Media release

25 September 2017

FONTERRA CO-OPERATIVE GROUP ANNOUNCES SOLID YEAR END RESULTS

Highlights

- 2016/2017 Total Cash Payout $6.52, up 52% on last season
  - Farmgate Milk Price $6.12 per kgMS
  - Dividend of 40 cents per share
- Revenue $19.2 billion, up 12%
- Normalised EBIT $1.155 billion, down 15%
- Net Profit After Tax (NPAT) $745 million, down 11%
- 46c earnings per share
- Significant growth in Consumer and Foodservice – additional 576 million LME
- Advanced Ingredients sales growth up 9%
- Group Return on Capital of 11.1%

Annual results

Fonterra has today announced a significant increase in total payout for its farmer shareholders and a solid overall operating and financial performance, as part of its 2017 Annual Results.

The Co-operative has confirmed a final Cash Payout of $6.52 for the 2016/2017 season for a 100% share-backed farmer. This is made up of a Farmgate Milk Price of $6.12 per kgMS and a dividend of 40 cents per share.

Revenue increased by 12% to $19.2 billion, with rising prices offsetting a 3% decline in volumes at 22.9 billion LME. Normalised EBIT of $1.2 billion was down 15% as a result of reduced margins across the business which also influenced net profit after tax, down 11% at $745 million.

Chairman John Wilson said the Co-operative's ability to maintain its forecast dividend despite the Milk Price increasing by 57% over the year and the impact of negative stream returns was an excellent result.

"We will always need to manage variability across our Co-operative – both in global markets and in our local farming conditions. We've demonstrated our ability to deal with those conditions and deliver on our strategy again this year," said Mr Wilson.

"Over recent seasons, our farmers have made significant personal sacrifices to reduce costs through a sustained low milk price period.

"As part of our continued business transformation, the Co-operative has also made a fundamental shift in the way it operates, continuing the strong focus on increased efficiency and developing new revenue streams.

“Despite lower milk volumes due to poor weather in parts of the season, the business delivered a good result by prioritising higher value Advanced Ingredients and growing our sales of these in-demand and specialised products by 473 million LME this year.”

Our Consumer and Foodservice business continues its strong performance. This year we sold more than 5.5 billion LMEs, an additional 576 million LME on last year. This volume growth across these two portfolios has delivered normalised EBIT of $614 million, an increase of 6% on last year.

“Today’s announcement will be welcome news for our farmers, who remain focused on carrying their on-farm efficiencies through to the new season to make the most of improved prices,” said Mr Wilson.

Our business performance

Chief Executive Theo Spierings said the quality of the Co-operative’s performance and its solid earnings resulted from two consistent themes.

“We have been clear and single minded about delivering to strategy, leveraging our scale efficiencies and prioritising value and higher margin products. At the same time, we have tapped into the expertise of our people to come up with innovative ways to generate higher returns for the future,” said Mr Spierings.
“Within our Ingredients business, our higher value Advanced Ingredients segment achieved a 9% increase in sales volumes. This includes sales of products such as functional proteins, high-spec whole milk powder and extra-stretch cheese. These Advanced Ingredients made up 19% of our total external sales volumes this year.

“Our new product development and strong customer relationships in our key markets is capturing more and more of our full potential in our Consumer and Foodservice categories, evidenced by our Anchor Food Professionals Foodservice business which grew at 10 times the market growth rate over the past 12 months.

Mr Spierings said that, over the past year, Fonterra had commissioned or announced new investments across the full range of our Consumer and Foodservice product portfolio. This included new UHT lines at Waitoa, butter and cream cheese expansions at Te Rapa, construction of the Co-operative’s largest mozzarella plant at Clandeboye, two new cream cheese plants at Darfield, and the reopening of its cheese and whey plants at Stanhope in Australia.

“Foodservice, in particular, is a demand-led business and each of these investments is backed by a growing customer order book. Having the capacity and agility to quickly meet demand in this segment is critical to developing customer relationships and is our ticket to the game in many of our key markets,” said Mr Spierings.

The next step in the Fonterra strategy

“New Zealand milk remains at the very core of our Co-operative, and our future requires us to be strongly connected to the diverse and ever-changing needs of consumers,” said Mr Spierings.

“Our V3 strategy of driving more Volume into higher Value at Velocity is at the heart of our ambition, and provides the foundation for us to fund and drive innovation and sustainable value creation. This year, our V3 strength has secured our ability to deliver solid earnings in an environment of rapidly increasing milk prices.

“To remain successful, we need to be agile in every facet of our Co-operative – on-farm, across our manufacturing and distribution footprint, right through to the food we produce and how we produce it. Our investment in innovation and advanced technologies, and an ongoing focus on creating sustainable, long-term value will become the foundation on which we continue to build strength into our Co-operative,” Mr Spierings said.

Global Outlook

The forecast total available for payout to farmers in the 2017/18 season is $7.20 − $7.30 per kgMS, made up of:

- Forecast Farmgate Milk Price of $6.75 per kgMS
- Forecast earnings per share range of 45-55 cents per share.

"We are well positioned to deliver higher volumes and new product formats in our Consumer, Foodservice, and Advanced Ingredients portfolios, and are confident in our forecast earnings per share range of 45-55 cents," said Mr Wilson.

Click here to view Annual Results presentation, the Annual Review and the Financial Statements & Statutory Information.

NB: All dollars quoted are New Zealand dollars

- ENDS -

For further information contact:

Fonterra Communications
Campbell Hodgetts
Phone: +64 27 563 4985

24-hour media line
Phone: +64 21 507 072

Non-GAAP financial information

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised segment earnings, normalised EBIT, EBIT, normalisation adjustments and payout. 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 4underlying 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 104 to 105 of Fonterra's Annual Review that is available on Fonterra's website.