# Media Release

18 March 2020

## Fonterra reports its Interim Results

**Interim Results Summary**

- Total group normalised Earnings Before Interest and Tax (EBIT): $584 million, up from $312 million
- Total group EBIT: $806 million, up from $312 million
- Normalised Net Profit After Tax: $293 million, up from $72 million
- Reported Net Profit After Tax: $501 million, up from $72 million
- Free cash flow: $369 million, up from $(782) million
- Net debt: $5.8 billion, down from $7.4 billion
- Normalised Ingredients EBIT: $441 million, down from $464 million
- Normalised Foodservice EBIT: $147 million, up from $61 million
- Normalised Consumer EBIT: $116 million, up from $67 million
- Full year forecast normalised earnings: 15-25 cents per share
- Decision not to pay an interim dividend
- Forecast Farmgate Milk Price: $7.00-$7.60 per kgMS
- Forecast milk collections: 1,515 million kgMS

Fonterra Co-operative Group Limited today announced its 2020 Interim Results, which show the Co-operative's financial performance has improved with increased underlying earnings and reduced debt.

Fonterra CEO Miles Hurrell says Fonterra has built on the work done in 2019 and has continued to reset its business, introducing a new strategy, reorganising and resizing its teams so there is greater focus on customers, and at the same time, significantly lifting its financial performance.

"We are now a very different Co-op to this time last year – we're prioritising New Zealand milk and staying focused on what we know we're good at and what makes a difference to our farmer owners, unit holders, employees and communities.

"While there's no doubt the world is experiencing an almost unprecedented situation and response to COVID-19, I'm pleased with the progress we've made so far against our four priorities for 2020. These are to hit our financial targets, reduce our environmental footprint, build a great team, and support regional New Zealand. By achieving these, we will take strides towards our long-term goals of Healthy People, Healthy Environment and Healthy Business."

Fonterra's key financial targets for 2020 are to meet its earnings guidance of 15-25 cents per share, achieve a gross margin in excess of $3 billion, reduce debt so it is no more than 3.75x its earnings and ensure capital expenditure is no more than $500 million.

Commenting on these targets, Mr Hurrell says he is pleased with the progress and momentum Fonterra has achieved in the first six months of the financial year, but Fonterra is now operating in a very different global context as a result of COVID-19.

“Our total group normalised earnings for the first six months of the 2020 financial year are up $272 million on last year to $584 million. We’ve delivered this through stable underlying earnings from our Ingredients business, improving gross margins in Foodservice and reducing our operating expenses.

“Our Foodservice business has definitely been our stand-out performer in the first half as we’ve grown our sales to bakeries and coffee and tea houses across Greater China and Asia.

“We continue to reduce our debt. We completed the sale of DFE Pharma and foodspring® in the first half of the year with cash proceeds of $624 million and this has helped reduce net debt by 22% or $1.6 billion, compared to this time last year.

“Our strategy and the importance we place on financial discipline means we are continuously reviewing our asset portfolio. We’ve completed strategic reviews on China Farms and DPA Brazil, and sales processes for both assets are well under way.

“Through these sale processes and strategic reviews, we have gained additional information and further insights and, as a result, we have revised down the valuation of China Farms and DPA Brazil by a total of $134 million.

“We have also reduced the value of our China Farming joint venture by $65 million and we continue to look for opportunities to improve the ongoing performance of the business.

“Our teams continue to carefully manage costs and we’ve reduced our operating expenditure by $140 million on the same period last year. At the same time, we are not cutting costs in areas that are aligned to our strategy and will deliver additional long-term value from our farmer owners’ milk.

“While lifting our financial performance, we’ve also kept sustainability and communities at our heart. Some examples include:

- Contributing around $11.1 billion to the New Zealand economy through the milk price, with farmers spending nearly half of this in their local communities
- Working with another 1,000 farms this year through The Co-operative Difference to put in place Farm Environment Plans and getting ready to give individualised greenhouse gas emissions reports to all supplying farms at the end of the year
- Making the decision to stop using coal at our Te Awamutu site next season and, by doing so reducing our total coal usage by 10%
- Supporting farmers and communities impacted by floods in the South Island and delivering water to help towns in drought affected North Island.

“It gives me great pride to lead a team who genuinely care and recognise the importance of out farmers and local communities.”

**Dividend**

Despite the strong earnings performance so far this year, the Board has decided not to declare an interim dividend.

Chairman John Monaghan says “after considering the current uncertainty of the impact COVID-19 could have on earnings in the second half of the year, the Board has elected to not pay an interim dividend. At the end of the financial year the Board will reassess the Co-op’s financial position and review the decision to pay a dividend.”

## Outlook for the second half

In talking about the second half of the financial year, Mr Hurrell reaffirms the forecast Farmgate Milk Price range of $7.00-$7.60 per kgMS and forecast normalised earnings guidance of 15-25 cents per share.

“Our underlying earnings are tracking well at the half year, but there is no doubt that we have a number of risks that are outside our control in the second half – in particular, the potential impact of COVID-19 on global demand, geo-political risks in key markets such as Hong Kong and Chile, and ongoing dry weather conditions here in New Zealand which could impact collections and potentially input costs. As a result, we have held our forecast earnings range at 15-25 cents per share.

“As I said a few weeks ago, we have already contracted a high percentage of this year’s milk supply. But our teams know we have to keep our foot on the pedal and navigate very carefully through the challenges we’ll face in the second half.”

#### Non-GAAP financial information

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised segment earnings, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and payout. This reporting period Fonterra has introduced Total group earnings before tax and Total group normalised earnings before interest and tax non-GAAP performance measures that present the combined financial performance of the group’s continuing and discontinued operations.

These are non-GAAP financial measures and are not defined by NZ IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends.

These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. These non-GAAP measures are not subject to audit unless they are included in Fonterra’s annual financial statements.

Definitions of the non-GAAP measures used by Fonterra, and reconciliations of the NZ IFRS measures to the non-GAAP measures can be found on pages 16 and pages 70 to 71 of Fonterra’s Interim Report 2020 that is available on Fonterra’s website.

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### About Fonterra

*We’re a global dairy nutrition company owned by 10,000 farmers and their families. We’ve built our expertise on the legacy of the thousands of farmers who’ve made New Zealand a world leader in dairy. With a can-do attitude and a collaborative spirit, we’re a world leading dairy exporter. Our 22,000 people share the goodness of dairy nutrition with the world through our innovative consumer, foodservice and ingredient solutions brands, and our farming and processing operations across four continents.*