



# PROGRESS

—  
**INTERIM  
REPORT**  
2015

Interim Results  
25 March 2015

# Interim Result 2014

**Forecast Farmgate Milk  
Price**

**\$4.70** KGMS

**Forecast Dividend**

**20-30** CPS

**Forecast Final Cash Payout**

**\$4.90 -  
\$5.00**

**Forecast Milk Collection**

**1.551** M KGMS

**Interim Dividend**

**10** CPS



# Key highlights

## Interim Results 2015

FORECAST PAYOUT PER KGMS  
FOR THE 2014/15 SEASON

**\$4.90-\$5.00**

TOTAL SALES VOLUME (000s)

**2,189<sub>MT</sub>** 

TOTAL GROUP REVENUE

**\$9.7<sub>BN</sub>** 

NORMALISED EBIT

**\$376<sub>M</sub>** 


NET PROFIT AFTER TAX

**\$183<sub>M</sub>** 

INTERIM DIVIDEND

**10 CPS** 


### Ingredients

EBIT<sup>1</sup> \$299 m  2%

### Consumer and Foodservice

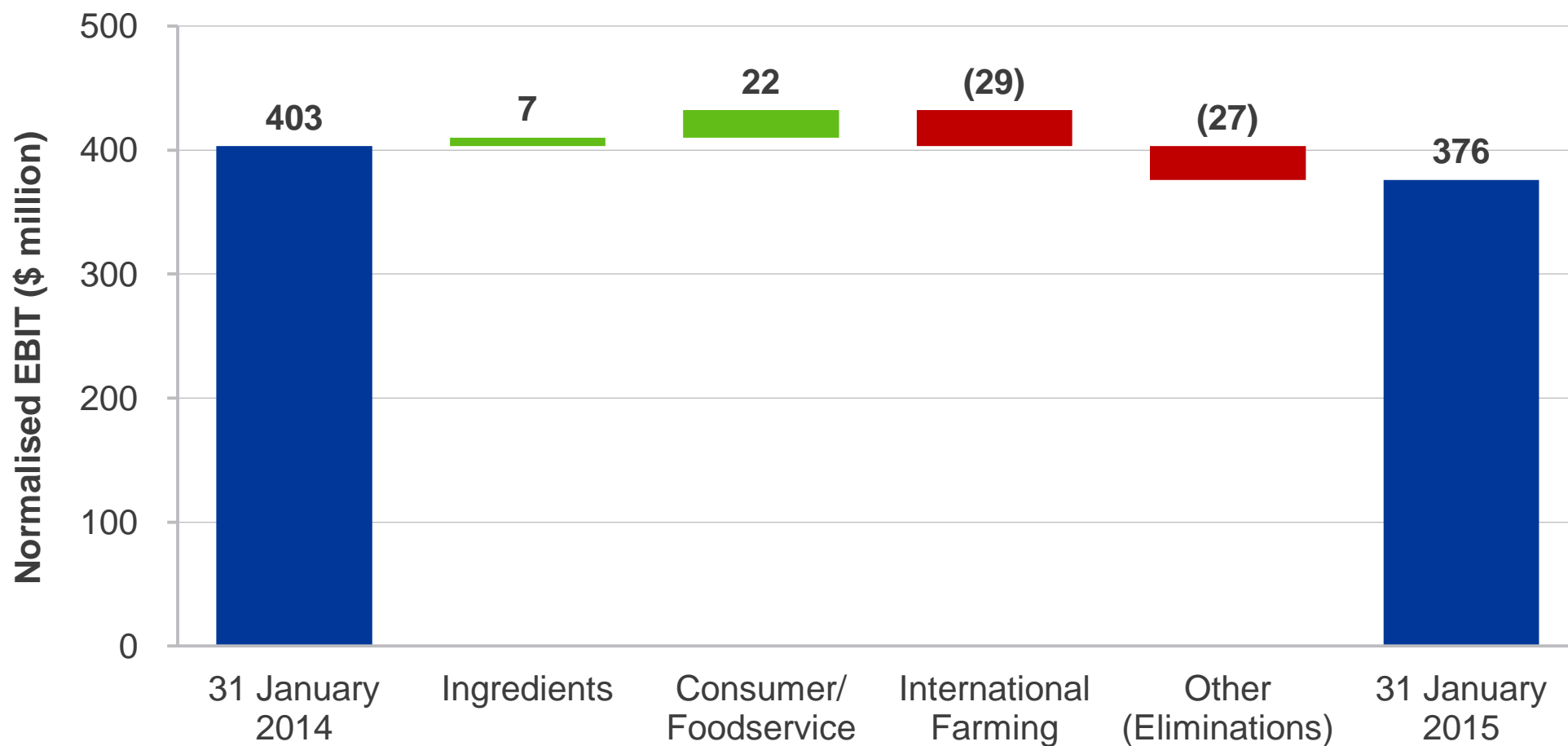
EBIT<sup>1</sup> \$116m  23%

### International Farming

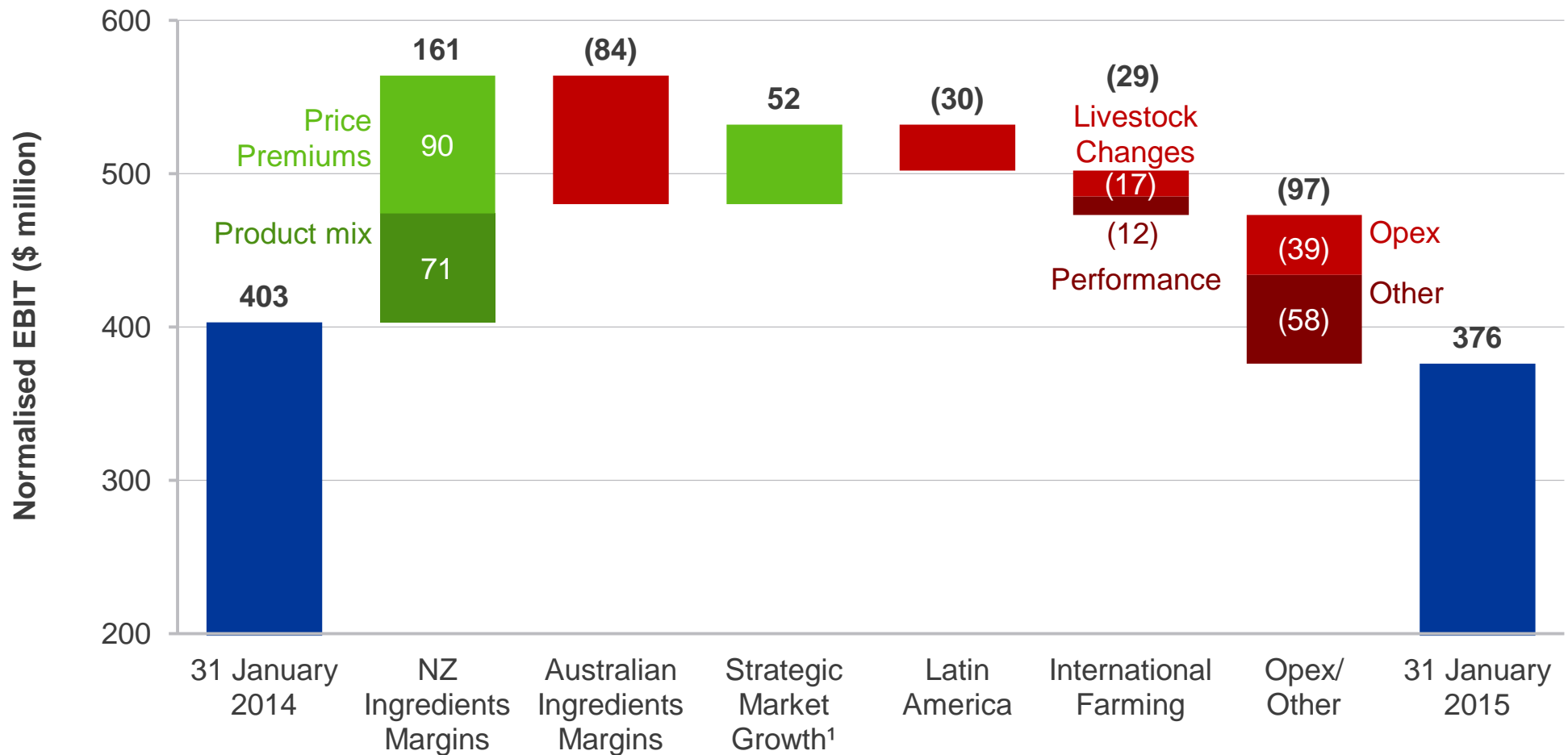
EBIT<sup>1</sup> (\$27m) 

1. EBIT is on a normalised basis.

# Fonterra Group



# Key performance drivers



1. Includes New Zealand, Australia, Sri Lanka, Malaysia and Indonesia.



Fonterra

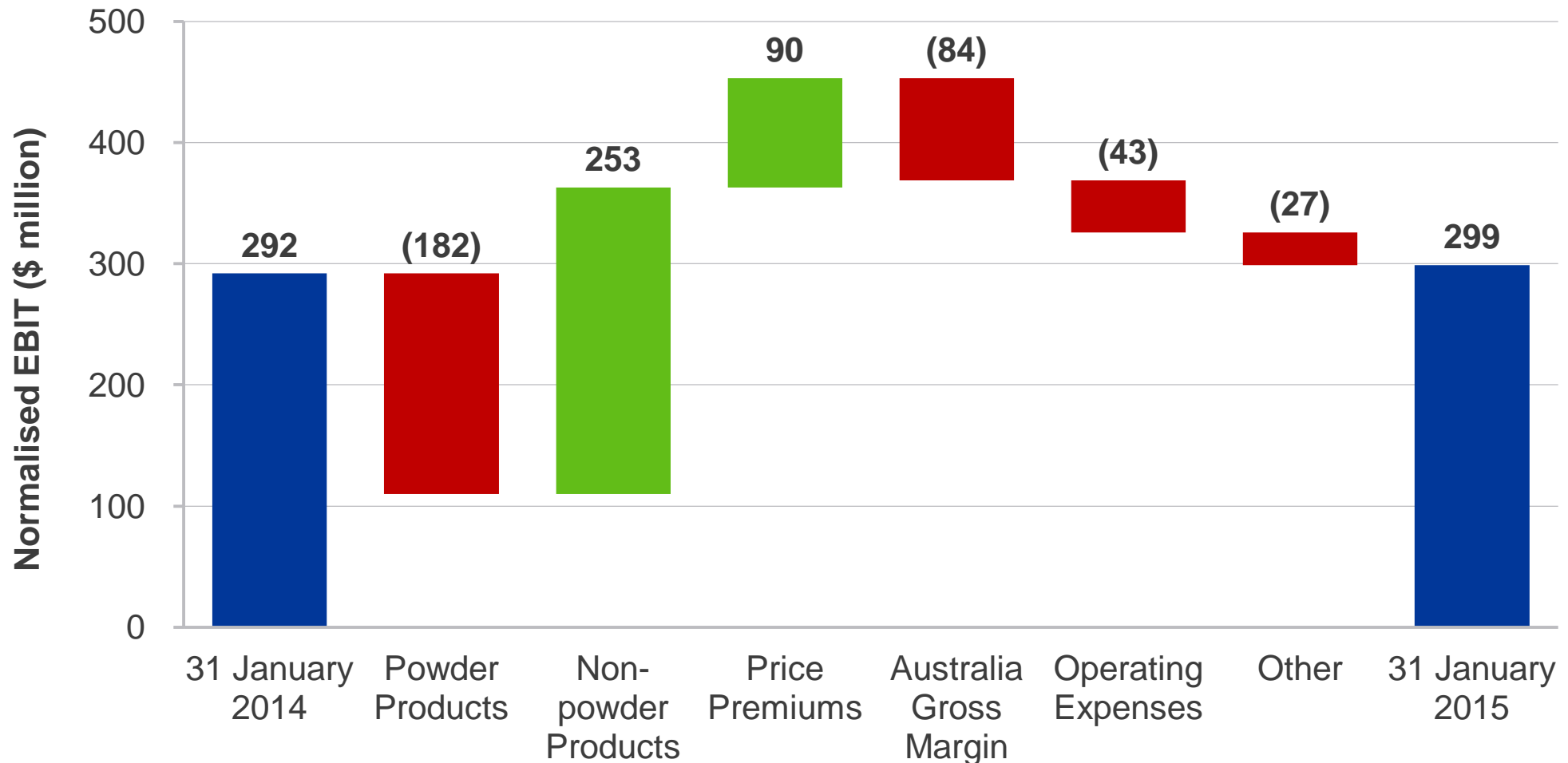
Dairy for life

# INGREDIENTS



# Ingredients

Performance held back by first quarter and Australian ingredients



Note: Powder products are Reference Commodity Products which inform the Farmgate Milk Price. These are currently Whole Milk Powder, Skim Milk Powder, Anhydrous Milk Fat, Butter and Buttermilk powder

# Driving Ingredients performance



Price premiums

**Targeting**

5% CAGR



Optionality

**Underway**

**Investing in New Zealand**

\$580m



Fix  
underperforming  
businesses

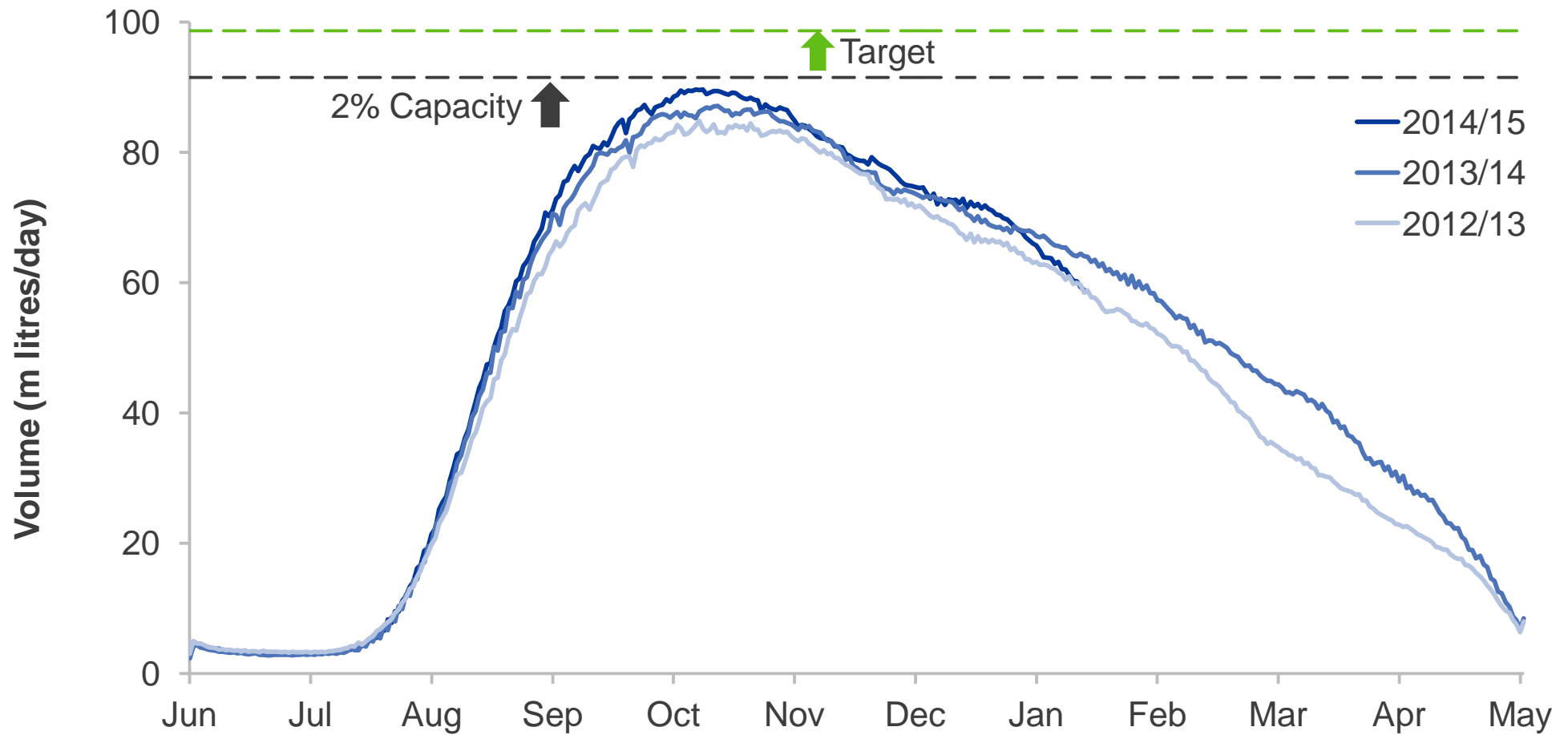
**Underway**

**Align Australia to multi-hub strategy**

A\$50m opportunity in Australia



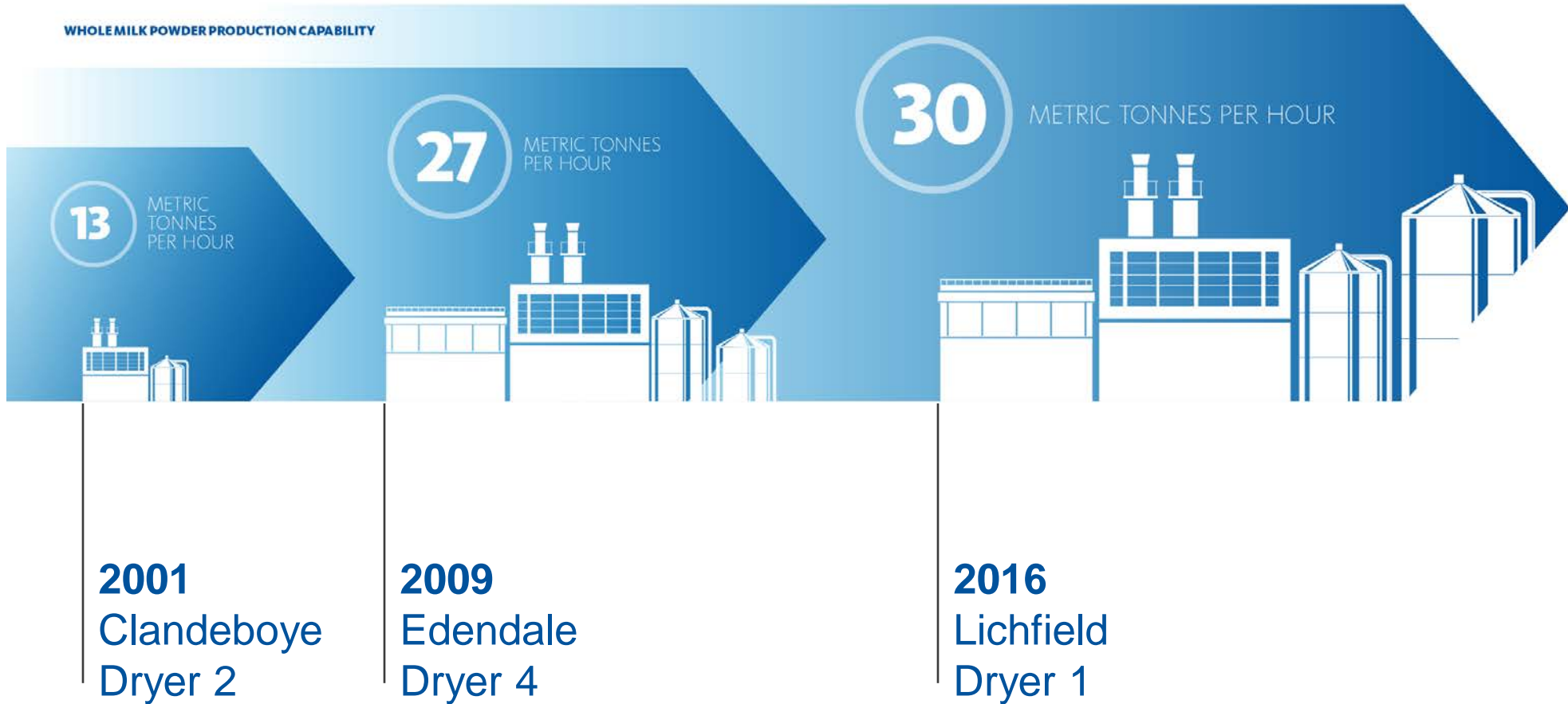
# Driving 'optionality'



Source: Fonterra Co-operative Group Limited

# Driving operational excellence

## WHOLE MILK POWDER PRODUCTION CAPABILITY



# Fixing underperforming businesses

## Australia Ingredients

### Multi-Hubs



Milk Powder /  
Foodservice

Whey

### Australia Ingredients



Cheese / Whey /  
Infant Formula

UHT / Foodservice

### Performance impacted by product mix



Lower high-value infant formula sales

SMP sales at record low prices

Fire at Stanhope impacted cheese

### Improving Performance

Grow infant formula exports



Grow cheese



Optimal product mix



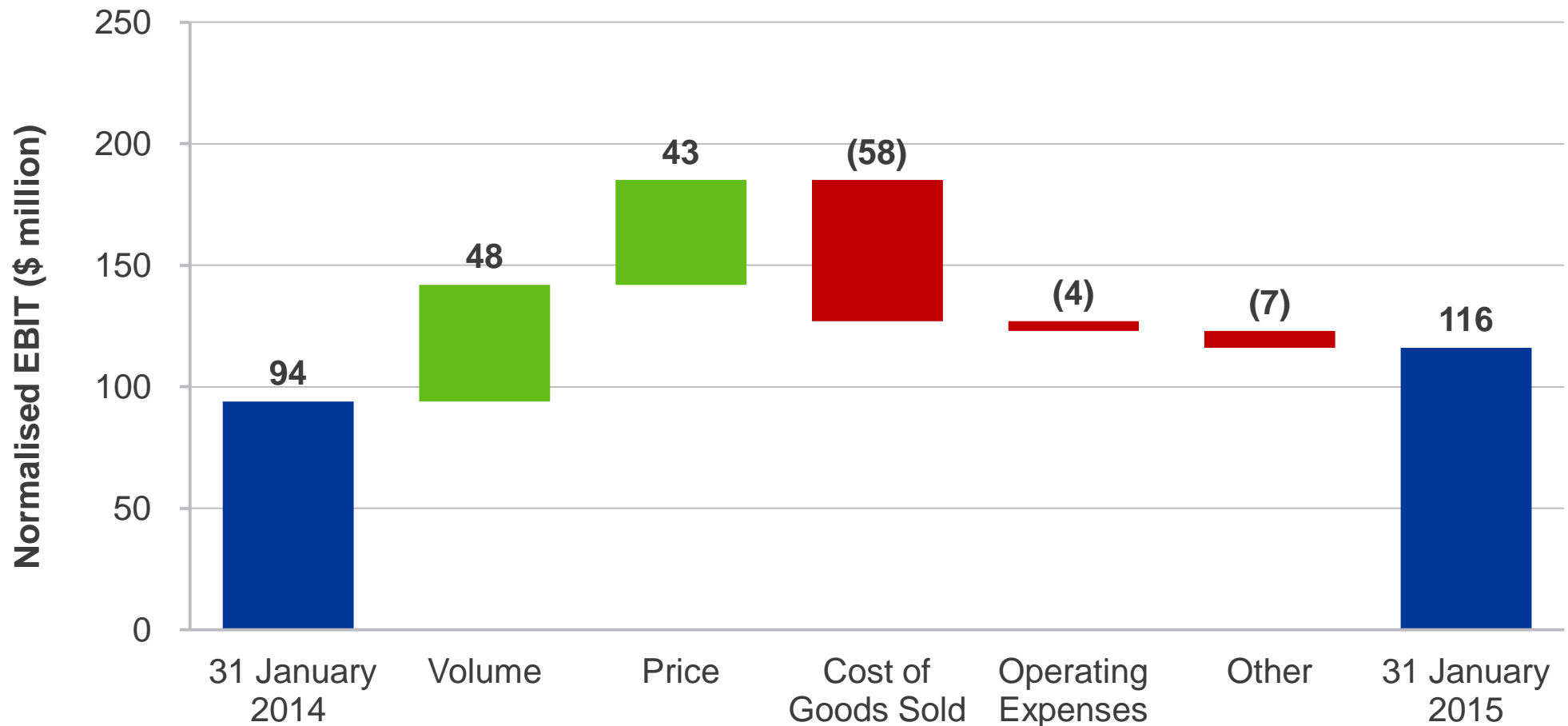
A\$50m EBIT opportunity

# CONSUMER AND FOODSERVICE



# Consumer and Foodservice

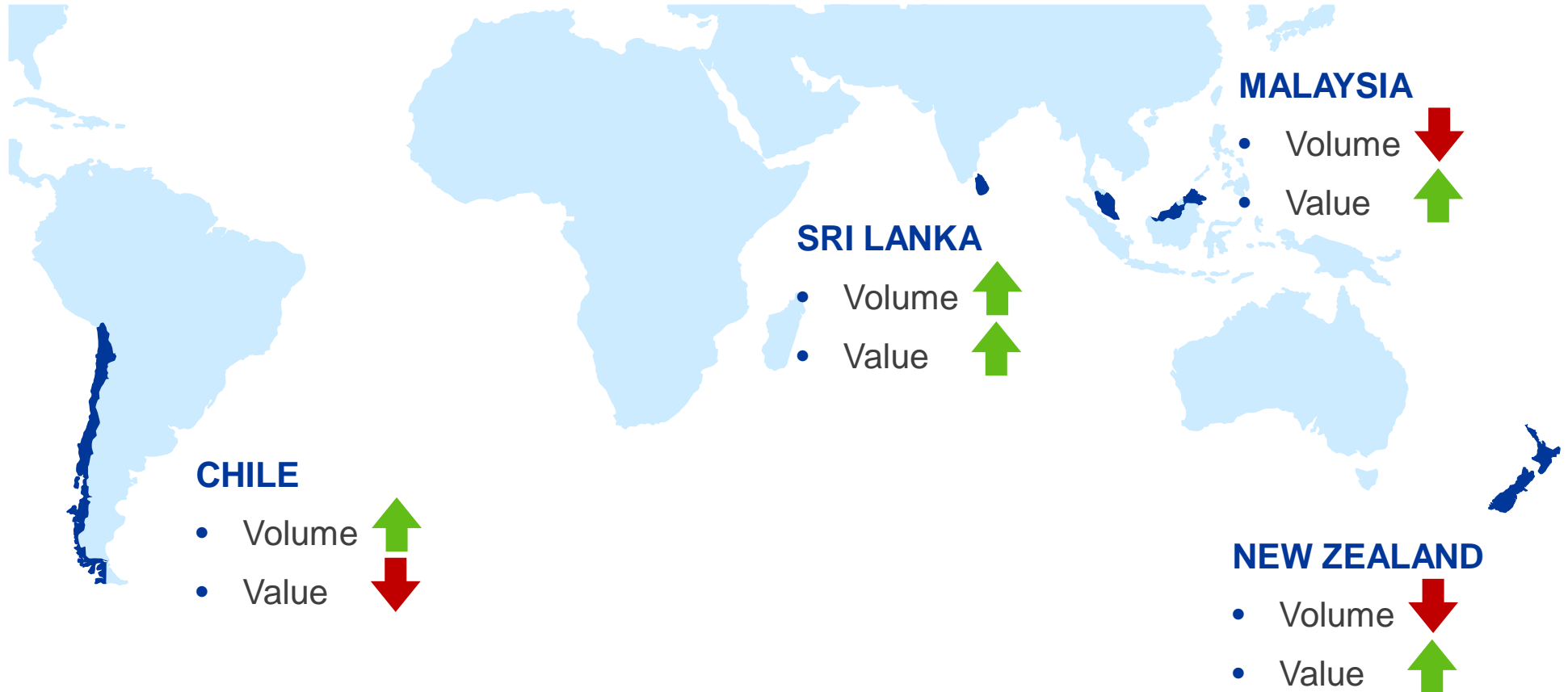
Higher profits on improvements in execution, mix and productivity



# Driving performance: four strategic markets



# Driving performance: four leadership markets



# Fixing underperforming businesses

## Australia Consumer and Foodservice

### SRI LANKA

### AUSTRALIA

### Consumer and Foodservice

 **Completed**

 **Underway**






#### Retailers

- Building strategic relationships
- Ranked #1 supplier to Coles (#33 LY)
- New private label contract with Woolworths



#### Brands and Foodservice market share

- Chilled spreads 22% 
- Cheese 22% 
- Yoghurt 17% 

**Progressing**

#### Improving margin

- Improve contribution from yoghurts and dairy desserts
- Drive product innovation

**Underway**

#### Lower operating costs<sup>1</sup>

- 21% lower over two years
- Saving of \$35 million



1. First half 2013 operating costs compared to first half 2015.





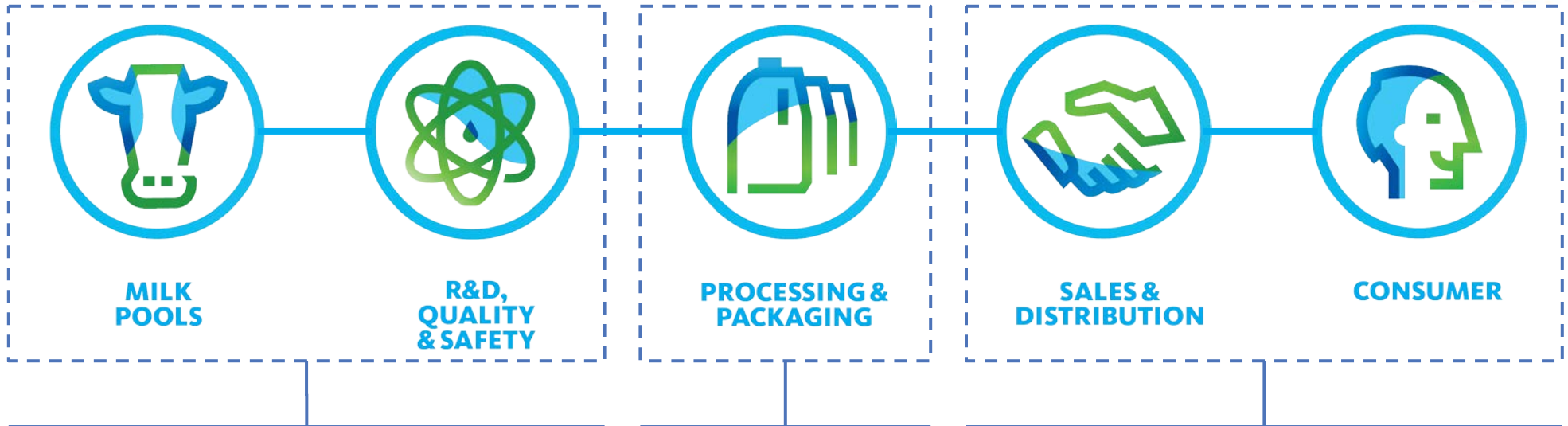
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INTERNATIONAL  
FARMING

# International farming key part of the China strategy



- **2** hubs
- **9** farms
- **24,000** milking cows
- **25,000** heifers and calves
- Targeting **one billion litres** from China farms
- **Partnerships** to fund growth

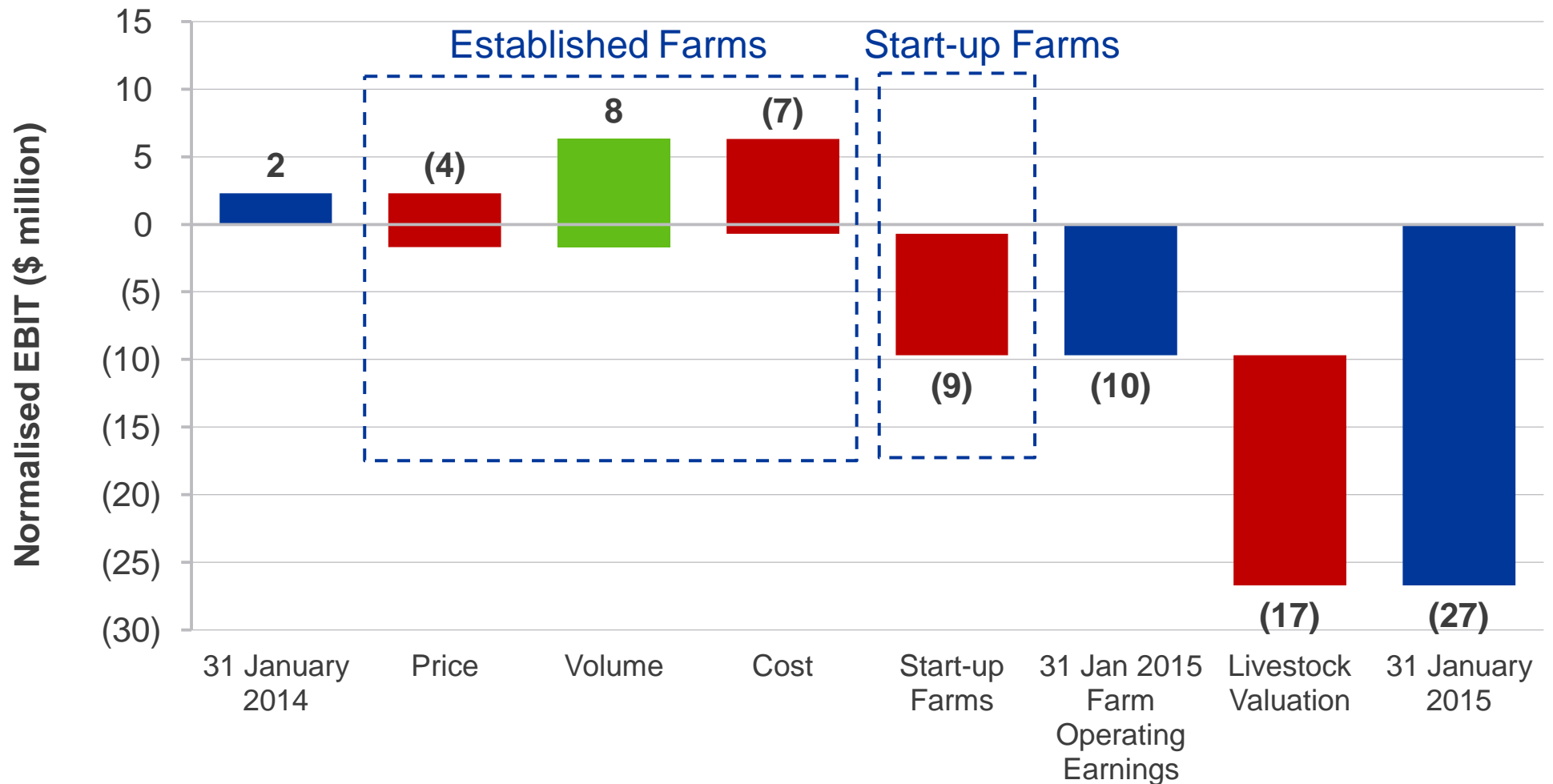
Future processing capability

Brands in China



# International Farming

Higher volumes but at a much weaker domestic milk price





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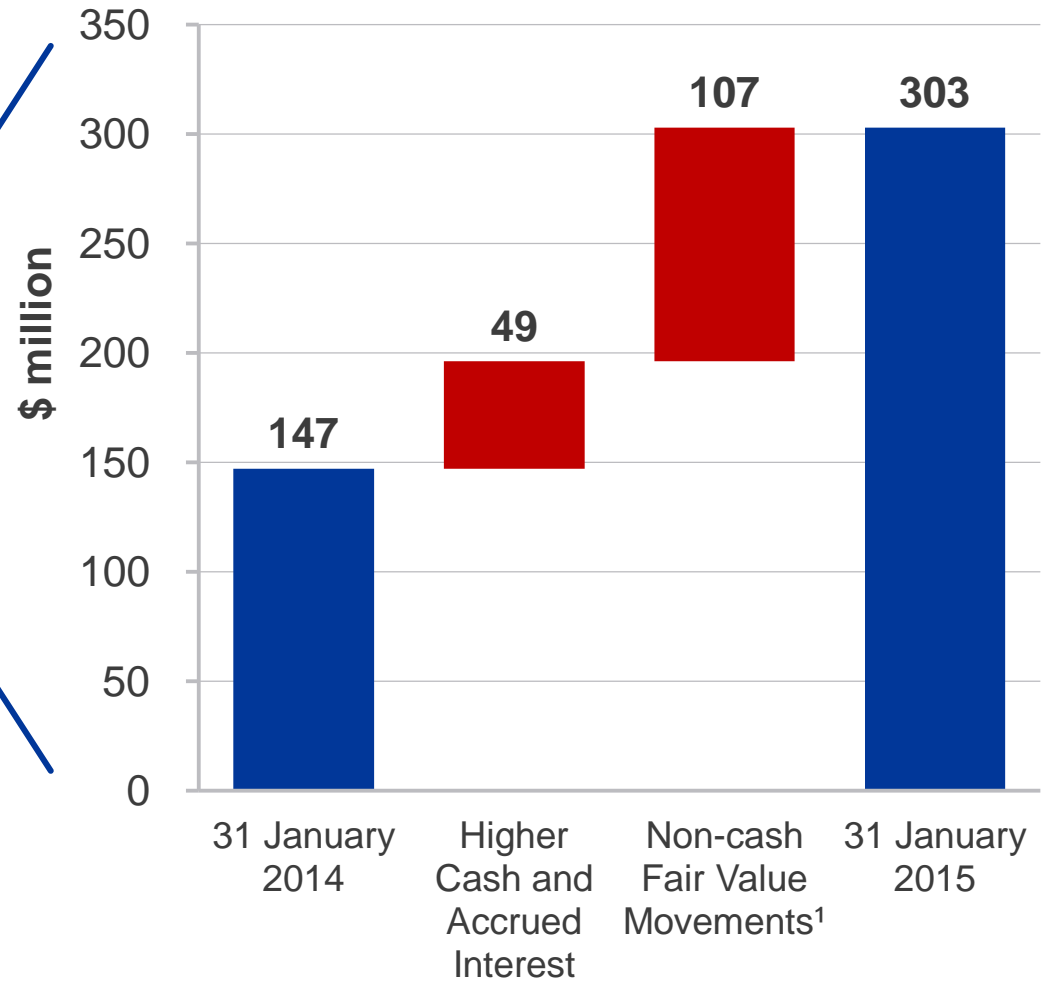
OTHER  
FINANCIALS

# Normalisation adjustments

<b>\$ million</b>	<b>Six months ended 31 January 2015</b>	<b>Six months ended 31 January 2014</b>
Total EBIT	483	416
Net gain on Latin American strategic realignment	(129)	–
Time value of options	22	(13)
<b>Total normalisation adjustments</b>	<b>(107)</b>	<b>(13)</b>
Total normalised EBIT	376	403

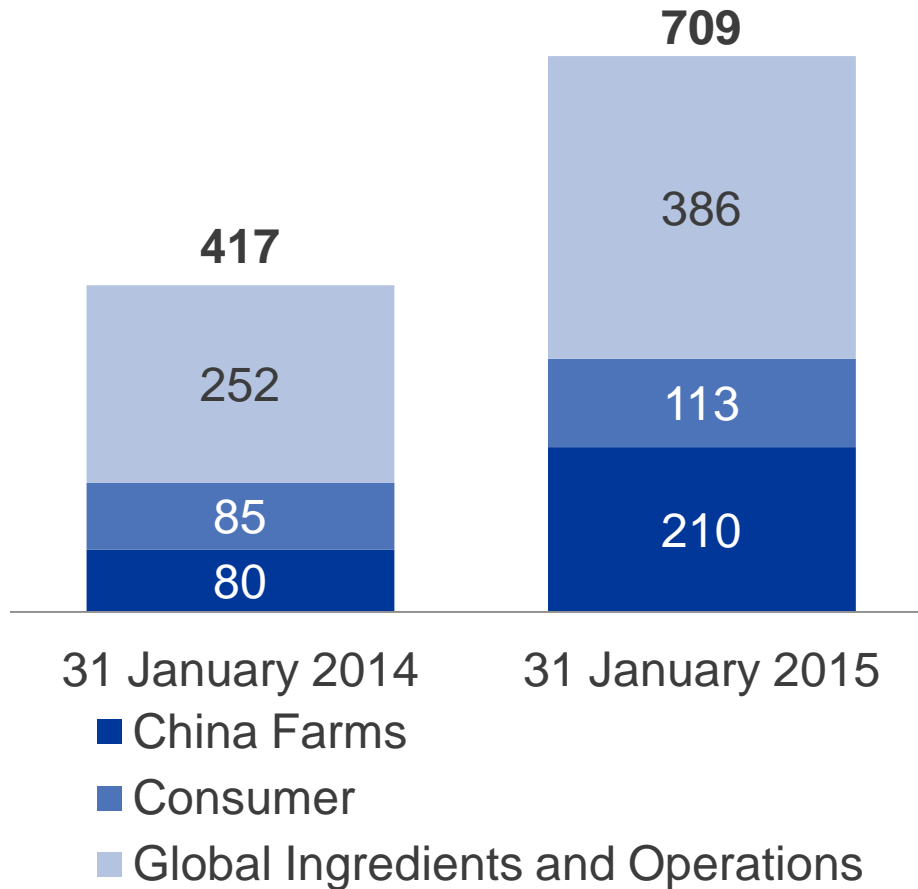
# From EBIT to NPAT

\$ million	
EBIT	\$483m
Net Finance Costs	(\$303m)
Tax	\$3m
<b>Net Profit After Tax</b>	<b>\$183m</b>



1. Fair value movements include hyperinflation adjustments in Venezuela.

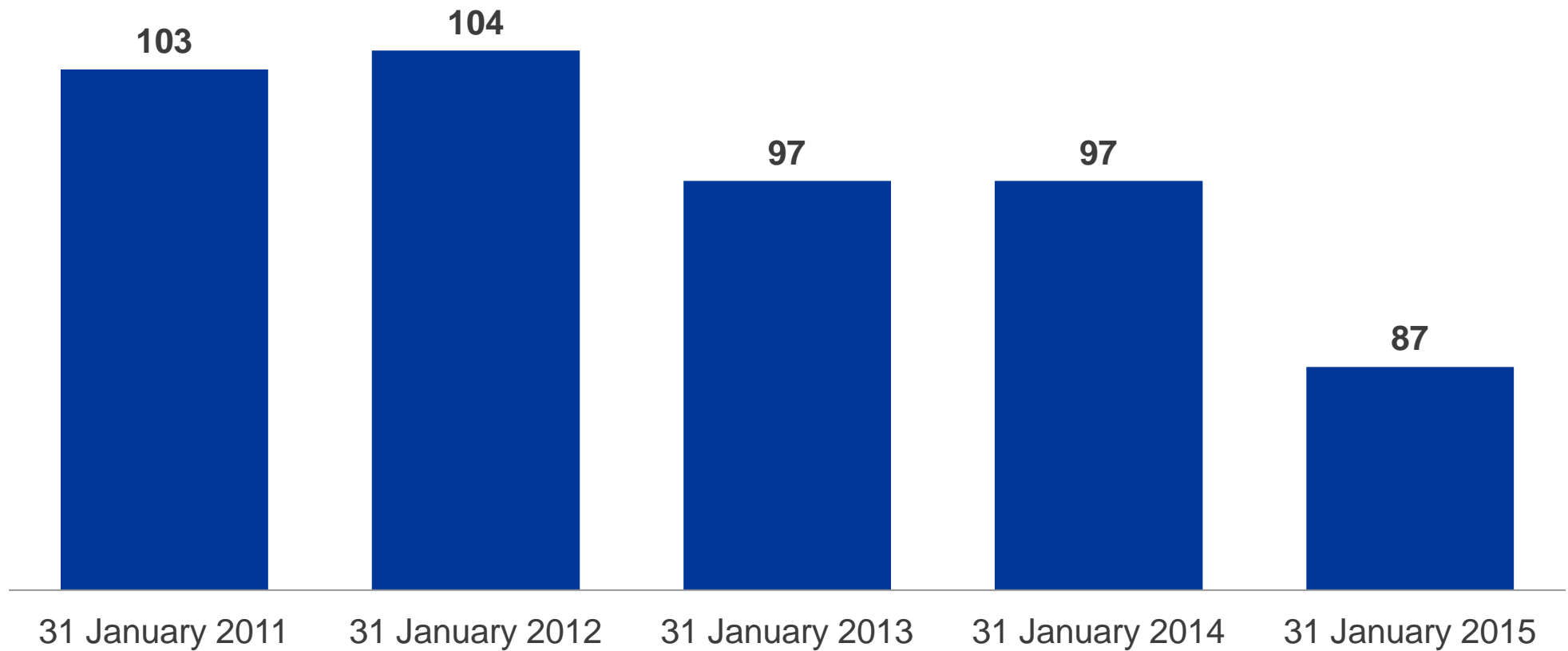
# Capital expenditure



2015 Capital Expenditure	
Full Year Forecast	<b>\$1.6 bn</b>
Beingmate <sup>1</sup> (net)	<b>\$0.7 bn</b>
<b>Total</b>	<b>\$2.3 bn</b>

1. Net of proceeds from sale of Darnum plant.

# Working capital days

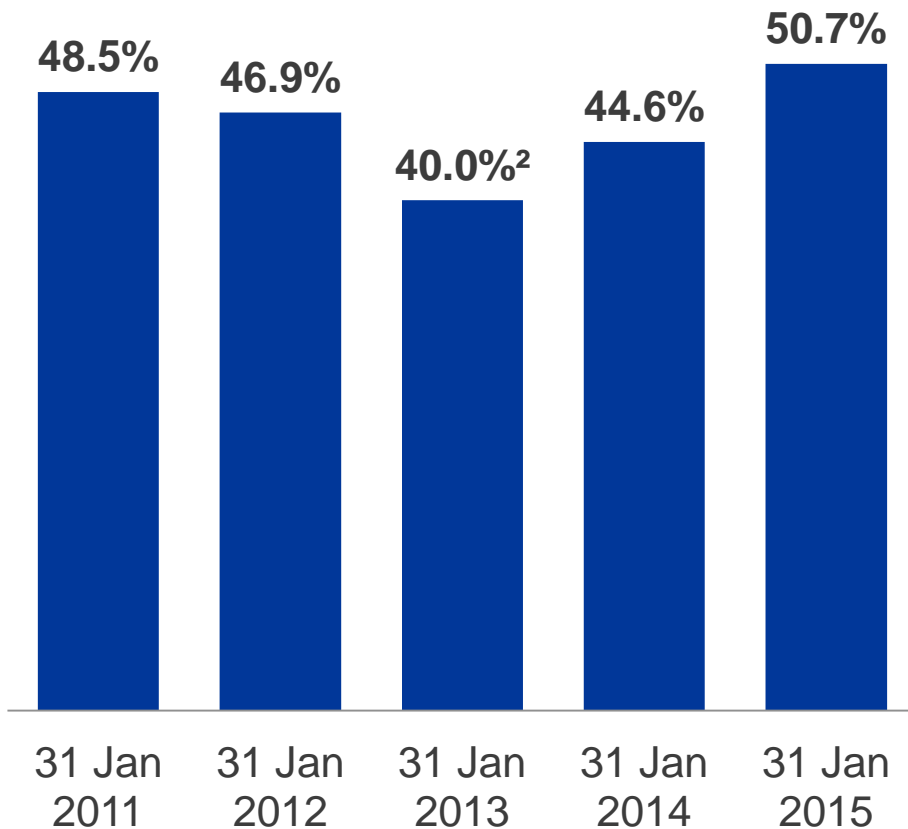


*Note: Excluding supplier payables.*



# Balance sheet

## Economic debt to debt plus equity<sup>1</sup>



Higher gearing levels due to:

- Lower equity retentions in 2014
- Higher capital expenditure
- Increased investment in growth – Edendale, A-Ware, China Farms

<b>Credit Rating</b>	Fitch	AA- (stable outlook)
	S&P	A (stable outlook)
<b>Weighted Average Term to Maturity</b>	As at 31 January 2015 (Drawn debt)	4.1 years <sup>3</sup>

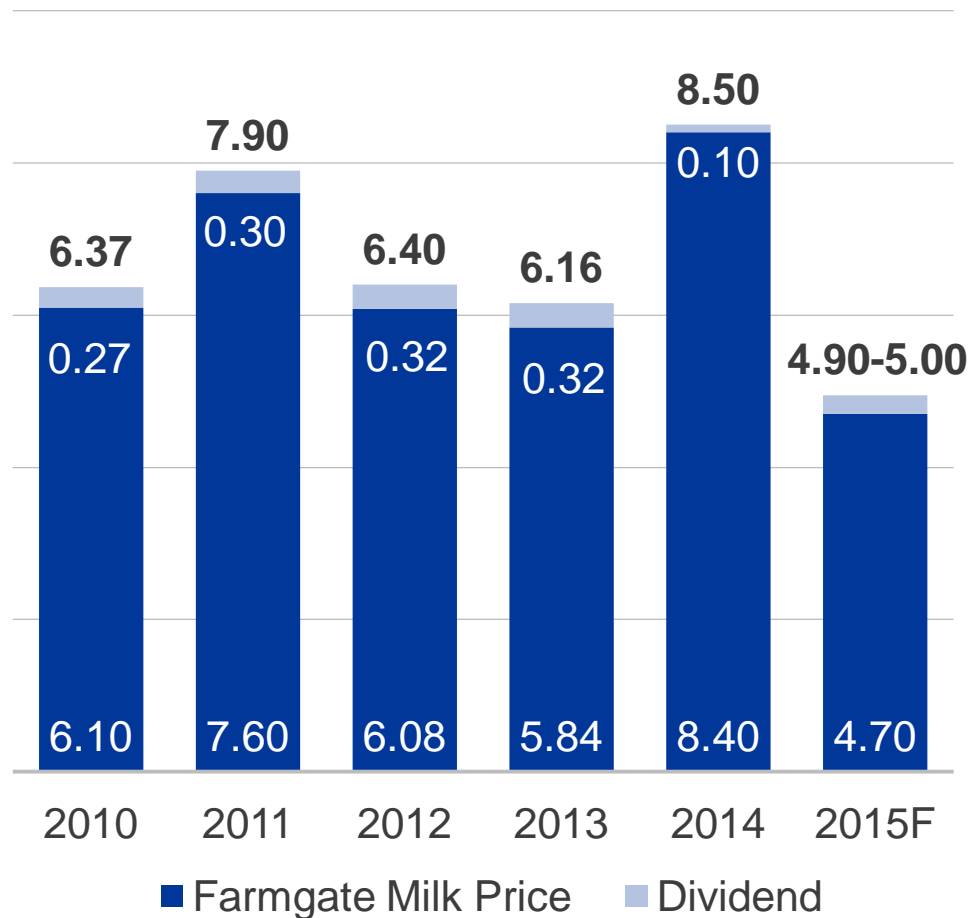
1. Gearing is measured in terms of economic net interest bearing debt over economic net interest bearing debt plus equity (reflecting the effect of debt hedging in place at balance date) and equity excludes the cash flow reserve.

2. First half 2013 gearing benefited from a temporary injection of \$493 million capital from seeding Fonterra Shareholders' Fund for the launch of Trading Among Farmers.

3. If bank facilities are fully drawn upon, then Weighted Average Term to Maturity is 3.5 years.

# Outlook: 2015 Financial Year

Expectation is that global dairy markets will remain challenging this year



- Maintaining Farmgate Milk Price at \$4.70 kgMS
- Forecast dividend lowered to 20 to 30 cents per share
- Business transformation programme underway to accelerate delivery
- Single minded focus on delivering results and improving performance:
  - Increasing sales volumes
  - Reducing complexity
  - Taking costs out to maximise returns



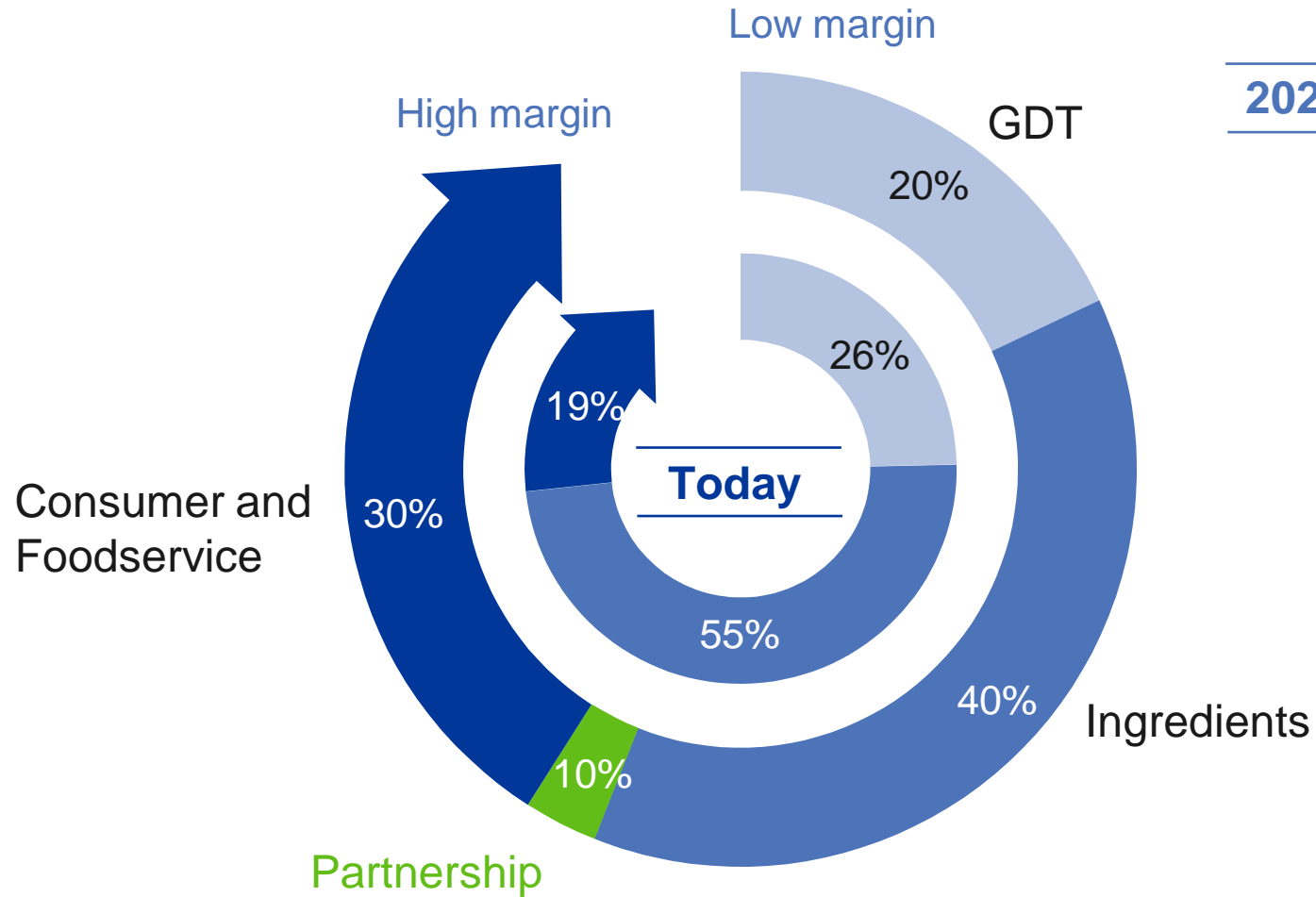
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# STAYING ON STRATEGY



# Purpose of our strategy is to create value



2025 Aspiration

# Progress on multi-hub strategy

## Europe

- A-ware JV – whey plant has been commissioned
- Dairy Crest alliance for distribution of specialty ingredients underway



## China

- Purchase of 18.8% of Beingmate complete
- Abbott – antitrust approval received from Chinese government



## Australia

- Fonterra and Beingmate JV to acquire Darnum

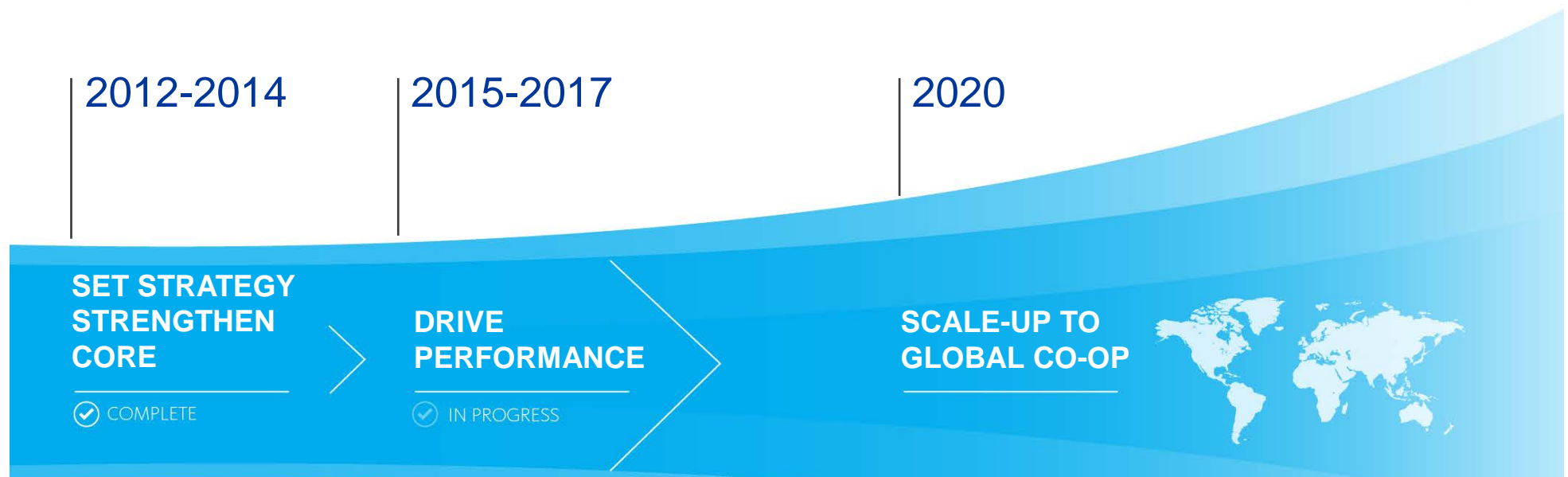


## New Zealand

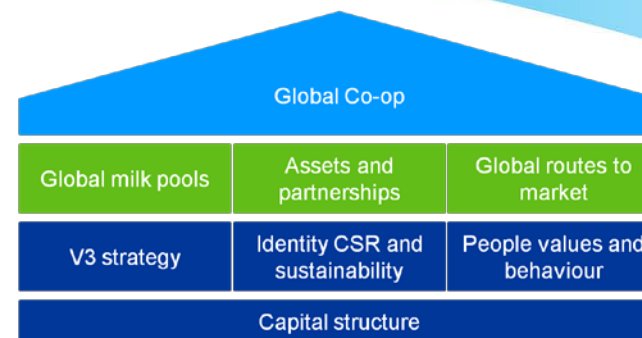
- Increasing processing capacity and optionality to meet global demand



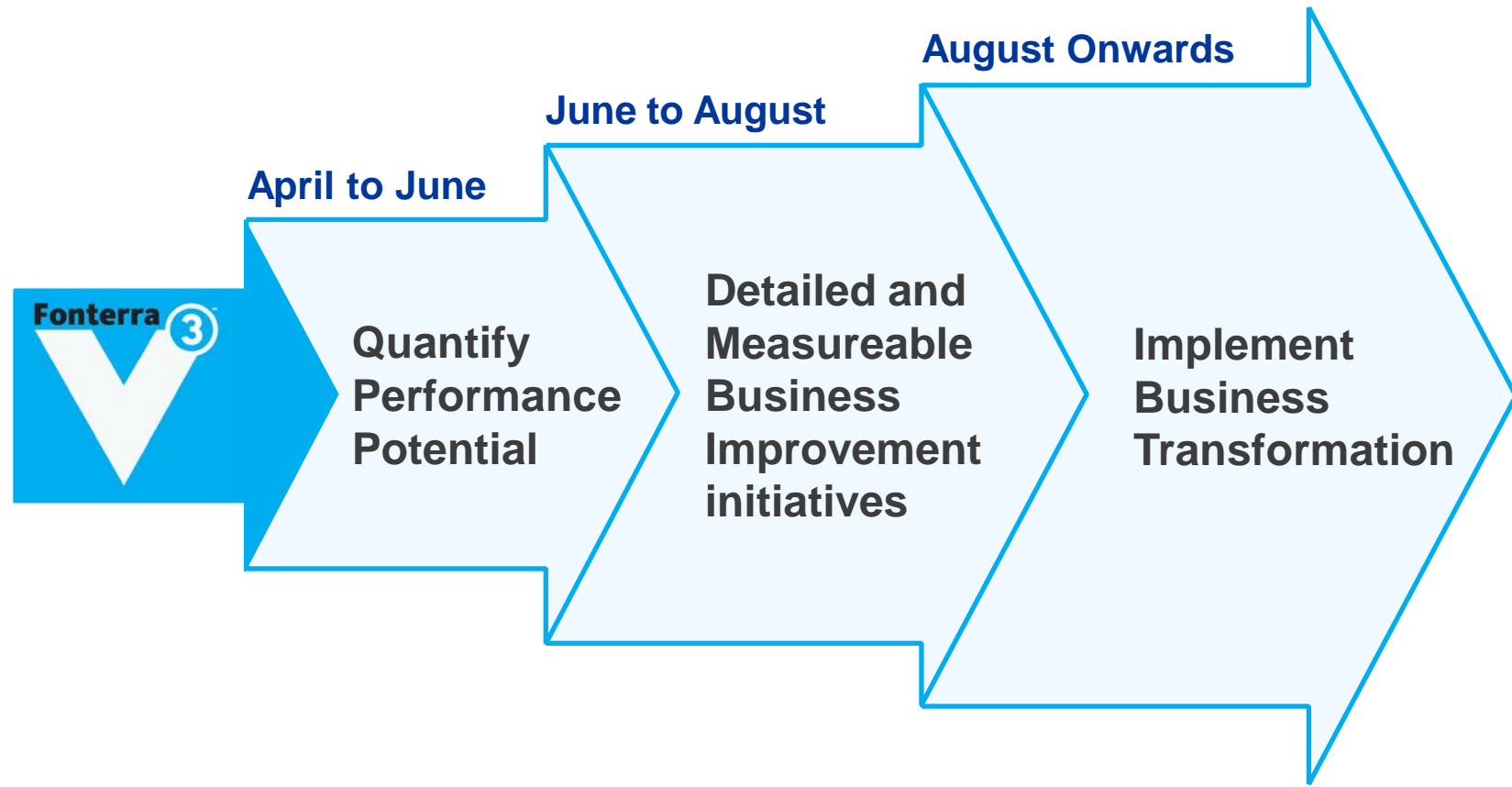
# Priorities: driving performance



- 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



# Business Transformation Programme



## Principles of the Business Transformation

- Owner's mindset
- Business-led
- Relentless execution

The logo for Fonterra Dairy for life is located in the top right corner. It features the word "Fonterra" in a blue sans-serif font, with a green leaf-like graphic element to its right. Below "Fonterra" is the tagline "Dairy for life" in a smaller, blue sans-serif font. The entire logo is set against a white background that is part of a decorative wave graphic in the top right corner of the slide.

Fonterra

Dairy for life

# SUPPLEMENTARY INFORMATION



# Fonterra was formed to take New Zealand dairy to the world at scale



A clear plan

It starts on our farms

A strong Co-op



22%↑



33%↑



\$100<sub>BN</sub><sup>1</sup>

In the past five years:

- Fonterra milk collection up 22%
- Fonterra cow numbers up 300,000

\$10<sub>BN</sub><sup>2</sup>

In the past five years:

- Value of Co-op up 33%
- Peak milk collection up 15m litres per day
- Powder dryer capacity up 17%

1. Value of NZ dairy farm assets.

2. Rounded market value of Fonterra as at 23 March 2015.

# Interim results summary

<b>\$ million</b>	<b>Six months ended 31 January 2015</b>	<b>Six months ended 31 January 2014</b>	<b>Change</b>
Total volume (billion MT)	<b>2.19</b>	<b>1.99</b>	<b>10%</b>
Revenue	<b>9,746</b>	<b>11,292</b>	<b>(14%)</b>
Normalised EBIT	<b>376</b>	<b>403</b>	<b>(7%)</b>
Net profit after tax	<b>183</b>	<b>217</b>	<b>(16%)</b>
Earnings per share (cents)	<b>10</b>	<b>13</b>	<b>(23%)</b>
Dividend per share (cents)	<b>10</b>	<b>5</b>	<b>100%</b>

# Ingredients



<b>\$ million</b>	<b>Six months ended 31 January 2015</b>	<b>Six months ended 31 January 2014</b>	<b>Change</b>
Total volume <sup>1</sup> (000 MT)	<b>1,538</b>	<b>1,543</b>	–
Revenue	<b>7,617</b>	<b>9,900</b>	<b>(23%)</b>
Normalised EBIT	<b>299</b>	<b>292</b>	<b>2%</b>
Normalised EBIT percentage	<b>4%</b>	<b>3%</b>	

1. Total volume includes intercompany volumes.



# Consumer and Foodservice

## Oceania

<b>\$ million</b>	<b>Six months ended 31 January 2015</b>	<b>Six months ended 31 January 2014</b>	<b>Change</b>
Total volume <sup>1</sup> (000 MT)	<b>310</b>	<b>313</b>	<b>(1%)</b>
Revenue	<b>1,043</b>	<b>1,050</b>	<b>(1%)</b>
Normalised EBIT	<b>10</b>	<b>(5)</b>	<b>300%</b>
Normalised EBIT percentage	<b>1%</b>	<b>–</b>	

1. Total volume includes intercompany volumes.

# Consumer and Foodservice

## Asia

<b>\$ million</b>	<b>Six months ended 31 January 2015</b>	<b>Six months ended 31 January 2014</b>	<b>Change</b>
Total volume <sup>1</sup> (000 MT)	<b>142</b>	<b>137</b>	<b>4%</b>
Revenue	<b>968</b>	<b>886</b>	<b>9%</b>
Normalised EBIT	<b>56</b>	<b>20</b>	<b>180%</b>
Normalised EBIT percentage	<b>6%</b>	<b>2%</b>	

1. Total volume includes intercompany volumes.

# Consumer and Foodservice

## Greater China

<b>\$ million</b>	<b>Six months ended 31 January 2015</b>	<b>Six months ended 31 January 2014</b>	<b>Change</b>
Total volume <sup>1</sup> (000 MT)	<b>64</b>	<b>47</b>	<b>36%</b>
Revenue	<b>389</b>	<b>295</b>	<b>32%</b>
Normalised EBIT	<b>15</b>	<b>14</b>	<b>7%</b>
Normalised EBIT percentage	<b>4%</b>	<b>5%</b>	

1. Total volume includes intercompany volumes.

# Consumer and Foodservice

## Latin America

<b>\$ million</b>	<b>Six months ended 31 January 2015</b>	<b>Six months ended 31 January 2014</b>	<b>Change</b>
Total volume <sup>1</sup> (000 MT)	<b>324</b>	<b>165</b>	<b>96%</b>
Revenue	<b>856</b>	<b>440</b>	<b>95%</b>
Normalised EBIT	<b>35</b>	<b>65</b>	<b>(46%)</b>
Normalised EBIT percentage	<b>4%</b>	<b>15%</b>	

1. Total volume includes intercompany volumes.

# International Farming

<b>\$ million</b>	<b>Six months ended 31 January 2015</b>	<b>Six months ended 31 January 2014</b>	<b>Change</b>
Total volume <sup>1</sup> (000 MT)	<b>67</b>	<b>34</b>	<b>97%</b>
Revenue	<b>66</b>	<b>37</b>	<b>78%</b>
Normalised EBIT	<b>(27)</b>	<b>2</b>	
Normalised EBIT percentage	<b>(41%)</b>	<b>5%</b>	

1. Total volume includes intercompany volumes.

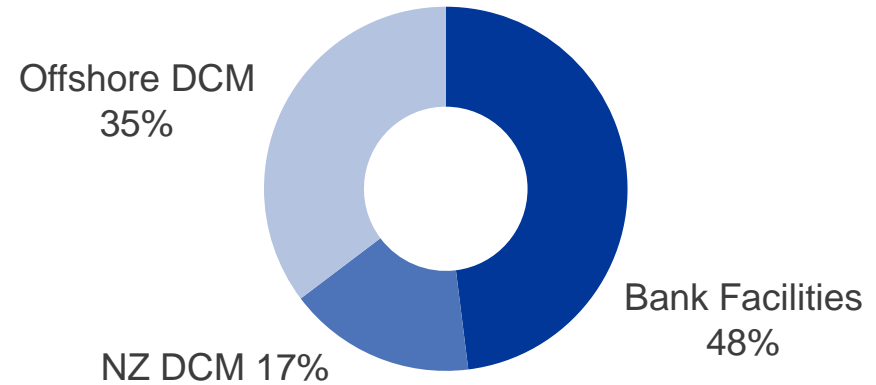


# Balance sheet strength

## Strong fundamentals

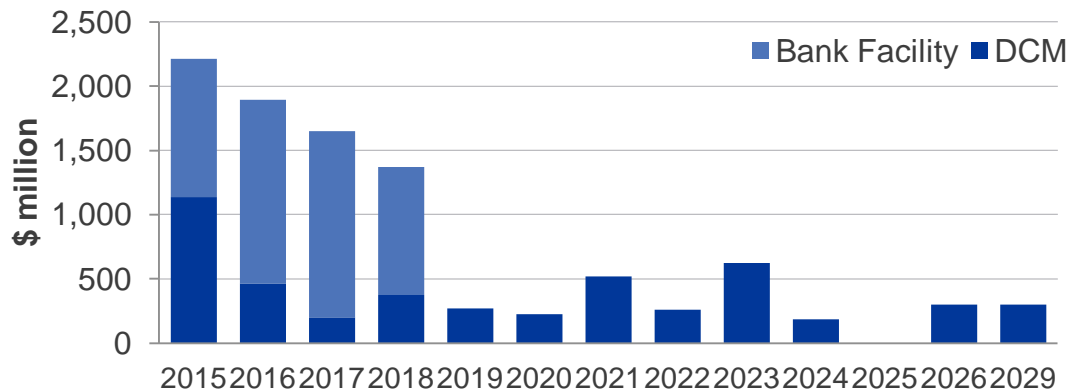
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	S&P	A (stable outlook)
<b>Weighted Average Term to Maturity</b>	As at 31 January 2015 (Drawn debt)	4.1 years <sup>1</sup>

## Diversified funding sources

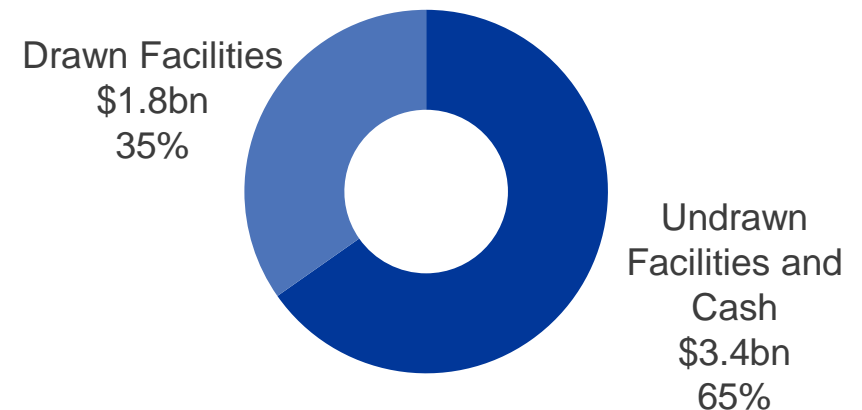


## Debt maturity profile

As at 31 January 2015



## Strong liquidity



1. If bank facilities are fully drawn upon, then Weighted Average Term to Maturity is 3.5 years.