



# PERFORMANCE REVIEW

# Interim Results 2016

MARCH 2016

OUR CO-OPERATIVE

OUR MARKETS

OUR PERFORMANCE

## Forward Looking Statements

This presentation contains forward looking statements, and forecasts, including statements of current intention, statements of opinion and predictions as to possible future events. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of Fonterra Co-operative Group (Fonterra) and its subsidiaries (the Fonterra Group) and cannot be predicted by the Fonterra Group and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which the Fonterra Group operates. They also include general economic conditions, exchange rates, interest rates, regulatory environments, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

None of Fonterra Co-operative Group Limited or any of its respective subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (Relevant Persons) makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward looking statement or forecast or any outcomes expressed or implied in any forward looking statement or forecast. The forward looking statements and forecasts in this report reflect views held only at the date of this presentation.

Statements about past performance are not necessarily indicative of future performance.

Except as required by applicable law or any applicable Listing Rules, the Relevant Persons disclaim any obligation or undertaking to publicly update any forward looking statements or forecasts, whether as a result of new information or future events.

## No offer of securities

This presentation does not constitute investment advice, or an inducement or recommendation to acquire or dispose of any securities in Fonterra or the Fonterra Shareholders' Fund, in any jurisdiction.

# OVERVIEW

# A tough season for farmers

Low milk price, but our Co-op delivered a strong result



## 2015/16 forecast payout

- |                                     |                          |
|-------------------------------------|--------------------------|
| • Farmgate Milk Price               | \$3.90 PER KGMS          |
| • Available for payout <sup>1</sup> | \$4.35 – \$4.45 PER KGMS |
| • Forecast full year dividend       | 40 cents PER SHARE       |
| • Cash payout <sup>2</sup>          | \$4.30 PER KGMS          |

## Strong interim results (6 months)

- |                              |               |
|------------------------------|---------------|
| • Normalised EBIT            | \$665 MILLION |
| • Interim earnings per share | 25 CENTS      |
| • Interim dividend per share | 20 CENTS      |

## Strength of the Co-op to support farmers

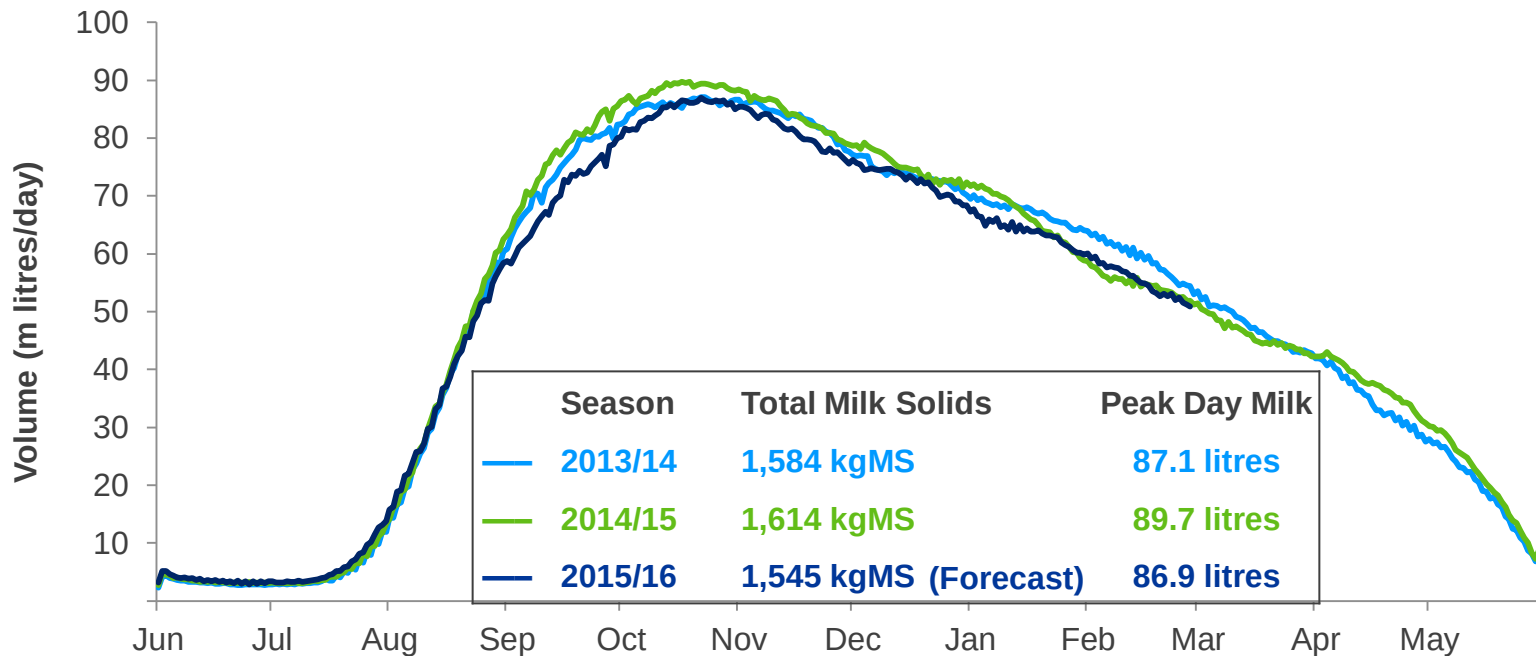
- Co-operative Support loan
- Farm Source™ deferred payment terms
- Higher interim dividend
- Intention to pay final dividend earlier

1. Total available for payout is forecast Farmgate Milk Price plus forecast earnings per share.

2. Cash payout is forecast Farmgate Milk Price plus forecast dividend per share.

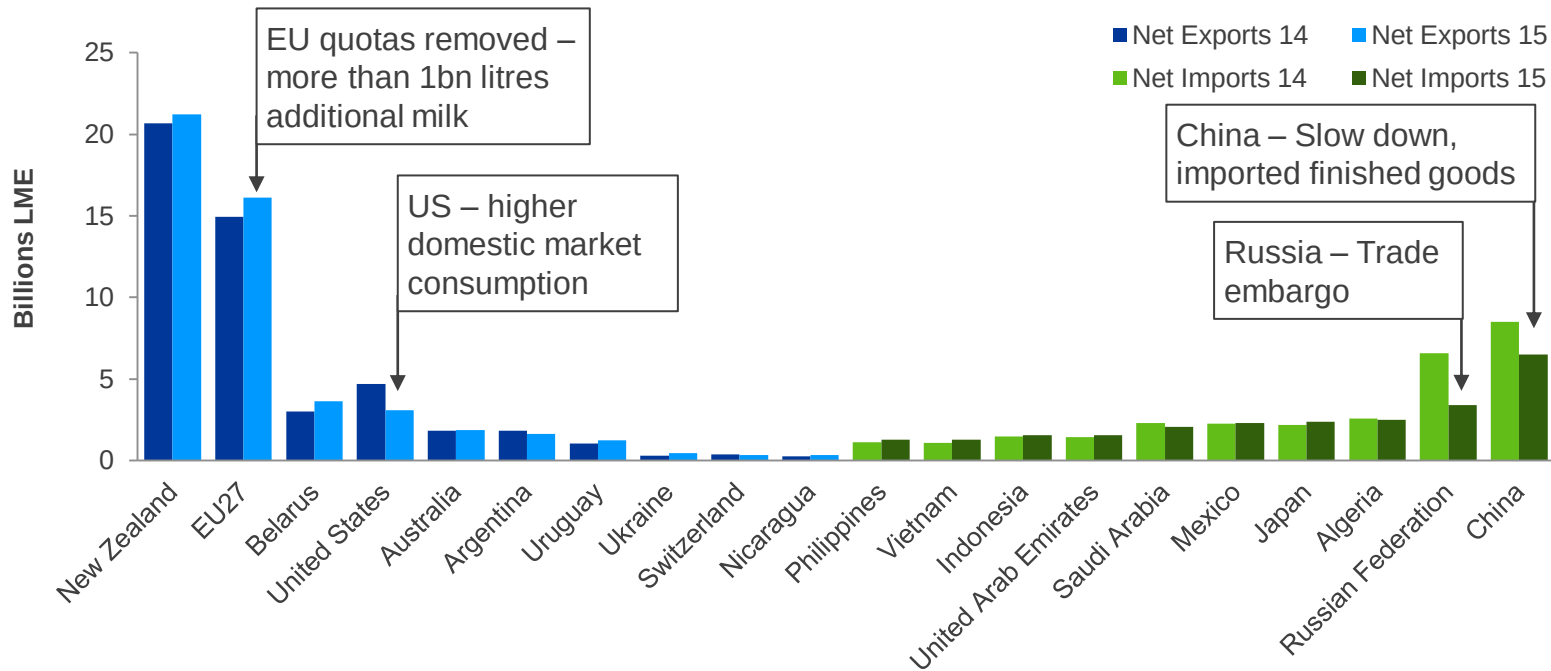
# Milk supply in NZ lower than last season

2015/16 season forecast to be 4% lower



# Global trade in dairy – temporary imbalance

## Key changes in net trade from 2014 to 2015



Note: Trade expressed in terms of tonnes of Liquid Milk Equivalent (milk standardized to 4.2% fat and 3.5% protein). These are the top 10 net importing and the top 10 exporting markets

# Outlook



- Good operating performance to continue
- Forecast 2015/16 total available for payout:
  - A forecast Farmgate Milk Price of \$3.90 per kgMS
  - A strong forecast earnings performance of 45-55 cents per share
- Intention to pay final dividend earlier
- Dairy market outlook
  - WMP price expected to lift through balance of 2016
  - Expecting EU to revert to normal growth of 1% per annum
  - Expecting China WMP imports to grow steadily at 4-5% per annum
  - Either a supply or demand shock could significantly change this outlook



# Strong Co-op



- Driving performance
  - Volume to higher value and increased earnings
  - Cash flow focus
  - Strong balance sheet
  - Higher dividend



- Fonterra Co-op Support loan
- Intention to pay final dividend earlier
- More support on the ground: regional heads
- Fonterra Farm Source™
  - Extended credit – \$31 million
  - Rewards programme delivered \$8.5 million in benefits to farmers





# PERFORMANCE

# Performance has been strong



## VOLUME

12.6BN LME

↑ 8%

## REVENUE

\$8.8BN

↓ 9%

## GROSS MARGIN

21%

↑ Up from 16%

## NORMALISED EBIT

\$665M

↑ 77%

## NET PROFIT AFTER TAX

\$409M

↑ 123%

## INTERIM DIVIDEND PER SHARE

20CPS

↑ 100%

### Ingredients<sup>1</sup>

Volume (LME) ↑ 6% chg

Gross Margin ↑ 15%

Normalised EBIT ↑ \$617m

### Consumer and Foodservice

Volume (LME) ↑ 10% chg

Gross Margin ↑ 28%

Normalised EBIT ↑ \$241m

### International Farming

Volume (LME) ↑ 54% chg

Gross Margin ↓ (21%)

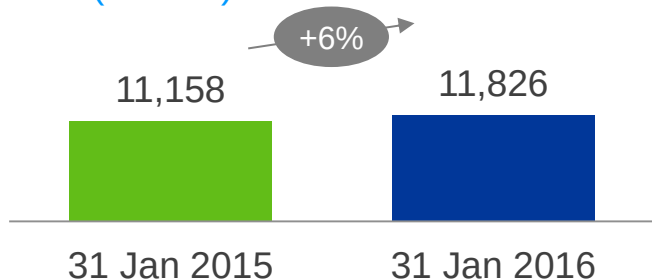
Normalised EBIT ↓ (\$29m)

1. Ingredients excludes unallocated costs.

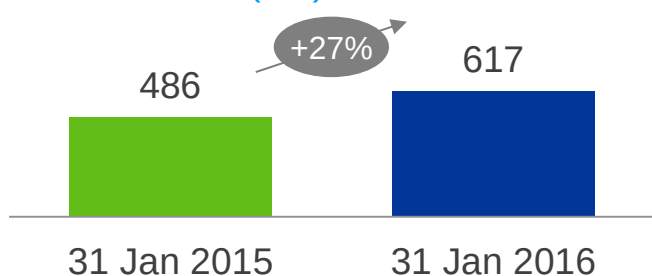
# Ingredients

## Delivered a strong performance

### Volume (m LME)



### Normalised EBIT (\$m)<sup>1</sup>



1. Ingredients normalised EBIT excludes unallocated group costs.

### Volume

- Higher sales of non-reference products
- Late season inventory from 2015 cleared

### Value

- Investments in NZ capacity – efficiencies, better yields
- NZ ingredients
  - No peak costs
  - Improved optionality and manufacturing performance
  - Positive stream returns – favourable product mix
- Australia ingredients – adverse product mix
  - EBIT \$28 million loss

# Global dairy market – strong long-term fundamentals

## New Zealand

- Significant participant in tradable market



25bn L (2% growth<sup>4</sup>)

## Globally Traded Dairy Market<sup>1,3</sup>

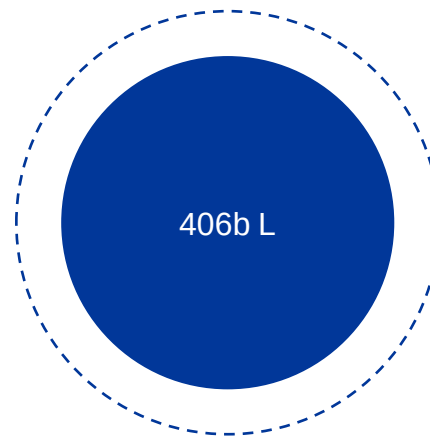
- Global export/import market
- Informs Farmgate Milk Price



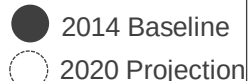
91bn L (5.5% growth<sup>4</sup>)

## Formal Dairy Market<sup>2,3</sup>

- Reflects total dairy demand



465bn L (2.3% growth<sup>4</sup>)



1. Source: International Farm Comparison Network (IFCN), Economist Intelligence Unit (EIU), Euromonitor, Fonterra analysis. Measured as total global imports.

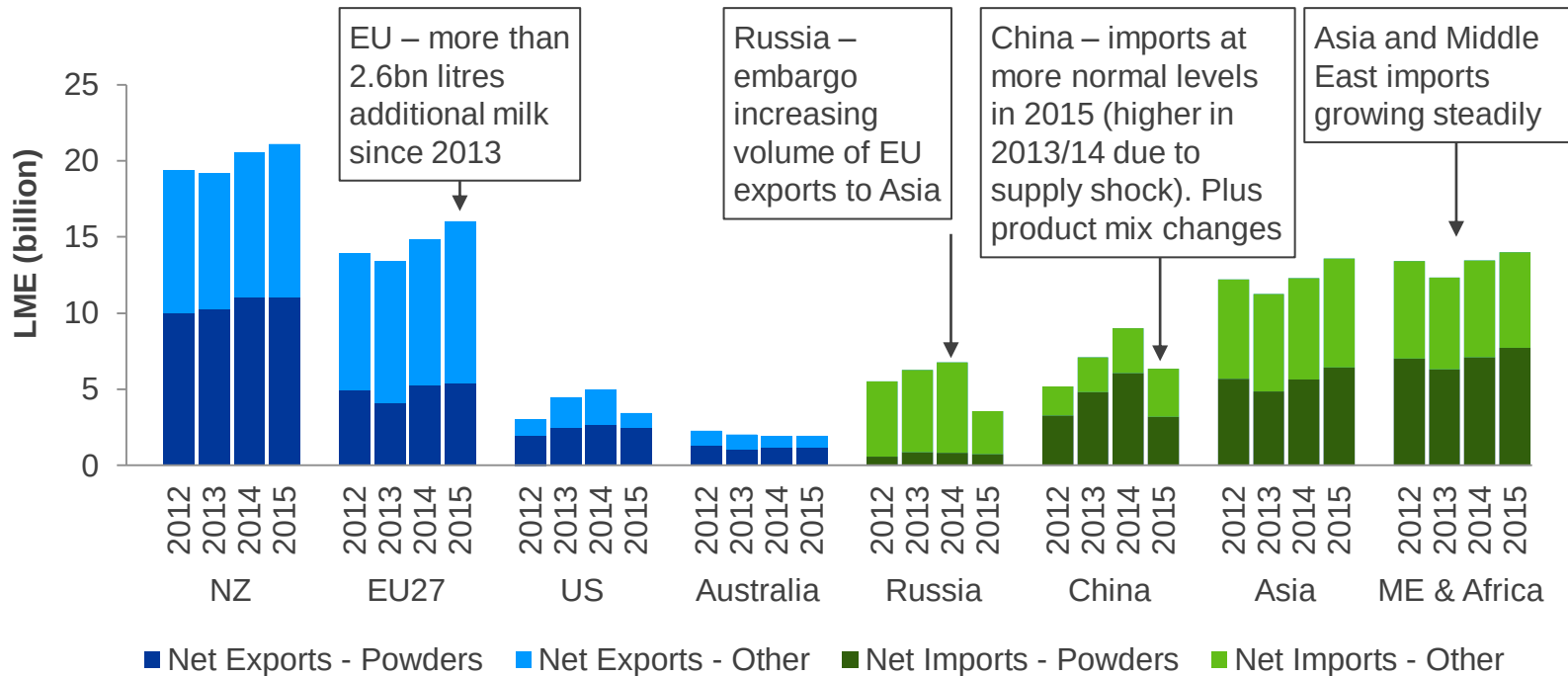
2. Source: Euromonitor.

3. Volume expressed on an LME basis with standardised composition of milk, 4.2% fat and 3.5% protein

4. Growth is compound annual growth.

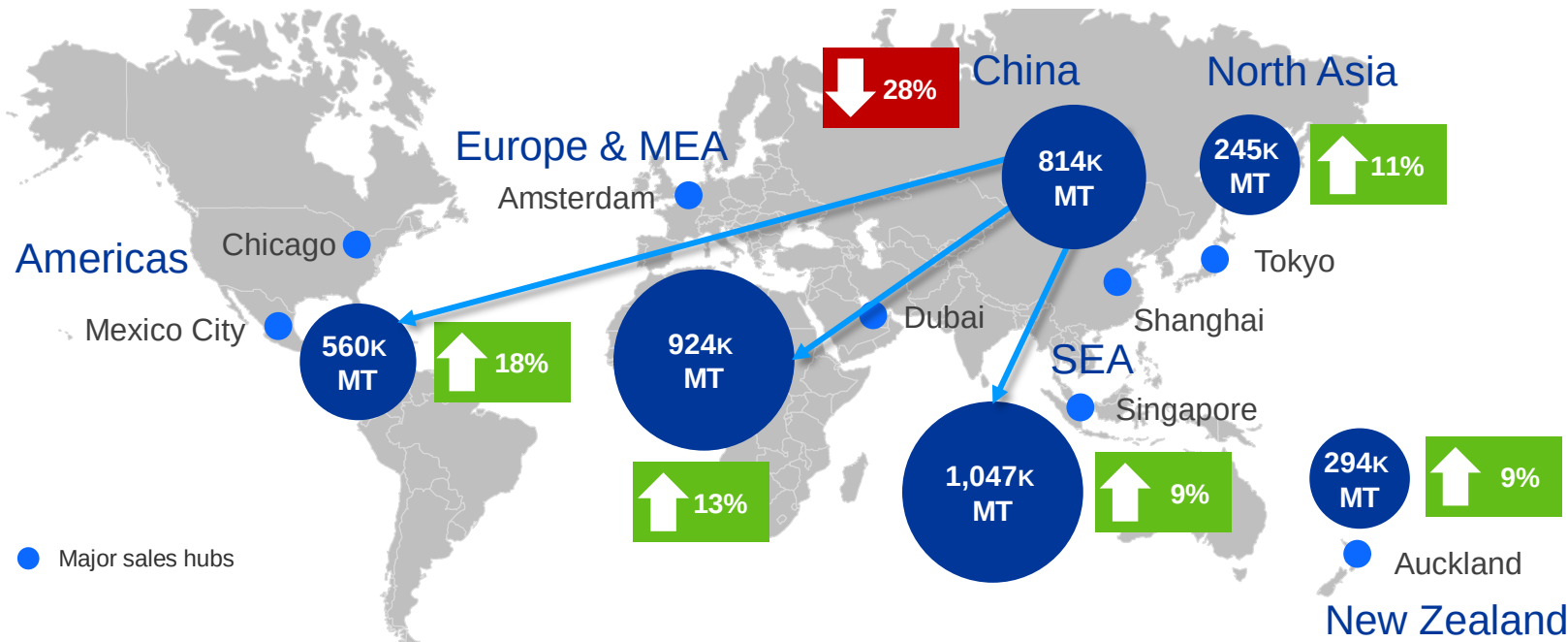
# Changes in the globally traded market impacting prices

## Significant change in imports and exports



# New Zealand ingredients market reach

Past 18 months lower sales to China offset by higher volume into other markets



Note: Major sales hub rounded volumes for 18 months to 31 Jan 2016 and percentage compared to 18 months to 31 Jan 2015.

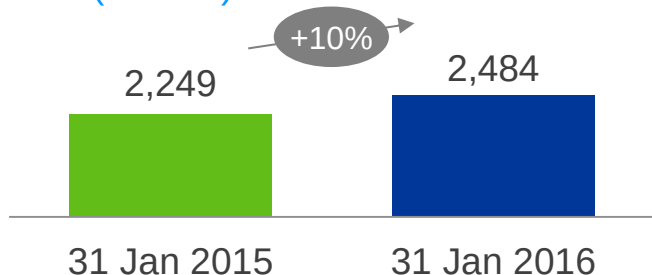
Note: Sales are reported based on the Global Ingredients and Operations management structure and not on a shipped to basis.

# Consumer and foodservice

Strong volume and margin growth – generating higher value demand



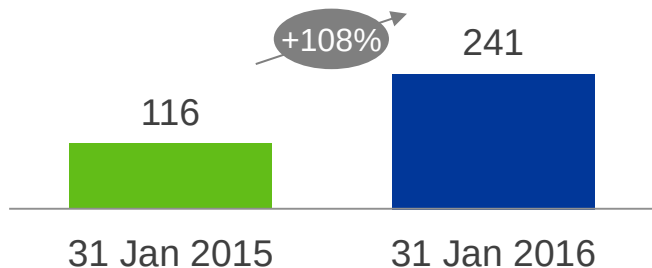
Volume (m LME)



## Volume

- 235 million of additional LME
- More volume higher up the value chain
- Strong foodservice volume growth

Normalised EBIT (\$m)



## Value

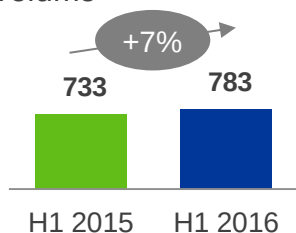
- Continued to build on strong result of second half 2015
- Broad-based performance
- Volume growth, strength of our brands and lower input costs

# Consumer and foodservice

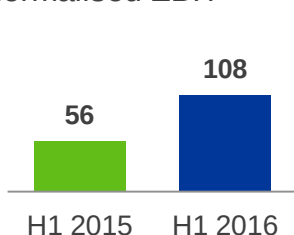
Strong performance across the business – generating higher volume demand

## Asia

Volume<sup>1</sup>

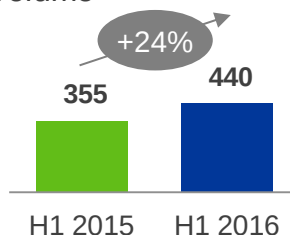


Normalised EBIT

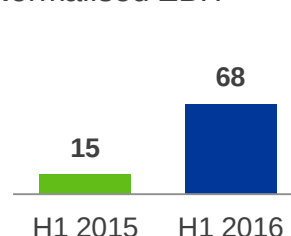


## Greater China

Volume<sup>1</sup>

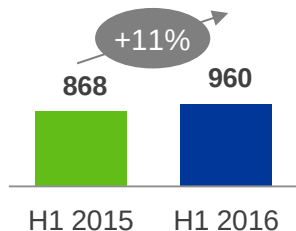


Normalised EBIT

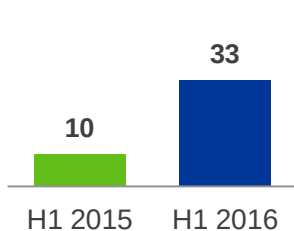


## Oceania

Volume<sup>1</sup>

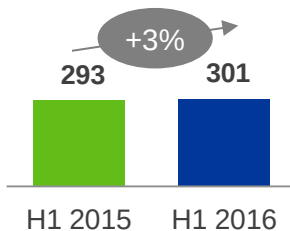


Normalised EBIT

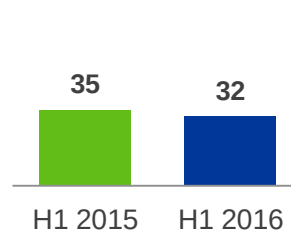


## Latin America

Volume<sup>1</sup>



Normalised EBIT<sup>2</sup>



1. Volume (m LME).

2. Venezuela has been impacted by the currency translation. Excluding Venezuela, Latin America normalised EBIT was 50% higher.

# Australia – cheese, whey and nutritional focus

A clear plan and progress made on returning business to profitability



Review



Fix leaks



Improve  
Portfolio



Transform  
Business  
In progress

A profitable business

- Multi-hub strategy
- Integrated model
- Cheese/whey/nutritionals

- Maintain milk supply
- Cost reductions
- Winning supply chain
- Working capital improvements

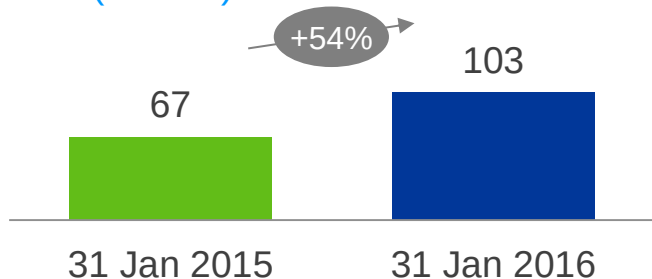
- Stanhope rebuild underway
- Major supply agreements at Darnum
- Sale of non-strategic assets

- Profitable end game
- Key priorities:
  - Complete Stanhope
  - Fill Darnum
  - Grow brands

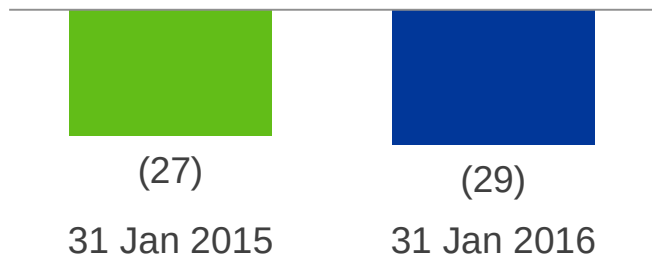
# International farming ventures

## Key to integrated dairy business

### Volume (m LME)



### Normalised EBIT (\$m)



### Volume

- New farms coming on stream
- Two hubs complete – 10 farms in total
- Access to secure, high quality milk supply

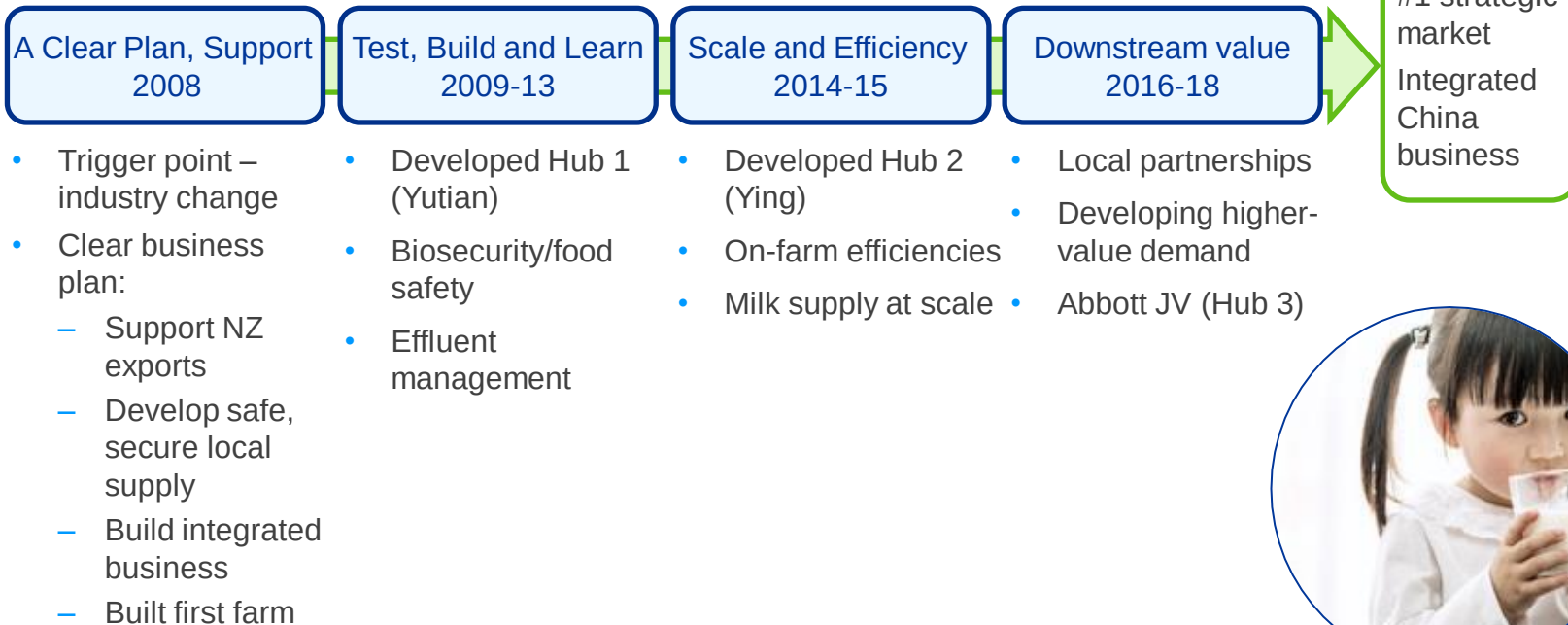
### Value

- Scale achieved to capture downstream value
- Lower milk price and higher volumes increased operating deficit
  - RMB0.95 reduction in milk price
- Largely offset by operational improvements

# International farming ventures

## Roadmap to integrated business in China following major industry change

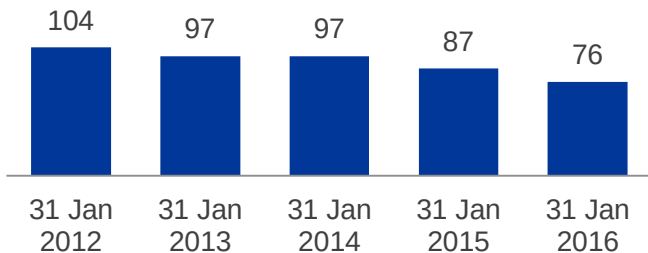
### Key milestones



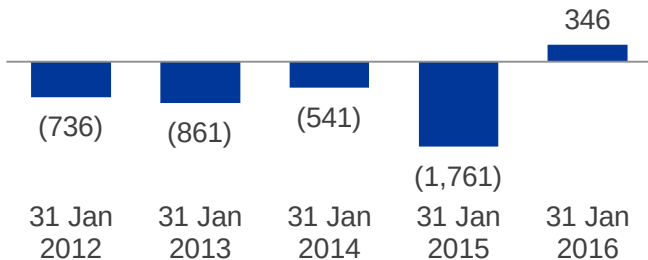
# Strong financial discipline delivering results

## Working capital improvements and strong cash flow

### Reduced working capital days<sup>1</sup>



### Strong free cash flow<sup>2</sup>



- Key focus of transformation
  - Supply chain improvements and inventory volumes lower
  - Improved terms for receivables and payables
- 
- Strong cash flow benefited from
    - Higher earnings
    - Working capital improvements, including milk suppliers payable returning to normal
    - Reduced capex and sale of non-strategic assets
  - Free cash flow at the half year typically negative reflecting seasonal business

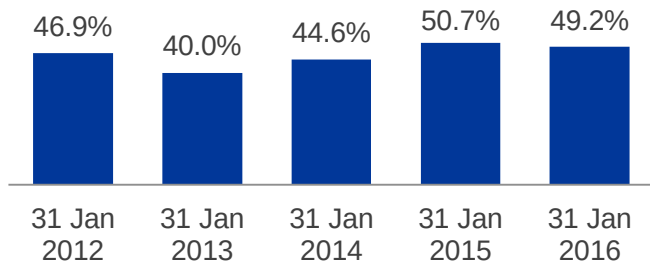
1. Working capital days excludes milk suppliers payable.

2. Free cash flow is funds available for dividend, interest and debt.

# Financial strength of the Co-op

## Strong balance sheet and solid credit rating

### Gearing<sup>1</sup>



### Strong credit rating

|                                        |                   |                        |
|----------------------------------------|-------------------|------------------------|
| Credit Rating                          | Fitch             | A<br>(stable outlook)  |
|                                        | S&P               | A-<br>(stable outlook) |
| Debt Weighted Average Term to Maturity | As at 31 Jan 2016 | 4.3 years              |

- Reduced gearing achieved after
  - Paying a higher dividend
  - Funding Beingmate acquisition
  - Completion of expansion capex
- Lower net debt of \$6.9bn, higher earnings and equity
- On track for gearing of 40-45% by financial year-end

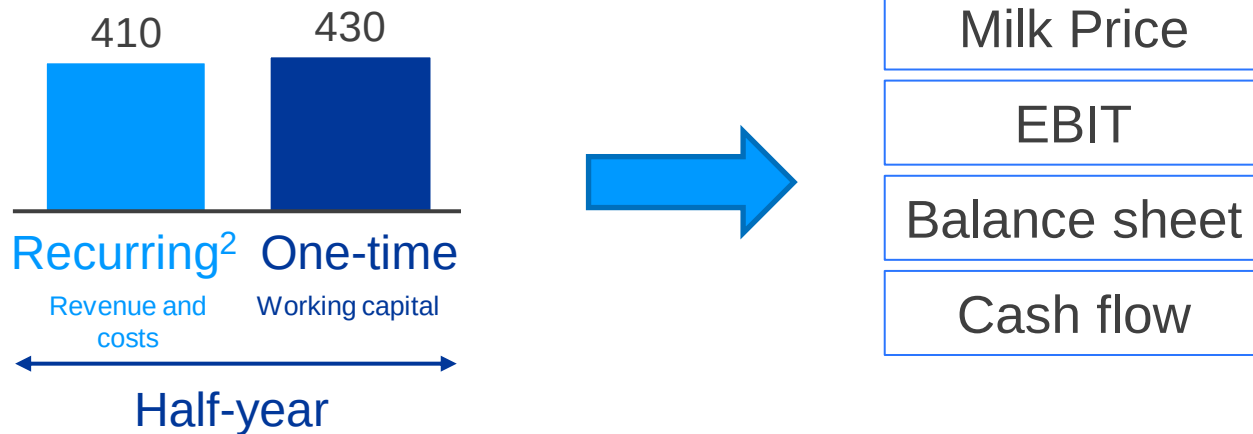
- Ratings reflect Co-op's strength
  - Highest rated agricultural co-op globally
- Strong access to capital
- Conservative funding maturity

1. Gearing ratio is economic interest bearing debt divided by economic net interest bearing debt plus equity excluding cash flow hedge reserve.

# Transformation – delivering cash benefits

## Transformation Cash Benefits<sup>1</sup>

\$ million



1. The estimated FY16 cash benefits of business transformation initiatives implemented in H1.

2. Recurring cash benefits will impact both EBIT and the Farmgate Milk price and are based on assumptions set at commencement of the business transformation

The background of the slide is an abstract design featuring several overlapping, wavy bands of different shades of blue. The colors range from a very dark, almost blackish-blue to a light, pale blue. The bands create a sense of movement and depth, flowing from the top left towards the bottom right.

SUPPLEMENTARY SLIDE

# Normalised EBIT reconciliation

| \$ million                                      | Six months to<br>31 January 2016 | Six months to<br>31 January 2015 |
|-------------------------------------------------|----------------------------------|----------------------------------|
| Profit after tax                                | 409                              | 183                              |
| Add: Net finance costs                          | 266                              | 303                              |
| Add/(less): Taxation expense/(credit)           | 77                               | (3)                              |
| Total EBIT                                      | 752                              | 483                              |
| Less: Gain on DairiConcepts sale                | (68)                             | -                                |
| Add: Impairment of assets in Australia          | 12                               | -                                |
| (less)/Add: Time value of options               | (31)                             | 22                               |
| Net gain on Latin America strategic realignment | -                                | (129)                            |
| <b>Total normalisation adjustments</b>          | <b>(87)</b>                      | <b>(107)</b>                     |
| Total normalised EBIT                           | 665                              | 376                              |