

Fonterra 2022 Quarter One Update

3 December 2021



2022 Quarter One update

2021/22 forecast Farmgate Milk Price

\$8.40 – \$9.00 per kgMS

Total Group normalised EBIT¹

\$190 million  \$60m

Forecast normalised earnings per share²

25 – 35c

1. Total Group normalised EBIT includes Continuing and Discontinued Operations
2. Attributable to equity holders of the Co-operative, excludes non-controlling interests

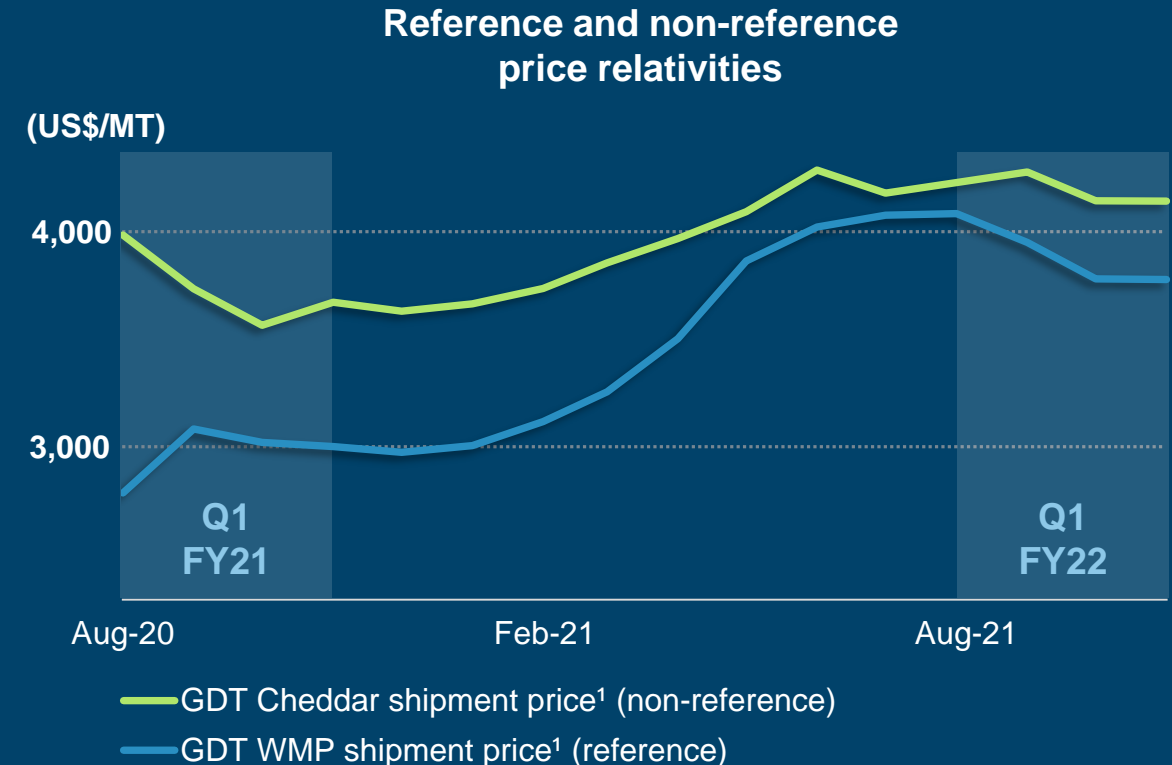


- Lifted and narrowed forecast Farmgate Milk Price range, with a midpoint of \$8.70, from \$8.40
- Lowered the top end of earnings guidance as margins tighten with increase in Farmgate Milk Price
- Supply chain continuing to deliver for customers
- Normalised EBIT of \$190 million, with tighter margins relative to strong first quarter last year
- Input costs are significantly higher than same period last year – driven by a 30% increase in WMP prices³
- Commenced divestment of Chile and ownership review of Australia

3. Percentage increase from weighted average GDT WMP shipment price from FY21 Q1 to FY22 Q1

Strong demand for dairy reflected in prices

- Continued strong demand for New Zealand dairy and global supply growth has slowed
- Operating under very different pricing conditions than this time last year
- Higher reference product prices has meant cost of milk is significantly higher than prior year Q1
 - Average GDT WMP shipment prices in Q1 were 30% higher than Q1 last year
- Favourable price relativities:
 - Reflecting strong demand for both reference and non-reference products
 - Up from last quarter (prior year's Q4) but less favourable than Q1 last year



Source: GlobalDairyTrade

1. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped

Total Group business performance

million ¹	2021 ²	2022	%Δ ³
Sales volume ('000 MT)	832	801	(4)%
Revenue (\$)	4,181	4,374	5%
Cost of good sold (\$)	(3,423)	(3,713)	(8)%
Gross profit (\$)	758	661	(13)%
Gross margin (%)	18.1%	15.1%	
Operating expenses (\$)	(523)	(513)	2%
Other ⁴ (\$)	15	42	180%
Normalised EBIT (\$)	250	190	(24)%
Reported EBIT (\$)	235	190	(19)%

- Sales volume down, mainly impacted by lower milk production early in the season
- Sales prices in-market have increased to reflect higher input costs, but partially offset by weaker local currency
- Gross profit impacted by tighter margins from increased cost of milk and also lower sales volume
- Normalised EBIT of \$190 million from our diversified portfolio:
 - Better performance in the Ingredients channel
 - Foodservice maintained stable sales volumes but tighter margins due to higher milk price
 - In Consumer continued improvement by Chile offset by lower margins in other markets

1. Total Group figures for the three months ended 31 October. This includes Continuing and Discontinued Operations and are on a normalised basis unless otherwise stated

2. FY21 performance includes Ying and Yutian China Farms and China Farms joint venture, which have subsequently been sold

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, net foreign exchange gains/(losses) and share of equity accounted investees

Strategic choices guiding our activity



Focus on NZ milk

- Nutifood launches 100% NZ grass-fed milk into Vietnam, using our sustainability credentials
- Mainland cheese launched in Dubai, selling out in all supermarkets



Lead in sustainability

- Wetland filter allows Maungatūroto site to recycle water, reducing water use by up to 25%
- Methane-busting Kowbucha™ moves to on-farm trials after promising lab tests



Lead in innovation

- Vitakey partnership looks to further unlock the benefits of our probiotic strains
- New ecommerce platform, myNZMP™, a hit with global customers

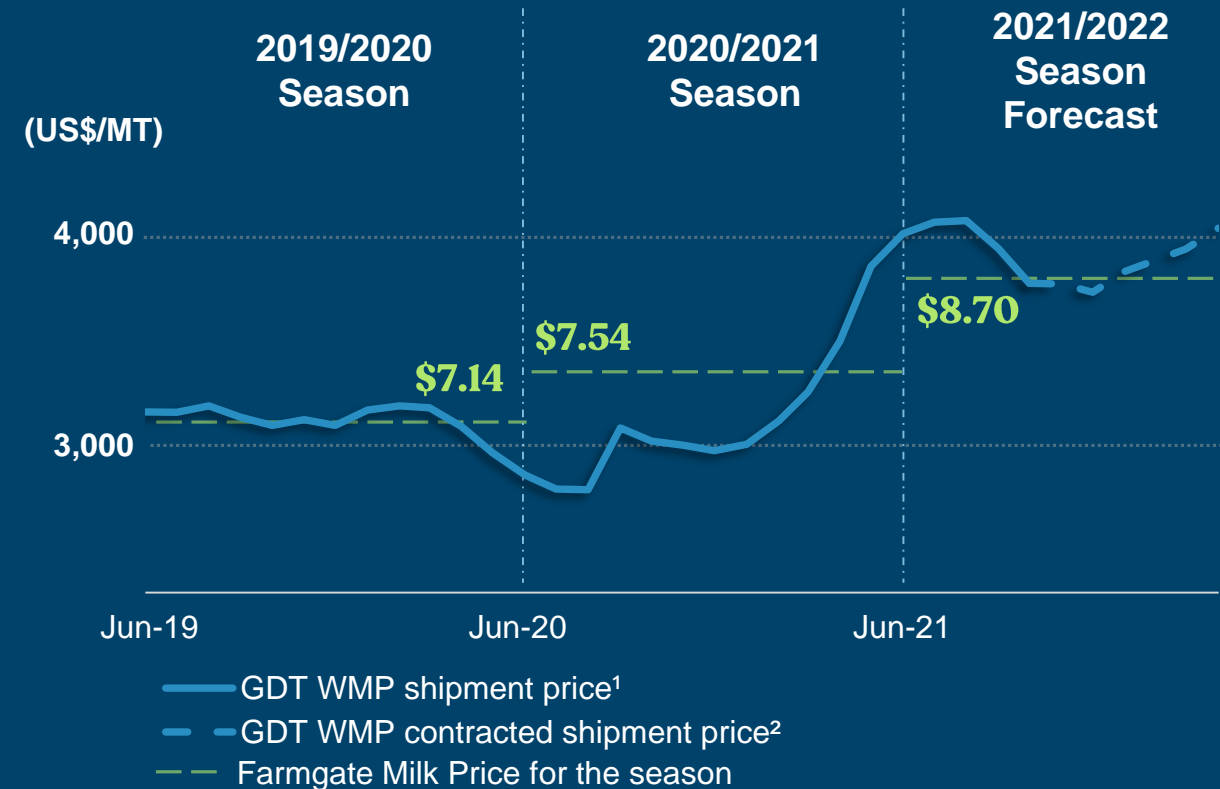
Forecast 2021/22 Season Farmgate Milk Price

Forecast Farmgate Milk Price

\$8.40 - \$9.00

per kgMS

- Lifted and narrowed range:
 - Consistent strong demand for New Zealand dairy and global supply growth has slowed
 - Range reflects ongoing uncertainties including supply chain congestion and macroeconomic risk



Source: GlobalDairyTrade

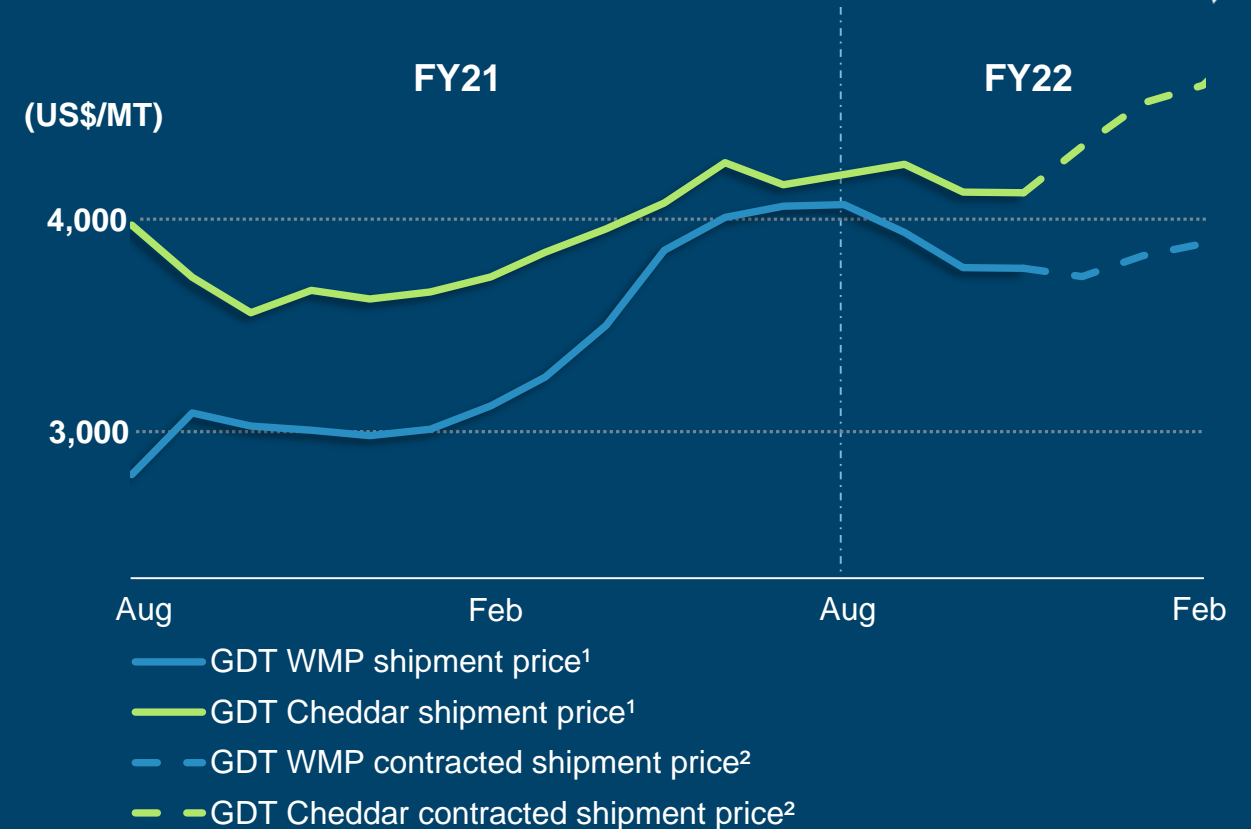
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2. The contracted shipment price is the weighted average shipment price of New Zealand WMP contracts won 1 – 5 months prior on the GlobalDairyTrade platform. These contracts are yet to be shipped or invoiced and the weighted average price will change closer to the actual shipment date as new contracts are written

2022 earnings outlook

Forecast Earnings

25 – 35c
per share

- Lowered the top end of range due to:
 - Increased pressure on Foodservice and Consumer margins due to rising input costs
 - Price relativities improving in Q2 from Q1 but not strong enough to maintain top end of range



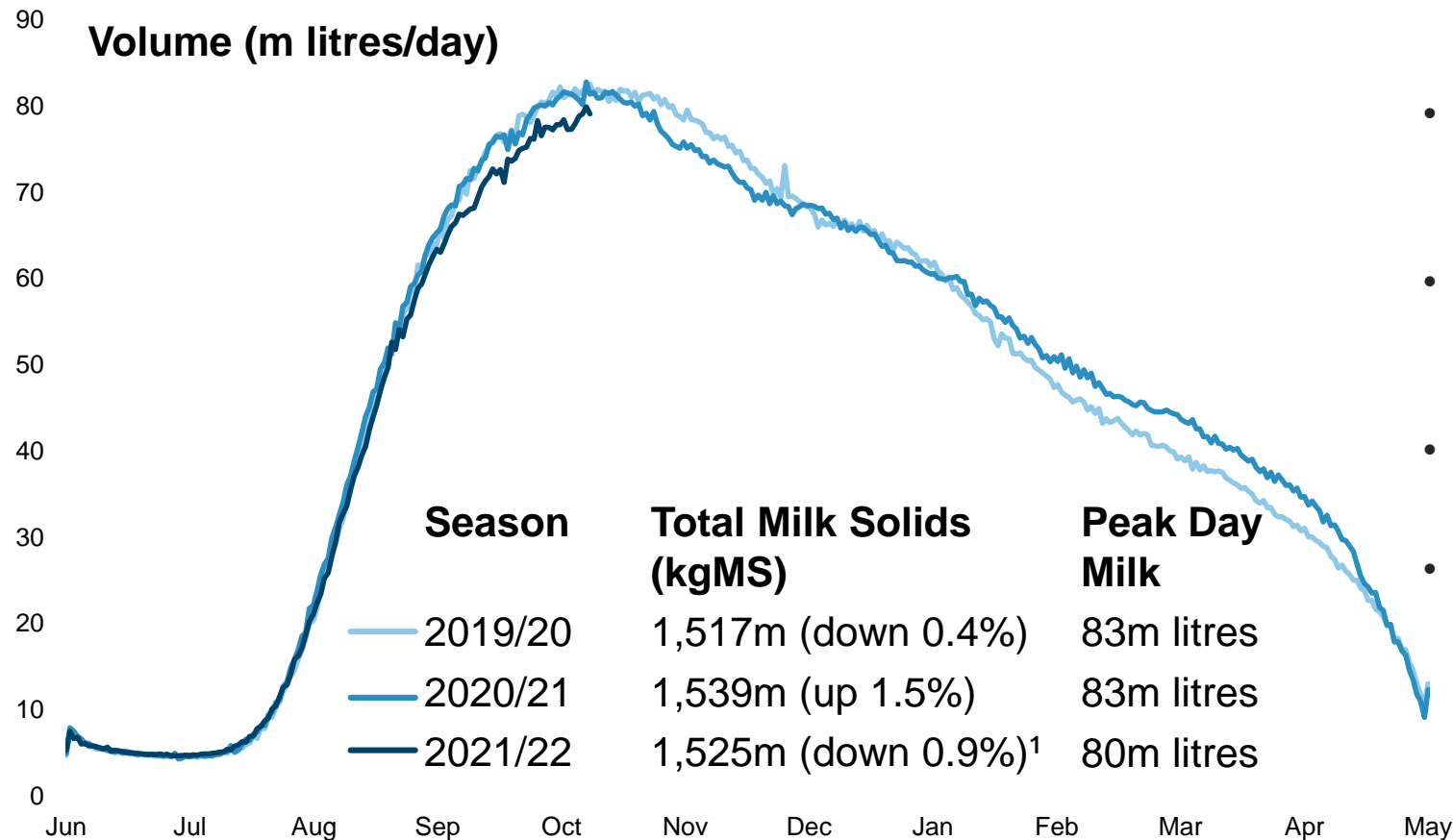
Source: GlobalDairyTrade

1. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped
2. The contracted shipment price is the weighted average shipment price of New Zealand WMP and Cheddar contracts won 1 – 5 months prior on the GlobalDairyTrade platform. These contracts are yet to be shipped or invoiced and the weighted average price will change closer to the actual shipment date as new contracts are written



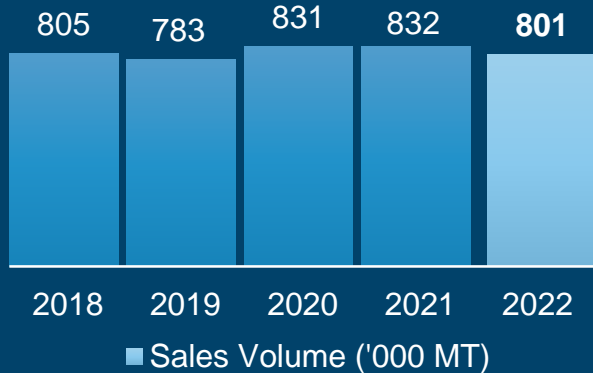
Appendix

Fonterra's New Zealand milk collections

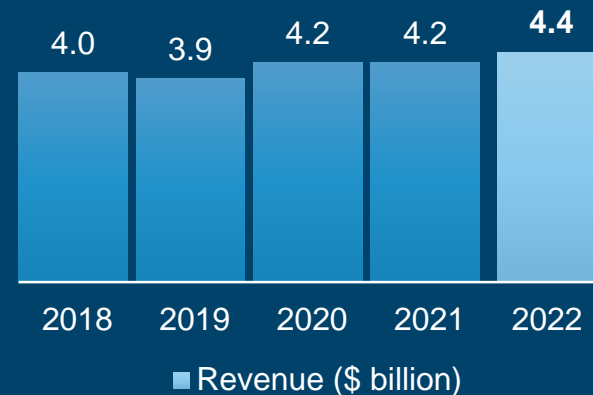


- Season to date collection, June – October, was 510.9 million kgMS, 3.2% behind last season
- Cold and wet spring with limited sunshine affecting pasture growth and collections early in the season
- Full season forecast remains at 1,525 million kgMS, down 0.9% on last season
- Improving weather conditions and expectation the balance of this season's collections are on par with last season supports current forecast

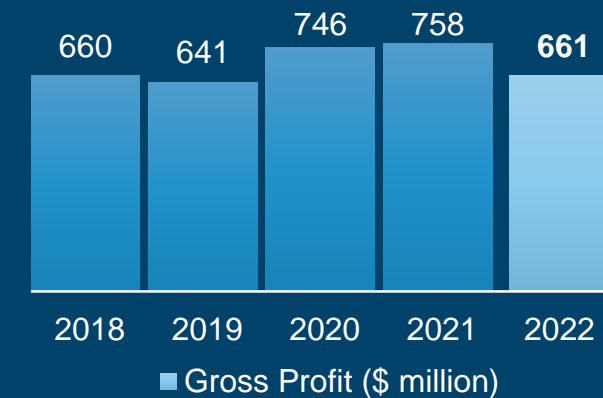
Sales Volume



Normalised Revenue

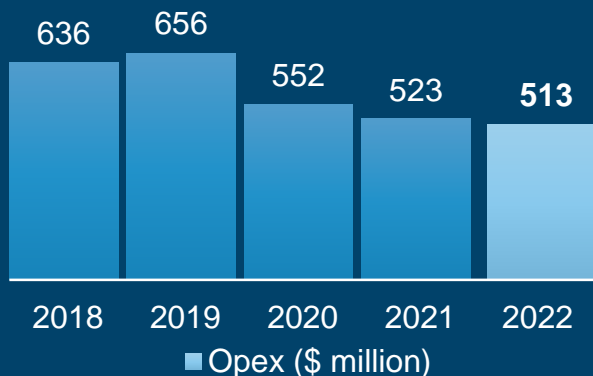


Normalised Gross Profit

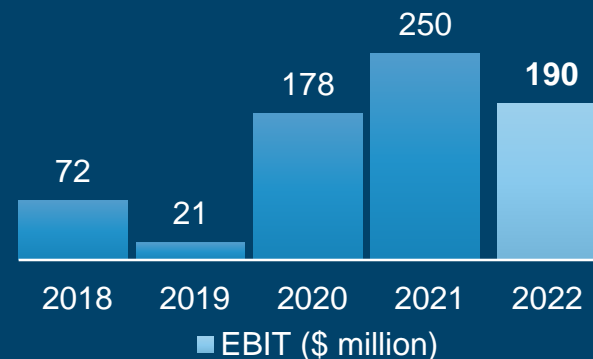


Key financial metrics for 2022 Q1¹

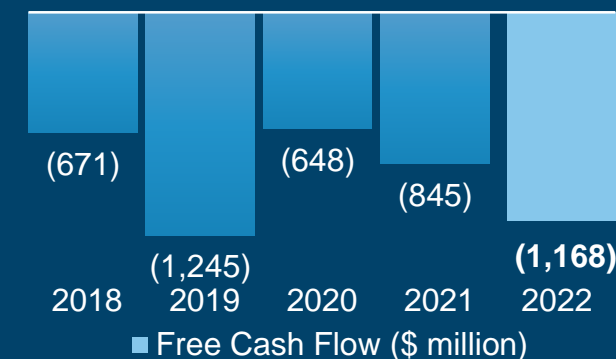
Normalised OPEX



Normalised EBIT



Free Cash Flow



1. Total Group figures for the three months ended 31 October. This includes Continuing and Discontinued Operations, and are on a normalised basis unless stated otherwise

2022 Board Statement of Intentions



In accordance with the Constitution of Fonterra, the Board Statement of Intentions sets out the Board's intentions for the performance and operations of Fonterra. The table below provides an update as at 31 October 2021, of Fonterra's performance against these targets.

	FY21	FY22 Q1 YTD	FY22 FY Target
Healthy People			
Total recordable injury frequency rate (TRIFR) per million work hours ¹	5.7	6.0	5.6
Female representation in senior leadership ²	32.4%	32.7%	35.8%
Employee engagement	4.09	— ³	Top Quartile ³
Farmer sentiment (Net Promoter Score for Fonterra in New Zealand)	23	19	30
Healthy Environment			
Number of farms with Farm Environment Plans (New Zealand)	53%	57%	67%
Reduction in water used at sites in water-constrained regions versus FY18	(2.6)%	(4.8)% ⁴	(8.0)%
Reduction in greenhouse gas emissions from manufacturing versus FY18	(6.5)%	(10.2)% ⁴	(6.5)%
Healthy Business			
Fonterra % kgMS of New Zealand milk collected for the season ended 31 May	79%	80.1% ⁵	79.3%
New Zealand Farmgate Milk Price (per kgMS)	\$7.54	\$8.40-\$9.00 ⁶	\$7.25-\$8.75
Return on capital	6.6%	On track ⁷	6.5% to 7.0%
Debt/EBITDA	2.7x	On track ⁷	2.4x
Adjusted Net Debt Gearing Ratio	38.5%	On track ⁷	34.5%
Normalised earnings per share	34c	On track ⁷	25c to 40c

1. Part of zero harm philosophy which also includes target 0 serious harm/0 fatalities
2. Senior leadership defined as Band 14+
3. Under ongoing management review of the provider and means of determining engagement, measurement of this metric may not be completed during the FY22 financial year
4. Calculated using a combination of actual data and estimates. FY22 GHG target flat reflecting improved efficiencies

- offset by increased volumes
5. Season to 30 September 2021. Prior comparable season to 30 September 2020: 80.0%
6. Latest publicly announced Forecast Farmgate Milk Price
7. FY22 Q1 reflects a full year forecast basis

Glossary

Debt/EBITDA

Is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees and net foreign exchange gains/losses

Farmgate Milk Price

Means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. 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

kgMS

Means kilograms of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra

Adjusted net debt gearing ratio

Is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt. It includes net borrowings attributed to disposal groups held for sale

Normalised earnings per share (EPS)

Is 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

Season

New Zealand: A period of 12 months from 1 June to 31 May

Return on capital

Is Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed

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, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations. Non-GAAP financial measures are not defined or specified 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. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited Financial Statements.

Definitions of non-GAAP measures used by Fonterra can be found in the Glossary.