



Market Announcement

4 December 2020

Fonterra provides update on its forecast Farmgate Milk Price range and first quarter performance

Fonterra Co-operative Group Limited today narrowed its 2020/21 forecast Farmgate Milk Price range, reported a solid start to the 2021 financial year and reconfirmed its forecast earnings guidance.

Fonterra CEO Miles Hurrell says as a result of strong demand for New Zealand dairy, the Co-op has narrowed and lifted the bottom end of the forecast Farmgate Milk Price range from NZD \$6.30 - \$7.30 per kgMS to NZD \$6.70 - \$7.30 per kgMS.

“This means the midpoint of the range, which farmers are paid off, has increased to NZD \$7.00 per kgMS.

“China is continuing to recover well from COVID-19 and this is reflected in recent Global Dairy Trade (GDT) auctions with strong demand from Chinese buyers, especially for Whole Milk Powder, which is a key driver of the milk price.

“The impact of COVID-19 continues to play out globally, and we continue to have a watchful eye on the increasing Northern Hemisphere milk production and New Zealand dollar.

“However, we have contracted a good proportion of our sales book for this time of the season, which has given us the confidence to narrow and lift the bottom end of the forecast Farmgate Milk Price range.

“Our forecasts would see the Co-op contribute around NZD \$10.5 billion to the New Zealand economy this year.”

First quarter business update

Mr Hurrell says the Co-operative has continued to make progress on implementing its strategy and had a solid start to the first quarter, delivering total Group normalised Earnings Before Interest and Tax (EBIT) of NZD \$250 million, up NZD \$72 million on last year.

“Despite ongoing market disruptions from COVID-19, we are continuing to build on the momentum achieved in the last financial year and this can be seen in the progress we are making against our 2021 priorities:

- Our Co-operative, which is about supporting farmers and employees;
- Performance, which is about hitting our financial targets; and
- Community, which is about exceeding customer expectations, supporting communities through our nutrition programmes and making our low carbon farming model a powerful point of differentiation.

“These priorities are helping us take another step this year towards our goals of Healthy People, Healthy Environment and Healthy Business.”

From a performance perspective, Mr Hurrell says he is pleased with the progress the Co-op has made in the first quarter.

“Sales volumes are in line with the same period last year, which was before we felt the impact of COVID-19. This reflects strong demand for dairy and careful management of our supply chain.

“We’ve seen improvements right across our business, which has resulted in a 40% increase in our normalised earnings. There’s been a couple of exceptions to this – Europe, which has been impacted by higher costs, and Africa, which has been impacted by lower volumes as we have shifted product to meet strong demand across Asia.

“Our Greater China Foodservice business has been the stand-out performer so far as demand for dairy in China continued to recover strongly from COVID-19.

“We expanded our Foodservice business into another 13 cities in China, bringing the total number of cities we operate in to more than 360.

“And our teams are helping to drive demand by continuously releasing new innovative ways of using our products in local cuisine as they pursue the next big food trend in China.

“Demand in our Southeast Asia (SEA) Consumer business has improved year-on-year, while our SEA Foodservice business has started to recover as COVID-19 restrictions eased in some markets.”

Mr Hurrell says the Co-op remains focused on financial discipline and reducing debt.

“We continue to divest non-core assets with the announcement that we’ve agreed to sell our China Farms for NZD \$555 million, which will further reduce debt.

“The sale of this asset reinforces our strategy of prioritising New Zealand milk.”

Fonterra’s reported EBIT was down NZD \$31 million on last year to NZD \$235 million mainly due to the one-off gain on sale of foodspring® which occurred in the first quarter of last year.

Commenting on the Co-op’s progress against its other priorities for the year, Mr Hurrell says Fonterra has made tangible progress against its environmental targets and on supporting employees, customers and communities. Some initiatives include:

- Supporting the NZ Government’s skills initiatives by increasing the number of apprenticeship roles in engineering and dairy processing over the next two years and working to double the number of on-the-job training hours we provide our employees by 2025.
- Accelerating demand for our Foodservice products in the US by partnering with Land O’Lakes, which will give us access to a larger customer base.
- Working with more Fonterra farms in New Zealand to develop Farm Environment Plans and we’re well on the way to our target of 100% by 2025.
- Installing solar panels at two of our sites in Malaysia and Indonesia, which will power up to a quarter of the sites’ energy needs.
- Launching the Anchor plant-based bottle as part of our goal to have all packaging reusable, recyclable or compostable by 2025.

Outlook

Commenting on the outlook for the rest of the year, Mr Hurrell says the Co-operative is confident in its performance and is on track to deliver on its earnings guidance.

“However, there are still a number of risks we are keeping a close eye on and for this reason we have made the decision to maintain our current forecast earnings range.

“COVID-19 related challenges remain, including how the global recession and new waves of the virus will impact customer demand, and there is some congestion in global supply chains that we are actively managing. There is also continued uncertainty around what could happen to the price difference between the products that determine our milk price and the rest of our product range in the second half of the year.

“We will continue to monitor the situation and, as the year progresses and we have more certainty, we would expect the forecast earnings range to narrow.”

-ENDS-

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Fonterra 2020/21 Quarter One Update

4 December 2020

Important information

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2020/21 Quarter One update

Solid start to 2020/21 Financial Year

- Narrowed and lifted the lower end of forecast Farmgate Milk Price range
- Normalised EBIT up on same time last year, which was before we felt the impact of COVID-19
- Maintained forecast earnings per share range
- Uncertainty remains around future impact of COVID-19
- Progressing on our environmental targets and a continued focus on our people

Forecast Farmgate Milk Price

\$6.70 – \$7.30 per kgMS

Total Group normalised EBIT¹

\$250 million  **\$72m²**

Forecast normalised earnings per share³

20c – 35c

1. Total Group normalised EBIT includes Continuing and Discontinued Operations. Includes amounts attributable to non-controlling interests.
2. FY20 Quarter One normalised EBIT restated to \$178m due to change in timing of revenue recognition for sales to distributor in Greater China.
3. Excludes amounts attributable to non-controlling interests.

Business performance

million ¹	2020 ²	2021	%Δ ³
Volume ('000 MT)	831	832	0%
Revenue (\$)	4,238	4,181	(1)%
Gross Profit (\$)	747	758	1%
Gross Margin (%)	17.6%	18.1%	
Operating Expenses (\$)	(553)	(523)	5%
Other ⁴ (\$)	(16)	15	–
Normalised EBIT (\$)	178	250	40%
Reported EBIT ⁵ (\$)	266	235	(12)%

- Similar volumes sold reflecting continued strong customer demand for dairy and careful management of supply chain
- Increased Gross Profit due to improved margins and higher volumes in Foodservice and Consumer in Greater China and South East Asia
- Stable performance in Ingredients overall. Growth across Asia offset by lower volumes in Africa and increased costs in Europe
- Continued focus on operating expenses
- Total Group normalised EBIT up 40%, or \$72 million
- Good progress on sale of China Farms and continued sell down of Beingmate

1. Figures presented are for Total Group, which includes Continuing and Discontinued Operations on a normalised basis unless stated otherwise
2. FY20 Quarter One restated due to change in timing of revenue recognition for sales to distributor in Greater China
3. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures

4. Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees
5. Prior year Reported EBIT includes foodspring® gain on sale of \$64 million. The difference between current year's Normalised EBIT and Reported EBIT is Reported EBIT includes \$(38) million revaluation of Beingmate holding and \$23 million preliminary estimate of China Farms gain on sale

Healthy Business



Expanded
China Foodservice
into 13 new cities
taking total to
363 cities

Continuously releasing new
innovative ways of using our
products in local Chinese
cuisine, with **54** released
this quarter

Partnering with
Land O'Lakes
to accelerate demand
for our Foodservice products
in the US using **our IP**

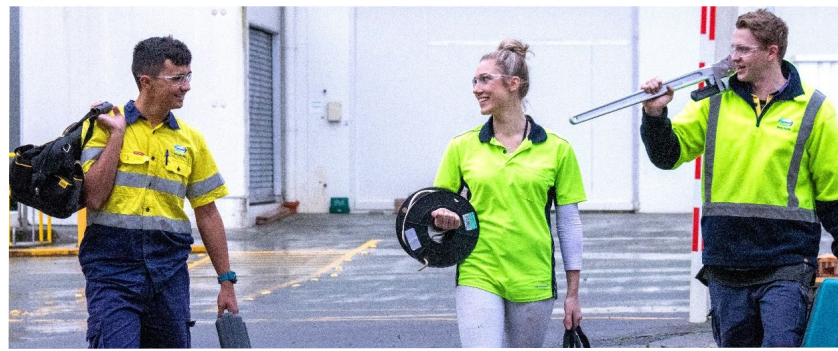
Strengthening our
balance sheet

China Farms'
sales agreement

Re-affirmed
A Band
Credit Rating¹

1. S&P Global Ratings

Healthy People

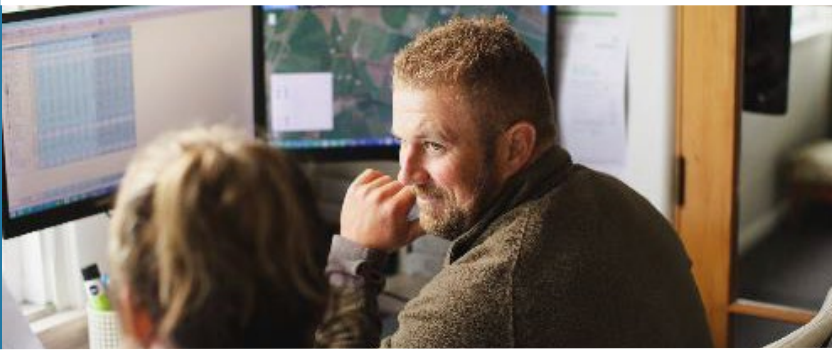


Supporting our people
during COVID-19 remains
our number one priority

Supporting the NZ Government's
skills initiatives by increasing the
number of apprenticeship roles in
engineering and dairy processing
over the next two years

Taking new approach
to community nutrition
programmes, growing
KickStart Breakfast and partnering
with NZ Food Network

Healthy Environment



All Fonterra farmers in NZ now have access to **unique farm greenhouse gas emissions profiles** – the first time such a tool has been introduced in NZ at scale



Installed **solar panels** at 2 sites in Malaysia and Indonesia, which will power up to **25%** of the sites' energy needs



Launched **Anchor plant-based bottle** as part of our goal to have all packaging reusable, recyclable or compostable by **2025**

Forecast Farmgate Milk Price

\$6.70 – \$7.30

per kgMS

- Narrowed and lifted the lower end of forecast Farmgate Milk Price range to \$6.70-\$7.30 per kgMS
 - Assumes no significant impact on product pricing from global economic impact of COVID-19
 - Strong demand from China partially offset by increasing milk supply from key milk producing regions and higher NZ dollar

Forecast Earnings

20 – 35

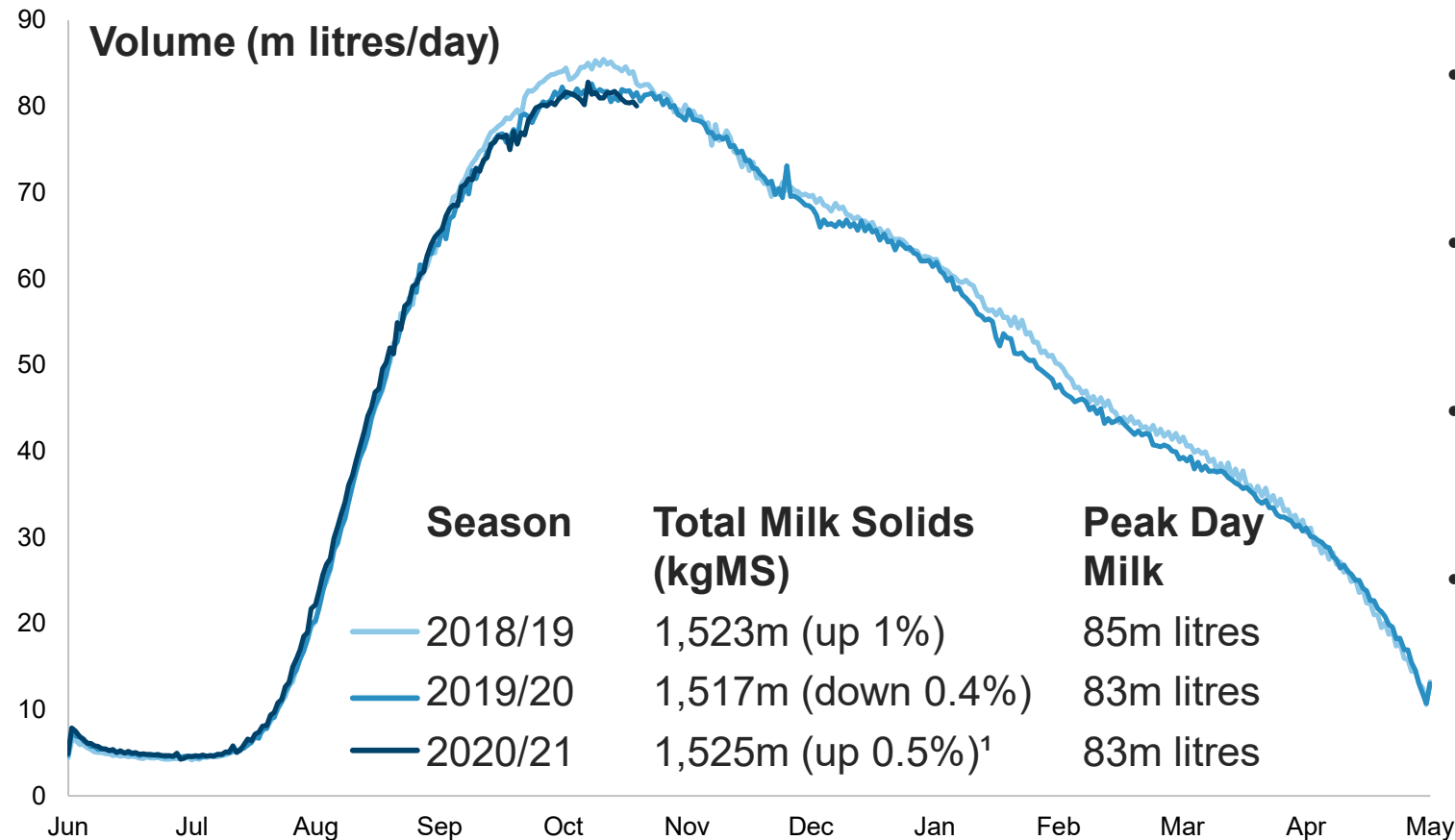
cents per share

- Maintained full year forecast normalised earnings per share range of 20-35 cents
- Currently tracking above midpoint of range, but there are a number of risks
 - Uncertainty around future impact of COVID-19, including impact on customer demand, supply chain and macroeconomics
 - Price relativities for the remainder of the financial year

Appendix



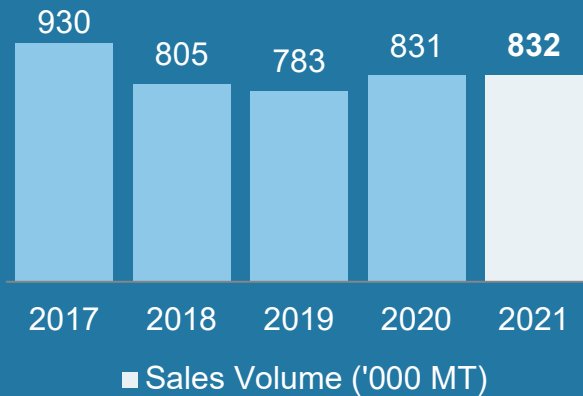
Fonterra's New Zealand milk collections



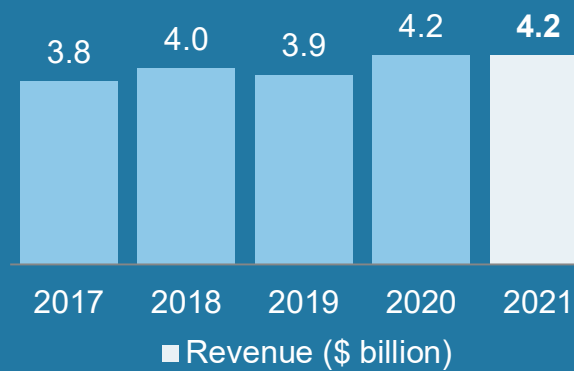
- Season to date collection, June – October, was 527.5 million kgMS, up 0.5% on last season
- Good early season conditions have contributed to collections being slightly ahead of last season
- Poor pasture quality impacted milk production across parts of the country towards the end of October and into early November
- Full season forecast remains at 1,525m kgMS, up 0.5% on last season

Key financial metrics for 2020/21 Quarter One^{1,2}

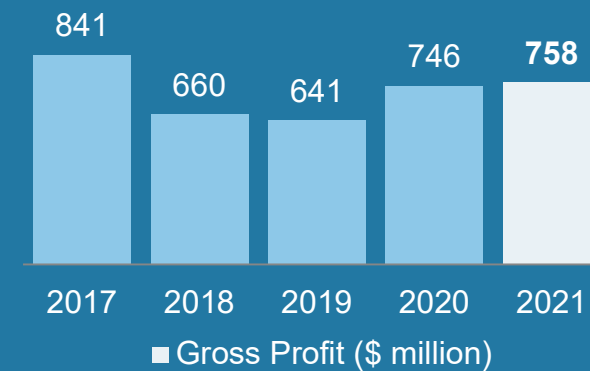
Sales Volume ('000 MT)



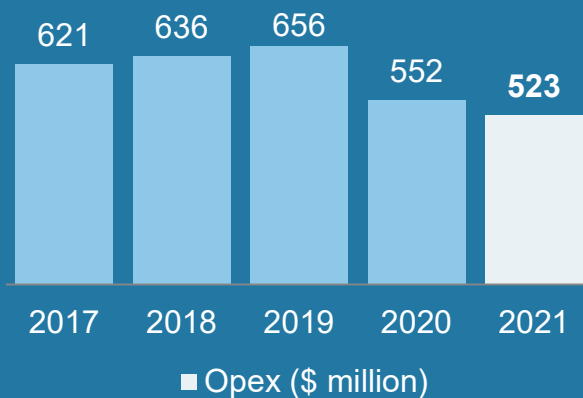
Normalised Revenue



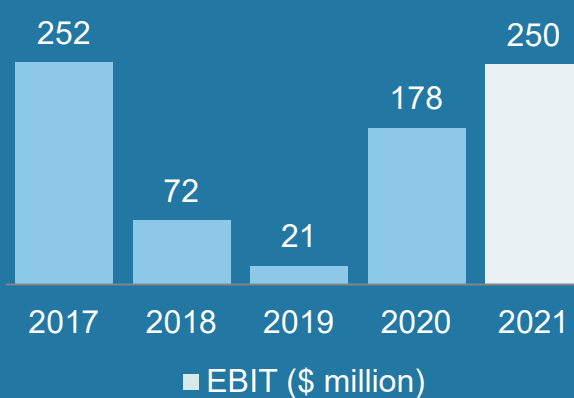
Normalised Gross Profit



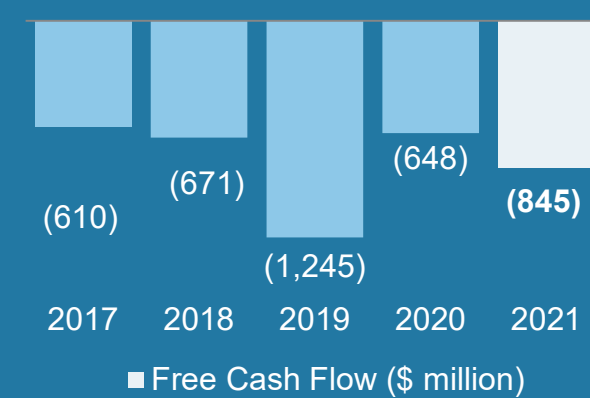
Normalised OPEX



Normalised EBIT



Free Cash Flow



1. Figures presented are for Total Group, which includes Continuing and Discontinued Operations on a normalised basis unless stated otherwise

2. FY20 and FY19 Quarter One restated due to change in timing of revenue recognition for sales to distributor in Greater China

Segment reporting

- At our half year announcement we will include detailed segment reporting under the new customer-led operating model
 - To provide further performance insights and transparency, the new segment reporting will include both geographical and product channel, that is Ingredients, Foodservice and Consumer
 - We will provide restated 2019/20 Financial Year segment information to allow for comparison

Board Statement of Intentions

The Board Statement of Intentions sets out the Board's intentions for the performance and operations of Fonterra for FY21. In accordance with the Constitution of Fonterra, Fonterra is required to provide a regular overview to the Fonterra Shareholders' Council of actual achievements, compared with the targets set by the Board. The table below provides an update as at Q1 of Fonterra's performance against these targets.

	FY20	FY21	
		Q1 Actual	Full Year Target
Healthy People			
Total recordable injury frequency rate (TRIFR) per million work hours ¹	5.8	5.5	5.0
Female representation in senior leadership ²	29%	30%	35%
Employee engagement	4.07	NA ³	Top Quartile
Farmer sentiment (Net Promoter Score for Fonterra in New Zealand)	33	32	10 ⁴
Healthy Environment			
Number of farms with Farm Environment Plans (New Zealand)	34%	37%	45%
Reduction in water used at sites in water-constrained regions versus FY18	(3.1)%	(1.2)% ⁵	(10)%
Reduction in greenhouse gas emissions from manufacturing versus FY15	(5.7)%	(11.7)% ⁵	(10)% ⁶
Solid waste to landfill (kilotonnes) below FY20	15.9	3.0 ⁵	13.1
Healthy Business			
Fonterra % kgMS of New Zealand milk collected for the season ended 31 May	80%	NA ⁷	80%
New Zealand Farmgate Milk Price (per kgMS)	\$7.14	\$6.70-\$7.30 ⁸	\$5.90-\$6.90 ⁸
Return on capital	6.7%	On track	6% to 7%
Debt/EBITDA	3.4x	On track	3.0-3.5x
Gearing Ratio	41.4%	On track	36 to 40%
Normalised earnings per share	24c	On track	20c to 35c

1. Part of zero harm philosophy which also includes target 0 serious harm/0 fatalities
2. Senior leadership defined as Band 14+
3. Employee engagement is measured through a company-wide survey. The FY21 survey will take place in Q3
4. The Net Promoter Score for Fonterra was (17) when the target was set

5. The Q1 position has been calculated utilising actual data where available or estimates
6. Assumes Te Awamutu conversion to wood pellet is completed for full use in FY21
7. Only available on an annual basis
8. Based on latest publicly announced Forecast Farmgate Milk Price

Glossary

Farmgate Milk Price

The price for milk supplied in New Zealand to Fonterra by farmer shareholders.

kgMS

Kilogram of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.

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.

Return on capital

Return on capital is calculated as normalised EBIT, less a notional tax charge divided by capital employed including brands, goodwill and equity accounted investments. Capital employed is calculated as the average for the period of: net assets excluding net interest-bearing debt and deferred tax balances.

Gearing ratio

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.

Debt/EBITDA

Debt to EBITDA is calculated as total borrowings, plus bank overdraft, plus the effect of debt hedging, less a cash allowance of 75% of cash and cash equivalents, divided by normalised earnings before interest, tax, depreciation and amortisation (normalised EBITDA) excluding share of loss/profit of equity accounted investees and net foreign exchange losses/gains. Both Debt and EBITDA are adjusted to include amounts relating to businesses classified as held for sale.

Normalised earnings per share (EPS)

Normalised earnings per share means normalised profit after tax attributed to equity holders divided by the weighted average number of shares for the period