Market Announcement

26 May 2021

Fonterra updates on forecast Farmgate Milk Price and performance

Fonterra today announced an opening forecast Farmgate Milk Price range for the 2021/22 season of $7.25 - $8.75 per kgMS, with a midpoint of $8 per kgMS.

It also narrowed its 2020/21 forecast Farmgate Milk Price range, which reduces the midpoint by 5 cents to $7.55 per kgMS, and reported a strong performance for the nine months ending 30 April 2021. However, it cautions there will be significant pressure on earnings in the last quarter of the year due to the normal seasonal profile of the business combined with tightening margins.

CEO Miles Hurrell says that the improving global economic environment and strong demand for dairy, relative to supply, are sitting behind the Co-op's $8 midpoint of its 2021/22 forecast Farmgate Milk Price range.

"At this point it would see the Co-op contributing more than $12 billion to the New Zealand economy next season.

"Global demand for dairy, especially New Zealand dairy, is continuing to grow. China is leading the charge as its economy continues to recover strongly. Prompted by COVID-19, people are seeking the health benefits of milk and customers are wanting to secure their supply of New Zealand dairy products and ingredients.

"Growth in global milk supply seems muted and the global supply of whole milk powder is looking constrained.

"Based on these supply and demand dynamics, along with where the NZ dollar is sitting relative to the US dollar, we're expecting whole milk prices to remain at current levels for the near future.

"As we look out over the next 18 months, there are a number of risks, which is why at this early stage we have this large range on our forecast Farmgate Milk Price. Some of the major risks include: COVID 19, which is far from over; the impacts of governments winding back their economic stimulus packages; foreign exchange volatility; changes in the supply and demand patterns that can enter dairy markets when prices are high; and as always, potential impacts of any geopolitical issues around the world."

Having sold most of its milk for the 2020/21 season, Fonterra is now in a position to narrow this season's forecast Farmgate Milk Price range from $7.30 - $7.90 per kgMS to $7.45 - $7.65 per kgMS.

Hurrell says, at a mid-point of $7.55, 2020/21 would be the second year in a row with the forecast Farmgate Milk Price above $7 per kgMS.

"Since March, we have seen prices settle, somewhat, which is why we have revised our midpoint down 5 cents. In that extraordinary March GDT event, where prices jumped 15% and which contributed to the increase in our forecast 2020/21 Farmgate Milk Price range, the average price for whole milk powder was over US$4,350 per metric tonne. In the last three GDT events, however, the average price has reduced to close to $4,100 per metric tonne. And GDT butter prices have gone from almost $6,000 per metric tonne to below $5,000 per metric tonne for the first time since January."

Business performance

For the nine months ending 30 April 2021, Fonterra delivered a normalised Net Profit After Tax of $587 million, up 61% year-on-year, reflecting the Co-op's improving underlying business performance and stronger balance sheet. Reported Net Profit After Tax was $603 million, up 2%.

Fonterra's Total Group normalised Earnings Before Interest and Tax (normalised EBIT) was up 18% to $959 million, due to higher margins and reduced operating expenditure.

Hurrell says COVID-19 challenges are still very much part of life for the Co-op's employees and customers around the world.

"It's too easy to forget this if you're sitting here in New Zealand – but today's results show that despite these challenges we've lifted our financial performance. Over the last three months, we have also committed to getting out of coal by 2037 and made some promising progress in a trial using seaweed in cows' feed to reduce emissions.

"I would like to thank all our employees for delivering another strong set of results and also our farmer owners for their high-quality New Zealand milk and ongoing support. I couldn't be prouder of how our employees and farmers are working together.

"Greater China continues to be an important performer for us, delivering year-to-date normalised EBIT of $457 million, up 30% or $106 million year-on-year. Foodservice, once again, was the big driver behind this result, contributing $93 million of the growth. In the third quarter, the team continued to improve the strong gross margins we saw in Foodservice at half year by shifting milk into higher value products, for example cream cheese. As a result, the year-to-date margin increased from 21.5% to 28.6%.

"Asia Pacific's normalised EBIT of $224 million was down 10% or $24 million. While Consumer improved by 29% and Foodservice by 89%, this was offset by Ingredients which was impacted by pricing lags on sales contracts with customers, delaying our ability to pass through the increase in our input costs.

"AMENA's normalised EBIT of $322 million was down by 11% or $40 million, mainly due to lower Ingredients sales volumes as we continue to make the most of one of our strengths and that is our ability to move milk into higher value products and markets. However, AMENA Consumer and Foodservice continue to perform well, maintaining a year-on-year improvement in gross margins."

Hurrell says the Co-op's ongoing financial discipline is also a big part of its third quarter performance story.

"Fonterra's operating expenses are down 5% year-to-date but we are planning some additional expenditure in the final quarter to support our brands and product initiatives for next year. Our debt reduction over the last couple of years and lower interest rates have reduced our interest bill by $69 million for the nine months ending 30 April 2021."

Earnings outlook

Fonterra is maintaining its normalised earnings guidance of 25-35 cents per share. While year-to-date normalised earnings per share are 34 cents, the Co-op is expecting earnings in the fourth quarter to come under further pressure and is providing guidance that its full year earnings are expected to be more towards the mid-point of the range.

Hurrell says there are some clouds on the horizon when it comes to Fonterra's earnings performance.

"While overall we've seen stronger gross margins so far this year, they've narrowed in the third quarter as the increasing raw milk prices have flowed through to our input costs and the pricing lags on sales contracts with customers have delayed our ability to pass through the increase in our input costs.

"As a result, we're forecasting increased pressure on margins in the fourth quarter. This is compounded by the normal seasonal profile of our business, where we have our ongoing fixed costs but lower volumes of milk being processed and sold. All of this means the fourth quarter will be challenging from an earnings perspective and we expect the margin pressure to continue into the first quarter of the 2022 financial year."

Portfolio review update

Back at the start of the 2019 financial year, Fonterra set out its original three-point plan to turn around the business. Part of this involved a strategic review of our assets which led to, among other things, the Co-operative's decision to sell down its investment in Beingmate Baby & Child Food Company Ltd (Beingmate) and its China farms.

During the third quarter, Fonterra completed the sale of its shareholding in Beingmate, marking a full exit of its investment in the company and completed the sale of Fonterra's two wholly owned China farming hubs in Ying and Yutian.

In October 2020, Fonterra announced it had agreed to sell its 85% interest in its Hangu farm in China to Beijing Sanyuan Venture Capital Co., Ltd. (Sanyuan), for $42 million (RMB 190 million*). Sanyuan has a 15% minority shareholding in the farm and exercised their right of first refusal to purchase Fonterra's interest. Due to lack of progress in agreeing the specific terms of the sale, the right of first refusal was terminated earlier this month and Fonterra will now look to open up the sale process to a wider group of prospective buyers.

Hurrell says the progress that has been made on the portfolio review is allowing Fonterra to really focus on its strategy of growing the value of New Zealand milk by using innovation, sustainability and efficiency to deliver products that customers value.

"It starts with having the best milk in the world – our New Zealand milk – and by having a more focused asset portfolio, it allows us to prioritise more of our resources around it and we can see this coming through in our performance.

** based on an RMB to NZD conversion rate of 4.5*

-ENDS-

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Business Update
3rd Quarter 2021

26 May 2021

Highlights

COVID-19 challenges remain but employees resilient, offshore markets starting to receive vaccines

Strong year-to-date performance. Greater China Foodservice leading the charge with EBIT up 49% year-on-year

Second year in a row with a forecast Farmgate Milk Price over $7 per kgMS

Announced we will be getting out of coal by **2037**

Completed sale of two China farms and exit of Beingmate shareholding

Strong financial performance year to date

- Narrowed 2020/21 forecast Farmgate Milk Price range, with lower midpoint of $7.55 per kgMS
- Announced 2021/2022 forecast Farmgate Milk Price range of $7.25 - $8.75 per kgMS
- Strong performance year to date – however, margins narrowed in third quarter with higher input costs
- Normalised profit after tax up $222 million, or 61%, to $587 million, representing normalised earnings per share of 34 cents
- Forecasting full year normalised earnings to be towards midpoint of 25-35 cent range due to further tightening of margins and the seasonal profile of the last quarter

2020/21 Forecast Farmgate Milk Price

$7.45 – $7.65 per kgMS

Reported Profit After Tax[1]

$603 million

Normalised Profit After Tax[1,2]

$587 million

Earnings Guidance[3]

25c – 35c earnings per share

1. Unaudited Total Group figures for the nine months ended 30 April. This includes Continuing and Discontinued Operations, and includes amount attributable to non-controlling interests
2. Normalised profit after tax excludes $16 million of normalised adjustments resulting from $(49) million loss on sale of our investment in Beingmate and $65 million impairment reversal and gain on sale on farming investments in China
3. Attributable to equity holders of the Co-operative, excludes non-controlling interest

Improved Total Group business performance

million[1]	2020	2021	%△[2]
Sales volume ('000 MT)	3,087	3,053	(1)%
Revenue ($)	16,006	15,485	(3)%
Gross profit ($)	2,472	2,499	1%
Gross margin (%)	15.4%	16.1%	
Operating expenses ($)	(1,665)	(1,590)	5%
Other[3] ($)	8	50	525%
Normalised EBIT[4] ($)	815	959	18%
Normalised profit after tax ($)[4,5]	365	587	61%
Normalised EPS (cents)[6]	22	34	57%

- Strong dairy demand continues, but delays in shipments remain due to ongoing supply chain challenges
- Year to date gross margin of 16.1%, with 17.4% for the first six months but down to 13.9% in the third quarter due to:
  - Higher milk costs in Foodservice and Consumer
  - Pricing lags on sales contracts adversely impacting Ingredients
- Operating expenses are lower. Additional expenditure is planned in final quarter to support initiatives for next year
- Normalised profit after tax improved $222 million, or 61%, due to improved earnings and lower interest expense
- Reported profit after tax of $603 million, being $16 million above normalised profit after tax

1. Figures are unaudited Total Group, which includes Continuing and Discontinued Operations, on a normalised basis for the nine months ended 30 April
2. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
3. Consists of other operating income, net foreign exchange gain/(loss) and share of equity accounted investees
4. Includes normalisations of $16 million, consisting of $(49) million loss on sale of our investment in Beingmate and $65 million impairment reversal and gain on sale on farming investments in China
5. Includes amounts attributable to non-controlling interests
6. Attributable to equity holders of the Co-operative, excludes non-controlling interest

Diversified across markets and products

	Asia Pacific	AMENA	Greater China	Total
Volume ('000) MT[1]	1,030 ↓ 0%	982 ↓ 8%	892 ↑ 9%	2,904 ↓ 1%
Revenue[1]	$5,255m ↓ 2%	$5,207m ↓ 11%	$4,678m ↑ 9%	$15,140m ↓ 2%
EBIT contribution[2,3]				
Ingredients	$0m ↓ 100%	$227m ↓ 27%	$169m ↑ 6%	396m ↓ 30%
Foodservice	$68m ↑ 89%	$13m ↑ -	$282m ↑ 49%	$363m ↑ 64%
Consumer	$156m ↑ 29%	$82m ↑ 58%	$6m ↑ 200%	$244m ↑ 39%
Total	$224m ↓ 10%	$322m ↓ 11%	$457m ↑ 30%	

Note: Figures are unaudited and for the nine months ended 30 April. All changes are expressed relative to the nine month performance of FY20. Consistent with the Interim Financial Statements, the current and prior year segment information is prepared on the new operating model which differs from prior year reportable operating segments. FY20 and FY21 AMENA channel figures have been restated due to a reclassification of an AMENA business unit from Ingredients to Foodservice channel

1. Prepared on a normalised Continuing Operations basis. Does not align to reported Continuing Operations due to excluding unallocated costs and eliminations
2. Normalised EBIT contributions sum to $1,003 million, which does not align to reported Continuing Operations due to excluding unallocated costs and eliminations
3. Inclusive of Group Operations EBIT attribution

2021 Outlook

Forecast Farmgate Milk Price

$7.45 - $7.65

per kgMS

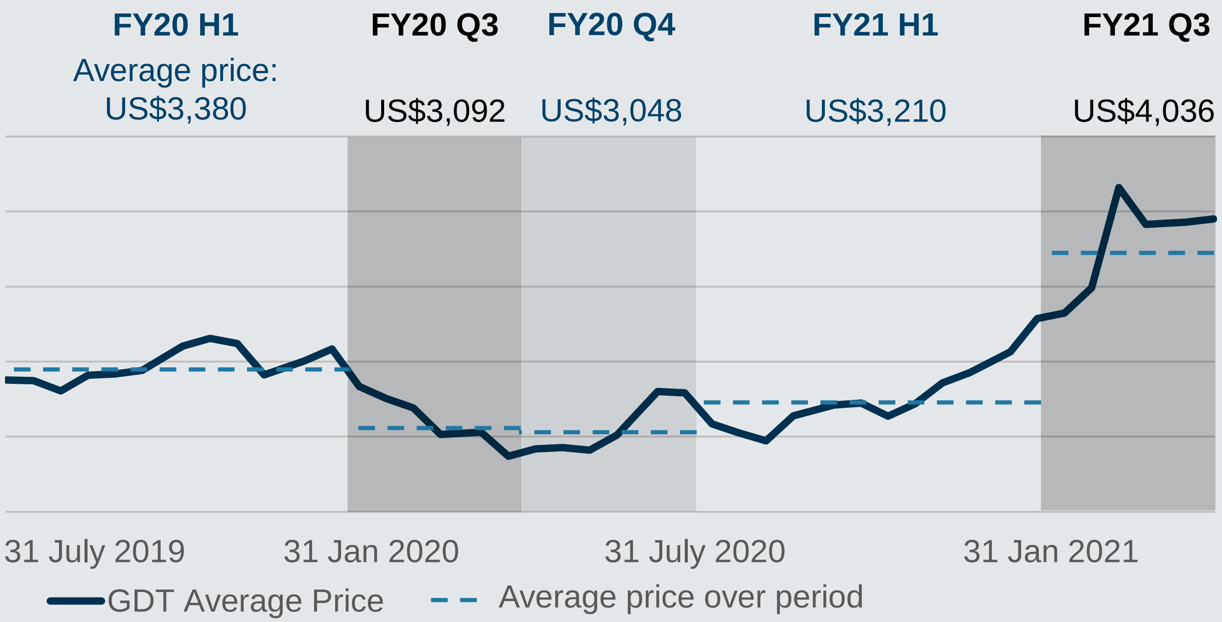
- Narrowed the forecast Farmgate Milk Price range, with a lower midpoint of $7.55 per kgMS

Forecast Earnings

25 - 35

cents per share

- Maintained full year forecast normalised earnings per share range of 25-35 cents



Source: GlobalDairyTrade

Significant downward earnings pressure expected in fourth quarter due to:

- Average GDT prices have increased 26% from US$3,210 in the first half to US$4,036 in the third quarter
  - The increase in prices will adversely impact Foodservice and Consumer margins
- Ingredients' price relativities narrowing – non-reference product prices have not increased at the same rate as reference products prices
- Seasonal profile of milk curve relative to fixed costs

Forecast 2021/22 Season Farmgate Milk Price

Forecast Farmgate Milk Price

$7.25 - $8.75

per kgMS

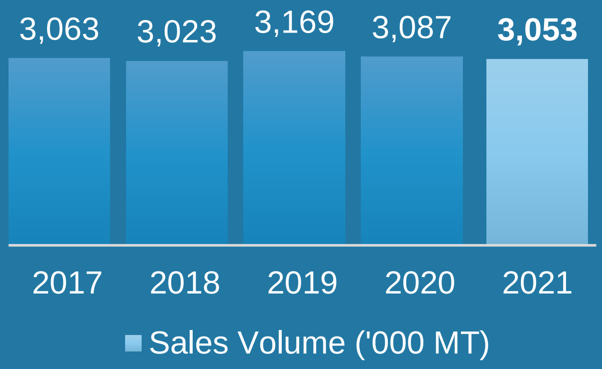
- The midpoint of $8.00 per kgMS reflects:
  - Global milk supply expected to be stable
  - Continuation of current dairy prices over the near term, with supply of Whole Milk Powder relatively constrained
  - Continued strong demand for dairy, led from China
- The wide range reflects risks that could impact the dairy prices, such as:
  - Inherent volatility in dairy prices and foreign exchange
  - Ongoing global pandemic challenges
  - Potential adverse demand impact from governments winding back stimulus packages
  - Deterioration in global trade relations
  - Change in demand patterns across our key markets

Appendix

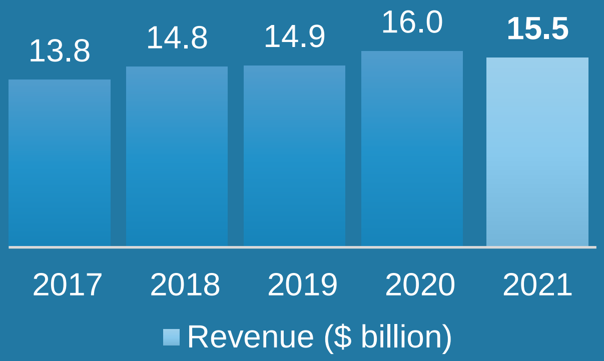
Consistent with the Interim Financial Statements, the current and prior year segment information contained in the appendix is prepared on the new operating model which differs from prior year reportable operating segments

Key financial metrics for Total Group nine months in FY21

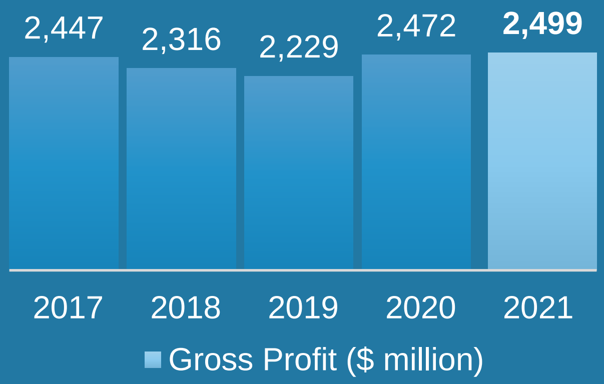
Sales Volume



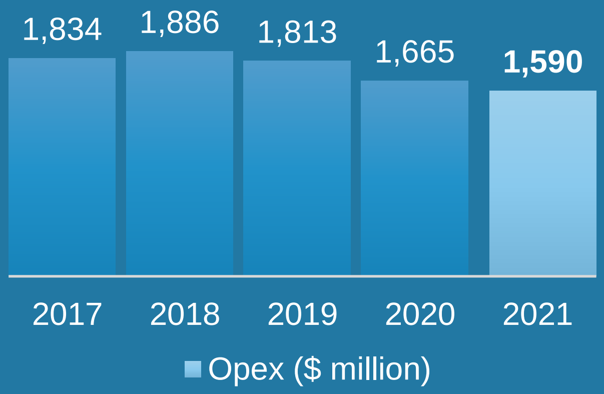
Normalised Revenue



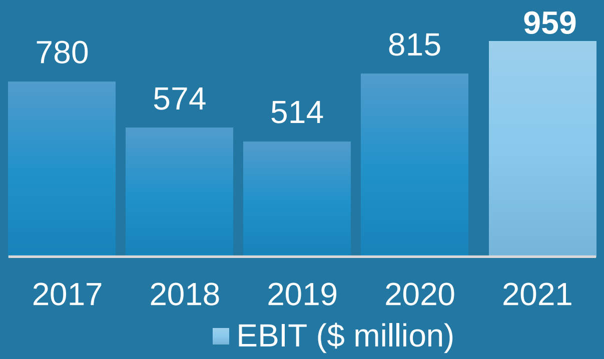
Normalised Gross Profit



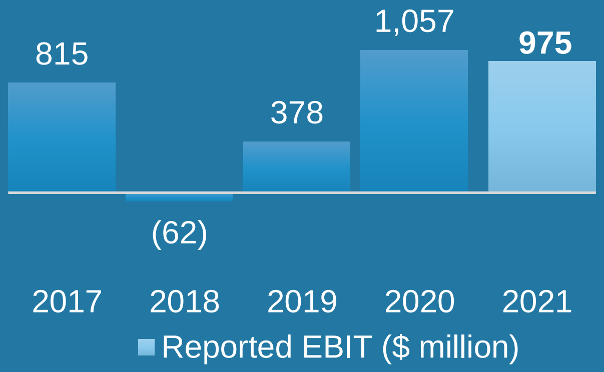
Normalised OPEX



Normalised EBIT

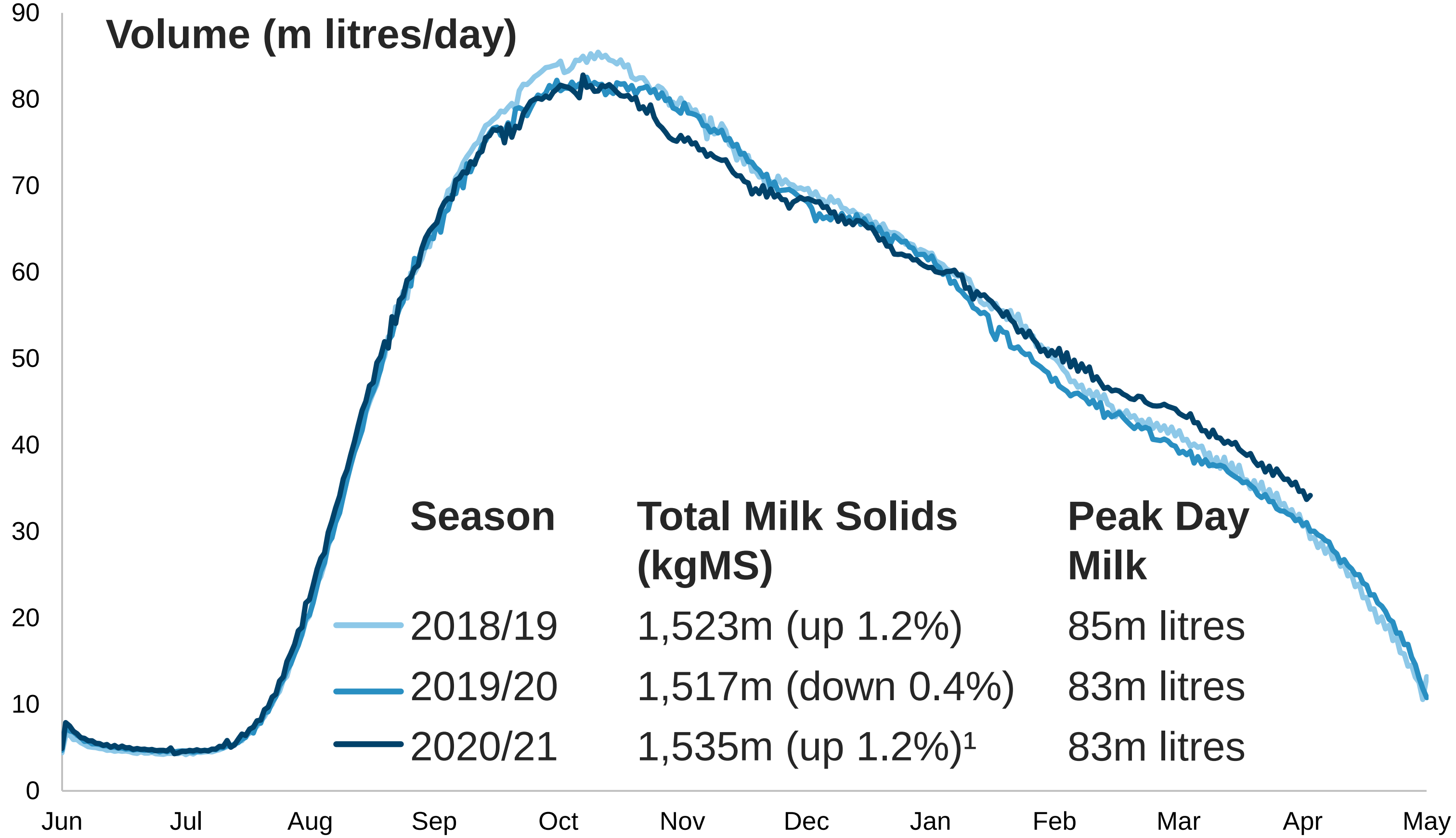


Reported EBIT



Note: Figures are unaudited and for the nine months ended 30 April
Figures are Total Group, which includes Continuing and Discontinued Operations on a normalised basis unless stated otherwise

Fonterra's New Zealand milk collections



Season	Total Milk Solids (kgMS)	Peak Day Milk
2018/19	1,523m (up 1.2%)	85m litres
2019/20	1,517m (down 0.4%)	83m litres
2020/21	1,535m (up 1.2%)[1]	83m litres

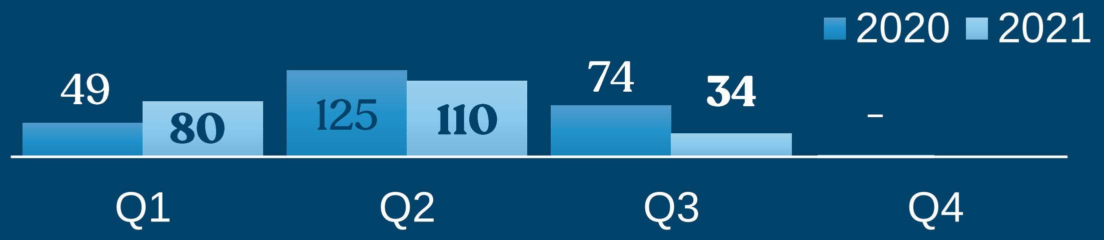
- Full season forecast was increased to 1,535 million kgMS on 30 April, up 1.2% on last season
- Season to date collection, June – April, was 1,464 million kgMS, up 1.2% on last season
- North Island production is up 3.0%. Favourable weather conditions have allowed good pasture growth and benefited end of season collections
- South Island production is steady, but collections are down 1.4% on last season which was among the strongest in recent seasons

1. Current full season forecast

Asia Pacific

million	2020	2021	%Δ[1]
Sales volume[2] ('000 MT)	1,034	1,030	(0)%
Revenue ($)	5,386	5,255	(2)%
Gross profit ($)	901	870	(3)%
Gross margin (%)	16.7%	16.6%	–
Operating expenses ($)	(660)	(642)	3%
Other[3] ($)	7	(4)	–
Normalised EBIT[4] ($)	248	224	(10)%
Includes EBIT attribution from Group Operations[5] ($)	61	(63)	-

EBIT by Quarter



- Consumer and Foodservice performance remains strong but offset by a decline in Ingredients:
  - Consumer had a stable third quarter and remains up on last year due to improved sales pricing
  - Foodservice margins remain up on last year with a strong third quarter relative to prior year, which was impacted by COVID-19 lockdowns
  - Ingredients margins adversely impacted by pricing lags on sales contracts
- EBIT of $224 million, down $24 million due to a large decline in Ingredients' margin

Note: Figures are unaudited and for the nine months ended 30 April. Figures are on a normalised Continuing Operations basis

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
2. Includes sales to other segments
3. Consists of other operating income, net foreign exchange gain/(loss) and share of equity accounted investees
4. This includes EBIT attribution from Group Operations
5. This is included in Asia Pacific's EBIT. Refer to Glossary for explanation of Group Operations

Asia Pacific channel performance

Ingredients

Volume ('000 MT)

446 From 447 ↓

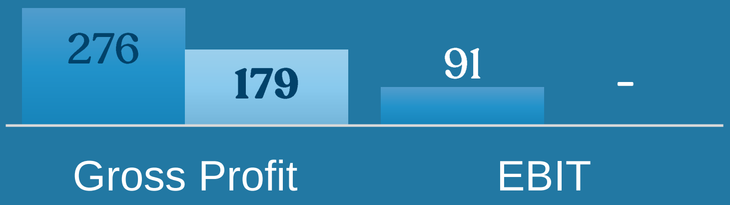
Revenue ($ millions)

2,637 From 2,733 ↓

Gross margin

6.8% From 10.1% ↓

$ millions ■ 2020 ■ 2021



Foodservice

Volume ('000 MT)

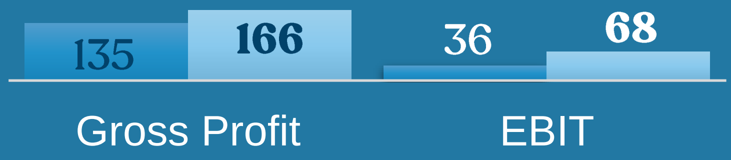
123 From 120 ↑

Revenue ($ millions)

695 From 752 ↓

Gross margin

23.9 % From 18.0% ↑



Consumer

Volume ('000 MT)

461 From 467 ↓

Revenue ($ millions)

1,923 From 1,901 ↑

Gross margin

27.3% From 25.8% ↑

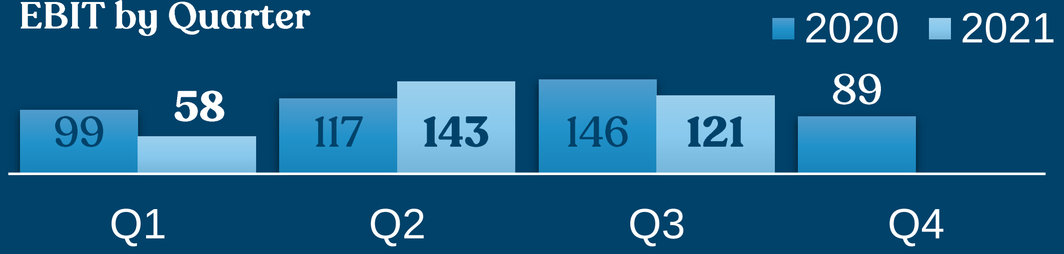
Note: Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations

AMENA

million	2020	2021	%Δ[1]
Sales volume[2] ('000 MT)	1,065	982	(8)%
Revenue ($)	5,829	5,207	(11)%
Gross profit ($)	816	721	(12)%
Gross margin (%)	14.0%	13.8%	
Operating expenses ($)	(451)	(426)	6%
Other[3] ($)	(3)	27	–
Normalised EBIT[4] ($)	362	322	(11)%
Includes EBIT attribution from Group Operations[5] ($)	59	(3)	-

- Lower volume in Ingredients as milk moved to higher value products and markets
- Gross margin remains up in Foodservice and Consumer, but offset by lower Ingredients' margin
- Gross profit declined $95 million due to lower sales volumes and gross margin in the Ingredients business
- Operating expenses down $25 million, predominately due to reduced supply chain costs from lower sales volumes
- EBIT of $322 million, down $40 million

EBIT by Quarter



Note: Figures are unaudited and for the nine months ended 30 April. Figures are on a normalised Continuing Operations basis

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
2. Includes sales to other segments
3. Consists of other operating income, net foreign exchange gain/(loss) and share of equity accounted investees
4. This includes EBIT attribution from Group Operations
5. This is included in AMENA's EBIT. Refer to Glossary for explanation of Group Operations

AMENA channel performance

Ingredients

Volume ('000 MT)

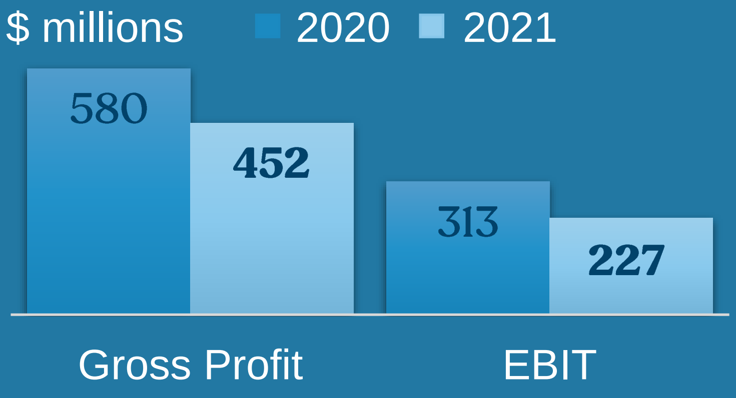
658 From 760 ↓

Revenue ($ millions)

4,094 From 4,774 ↓

Gross margin

11.0% From 12.1% ↓



Foodservice

Volume ('000 MT)

44 From 39 ↑

Revenue ($ millions)

250 From 199 ↑

Gross margin

13.2% From 12.6% ↑

Consumer

Volume ('000 MT)

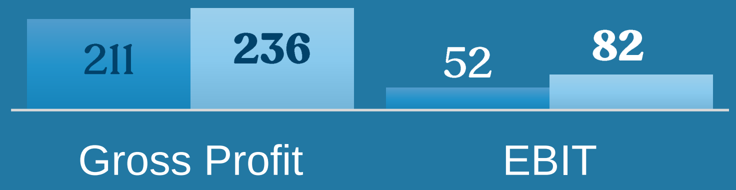
280 From 266 ↑

Revenue ($ millions)

863 From 856 ↑

Gross margin

27.3% From 24.6 % ↑

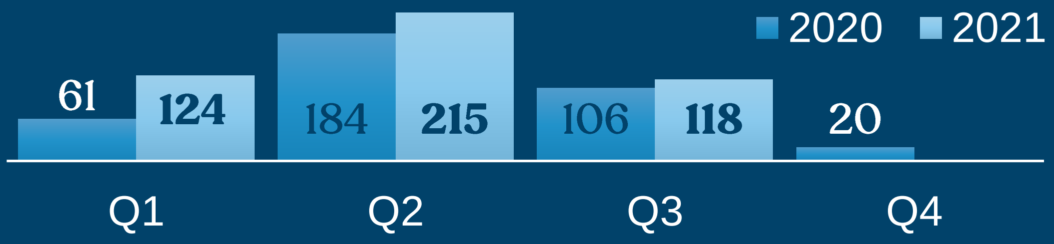


Note: Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations
FY20 and FY21 AMENA channel figures have been restated due to a reclassification of an AMENA business unit from Ingredients to Foodservice channel, and a sales volume elimination correction from Foodservice to Consumer channel

Greater China

million	2020	2021	%Δ[1]
Sales volume[2] ('000 MT)	821	892	9%
Revenue ($)	4,308	4,678	9%
Gross profit ($)	629	757	20%
Gross margin (%)	14.6%	16.2%	
Operating expenses ($)	(274)	(301)	(10)%
Other[3] ($)	(4)	1	–
Normalised EBIT[4] ($)	351	457	30%
Includes EBIT attribution from Group Operations[5] ($)	119	75	(37)%

EBIT by Quarter



- EBIT increased $106 million to $457 million, with $93 million contributed from Foodservice growth
- Foodservice maintained the improved gross margin, up from 21.5% to 28.6%, as it shifted milk into higher value products
- Sales volume increased, benefiting from a robust economy and China Government endorsed dairy
- Operating expenses increased $27 million, supporting the expansion of the Foodservice business

Note: Figures are unaudited and for the nine months ended 30 April. Figures are on a normalised Continuing Operations basis

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
2. Includes sales to other segments
3. Consists of other operating income, net foreign exchange gain/(loss) and share of equity accounted investees
4. This includes EBIT contribution from Group Operations
5. This is included in Greater China's EBIT. Refer to Glossary for explanation of Group Operations

Greater China channel performance

Ingredients

Volume ('000 MT)

621 From 563 ⬆

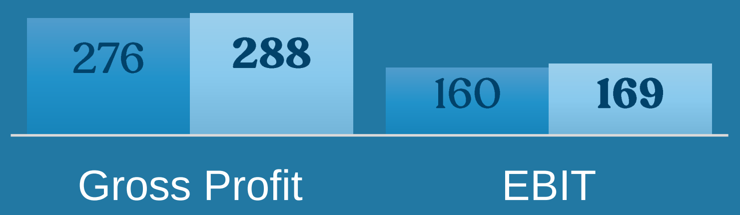
Revenue ($ millions)

3,079 From 2,814 ⬆

Gross margin

9.4% From 9.8% ⬇

$ millions ■ 2020 ■ 2021



Foodservice

Volume ('000 MT)

209 From 201 ⬆

Revenue ($ millions)

1,299 From 1,221 ⬆

Gross margin

28.6% From 21.5% ⬆

Consumer

Volume ('000 MT)

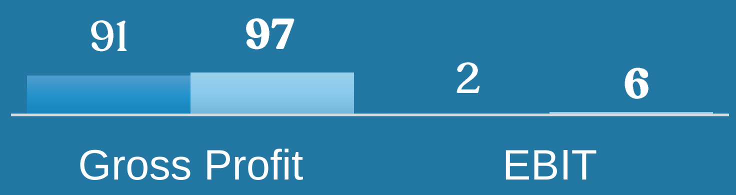
62 From 57 ⬆

Revenue ($ millions)

300 From 273 ⬆

Gross margin

32.3 % From 33.3 % ⬇



Note: Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations

Group performance by product channel

Ingredients

Volume ('000 MT)

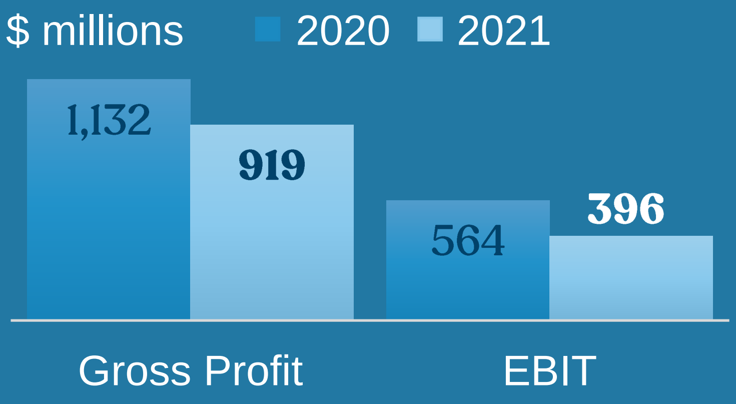
1,725 From 1,770 ↓

Revenue ($ millions)

9,810 From 10,321 ↓

Gross margin

9.4% From 11.0% ↓



Foodservice

Volume ('000 MT)

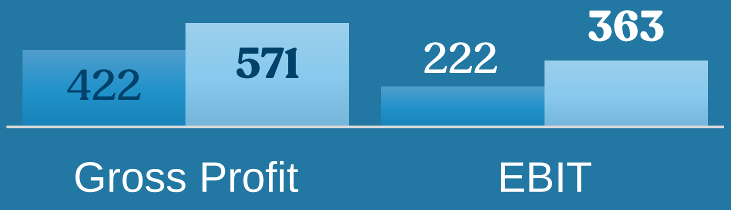
376 From 360 ↑

Revenue ($ millions)

2,244 From 2,172 ↑

Gross margin

25.4% From 19.4% ↑



Consumer

Volume ('000 MT)

803 From 790 ↑

Revenue ($ millions)

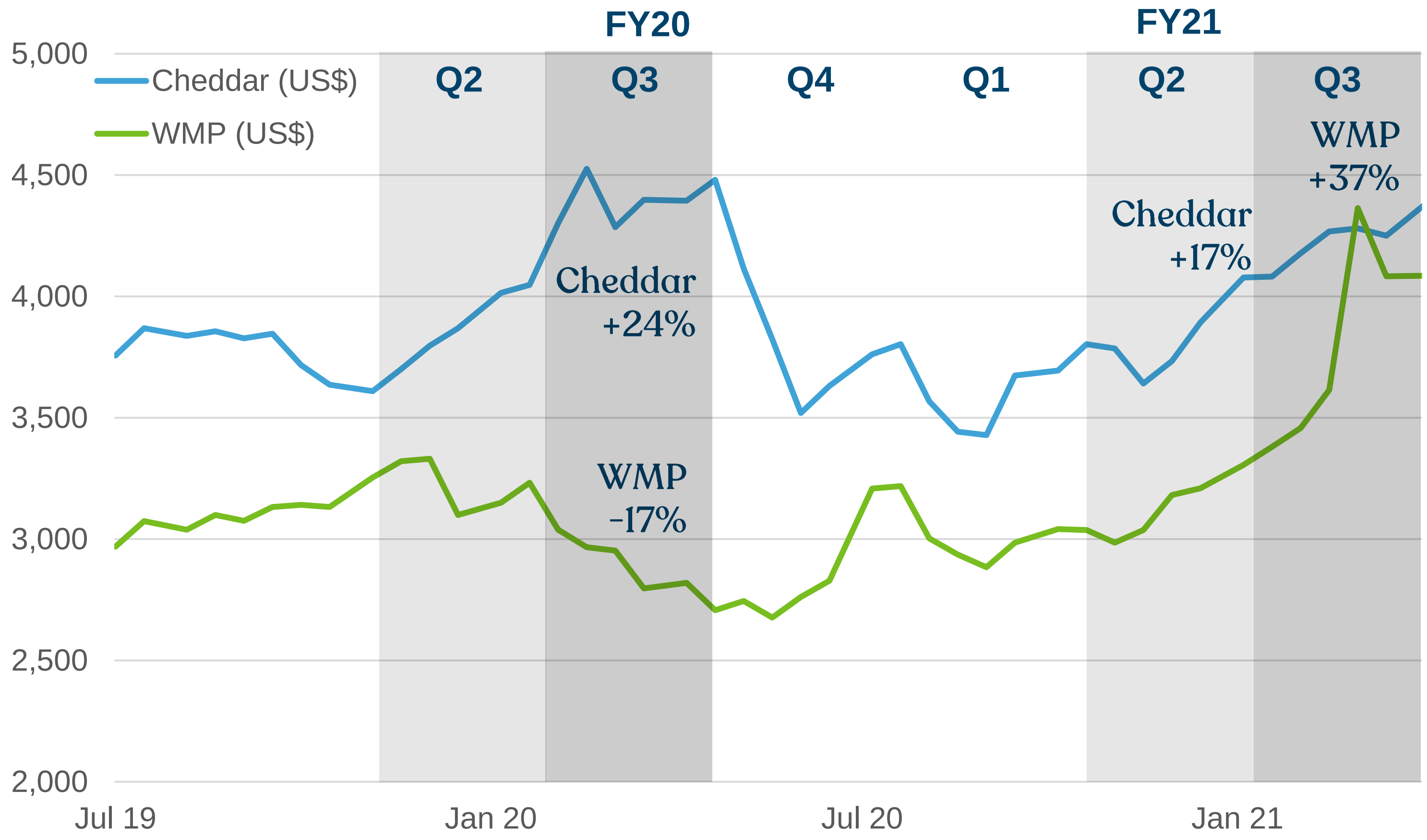
3,086 From 3,030 ↑

Gross margin

27.8% From 26.1 % ↑

Note: Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations
FY20 and FY21 AMENA channel figures have been restated due to a reclassification of an AMENA business unit from the Ingredients to Foodservice channel, and a sales volume elimination correction from Foodservice to Consumer channel

Unfavourable price relativities in Ingredients



- Unfavourable Ingredients price relativities between reference and non-reference products during third quarter:
  - Illustrated by the relative price movements of WMP (reference product) and Cheddar (non-reference product)
  - WMP prices increased 37%, whilst Cheddar prices increased 17% over the second and third quarter
- Current price relativities will impact earnings significantly in the fourth quarter

Source: GlobalDairyTrade

Reconciliation to Total Group EBIT

NZD million	30 April 2020 Continuing Operations[1]	30 April 2020 Discontinued Operations[1]	30 April 2020 Total Group	30 April 2021 Continuing Operations[1]	30 April 2021 Discontinued Operations[1]	30 April 2021 Total Group
Revenue	15,485	521	16,006	15,029	456	15,485
Cost of goods sold	(13,132)	(402)	(13,534)	(12,634)	(352)	(12,986)
Gross profit	2,353	119	2,472	2,395	104	2,499
Gross margin	15.2%	22.8%	15.4%	15.9%	22.8%	16.1%
Operating expenses	(1,575)	(90)	(1,665)	(1,521)	(69)	(1,590)
Other[2]	7	1	8	36	14	50
Normalised EBIT	785	30	815	910	49	959
Normalisations	377	(135)	242	(34)	50	16
EBIT	1,162	(105)	1,057	876	99	975

1. Refer to Note 1a and 2b of the previously released FY21 Interim Financial Statements
2. Consists of other operating income, net foreign exchange gain/(loss) and share of equity accounted investees

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 Co-operative Council of actual achievements, compared with the targets set by the Board. The table below provides an update of Fonterra's performance against these targets as at 30 April 2021.

		FY21	
	FY20	Q3 Actual	Full Year Target
Healthy People			
Total recordable injury frequency rate (TRIFR) per million work hours[1]	5.8	5.1	5.0
Female representation in senior leadership[2]	29%	30.9%	35%
Employee engagement	4.07	4.09	≥4.11 (Top Quartile)
Farmer sentiment (Net Promoter Score for Fonterra in New Zealand)	33	42	10[4]
Healthy Environment			
Number of farms with Farm Environment Plans (New Zealand)	34%	47%	45%
Reduction in water used at sites in water-constrained regions versus FY18	(3.1)%	(2.8)%[5]	(10)%
Reduction in greenhouse gas emissions from manufacturing versus FY15	(5.7)%	(10.5)%[5]	(10)%[6]
Solid waste to landfill (kilotonnes) below FY20	15.9	9.0[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	$7.45-$7.65[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	25c to 35c	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.
4. The Net Promoter Score for Fonterra was (17) when the target was set.
5. The Q3 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

Asia Pacific
Represents the Ingredients, Foodservice and Consumer businesses in New Zealand, Australia, Pacific Islands, South East Asia, and South Asia

AMENA
Represents the Ingredients, Foodservice and Consumer businesses in Africa, Middle East, Europe, North Asia and Americas

Capital expenditure (CAPEX)
Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets, and net purchases of livestock, and includes amounts relating to businesses classified as held for sale

Consumer
Represents the channel of branded consumer products, such as powders, yoghurts, milk, butter, and cheese. Base products are sourced from the Ingredients business and manufactured into higher-value consumer dairy products

Debt/EBITDA
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. Debt and EBITDA are adjusted to include amounts relating to businesses classified as held for sale and Discontinued Operations respectively

Earnings before interest and tax (EBIT)
Calculated as profit before net finance costs and tax

Farmgate Milk Price
Means the average price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual

Foodservice
Represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, cafes, airports, catering companies etc. The focus is on customers such as; bakeries, cafes, Italian restaurants, and quick-service global chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold alongside our business solutions under the Anchor Food Professionals brand

Gearing ratio
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. It excludes net borrowings attributed to businesses classified as held for sale

Greater China
Represents the Ingredients, Foodservice and Consumer businesses in Greater China, and the Falcon China Farms JV

Glossary

Group Operations
Comprises the functions under Chief Operating Office (COO) including New Zealand milk collection and processing operations and assets, supply chain, Group IT, Sustainability and Innovation; Farm Source™ retail stores and the Central Portfolio Management function (CPM)

Ingredients
Represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia, Europe and Latin America, or sourced through our global network, and sold to food producers and distributors in over 140 countries

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

Net Debt
Net interest bearing debt including lease liabilities and the effect of debt hedging. It reflects total borrowings plus bank overdraft less cash and cash equivalents and non-current interest-bearing advances, adjusted for derivatives used to manage changes in hedged risks on debt instruments. It excludes net borrowings attributed to businesses classification as held for sale

Normalised earnings per share (EPS)
Normalised earnings per share is calculated as normalised profit after tax attributed to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period

Return on capital
Return on capital is calculated as normalised EBIT less a notional tax charge, divided by capital employed including certain intangibles (brands and goodwill) and equity accounted investments

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
China: A period of 12 months to 31 July in each year

Unallocated costs
Represents corporate costs including Co-operative Affairs and Group Functions; and any other costs that are not directly associated to the reporting segments

Important information

Disclaimer

This presentation may contain forward-looking statements and projections. There can be no certainty of outcome in relation to the matters to which the forward-looking statements and projections relate. These forward-looking statements and projections involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements and projections. Those risks, uncertainties, assumptions and other important factors are not all within the control of Fonterra Co-operative Group Limited (Fonterra) and its subsidiaries (the Fonterra Group) and cannot be predicted by the Fonterra Group.

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Non-GAAP Measures

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised Profit After Tax, normalised EBIT, EBIT, normalised earnings per share and normalisation adjustments. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations.

Non-GAAP financial measures are not defined by NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends.

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