director, Holly Kramer, who joined our Board in April. You will have the opportunity to hear from Holly later in today's meeting as part of her ratification process.

Looking to the 2021 financial year and beyond. There is still a high level of uncertainty as to how the global recession and new waves of Covid-19 will impact demand globally.

The best way of coping with uncertainty is to stay on strategy and to focus on what is within our control. We were match fit when Covid struck, with a new strategy, structure, and culture. That has us well positioned to come out the other side where there will be new opportunities.

Dairy is not without its challenges, but I'm very optimistic about the future of our industry and our Co-op. Roughly six billion people around the world rely on dairy products as one of their most important sources of protein and energy.

We're not out to feed the whole planet, the point here is that the opportunity for us is significant. People will always pay for quality, and we produce what I believe is the best milk in the world.

Our continued success will rely on our ability to balance sustainable economic returns with the continued regeneration of our environment. I firmly believe that through a strong Co-op we can achieve both.

New Zealand farmers have a proud heritage of innovation. We have always been early adopters of new ideas and technology. Our future as an industry relies on our willingness to keep up with the rapid rate of change, this is done by investing in science and using advances in technology and innovations to help protect or enhance the premium reputation of our milk.

The need for innovation also applies to our Co-op itself. One of the things I'm most proud of about this Co-op is that, despite being one of New Zealand's few truly international businesses, we are still owned and controlled by 10,000 Kiwi farming families. I hope that never changes.

Outside of that, we need to keep evolving our Co-op and making improvements for those of us who are already owners, but also with the next generation in mind. Young farmers are the future of our Co-op. We must consider their interests, helping them to move into farm ownership and becoming fully shared-up members of our Co-op.

The final and most important key to our future is our people. I have often said that, with the right motivation and desire, you could probably find the milk and the capital, and it would be possible to create a scale business like Fonterra. The one thing you could never replicate is our people.

During my time in our industry and as a governor of the Co-op for the past 12 years, I've had the privilege of meeting a lot of good, hard-working people. Between our farmers, employees and other partners we have access to some of the brightest talent in the global dairy industry.

As a New Zealand-based farmers' Co-op, we pride ourselves on values such as loyalty, hard work, and being humble. Collectively, we've had to take the past few years of public criticism on the chin and just get on with the job.

So, off the back of an improved culture and financial performance, it's great to see a fresh appreciation and respect for what we do. Farmers have their heads up – and long may that continue.

Miles' I'll now invite you to come forward and address the meeting.

Chief Executive Officer

Miles Hurrell

Our Strategy

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

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

Innovation

To create superior value for our customers and our Co-operative

Sustainability

To do what is right for the long term good and meet consumer and community needs

Efficiency

Unlock greater value from our scale efficiency and focus on execution

Delivered on our 2020 priorities

Fonterra
Dairy for life

Healthy People – Supported regional New Zealand and focused on building a great team

Healthy Environment – Reduced our environmental footprint

Healthy Business – Hit our financial targets

Improved financial metrics

REVENUE	GROSS PROFIT	OPERATING EXPENSES	EBIT	PROFIT AFTER TAX[1]
$21.0 billion	$3.2 billion	$2.3 billion	$879 million	$382 million
Up $1.1bn	Up $200m	Down $14m	Up $67m	Up $118m

Capital Expenditure	Free Cash Flow	Net Debt[2]	Debt to EBITDA	Earnings per share[1]
$419 million	$1.8 billion	$4.7 billion	3.4x	24 cents
Down $181m	Up $733 million	Down $1.1b	From 4.4x	Up 8c

Note: Unless stated otherwise metrics presented are for Total Group, which includes Continuing and Discontinued Operations on a normalised basis.
1. Excludes amounts attributable to non-controlling interests.
2. Excludes Discontinued Operations.

Our 2021 priorities

1

Co-operative

Support farmers and employees

Competitive milk price

Participation in The Co-operative Difference

Health & Safety

2

Performance

Deliver on our promises

Return on Capital

Debt/EBITDA

Sustainable performance to enable continued dividend

3

Community

Do what's right for customers, communities and environment

Exceed customer expectations

Support communities through nutrition programmes

Make our low carbon footprint model a powerful point of differentiation

Our Co-op, empowering people to create goodness for generations
You, me, us together – Tātou, tātou

Successes so far this year

Coal to wood pellets
at our Te Awamutu site

New approach to our in-school milk programme

Farm-specific greenhouse gas emissions reports for all farms in NZ

Agreed to sell China Farms for
$555 million

Working with Land O'Lakes to open more doors for US Foodservice business

2020 Sustainability Report – most encouraging set of results yet

2021 Outlook

Forecast Farmgate Milk Price mid point

$6.80
per kgMS

- Forecast Farmgate Milk Price range of $6.30-$7.30
  - Assumes no significant impact to product pricing from global economic impact of COVID-19
  - Subject to product pricing and FX changes
- Dairy demand and supply is finely balanced

Forecast Earnings

20-35
cents
per share

- Full year normalised earnings per share range of 20-35 cents
- Key assumptions include:
  - Improved trading performance, driven by Asia and Greater China as COVID-19 restrictions ease
  - Lower financing costs and less significant items
  - Favourable price relativities of 2020 second half not replicated

FONTERRA ANNUAL MEETING
5 NOVEMBER 2020
CEO'S ADDRESS

E ngā Mana, e ngā reo. Tēna koutou, tēna koutou, tēna koutou katoa. Nau mai, haere mai, ki te hui a tau. Ka mihi ki ngā mate. Haere, haere, haere atu ra. Ko tātou te hunga ora e tau nei, Tēna koutou. Ki ngā iwi kainga o te Wairarapa, Tēna koutou katoa. He mihi aroha tēnei ki a koe John. Tō tātou Heamana, te Rangatira o te waka o Fonterra. I roto I ngā piki, me ngā heke. Ngā mihi nui ki a koe. Ka mihi hoki ki a koe Sarah, me te whānau Monaghan, Tēna koutou. Ka nama mātou ki a koe e te rangatira John. No reira, Tēna koutou, Tēna koutou, Tēna koutou katoa.

I welcome you to this year's Annual Meeting. I acknowledge those of us here in person, the local iwi of Wairarapa and I offer a special acknowledgement to John – our chairman and leader. I thank and acknowledge Sarah and the entire Monaghan family.
I also acknowledge and thank each and every one of you.

Those are apt words to start my speech today because our Co-op is made up of good people doing good things – and I would like to thank you, our farmer shareholders, for the good things you've done in 2020 and the support you've shown the Co-op. The mere fact that so many of you are here today is a demonstration of your belief and support for the Co-op – so, thank you.

I want to cover off three areas today – a recap of our strategy, a summary of our performance in 2020 and then our priorities and outlook for 2021. So, let's get into it, starting with the strategy that's guiding us.

This time last year we had just refreshed our strategy. We were clear that to build a sustainable future we needed to focus on three interconnected goals – Healthy People, a Healthy Environment and a Healthy Business.

We were also clear that to achieve these goals we needed to drop our volume ambition and follow a strategy that was all about creating value.

That meant prioritising NZ Milk - your milk - and growing demand for it. We have an environment where the days of significant milk growth are over. While I appreciate some people may see this as a downside, the good thing is it means your milk will become a scarce resource in the global markets. A ***valuable***, scarce resource.

To grow demand and add further value, we've set out on a path to differentiate your milk through our strengths - sustainability, innovation and scale efficiency. By being closer to our customers than we have been in the past, we'll make sure the New Zealand-ness of your milk is being understood and valued more.

We're clear about the consumption categories we want to be in – Core Dairy – that's both base and advanced ingredients, Foodservice, Sports and Active Lifestyles, Medical and Aging Nutrition, and Paediatrics.

We've chosen these categories because that's where we believe we have a competitive advantage. We've also said we will only be in Consumer where we have a right to win and that's meant many of our Consumer businesses now have a much more focused and valuable product portfolio.

We're also realistic about the amount of capital we have access to but know that we can partner with others based on our Intellectual Property and skills. And as you know, we're committed to divesting non-core businesses – this will continue to help with debt reduction, but it also helps get us even more focused on creating value.

This strategy has given our teams great clarity, focus and a healthy dose of realism. It's meant everyone is on the waka and paddling in the same direction. You saw what this can deliver at our Interim and Annual Results. And you also saw it in how the Co-op faced into COVID-19.

Despite the flow-on effects – especially in Consumer and Foodservice markets, the milk kept flowing, our global supply chain kept operating and we continued to get products to market. The way we managed COVID-19 in 2020, showed what we can do when we're all heading in the same direction and farmers and employees are working together.

The numbers tell a similar story. We delivered on all four of our priorities for 2020. We supported regional New Zealand, contributing around $11 billion into New Zealand's rural economies through your milk price.

We built a great team through a focus on our culture, and we've seen that in action in our COVID-19 response.

We continued to reduce our environmental footprint, including hitting our 2020 target to reduce energy intensity across our New Zealand manufacturing sites by 20%. This was a target we set back in 2003 – I don't think you would find too many businesses setting ambitious targets like this back then.

We also achieved our financial targets. And there are three numbers I would like to highlight to you today.

The first is the improved gross profit – it was up $200 million to $3.2 billion. Key drivers of this were our Ingredients business, which did benefit from a softening milk price in the second half of the year. And the other key driver was our Greater China Foodservice business in the first half, prior to the emergence of COVID-19.

The second number I want to highlight is the 24 cents earnings per share. This was at the top end of our guidance range of 15-25 cents we set out to achieve. It shows the underlying performance of our business, which benefited from the improved gross profit I've just mentioned and also lower interest costs as our debt came down.

The final number to highlight is the $1.1 billion debt reduction. One of the questions I've been asked a few times over the last couple of months is: What is the key number in this year's Annual Results? Putting aside the $7.14 per kgMS and what this also means for the country, which John has already spoken about, it's this $1.1 billion reduction in debt that I keep coming back to.

It's helped get our balance sheet in a much healthier state and it's also helped us exceed our 2020 Debt/EBITDA target, coming in with a debt level of 3.4 times our EBITDA. But perhaps most importantly because we made good inroads in the first half of the year, we were able to focus on our COVID-19 response, delivering on our strategy and continuing to get your milk to market. The $1.1 billion debt reduction meant we weren't drawn away from what needed to be done to manage the challenges we faced.

There's still more work to do on our reset, but I would say we're now on the home straight. We've got momentum and 2021 is going to build on that. We won't forget the lessons learnt from our past, but you will see us shift our focus to the future. This is reflected in our three priority areas which are – Co-operative, Performance and Community.

'Co-operative' is all about being here for farmers and employees – that means having a competitive milk price. It also means supporting farmers to have sustainable businesses through our Co-operative Difference programme, as well as empowering our employees to make it happen.

'Performance' is about delivering on our financial commitments – in particular, continuing to drive earnings, reduce debt, improve return on capital *and* return a sustainable dividend.

'Community' is our third focus area – and that's about doing what's right for our customers, communities and the environment. We want to exceed their expectations, make our low-carbon footprint a powerful point of differentiation and continue to support communities through nutritional programmes.

If we do these things during 2021 – we will be taking another decent step towards our three interconnected goals of Healthy People, Healthy Environment and Healthy Business. We're off to a good start. We already have some good runs on the board.

For example, our Te Awamutu plant has moved from coal to wood pellets. We've rethought our approach to our in-school milk programme to help get nutrition to those that need it the most. Every farmer in the Co-op now has access to a unique Greenhouse Gas (GHG) emission profile for their farm.

We've announced that we've agreed to sell China Farms for $555 million – this will allow us to further prioritise your milk and reduce our debt. We've entered a sales and marketing agreement with Land O'Lakes to open more doors for our US Foodservice business and to do so we've leveraged our intellectual property and skills, rather than capital.

And this week we released our 2020 Sustainability Report which shows we've achieved our most encouraging set of sustainability results since we started reporting on them four years ago.

As we look out to the rest of the year, there's still uncertainty as a result of COVID-19 and its flow on effects. But we're seeing good demand for dairy from China and milk powders, in particular, are proving resilient.

This allowed us to increase the mid-point of the forecast Farmgate Milk Price range to $6.80 per kgMS a couple of weeks ago. As it's still relatively early in the season and we know a lot can change, we've still got a range of plus or minus 50 cents.

Some of the unknowns we're working with include:

- What's going to happen to exchange rates?
- What will happen to milk supply from the EU and US? We're seeing it increase but where will it end up?
- Will there be further waves of COVID-19 and how would this impact the global economy and demand?

Obviously, the higher milk price puts extra pressure on our earnings but we remain confident in our forecast earnings range is 20 – 35 cents per share. There are a few key assumptions that we've built into this forecast that are worth being aware of.

The first is that we'll see Asia and Greater China driving an improved trading performance as COVID-19 restrictions ease. The second assumption is that we'll have lower financing costs and less significant one-off items, like impairments. And we are also assuming that we won't see the same kind of price relativities between reference and non-reference products in Ingredients as we did in the second half of 2020 when the milk price softened.

Whether or not these assumptions eventuate is not 100% certain. But as John has already said we will be monitoring the situation closely and focusing on what's in our control.

That's staying on strategy, being agile and drawing on our strengths across the supply chain to manage and adapt to changes around the globe.

We know how important this is for you, our employees, our unit holders, customers, communities and our country – and most importantly we've shown in 2020 that we can do it.

Nō reira me ūtātou ki te kōrero tātou, tātou. Tēna koutou, Tēna koutou, Tēna koutou katoa. Thanks – I'll now pass back to John.