Fonterra
Dairy for life

Media release

23 March 2016

FONTERRA ANNOUNCES 2016 INTERIM RESULTS

Click here to review the Interim Results presentation and Interim Report.

Results Highlights

- 2016 financial year forecast
  - Forecast Farmgate Milk Price $3.90 per kgMS
  - Forecast available for payout $4.35 - $4.45 per kgMS[i]
  - Forecast earnings per share range of 45-55 cents
  - Total forecast dividend of 40 cents per share
  - Forecast cash payout $4.30 per kgMS[ii]
- Interim dividend of 20 cents per share – to be paid in April
- Intention to pay the final dividend earlier
- Normalised EBIT $665 million, up 77 per cent
- Net profit after tax (NPAT) $409 million, up 123 per cent
- Ingredients normalised EBIT $617 million, up 27 per cent
- Consumer and foodservice normalised EBIT $241 million, up 108 per cent
- Moved an additional 235 million litres of milk higher up the value chain into consumer and foodservice products

Forecast Cash Payout

Fonterra Co-operative Group Limited today announced a good performance in the first half of the current financial year, with normalised earnings before interest and tax (EBIT) of $665 million up 77 per cent on the comparable period, and net profit after tax of $409 million up 123 per cent.

Chairman John Wilson said that the supply and demand imbalance in the globally traded dairy market has brought prices down to unsustainable levels for farmers around the world, and particularly in New Zealand. The strong New Zealand dollar has also had a negative impact on the Milk Price.

“The low prices have placed a great deal of pressure on incomes, farm budgets, and our farming families.

“Our priority is to generate more value out of every drop of our farmers’ milk by focusing on the areas within our control. We aim to efficiently convert as much milk as possible into the highest-returning products.

“Our management is aware of the need for strong performance to ensure that we get every possible cent back into farmers’ hands during a very tough year.

“We have lifted profitability from last season to this season, resulting in higher earnings per share to help offset low global dairy prices. As a result, we have delivered an interim dividend of 20 cents per share, up from an interim dividend for last year of 10 cents per share.

"Our forecast Farmgate Milk Price of $3.90 per kgMS reflects low global dairy prices, with Whole Milk Powder decreasing around 17 per cent[iii] this season to date. Forecast total available for payout of $4.35-$4.45 per kgMS currently equates to a forecast cash payout of $4.30 per kgMS after retentions for a fully shared up farmer.

"Our forecast total dividend for the current financial year is 40 cents per share. The Board has today declared a 20 cent dividend which will be paid in April. We intend declaring the remaining 20 cents per share in two dividends of 10 cents in May and 10 cents in August to help support farmers at a time when cash flows are extremely tight," said Mr Wilson.

These two dividends in May and August are subject to the Board's approval at the time and Fonterra's financial performance continuing to support its forecast earnings per share of not less than the current 45 to 55 cents forecast range per share.

The timing of these payments is a specific response to the current, very challenging, financial conditions farmers are facing and does not signal any intention to move away from Fonterra's normal practice of twice-yearly dividends paid in April and October.

Business Performance

Chief Executive Theo Spierings said the Co-operative's strong performance reflected a sustained effort in three main areas.

"We focused on the efficiency of our ingredients business and capturing demand for ingredients in a wide range of markets.

"We aimed to make the most of global consumption growth by building demand for higher-value products in our consumer and foodservice markets.

"Our working capital has improved significantly, and our inventory levels are lower than in recent periods for this time of year – down 9 per cent in volume terms due to strong sales."

Free cash flow for the six months to 31 January 2016 was $2.1 billion higher than the first half last year, with gearing[iv] at 49 per cent, down from 51 per cent in the previous year.

"Finally, we maintained strict financial discipline to keep lifting our return on capital and our strong cash flow has enabled us to strengthen the Co-operative and reduce gearing," said Mr Spierings.

"Ingredients achieved normalised EBIT of $617 million, up 27 per cent compared to the first half last year. This resulted from improved product mix returns, and the increased production and cost efficiencies coming from our investments in plant capacity in New Zealand.

"In consumer and foodservice we have delivered very good growth, with normalised EBIT increasing 108 per cent to $241 million. We remain focused on growing demand, especially in the eight markets where we currently hold or want to gain leadership or a very strong position: New Zealand, Australia, Sri Lanka, Malaysia, Chile, China, Indonesia and Brazil. These are well established markets for Fonterra, so we are working off a strong base.

"The additional 235 million litres of milk we converted into higher-returning consumer and foodservice products in this six month period built on the additional 600 million litres last year.

"Our farms in China are a key part of our integrated dairy business. We are achieving operational efficiencies on the farms which are helping offset the current low domestic milk price in China."

Outlook

Current global economic conditions remain challenging and are impacting dairy demand and prices, said Mr Spierings.

"The balance between available dairy exports and imports has been unfavourable for 18 months following European production increasing more than expected and lower imports into China and Russia. This imbalance is likely to continue in the short term, with prices expected to lift later this calendar year.

"The long term fundamentals for global dairy are positive with demand expected to increase by two to three per cent a year due to the growing world population, increasing middle classes in Asia, urbanisation and favourable demographics."

Mr Wilson said the Co-operative's solid performance was set to continue.

"The business will continue to work on capturing demand and margins in the second half of the year, just as it did in the first half, by focusing on our consumer and foodservice volumes and those of specialty ingredients.

"We remain firmly on track to achieve our forecast earnings of 45-55 cents per share, ahead of the 40-50 cents per share we indicated at the commencement of the season.

"Our net debt[v] is $6.9 billion and we are expecting this to reduce significantly in the second half of the year. We are on track to reduce gearing to 40-45 per cent by the end of the current financial year."

The record date for the interim dividend is 8 April, and the payment date is 20 April. The Co-operative will continue to offer a dividend reinvestment plan, at a discount of 2.5 per cent to the strike price. Eligible shareholders who want to participate for the interim dividend need to submit a notice of participation by 11 April 2016.

– ENDS –

Note: currency is New Zealand dollars unless otherwise stated.

For further information contact:
Connie Buchanan
Fonterra Communications
Phone: +64 22 698 5602

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

About Fonterra

Fonterra is a global leader in dairy nutrition – the preferred supplier of dairy ingredients to many of the world's leading food companies. It is also a market leader with its own consumer dairy brands in New Zealand and Australia, Asia, Africa, the Middle East and Latin America. Fonterra is a farmer-owned co-operative and the largest processor of milk in the world. It is one of the world's largest investors in dairy research and innovation drawing on generations of dairy expertise to produce more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products for 140 markets.

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[i] *Total forecast available for payout is forecast Farmgate Milk Price plus forecast earnings per share*
[ii] *Cash payout is forecast Farmgate Milk Price plus forecast dividend per share*
[iii] *WMP weighted average price change from 1 June 2015 to 1 March 2016*
[iv] *Gearing ratio is economic interest bearing debt divided by economic net interest bearing debt, plus equity excluding cash flow hedge reserve*

Appendix One

Non-GAAP measures

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the Glossary in Fonterra's 2016 Interim Report. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be 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.

- Fonterra calculates normalised EBIT by adding back net finance costs, taxation expense and normalisation adjustments to profit for the period.
- Normalisation adjustments are transactions that are unusual by nature or size such that they materially reduce the ability of users of the financial results to understand the underlying performance of the Group or operating segment to which they relate.
- Unusual transactions by nature are the result of a specific event or set of circumstances that are outside the control of the business, or relate to the major acquisitions or disposals of an asset/group of assets or business.
- Unusual transactions by size are those that are unusually large in a particular accounting period.
- Normalisation adjustments are determined on a consistent basis each period.

Reconciliation from the NZ IFRS measure of profit after tax to Fonterra's normalised EBIT

$ million	Six months ended 31 January 2016	Six months ended 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
Less: Net gain on Latin American strategic realignment	-	(129)
Total normalisation adjustments	(87)	(107)
Normalised EBIT	665	376