Fonterra
Dairy for life

PERFORMANCE REVIEW

Interim Result 2017

22 MARCH 2017

OUR CO-OPERATIVE
OUR POTENTIAL
OUR PERFORMANCE

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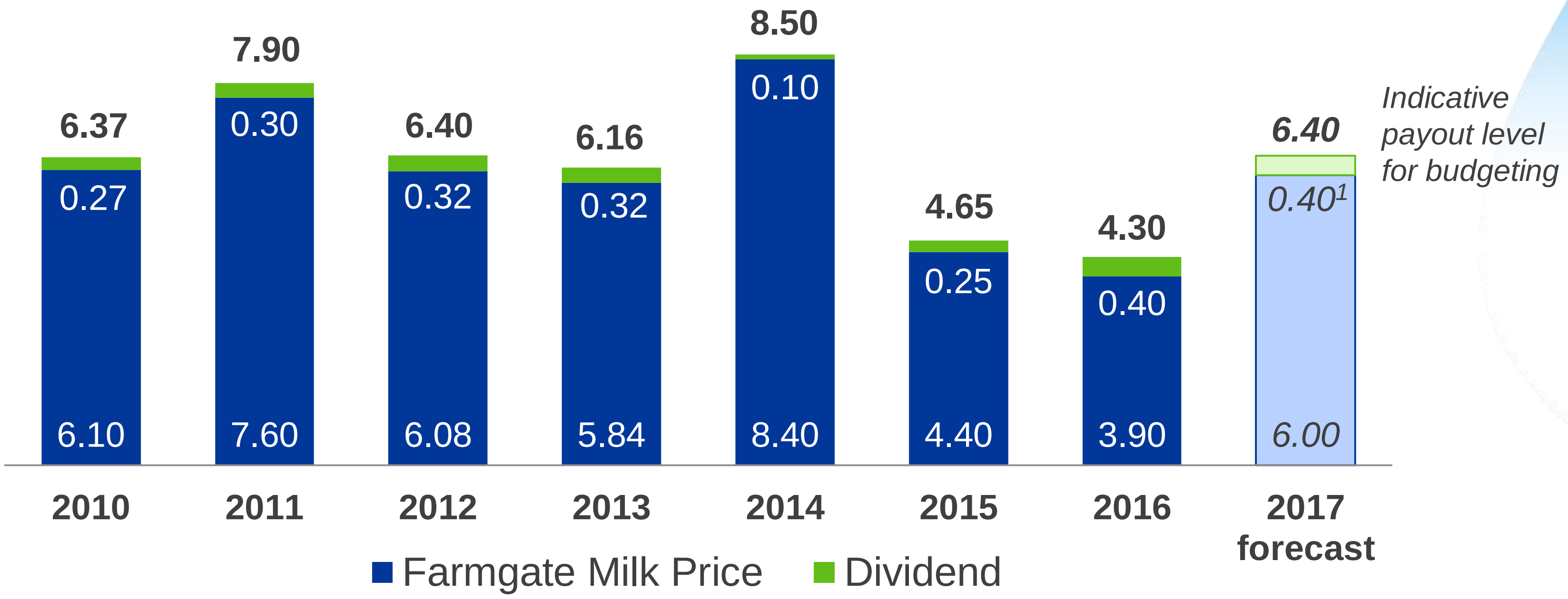
Our Co-operative

Higher forecast payout for farmers

Improved Farmgate Milk Price and strong earnings performance

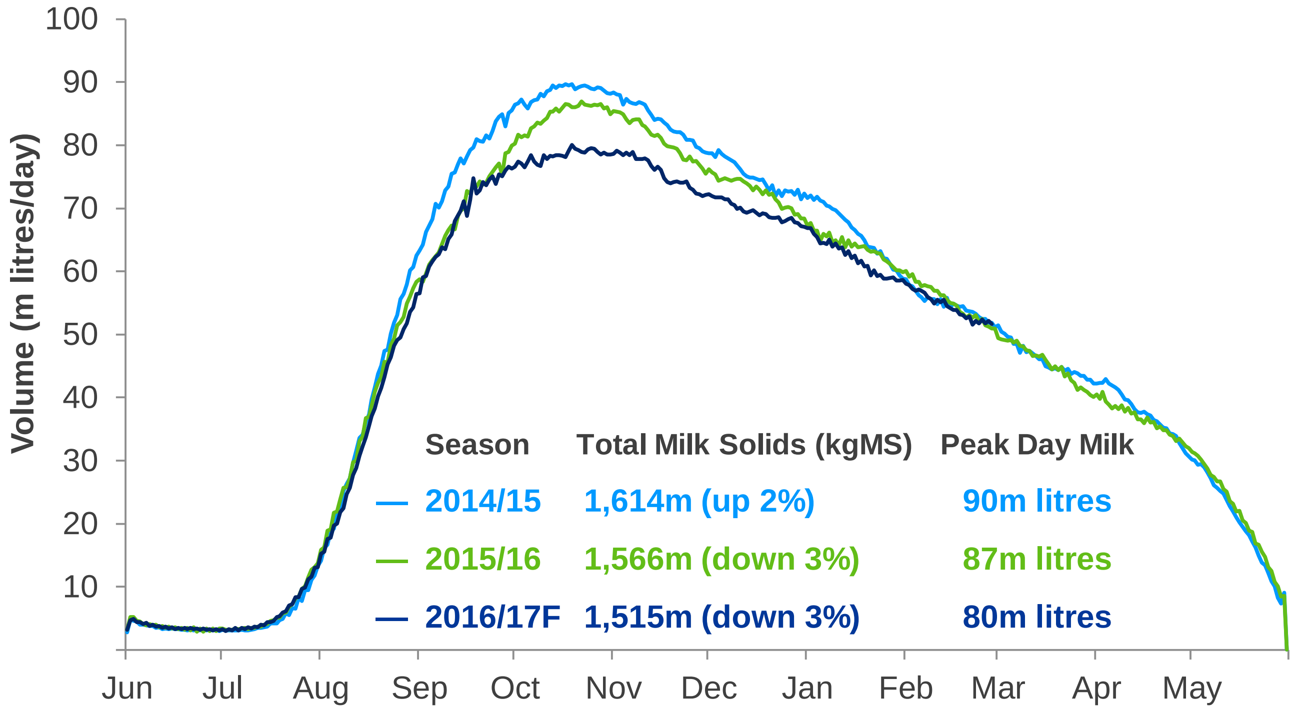


1. For farm budgeting purposes a target full year dividend of 40 cents per share is assumed

Note: Farmgate Milk Price: $ per kgMS; Dividend: $ per share

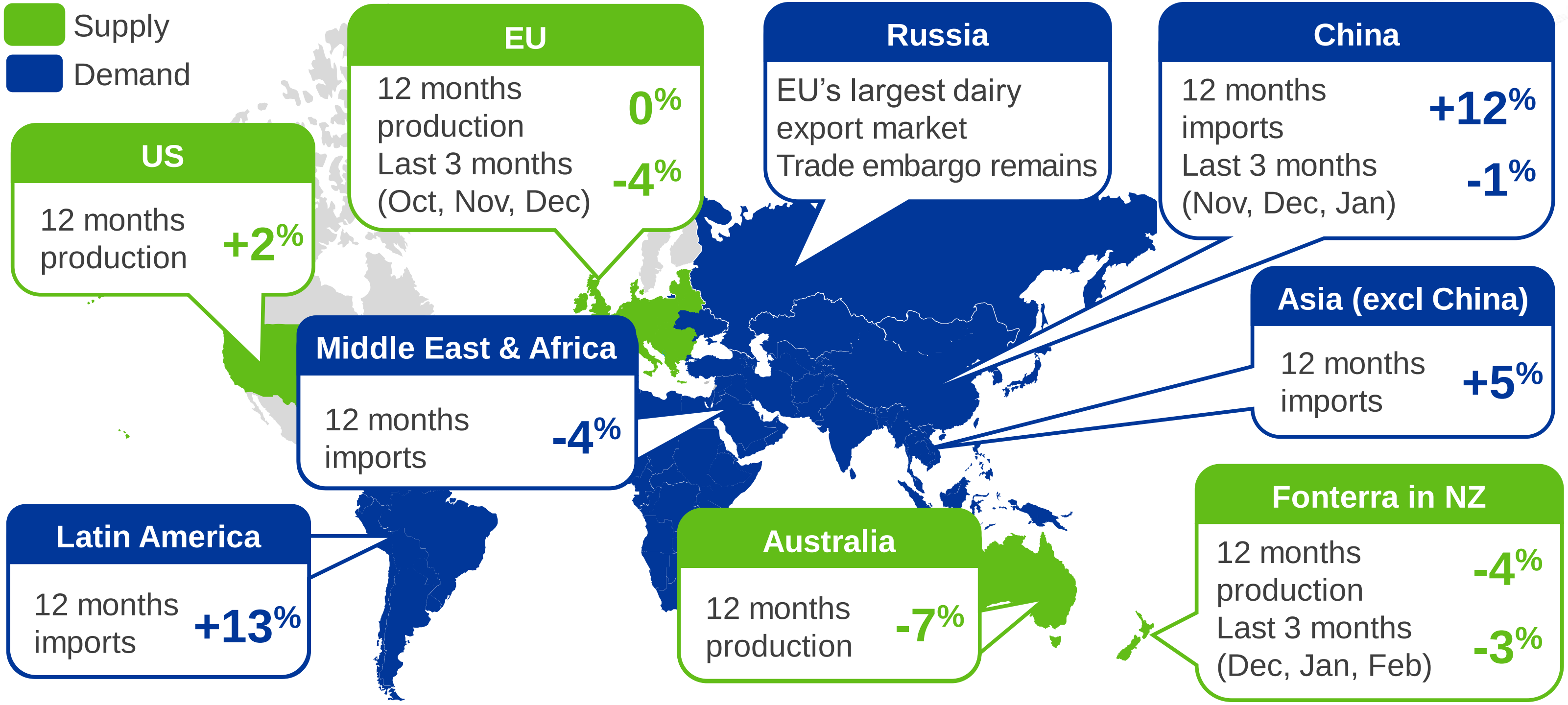
Lower milk volumes during the peak

Improved weather in late season increasing the forecast



- Season forecast revised to 1,515m kgMS down 3% on last season
- Volume down 5% for season to 28 February mainly due to more rain in central North Island
  - North Island down 7%
  - South Island down 1%
- Impacted available supply and global prices

Global dairy market – supply-led rebalancing

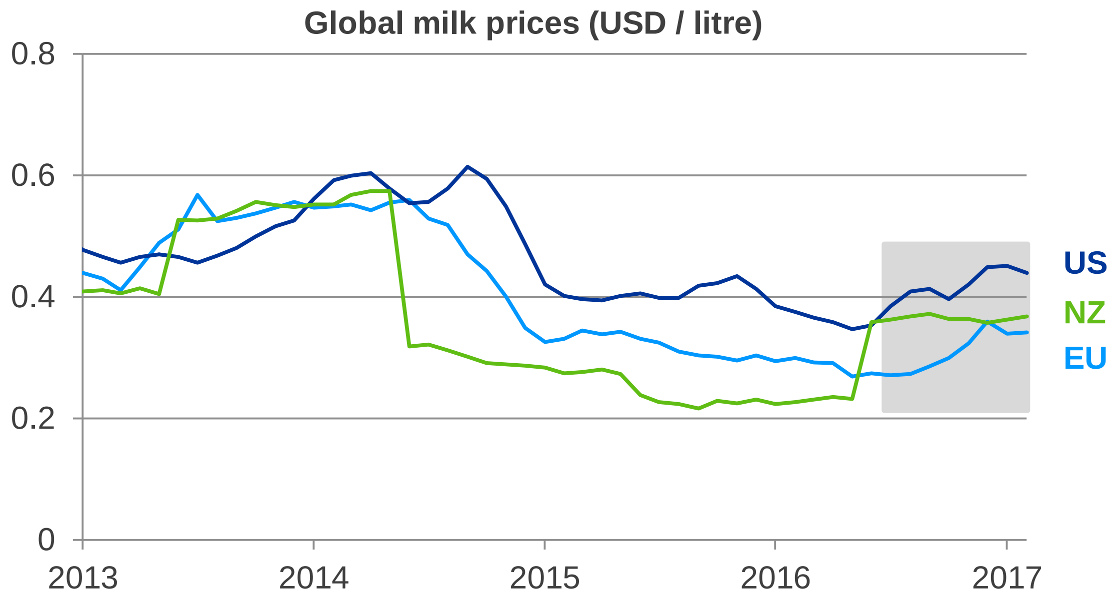


Note: All 12 month figures are rolling 12 months compared to previous comparable period: Australia (Dec), EU (Dec), United States (Jan), China (Jan), Asia (Nov), Middle East & Africa (Nov), Latin America (Nov), New Zealand (Feb)

Source: Government milk production statistics; GTIS trade data; Fonterra analysis

Competitive NZ cash payout

NZ farmers benefiting from higher global prices



- Strong NZ payout
- A $6 milk price would put $3 billion more into the NZ economy than last season
- Milk Price Manual change reinforces competitive milk price
  - Six cents per kgMS season-to-date
- Volatility in global prices will continue

Note: All prices are adjusted to a milk composition of 3.5% protein and 4.2% fat and for spot exchange rates
Source: DairyNZ (NZ to May 2014); Fonterra announced payout (milk price and dividend) (NZ from June 2014); USDA; European Milk Market Observatory (Netherlands milk price)

Our Potential

Global Context

- Future for dairy remains strong
- Improved prices but volatility will continue
- Increased geopolitical uncertainty

Value Creation

- Strategy delivering – strong profit and higher milk price
- Strong Co-op – continuing to invest in our strategy
- Shaping the future – building on existing strategy

Trust

- Doing what we said we would do
- Investing in our communities, sustainability and our future
- Fully focused on consistent performance

Continued strong business performance

VOLUME	REVENUE	GROSS MARGIN	OPEX
11.7B LME	$9.2B	$1,761M	$1,232M
↓ 7%	↑ 5%	↓ 6%	↓ 6%

NORMALISED EBIT	NET PROFIT AFTER TAX	INTERIM DIVIDEND	NET DEBT[2]
$607M	$418M	20CPS	$6.1B
↓ 9%	↑ 2%	Dividend Yield 6.8%[1]	↓ 11%

Ingredients

Volume (LME)[3]	↓	11.0B
Gross Margin	↓	11.1%
Normalised EBIT	↓	$510M

Consumer and Foodservice

Volume (LME)[3]	↑	2.7B
Gross Margin	↑	29.8%
Normalised EBIT	↑	$313M

China Farms

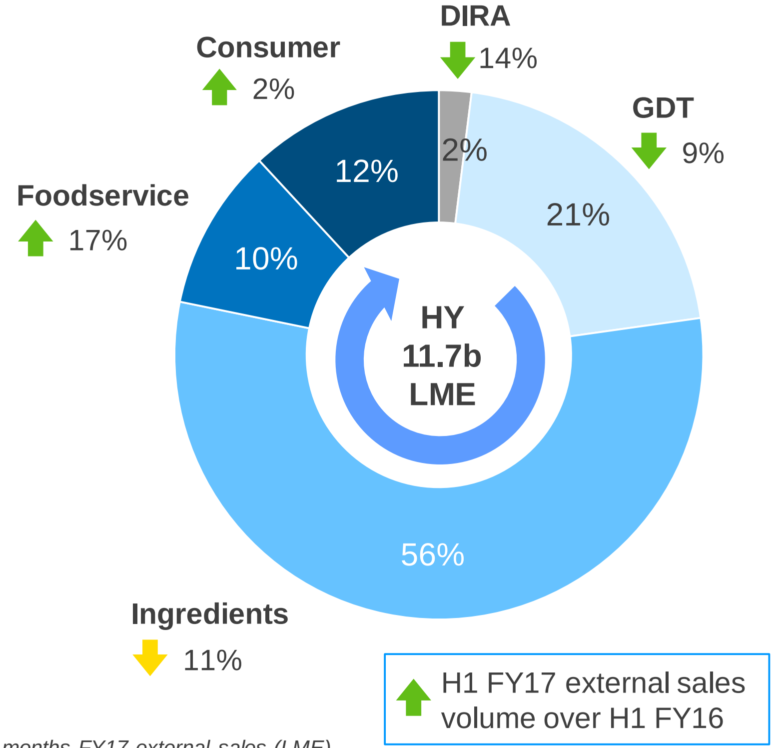
Volume (LME)[3]	↑	0.2B
Gross Margin	↑	(5.7%)
Normalised EBIT	↑	($24M)

1. *Interim dividend over volume weighted average closing FCG share price ($5.92) across the six month period (annualised)*
2. *Economic net interest-bearing debt;* 3. *Includes inter-company sales*

Delivering our strategy

Volume to higher Value at Velocity

1. **Optimise** NZ milk
2. **Build and grow** beyond our current consumer positions
3. **Deliver** on Foodservice potential
4. **Grow** our Anlene™ business
5. **Develop** leading positions in paed & maternal nutrition
6. **Selectively invest** in milk pools
7. **Align** our business and organisation



- GDT
  - Rebalanced volumes in response to lower production
- Ingredients
  - Lower milk collections and inventory levels
  - Strong sales and optionality to maximise returns:
    - Stream returns
    - Price achievement
- Consumer & Foodservice
  - 227m additional LME
  - On-target for 400m full year

Note: Wheel shows percentage of first six months FY17 external sales (LME)

Doing what we said we would in FY17

Strategic pillar	Focus	Progress
1 **Optimise** NZ milk	Optimisation & Price Achievement	• Higher price achievement per MT • 11% improvement in inventory levels
	Fonterra story	• Improving NZ reputation ranking
2 **Build and grow** beyond our current consumer positions 3 **Deliver** on Foodservice potential 4 **Grow** our Anlene™ business 5 **Develop** leading positions in paed & maternal nutrition	Accelerate growth in our 8 strategic and leadership markets	• 227m more LMEs into higher value categories • $240m mozzarella plant at Clandeboye
	Brazil transformation	• Grown share, lifted prices and reduced costs in still challenging market
	Maximise Beingmate partnership	• Well-placed for infant formula regulatory change • Increasing Anmum volumes
6 **Selectively invest** in milk pools	China Farms – Downstream Value	• 7% reduction in operating costs per kg
	Australian endgame	• Stanhope construction progressing well
7 **Align** our business and organisation	Disrupt	• Disrupt businesses already launched • Launched Disrupt for 2017 globally
	Velocity / Engagement	• Focus on people & capability

Aware of long term mega trends

Global Trends

Climate Change

- Food production makes up 30% of global greenhouse gas emissions
- Serious land degradation affects 20% of world's arable land

Nationalism

- Resurgence of nationalism brings uncertainty
- Protectionism threatens global trade
- Volatility in commodity prices to prevail

Productivity

- A third of food produced is wasted
- Current food productivity growth is 1% per annum – at 2-3% we could help alleviate world poverty
- Dairy is 20% of agricultural land

Socio-Economic

- Food has a massive global impact:
  - 40% of global employment
  - 10% of global consumer spend
- Dairy contributes $12b to the NZ economy

Building a strong Co-op into the future

Fonterra
Dairy for life

1-3 years
V3 Strategy

Fonterra V3

FONTERRA TRUSTED GOODNESS™ FROM PURE NEW ZEALAND

Our farmers

3-5 years
Future Growth Platforms

Disruption
Digital Transformation & M&A

5-10 years
Sustainable Long-Term Model

Future consumers
Sustainable production &
Future state operations

Our Performance

Value creation

Strong performance in higher milk price environment

NPAT

$418M

↑ 2%

GROSS MARGIN

19.1%

↓ Down from 21.2%

OPEX

$1,232M

↓ 6%

NORMALISED EBIT

$607M

↓ 9%

NET FINANCE COSTS

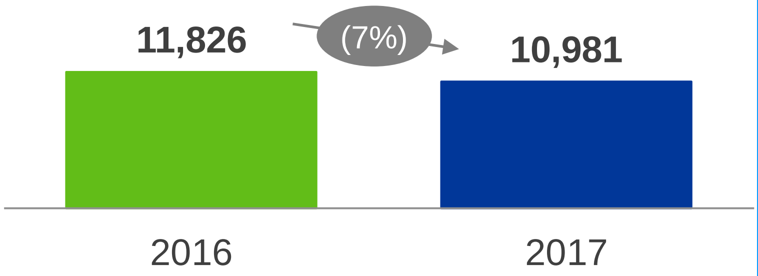
$157M

↓ 41%

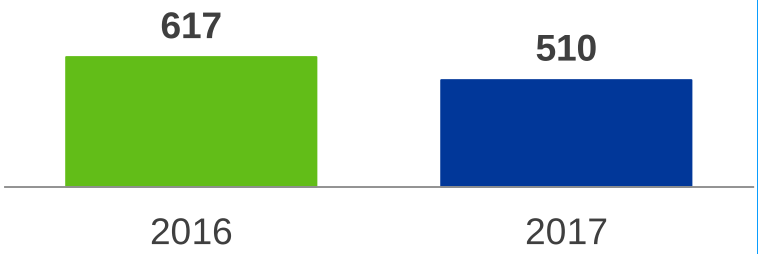
Ingredients

Lower volumes and stream returns impacting overall contribution

Volume (m LME)[1]



Normalised EBIT ($m)



Volume

- Lower opening inventory and milk collection in NZ
- Held gains in inventory levels from last financial year end
- Shifted mix to non-reference products (UHT and cheese)

Value

- NZ Ingredients: normalised EBIT decreased $125m
  - Positive stream returns but down on last year
  - Stable price achievement through higher margins
  - Good operating and sales performance
- Australia: $37m improvement in normalised EBIT

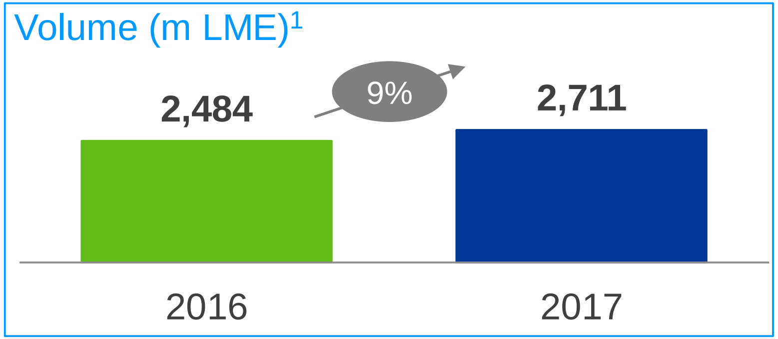
Velocity

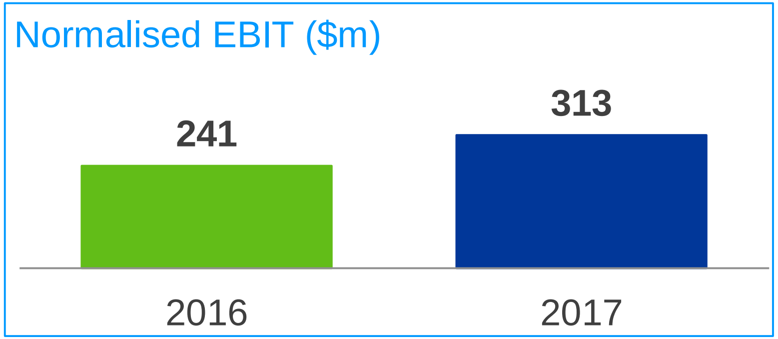
- Improved operating performance with higher yields and increased plant utilisation
- Capex spend down in line with expectations

1. *Includes intercompany sales*

Consumer and Foodservice

Strong volume growth and significant increase in normalised EBIT





Volume

- 227m more LME into higher-value (on-track for 400m target again this financial year)
- Higher e-commerce sales and foodservice growth in China
- New product launches driving sales in key markets

Value

- Normalised EBIT significantly up by 30%
- Gross margins higher but will be pressured in second half
- Australia performing well

Velocity

- Gaining market share in Brazil to offset category decline
- Focus on point-of-sale execution and improved efficiency

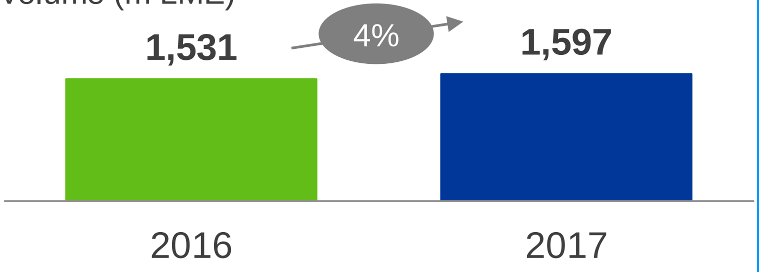
1. Includes intercompany sales

Consumer and Foodservice

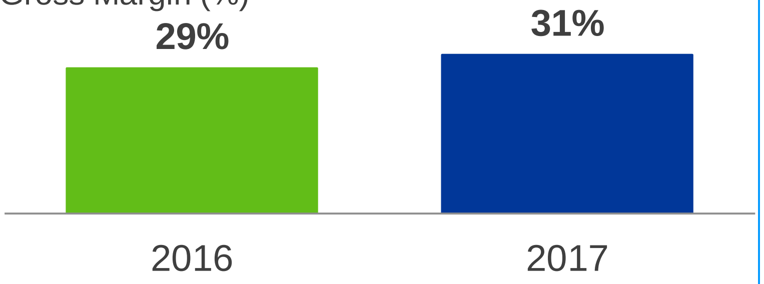
Strong growth in both channels

Consumer

Volume (m LME)[1]

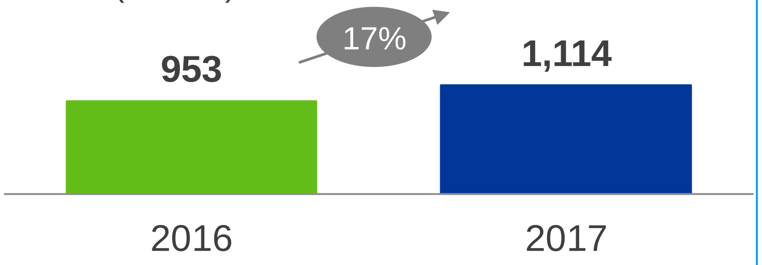


Gross Margin (%)

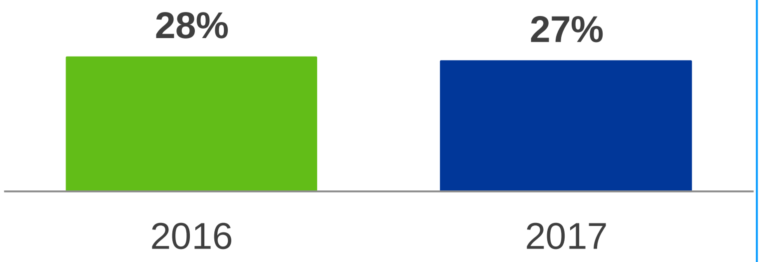


Foodservice

Volume (m LME)[1]



Gross Margin (%)

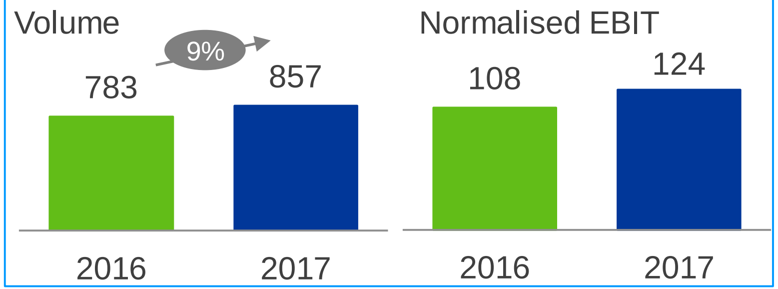


1. *Includes intercompany sales*

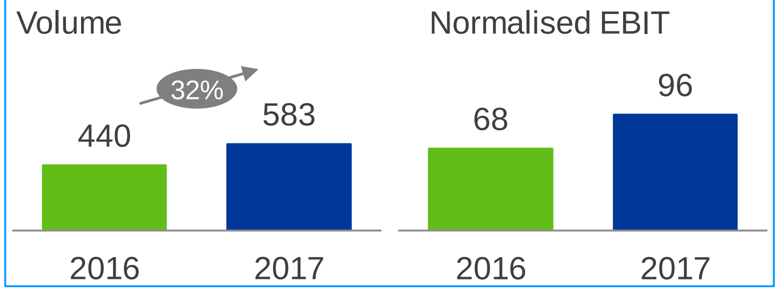
Consumer and Foodservice

Greater China and Oceania driving profit growth

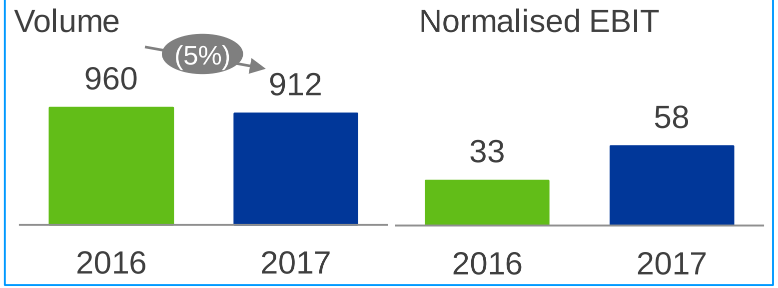
Asia



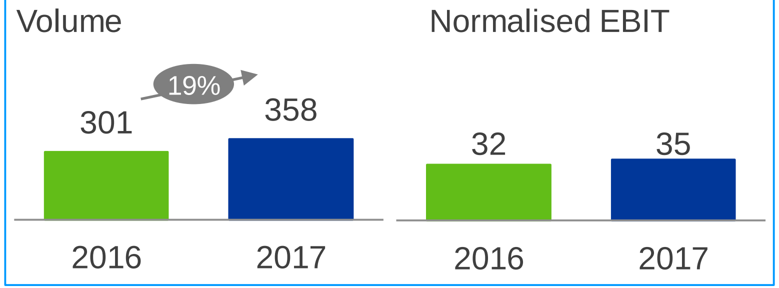
Greater China



Oceania



Latin America



Note: Volume shown is million LME (includes intercompany sales) and normalised EBIT is million NZ $

Financial discipline

Lower debt further strengthening balance sheet

GEARING[1]

46.6%

Down from 49.2%

NET DEBT[2]

$6.1B

11%

WORKING CAPITAL

68 DAYS

Down 8 days

CAPEX

$244M

46%

CREDIT RATING

Fitch	S&P
A	A-
STABLE	STABLE

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

Outlook for second half of FY17

Strong Co-op with strong balance sheet

- Target full year gearing ratio of 40-45% and solid working capital
- Farmers restoring the financial strength of their businesses

Increased confidence in forecast Farmgate Milk Price of $6.00 per kgMS

- Global supply and demand more balanced
- Increased late-season production focused into higher value products

Targeting full year dividend of 40 cents per share and cash payout of $6.40

- Adjusting forecast earnings range to 45-55 cents per share
  - Ingredients business impacted by product stream returns
  - Tighter margins in the second half for Consumer and Foodservice
  - Impact of possible extra autumn milk in NZ

Supplementary Information

Normalised EBIT reconciliation

$ million	Six months ended 31 January 2017	Six months ended 31 January 2016
Profit after tax	**418**	**409**
Add: Net finance costs	157	266
Add/(Less): Taxation expense (credit)	69	77
Total reported EBIT	**644**	**752**
Add: Impairment of assets in Australia	-	12
Less: Gain on DairiConcepts sale	-	(68)
Less: Gain on Darnum sale (part share to JV)	(42)	-
(Less)/Add: Time value of options	5	(31)
Total normalisation adjustments	**(37)**	**(87)**
Total normalised EBIT	**607**	**665**

NZ Ingredients product mix

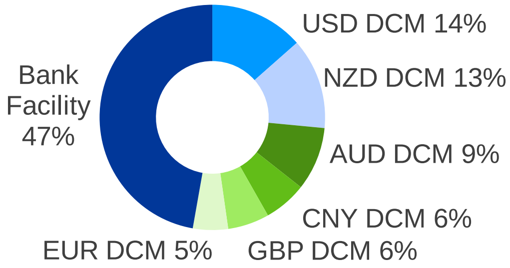
	Six months ended 31 January 2017	Six months ended 31 January 2017	Six months ended 31 January 2016	Six months ended 31 January 2016
	$ million	**$ per MT**	$ million	$ per MT
Sales volume (000 MT)				
Reference products	**973**	**-**	1,061	-
Non-reference products	**338**	**-**	343	-
Revenue				
Reference products	**3,768**	**3,873**	3,405	3,209
Non-reference products	**1,758**	**5,201**	1,728	5,038
Cost of milk				
Reference products	**2,901**	**2,982**	2,197	2,071
Non-reference products	**1,013**	**2,997**	799	2,329
Gross margin				
Reference products	**246**	**253**	351	331
Non-reference products	**398**	**1,178**	485	1,414

Note: Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF; Milk solids used in the products sold were 547 million kgMS reference and 190 million kgMS non-reference (previous comparable period 602 million kgMS reference and 203 million non-reference)

Diversified and prudent funding position

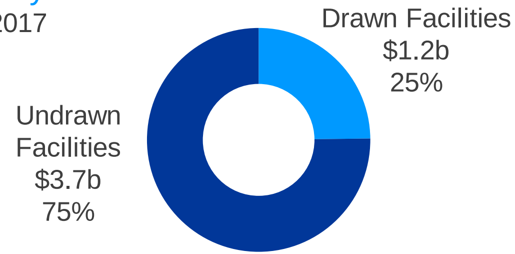
Diversified profile[1]

At 31 January 2017



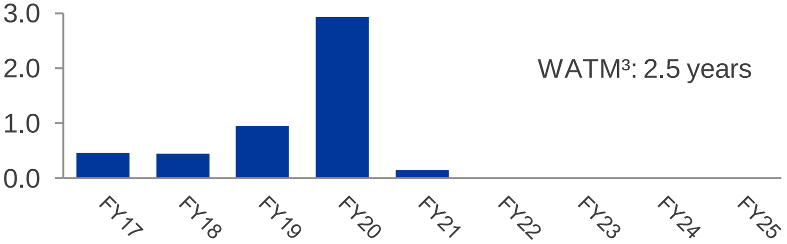
Prudent liquidity

At 31 January 2017



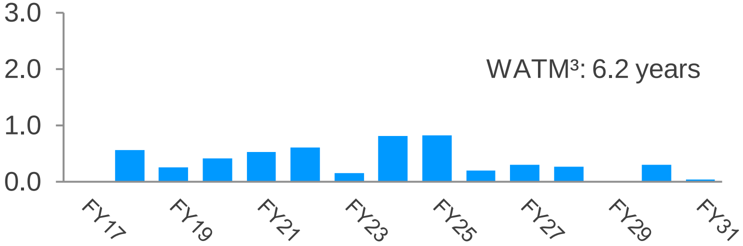
Bank facility maturity profile

At 31 January 2017 ($ billion)



DCM maturity profile[2]

At 31 January 2017 ($ billion)



1. *Includes undrawn facilities and commercial paper*
2. *Excluding commercial paper*
3. *WATM is weighted average term to maturity*

