



Market Announcement

21 May 2020

Fonterra provides performance and milk price updates

Third quarter summary

- Total Group Earnings Before Interest and Tax (EBIT): \$1.1 billion, up from \$378 million
- Total Group normalised EBIT: \$815 million, up from \$514 million
- Total Group normalised gross margin: \$2.5 billion, up from \$2.2 billion
- Normalised Total Group operating expenses: \$1,665 million, down \$148 million from \$1,813 million
- Free cash flow: \$698 million, up \$1.4 billion
- Net debt: \$5.7 billion, down from \$7.4 billion
- Normalised Ingredients EBIT: \$668 million, up from \$615 million
- Normalised Foodservice EBIT: \$208 million, up from \$135 million
- Normalised Consumer EBIT: \$187 million, up from \$128 million
- Full year forecast underlying earnings: 15-25 cents per share
- 2019/20 forecast Farmgate Milk Price range: \$7.10 - \$7.30 per kgMS
- Opening 2020/21 forecast Farmgate Milk Price range: \$5.40 - \$6.90 per kgMS
- 2020/21 Advance Rate Schedule has been set off the mid-point of \$6.15 per kgMS

Fonterra Co-operative Group Limited today announced its third-quarter business update, narrowed the range for its 2019/2020 forecast Farmgate Milk Price, and announced an opening forecast Farmgate Milk Price range for the 2020/2021 season.

Fonterra CEO Miles Hurrell says despite COVID-19 challenges, the Co-operative's total group normalised Earnings Before Interest and Tax (EBIT) for the nine months to 30 April is \$815 million, an increase of \$301 million on this time last year.

"The work done over the last year to strengthen our balance sheet, and the Co-op's ability to respond quickly has helped us manage the COVID-19 situation over the last few months. We're drawing on our global supply chain and diverse product and customer base to minimise disruptions for our customers and our business.

"COVID-19 has affected virtually every country, market and industry, and as a result, the global dairy market is volatile and the outlook is uncertain. This is a tough environment for everyone. As a New Zealand dairy Co-op, exporting 95% of our products, many of the markets we do business in have always been prone to sudden shocks and this can impact where, when and what we sell. However, the global nature of COVID-19 is like nothing we've experienced before. Like other businesses, we will feel the

impact of COVID-19 and its flow-on effects but how and to what extent is still uncertain. We are drawing on all our experience in managing market volatility.

"I'm proud to lead a team who genuinely care and recognise the importance of our farmer owners, unit holders, customers and local communities. The way our Co-op has responded to COVID-19 has been a real highlight for me."

Business performance and earnings guidance

Mr Hurrell says all three of Fonterra's business units have delivered a good performance for the year to date, despite the negative impact COVID-19 had on the foodservice business in the third quarter.

"Our Ingredients business delivered a normalised EBIT of \$668 million in the nine months to 30 April. This is up 9% from \$615 million on this time last year, mainly due to improved margins.

"As we said at half-year, when the COVID-19 pandemic took hold, we had already contracted a high percentage of this season's milk supply and this has helped minimise the impact of COVID-19 to date.

"Overall Foodservice EBIT for the year is \$208 million, up 54% from \$135 million – however, it was the part of our business that was most affected by COVID-19. Restaurants, bakeries and cafes in many of our markets were closed as a result of government enforced lockdowns and restrictions. This impacted our sales in the third quarter.

"In China, the foodservice sector started its recovery relatively quickly, although it is still not at 100%. We saw our sales in China fall in February, but they bounced back to more normal levels in March and this continued in April. We are now seeing the impact of COVID-19 across our foodservice businesses in Oceania, South East Asia and Latin America. We expect this impact to also show up in our fourth quarter results.

"While the consumer business benefited from a spike in sales as people stockpiled and bought food to cook at home, this was not sustained through the COVID-19 lockdowns. Overall, Consumer EBIT was \$187 million, up 46% from \$128 million on the same period last year. This was mainly due to cost savings across all regions and gross margin growth in Asia."

Mr Hurrell says the Co-op has a strong balance sheet with good cashflow and is continuing to reduce debt.

The Co-op is on track to deliver on its gross margin target, with gross margin up \$244 million on last year to \$2.5 billion. It has also continued its focus on cost control and reduced Total Group operating expenses by \$148 million on the same period last year.

Free cash flow is \$698 million, up by \$1.4 billion on last year, and net debt has reduced by 23% or \$1.7 billion.

In talking about the remainder of the financial year, Mr Hurrell reaffirmed the FY20 forecast underlying earnings guidance of 15-25c per share.

"Based on the first nine month's performance we would expect our full year underlying earnings* to be at the top half of this range. However, there are significant uncertainties in the last quarter – for example, how quickly the foodservice sector recovers, timing of shipments, and how the broader economic downturn will impact our business.

Updated 2019/2020 forecast Farmgate Milk Price range and 2020/21 opening season forecast Farmgate Milk Price range

Fonterra has narrowed its 2019/2020 forecast Farmgate Milk Price range for the season to \$7.10 - \$7.30 per kgMS, with a mid-point of \$7.20 per kgMS.

This will see the Co-op contribute about \$11 billion to the New Zealand economy through milk price for the year.

Chairman John Monaghan says the Co-op has narrowed its price range and reduced the mid-point of the range in response to a softening of demand relative to supply which is pushing down prices.

“One of the main drivers of the softening demand is that many foodservice businesses remain closed. On the supply side, the EU and the US have just been through the peak of their season and that milk is flowing into export markets and increasing competition for sales. As a result, prices are softening across the board.

“This supply and demand imbalance has impacted GlobalDairyTrade (GDT) prices for the products that determine our Farmgate Milk Price. In US dollar terms, GDT prices for Whole Milk Powder are down 17% since late January.

“Looking out to next season, a global recession will continue to reduce consumers’ purchasing power.

“It is not clear what impact government interventions in the EU and US will have on curbing their milk supply, however, we expect our competitors there to put more of their milk into the product types that determine our Milk Price, as they chase government support programmes and favour longer-life products.

“COVID-19 adds significant uncertainty into the process of forecasting what will happen with global dairy prices over the next 15 months.

“For that reason, we are setting the opening 2020/21 forecast Farmgate Milk Price range at \$5.40 - \$6.90 per kgMS. The wider range reflects the increased uncertainty we face in the coming season.

“This forecast is based on the information that’s available now. We will regularly update our farmers on changes or events that may impact our milk price as the season progresses.”

Healthy People and Healthy Environment

Mr Hurrell says despite all these challenges, the Co-op continues to focus on all three of its long-term goals – healthy people, healthy environment and healthy business.

“We remain committed to making progress, and some examples in the environment and people space include:

- Making an additional two million litres of ethanol available to help with the supply of hand sanitiser in New Zealand during the COVID-19 outbreak
- Redirecting Anchor milk from our in-school nutrition programme, Fonterra Milk for Schools, into communities throughout New Zealand as schools were closed during Level 4 lockdown.
- Making improvements to farmers’ payments to get money to them faster
- Continuing to make progress in switching from coal to wood pellets at our Te Awamutu manufacturing site
- 31% of supplying farms now have Farm Environment Plans, up from 23% at the start of the financial year
- Around 1000 farms have achieved Te Pūtake Level 2 through The Co-operative Difference programme after meeting high environment, animal, milk, people and community standards
- On-track to deliver farm-specific greenhouse gas emissions reports to every supplying farm this year.”

** As previously stated, the announced forecast earnings will continue to reflect only the underlying performance of the business. Fonterra will advise any one-off impacts of a transaction on its FY20 earnings when that transaction is announced, and will provide details of the overall impact of its divestment programme on FY20 earnings as part of its full-year financial statements*

-ENDS-

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Business Update

3RD Quarter 2020

21 MAY 2020



Dairy for life



Important information

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Good performance during challenging period

FARMGATE MILK PRICE

\$7.10–\$7.30

per kgMS

NET DEBT¹

\$5.7

billion
from \$7.4b

TOTAL GROUP EBIT^{2,3}

\$1.1

billion
from \$378m

NORMALISED EBIT^{2,3,4}

\$815

million
from \$514m

- Global scale and diversity reduced impact of COVID-19
- Business performance improvement continued
- Strong cashflow and continuing to reduce debt
- Forecast normalised earnings guidance maintained⁵
- Forecast 2019/20 Farmgate Milk Price range narrowed
- Forecast 2020/21 Farmgate Milk Price range of \$5.40 - \$6.90 per kgMS announced

1. Economic net interest-bearing debt reflects total borrowings less cash and cash equivalents and non-current interest-bearing advances adjusted for derivatives used to manage changes in hedged risks, and bank overdraft. It excludes the \$288 million of borrowings attributed to Discontinued Operations.

2. This includes Continuing Operations and Discontinued Operations. The basis of determining Discontinued Operations is set out in the Basis of Preparation in the previously released FY20 Interim Report.

3. 2019 EBIT restated down \$8 million to reflect change in timing of revenue recognition for distributor sales in Greater China

4. The adjustment of \$242 million to calculate normalised EBIT is set out in the Appendix.

5. The announced forecast earnings reflects only the underlying performance of the business. Normalisations to Earnings Before Interest and Tax are provided in the Appendix, details of FY20 normalisations to Net Profit After Tax will be provided as part of Fonterra's full-year financial statements.

Response to COVID-19

The work done over the last year to strengthen our balance sheet, and our Co-op's ability to respond quickly has helped manage the COVID-19 situation

Our response so far

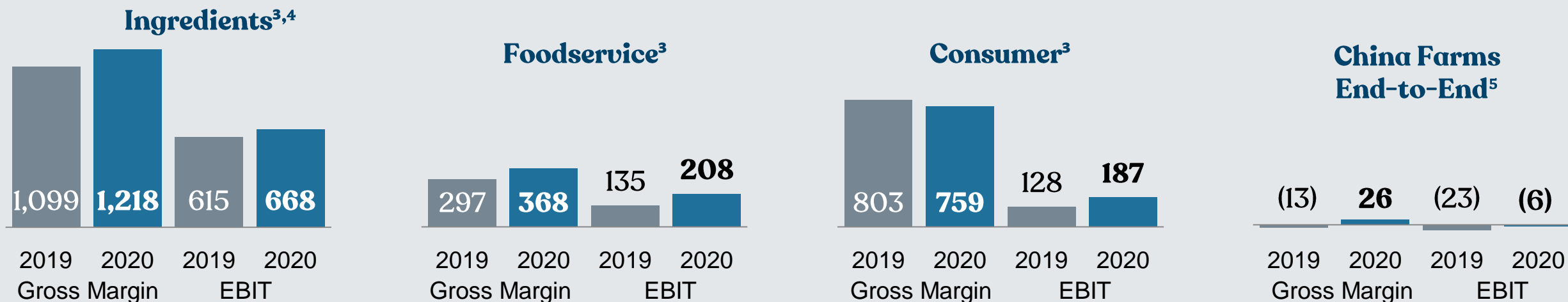
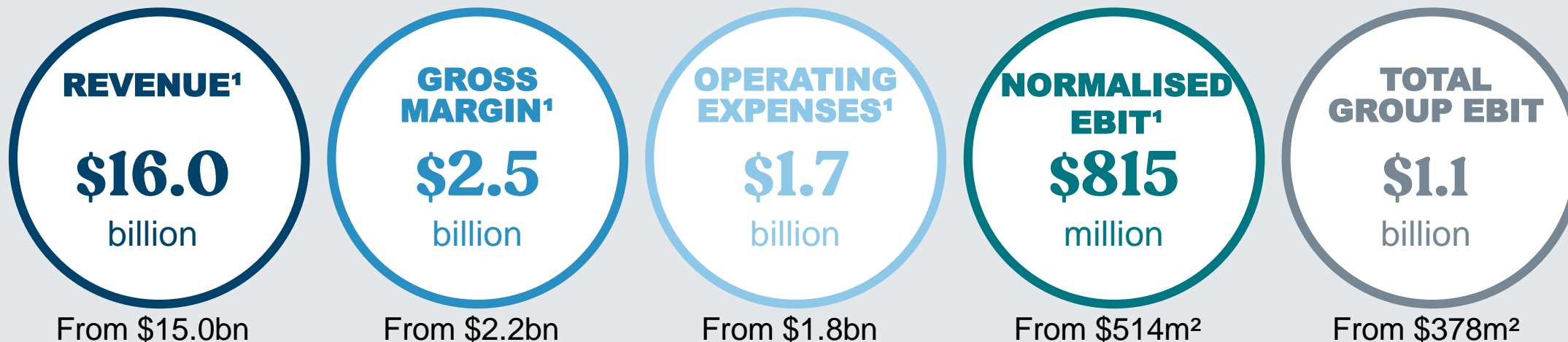
- Rapidly established strategic and tactical teams to manage our business through the impacts of COVID-19
- Our global operations continued
- Our diverse customer and product base, and global supply chain are proven strengths
- Our ability to change our product mix and move products between markets has helped minimise disruptions for our customers and our business

Going forward

- COVID-19 event continues to unfold globally and expecting increased uncertainty and volatility
- The expected global economic downturn will have a negative impact on consumer purchasing power
- We are confident in our strategy and agile in how we implement it
- We will continue to draw on our Co-op's proven strengths and work closely with our customers

Healthy Business

Improved performance with lift in all key metrics



1. This is Total Group, includes Continuing and Discontinued Operations on a normalised basis.
2. 2019 EBIT restated down \$8 million to reflect change in timing of revenue recognition for distributor sales in Greater China.
3. Does not add to total group due to including inter-segment sales, and excludes Discontinued Operations.
4. Ingredients performance includes the China Farming joint venture. For the first nine months of FY19 and FY20 China Farming joint venture reported a loss of \$(7) million and \$(15) million respectively.

5. Provides end-to-end perspective, comprising China Farms, China Farming joint venture, and financials from Ingredients, Consumer and Foodservice related to sales of milk from China Farms. China Farms is considered 'Held for sale' and classified as a Discontinued Operation as previously reported in the FY20 Interim Report.
Note: EBIT and gross margin are in NZD millions. Figures presented are for the first nine months of FY20, and FY19 as a comparative.

Healthy People

Working together to care for people and help our communities
Our business has remained fully operational during the COVID-19 lockdown



Dairy for life



On-track to inject \$11 billion of milk price payments into the New Zealand economy



Supplied 2 million litres of ethanol to help with the supply of hand sanitiser in New Zealand



Kept each other safe & our business running, while continuing to provide nutritious dairy to the world

#GoodTogether



Redirected Anchor milk from our in-school programmes to communities throughout the country



Healthy Environment

Working together to achieve a healthy environment for farming and society



Dairy for life



Through The Co-operative Difference:

- 31% of supplying farms now have Farm Environment Plans, up from 23% at the start of the year. However, the inability to access farms during the COVID-19 lockdown has impacted progress towards this year's target.
- Around 1000 farms have achieved Te Pūtake Level 2 after meeting high environment, animal, milk, people and community standards
- On-track to deliver farm-specific greenhouse gas emissions reports to all supplying farms this year

Progressing switch
from coal to wood pellets
at Te Awamutu site



Outlook for 2020

Forecast Farmgate Milk Price



- Forecast Farmgate Milk Price range narrowed from \$7.00-\$7.60 per kgMS to \$7.10-\$7.30 per kgMS
- The lower mid-point within the narrowed range reflects lower ingredient prices following a softening of demand relative to supply

Forecast Normalised Earnings



- Full year normalised earnings per share range of 15-25 cents maintained
- Reflects significant uncertainty in the last quarter:
 - Profile of the recovery in foodservice sector
 - Timing of shipments
 - Broader global economic downturn

1. The announced forecast earnings reflects only the underlying performance of the business. Normalisations to Earnings Before Interest and Tax are provided in the Appendix, details of FY20 normalisations to Net Profit After Tax will be provided as part of Fonterra's full-year financial statements.

Forecast 2020/21 Season Farmgate Milk Price



\$5.40 – \$6.90
per kgMS

- COVID-19 adds further uncertainty to process of forecasting global dairy prices over the next 18 months
- Initial range of \$1.50 reflects increased uncertainty
- COVID-19 and associated macroeconomics factors will continue to impact demand
- GDT prices declined from late January to mid May
 - Whole Milk Powder prices down 17%
 - Skim Milk Powder prices down 15%
 - Butter prices down 11%
- Lower NZD but expect increased volatility in foreign exchange to continue
- EU and US production currently at seasonal peak and uncertainty remains regarding the impact from government interventions in these markets



Dairy for life

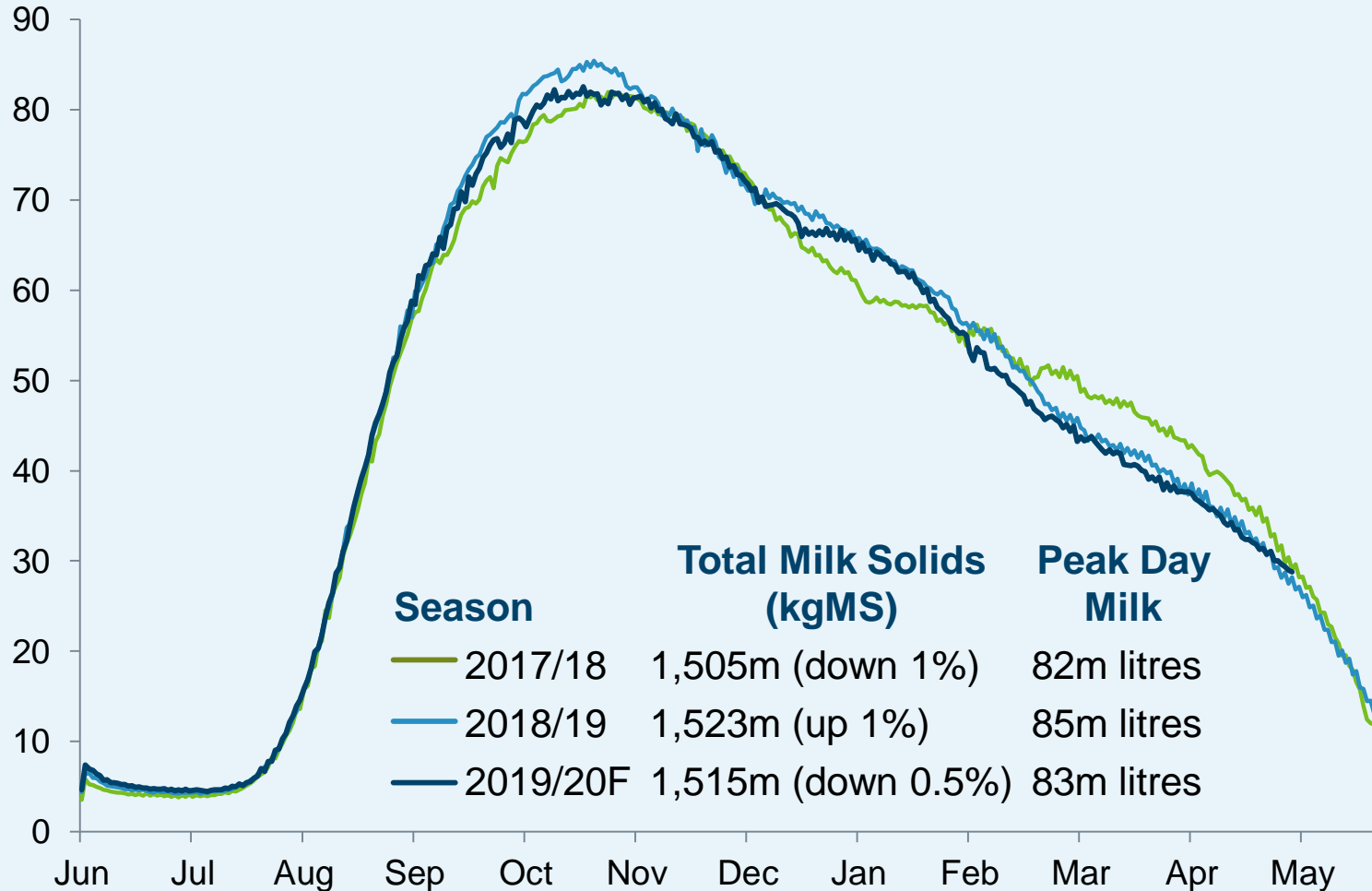


Dairy for life

Appendix

Milk collections

Volume (m litres/day)



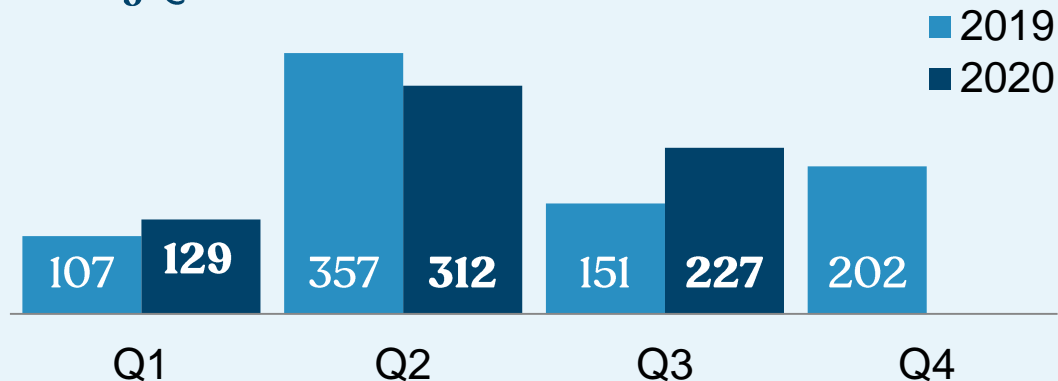
- Season to date collections, June – April, were 1,447 million kgMS, down 0.5% on last season
- North Island production is down 2.0%
 - Effects of the drought are still being felt across much of the North Island
 - Soil moisture levels remain low, and pasture growth rates have slowed
- South Island production has had a strong start to autumn
- Total forecast collections for the season remain unchanged at 1,515 million kgMS

Ingredients¹



million	2019	2020	%Δ ²
Volume ³ ('000 MT)	2,406	2,327	(3)%
Revenue (\$)	12,086	13,230	9%
Gross Margin (\$)	1,099	1,218	11%
Gross Margin (%)	9.1%	9.2%	
Other ⁴	88	7	
Operating Expenses (\$)	(572)	(557)	3%
EBIT (\$)	615	668	9%
Discontinued EBIT	(13)	—	

EBIT by Quarter⁵



- Sales volumes down 3%, 79,000 MT, mainly due to lower milk collections in both Australia and New Zealand
- Ingredients' gross margin increased \$119 million:
 - New Zealand gross margin improved mainly due to higher margins within Global Sourcing business, and favourable price relativities in third quarter
 - Improved performance in Australia due to manufacturing cost savings and favourable product mix
- Largest contributors to decrease in 'Other' were divestment of DFE Pharma and increased loss in China Farming joint venture
- Ingredients' EBIT from continuing operations increased 9%, being \$53 million

1. Ingredients' performance restated to include China Farming joint venture. China Farms business unit is classified as a Discontinued Operation, financials relating to sales of milk from China Farms have been removed from the Ingredients segment for FY19.
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. 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 nine months of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first nine months of FY19.



Ingredients by region

New Zealand Ingredients¹

Volume²

2,201,000 MT

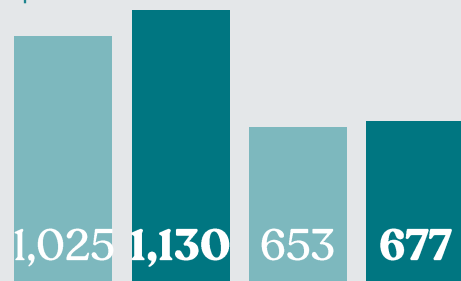
From 2,265,000 MT

Gross Margin

9.3%

From 9.4%

\$ million



2019 2020 2019 2020
Gross Margin EBIT

Australia

198,000 MT

From 243,000 MT

1.2%

From (0.1)%

(1) 14 (53) (25)

2019 2020 2019 2020
Gross Margin EBIT

Other and Eliminations

(72,000) MT

From (102,000) MT

75 74 15 16

2019 2020 2019 2020
Gross Margin EBIT

1. Ingredients' performance restated to include China Farming joint venture. China Farms business unit is classified as a Discontinued Operation. Financial performance relating to sales of milk from China Farms has been removed from the Ingredients segment for FY19.
2. 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

Reference and Non-Reference price relativities improved relative to prior four quarters



	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Change Q3 FY19 to Q3 FY20
Production Volume¹ ('000 MT)						
Reference	440	94	607	704	433	(2)%
Non-Reference	210	72	236	272	215	2%
Sales Volume ('000 MT)						
Reference	535	405	291	630	490	(8)%
Non-Reference	233	226	178	247	219	(6)%
Revenue (\$ per MT)						
Reference	4,539	5,188	5,289	5,111	5,394	19%
Non-Reference	5,238	6,055	5,679	5,877	6,448	23%

1. Excludes bulk liquid milk.

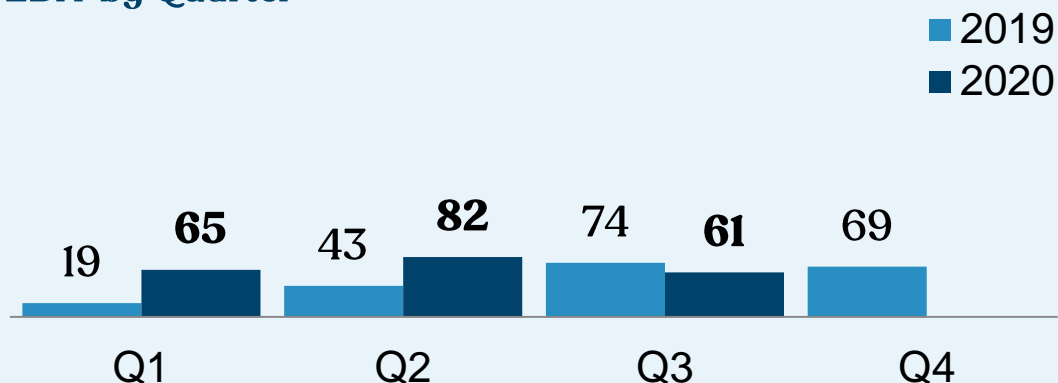
2. Note: Figures represent Fonterra-sourced New Zealand milk only. Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF.

Foodservice



Million ¹	2019 ²	2020	%Δ ³
Volume ⁴ ('000 MT)	344	354	3%
Revenue (\$)	1,990	2,133	7%
Gross Margin (\$)	297	368	24%
Gross Margin (%)	14.9%	17.3%	
Other ⁵	3	(2)	
Operating Expenses (\$)	(165)	(158)	4%
EBIT (\$)	135	208	54%
Discontinued EBIT	—	—	

EBIT by Quarter⁶



- Foodservice EBIT is up \$73 million
 - third quarter sales volumes reduced the growth rate relative to the half year performance
- Third quarter sales volumes impacted by store closures (restaurants, bakeries etc.) across most markets
- Markets are in varying stages of reopening during fourth quarter
- Foodservice sales volumes are 3% ahead of prior year due to a strong first half performance in Greater China and Asia
- Foodservice gross margin is 17.3%, up from 14.9% due to improved butter margins in Greater China and Asia
- Greater China Foodservice started its recovery relatively quickly, although the sector is still not at 100% in Greater China
- Fourth quarter Asia and Oceania sales volumes will be impacted by COVID-19 situation

1. Individual Consumer and Foodservice tables may not align to combined Consumer and Foodservice table due to rounding.
 2. 2019 restated to reflect change in timing of revenue recognition for distributor sales in Greater China
 3. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
 4. Includes sales to other strategic platforms.

5. Includes other income, net foreign exchange gain/(loss) and share of equity accounted investees.
 6. 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 nine months of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first nine months of FY19.



Greater China¹

Asia

Latin America

Oceania

Volume¹

201 000 MT

From 180,000 MT

70 000 MT

From 70,000 MT

24 000 MT

From 24,000 MT

60 000 MT

From 70,000 MT

Gross Margin

16.2%

From 12.7%

17.3%

From 15.8%

24.1%

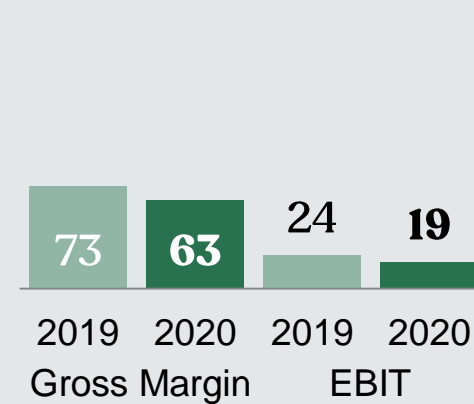
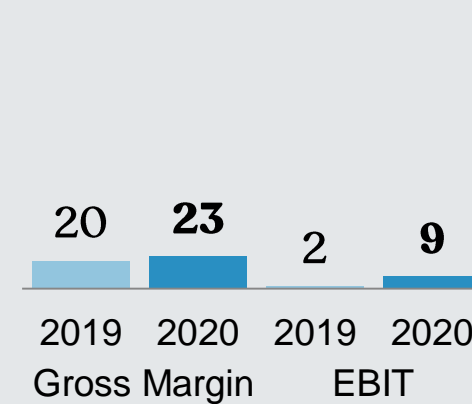
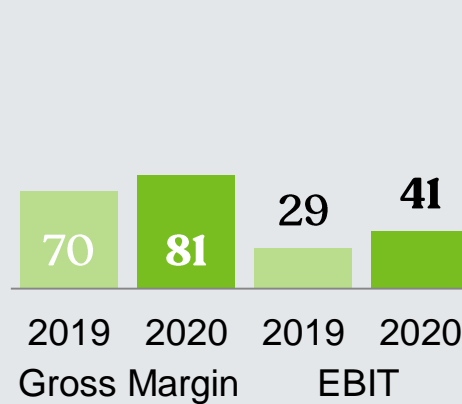
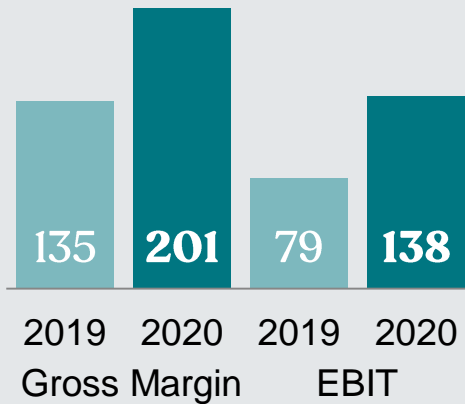
From 19.6%

19.1%

From 18.8%

Foodservice by region

\$ million



1. 2019 restated to reflect change in timing of revenue recognition for distributor sales in Greater China
2. Includes sales to other strategic platforms.

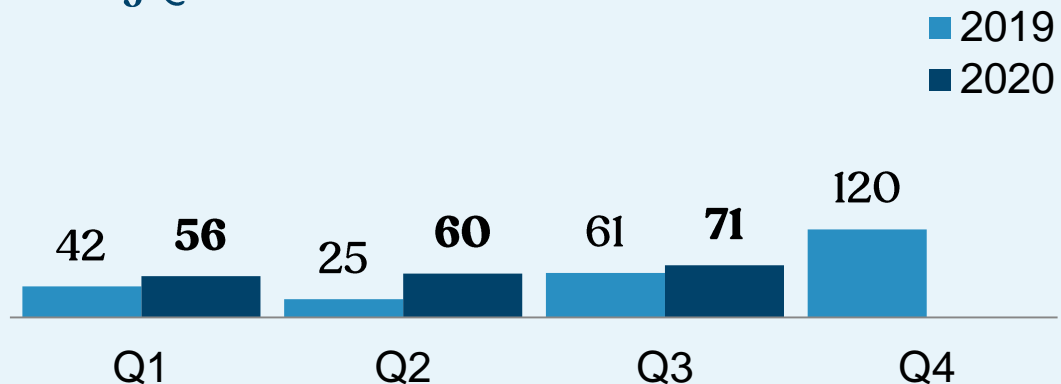
Note: Figures presented are for the first nine months of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first nine months performance of FY19. Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category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

Consumer



Million ^{1,2}	2019	2020	%Δ ³
Volume ⁴ ('000 MT)	868	834	(4)%
Revenue (\$)	3,196	3,178	(1)%
Gross Margin (\$)	803	759	(6)%
Gross Margin (%)	25.1%	23.9%	
Other ⁵	2	(12)	
Operating Expenses (\$)	(678)	(560)	17%
EBIT (\$)	128	187	46%
Discontinued EBIT	(6)	19	

EBIT by Quarter⁶



- Consumer earnings impacted significantly less than Foodservice by COVID-19
- Lower sales volumes across all regions, largest contributors were Latin America, due to civil unrest in Chile, and Oceania, due to the divestment of Tip Top
- Gross margin down from 25.1% to 23.9% predominantly due to lower volumes of high gross margin product in Greater China
- Consumer EBIT increased \$59 million due to:
 - All regions reducing operating expenses by a combined \$118 million
 - Gross margin growth in Asia due to improved performance in Sri Lanka
- Consumer EBIT growth partially offset by losses in Hong Kong, due to COVID-19 and pre-existing challenging trade conditions

1. Normalised basis and excludes Discontinued Operations. Discontinued EBIT provided on separate line for comparative purposes.

2. Individual Consumer and Foodservice tables may not align to combined Consumer and Foodservice table due to rounding.

3. 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.

4. Includes sales to other strategic platforms.

5. Includes other income, net foreign exchange gain/(loss) and share of equity accounted investees.

6. 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 nine months of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first nine months of FY19.



Greater China

Asia

Latin America

Oceania

Volume²

57 000 MT

From 62,000 MT

147 000 MT

From 155,000 MT

241 000 MT

From 252,000 MT

390 000 MT

From 399,000 MT

Gross Margin

33.2%

From 39.6%

27.1%

From 26.3%

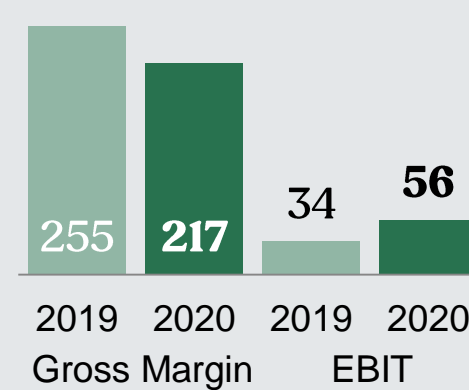
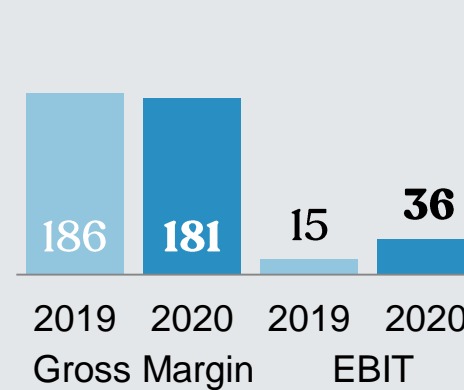
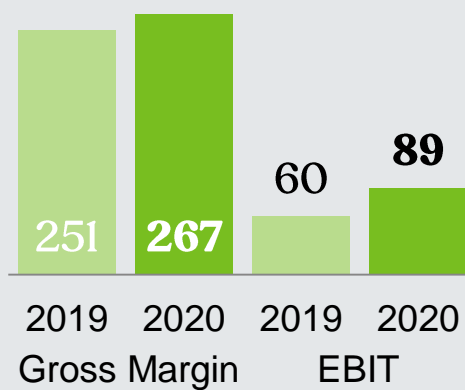
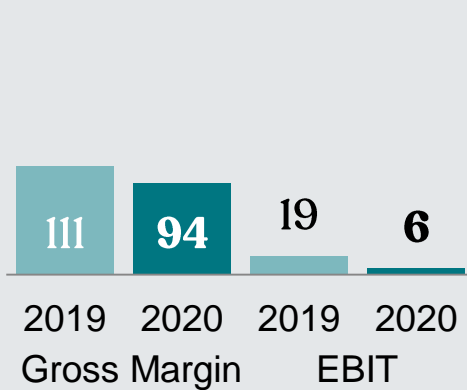
26.4%

From 26.5%

17.7%

From 20.3%

\$ million



Consumer by region¹

1. Normalised basis and excludes Discontinued Operations.
2. Includes sales to other strategic platforms.

Note: Figures presented are for the first nine months of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first nine months 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	2020	%Δ ¹
Volume ² ('000 MT)	15	16	7%
Revenue (\$)	174	205	18%
Gross Margin (\$)	(18)	19	205%
Gross Margin (%)	(10.3)%	9.2%	
Operating Expenses (\$)	(12)	(14)	17%
Other ³ (\$)	11	3	
China Farms EBIT (\$)	(19)	8	142%
End-to-End EBIT Perspective			
Ingredients EBIT ⁴ (\$)	(7)	(18)	
Consumer and Foodservice EBIT ⁵ (\$)	3	4	
China Farms End-to-End ⁶ (\$)	(23)	(6)	74%

- The China Farms operations were impacted by COVID-19, with increased feed and logistics costs
- China Farms' sales volumes are up 7% due to recovering from flooding in Yutian, higher productivity and feed management
- Cost efficiencies and improved pricing lifted China Farms' profitability:
 - Gross margin increased \$37 million
 - EBIT increased \$27 million
- From an end-to-end EBIT perspective the improved China Farms EBIT was offset by the China Farming joint venture loss
- China Farming joint venture loss increased from \$(7) million to \$(15) million due to ongoing animal management costs

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).
 4. Includes China Farming joint venture and associated management fees.
 5. EBIT impact of milk from China Farms sold by Consumer and Foodservice businesses.

6. Provides end-to-end perspective, comprising China Farms, the China Farming joint venture, and financials from Consumer and Foodservice related sales of milk from China Farms.
 Note: Figures presented are for the first nine months of FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the first nine months performance of FY19.

Impairments and other normalisations

Largest contributor to \$20 million increase in normalisations from FY20 Interim Results is revaluation of Beingmate holding to align with quoted market share price

NZD million	Gain on Sale	Impairment	Other	EBIT ¹
Portfolio Review				
DFE Pharma	401		26	427
foodspring™	66			66
China Farms		(63)		(63)
DPA Brazil		(71)		(71)
China Farming JV		(65)		(65)
Sub total	467	(199)	26	294
Beingmate ²			2	2
Other ³			(54)	(54)
Total	467	(199)	(26)	242

1. Earnings before interest and tax.

2. 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.

3. Includes costs associated with implementing the new operating model and other legal costs.

Note: Refer to the previously provided Note 2 of the Financial Statements in the FY20 Interim Report for further detail of impairments.

Reconciliation to Total Group EBIT

Nine months ended	30 April 2019			30 April 2020		
	Continuing Operations ¹	Discontinued Operations ²	Total Group ³	Continuing Operations ¹	Discontinued Operations ²	Total Group ³
NZD million						
Revenue	14,384	481	14,865	15,485	521	16,006
Cost of Goods Sold	(12,219)	(418)	(12,637)	(13,132)	(402)	(13,534)
Gross Margin	2,165	63	2,228	2,353	119	2,472
Gross Margin %	15.0 %	13.2 %	15.0 %	15.2 %	22.9 %	15.4 %
Operating Expenses	1,715	98.3	1,813	1,575	90	1,665
Other Income	88	11	99	7	1	8
Normalised EBIT	538	(24)	514	785	30	815
Normalisations	(136)	-	(136)	376	(134)	242
Reported EBIT	402	(24)	378	1,162	(105)	1,057

1. Continuing Operations are defined in Note 1 of the Financial Statements in the previously released FY20 Interim Report.

2. The basis of determining Discontinued Operations is set out in the Basis of Preparation of the Financial Statements in the previously released FY20 Interim Report.

3. Total Group includes Continuing Operations and Discontinued Operations.

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.