

# Fonterra Annual Results 2020

18 September 2020



# Important information



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# Building a sustainable future

## 2020 – stayed focused and delivered improved results



- The Co-op's resilience demonstrated during COVID-19
- Proud of how our people came together and performed
- Reduced our environmental footprint
- Improved underlying business performance
- Significantly reduced debt
- Resumed dividend

Farmgate Milk Price	<b>\$7.14</b> per kgMS
Reported Profit After Tax <sup>1</sup>	<b>\$659</b> million
Normalised Profit After Tax <sup>2</sup>	<b>\$382</b> million <b>24</b> cents per share <sup>2</sup>
Debt reduction	<b>\$1.1</b> billion

1. Reported Profit After Tax includes Continuing and Discontinued Operations. Includes amounts attributable to non-controlling interests.

2. Normalised Profit After Tax includes Continuing and Discontinued Operations on a normalised basis. Excludes amounts attributable to non-controlling interests.



# How the Co-op is responding to the pandemic

# #1

Our people are  
our number one  
priority



Ability to change  
our product mix  
and move  
between  
markets



Demand for  
dairy proves  
resilient



Recognising  
**disruptions are our  
reality** and being  
ready to adapt to  
them



**Stronger balance  
sheet** gives us  
confidence and allows  
us to focus on  
managing COVID-19



Customers can rely  
on us getting  
**products to market**  
thanks to our proven  
supply chain

# Stayed focused, improved financial performance

## Improved gross profit

China Foodservice growth



Improved Ingredients' margin

## Normalised EPS top end of range

24c

## Continued financial discipline

Capital expenditure

Operating expenses



## Reduced debt

 \$1.1 billion

## Improved return on capital

6.7%   
from 5.8%

## Completed key asset sales

DFE Pharma  
foodspring®

# Improved financial metrics

## REVENUE

**\$21.0**  
billion

Up \$1.1bn

## GROSS PROFIT

**\$3.2**  
billion

Up \$200m

## OPERATING EXPENSES

**\$2.3**  
billion

Down \$14m

## EBIT

**\$879**  
million

Up \$67m

## PROFIT AFTER TAX<sup>1</sup>

**\$382**  
million

Up \$118m

## Capital Expenditure

**\$419** million

Down \$181m

## Free Cash Flow

**\$1.8** billion

Up \$733 million

## Net Debt<sup>2</sup>

**\$4.7** billion

Down \$1.1b

## Debt to EBITDA

**3.4x**

From 4.4x

## Dividend

**5** cents

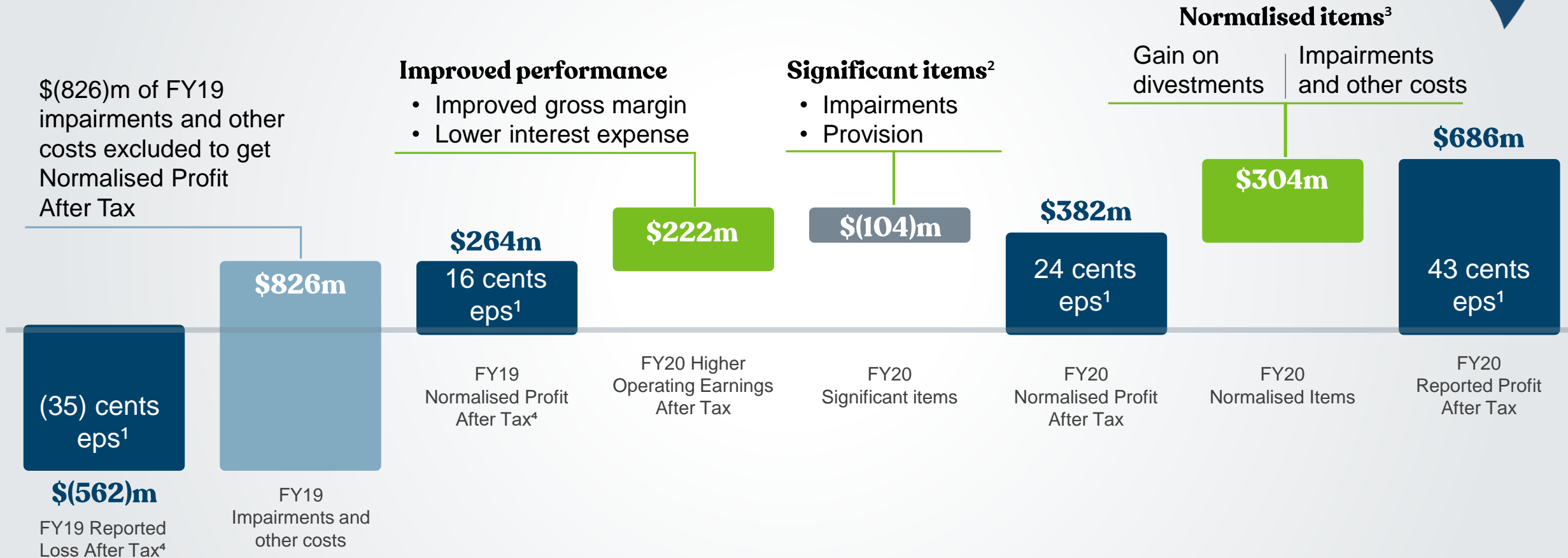
Up 5 cents

Note: Unless stated otherwise metrics presented are for Total Group, which includes Continuing and Discontinued Operations on a normalised basis.

1. Excludes amounts attributable to non-controlling interests.

2. Excludes Discontinued Operations.

# Reported profit after tax up \$1.2 billion



**Note: Figures presented are on a after tax attributable to equity holders basis. Excludes amounts attributable to non-controlling interests.**

1. Earnings per share.

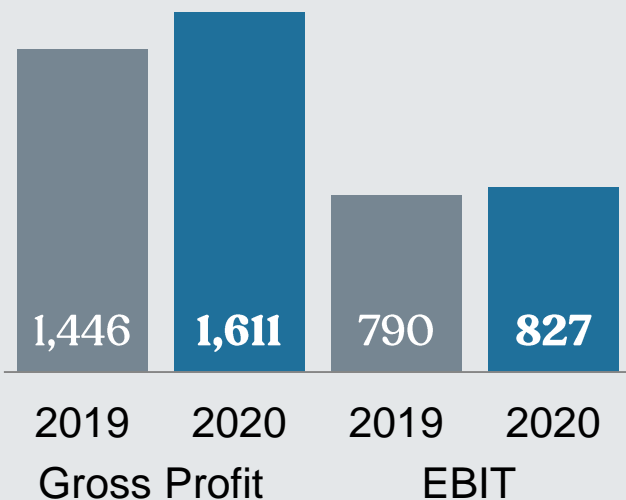
2. \$(104) million of Significant items, including a provision for change in treatment of holiday pay pending judicial interpretation of the requirements of legislation in New Zealand. Refer to appendix for detailed breakdown.

3. Comprised of \$549 million and \$(245) million positive and negative normalised items, respectively. Refer to appendix for detailed breakdown.

4. FY19 reported loss and normalised profit after tax attributable to equity holders are restated from \$(557) million and \$269 million, as stated in FY19 Annual Report, to \$(562) million and \$264 million, respectively. Restatement due to change in timing of revenue recognition for sales to distributor in Greater China.

# Segment performance

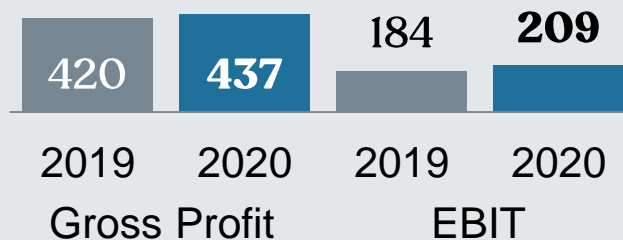
## Ingredients<sup>1,2</sup>



2020 gross profit reflects favourable pricing relativities

2019 EBIT includes \$44 million from DFE Pharma

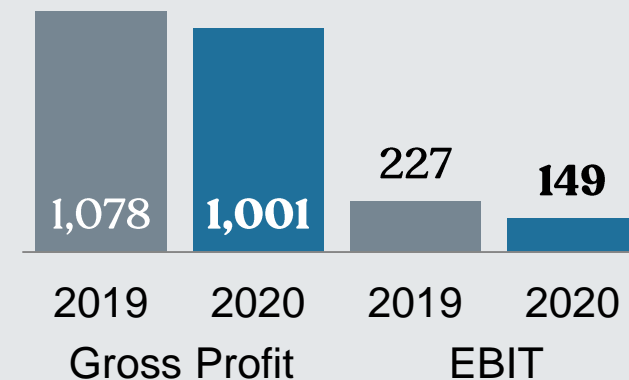
## Foodservice<sup>1</sup>



Strong first half before COVID-19

Greater China rebounded in third quarter, but challenging fourth quarter across other regions

## Consumer<sup>1</sup>



2020 EBIT includes \$57 million of impairments

Challenges remain in Chile and Hong Kong

Note: EBIT and gross margin are normalised in NZD millions. Figures presented are for FY20 and FY19 as a comparative.

1. Does not add to Total Group due to including inter-segment sales, and excludes Discontinued Operations.

2. Ingredients performance includes the China Farming joint venture. For FY19 and FY20 China Farming joint venture reported a loss of \$(19) million and \$(12) million, respectively.



# Improved cash flow and reduced leverage

## NET CASH FLOW<sup>1</sup>

**\$1.4**  
billion

Up \$736m

## NET DEBT<sup>2</sup>

**\$4.7**  
billion

Down \$1.1b

## DEBT/EBITDA<sup>3</sup>

**3.4x**

From 4.4x

## GEARING<sup>4</sup>

**41.4%**

From 48.5%

- Net cash flow improved by \$736 million:
  - Normalised EBIT up \$67 million to \$879 million
  - \$623 million from divestments<sup>5</sup>
  - Capital expenditure down \$181 million
- Net debt and gearing both down:
  - Improved net cash flows
  - \$266 million transferred from net borrowings to disposal groups held for sale
  - Additional \$533 million lease liability, which includes capitalised operating leases under new accounting rules<sup>6</sup>

1. Net Cash Flow is Free Cash Flow less net interest paid, dividends paid and other net financing cash flows.  
2. Economic net interest-bearing debt reflects total borrowings plus bank overdraft less cash and cash equivalents and non-current interest-bearing advances, adjusted for derivatives used to manage changes in hedged risks on debt instruments. It excludes the borrowings attributed to Discontinued Operations.  
3. Debt to EBITDA is calculated as total borrowings, plus bank overdraft, plus the effect of debt hedging, less a cash allowance of 75% of Cash and cash equivalents, divided by normalised earnings before interest, tax, depreciation and amortisation (normalised EBITDA) excluding Share of loss/profit of equity accounted investees and Net foreign exchange losses/gains. Both Debt and EBITDA are adjusted to include amounts relating to businesses classified as held for sale and Discontinued Operations. Prior years restated to align with credit rating methodology.  
4. Gearing ratio is economic net interest-bearing debt divided by total capital. Total capital is equity excluding hedge reserves, plus economic net interest-bearing debt. It excludes the borrowings attributed to Discontinued Operations.  
5. Includes DFE Pharma and foodspring®.  
6. Represents year-on-year impact. On 1 August 2019, the adjustment to recognise operating lease liabilities on balance sheet was \$581 million.

# Working together to care for people and make a positive community impact



**10** YEARS of providing valuable nutrition through **KickStart Breakfast**



Extended production to deliver whey protein to a customer, providing **medical nutrition** to those suffering from COVID-19



into regional communities through milk price payments



Launched **Good Together**

Fonterra Brands New Zealand ranked

**#1**

in independent Advantage customer survey



**2** million litres of ethanol supplied to help with hand sanitiser shortage in NZ during COVID-19

# Working together to achieve a healthy environment

**20%**  
reduction  
by 2020



**Delivered on target**  
to reduce energy intensity  
at our NZ manufacturing  
sites, from a 2003 baseline



Finalising **farm-specific greenhouse gas emissions reports**. To be sent  
to supplying farms in October 2020



Switching from  
**coal to wood pellets**  
at Te Awamutu site, which will  
reduce our coal use by almost 10%

**34%**



of supplying  
farms now have  
**Farm Environment Plans**  
^ from **23%** at the start of year

# Delivered on our 2020 priorities



**Healthy People** – Supported regional New Zealand and focused on building a great team



**Healthy Environment** – Reduced our environmental footprint



**Healthy Business** – Hit our financial targets



# Our 2021 priorities

1

**Co-operative**



**Being here for  
farmers and employees**

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Competitive milk price  
Participation in The Co-operative  
Difference  
Health & Safety

2

**Performance**



**Deliver on  
our promises**

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Return on Capital  
Debt/EBITDA  
Sustainable performance to enable  
continued dividend

3

**Community**



**Do what's right for  
customers, communities  
and environment**

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Exceed customer expectations  
Support communities through  
nutrition programmes  
Make our low carbon footprint  
model a powerful point of  
differentiation

**Our Co-op, empowering people to create goodness for generations**  
**You, me, us together – Tātou, tātou**

# 2021 Outlook

## Forecast Farmgate Milk Price



- Forecast Farmgate Milk Price range of \$5.90-\$6.90 per kgMS maintained
  - Assumes no significant impact to product pricing from global economic impact of COVID-19
  - Subject to product pricing and FX changes, as still early in the season with normal levels of high uncontracted volume
  - Dairy demand and supply is finely balanced

## Forecast Earnings



- Full year normalised earnings per share range of 20-35 cents
- Key assumptions include:
  - Improved trading performance, driven by Asia and Greater China as COVID-19 restrictions ease
  - Lower financing costs and less significant items
  - Favourable price relativities of 2020 second half not replicated

# Capital structure update

## Our fundamentals



Dairy for life

**Building a  
financially  
sustainable  
NZ Co-op**

**Maintaining  
farmer  
ownership  
& control**

**Ensuring  
we have a  
sustainable  
milk supply**

# We have identified the principles that should inform the capital structure review

## Ownership & Control

Does the structure preserve farmer ownership and control of the Co-operative for the long term?

## Sustainable Milk Supply

Does the structure support our ability to attract and retain high quality, sustainable milk and provide financial flexibility for farmers?

## Protect Value

Does the structure protect value for current Co-operative members and allow farmers to transact their membership / shareholding in a way that is fair?

## Align Incentives

Does the structure align incentives between shareholders, unitholders and management, to maximise value?

## Build Resilience

Does the structure manage redemption risk and economic shocks in a way that makes the Co-operative resilient?

## Transition Effectively

Is the transition to a potential new structure affordable, achievable and fair to unitholders and farmer shareholders?

## Access Capital

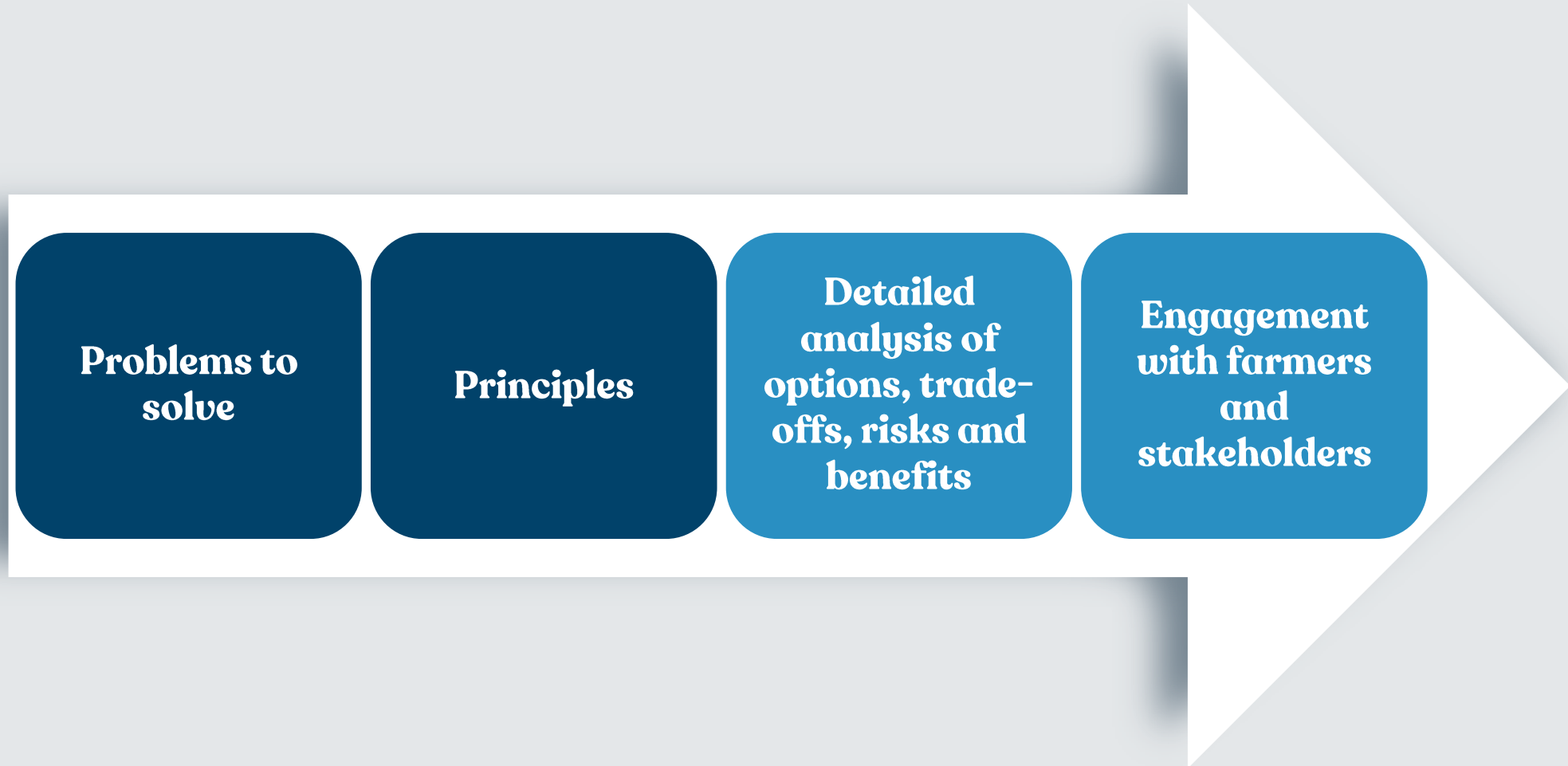
Does the structure preserve balance sheet strength and provide access to capital at a reasonable cost in the future?

## Simple

Is the structure simple to understand and simple to operate for both farmers and the Co-operative?



# The capital structure review remains a key priority for the Co-op

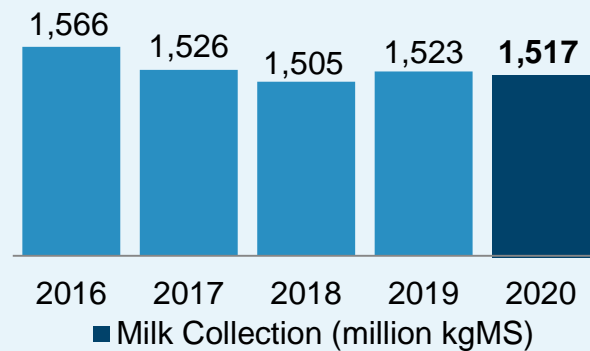


# Appendix

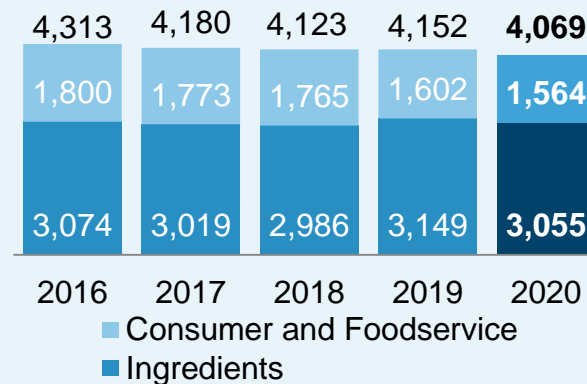


# Key financial metrics for Total Group FY20

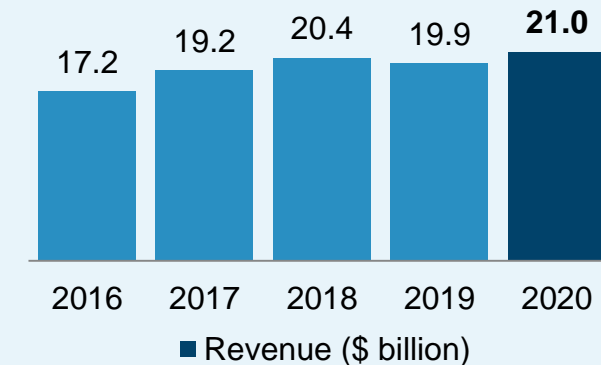
## New Zealand Milk Collection



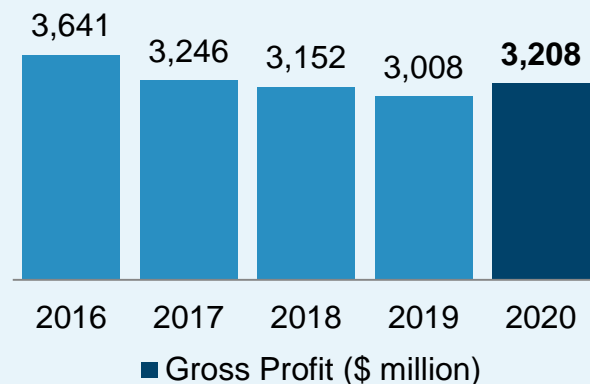
## Sales Volume<sup>1</sup> ('000 MT)



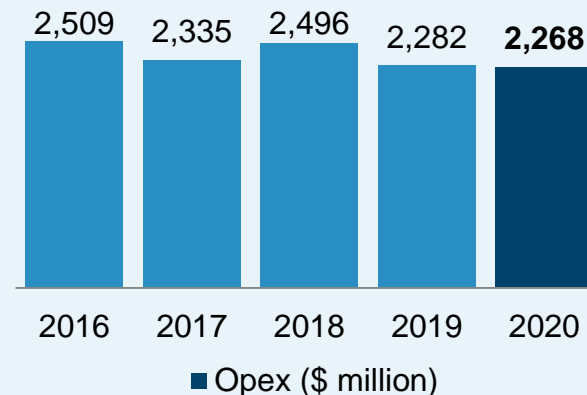
## Normalised Revenue



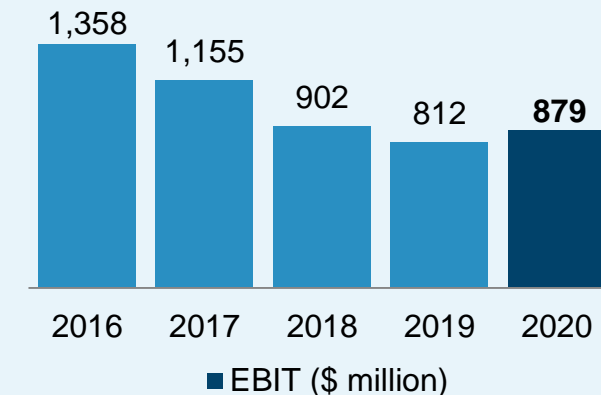
## Normalised Gross Profit



## Normalised OPEX



## Normalised EBIT

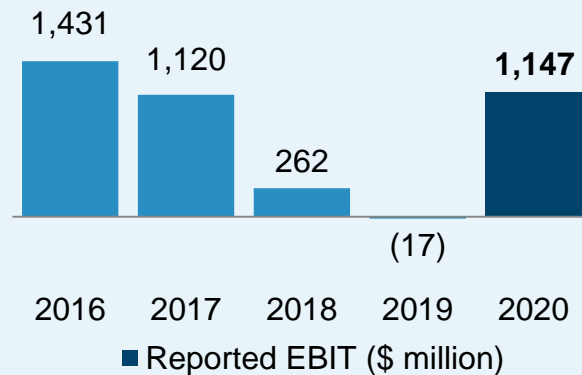


1. Consumer and Foodservice and Ingredients sales volumes do not add to total volumes displayed due to inter-group eliminations and exclude Discontinued Operations.

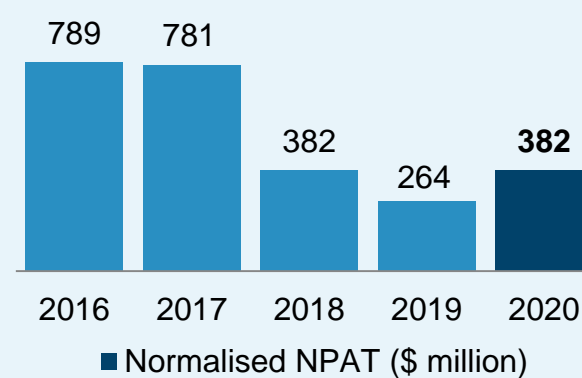
2. Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

# Key financial metrics for Total Group FY20

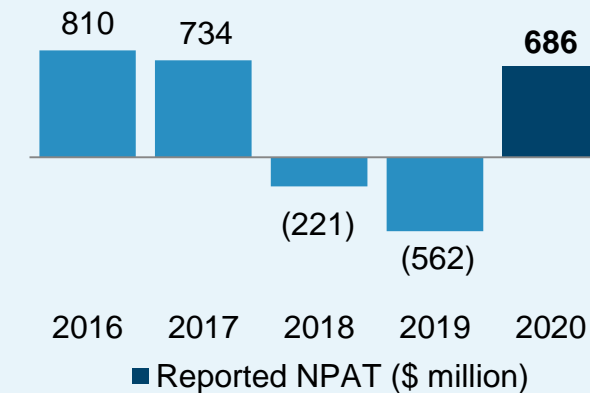
## Reported EBIT



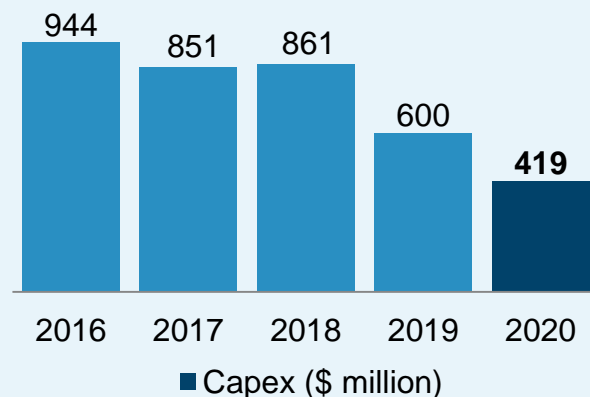
## Normalised Profit After Tax<sup>1</sup>



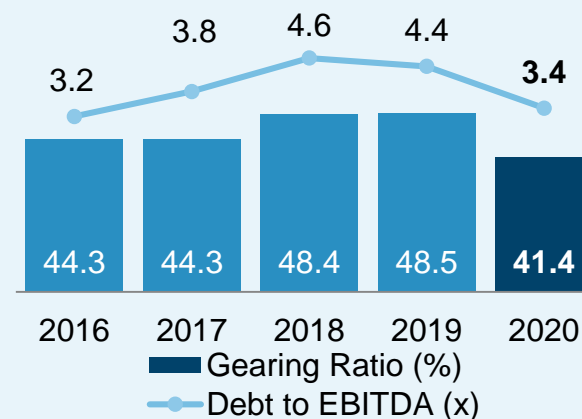
## Reported Profit After Tax<sup>1</sup>



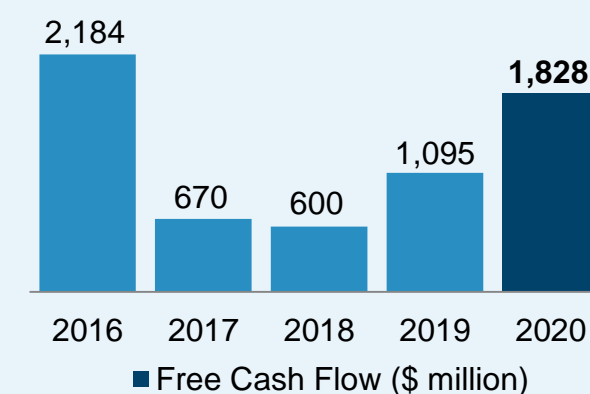
## Capex<sup>2</sup>



## Leverage



## Free Cash Flow



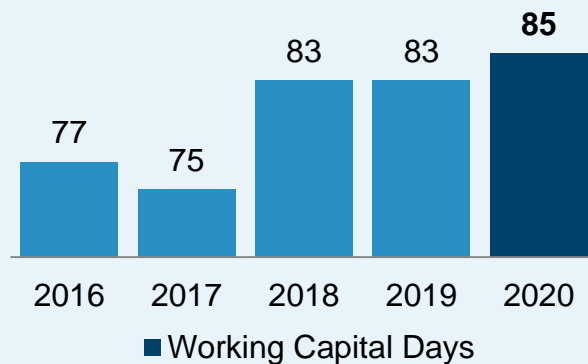
1. Profit after tax attributable to equity holders of the Co-operative.

2. Capital expenditure comprises purchases of property, plant and equipment and intangible assets, and net purchases of livestock.

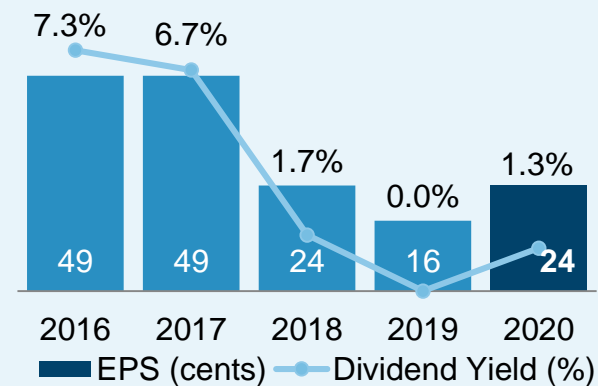


# Key financial metrics for Total Group FY20

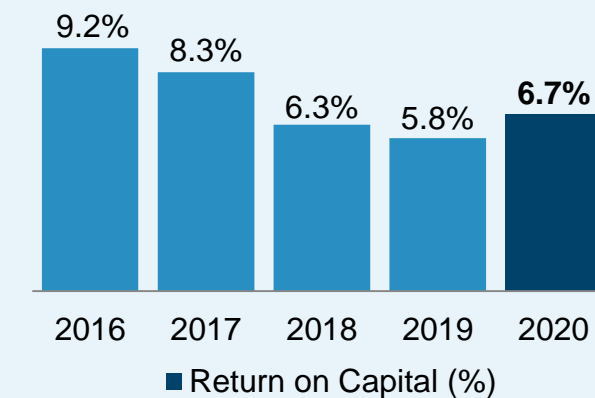
## Working Capital Days



## Normalised EPS and Dividend Yield<sup>1</sup>



## Return on Capital<sup>2</sup>



1. Dividend over volume weighted average share price from 1 August to 31 July.

2. Including intangibles and equity accounted investments.

# Breakdown of Total Group performance



NZD million	31 July 2019			31 July 2020		
	Continuing Operations <sup>1</sup>	Discontinued Operations <sup>1</sup>	Total Group <sup>2</sup>	Continuing Operations <sup>1</sup>	Discontinued Operations <sup>1</sup>	Total Group <sup>2</sup>
Revenue	19,255	665	19,920	20,282	693	20,975
Cost of Goods Sold	(16,349)	(563)	(16,912)	(17,236)	(531)	(17,767)
Gross Profit	2,906	102	3,008	3,046	162	3,208
Gross Margin	15.1%	15.3%	15.1%	15.0%	23.4%	15.3%
Operating Expenses	(2,143)	(139)	(2,282)	(2,139)	(129)	(2,268)
Other <sup>3</sup>	70	16	86	(60)	(1)	(61)
Normalised EBIT	833	(21)	812	847	32	879
Normalisations	(483)	(346)	(829)	435	(167)	268
<b>EBIT</b>	<b>350</b>	<b>(367)</b>	<b>(17)</b>	<b>1,282</b>	<b>(135)</b>	<b>1,147</b>

1. Refer to Note 1a and 2c of the FY20 Financial Statements.

2. Total Group includes Continuing Operations and Discontinued Operations.

3. Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

# Impact of major initiatives from strategic review

## Significant net positive impact on earnings and cash flow

### Businesses sold

#### DFE Pharma and foodspring™

- \$623 million of cash proceeds received and \$467 million gain on sale

### Businesses in sale process

#### China Farms and DPA Brazil

- Impaired asset values to align with information from sale processes:
  - China Farms, \$63 million impairment
  - DPA Brazil, \$104 million<sup>1</sup>  
(After-tax split \$45 million, Fonterra and \$43 million, non-controlling interest)
- Classified as 'held for sale' and 'Discontinued Operations' in financial accounts

### Business performance review

#### China Farming Joint Venture

- Continuing to look for opportunities to improve the performance of the business
- \$65 million impairment to align with updated valuation information

Full reconciliation of impairments and other normalisations is provided on the subsequent slide and the Annual Report.

1. \$104 million impact to EBIT. After-tax impact is \$88 million, \$45 million to Fonterra and \$43 million to joint venture partner.

# Normalised items



NZD million	Gain on Sale	Impairment	Other	Profit Before Tax	Tax Impact	Profit After Tax	Non-controlling Interests	Attributable to Equity Holders
<b>Portfolio Review</b>								
DFE Pharma	401		26	427		427		427
foodspring®	66			66		66		66
China Farms		(63)		(63)		(63)		(63)
DPA Brazil		(104)		(104)	16	(88)	43	(45)
China Farming JV		(65)		(65)		(65)		(65)
<b>Sub total</b>	<b>467</b>	<b>(232)</b>	<b>26</b>	<b>261</b>	<b>16</b>	<b>277</b>	<b>43</b>	<b>320</b>
Beingmate			50	50		50		50
Chile					(30)	(30)		(30)
Other <sup>1</sup>	12		(55)	(43)	7	(36)		(36)
<b>Total</b>	<b>479</b>	<b>(232)</b>	<b>21</b>	<b>268</b>	<b>(7)</b>	<b>261</b>	<b>43</b>	<b>304</b>

Note: Refer to Note 2 in the FY Financial Statements for further detail of impairments.

1. \$12 million gain on sale relates to the sale of the Dennington site. The \$55 million of costs are associated with implementing the new operating model and other legal costs.



# Significant items included in normalised Profit after tax

Normalised earnings of 24 cent per share includes negative six cents of significant items



## Impairments

### Chesdale™ and Fonterra Brands New Zealand

- \$57 million impairment of intangible asset values due to uncertainty of future long-term growth in their respective markets:
  - Chesdale™, an Asia brand, \$36 million brand impairment shared between Greater China and Asia
  - New Zealand Consumer, \$21 million goodwill impairment

## Provision

### Employee related provision

- Includes \$28 million provision for potential payment relating to holiday pay, pending judicial interpretation of the requirements of legislation in New Zealand

## Trading entity company closure

### Fonterra (Europe) GmbH

- Related to our Europe business restructure in 2010. Final closure of German trading entity requires the foreign currency translation reserve to be released to the Income Statement
- \$19 million impact to profit after tax

# Operating expenses<sup>1</sup>

\$ million		2018	2019 <sup>2</sup>	2020
<b>Ingredients</b>	Selling and marketing	128	114	142
	Distribution	237	239	228
	Administrative expenses	331	333	363
	Research and development	3	20	24
	Other expenses	109	56	25
	<b>Total</b>	<b>808</b>	<b>762</b>	<b>782</b>
<b>Consumer and Foodservice</b>	Selling and marketing	493	414	391
	Distribution	335	277	252
	Administrative expenses	223	262	240
	Research and development	13	44	40
	Other expenses	149	92	86
	<b>Total</b>	<b>1,213</b>	<b>1,089</b>	<b>1,009</b>
<b>Unallocated Costs</b>	Operating and administration	380	282	338
	Research and development	64	10	10
	<b>Total</b>	<b>444</b>	<b>292</b>	<b>348</b>
<b>Total Normalised Operating Expenses</b>		<b>2,465</b>	<b>2,143</b>	<b>2,139</b>
<b>Discontinued Operations<sup>3</sup></b>		<b>31</b>	<b>139</b>	<b>129</b>
<b>Normalised Operating Expenses</b>		<b>2,496</b>	<b>2,282</b>	<b>2,268</b>

- Total Group normalised operating expenses decreased \$14 million
  - 2019 benefited from not paying employee performance incentives
  - 2020 excluded Tip Top, divested during 2019, and main reason Consumer and Foodservice was down \$80 million
  - 2020 includes increased provisions, held within Unallocated Costs
- Additional \$69 million of costs previously held at Group allocated to segments in FY20
  - FY19 restated to provide comparability
- Unallocated Costs up \$56 million due to increased provisions

1. Normalised basis.

2. Increased allocation of unallocated costs to business segments in FY20. FY19 restated to provide improved comparability.

3. Includes the China Farms and DPA Brazil business units which are classified as 'held for sale' in the FY20 Financial Statements.

# Unallocated costs

## Illustrative Business Unit Distribution of 2020 Unallocated Costs<sup>1</sup>

Unallocated Costs <sup>2</sup> (\$ million)	2019 <sup>3</sup>	2020 <sup>3</sup>	Consumer and			
			Ingredients	Foodservice	Not Allocated	Total
Research and Development	10	10	7	3	—	10
Group Finance and Support	54	59	—	—	59	59
IT	63	71	48	23	—	71
Farmer Services	39	37	37	—	—	37
People and Culture	21	20	13	7	—	20
Advertising and Promotion Costs	16	15	—	—	15	15
Food Safety and Quality	14	9	6	3	—	9
Property	8	6	4	2	—	6
Trade Relations and Compliance	10	9	6	3	—	9
Governance	9	8	—	—	8	8
Other <sup>4</sup>	48	104	21	4	79	104
<b>Total</b>	<b>292</b>	<b>348</b>	<b>142</b>	<b>45</b>	<b>161</b>	<b>348</b>

1. For illustrative purposes, in this table the unallocated costs for 2020 have been shown against the business units where the primary function of the cost item is to support the business units. The distribution is based on sales revenue. The balance is retained as "Not Allocated".

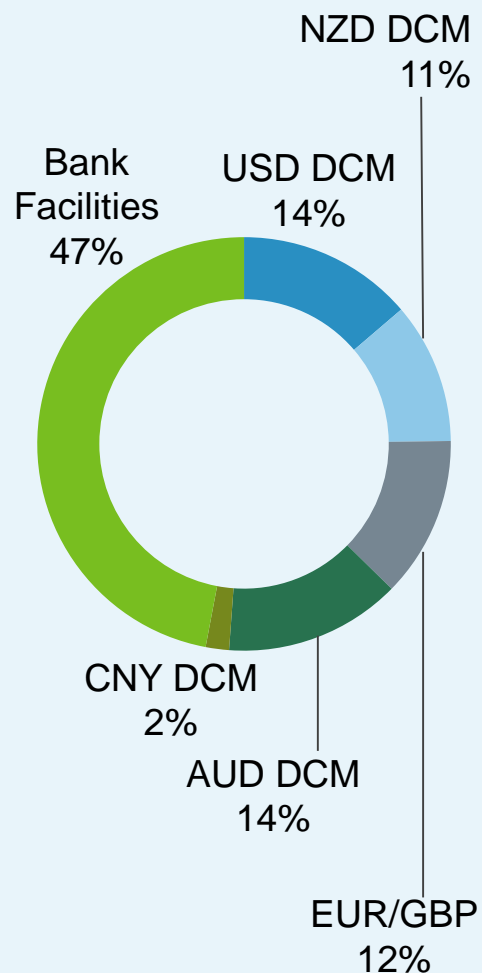
2. Normalised basis, excludes impairment of intangible assets not included in strategic review as shown separately.

3. Increased allocation of unallocated costs to business segments in FY20. FY19 restated to provide improved comparability.

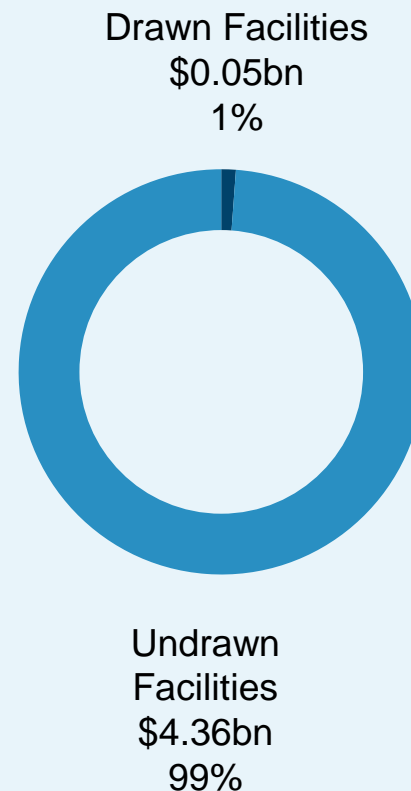
4. Includes provision for potential change in legislative interpretation of holiday pay for New Zealand employees.

# Diversified and prudent funding position

## Diversified Profile<sup>1</sup>

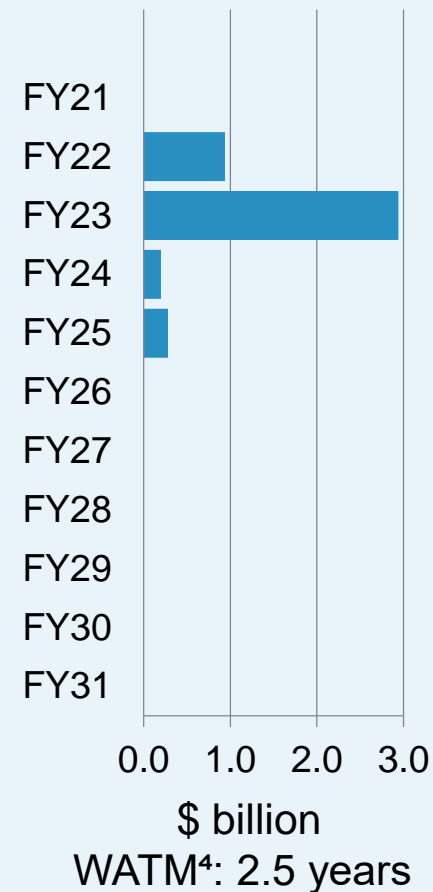


## Prudent Liquidity<sup>2</sup>



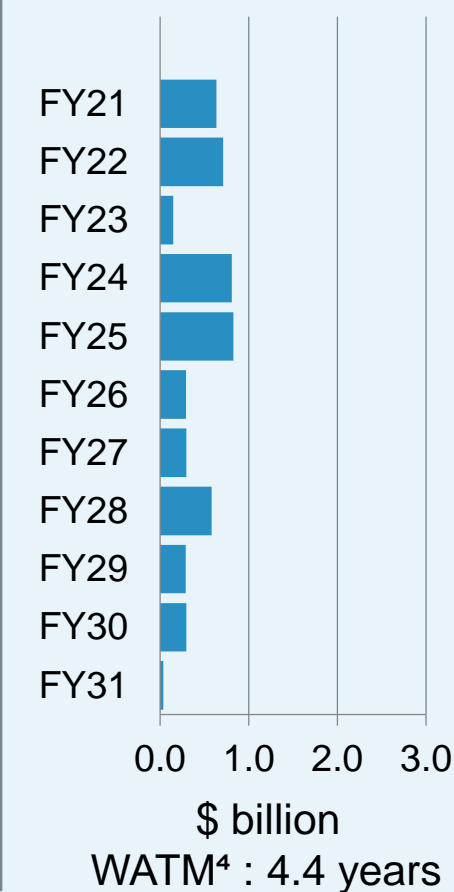
## Bank Facilities<sup>3</sup>

### Maturity Profile



## Debt Capital Markets

### Maturity Profile



Note: As at 31 July 2020.

1. Includes undrawn facilities but excludes Discontinued Operations.

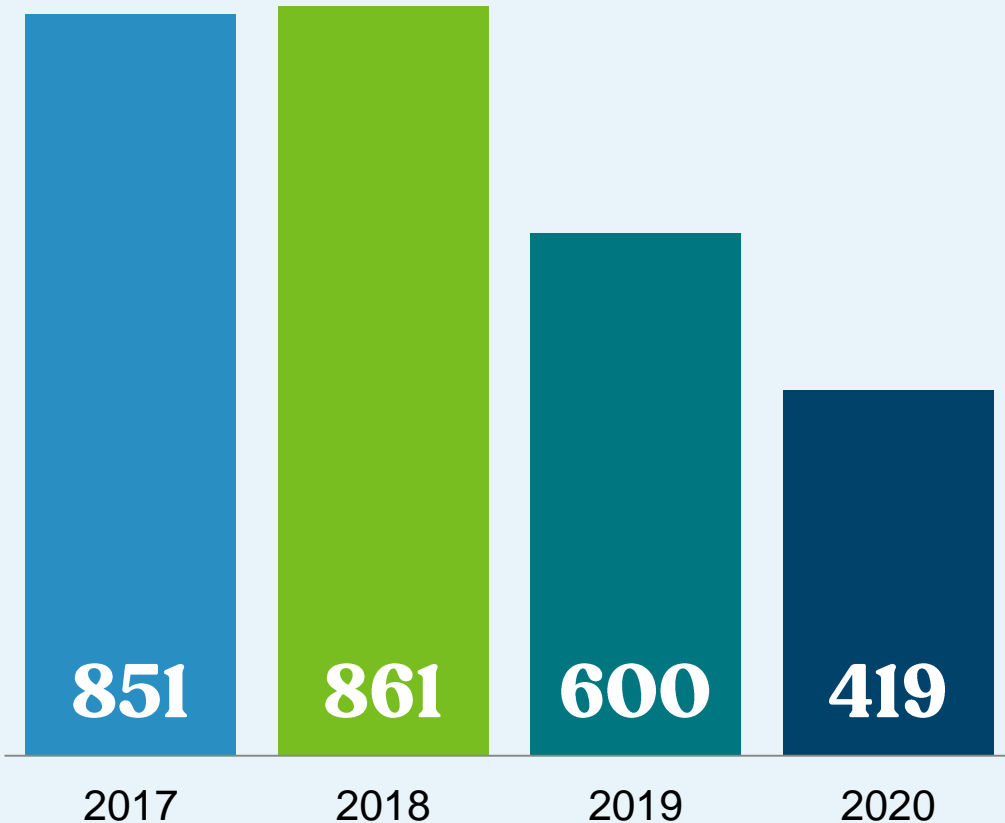
2. Includes parent and subsidiary facilities.

3. Parent bank facilities.

4. WATM is weighted average term to maturity

# Capital expenditure

\$ million



- Capital expenditure is down \$181 million to \$419 million
  - Discretionary spend decreased from \$260 million to \$37 million, down \$223m, partially offset by;
  - Essential spend increased from \$340 million to \$382 million, up 12%
- Key drivers of the reduction:
  - COVID-19 impacted timing of current projects with increased accruals
- FY21 forecast capital expenditure of \$550 million:
  - Includes investing in sustainability toward carbon emission reduction, wastewater management, and packaging
  - Completion of FY20 projects partially impacted by COVID-19
  - Total capital investment envelope of \$600 million including the \$550 million capital expenditure



# Number of full time employees decreasing



- Efficiency and reorganisation efforts reduced FTE permanent employees by 420
  - 103 FTE reduction in Australia due to Dennington closure
  - Increase in New Zealand Ingredients and decrease in New Zealand Consumer and Foodservice reflects realignment of R&D FTE

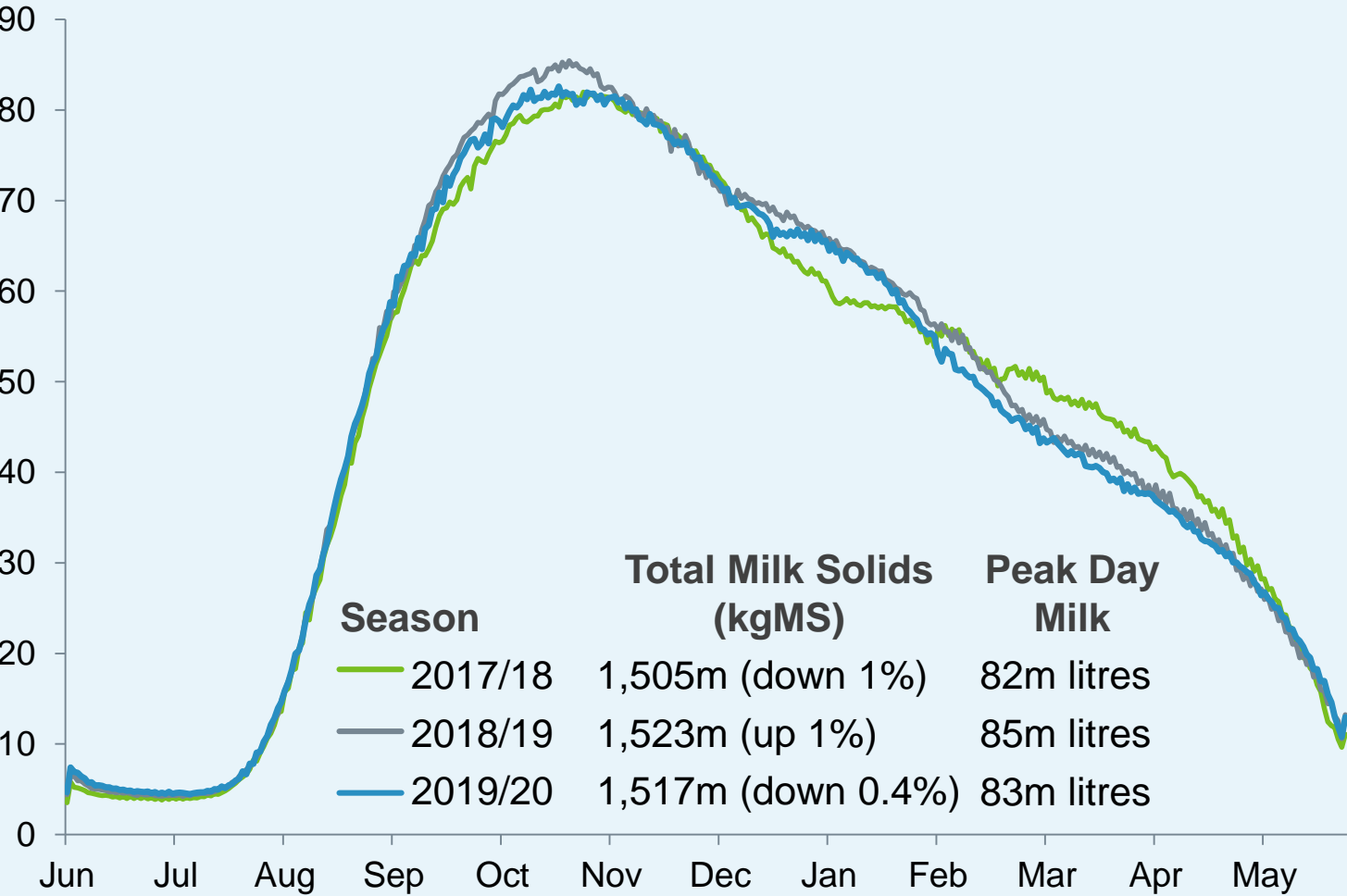
Function	FY18	FY19	FY20	Breakdown of 2020 by Geographic Region						Total
				New Zealand	Australia	Asia and MEA	Greater China	Latin America	Rest of World	
Ingredients	10,391	10,317	10,754	8,812	936	333	87	397	189	10,754
Consumer and Foodservice	8,245	6,893	6,172	1,228	248	1,599	554	2,543	–	6,172
China Farms	1,065	1,103	1,028	–	–	–	1,028	–	–	1,028
Group Functions	1,780	1,700	1,639	1,432	35	89	53	23	7	1,639
<b>Total</b>	<b>21,481</b>	<b>20,013</b>	<b>19,593</b>	<b>11,472</b>	<b>1,219</b>	<b>2,021</b>	<b>1,722</b>	<b>2,963</b>	<b>196</b>	<b>19,593</b>

Note: Figures represent full time employees. Defined as permanent, salary and wage, employees as at 31 July.

# Fonterra's New Zealand milk collections



Volume (m litres/day)



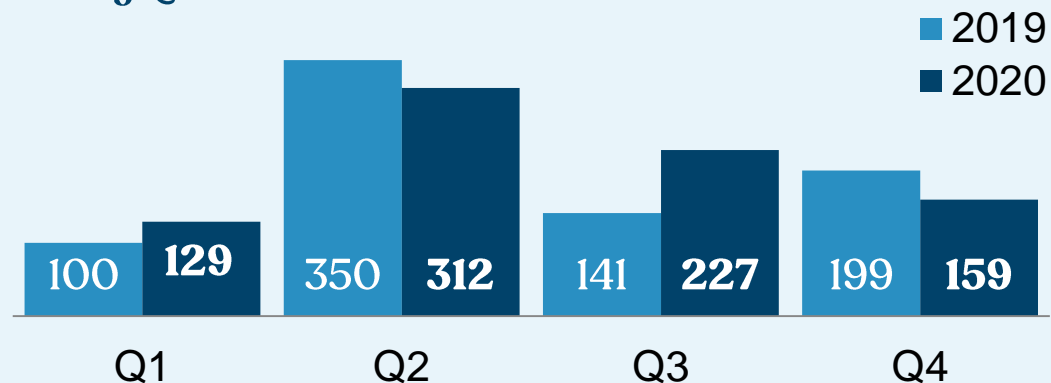
- Fonterra's New Zealand milk collections for the 2019/20 Season were 1,517 million kgMS, down 0.4% on last season
  - North Island collections down 2.1%, impacted by dry weather
  - South Island collections up 2.1%:
    - Favourable weather conditions across Canterbury, resulting in good pasture growth and strong milk production
    - Lower South Island impacted by heavy rain and flooding
- 2020/21 Season forecast of 1,525 million kgMS

# Ingredients<sup>1</sup>



million	2019	2020	%Δ <sup>2</sup>
Volume <sup>3</sup> ('000 MT)	3,149	3,055	(3)%
Revenue (\$)	16,291	17,365	7%
Gross Profit (\$)	1,446	1,611	11%
Gross Margin (%)	8.9%	9.3%	
Operating Expenses (\$)	(762)	(782)	(3)%
Other <sup>4</sup> (\$)	106	(2)	-
EBIT (\$)	790	827	5%
Discontinued Operations	(14)	—	

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



- Sales volumes down 3%, 94,000 MT, mainly due to decline in Australia Ingredients' milk collections
- Gross profit increased \$165 million
  - New Zealand up \$131 million, mainly due to favourable price relativities in second half
  - Australia up \$21 million due to Dennington closure savings, better product mix and utilisation of our Stanhope site
  - Chile up \$13 million due to improved product pricing
- Increase in operating expenses reflect not paying employee performance incentives in FY19
- DFE Pharma earnings included in 'Other' in FY19
- EBIT from continuing operations increased \$37 million, up 5%

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. FY19 restated to provide improved comparability after increased allocation of unallocated costs to business segments in FY20.

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: Figures are NZD millions on a normalised basis. Numerical or percentage changes are expressed relative to the performance of FY19.

## New Zealand Ingredients<sup>1</sup>

## Australia

## Other and Eliminations

### Volume<sup>2</sup>

**2,881,000** MT

From 2,951,000 MT

**269,000** MT

From 328,000 MT

**(95,000)** MT

From (130,000) MT

### Gross Margin

**9.3%**

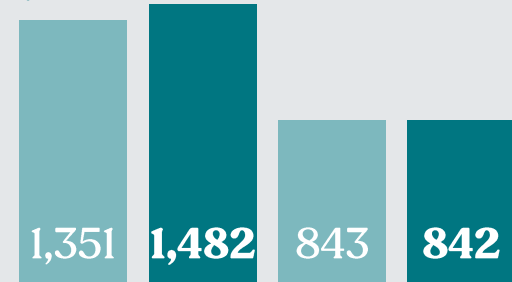
From 9.1%

**2.1%**

From 0.6%

## Ingredients by region

\$ million



2019

2020

2019

2020

Gross Profit

EBIT

10

**31**

(52)

**(25)**

2019

2020

2019

2020

Gross Profit

EBIT

85

**98**

(1)

**10**

2019

2020

2019

2020

Gross Profit

EBIT

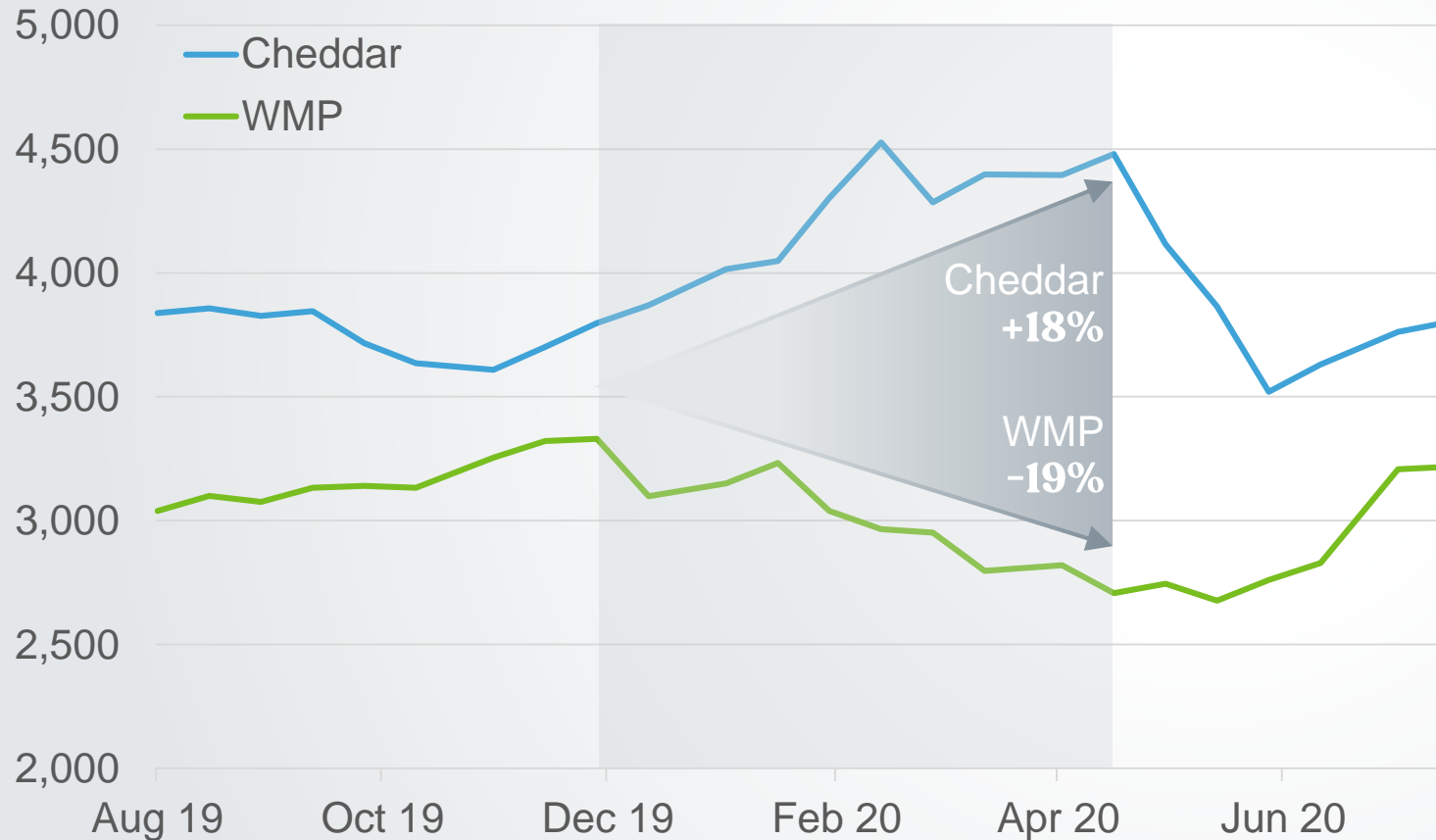
1. Ingredients' performance restated to include China Farming joint venture. China Farms business unit is classified as a Discontinued Operation, financial performance relating to sales of milk from China Farms have been removed from the Ingredients segment for FY19. FY19 restated to provide improved comparability after increased allocation of unallocated costs to business segments in FY20.

2. Includes sales to other strategic platforms.

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

# New Zealand Ingredients

## Favourable pricing relativities contributed to second half performance



- Favourable pricing relativities between reference and non-reference products
  - Characterised by the price movements of WMP (Reference product) and Cheddar (Non-reference product)
- Significant improvement in second half of financial year
  - WMP prices declined 19% from early December to late April
  - Cheddar prices rose 18% from early December to late April



# New Zealand Ingredients product mix

	2019		2020	
	\$ million	\$ per MT	\$ million	\$ per MT
<b>Sales Volume (000 MT)<sup>1</sup></b>				
Reference	1,864	–	1,820	–
Non-Reference	774	–	794	–
<b>Revenue<sup>1</sup></b>				
Reference	8,833	4,739	9,450	5,192
Non-Reference	4,202	5,427	4,770	6,006
<b>Cost of Milk</b>				
Reference	(6,673)	(3,580)	(7,207)	(3,959)
Non-Reference	(2,398)	(3,098)	(2,829)	(3,562)
<b>Gross Profit</b>				
Reference	626	336	648	356
Non-Reference	701	905	727	916

- Favourable product prices, increase in Non-reference revenue higher compared to Reference revenue increase
- Milk cost of protein has increased by proportionally more than the milk cost of fat
  - Non-reference products' portfolio is weighted to protein products
  - Reference products' portfolio is weighted to fat products
- Greater increase in Reference gross margin relative to Non-reference due to cost of milk
- Both reference and non-reference gross profit increased 4%
  - Reference higher gross margin
  - Non-reference increased volumes and gross margin

1. Excludes bulk liquid milk. Bulk liquid milk for the year ended 31 July 2020 was 69,000 MT of kgMS equivalent (year ended 31 July 2019 was 73,000 MT of kgMS equivalent).

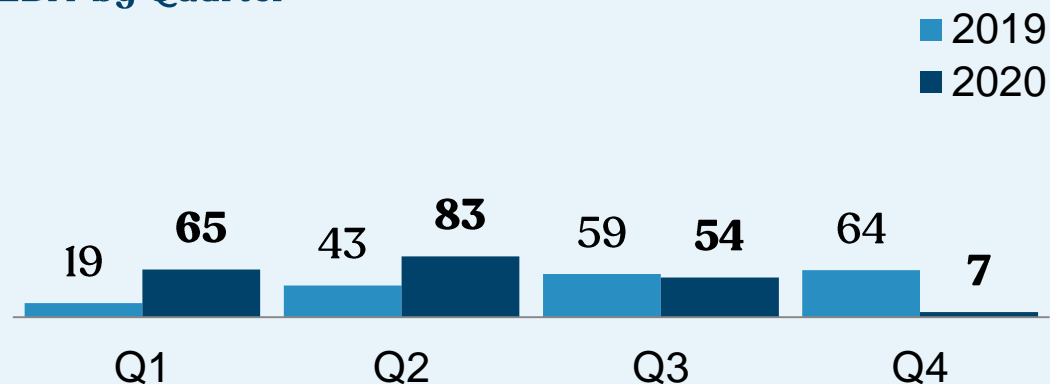
Note: Figures represent Fonterra-sourced New Zealand milk only. Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF. Milk solids used in the products sold were 1,023 million kgMS in reference and 404 million kgMS non-reference (previous comparable period 1,046 million kgMS reference and 397 million non-reference).

# Foodservice



million <sup>1</sup>	2019	2020	%Δ <sup>2</sup>
Volume <sup>3</sup> ('000 MT)	465	444	(5)%
Revenue (\$)	2,673	2,652	(1)%
Gross Profit (\$)	420	437	4%
Gross Margin <sup>4</sup> (%)	15.7%	16.5%	
Operating Expenses (\$)	(233)	(226)	3%
Other <sup>5</sup> (\$)	(3)	(2)	
EBIT (\$)	184	209	14%
Discontinued Operations	—	—	

## EBIT by Quarter<sup>6</sup>



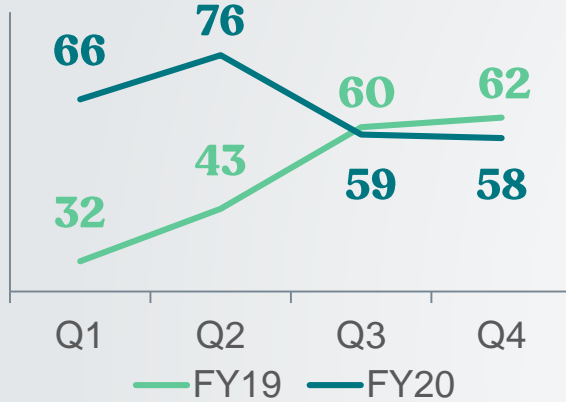
- Full year EBIT growth due to strong first half. Second half impacted by COVID-19, particularly fourth quarter
- Strong first half in Greater China and Asia, due to a recovery in butter margins and selling more higher gross margin products
- \$148 million EBIT in first half decreasing to \$61 million EBIT in second half, impacted by COVID-19
  - Greater China, COVID-19 impacted early Q3 but rebounded quickly. Q4 impacted by COVID-19 outbreaks
  - Asia and Oceania, significantly impacted in Q4 by the restrictions put in place to manage the pandemic
- Operating expenses decreased \$7 million due to lower distribution costs as a result of the lower sales volume
- EBIT increased \$25 million, up 14%

1. Individual Consumer and Foodservice tables may not align to combined Consumer and Foodservice table due to rounding.  
 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. 2019 impacted by change in timing of revenue recognition for sales to distributor in Greater China. Refer to Note 28 in

the FY20 Financial Statements.  
 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 normalised in NZD millions. Figures presented are for FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19.

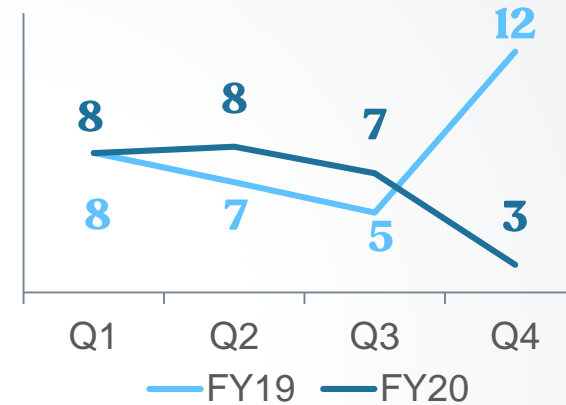
# COVID-19 impact on Foodservice gross profit

## Greater China



- Strong first half
- COVID-19 impacted early Q3 but rebounded quickly
- Q4 impacted by COVID-19 outbreaks

## Latin America



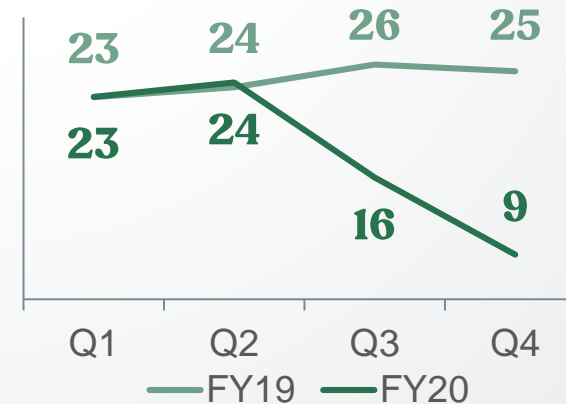
- Slight improvement during first three quarters
- COVID-19 impacted during Q4

## Asia



- Good first half
- Impact of COVID-19 began late Q3
- Significant impact in Q4
- Slower recovery than Greater China

## Oceania



- Steady first half
- COVID-19 impacted progressively during second half



## Greater China

## Asia

## Latin America

## Oceania

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

**257,000** MT

From 237,000 MT

**81,000** MT

From 93,000 MT

**30,000** MT

From 32,000 MT

**76,000** MT

From 104,000 MT

### Gross Margin

**16.3%**

From 13.8%

**14.9%**

From 15.8%

**24.1%**

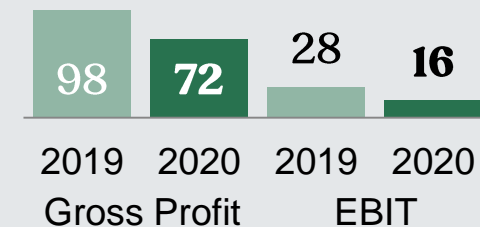
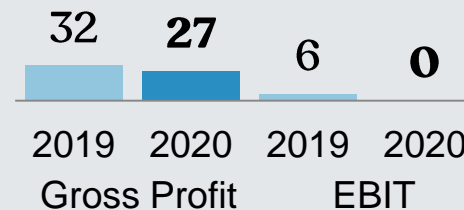
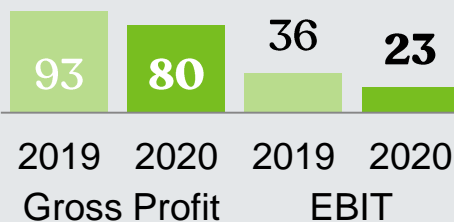
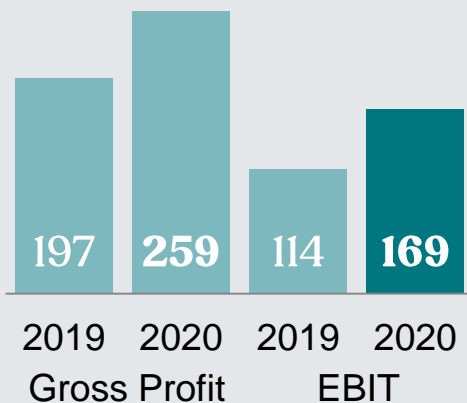
From 22.7%

**17.3%**

From 18.9%

## Foodservice by region

\$ million



1. Includes sales to other strategic platforms.

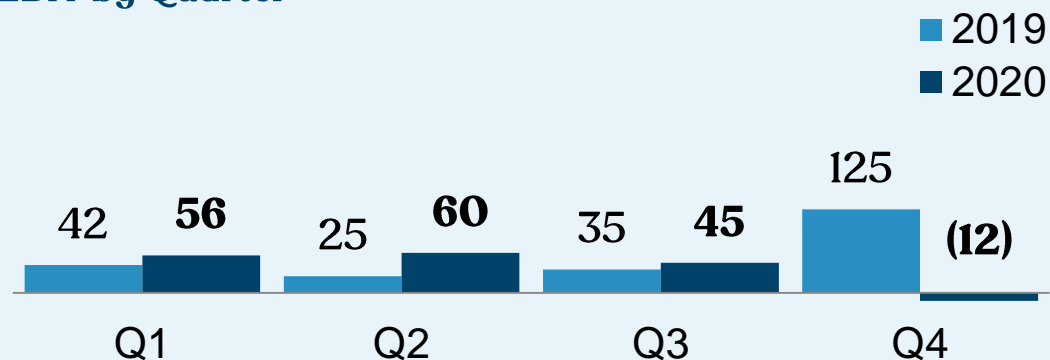
Note: Figures presented are for FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19. Sum of individual numbers from the regional and divisional breakdown may not add to the totals in each category due to rounding.

# Consumer



million <sup>1,2</sup>	2019 <sup>3</sup>	2020	%Δ <sup>4</sup>
Volume <sup>5</sup> ('000 MT)	1,137	1,120	(1)%
Revenue (\$)	4,223	4,251	1%
Gross Profit (\$)	1,078	1,001	(7)%
Gross Margin (%)	25.5%	23.5%	
Operating Expenses (\$)	(856)	(783)	9%
Other <sup>6</sup> (\$)	5	(69)	-
EBIT (\$)	227	149	(35)%
Discontinued Operations <sup>7</sup>	(8)	21	

## EBIT by Quarter<sup>8</sup>



- Consumer EBIT, excluding \$57 million of impairments, is down 10% mainly due to challenging market conditions in Hong Kong and Chile
- Gross profit declined \$77 million due to:
  - Greater China down \$31 million, due to the challenging market conditions in Hong Kong
  - Oceania gross margin reduced \$26 million predominantly due to the sale of Tip Top, which is in 2019 numbers
- Not adjusting for impairments, Consumer EBIT was \$149 million
- EBIT for DPA Brazil, shown as a Discontinued Operation, EBIT increased \$29 million due to growth in market share<sup>6</sup>

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. FY19 restated to provide improved comparability after increased allocation of unallocated costs to business segments in FY20.
4. 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.
5. Includes sales to other strategic platforms.

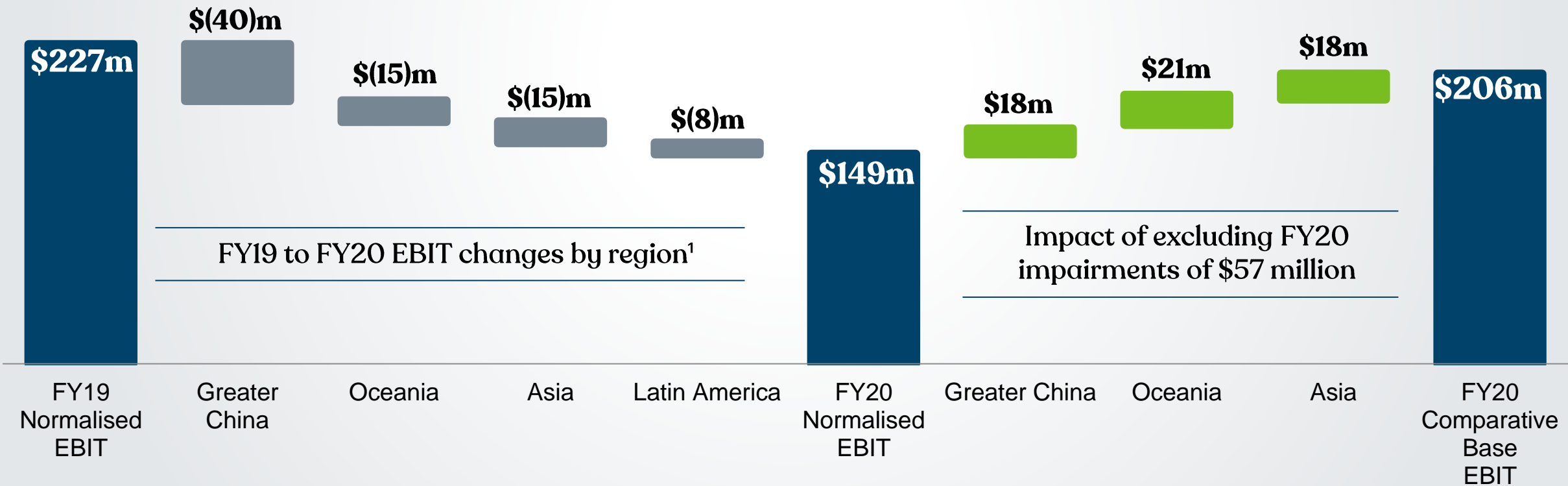
6. Includes other income, net foreign exchange gain/(loss) and share of equity accounted investees.
  7. DPA Brazil is a Discontinued Operation as of 31 January 2020, and as a result does not incur depreciation going forward. The depreciation associated with DPA Brazil would have been \$5 million for the period 1 February – 31 July 2020.
  8. 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 FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19.



# Consumer EBIT impacted by impairments



- Our Consumer normalised EBIT declined from \$227 million to \$149 million, a decrease of \$78 million
  - The \$78 million year-on-year decrease includes \$57 million of impairments
- Excluding the impairments, FY20 Consumer EBIT is down \$21 million on the prior year



1. FY19 to FY20 EBIT changes by region may not align to nominal change between FY19 EBIT and FY20 EBIT due to rounding

## Greater China

## Asia

## Latin America

## Oceania

### Volume<sup>2</sup>

**73,000** MT

From 76,000 MT

**198,000** MT

From 204,000 MT

**322,000** MT

From 333,000 MT

**527,000** MT

From 524,000 MT

### Gross Margin

**32.8%**

From 40.1%

**27.5%**

From 28.1%

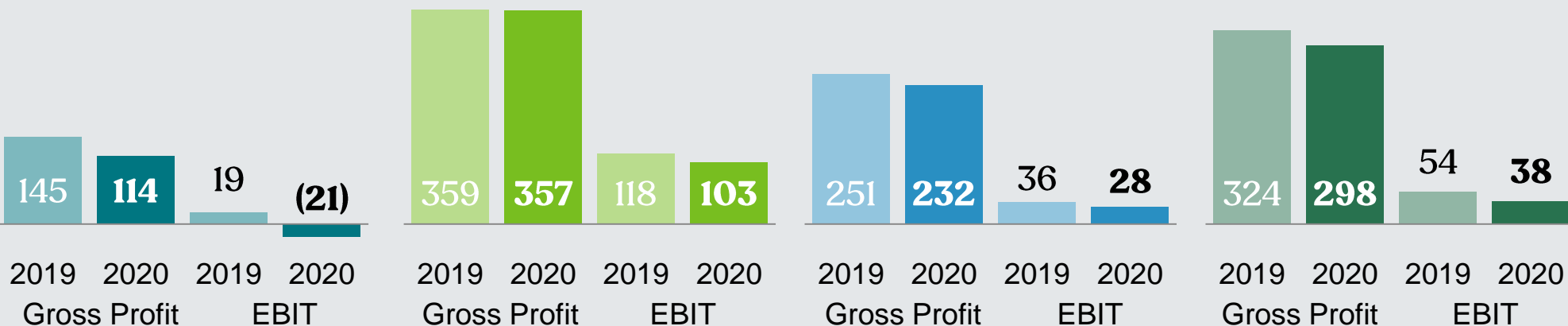
**25.0%**

From 26.6%

**17.8%**

From 19.7%

\$ million



1. Normalised basis and excludes Discontinued Operations. FY19 restated to provide improved comparability after increased allocation of unallocated costs to business segments in FY20.

2. Includes sales to other strategic platforms.

Note: Figures presented are for FY20 and FY19 as a comparative. Numerical or percentage changes are expressed relative to the 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  
by region<sup>1</sup>**

# China Farms



million	2019	2020	%Δ <sup>1</sup>
Volume <sup>2</sup> ('000 MT)	20	22	8%
Revenue (\$)	247	282	14%
Gross Profit <sup>3</sup> (\$)	(14)	33	—
Gross Margin (%)	(5.7)%	11.9%	
Operating Expenses (\$)	(16)	(23)	46%
Other <sup>4</sup> (\$)	16	1	(91)%
China Farms EBIT <sup>3</sup> (\$)	(14)	11	—
End-to-End EBIT Perspective			
Ingredients EBIT <sup>5</sup> (\$)	(20)	(5)	
Consumer and Foodservice EBIT <sup>6</sup> (\$)	4	6	
China Farms End-to-End <sup>7</sup> (\$)	(30)	12	—

- China Farms' sales volumes increased 8% due to higher productivity, and recovery from flood in Yutian
- China Farms' gross profit improved \$47 million due to a flatter milk supply curve and improved milk prices
- Operating expenses increased due to rightsizing herd, livestock removed from the herd were sold below carrying value
- Other declined \$15 million due to last year benefiting from an increase in livestock valuation
- China Farms' EBIT increased \$25 million
- The China Farming joint venture loss reduced from a \$19 million loss last year to a loss of \$12 million this year, assisted by lower animal husbandry 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. China Farms is a Discontinued Operation as of 31 January 2020, and as a result does not incur depreciation going forward. The depreciation associated with China Farms would have been \$6 million for the period 1 February – 31 July 2020.
4. Includes other income, net foreign exchange gain/(loss).

5. Includes China Farming joint venture and associated management fees.
6. EBIT impact of milk from China Farms sold by Consumer and Foodservice businesses.
7. 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 FY20, and FY19 as a comparative. Numerical or percentage changes are expressed relative to the performance of FY19.

## 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. It excludes the borrowings attributed to Discontinued Operations.

### 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