Market Announcement

17 March 2021

Fonterra reports a positive half year result

Summary of numbers

- Reported Profit After Tax $391 million, down 22%*
- Normalised Profit After Tax: $418 million, up 43%#
- Total Group normalised Earnings Before Interest and Tax (EBIT): $684 million, up 17%#
- Total Group EBIT: $657 million, down 18%
- Net debt: $5.6 billion, down 3%
- Total Group normalised Gross Profit: $1,722 million, up 3%
- Total Group normalised Gross Margin: 17.4%, up from 16%
- Total Group normalised Operating expenditure: $1,055 million, down 3%
- Normalised Greater China EBIT: $339 million, up 38%
- Normalised Asia Pacific EBIT: $190 million, up 9%
- Normalised Africa, Middle East, Europe, North Asia, Americas (AMENA) EBIT: $201 million, down 7%
- Full year forecast normalised earnings per share: 25-35 cents per share
- Interim dividend: 5 cents per share
- Forecast Farmgate Milk Price: $7.30-$7.90 per kgMS
- Forecast milk collections: 1,525 million kgMS, up 0.5%

** 2020 included the gain from the divestments of DFE Pharma and foodspring®.*

 # These normalised numbers reflect the underlying performance of the business.

Fonterra Co-operative Group Limited today announced its 2021 Interim Results and they show the Co-operative has had a positive first half, resulting in a Total Group normalised EBIT of $684 million, normalised Profit After Tax of $418 million and a decision to pay an interim dividend of 5 cents alongside a strong forecast Farmgate Milk Price.

Fonterra CEO Miles Hurrell says Fonterra is pleased with its Reported Profit After Tax of $391 million.

“While down on this time last year at a headline level, the 2020 financial year benefited significantly from the divestments of DFE Pharma and foodspring®.

"Despite the major impact COVID-19 is having around the world, the Co-op is staying focused on what it can control – looking after our people, making progress on our strategy to drive sustainable value for New Zealand milk and remaining committed to our 2021 priorities. Those priorities are:

- Our Co-operative, which is about being there for farmers and employees;
- Performance, which is about hitting our financial targets; and
- Community, which is about exceeding customer expectations, supporting communities through our nutrition programmes and making New Zealand's low carbon farming model a powerful point of differentiation.

"I would like to thank our team for delivering this result. While we've been fortunate here in New Zealand, many of our people overseas are still in lockdown and have now been working from home for 12 months. Our farmer owners have shared words of support for our teams and this has provided a sense of purpose and encouragement when it's been needed the most. It's during these times you really can see what makes our Co-op special."

From a performance perspective, Hurrell says the Co-op has had a great first six months of the 2021 financial year with Total Group normalised EBIT up $100 million to $684 million, a Total Group normalised Gross Margin of 17.4% (up from 16%) and Total Group normalised operating expenditure down $37 million.

"Our standout performer continues to be Greater China. The team has delivered a 38% increase in normalised EBIT to $339 million, reflecting the strength of our Foodservice business in this region, improvements in our Consumer business and China's strong economic recovery following the initial impact of COVID-19.

"Asia Pacific's normalised EBIT is up 9% to $190 million as a result of improvements in Foodservice and Consumer. Consumer has benefitted from more people staying at home and cooking with dairy and a renewed focus on our brands of Anchor, Anmum and Anlene.

"AMENA's normalised EBIT is down 7% because of lower sales volumes in Ingredients as we made the most of our ability to move milk into higher returning markets and products. However, we did see some good improvements in Foodservice and Consumer across AMENA."

Commenting on the global supply chain challenges, Hurrell says while it's tough going out there, the Co-op is proactively managing the situation and working with its ocean freight partnership Kotahi to keep product moving.

"Our sales book is well contracted – however, as a result of some small shipping delays, our product inventory is higher than it was this time last year and this means our investment in working capital is also higher. By the end of the financial year we expect this to be back to more normal levels as we have confidence in our supply chain to get product, already contracted, delivered to our customers.

"There's still more work to do, but our improved performance and reduced debt levels are helping us build the financial strength of the Co-op and we're on track to achieve our target debt/ EBITDA ratio of less than 3.5 this year.

"The Board wanted to be in a position to continue paying dividends. It is encouraging to have got the Co-op's earnings and debt to a level that supports a 5 cent dividend at this point in the year."

The record date for the payment of this dividend is 24 March 2021, and the payment date is 15 April 2021. Given Fonterra's ongoing capital structure review, the Co-op's dividend reinvestment plan will not apply to this dividend, which will be paid in cash.

Divestment update

As part of Fonterra's continuous review of its asset portfolio, today Fonterra can advise farmers and unit holders that, along with the joint venture partner, it has decided to undertake a sales process for the JV farms in China.

Hurrell says as with Fonterra's own China farms, the decision to sell the JV farms is in line with the Co-op's strategy to focus on New Zealand milk.

"We expect the sales of our farms to be completed this financial year and the sale of the JV farms to be completed this calendar year.

Fonterra has also continued to reduce its shareholding in Beingmate, which on 31 January 2021 was sitting at 3.94 % and is now 2.82%.

Hurrell says Fonterra will continue to sell down its remaining shareholding and expects to have fully exited this investment before the end of this financial year.

"As shown through our results today, Greater China continues to be one of our most important strategic markets. We remain committed to growing the value of our Greater China business, which we'll do by bringing the goodness of New Zealand milk to Chinese customers in innovative ways and partnering with local Chinese companies to do so."

Social and environmental progress

Commenting on Fonterra's social and environmental progress, Hurrell says at the same time as driving financial performance, the Co-op knows this goes hand-in-hand with being there for farmers, employees and customers, contributing to local communities and reducing our environmental footprint.

"We can't have one without the others if we want to be here for generations to come – and we're making some good progress in these areas too.

"Some examples include:

- Taking proactive steps to help keep our people well through COVID-19, at the same time as keeping the business operating during our busiest time of the year.
- Helping feed 15,000 Kiwi families through the Anchor Christmas Appeal in partnership with the NZ Food Network.
- Expanding a promising plantain trial to improve waterways, in partnership with Nestlé and DairyNZ, and also working with Royal DSM to test whether a feed additive called Bovaer® can reduce methane emissions in New Zealand's pasture-based farms.
- Working with more farmers in New Zealand to develop Farm Environment Plans and, with 42% of supplying farms now having one, we're well on our way to our target of 100% by 2025."

Outlook for the second half

In talking about the second half of the financial year, Hurrell reaffirms the forecast Farmgate Milk Price range of $7.30 - $7.90 per kgMS and forecast normalised earnings guidance of 25-35 cents per share.

“Fortunately, we are in a position, where so far, New Zealand dairy is proving to be resilient in a COVID-19 world. It’s a staple in people’s diets around the world and demand is strong.

“Despite a strong first half, we are expecting our earnings performance to come under significant pressure in the second half.

“The strong milk price is great for farmers. It’s good for New Zealand too – with a mid-point of $7.60 per kgMS, it would see us contribute more than $11.5 billion to the New Zealand economy.

“However, the increasing raw milk prices through the first half and now into the second half puts a lot of pressure on our sales margins and this will be seen through the second half of the year.

“We will face into this challenge in the same way we are with others – that’s focusing on what’s in our control and staying on strategy.”

Non-GAAP financial information

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised Profit After Tax, normalised EBIT, EBIT, normalised earnings per share and normalisation adjustments. Total Group measures present the combined financial performance of the Group’s continuing and discontinued operations.

Non-GAAP financial measures 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 audited Annual Financial Statements.

Reconciliations of the NZ IFRS measures to the non-GAAP measures used by Fonterra can be found in the Non-GAAP measures section of the Interim Report 2021 that is available on Fonterra’s website.

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