



Market Announcement

5 October 2020

FONTERRA SELLS CHINA FARMS

Fonterra has agreed to sell its China farms for a total of \$555 million (RMB 2.5 billion^{*1}), after successfully developing the farms alongside local partners.

Inner Mongolia Natural Dairy Co., Ltd, a subsidiary of China Youran Dairy Group Limited (Youran), has agreed to purchase Fonterra's two farming-hubs in Ying and Yutian for \$513 million (RMB 2.31 billion^{*1}).

Separately, Fonterra has agreed to sell its 85 per cent interest in its Hangu farm to Beijing Sanyuan Venture Capital Co., Ltd. (Sanyuan), for \$42 million (RMB 190 million^{*1}). Sanyuan has a 15 per cent minority shareholding in the farm and exercised their right of first refusal to purchase Fonterra's interest.

CEO Miles Hurrell says in building the farms, Fonterra has demonstrated its commitment to the development of the Chinese dairy industry.

"We've worked closely with local players, sharing our expertise in farming techniques and animal husbandry, and contributed to the growth of the industry.

"We don't shy away from the fact that establishing farms from scratch in China has been challenging, but our team has successfully developed productive model farms, supplying high quality fresh milk to the local consumer market. It's now time to pass the baton to Youran and Sanyuan to continue the development of these farms."

Mr Hurrell says the sale of the farms will allow the Co-op to prioritise the areas of its business where it has competitive advantages.

"For the last 18 months, we have been reviewing every part of the business to ensure our assets and investments meet the needs of the Co-op today. Selling the farms is in line with our decision to focus on our New Zealand farmers' milk.

"China remains one of Fonterra's most important strategic markets, receiving around a quarter of our production. Selling the farms will allow us to focus even more on strengthening our Foodservice, Consumer Brands and Ingredients businesses in China.

"We will do this by bringing the goodness of New Zealand milk to Chinese customers in innovative ways and continuing to partner with local Chinese companies to do so. Our investment in R&D and application centres in China will support this direction," says Mr Hurrell.

Completion of the sale, which is subject to anti-trust clearance and other regulatory approvals in China, is expected to occur within this financial year.

As previously announced, through the sale process and strategic review of our China Farms we gained additional information and further insights and, as a result, revised down the valuation of these assets.

The transaction value is subject to customary purchase price adjustments, and exchange rate movements. Any gains or losses on the sale would be normalised upon completion of the sale^{*2}.

Fonterra expects to use the cash proceeds from the two transactions to pay down debt, as part of its previously announced overall debt reduction programme.

^{*1} *Based on an RMB to NZD conversion rate of 4.5*

^{*2} *The announced forecast earnings will continue to reflect only the underlying performance of the business.*

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