FONTERRA DAIRY FOR LIFE

## 2015 ANNUAL MEETING

**25 NOVEMBER 2015** 





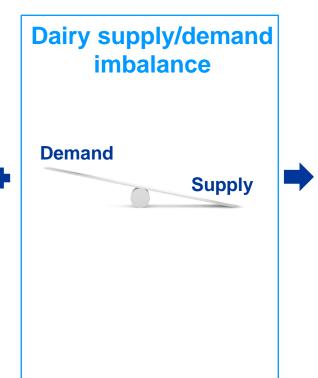
## JOHN WILSON Chairman

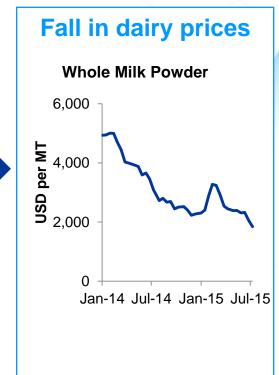
### CHALLENGING YEAR GLOBALLY



### **Economic and geopolitical issues**

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





### STRONG REBOUND IN PROFITABILITY



VOLUME<sup>1</sup>

4.3<sub>M</sub> MT

9%

**NET PROFIT AFTER TAX** 

\$506м

183%

REVENUE<sup>2</sup>

\$18.8<sub>BN</sub>

15%

NORMALISED EBIT

\$974м

**DIVIDEND PER SHARE** 

**25 CPS** 

150%

RETURN ON CAPITAL<sup>3</sup>

8.9%

### Ingredients

Volume Normalised EBIT<sup>4</sup>

3.0m MT \$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)

- Total volume, excluding DPA consolidation (324,650 MT), is up 0.3%
- Total revenue, excluding DPA consolidation, is down 21%.
- 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
- Consumer and Foodservice volume, excluding DPA consolidation (324,650 MT), is up 3%

### MILK PRICE REVENUE



Dairy price volatility has had a significant impact on Milk Price

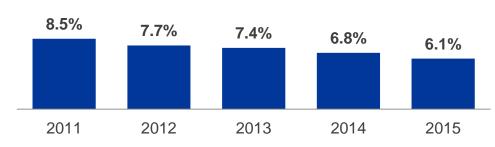


### MILK PRICE COSTS

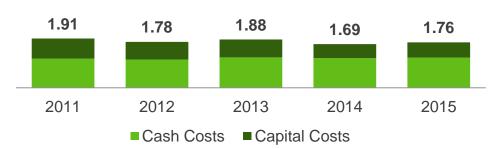
### Stable total cost base

### Fonterra Dairy for life

### 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

### STRATEGIC INVESTMENTS FOR THE FUTURE

Essential NZ growth \$690m
Accelerated capacity \$450m

China Farms \$360m

Beingmate \$750m

**Advance Rate Timing \$900m** 





### **GOVERNANCE AND REPRESENTATION TIMELINE**

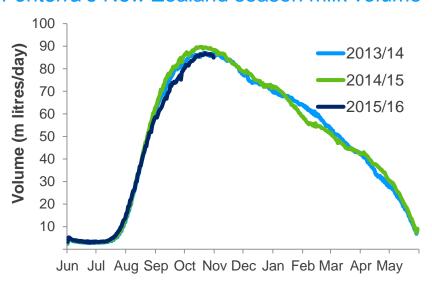
January	February	March	April-May	May-June
Information booklet	Farmer meetings Consultation with farmers	Farmer feedback Recommendation for consultation	Farmer meetings Consultation with farmers	Special meeting farmer vote



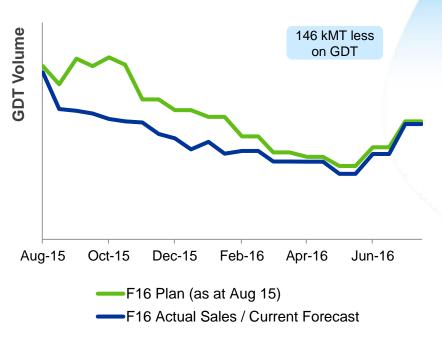
### **NEW ZEALAND MILK SUPPLY DOWN**



### Fonterra's New Zealand season milk volume



### Lower Collections Reflected in GDT Offering



### **REVISED 2015/16 FORECAST**



- Forecast 2015/16 total available for pay-out to be increased:
  - A forecast Farmgate Milk Price of \$4.60 per kgMS
  - A strong forecast EPS performance of 45-55 cps
  - Up from 40-50 cps forecast at end of 2014/15 financial year
- At this stage of the season, based on the Dividend Policy, management would recommend at the end of the financial year an annual dividend of 35-40 cps, which would be subject to Board approval
- Forecast cash payout = \$4.95 \$5.00







### **THEO SPIERINGS Chief Executive Officer**

### **TURBULENT YEAR - STRONG RESPONSE**



### **GLOBAL DYNAMICS:**

- Middle East turmoil
- Russian embargoes
- Ebola outbreaks
- Oil and mineral price slumps
- China downturn
- Supply demand imbalance/low prices
- Terror in Europe

### **OUR RESPONSE:**

- Stay on strategy gain momentum
- Move volume to higher value
- Maximise gross margin
- Strong cost focus
- Maximise cash
- Invest for the future
- Financial discipline

### STRONG REBOUND IN PROFITABILITY 2015



VOLUME<sup>1</sup>

4.3<sub>M</sub> MT

9%

**NET PROFIT AFTER TAX** 

REVENUE<sup>2</sup>

\$18.8<sub>BN</sub>

**DIVIDEND PER SHARE** 

**25 CPS** 

150%

15%

NORMALISED EBIT

974<sub>M</sub>

94%

RETURN ON CAPITAL3

8.9%

### Ingredients

Volume Normalised EBIT<sup>4</sup>

Return on Capital<sup>3</sup>

\$973m

9.3%

Consumer and Foodservice

Volume<sup>5</sup>



1.7m MT

Normalised EBIT

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Return on Capital<sup>3</sup>

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### **International Farming**

Volume



Normalised EBIT



(\$44m)

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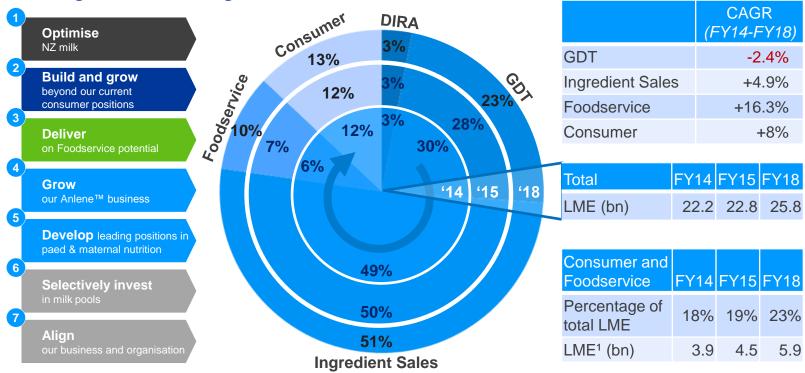
3.0m MT

- 4. Ingredients excludes unallocated costs
- 5. Consumer and Foodservice volume, excluding DPA consolidation (324,650 MT), is up 3%

### **DRIVE PERFORMANCE**

### Shifting volume to higher value



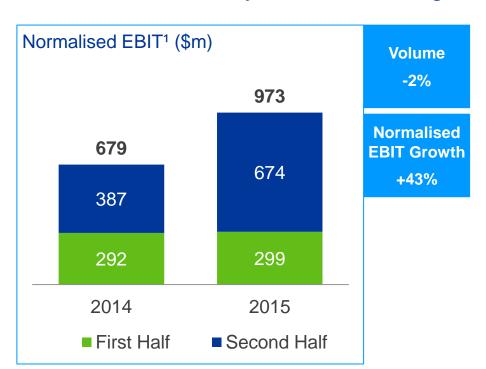


Includes inter-company sales to other strategic platforms

### **INGREDIENTS**

### **Fonterra** Dairy for life

### A solid result driven by New Zealand ingredients

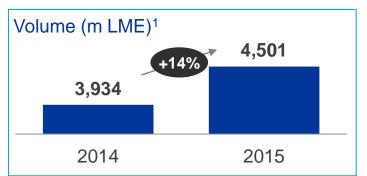


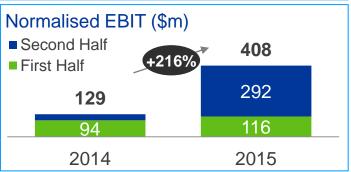
- NZ ingredients: \$264 million gross margin higher
  - Improved stream returns
  - Optimised product mix to pricing
  - Lower peak costs
- Australian ingredients: (\$92) million normalised EBIT
  - Adverse product mix
    - Stanhope cheese fire
    - Darnum lower nutritionals
- **Return on Capital of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

<sup>1.</sup> Ingredients EBIT excludes unallocated group costs

### **CONSUMER AND FOODSERVICE**

### Strong volume and margin growth





Asia and Greater China – record performance

**Fonterra** 

Dairy for life

- 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%**



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

### **Q1 PERFORMANCE SUMMARY 2016**



**VOLUME (MT)** 

**REVENUE** 

**GROSS MARGIN** 

**OPEX** 

**CAPEX** 

945k MT \$3.6BN 22.7%

\$628M

\$258M

0.6% 1

**↓** 17.6% ¹

FROM 14.1% <sup>1</sup>

3.5% <sup>1</sup>

36.5% <sup>1</sup>

Ingredients

Volume Change<sup>2</sup>

Gross Margin<sup>3</sup> %

Consumer and Foodservice

Volume Change<sup>2</sup>

Gross Margin<sup>3</sup> %

3%

Volume Change<sup>2</sup>

Gross Margin<sup>3</sup> % 

√ -5%

International Farming



- Compared to the first quarter of the 2015 financial year
- Volume change is FY16 Q1 relative to FY15 Q1
- Gross Margin % is for FY16 Q1, the arrow represents change relative to FY15 Q1

### FINANCIAL STRENGTH AND DISCIPLINE



### Solid credit rating reflects strong fundamentals

- Strongest rating for an agricultural cooperative in the world
- In top tier of all Australasian corporates
- Recognises strong financial flexibility and discipline of our co-operative structure

Credit	Fitch	A (stable outlook)
Rating	S&P	A- (stable outlook)

### Strategic investments for the future

- Investment in NZ capacity and #1 market of China
- Supported farmer cash flows through timing of advance rate (\$900 million)
- Coincided with new S&P rating methodology for agricultural co-operatives in March

### Leverage reduction to plan

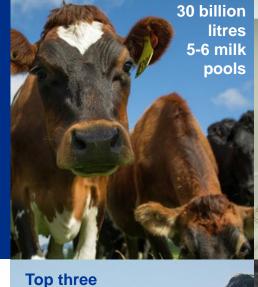
- Year end gearing ratio forecast to be down and within 40-45% range
- Half year will reflect normal seasonal profile

### **CURRENT REALITY**

- Our strategy is working
- Strong performance base
- Invested in our future
- Continued turbulence and volatile global commodity prices
- Winds of change bring opportunities



Ambition:
To build a
globally
relevant Co-op
that is making
a difference in
the lives of two
billion people
by 2025





World-class

engagement



Fonterra

Dairy for life





### **NUMBER 1 INGREDIENTS SUPPLIER**



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**Our Purpose:** To be the number one preferred supplier of dairy ingredient solutions

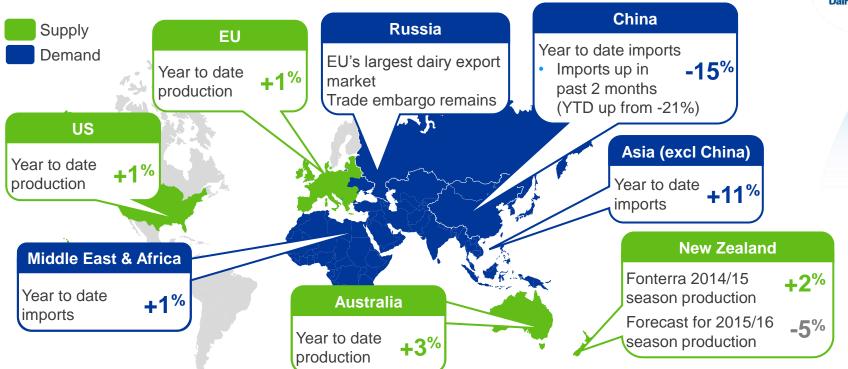




# **KELVIN WICKHAM Managing Director Global Ingredients**

### DAIRY SUPPLY/DEMAND IMBALANCE REDUCING

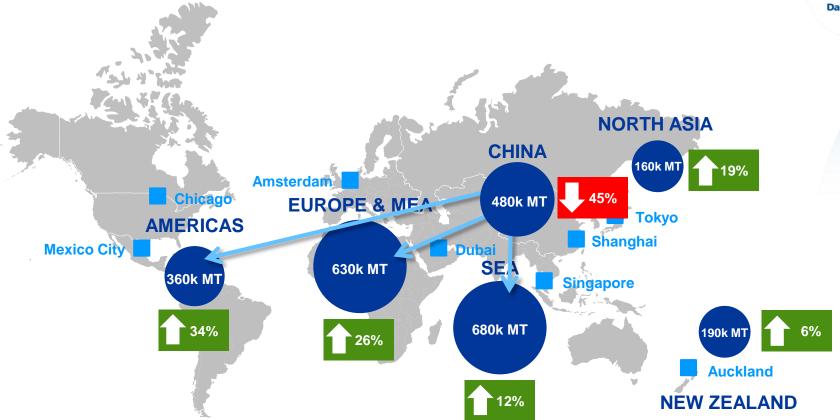




Note: All figures are year-to-date compared to same period last year (excl New Zealand): Australia (Aug), United States (Sep), EU (Aug), China (Sep), Asia (Jul), Middle East & Africa (Jul). Source: Government milk production statistics / GTIS trade data / Fonterra analysis

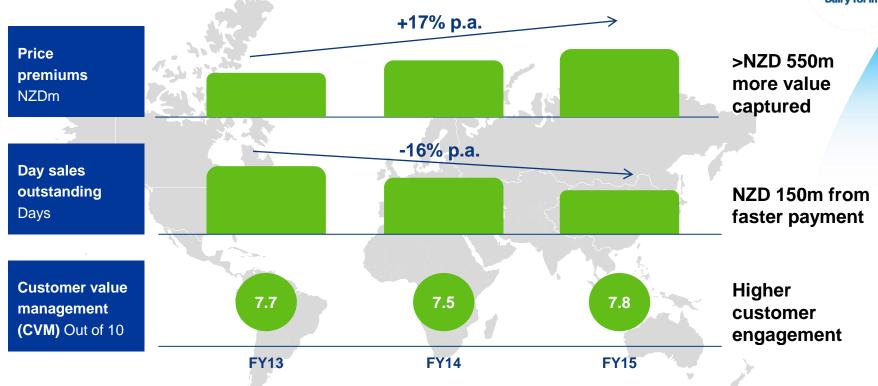
### **GLOBAL INGREDIENTS MARKET REACH**





### TRACK RECORD OF VALUE CREATION





### **WE KNOW WHERE WE WANT TO BE IN 2025**





**Our Purpose:** To be the number one preferred supplier of dairy ingredient solutions









### STRATEGIC BUILDING BLOCKS



**Tailored solutions** 

**Customer insights** 

**Global benchmarks** 

**Coordinated physical and financial** 

Flexible offerings

**Global optimisation** 

## DEVELOPING SOLUTIONS FOR OUR PARTNERS GLOBALLY



### **Japan**

Innovation partners with a leading dairy company





### **SEA**

Pricing and tailored risk management solutions for a large mozzarella customer



### **MEA**

Multi-year supply agreement for specialty powder ex-Darnum

### China

Bi-lateral supply agreement with in-market managed inventory solution

### USA

Supply agreement for premium NZ whey products



### Venezuela

Destination supply expertise for the Venezuelan Government





### **THEO SPIERINGS**

### **DISRUPTION (2015)**



### THERE ARE FIVE FORCES AT WORK:

- 1. Demographics
- 2. Technology / e-Commerce
- 3. Ageing population
- 4. Greater global connections
- 5. Adjusted Government plan

### THIS MEANS:

- 1-2 child policy
- 400m-500m middle class
- Various new online brands
- Up to 20% of premium milk online
- Up to 200m over 65 by 2020
- Asia becoming largest trading nation
- 500x increase global online traffic

### **AMBITION CHINA: OUR #1 MARKET**



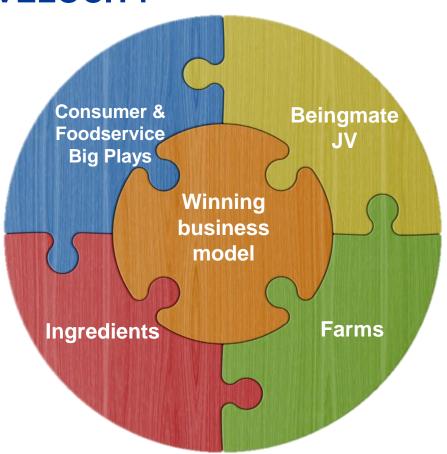
**Ambition \$10b business - #1 dairy player** 60% ingredients, 20% consumer, 20% foodservice #1 preferred ingredients supplier **Leading brands** Offline to online strategy Access to high quality fresh milk **Strong successful partnerships** Multi hub assets connected to China to meet demand



# CHRISTINA ZHU Managing Director Greater China

## INTEGRATED STRATEGY TO DRIVE VOLUME, VALUE AND VELOCITY

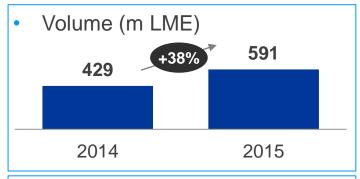


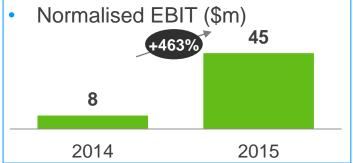


### STRONG FY15 YEAR AND GREAT START TO FY16



#### **FY15 RECORD PERFORMANCE**





Combined consumer and foodservice businesses

### STRONG Q1 START FOR FY16

 Challenging targets for FY16, off to a strong start

## E-COMMERCE AND INNOVATIVE MODELS IN BRANDS

Fonterra Dairy for life

Market leading e-commerce strategy

Anchor: Innovative build

Anlene: Optimise and focus Growing
Anmum through
Beingmate
partnership













## E-COMMERCE POWER IN ACTION: "DOUBLE 11" 2015



- Biggest one-day online shopping event in the world
- Total sales in 2015 above US \$14.3 billion, 60% growth on 2014
- Fonterra delivered 217% increase in Double 11 sales
- Total value of Fonterra product sold RMB 38 million (NZ \$9.2 million)



### DRIVING FUTURE GROWTH IN FOODSERVICES



Mid-segment

Go direct

Geographic expansion

Ecommerce







### STRONG GLOBAL PARTNERSHIPS KEY TO OUR STRATEGY: BEINGMATE





Platform to grow whey specialty ingredients

 Heerenveen factory commissioned

Utilise high quality Australian nutritional assets

 Darnum JV approved by Beingmate board



Access to fast growing \$18bn infant formula market

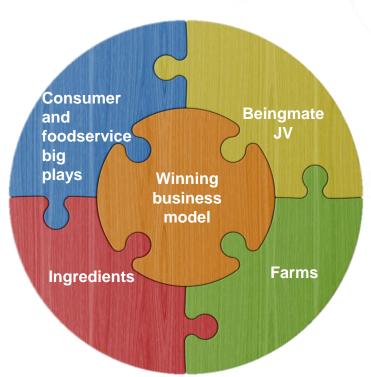
- Investment in Beingmate, #1 domestic infant formula company
- Anmum<sup>™</sup> distribution launched in June
- Governance structure in place



### AN INTEGRATED MODEL DELIVERING VALUE

Fonterra Dairy for life

- We sell premium quality products that Chinese people have a strong need for
- Amongst foreign players, our level of commitment is unrivalled
- We have all the key elements in place with our integrated supply chain
   no one else has this in China
- We will unlock huge value when our supply chain is fully connected up



### STRONGER TOGETHER

#### **Our Ambition**

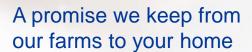
Making a difference in the lives of 2 billion people





















# DUNCAN COULL Chairman Fonterra Shareholders' Council

### **Functions of the Council**



Advocacy

Monitoring

Representation

Education

Cornerstone Shareholder

## FONTERRA SHAREHOLDERS' COUNCIL Proposed FY2016 Budget



	FY2016 BUDGET \$000	
Councillors' Honoraria, Staff Salaries and Associated Costs	1,780	
Professional Services, Meetings, Travel and Associated costs		
Co-operative Development Committee	346	
Governance and Ethics Committee	45	
Performance Committee	70	
Representation Committee		
Governance Development Programme	160	
Capital Structure Growth and Strategy	-	
TOTAL	3518	

FONTERRA DAIRY FOR LIFE

## 2015 ANNUAL MEETING

