



## Market Announcement

---

5 December 2019

### **Fonterra lifts its Farmgate Milk Price and updates on its business performance**

Today Fonterra announces an increased forecast Farmgate Milk Price, reports a strong start to the 2020 financial year and points to some of the challenges it is facing.

Fonterra Chairman John Monaghan says the Co-op has continued to earn good prices for its milk and as a result has increased the mid-point of its forecast Farmgate Milk Price range by 25 cents to \$7.30 per kgMS.

"The higher price reflects a global dairy market that is tipped slightly in favour of demand.

"Our New Zealand milk production is forecast to be up 0.5% on last year. Annual milk production in the other key global supply regions of the US and EU are both growing at less than 1%.

"On the demand side, Global Dairy Trade prices have increased by about 6% since our previous forecast. Whole milk powder (WMP) prices, a key driver of our milk price, have hit their highest level since December 2016.

"At this stage of the year, we have contracted a good proportion of our sales book and that gives us the confidence to increase the mid-point of our forecast Farmgate Milk Price range by 25 cents.

"Farmers will welcome what would be the fourth highest milk price in our history. It represents a \$11.2 billion cash injection into our communities."

The forecast Farmgate Milk Price range is now \$7.00-\$7.60 per kgMS.

Fonterra CEO Miles Hurrell says that the Co-operative has made good progress moving to its new strategy and has had a strong first quarter.

"When we announced our strategy in September, we said there were three things that were most important to us: caring for people and making a positive impact on society (Healthy People), working together to achieve a healthy environment for farming and society (Healthy Environment) and delivering sustainable business results (Healthy Business). We are making good progress across all three areas.

"From a Healthy Business perspective, we are clear on the steps we need to take this year to hit our medium and long-term targets. A focus is still reducing our debt, so it is no more than 3.75 times our earnings. This will require us to achieve a gross margin of \$3 billion, further reduce operating expenditure, lower capital expenditure by \$100 million to \$500 million, and also divest some more assets.

“So far this year we have:

- Improved the underlying financial performance of the business, delivering a gross margin of \$740 million, up from \$646 million;
- Continued the focus on financial discipline, reducing operating expenditure by \$104 million and managing capital expenditure carefully;
- Generated a normalised Earnings Before Interest and Tax (EBIT) of \$171 million, up \$145 million, and a reported EBIT of \$259 million, up \$233 million; and
- Improved our free cash flow (cash generated from our business available to reduce debt and pay interest and dividends) by \$595 million compared to last year.

“I’m pleased to see this level of improvement. Our people are doing a great job at putting our strategy into action. There’s more to do but the wheels are definitely in motion.

“When we look out across the year at our financial performance, the biggest pressure on our earnings is going to be the rising milk price. Stronger than forecasted performance from our Foodservice business has helped offset the higher milk price to date and we will need to be very focused around making improvements in other areas too.

“There will also be some markets that have difficult trading conditions over the course of the year. These currently include Chile and Hong Kong where we are starting to see the ongoing civil unrest impact our sales.”

Fonterra’s normalised earnings guidance for the 2020 financial year remains at 15-25 cents per share. This reflects the underlying performance of the business.

Fonterra expects there to be several one-off adjustments (for example, the divestments of assets) that will impact reported earnings, and this will be reported as required. Fonterra will provide details of the overall impact of all one-offs on its earnings as part of its full-year financial statements.

## Healthy Business

Mr Hurrell says the focus on value and continued financial discipline drove good results across the business in the first quarter.

“Our teams have worked hard and this is reflected in both our normalised and reported EBIT,” he says. Fonterra’s reported EBIT in the first quarter included positive one-off items such as the proceeds from the sale of its interest in foodspring® and the revaluation of Beingmate shares.

During Q1, Fonterra’s Ingredients business increased its EBIT by \$32 million to \$139 million.

Mr Hurrell says that the New Zealand Ingredients business continued to contribute a large proportion of the Co-op’s earnings and most of the earnings from the Ingredients business, which very much validates the focus on New Zealand milk in the new strategy.

“We achieved strong gross margins from our New Zealand manufactured ingredients. We are also making good progress in addressing the significant challenges in our Australia and Chile Ingredients businesses.

“The Australian Ingredients team, in particular, has continued to tackle their new norm of drought conditions and related increased competition for milk supply, by manufacturing and selling a more profitable product mix and reducing operating expenses. Their hard work is helping balance out Australia’s lower milk volumes.”

EBIT from the Consumer and Foodservice business was \$118 million in the first quarter, up by \$56 million compared to the same period last year, with improvements across all regions.

“The Australia Consumer business has delivered record market share in the chilled spreads category, and we are starting to see early signs of a turnaround in our New Zealand Consumer business,” says Mr Hurrell.

“The lift in China Foodservice sales in the fourth quarter of last year has continued into the first quarter of the year. Sales volumes were up 43% and gross margins were up \$23 million in the first quarter on a year-on-year basis. We have entered a further 24 cities taking the total to 327, successfully marketed our Anchor Food Professionals range for use in local cuisines, and continued to see strong growth in Chinese bakeries and beverages.”

## **Healthy People**

The Co-operative's early priority in the 2020 financial year has been to get itself in shape to best deliver the strategy.

Mr Hurrell says that during the first quarter, Fonterra moved to a new customer-led organisational structure which allows it to be closer to its customers but also to live within its means.

“Like in any restructure, making these changes has been tough on our people – it's never going to be easy, especially when it means a period of uncertainty and having to lose some great people from the Co-op. I acknowledge this and want to thank our people for their patience and understanding as we have gone through this together.

“We're now set up to take a more customer-centric approach in our business decisions which helps our in-market teams drive demand for our farmers' milk.

“Our focus from here is to keep building a culture which can deliver consistent results, one that has employees proud to work for Fonterra and farmers proud to supply their milk to the Co-op.”

## **Healthy Environment**

During the first quarter, Fonterra hit a number of important milestones towards a transition to a more sustainable way of dairying.

Mr Hurrell says the most significant was the announcement, alongside other members of the primary sector, to work with the Government to plan how to support farmers to make necessary changes to help meet New Zealand's international climate change obligations while maintaining profitability.

“We have also launched a new partnership, Plant for Good, to help farmers with on-farm native planting. This will allow farmers to more effectively deliver the riparian planting actions identified in many of their Farm Environmental Plans, which 25% of farms that supply milk to us now have – up from 23% at the end of July.

“To help reduce plastic packaging and waste going to landfill, we've started offering Fonterra Milk For Schools in a 1-litre format. It doesn't use straws or plastic wrapping like the 200ml format does, and it's not single-serve. It also allows schools to minimise milk wastage by having more control over serving size.”

-ENDS-

### **For further information contact:**

Fonterra Communications  
24-hour media line  
Phone: +64 21 507 072



# Business Update

## Financial Year 2020

### Quarter One

5 DECEMBER 2019



# 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.

While all reasonable care has been taken in the preparation of this presentation, none of Fonterra or any of its respective subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (Relevant Persons) makes any representation, assurance or guarantee as to the accuracy or completeness of any information in this presentation or likelihood of fulfilment of any forward-looking statement or projection or any outcomes expressed or implied in any forward-looking statement or projection. The forward-looking statements and projections in this report reflect views held only at the date of this presentation.

Statements about past performance are not necessarily indicative of future performance.

Except as required by applicable law or any applicable Listing Rules, the Relevant Persons disclaim any obligation or undertaking to update any information in this presentation.

This presentation does not constitute investment advice, or an inducement, recommendation or offer to buy or sell any securities in Fonterra or the Fonterra Shareholders' Fund.



# Summary<sup>1</sup>

## FARMGATE MILK PRICE

**\$7.00–\$7.60**

per kgMS

## FREE CASH FLOW<sup>2</sup>

**\$(650)**

million

from \$(1,245)m

## REPORTED EBIT

**\$259**

million

from \$26m

## NORMALISED EBIT

**\$171**

million

from \$26m

- Good progress moving to our new strategy and reporting on a triple bottom line basis
- Increased and narrowed forecast Farmgate Milk Price range to \$7.00 - \$7.60 per kgMS from \$6.55 - \$7.55 per kgMS
- Normalised EBIT of \$171 million, up \$145 million. Ingredients up \$32 million, and Consumer and Foodservice up \$56 million
- Reported EBIT of \$259 million, up \$233 million. Positive one-off items include \$64 million from the gain on sale of foodspring™ and \$22 million from Beingmate revaluation<sup>3</sup>
- Continued financial discipline, operating expenses down \$104 million and free cash flow improved \$595 million
- Earnings guidance maintained, but there are increasing pressures from higher milk prices

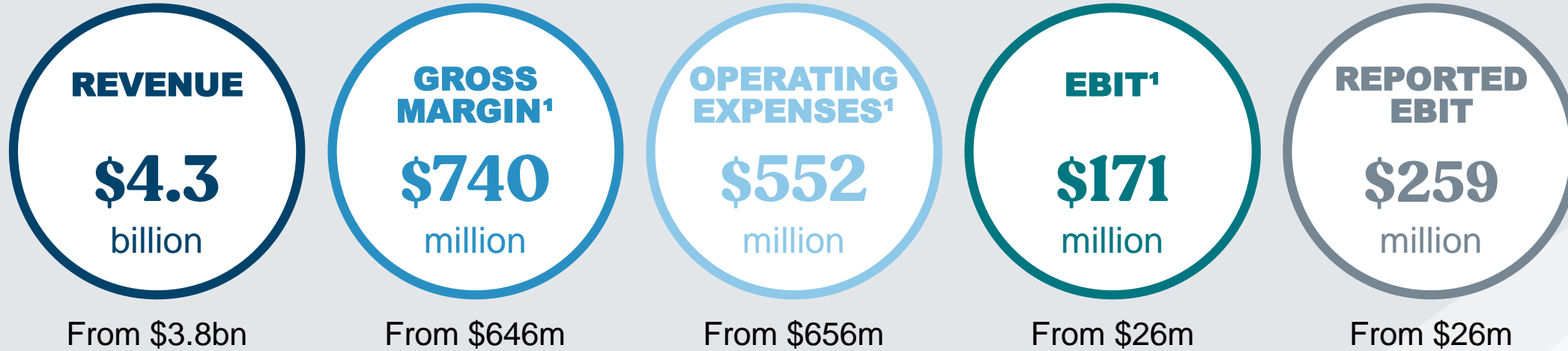
1. Previously shared full year key metrics, such as Return on Capital, will be provided at financial year end.

2. Free Cash Flow (FCF) is net cash flows from operating activities less cash flows from investing activities, and includes proceeds received from divestments. FCF represents the amount available to pay interest, dividends and reduce debt.

3. Beingmate is classified as 'held for trading'. The investment is recorded at fair value, with changes in fair value recorded in profit or loss. Fair value is calculated as the quoted share price at end of quarter, multiplied by number of shares held.

# Healthy Business

Positive start in a year of transition



## Ingredients<sup>2,3</sup>



2019 2020  
Gross Margin

2019 2020  
EBIT

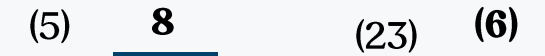
## Consumer and Foodservice<sup>2</sup>



2019 2020  
Gross Margin

2019 2020  
EBIT

## China Farms End-to-End<sup>2,4</sup>



2019 2020  
Gross Margin

2019 2020  
EBIT

1. Normalised basis.

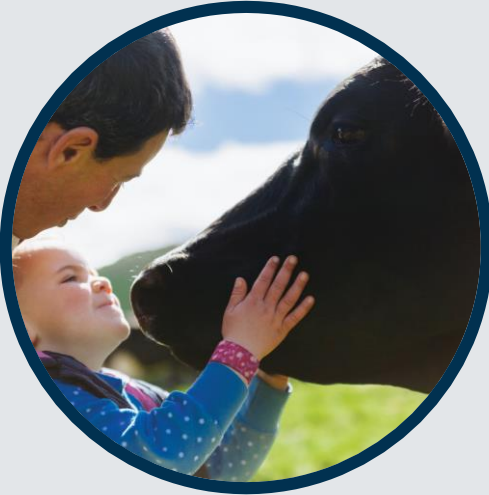
2. Normalised basis and does not add to total group due to including inter-segment sales.

3. Reporting of Ingredients' selling China Farm's milk on behalf of China Farms was revised in FY20 to be reported in the China Farms segment. On a comparable basis, FY19 Ingredients' gross margin and EBIT displayed would increase \$4 million for the 3-month period.

4. Provides end-to-end perspective, comprising China Farms segment plus financials from Consumer and Foodservice related sales of milk from China Farms. FY19 also includes financials from Ingredients related sales of milk from China Farms. Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative.

# Healthy People

Working together to care for people and make a positive social impact



- On-track to contribute approximately \$11.2 billion<sup>1</sup> into regional New Zealand this year through the Milk Price



- Reduced the added sugar in Fresh'n Fruity by 40% on average



- Celebrated KickStart Breakfast's 10<sup>th</sup> anniversary – one of the ways we're improving the health of our communities



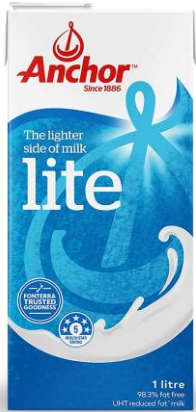
- New customer-led organisational structure now in place

1. Calculated as the mid-point of the current announced Farmgate Milk Price forecast range multiplied by the total forecasted New Zealand milk solids collected by Fonterra.



# Healthy Environment

Working together to achieve a healthy environment for farming and society



- Offering Fonterra Milk for Schools in 1-litre format to help reduce plastic packaging and waste going to landfill



- Launched a new partnership, Plant for Good, to reduce the cost of on-farm native planting
- 25% of farms now have Farm Environment Plans (up from 23% at end of FY19)



- Working with the Government on how we incentivise and support farmers to make changes to meet New Zealand's international climate change obligations while maintaining profitability

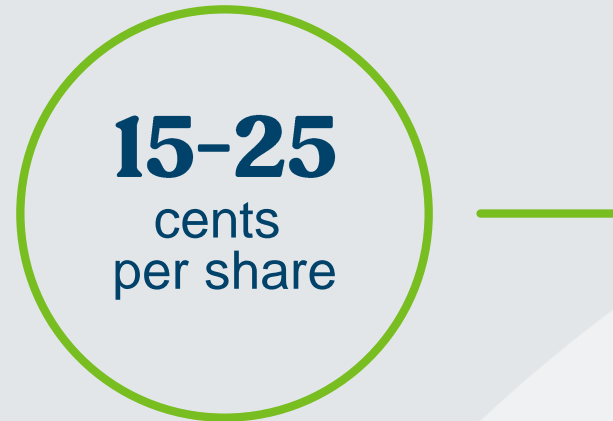
# Outlook for 2020

## Forecast Farmgate Milk Price



- Forecast Farmgate Milk Price has been increased and narrowed in range to \$7.00 - \$7.60 from \$6.55 - \$7.55 per kgMS, based on:
  - Strong global demand
  - Stable global milk supply
- Downside risk remains from a weakening renminbi, which tends to reduce Chinese consumer purchasing power for USD-priced dairy products

## Forecast Normalised Earnings



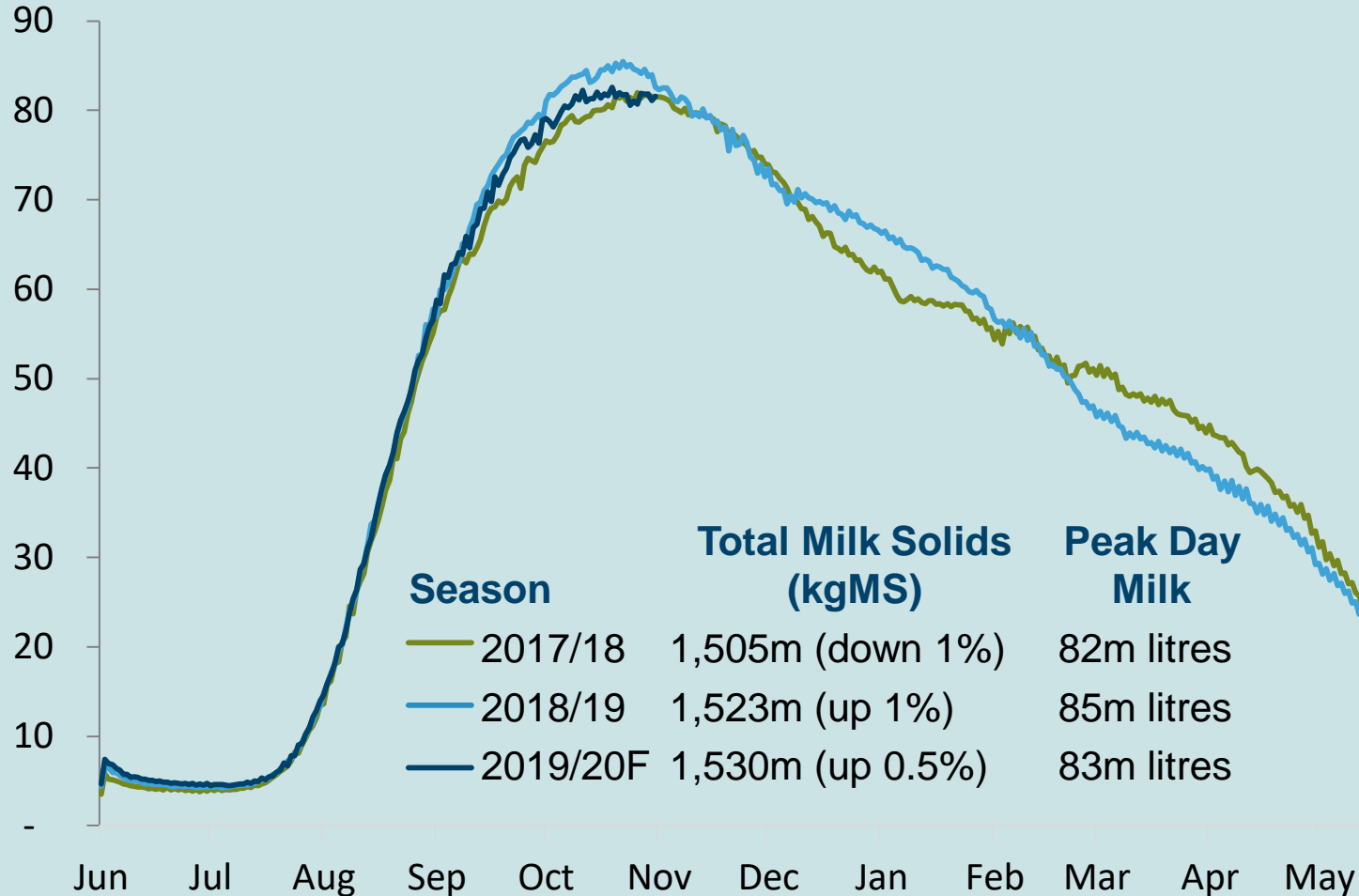
- Normalised earnings per share range of 15-25 cents maintained
- Risks to earnings include:
  - Higher milk prices
  - Difficult trading conditions in Chile and Hong Kong
  - Continued drought conditions and related competition challenges for Australian Ingredients

# Appendix



# Milk collections

Volume (m litres/day)



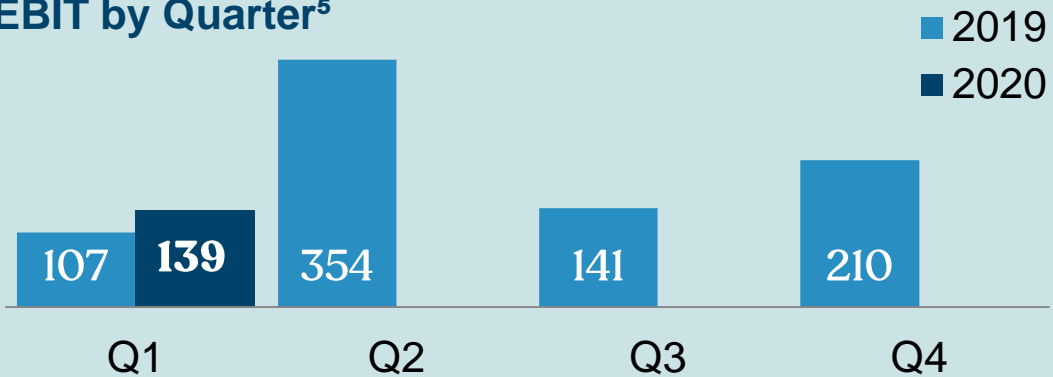
- Season to date collection, June – October, was 524.7 million kgMS, down 0.5% on last season
- Peak volume impacted by adverse weather conditions across a number of regions in New Zealand
- Full year forecast is up 0.5% on the prior season:
  - FY19 collections were adversely impacted by weather during February to April
  - FY20 is currently forecast to reflect historical norms for February to April



# Ingredients

million	2019 <sup>1</sup>	2020	%Δ <sup>2</sup>
Volume <sup>3</sup> ('000 MT)	521	566	9%
Revenue (\$)	3,009	3,364	12%
Gross Margin (\$)	273	328	20%
Gross Margin (%)	9.1%	9.8%	
Other <sup>4</sup>	36	(8)	
Operating Expenses (\$)	(202)	(181)	(10)%
EBIT (\$)	107	139	30%

## EBIT by Quarter<sup>5</sup>



1. Reporting of Ingredients' selling China Farm's milk on behalf of China Farms was revised in FY20 to be reported in the China Farms segment. On a comparable basis, the following FY19 figures above would change; revenue \$54 million decrease, operating expenses \$0.4 million decrease, gross margin and EBIT \$4 million increase.
2. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
3. Includes sales to other strategic platforms.

- Sales volume up 9%, due to New Zealand Ingredients benefiting from strong early demand relative to FY19 sales plan that was weighted to second quarter
- New Zealand Ingredients' gross margin up \$39 million, mainly due to increased sales volume
- Prolesur's and Australia Ingredients' gross margins increased \$9 million and \$8 million respectively, due to improved product mix and pricing
- Australia continues to be impacted by challenging conditions
- 'Other' decreased \$44 million, and this included the removal of DFE income
- Ingredients' EBIT up \$32 million due to improved performance in Australia and Chile. New Zealand in line with last year

4. Includes other Income, net foreign exchange gain/(loss) and share of equity accounted investees.
5. Summing of EBIT margin figures may not add up to total EBIT displayed in table above due to rounding.  
Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.

# Ingredients by region

## New Zealand Ingredients

### Volume<sup>1</sup>

**517** 000 MT

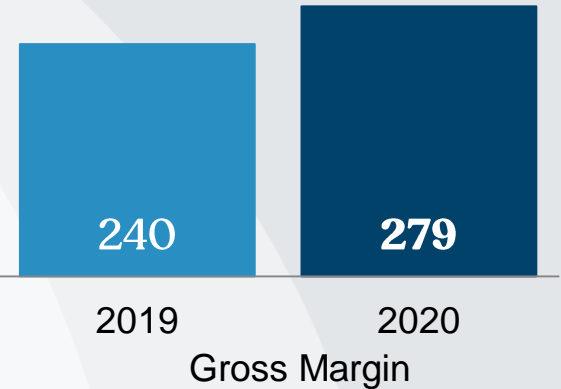
From 471,000 MT

### Gross Margin

**9.6%**

From 9.4%

\$ million



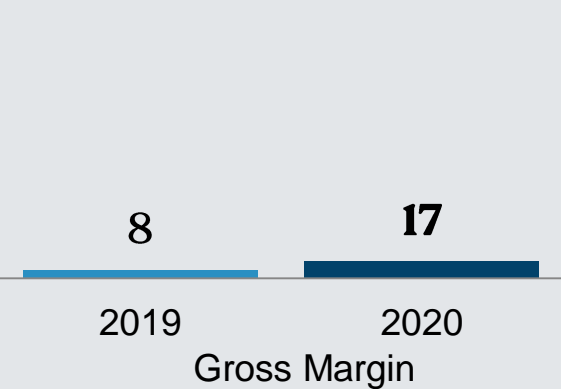
## Australia

**62** 000 MT

From 83,000 MT

**4.4%**

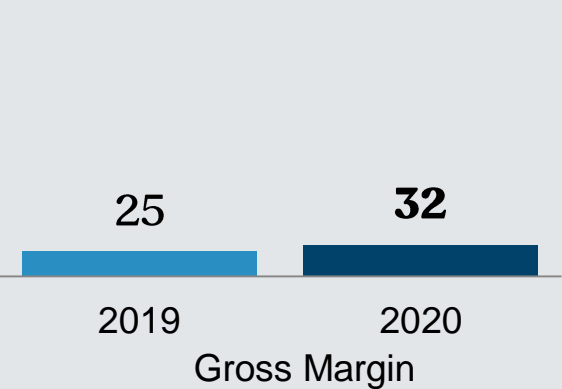
From 1.9%



## Other and Eliminations

**14** 000 MT

From 32,000 MT



1. Includes sales to other strategic platforms.

Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19. Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

# New Zealand Ingredients product mix



	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Change Q1 FY19 to Q1 FY20
<b>Production Volume<sup>1</sup> ('000 MT)</b>						
Reference	633	713	440	94	607	(4)%
Non-Reference	227	258	210	72	236	4%
<b>Sales Volume ('000 MT)</b>						
Reference	247	678	535	405	291	18%
Non-Reference	159	230	233	226	178	12%
<b>Revenue (\$ per MT)</b>						
Reference	5,257	4,439	4,539	5,188	5,289	1%
Non-Reference	5,405	5,469	5,238	6,055	5,679	5%

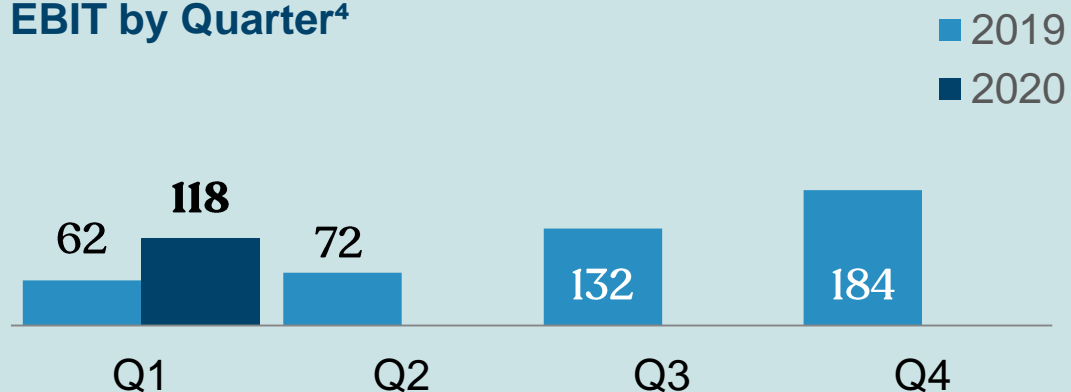
1. Includes bulk liquid milk.

Note: Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF.

# Consumer and Foodservice

million	2019	2020	%Δ <sup>1</sup>
Volume <sup>2</sup> , ('000 MT)	431	444	3%
Revenue (\$)	1,704	1,788	5%
Gross Margin (\$)	390	406	4%
Gross Margin (%)	22.9%	22.7%	
Other <sup>3</sup>	3	(8)	
Operating Expenses (\$)	(331)	(280)	15%
EBIT (\$)	62	118	89%

## EBIT by Quarter<sup>4</sup>



- Sales volume increased 3%, largely due to Foodservice growth in Greater China from application development and city expansion
- Revenue and gross margin up \$84 million and \$16 million, mainly due to improved Foodservice product mix and pricing
- Operating expenses down \$51 million
- Consumer and Foodservice EBIT up \$56 million:
  - Consumer up \$22 million, due to reduced operating expenses
  - Foodservice up \$35 million, due to improved sales volume and focus on higher gross margin product

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.  
 2. Includes sales to other strategic platforms.  
 3. Includes Other Income, net foreign exchange gain/(loss) and share of equity accounted investees.

4. Summing of quarterly EBIT figures may not add up to total EBIT displayed in table above due to rounding.  
 Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.





# Consumer and Foodservice by region

## Greater China

### Volume<sup>1</sup>

**80** 000 MT

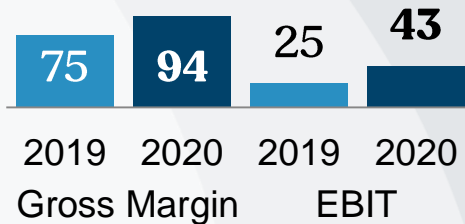
From 65,000 MT

### Gross Margin

**23.9%**

From 23.6%

\$ million



## Asia

**73** 000 MT

From 72,000 MT

**22.9%**

From 22.6%



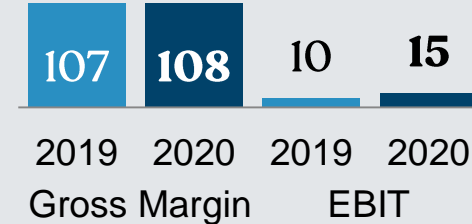
## Latin America

**137** 000 MT

From 137,000 MT

**28.2%**

From 28.4%



## Oceania

**154** 000 MT

From 158,000 MT

**17.6%**

From 19.1%



1. Includes sales to other strategic platforms.

Note:

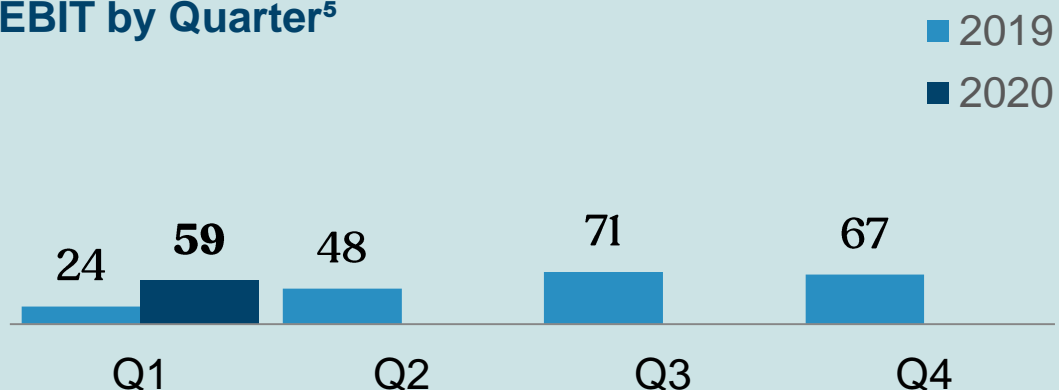
EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.

Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

# Foodservice

Million <sup>1</sup>	2019	2020	%Δ <sup>2</sup>
Volume <sup>3</sup> ('000 MT)	93	114	22%
Revenue (\$)	515	617	20%
Gross Margin (\$)	79	115	45%
Gross Margin (%)	15.4%	18.7%	
Other <sup>4</sup>	(1)	(0)	
Operating Expenses (\$)	(54)	(56)	(3)%
EBIT (\$)	24	59	146%

## EBIT by Quarter<sup>5</sup>



- Individual Consumer and Foodservice tables may not align to combined Consumer and Foodservice table due to rounding.
- Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
- Includes sales to other strategic platforms.

- Sales volume up 22% due to Greater China:
  - Continual dairy upgrade applications across beverage, bakery and Italian kitchen channel
  - China city expansion, now in 327 cities compared to 303 cities at the end of FY19
- Gross margin up \$36 million, and gross margin percentage increased from 15.4% to 18.7% due to:
  - Strong demand in Mainland China's and Philippines' bakery channels
  - Improved pricing in Indonesia, and focus on high margin products
- Operating expenses increased slightly due to growth in Greater China
- EBIT increased \$35 million due to improved gross margin

- Includes Other Income, net foreign exchange gain/(loss) and share of equity accounted investees.
- Summing of quarterly EBIT figures may not add up to total EBIT displayed in table above due to rounding. Note: EBIT and gross margin are in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.

# Foodservice by region

## Greater China

### Volume<sup>1</sup>

**57** 000 MT

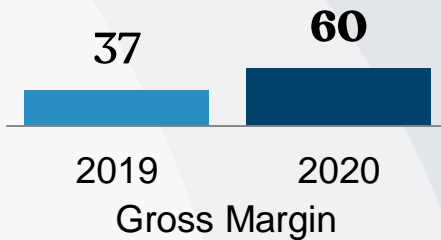
From 40,000 MT

### Gross Margin

**20.6%**

From 17.4%

\$ million



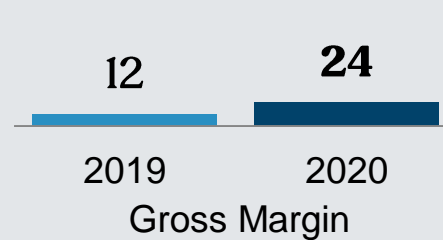
## Asia

**25** 000 MT

From 21,000 MT

**14.9%**

From 8.8%



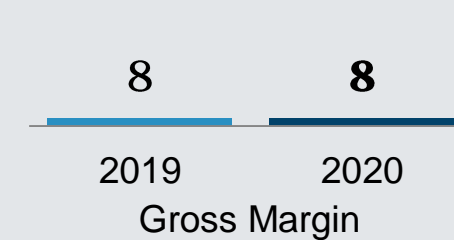
## Latin America

**9** 000 MT

From 8,000 MT

**21.7%**

From 22.2%



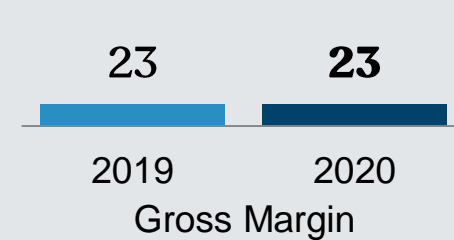
## Oceania

**23** 000 MT

From 24,000 MT

**18.5%**

From 17.8%



1. Includes sales to other strategic platforms.

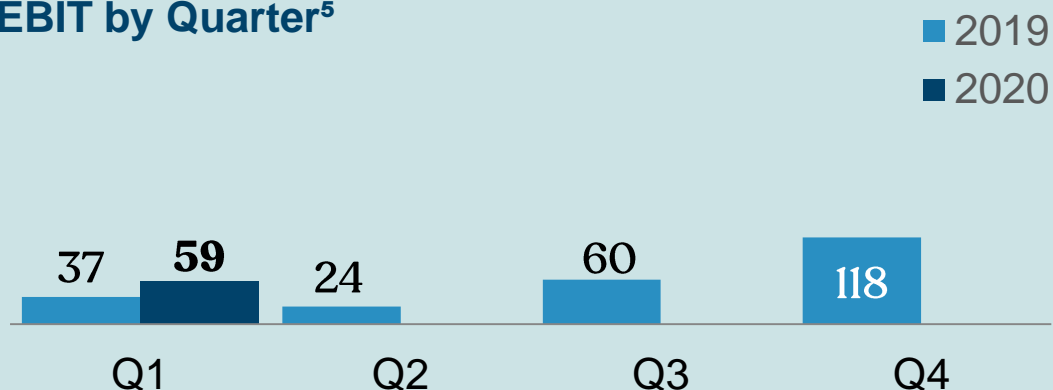
#### Note:

Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter performance of FY19.  
Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

# Consumer

Million <sup>1</sup>	2019	2020	%Δ <sup>2</sup>
Volume <sup>3</sup> ('000 MT)	338	330	(2)%
Revenue (\$)	1,189	1,171	(1)%
Gross Margin (\$)	310	291	(6)%
Gross Margin (%)	26.1%	24.8%	
Other <sup>4</sup>	4	(8)	
Operating Expenses (\$)	(277)	(224)	19%
EBIT (\$)	37	59	58%

## EBIT by Quarter<sup>5</sup>



- Individual Consumer and Foodservice tables may not align to combined Consumer and Foodservice table due to rounding.
- Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
- Includes sales to other strategic platforms.

- Small decline in sales volume across all regions
- Gross margin declined \$19 million mainly due to:
  - Removal of Tip Top following divestment
  - Ongoing disruption in Hong Kong
- Latin America gross margin flat on comparable period:
  - DPA Brazil benefiting from increased demand for premium yoghurt and desserts in an improving economy
  - Offset by Soprole gross margin impacted by increased milk costs
- Reduced operating expenses in all regions, down \$53 million:
  - Approximately half from Oceania, which included removal of Tip Top following sale
- Consumer EBIT increased \$22 million due to improved operating expenses

- Includes Other Income, net foreign exchange gain/(loss) and share of equity accounted investees.
  - Summing of quarterly EBIT figures may not add up to total EBIT displayed in table above due to rounding.
- Note: EBIT is in NZD millions. Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter of FY19.



## Greater China

## Asia

## Latin America

## Oceania

### Volume<sup>1</sup>

**23** 000 MT

From 25,000 MT

**48** 000 MT

From 51,000 MT

**128** 000 MT

From 129,000 MT

**132** 000 MT

From 134,000 MT

### Gross Margin

**33.4%**

From 36.3%

**27.1%**

From 28.5%

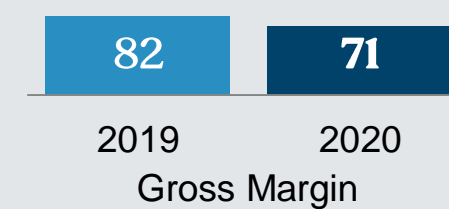
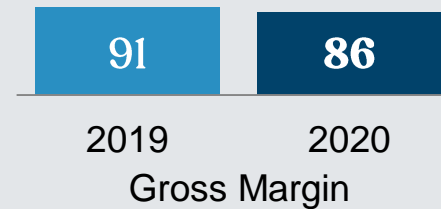
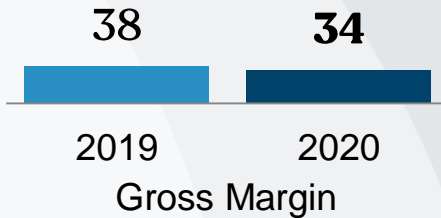
**28.9%**

From 29.0%

**17.4%**

From 19.4%

\$ million



## Consumer by region

1. Includes sales to other strategic platforms.

Note:

Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter performance of FY19.

Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

# China Farms



Million	2019 <sup>1</sup>	2020	%Δ <sup>2</sup>
Volume <sup>3</sup> ('000 MT)	4	5	18%
Revenue (\$)	54	70	29%
Gross Margin <sup>4</sup> (\$)	(2)	6	340%
Gross Margin (%)	(4.2)%	7.9%	
Operating Expenses <sup>4</sup> (\$)	(13)	(6)	54%
Other <sup>4,5</sup> (\$)	(4)	(7)	
China Farms EBIT <sup>6</sup> (\$)	(19)	(8)	60%
End-to-End EBIT Perspective			
Ingredients EBIT (\$)	(4)	—	
Consumer and Foodservice EBIT <sup>7</sup> (\$)	0	2	577%
China Farms End-to-End <sup>8</sup> (\$)	(23)	(6)	74%

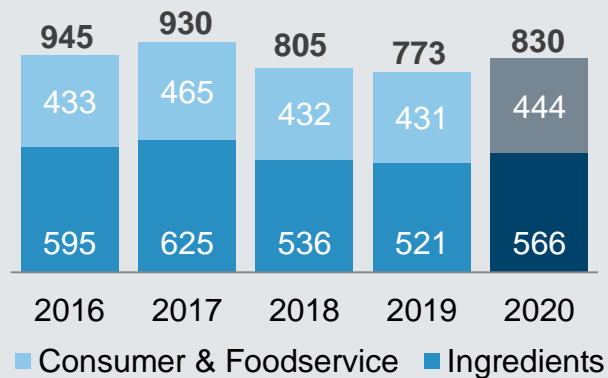
- Sales volume increased 18% due to higher productivity, feed management and recovery from flood in Yutian
- Gross margin up \$8 million due to increased sales volume and improved pricing from stronger market demand
- Operating expenses down \$7 million with continued cost focus
- At EBIT level, loss decreased from \$19 million to \$8 million:
  - Fonterra-owned farming hubs EBIT up \$19 million, from \$(15) million to now slightly above breakeven, but offset by
  - Joint venture farm hub losses increased from \$(4) million last year to \$(8) million
- Continued improvement in the average price received for our milk, 64% of our revenue was from milk sold for more than RMB 4 versus 46% in 2019

1. Reporting of Ingredients' selling China Farm's milk on behalf of China Farms was revised in FY20 to be reported in the China Farms segment. On a comparable basis, the following FY19 figures above would change; revenue \$0.3 million increase, operating expenses \$0.4 million decrease, gross margin and EBIT \$4 million decrease.
2. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
3. Includes sales to other strategic platforms.
4. Fonterra-owned farms in the China Farms business segment.

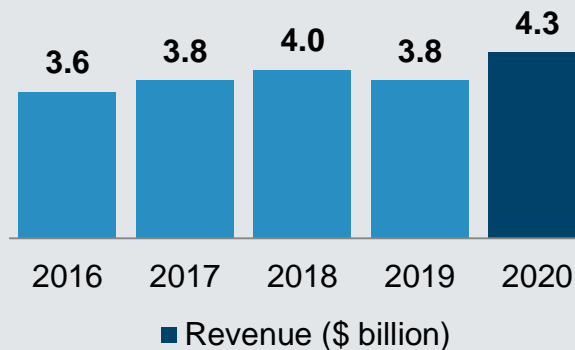
5. Includes Other Income, net foreign exchange gain/(loss) and share of equity accounted investees.
  6. Includes Fonterra-owned farms and the joint venture farms.
  7. EBIT impact of milk from China Farms sold by Consumer and Foodservice businesses.
  8. Provides end-to-end perspective, comprising China Farms segment plus financials from Consumer and Foodservice related sales of milk from China Farms.
- Note: Figures presented are for the first quarter of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first quarter performance of FY19.

# Key financial metrics for FY20 Q1

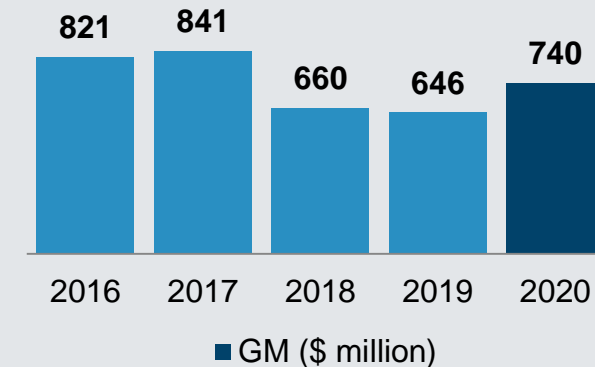
## Sales Volume ('000 MT)<sup>1</sup>



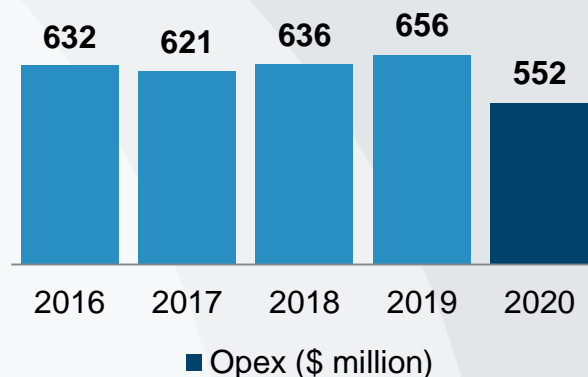
## Reported Revenue



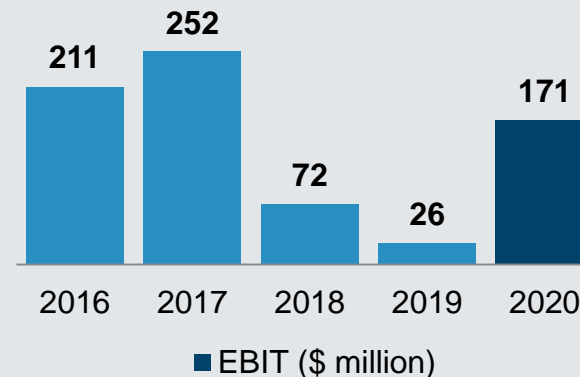
## Normalised Gross Margin



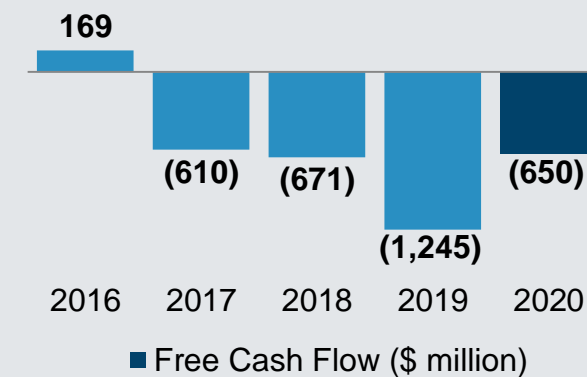
## Normalised OPEX



## Normalised EBIT



## Free Cash Flow



1. Does not add to total due to inter-group eliminations.

# Glossary

## Acronyms and Definitions

### AMF

Anhydrous Milk Fat

### BMP

Butter Milk Powder

### Base Price

Prices used by Fonterra's sales team as referenced against GDT prices and other relevant benchmarks

### DIRA

Dairy Industry Restructuring Act 2001 (New Zealand)

### GDT

Global Dairy Trade, the online provider of the twice monthly global auctions of dairy ingredients

### Gearing Ratio

Gearing ratio is economic net interest bearing debt divided by total capital. Total capital is equity excluding the hedge reserves, plus economic net interest bearing debt.

### Farmgate Milk Price

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

### Fluid and Fresh Dairy

The Fonterra grouping of skim milk, whole milk and cream – pasteurised or UHT processed, concentrated milk products and yoghurt

### kgMS

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

### Non-Reference Products

All dairy products, except for Reference, produced by the NZ Ingredients business

### Price Achievement

Revenue achieved over the base price less incremental supply chain costs above those set out in the Milk Price model

### Reference Products

The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF

### Regulated Return

The earnings component of Milk Price generated from a WACC return on an assumed asset base

### 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

### SMP

Skim Milk Powder

### Stream Returns

The gross margin differential between Non-Reference Product streams and the WMP stream (based on base prices)

### WACC

Weighted Average Cost of Capital

### WMP

Whole Milk Powder



# Glossary



## Fonterra Strategic Platforms

### Ingredients

The Ingredients platform comprises 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. It also includes Fonterra Farm Source™ retail stores.

### Consumer

The Consumer platform comprises 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.

### Foodservice

The Foodservice platform comprises a range of branded products and solutions for commercial kitchens, including bakery butter, culinary creams, and cheeses.

### China Farms

The China Farms platform comprises the farming operations in China, which produce high-quality fresh milk for the Chinese market.

**Thank you.**