Market Announcement

22 March 2017

FONTERRA ANNOUNCES 2017 INTERIM RESULTS

Results Highlights

- Forecast Farmgate Milk Price $6.00 per kgMS
- Forecast cash payout $6.40 after retentions*
- Interim dividend of 20 cents per share – to be paid in April
- Revenue $9.2 billion, up 5%
- Normalised EBIT $607 million, down 9%
- Net profit after tax (NPAT) $418 million, up 2%
- Revised forecast earnings per share range of 45 to 55 cents
- Forecast available for payout $6.45 - $6.55*
- Ingredients normalised EBIT $510 million, down 17%
- Consumer and Foodservice normalised EBIT $313 million, up 30%
- Moved an additional 227 million Liquid Milk Equivalent (LME) of milk into Consumer and Foodservice products

Results Update

Fonterra ended the first half of its 2017 financial year with revenue up 5% on the same period last year, and net profit after tax up 2%.

Chairman John Wilson said the Co-operative had a strong first half.

“Revenue was higher at $9.2 billion and normalised EBIT was again over $600 million with net profit after tax of $418 million.

“Our half year dividend of 20 cents per share, payable on 20 April 2017, reflects these strong results especially in Consumer and Foodservice where we kept up the momentum of our volume to value strategy.

“The Co-operative continues to get stronger. We have further reduced net debt which is down $793 million or 11%, and we have a gearing ratio of 46.6% compared with 49.2% in the first half of 2016,” Mr Wilson said.

“Fonterra’s strong balance sheet means we are well placed to develop our markets and position our Co-operative for the future.”

Milk collection in New Zealand was down 54 million kgMS on the same period last season at 1,053 kgMS.

“The poor spring in New Zealand saw us forecasting milk collection to be down 7% for the season, but following good rainfall in autumn on-farm conditions are improving which means we are now expecting New Zealand collections for the season to be down by 3 % on last season,” Mr Wilson said.

The Fonterra Board confirmed that the forecast Farmgate Milk Price of $6.00 per kgMS continued to reflect global dairy markets with steady demand and relatively stable prices.

“World dairy prices have continued to show signs of volatility, but we believe that the fundamentals are sound and expect pricing over the balance of the season to remain stable.

“Our Co-operative has a forecast cash payout for this season of $6.40. This is made up of a forecast Farmgate Milk Price of $6.00 per kgMS and a target full year dividend of 40 cents per share. Our forecast cash payout reflects a 54% increase in the Farmgate Milk Price compared to last season and consistent earnings.

“An improved $6.00 Milk Price supported by strong performance will result in an additional $3 billion going into the New Zealand economy this season.

“We see some challenges and opportunities ahead in the second half. The additional milk at the end of the season is welcome for our farmers and our management team are focused on ensuring that we get the highest value from this milk.

“The impact of more volatility in product stream returns in our Ingredients business, some tightening of margins in the coming months, and the potential for extra milk in the autumn could result in some pressure on our earnings in the second half.

“The Board considered these factors and, while continuing to have confidence in achieving a target dividend of 40 cents per share, has revised the forecast earnings per share range to 45-55 cents to reflect the additional volatility.

“We remain positive but cautious, and this is reflected in our interim dividend of 20 cents per share and our February decision to increase the Advance Cash Rate paid to farmers earlier in the season,” Mr Wilson said.

Our Business Performance

Chief Executive Theo Spierings said the first half result shows that Fonterra’s strategy of moving more volume into higher value products is working.

“Our Ingredients business maintained good margins. We made the most of our manufacturing capacity, and the flexibility it provides to match production to demand and secure the best returns for our farmers’ milk.

“By the end of the first half, we shifted an additional 227 million LME of milk into higher value products in our Consumer and Foodservice business, contributing to a 30% increase in normalised EBIT. We are well on track to achieve our target of an additional 400 million LME to higher value products by year end.

“This shows us doing what we said we would and how we continue to deliver value even in a volatile environment,” Mr Spierings said.

“We increased volumes and value across our Consumer and Foodservice business. Greater China continued to increase its earnings through the strong performance of the Foodservice business, and key markets like Chile grew on the back of successful brand relaunches. It was also good to see the benefits of continued improved performance in our Australian business.

“In line with our focus on value in the first half, we are looking to channel as much of our milk into products that create the most value for our farmers as well as optimising the Farmgate Milk Price.

“We have continued our business transformation work and a continued strong focus on costs drove operating expenses down a further 6%.

"We are well-positioned to take up opportunities and to deal with any headwinds. Our strategy is working and the Co-operative is strong. I know that our teams are working hard to keep up the momentum in the second half of 2017," Mr Spierings said.

Our Outlook

We remain confident in our forecast for the Farmgate Milk Price but continue to advise our farmers to budget cautiously, Mr Wilson said.

"The fundamentals of dairy are strong but there will be ongoing volatility in our global markets.

"Our strategy to grow volume and value will continue to underpin our performance in the second half of the financial year," Mr Wilson said.

The record date for the payment of the dividend is 5 April 2017, and the payment date is 20 April 2017. The Co-operative will continue to offer a dividend reinvestment plan, the strike price at which shares are issued incorporating a discount of 2.5%. Eligible shareholders who wish to participate in the dividend reinvestment plan for this dividend need to submit a notice of participation by 6 April 2017.

** Forecast cash payout after retentions and forecast available for payout applies to a fully shared up farmer.*

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 31 January 2017 interim financial statements. 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.

Reconciliation of normalised earnings to reported profit

	GROUP $ MILLION	
	31 JAN 2017	31 JAN 2016
Profit for the period	**418**	409
Add: Net finance costs	**157**	266
Add: Taxation expense	**69**	77
Total EBIT	**644**	752
Add: Disposal and impairment of the Australian yoghurt and dairy desserts business	**-**	12
Add / (Less): Time value of options	**5**	(31)
Less: Gain on sale of Darnum manufacturing plant	**(42)**	-
Gain on sale of DairiConcepts investment	**-**	(68)
Total normalised EBIT	**607**	665

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