A family of five is walking across a lush green field. A man in a blue shirt and jeans, a woman in a black shirt and jeans, and three children are walking towards the right. A brown and white cow is grazing on the left. In the background, there are rolling green hills, trees, and a mountain range under a clear sky.

# Fonterra

## 2023 Quarter One Update

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8 December 2022

# 2023 Quarter One update

2022/23 forecast Farmgate Milk Price

**\$8.50–9.50** per kgMS

## Quarter One Financials

Normalised Total Group EBIT

**\$368** million  \$178m

Reported profit after tax<sup>1</sup>

**\$214** million  \$98m

Normalised earnings per share<sup>2</sup>

**13** cents  6c

Note: Figures are Total Group, which includes continuing and discontinued operations

1. Includes amounts attributable to non-controlling interests

2. Attributable to equity holders of the Co-operative, excludes \$5 million of normalised profit after tax attributable to non-controlling interests

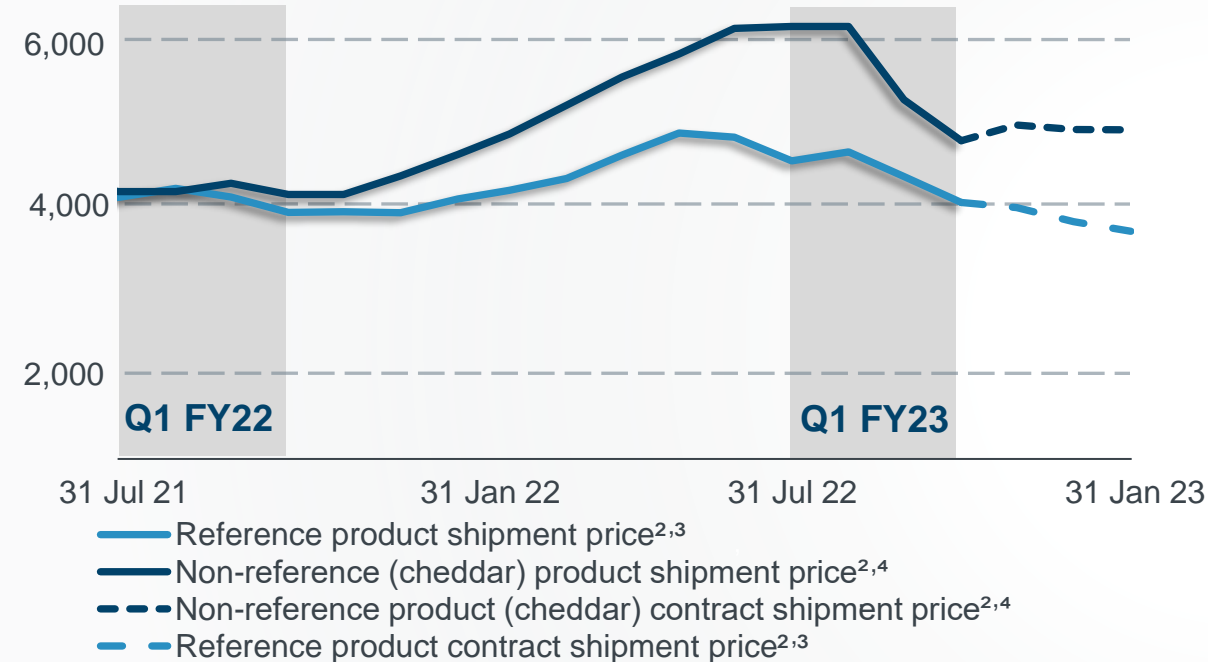


- Strong first quarter with earnings upgraded to 50-70 cents per share, and lowered and narrowed the forecast Farmgate Milk Price range
- Continued high volatility from geopolitical and macroeconomic events impacting operating environment
- Recent dairy prices reflect both lower milk supply and variable demand impacted by market volatility
- First quarter earnings performance driven by strong margins in protein and cheese products
- Inventory volume has returned to normal levels
- Announced sale of Soprole in November, as we make good progress against our 2030 ambitions

# Favourable price relativities driving earnings

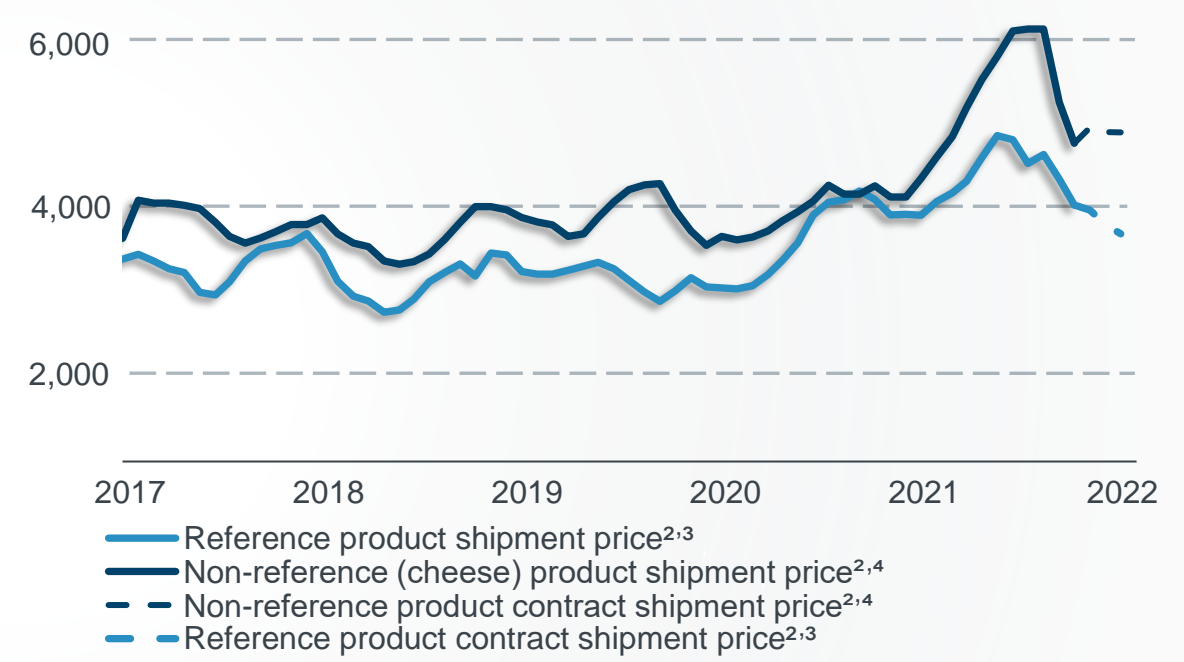
## Reference and non-reference (cheddar) price relativities on GDT<sup>1</sup>

(USD/MT)



- Cheddar prices illustrate the favourable price relativities of cheese compared to powder and cream products
- Price relativities of other proteins are even more favourable

(USD/MT)



- Price relativities are significantly favourable compared to average historical levels

1. Source: GlobalDairyTrade

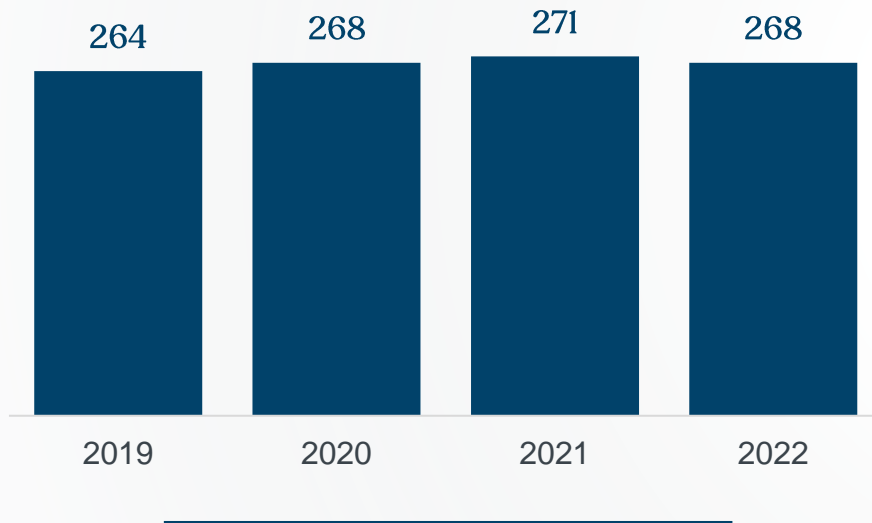
2. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced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

3. Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and butter prices achieved on GDT

4. Non-reference product shipment price is represented by the cheddar prices achieved on GDT

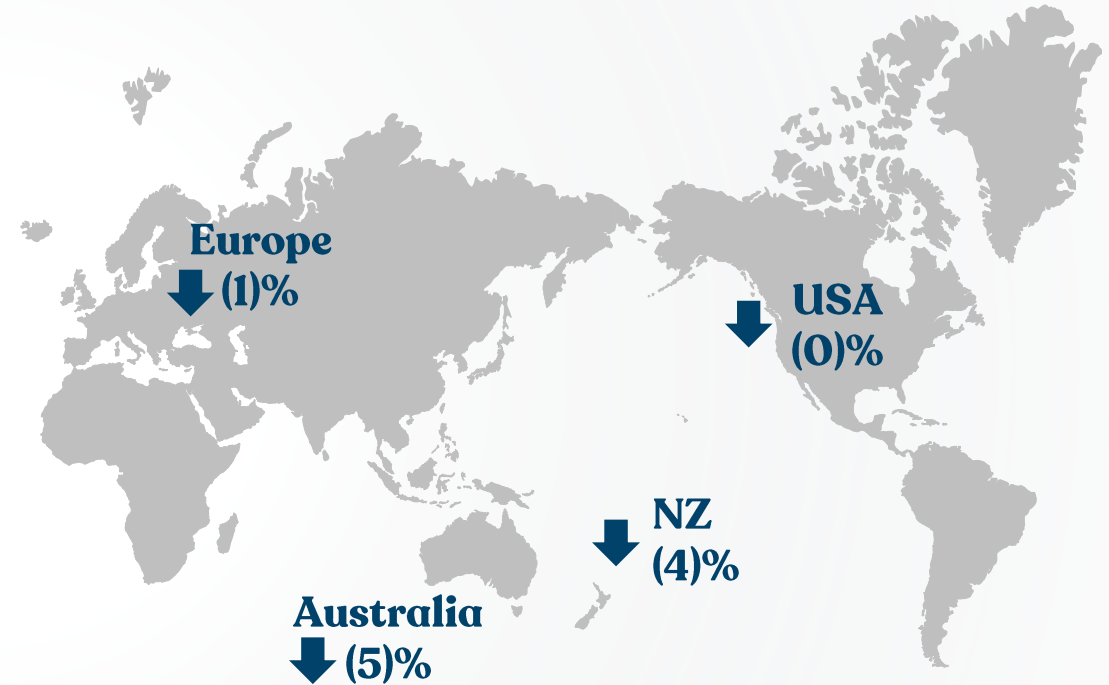
# Milk supply down in key exporting regions

Milk supply of key exporting regions for the 12 months to September<sup>1</sup> (billion, litres)



- 12 month year-on-year milk supply is down in key exporting regions

12 month milk supply growth year-on-year<sup>1</sup>



- US production flat with improvement in recent months. Reduction in New Zealand, Australia and Europe
- Fonterra's New Zealand milk collections are down 2.9% season-to-date, as at the end of November

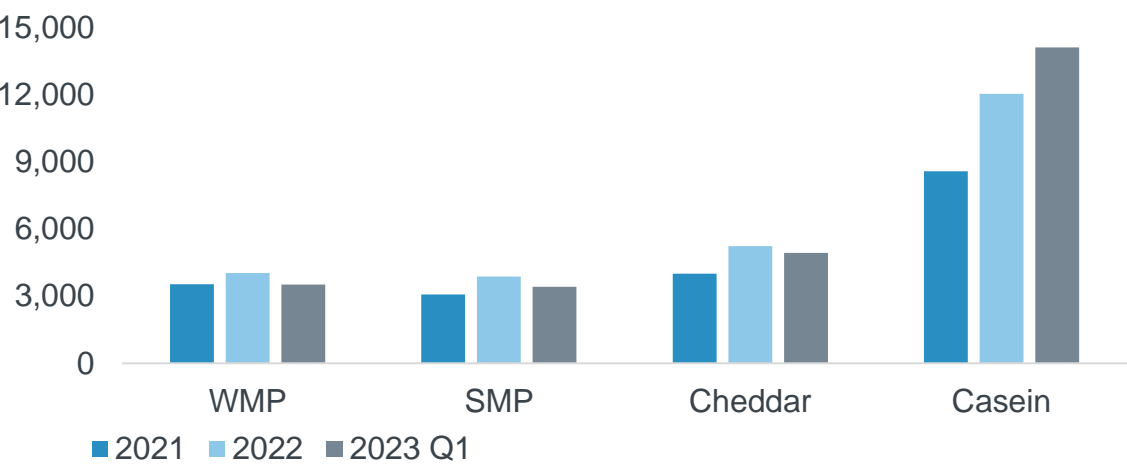
Source: Dairy Companies Association of New Zealand (DCANZ), Dairy Australia, United States Department of Agriculture (USDA) and Eurostat

1. Milk supply figures are for 1 October to 30 September. Key exporting regions include New Zealand, Australia, United States and European Union (excluding UK)

# Strong demand for proteins

- Continued strong prices for our protein portfolio including:
  - casein and caseinate used in food applications for medical nutrition and processed cheese; and
  - whey protein concentrate, used in products such as high protein beverages
- Macroeconomic and geopolitical events resulting in softening of whole milk powder prices in USD

Average product prices  
(US\$/MT)



Source: GDT and USDA



# First quarter monthly milk prices above comparable period

- USD product prices started the FY23 season higher than prior season, but have subsequently reduced
- Macroeconomic and geopolitical events resulting in softening of powder prices, with WMP USD prices on GDT down on average 22% in the first quarter compared to highs experienced in March 2022
- Lower USD product prices offset by favourable foreign exchange conversion rate compared to FY22



## Monthly Milk Prices

(NZ\$)



1. 2022/23 Season monthly milk prices are subject to change throughout the season

# Total Group business performance

million	2022	2023	%Δ <sup>1</sup>
Sales volume ('000 MT)	801	875	9%
Revenue (\$)	4,374	5,786	32%
Cost of goods sold (\$)	(3,713)	(4,842)	(30)%
Gross profit (\$)	661	944	43%
Gross margin (%)	15.1%	16.3%	
Operating expenses (\$)	(513)	(581)	(13)%
Other <sup>2</sup> (\$)	42	5	(89)%
Normalised EBIT (\$)	190	368	94%
Normalised profit after tax <sup>3</sup> (\$)	116	214	84%
Normalised EPS <sup>4</sup> (cents)	7	13	86%

Note: Total Group figures are for the three months ended 31 October. This includes continuing and discontinued operations and are on a normalised basis unless otherwise stated

1. Percentages as shown in the table may not align to the calculation of percentages based on numbers in the table due to rounding of figures



- Higher sales volumes reflect catch-up of delayed shipments which impacted FY22 year end inventory
- Gross margin up due to strong product prices, partially offset by higher monthly milk prices increasing cost of goods sold
- Increased operating expenditure reflects higher sales volume and inflationary pressure felt across the business
- Substantial improvement in gross profit (up 43%) and normalised EBIT (up 94%) driven by:
  - favourable pricing in our Ingredients channel, particularly in our protein and cheese portfolios
  - Foodservice EBIT improved, but cost of milk continues to impact margins in Consumer and Foodservice

2. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees

3. Includes amounts attributable to non-controlling interests

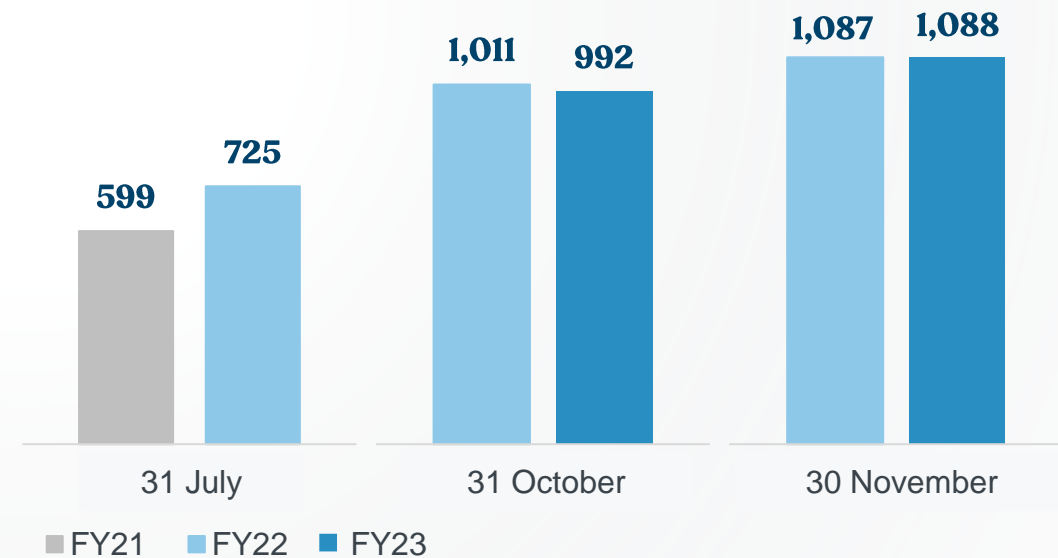
4. Attributable to equity holders of the Co-operative, excludes \$5 million of normalised profit after tax attributable to non-controlling interests

# Inventory levels return to normal levels

- As planned, total inventory volume has returned to normal levels
- Additional year end inventory of 126,000 MT shipped during the first quarter
- Lower milk collections this season have also contributed to inventory level

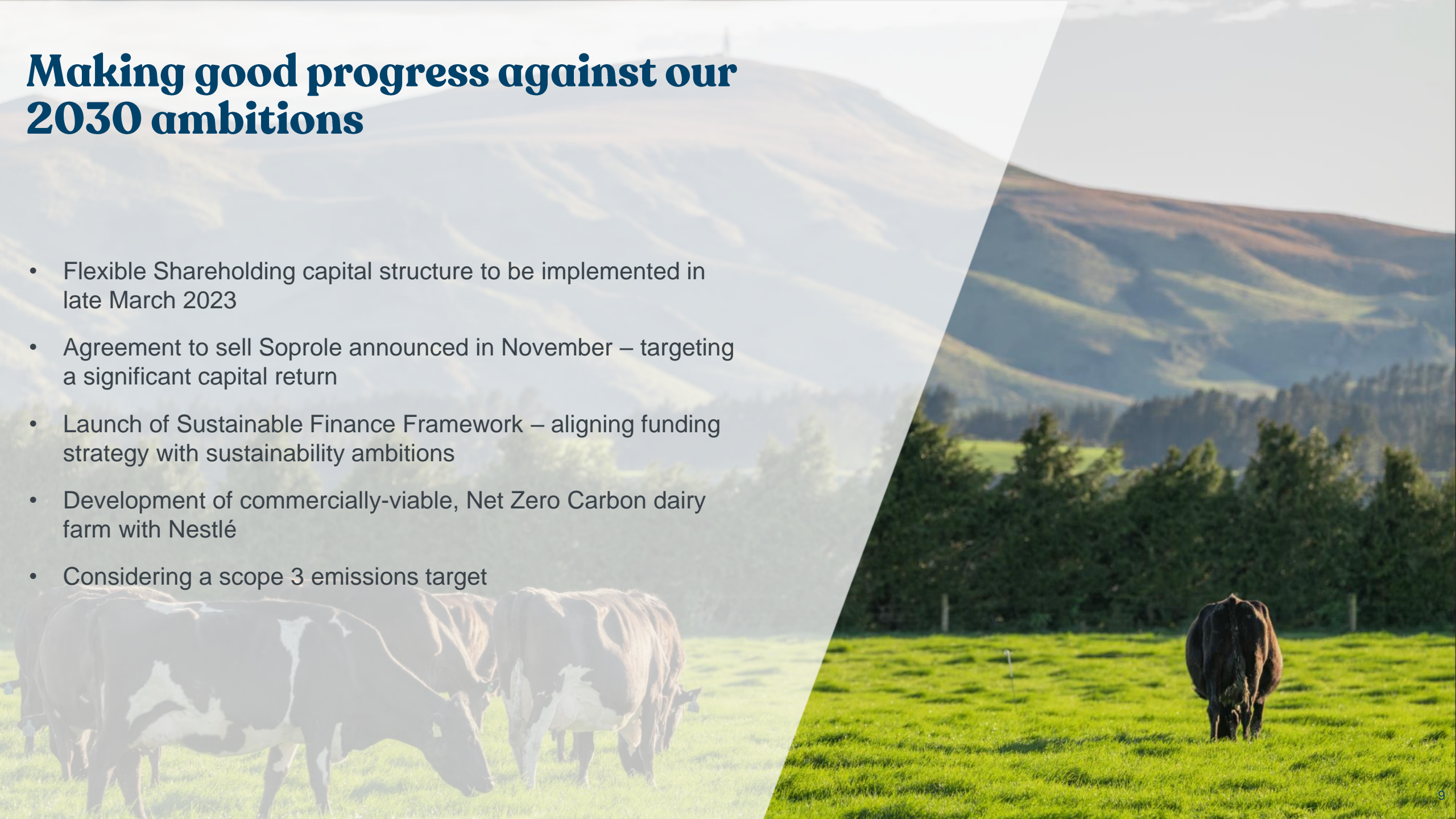


Inventory volume ('000 MT)



# Making good progress against our 2030 ambitions

- Flexible Shareholding capital structure to be implemented in late March 2023
- Agreement to sell Soprole announced in November – targeting a significant capital return
- Launch of Sustainable Finance Framework – aligning funding strategy with sustainability ambitions
- Development of commercially-viable, Net Zero Carbon dairy farm with Nestlé
- Considering a scope 3 emissions target



# Forecast 2022/23 Season Farmgate Milk Price

Forecast Farmgate Milk Price  
**\$8.50 – \$9.50**  
per kgMS

## Reference product prices (US\$/MT)



- USD product prices started the FY23 season higher than prior season, but have subsequently reduced reflecting variable demand impacted by market volatility
- Favourable foreign exchange conversion has partially offsetting reduced USD product prices

Source: GlobalDairyTrade. Data is up to GDT event 320 on 15 November 2022

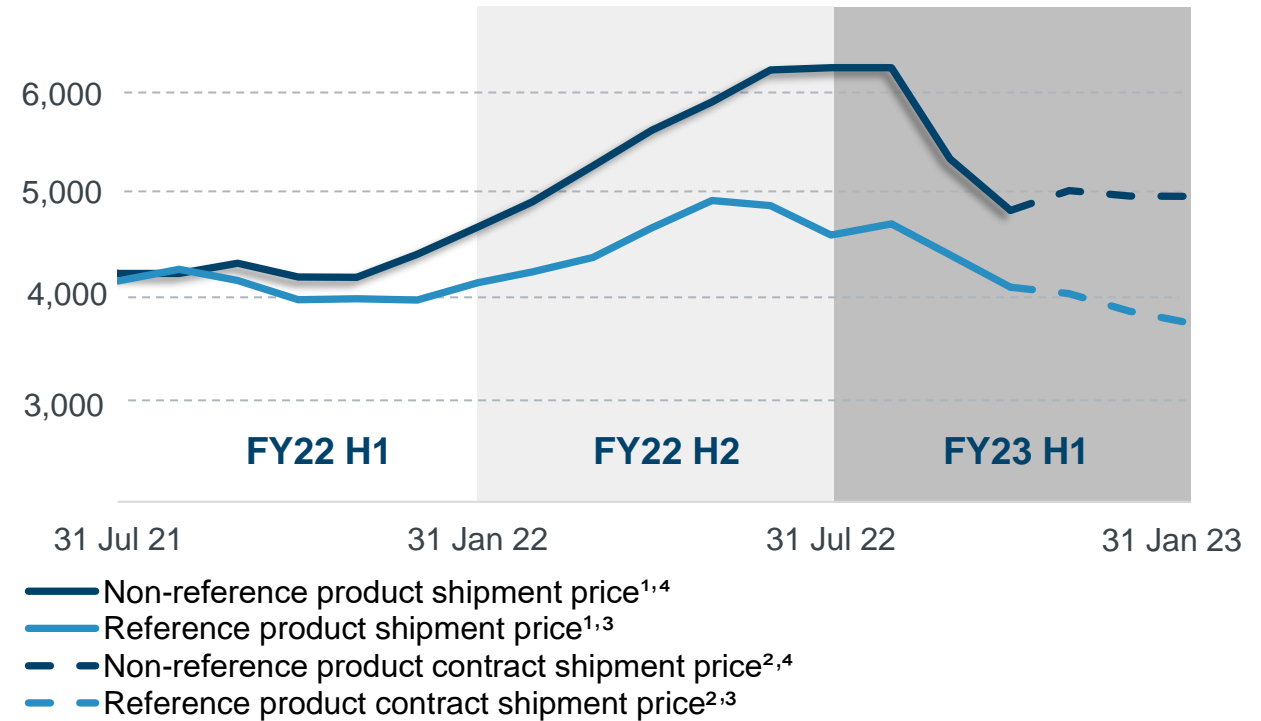
1. Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and butter prices

2. 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

# 2023 earnings outlook

Forecast earnings  
**50 - 70c**  
per share

Reference and non-reference  
product prices (US\$/MT)



- Strong margins in protein portfolio have sustained longer than expected
- Favourable contract rate but overall heightened market volatility continues

Source: GlobalDairyTrade. Data is up to GDT event 320 on 15 November 2022

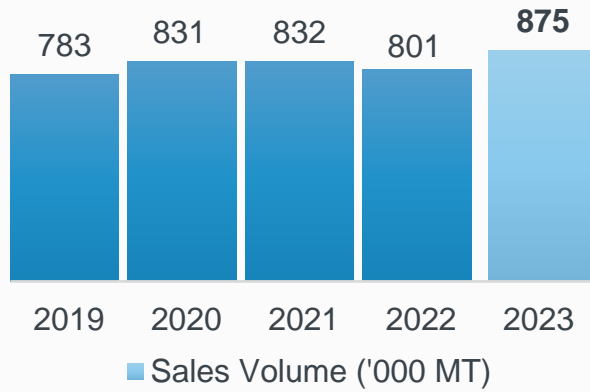
1. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped
2. The contracted shipment price is the weighted average shipment price of GDT contracts won 1 to 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
3. Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and butter prices achieved on GDT
4. Non-reference product shipment price is represented by the cheddar prices achieved on GDT

# Appendix

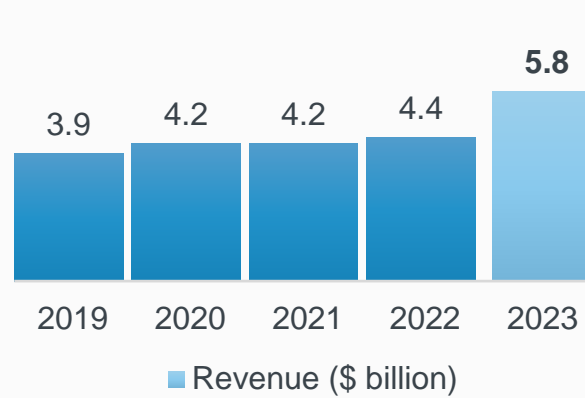


## Key financial metrics for 2023 Q1<sup>1</sup>

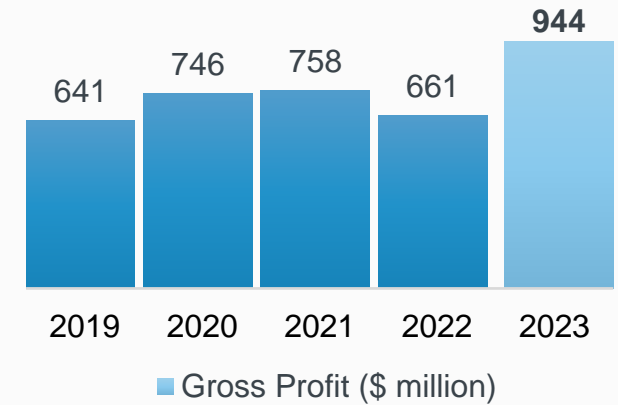
### Sales Volume



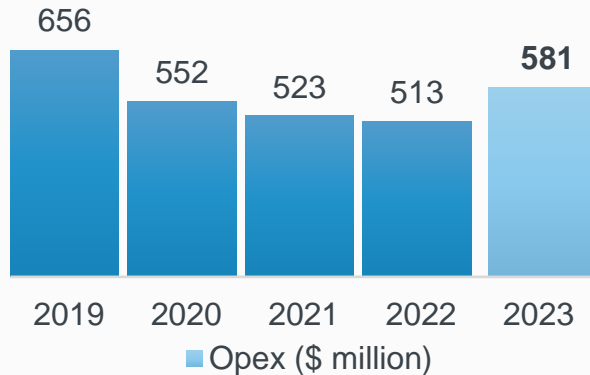
### Revenue



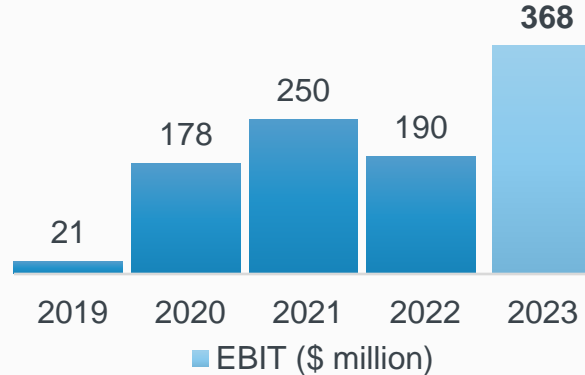
### Gross Profit



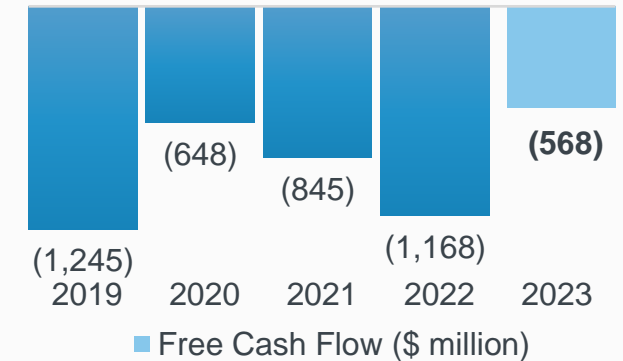
### OPEX



### EBIT



### Free Cash Flow<sup>2</sup>



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

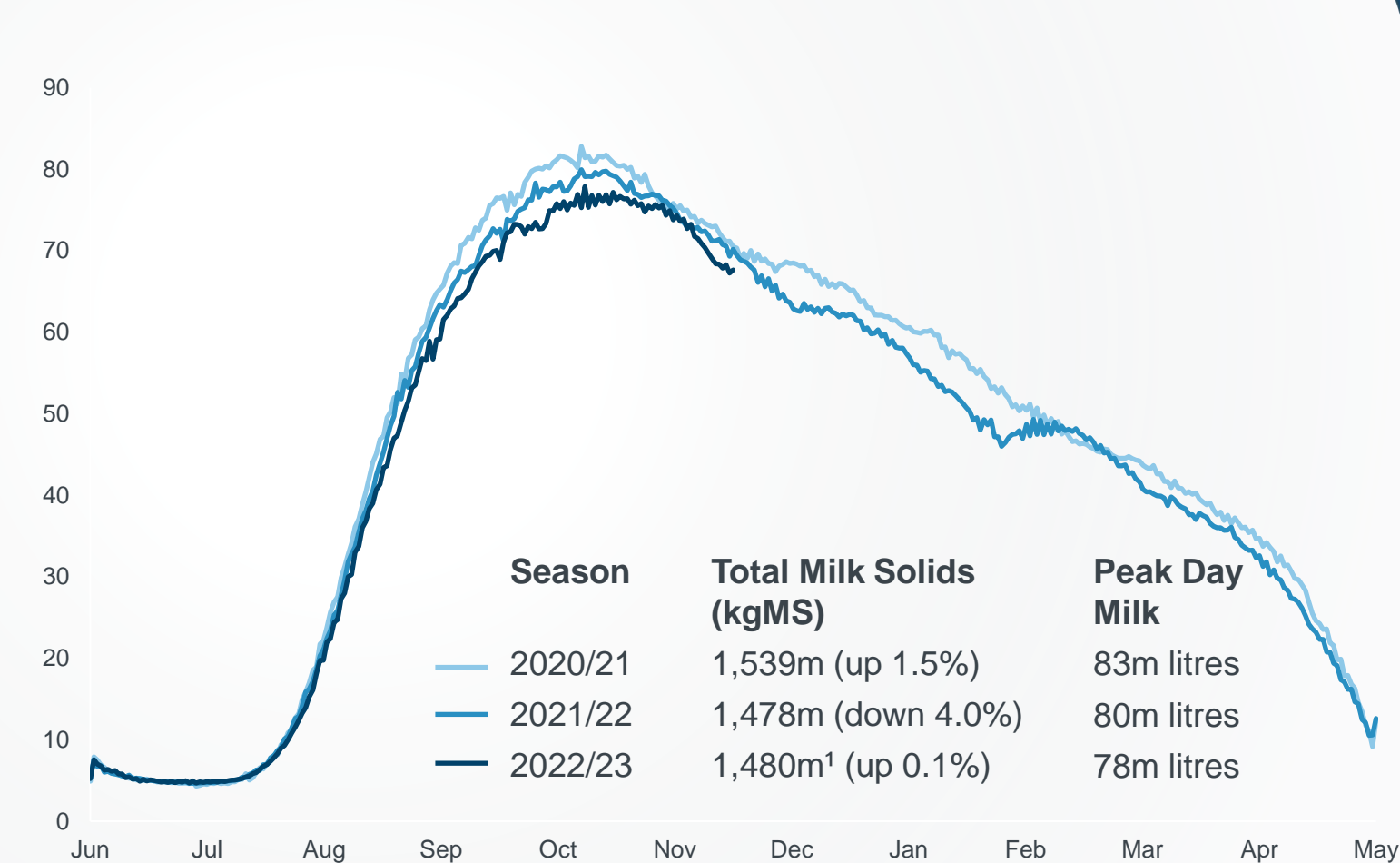
2. Free cash flow is not normalised. Refer to Glossary for definition

# Fonterra's New Zealand milk collections



- Season to date collections June-November were 680.8 million kgMS, 2.9% behind last season
- Challenging wet weather conditions throughout the North Island combined with a reduction in the number of cows has reduced peak production
- Full season forecast is 1,480 million kgMS
- Milk flows for the balance of the season expected to improve compared to last season given the challenging summer/autumn period experienced in 2021/22

Volume (m litres/day)



1. Current full season forecast

# Glossary

## 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

## Free Cash Flow

Is the total of net cash flows from operating activities and net cash flows from investing activities

## kgMS

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

## 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

## Season

Is a period of 12 months from 1 June to 31 May for the New Zealand milk collected

# 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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Fonterra uses several non-GAAP measures when discussing financial performance. Non-GAAP 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 may be 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 annual financial statements.

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