

FONTERRA  
DAIRY FOR LIFE

# 2015 ANNUAL RESULTS

SEPTEMBER 2015

JOHN WILSON, CHAIRMAN

THEO SPIERINGS, CEO

LUKAS PARAVICINI, CFO



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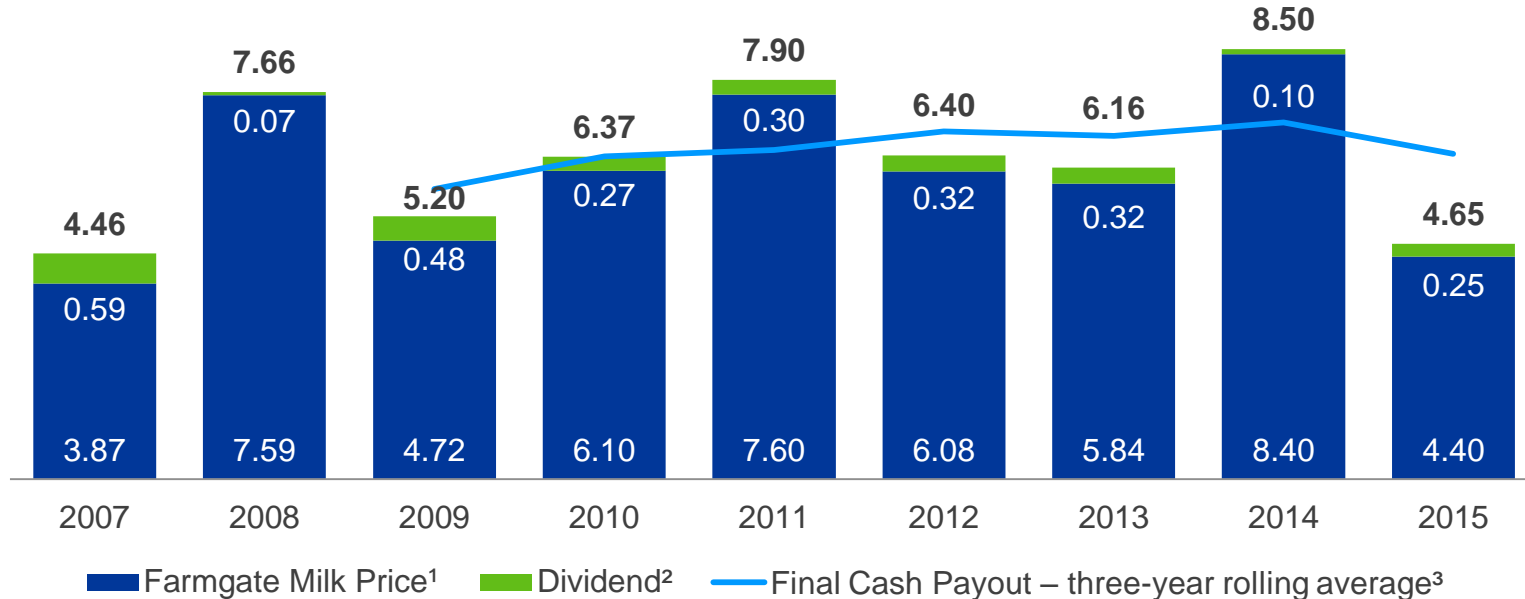
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The Fonterra logo consists of the word "Fonterra" in a blue, sans-serif font, positioned above a stylized green and blue circular graphic that resembles a globe or a milk drop.

Dairy for life

# JOHN WILSON – CHAIRMAN

# A TOUGH SEASON FOR FARMERS



1. Farmgate Milk Price: \$ per kgMS.
2. Dividend: \$ per share.
3. Final Cash Payout weighted by milk solids volume.

# CHALLENGING YEAR GLOBALLY

## Economic and geopolitical issues

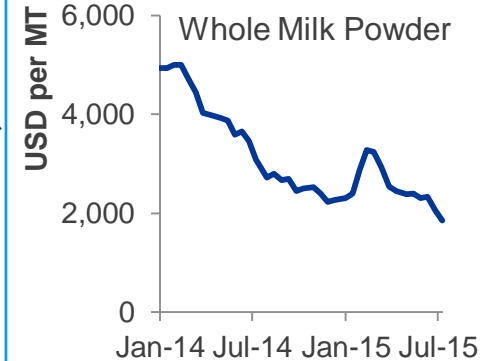
- China Slowdown
- Eurozone
- Oil and mineral prices
- Russian embargo
- ISIS Middle East



## Dairy supply/demand imbalance



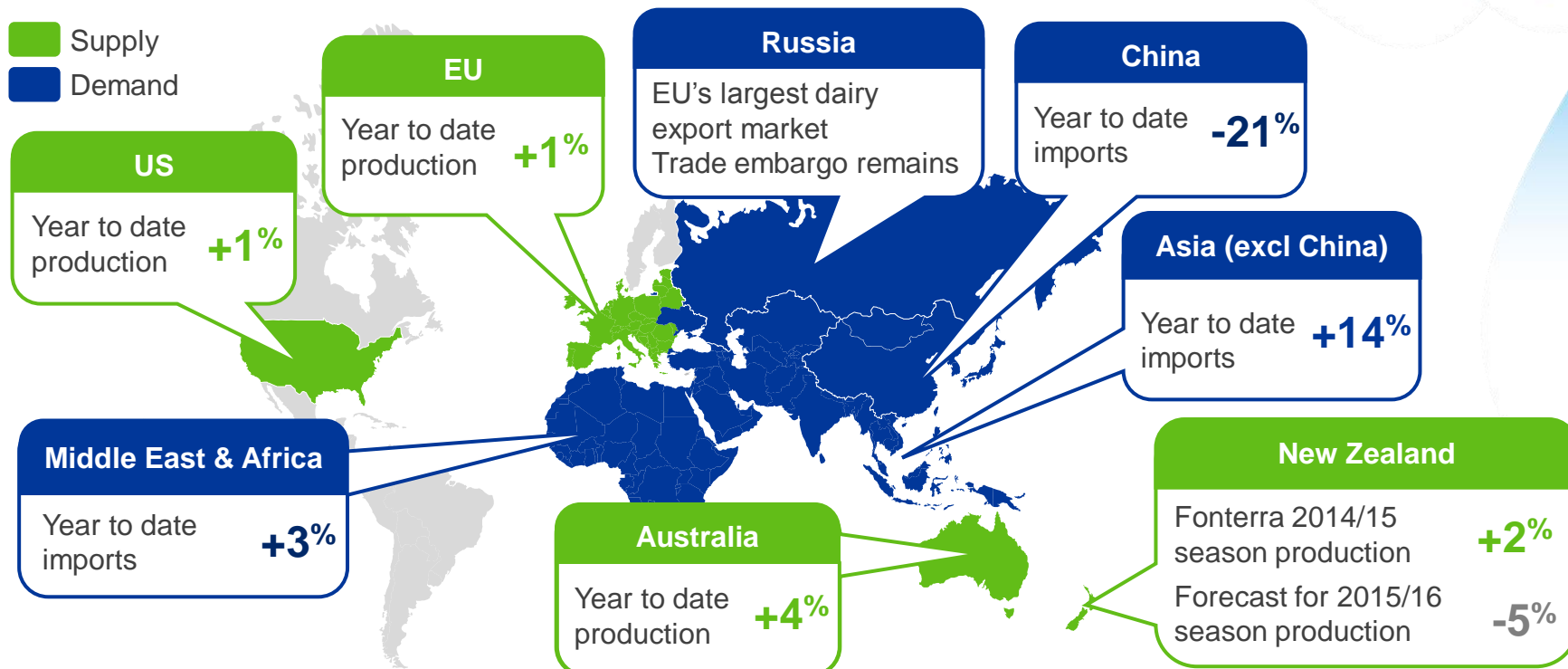
## Fall in dairy prices



- Forecast milk price lowered from \$7.00 to \$4.40 – difficult to predict milk price
- Slump in prices longer than market expectations
- Many major global dairy companies impacted
- Long term outlook for dairy remains positive

# DAIRY SUPPLY / DEMAND IMBALANCE

Supply  
Demand

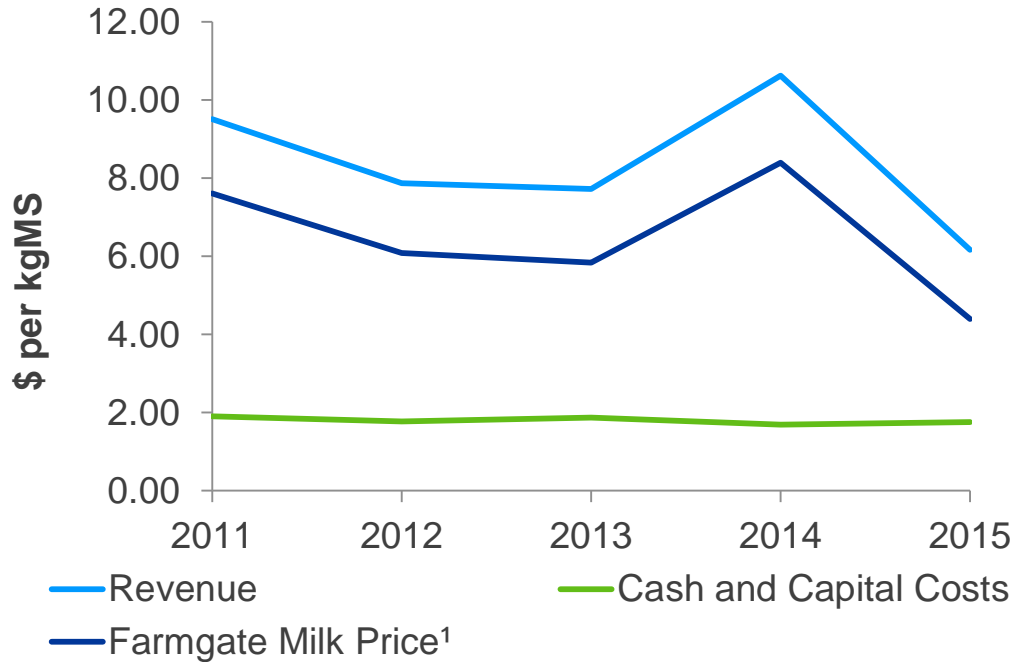


Note: All figures are year-to-date (excl New Zealand): Australia (July), United States (July), EU (June), China (July), Asia (May), Middle East & Africa (May).

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

# KEY DRIVERS OF MILK PRICE

*Revenue, cash costs and capital costs*



- Revenue has been volatile
- Dairy prices
- Currency (FX)
- Costs relatively stable
- Cost of capital
- Operating costs

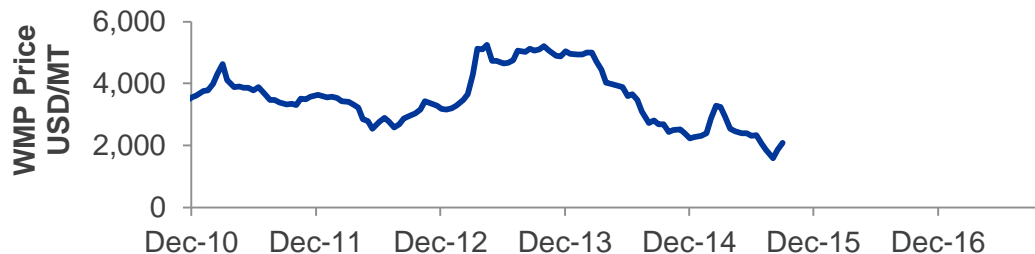
1. 2014 Milk Price includes adjustment of 53 cents.

# MILK PRICE REVENUE

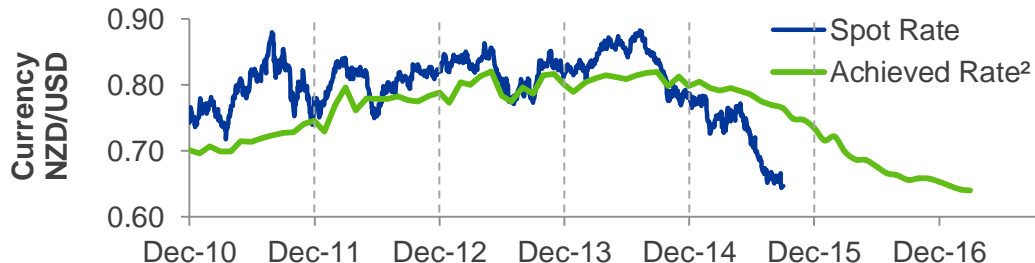
*Dairy price volatility has had a significant impact on Milk Price*



## Dairy Prices (USD per MT)



## Exchange Rate NZD / USD



## Hedging impact¹

\$0.88    \$0.32    \$0.22    \$0.42    (\$0.50)

## Dairy Prices

- Significant volatility 2012 to 2015
- WMP prices fell 44% in last 12 months

## Exchange Rate

- Hedging benefit over last 5 years
  - Average 27 cents per kgMS p.a.
  - Reduces volatility
- Impact of lower spot rate in 2015 spread over 2015 to 2017 hedging

1. Hedging impact is expressed in \$/KgMS, calculated on the same basis as is used in the Milk Price Statement being the difference between the spot rate and the hedged achieved rate for the season. For example for the 2015 season the foreign exchange rate is applied to cash received from Sep-2014 to Dec-2015.

2. Where the forecast exposure is less than 100% hedged the Achieved Rate assumes that the unhedged balance is hedged on the basis of the forward curve as at 31 July 2015

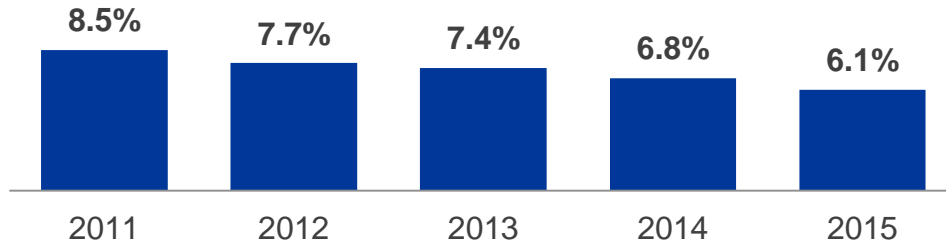


# MILK PRICE COSTS

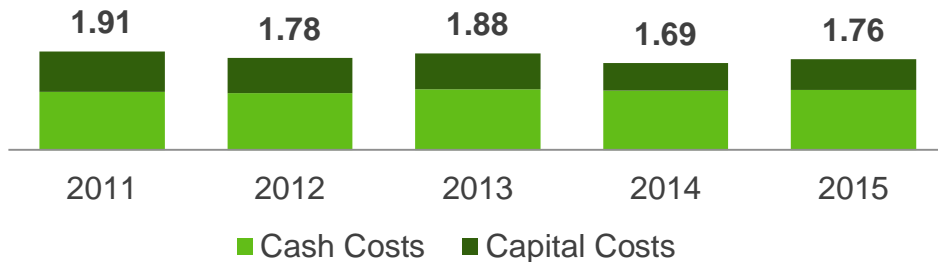
*Stable total cost base*



## Milk Price Cost of Capital



## Milk Price cash and capital costs (\$/kgMS)



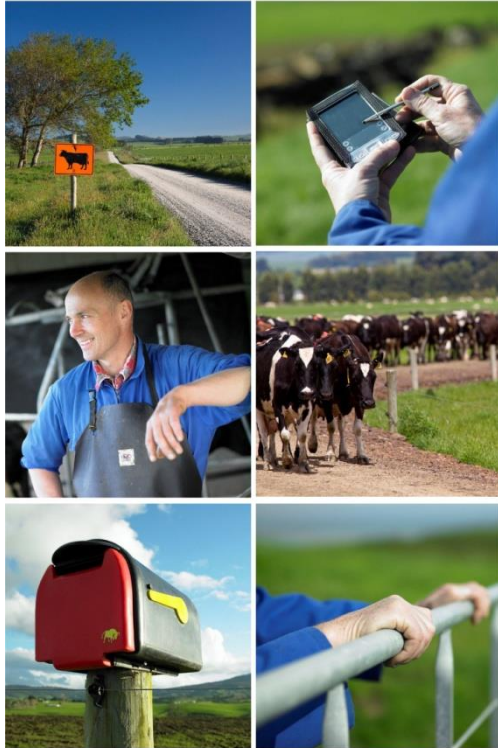
## Milk Price Cost of Capital

- Capital costs are lower reflecting lower cost of debt
- Benefited milk price by 15 cents per kgMS or \$240 million to milk price in 2015 vs. 2011

## Total Costs

- Inflationary increases in cash costs offset in part by efficiency gains
- Capital cost steadily reduced

# WE RESPONDED BY DRAWING ON OUR CO-OP STRENGTHS



- Supporting farmer cash flows through timing of advance rate (\$900 million)
- Farm Source benefits
  - 6-month extended credit at Fonterra Farm Source stores
  - \$4 million of Fonterra Farm Source rewards dollars taken up by 9,000 farmers
  - Compliance relief to April 2015
- Acceleration of business transformation to adapt to new realities

# 2016 OUTLOOK



- The 2015/16 pay-out:
  - A forecast Farmgate Milk Price of \$4.60 per kgMS
  - A strong forecast EPS performance of 40-50 cps
- In addition 50 cents per kgMS loan to support farmers<sup>1</sup>
- Global markets remain volatile and difficult to forecast milk price early in season
- Capex for the 2016 financial year lowered to \$900 million



1. All share-backed farmers.

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Fonterra

Dairy for life

# THEO SPIERINGS – CEO

# STRONG REBOUND IN PROFITABILITY



VOLUME<sup>1</sup>

**4.3M MT**

↑ 9%

REVENUE<sup>2</sup>

**\$18.8BN**

↓ 15%

NORMALISED EBIT

**\$974M**

↑ 94%

NET PROFIT AFTER TAX

**\$506M**

↑ 183%

DIVIDEND PER SHARE

**25 CPS**

↑ 150%

RETURN ON CAPITAL<sup>3</sup>

**8.9%**

## Ingredients

Volume ↓ 3.0m MT

Normalised EBIT<sup>4</sup> ↑ \$973m

Return on Capital<sup>3</sup> 9.3%

## Consumer and Foodservice

Volume<sup>5</sup> ↑ 1.7m MT

Normalised EBIT ↑ \$408m

Return on Capital<sup>3</sup> 25.5%

## International Farming

Volume ↑ 0.2m MT

Normalised EBIT ↓ (\$44m)

1. Total volume, excluding DPA consolidation (324,650 MT), is up 0.3%

2. Total revenue, excluding DPA consolidation, is down 21%.

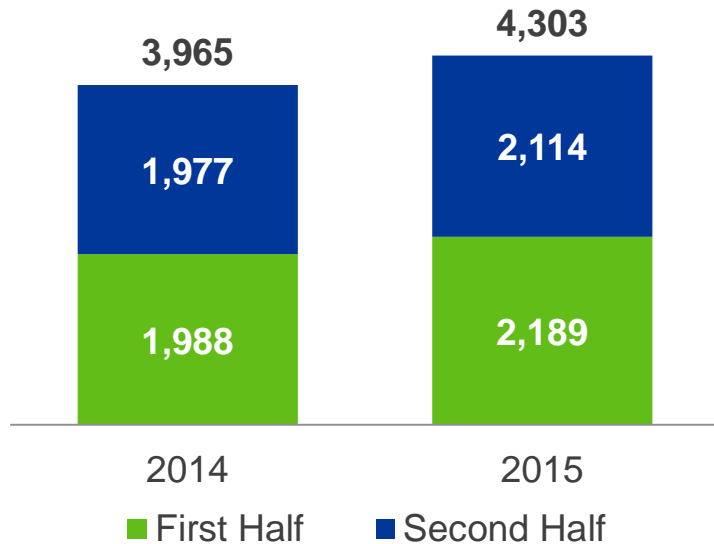
3. Return on Capital (ROC) excludes goodwill, brands and equity accounted investments.  
Group ROC including goodwill, brands and equity accounted investments was 6.9%.

4. Ingredients excludes unallocated costs

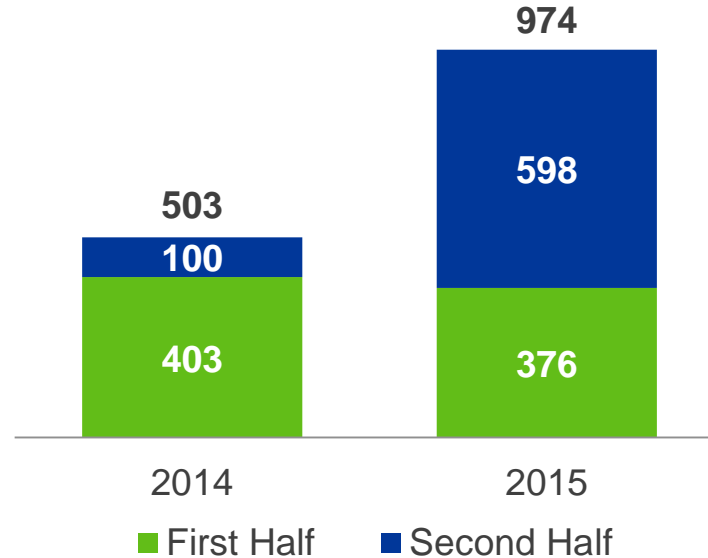
5. Consumer and Foodservice volume, excluding DPA consolidation (324,650 MT), is up 3%

# STRENGTHENING OF PERFORMANCE IN THE SECOND HALF

Volume<sup>1</sup> (000 MT)



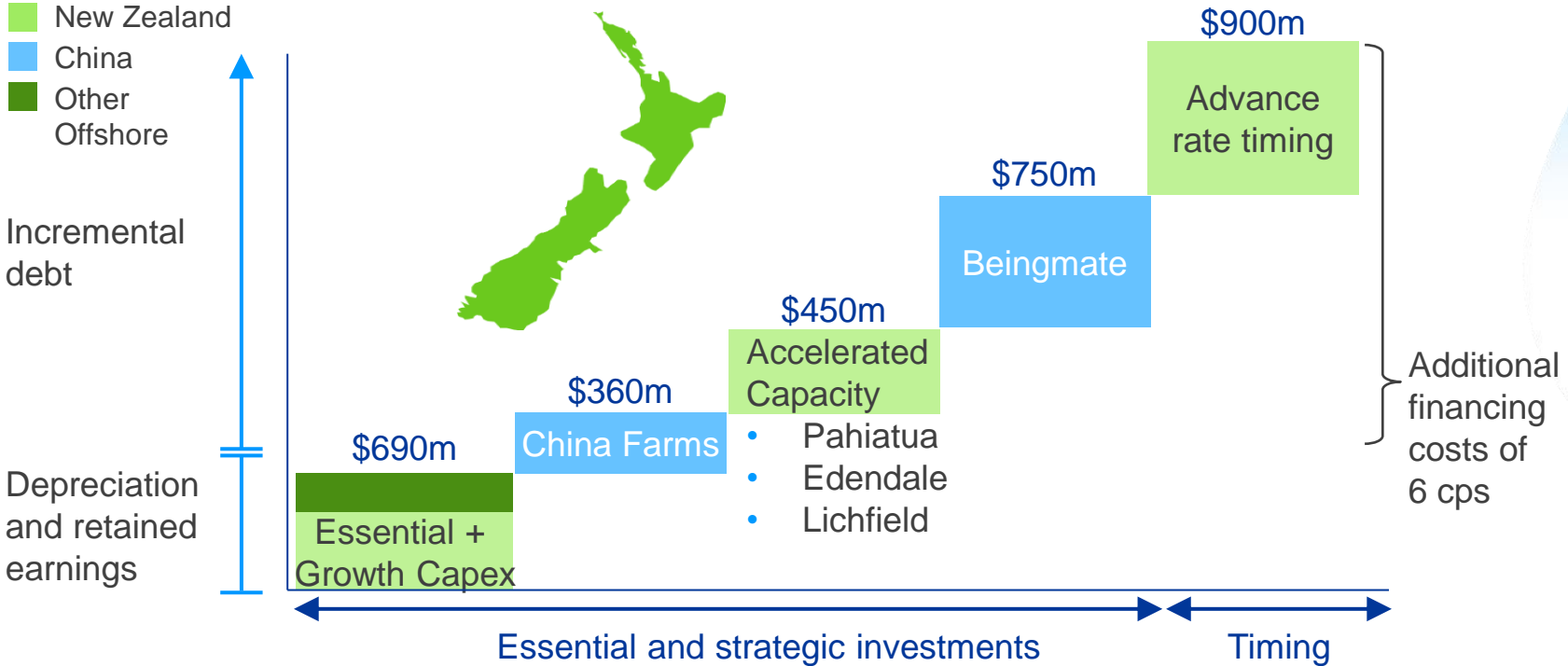
Normalised EBIT (\$m)



1. Volume includes 324,650 MT from DPA consolidation. Excluding this, volume increased 0.3%.

# STRATEGIC INVESTMENTS FOR THE FUTURE

*Led to higher financing costs*



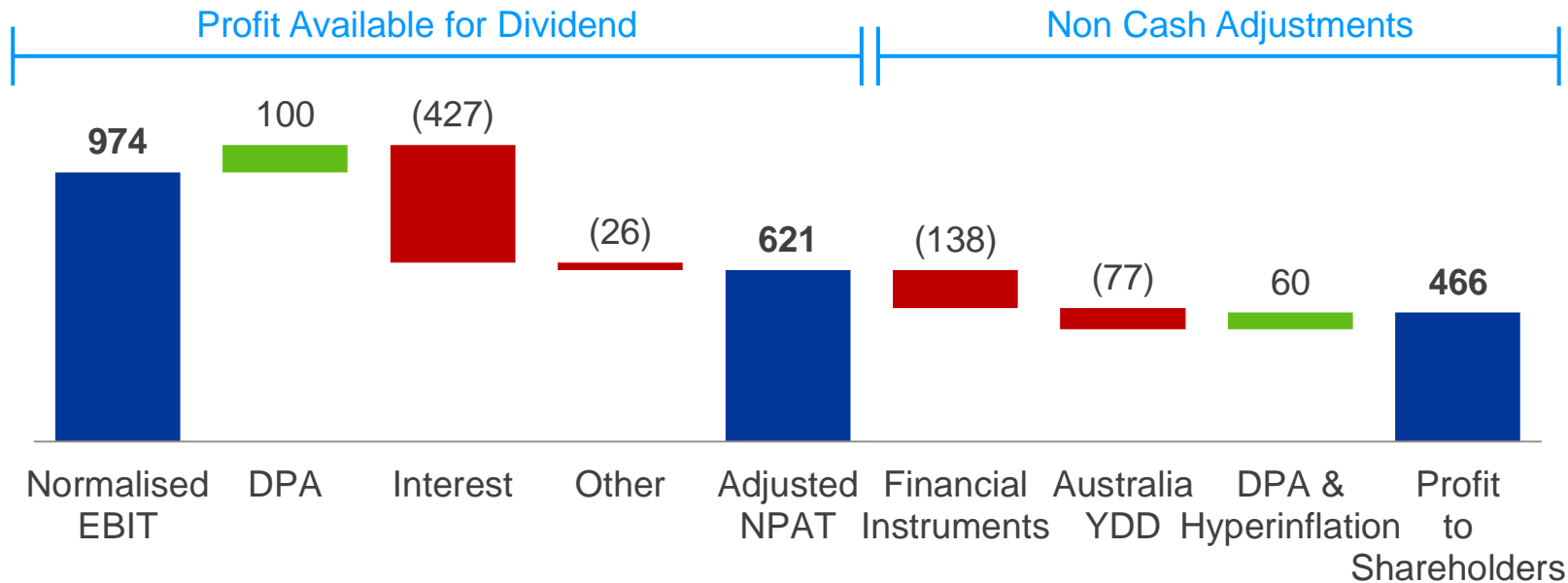


# LUKAS PARAVICINI – CFO



# PROFIT AVAILABLE FOR DIVIDEND

Total Dividend of 25 cents per share

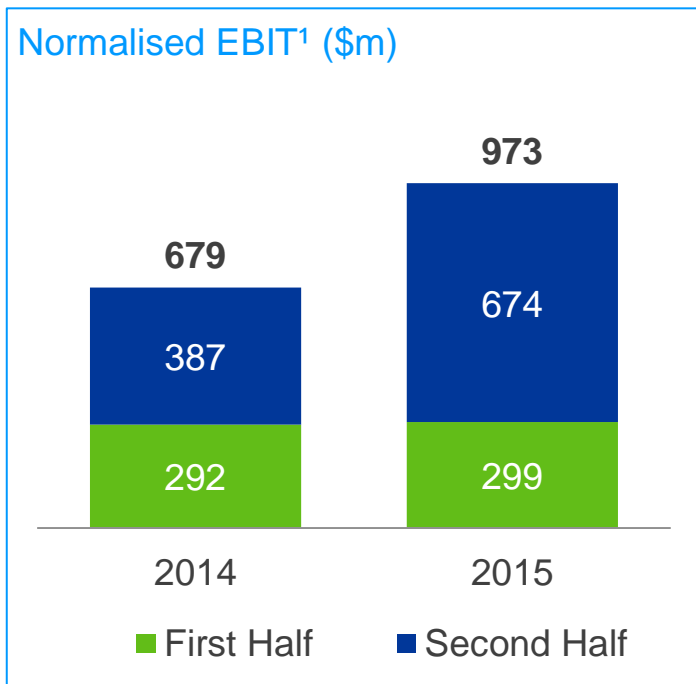


## Cents per Share

61	6	(27)	(1)	39	(9)	(5)	4	29
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# INGREDIENTS

*A solid result driven by New Zealand ingredients*



Volume  
-2%

Normalised EBIT Growth  
+43%

- NZ ingredients: \$264 million gross margin higher
  - Improved stream returns
  - Optimised product mix to pricing
  - Lower peak costs
- Australian ingredients: (\$92) million normalised EBIT
  - Adverse product mix
    - Stanhope cheese fire
    - Darnum – lower nutritionals
- **Return on Capital of 9.3%**

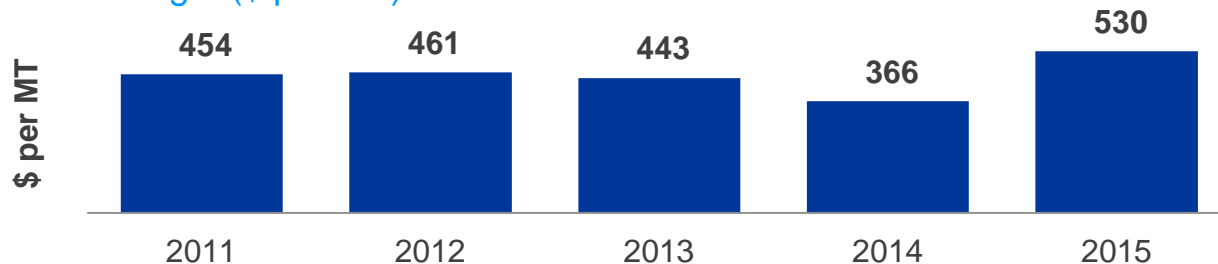
1. *Ingredients EBIT excludes unallocated group costs*

# NEW ZEALAND INGREDIENTS

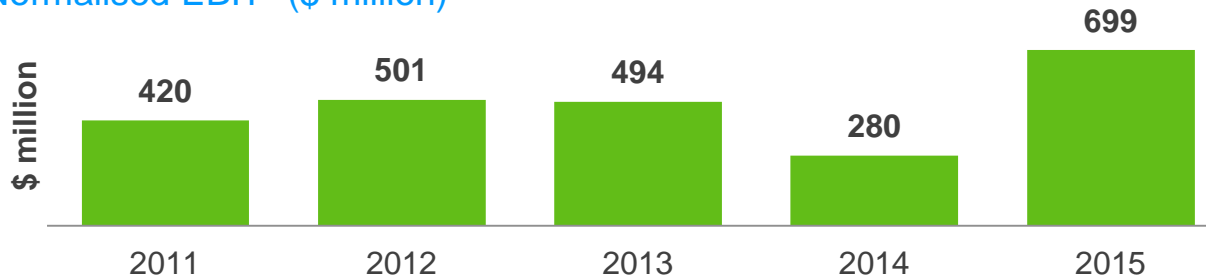
*Solid performance over last 5 years<sup>1</sup>*



Gross Margin (\$ per MT)



Normalised EBIT<sup>2</sup> (\$ million)

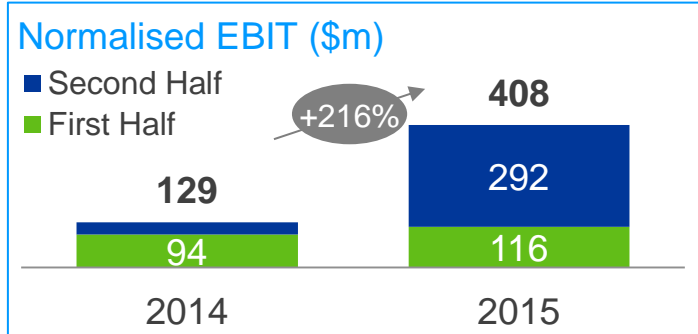
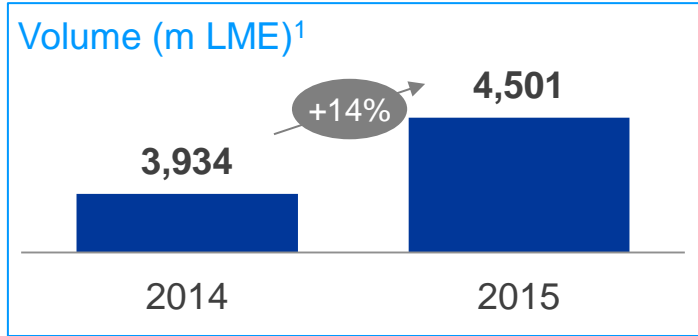


1. Comparatives reflect business structures at the time and have not been restated

2. For comparative purposes, includes unallocated group costs

# CONSUMER AND FOODSERVICE

*Strong volume and margin growth*



- Asia and Greater China – record performance
- Lower input costs for NZ sourced product
- Australia margins impacted by yoghurt and dairy desserts
- Solid performance from Latin America
- **Return on Capital of 25.5%**



1. Excluding DPA consolidation (66 million LME), volumes are up 13%

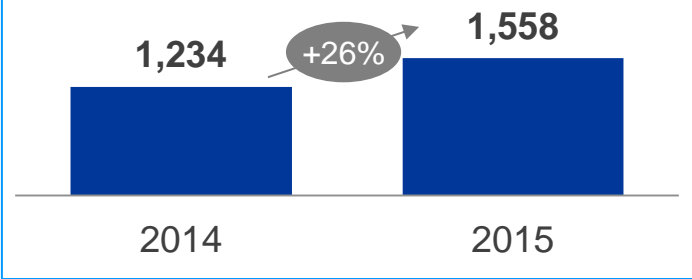
# ASIA

## CONSUMER AND FOODSERVICE

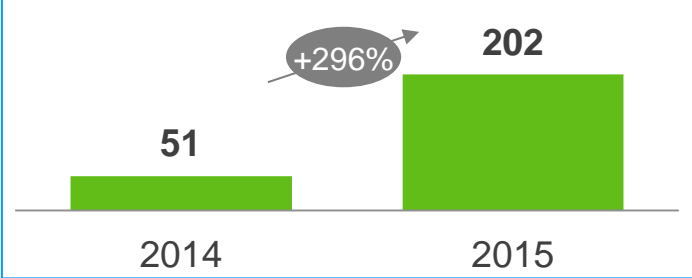
### Record Performance



Volume (m LME)



Normalised EBIT (\$m)



#### Volume

- Sri Lanka recovery grew volumes
- Foodservice growth of 11 per cent
  - Targeting Italian kitchen and Asian bakeries
  - Growth in butter and UHT

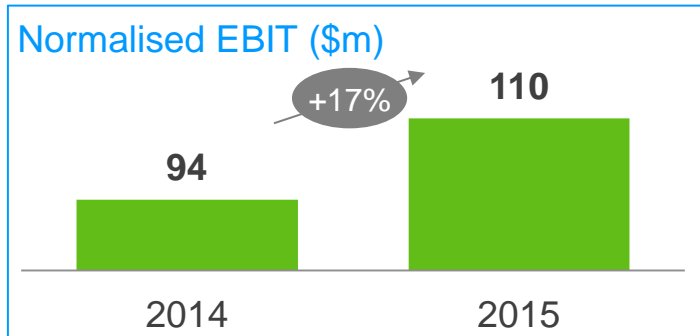
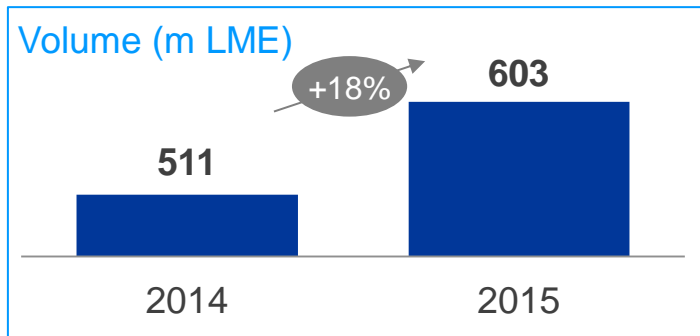
#### Value

- Pricing strategy delivered higher margins and maintained market share
- Strong margin uplift reflecting the strength of our brands and lower input costs
- **Return on Capital of 96.2%**



# LATIN AMERICA CONSUMER AND FOODSERVICE

*Solid growth in normalised EBIT*



1. Excluding consolidation of DPA, LME volumes are up 5%

## Volume

- Consolidation of DPA
- New products launched in Brazil
- Increased consumer prices in Chile

## Value

- Driving market share through product innovation
- Margins improved due to pricing and on-going cost reductions
- **Return on Capital of 18.6%**

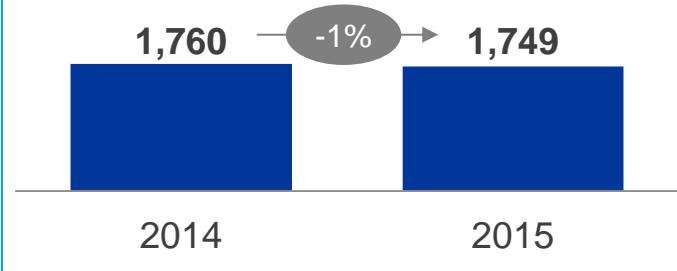


# OCEANIA CONSUMER AND FOODSERVICE

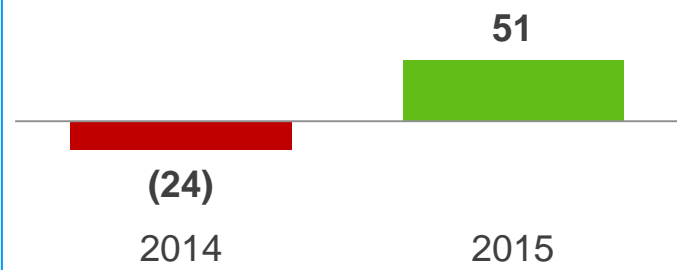
*Progress in Australian reshape and driving product innovation in NZ*



Volume (m LME)



Normalised EBIT (\$m)



## Volume

- Lower volume in NZ due to UHT production moving into ingredients
- Australian domestic foodservice up 10 per cent

## Value

- Growth due to NZ consumer and key Australian brands
- Continued innovation and launch of new products
- Australian yoghurt and dairy desserts continued margin squeeze
- **Return on Capital of 5.0%**



# TAKING DECISIVE STEPS TO TURNAROUND AUSTRALIAN PERFORMANCE



A profitable business

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

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

- # 1 supplier Coles/Woolworths
- Strong brand performance
- 3-year nutritionals contract
- 10% foodservice volume growth

- END GAME
- A Profitable Australian business

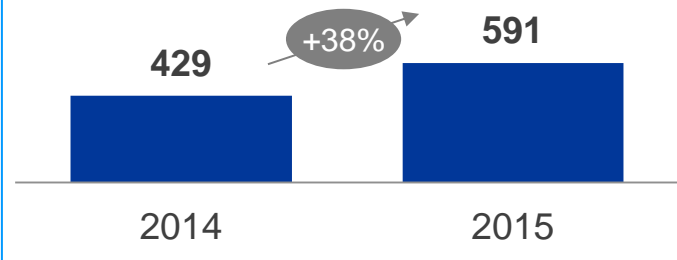


# GREATER CHINA CONSUMER AND FOODSERVICE

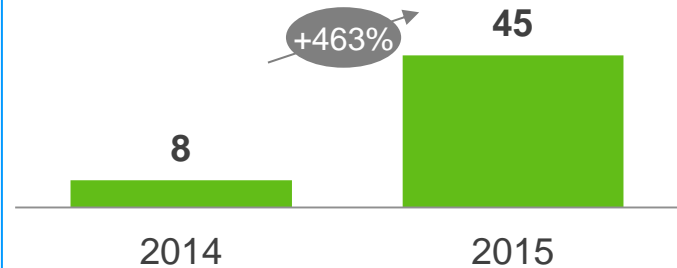
## Record Performance



Volume (m LME)



Normalised EBIT (\$m)



### Volume

- Growth driven by foodservice and Anchor™
- Foodservice business rolled out to 13 new cities to total of 40

### Value

- Lower inputs costs improved margins
- Distribution of Annum™ infant formula through Beingmate now underway
- **Return on Capital of 71.5%**



# INTERNATIONAL FARMING

*Important part of our strategy to build an integrated dairy business in China*

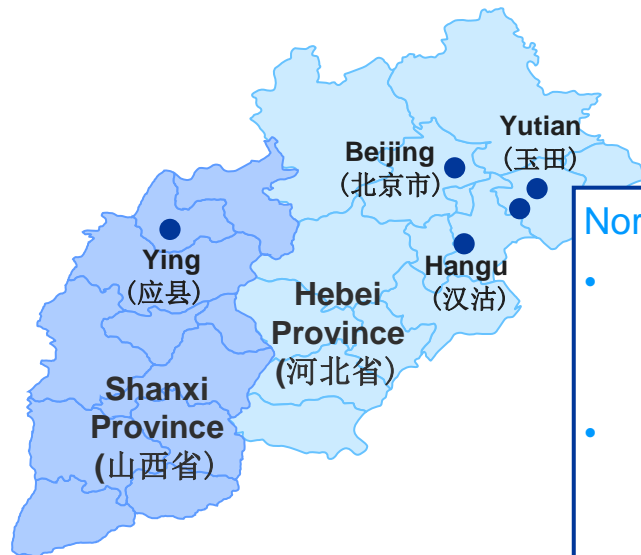


## Ying Hub in Ying County

Capacity	200 million litres
Milking cows	7,000
Young stock	13,400
Yield	28.5 litres per cow per day

## Yutian Hub east of Beijing

Capacity	200 million litres
Milking cows	17,800
Young stock	15,300
Yield	29 litres per cow per day

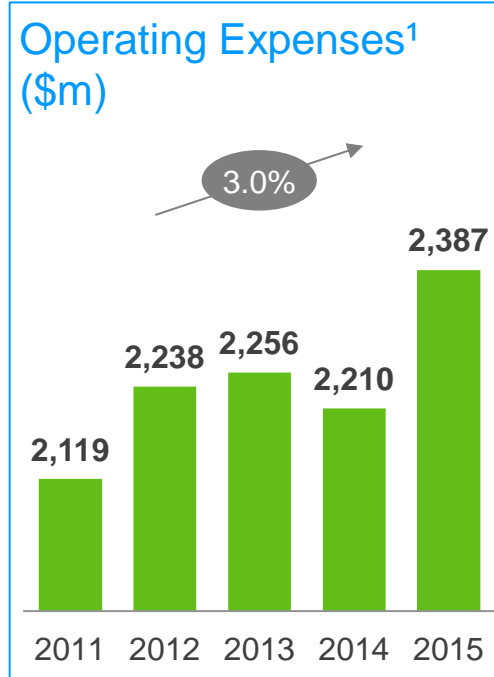
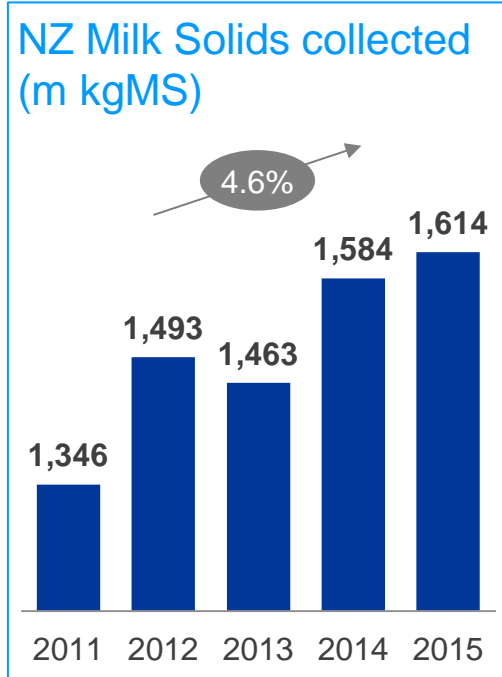


## Normalised EBIT (\$44m)

- Chinese milk price has decreased 10% over last 12 months
- Managed production in low milk price environment by reducing volume and variable costs
- Farm development costs and livestock revaluation further impacted earnings

# OPERATING EXPENSES CONTROLLED

*Growing at a slower rate than milk collection*



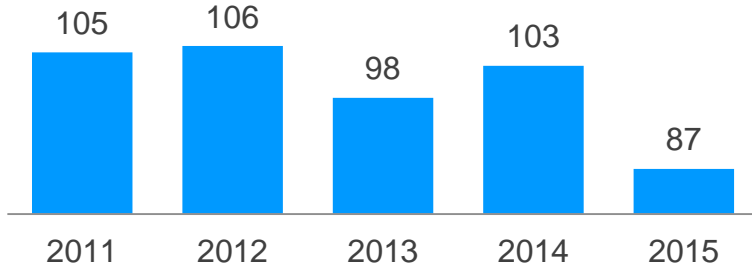
- Higher operating expenses of \$177m in 2015 comprise:
  - One-off costs of \$100 million relating to yoghurt and dairy desserts and restructuring
  - \$77 million including distribution expenses, other operating costs and FX translation

1. 2015 operating expenses exclude impact of DPA consolidation.

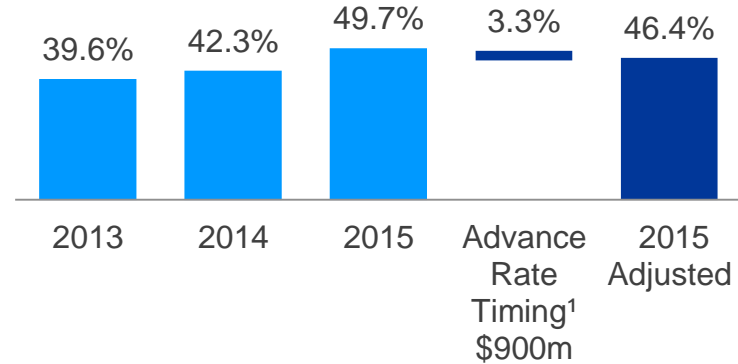
# FINANCIAL STRENGTH AND DISCIPLINE



## Working Capital Days



## Gearing



## Strong fundamentals

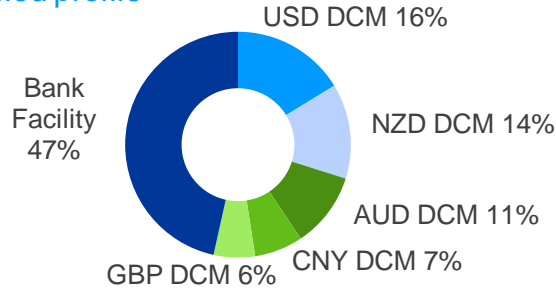
<b>Credit Rating</b>	Fitch	AA- (stable outlook)
	S&P	A (credit watch)
<b>Debt Weighted Average Term to Maturity</b>	As at 31 July 2015	4.6 years

1. Adjustment to show impact of Advance Rate timing.

# DIVERSIFIED AND PRUDENT FUNDING PROFILE

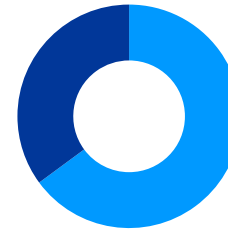


## Diversified profile<sup>1</sup>



## Prudent liquidity

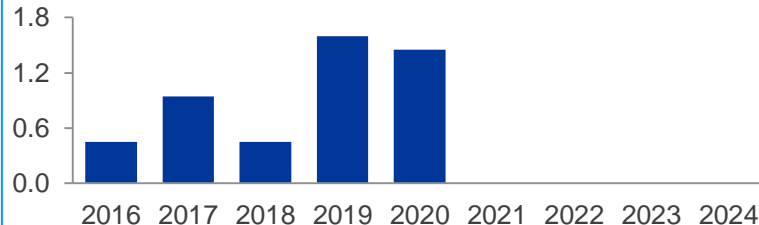
Drawn Facilities  
\$1.7bn  
35%



Undrawn Facilities  
\$3.2bn  
65%

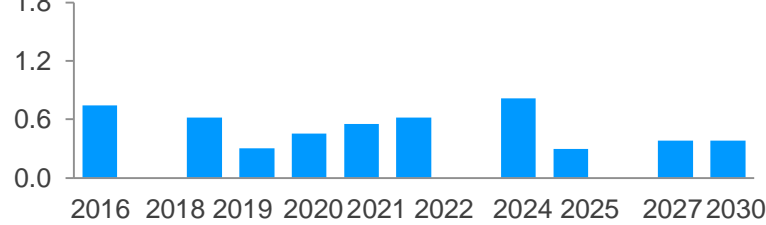
## Bank facility maturity profile<sup>2</sup>

At 31 July 2015 (\$ billion)



## DCM maturity profile<sup>3</sup>

At 31 July 2015 (\$ billion)



1. Includes undrawn facilities and commercial paper.

2. Since balance date, \$280 million of bank facilities maturing in FY17 have been extended until FY20 and FY21. Facilities maturing in FY16 comprise short term subsidiary working capital facilities.

3. Excluding commercial paper.

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Dairy for life

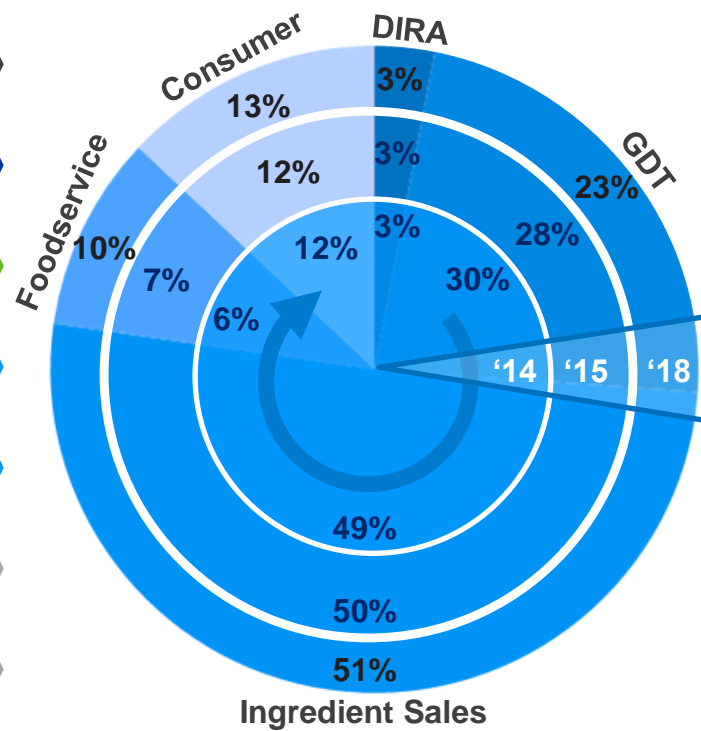
# THEO SPIERINGS – CEO

# DRIVE PERFORMANCE

*Shifting volume to higher value*



- 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



	CAGR (FY14-FY18)
GDT	-2.4%
Ingredient Sales	+4.9%
Foodservice	+16.3%
Consumer	+8%

Total	FY14	FY15	FY18
LME (bn)	22.2	22.8	25.8

Consumer and Foodservice	FY14	FY15	FY18
Percentage of total LME	18%	19%	23%
LME <sup>1</sup> (bn)	3.9	4.5	5.9

1. Includes inter-company sales to other strategic platforms

# ON-GOING TRANSFORMATION



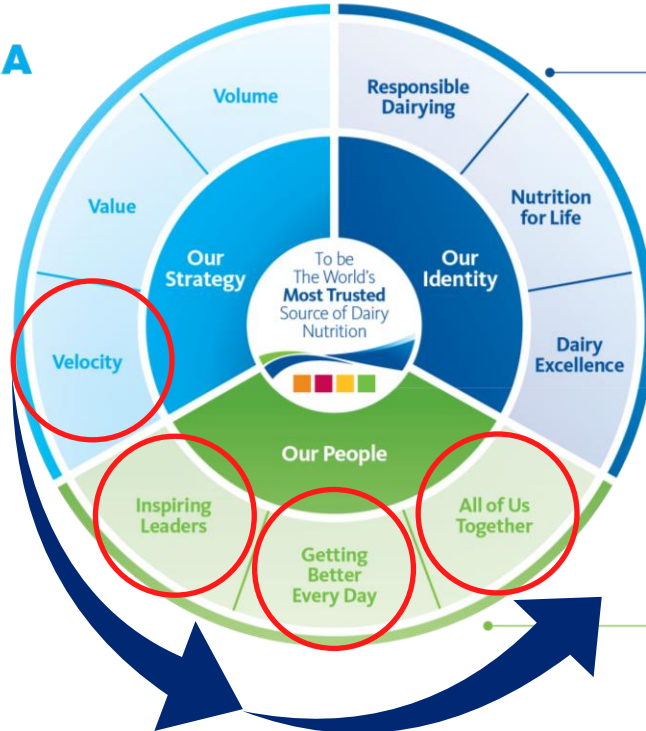
## THIS IS FONTERRA FRAMEWORK

With our purpose, story and values at the heart, our 'This is Fonterra framework' brings together our people, identity and strategy commitments to guide us 'to be the world's most trusted source of dairy nutrition'.

### OUR STRATEGY

The V3 strategy is all about driving volume, value and velocity through our seven strategic paths:

- Optimise New Zealand milk.
- Build and grow beyond our current consumer positions.
- Deliver on Foodservice potential.
- Grow our Anlene™ business.
- Develop leading positions in paediatrics and maternal nutrition.
- Selectively invest in milk pools.
- Align our business and organisation to enable the strategy.



### OUR IDENTITY

#### Responsible Dairying

- Committed to helping our dairying communities thrive.
- Champion of the health of our farms and waterways.

#### Nutrition for Life

- Delivering superior products to improve health at key life stages.
- Making dairy nutrition accessible.

#### Dairy Excellence

- Global leader in dairy safety and quality.
- Innovation, expertise and openness.

### OUR PEOPLE

#### Inspiring Leaders

- Trusted leaders inspiring exceptional performance.

#### Getting Better Every Day

- Simplicity, clarity and focus in everything we do.
- Capable, passionate people, growing every day.
- High performing teams who own our collective success.

#### All of Us Together

- A collaborative and connected culture.
- Caring for our people and our consumers.
- Accountable to our customers, communities and shareholders.

$$\text{CASH} + \text{MINDSET} = \text{PERFORMANCE}$$



# BUSINESS TRANSFORMATION

*Recurring and one-off savings building over 24 months*



## Transformation Scope

- Sales mix / pricing
- Operations
- Procurement
- Supply Chain
- Overheads
- Working Capital
- Capex

## Cash Impact

- Milk Price
- Earnings
- Balance Sheet
- Cash flow

- Total Shareholder Returns

# EXECUTING OUR STRATEGY TO DELIVER SUPERIOR PERFORMANCE



	<b>From (2015)</b>	<b>Ambition</b>
<b>Revenue</b>	\$0.8 / LME	\$1.2 / LME
	\$10 / kgMS	\$14 / kgMS
<b>Gross Margin</b>	17%	20%+
<b>Normalised EBIT</b>	\$974m	50%–100% uplift
<b>Return on Capital</b>	8.9%	11%–13%
<b>Gearing<sup>1</sup></b>	45%–50%	40%–45%

1. Fonterra's target is to maintain its strong investment grade credit rating and debt payback and cash flow coverage metrics that support this.

# STRONGER TOGETHER

## Our Ambition

Making a difference in the lives of 2 billion people



**Dairy for life**

A promise we keep from our farms to your home

From our  
Co-operative

30,000 strong



# SUPPLEMENTARY SLIDE

# NORMALISATION ADJUSTMENTS



<b>\$ million</b>	<b>Year ended 31 July 2015</b>	<b>Year ended 31 July 2014</b>
Total EBIT	<b>942</b>	<b>503</b>
Gain on Latin America strategic realignment	<b>(129)</b>	-
Impairment of assets in Australia	<b>108</b>	-
Restructuring and redundancy provisions	<b>33</b>	-
Time value of options	<b>20</b>	-
<b>Total normalisation adjustments</b>	<b>32</b>	-
<b>Total normalised EBIT</b>	<b>974</b>	<b>503</b>