FONTERRA
ANNUAL RESULTS 2014

FROM THE SOURCE

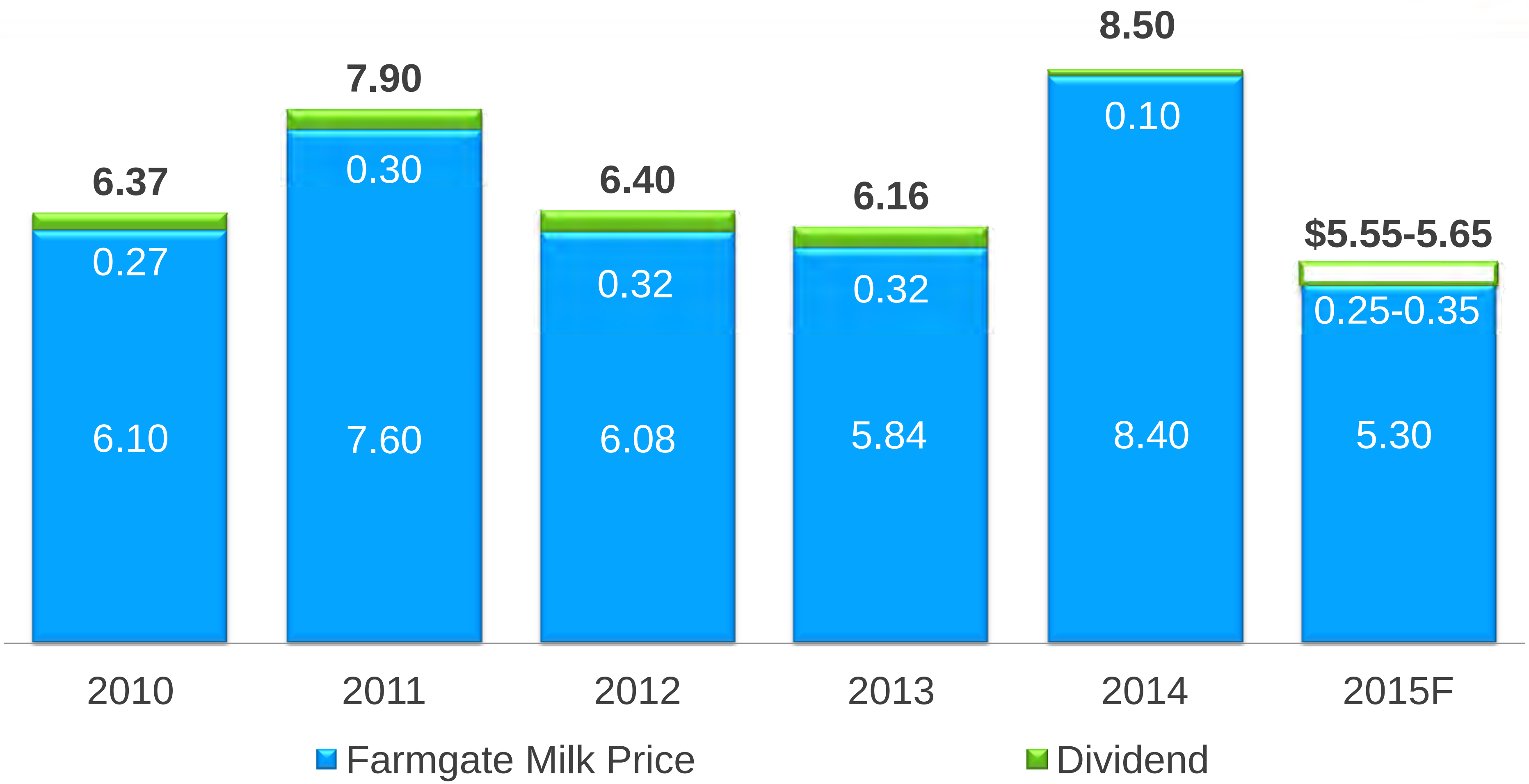
24 September 2014

TO THE FUTURE

Overview

John Wilson – Chairman

Forecast cash payout

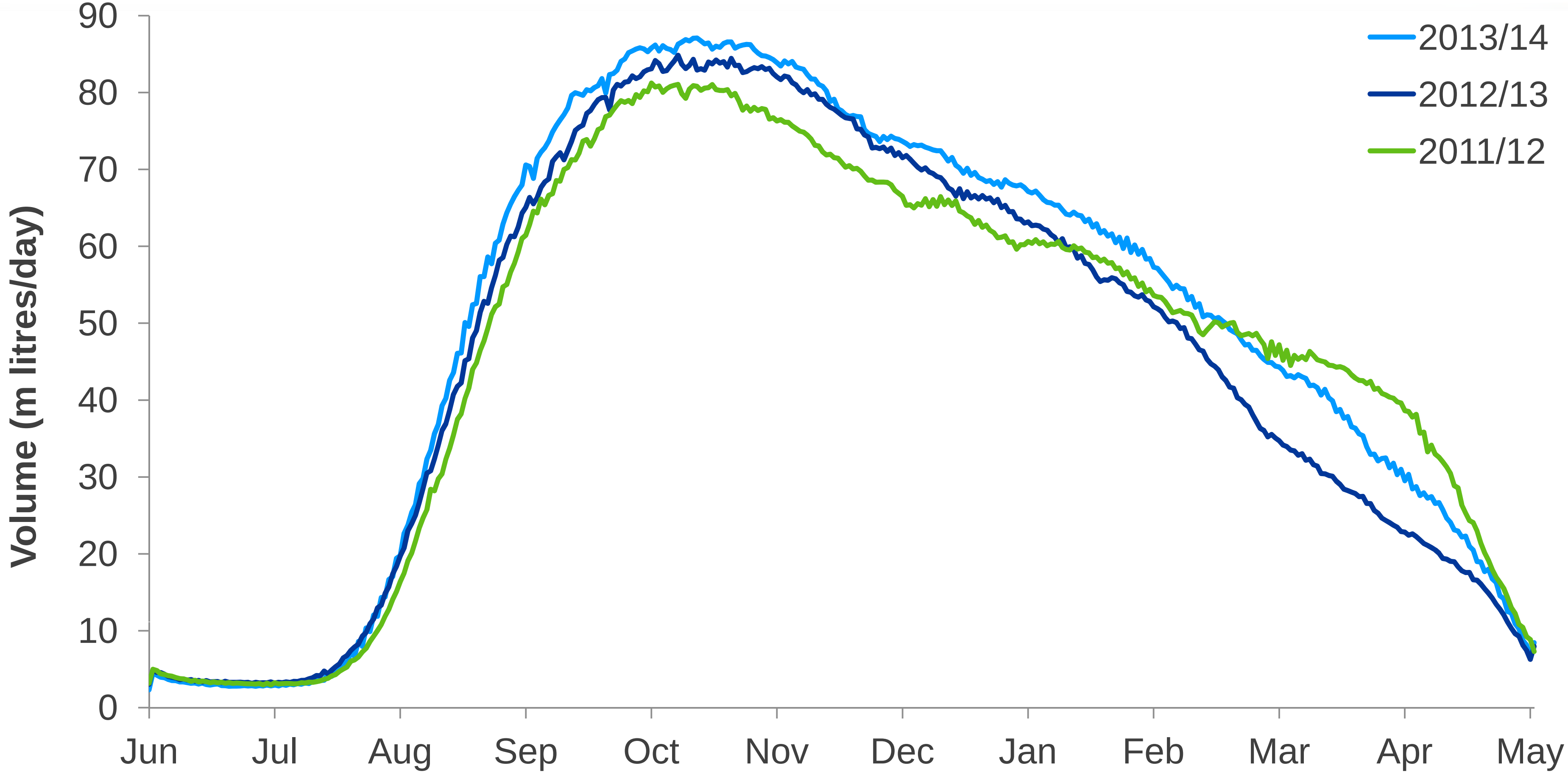


1. *Dividend: $ per share.*
2. *Farmgate Milk Price: $ per kgMS.*

Key highlights

Farmgate Milk Price	**Full Year Dividend**	**Final Cash Payout**
$8.40 KGMS	10 CPS	$8.50
Milk Collection	**Revenue**	**Earnings per Share**
1.6B KGMS	$22.3B	10 CPS

Strong rebound in milk collection in New Zealand



Source: Fonterra Co-operative Group Limited

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Performance Summary

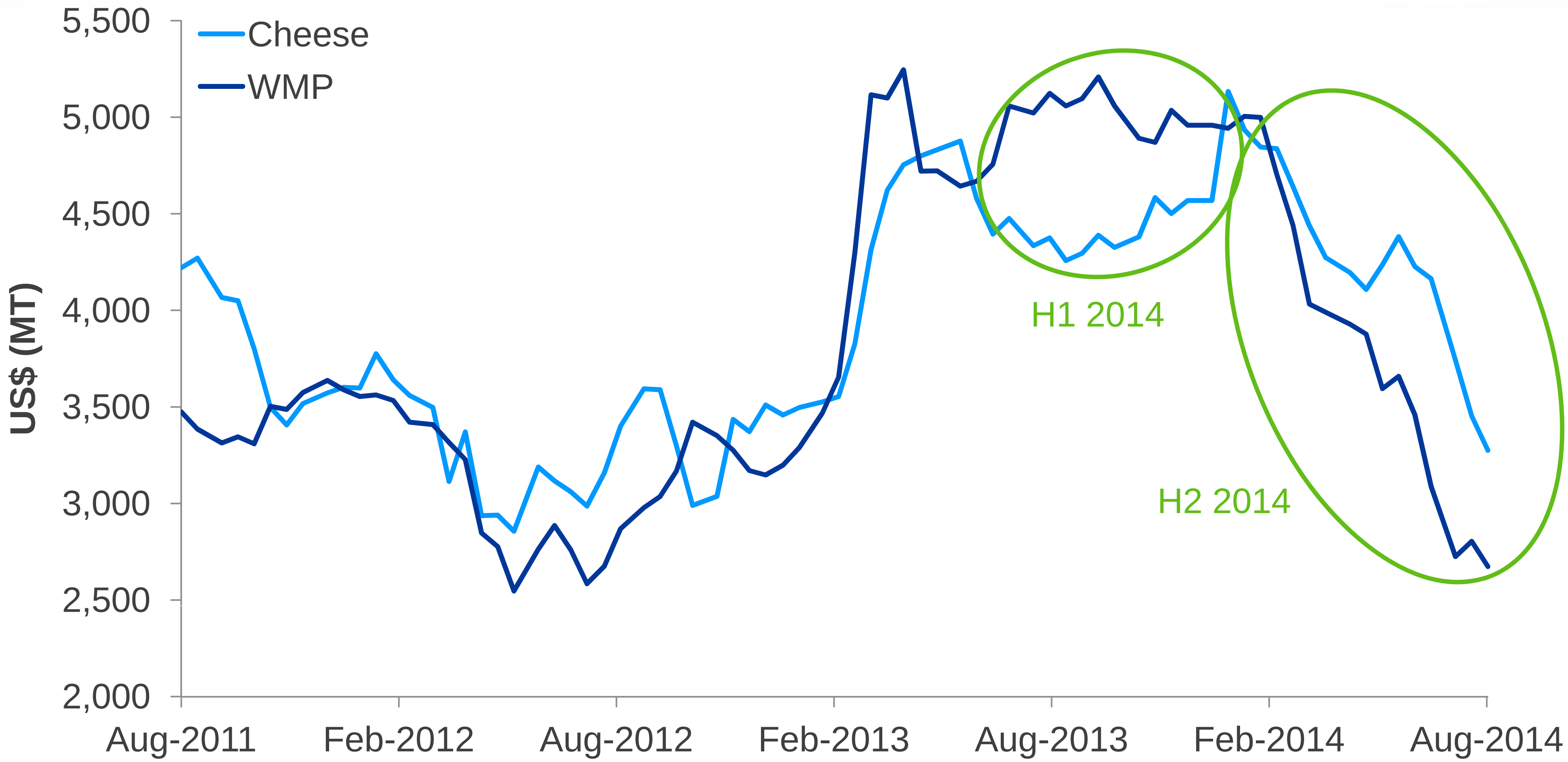
Theo Spierings – Chief Executive

Despite challenging year we stayed on strategy…

Total sales volume	Total Group revenue	Normalised EBIT	Net profit after tax	EPS
4M MT	$22.3B	$503M	$179M	10CPS
0%	+19%	-50%	-76%	-77%

Extreme volatility impacting on margins

Weighted average USD GDT cheese prices vs. WMP prices



Milk Price adjustment

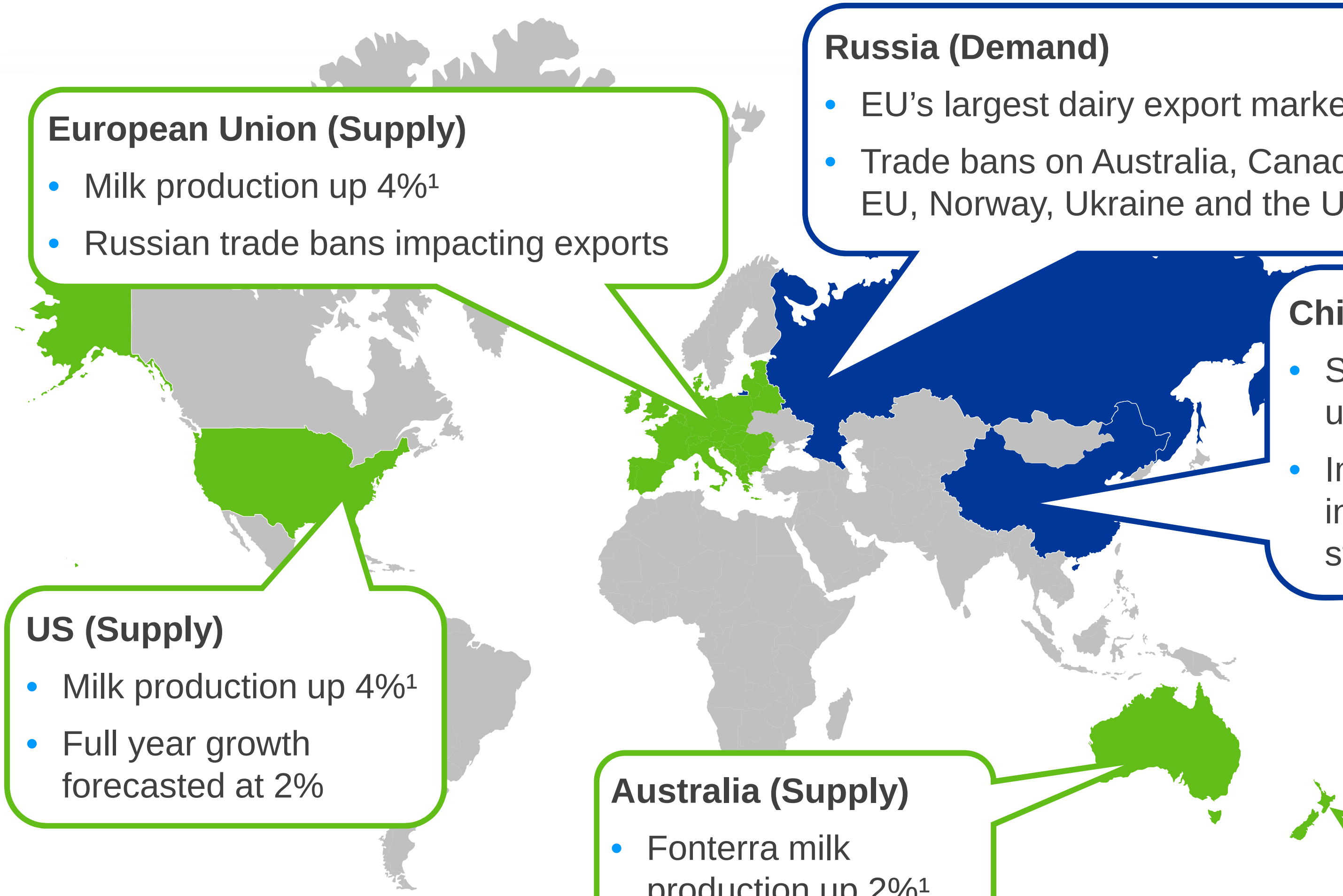
Stream Return Negative Impact		$(578) million
Peak Production Negative Impact	+	$(75) million
Asset Capacity Impact	=	$(653) million
		Protecting the Co-op
Milk Price adjustment for Global Ingredients and Operations		$642 million
Add back value held in inventory and sold to Consumer and Foodservice businesses	+	$200 million
Total Milk Price Adjustment[1] (1.6bn kgMS[2] x 53 cents)	=	$842 million

$11m impact on EBIT

Note: Stream Returns is the relative return from the mix of products produced compared to the theoretical return from that same milk if only RCPs were produced.

1. *Numbers have been rounded.*
2. *For the 2013/14 season.*

Challenging global situation in key dairy regions



European Union (Supply)
- Milk production up 4%[1]
- Russian trade bans impacting exports

Russia (Demand)
- EU's largest dairy export market
- Trade bans on Australia, Canada, the EU, Norway, Ukraine and the US

China (Demand)
- Slow down in imports but still up on previous period
- Imported milk powder inventory levels falling but still above normal levels

US (Supply)
- Milk production up 4%[1]
- Full year growth forecasted at 2%

Australia (Supply)
- Fonterra milk production up 2%[1]

New Zealand (Supply)
- Fonterra milk production up 8%[2]
- 2% growth currently expected for 2014/15

1. 12 months to June 2014.
2. 12 months to May 2014.
Source: Government milk production statistics / GTIS trade data / Fonterra analysis

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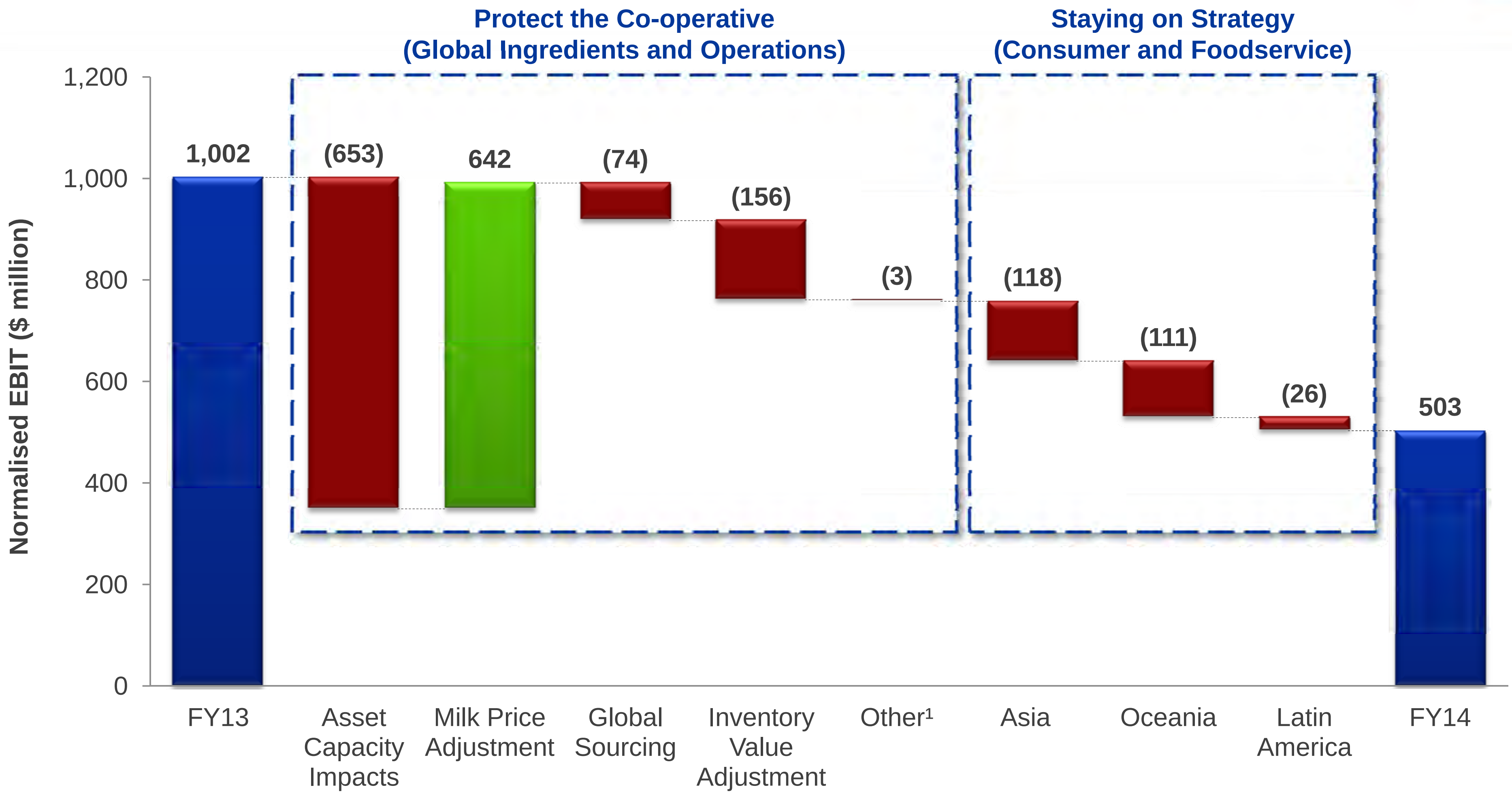
Financial Review

Lukas Paravicini – CFO

Protecting the Co-operative and staying on strategy



1. *Other includes intercompany eliminations.*

Global Ingredients and Operations

Performance review

Volume: 2.9m MT +1%

- Eight per cent growth in NZ milk supply
- Sales volume growth of one per cent
  - Low inventory in Q1 due to drought
  - Record volume shipped in Q2 and Q4

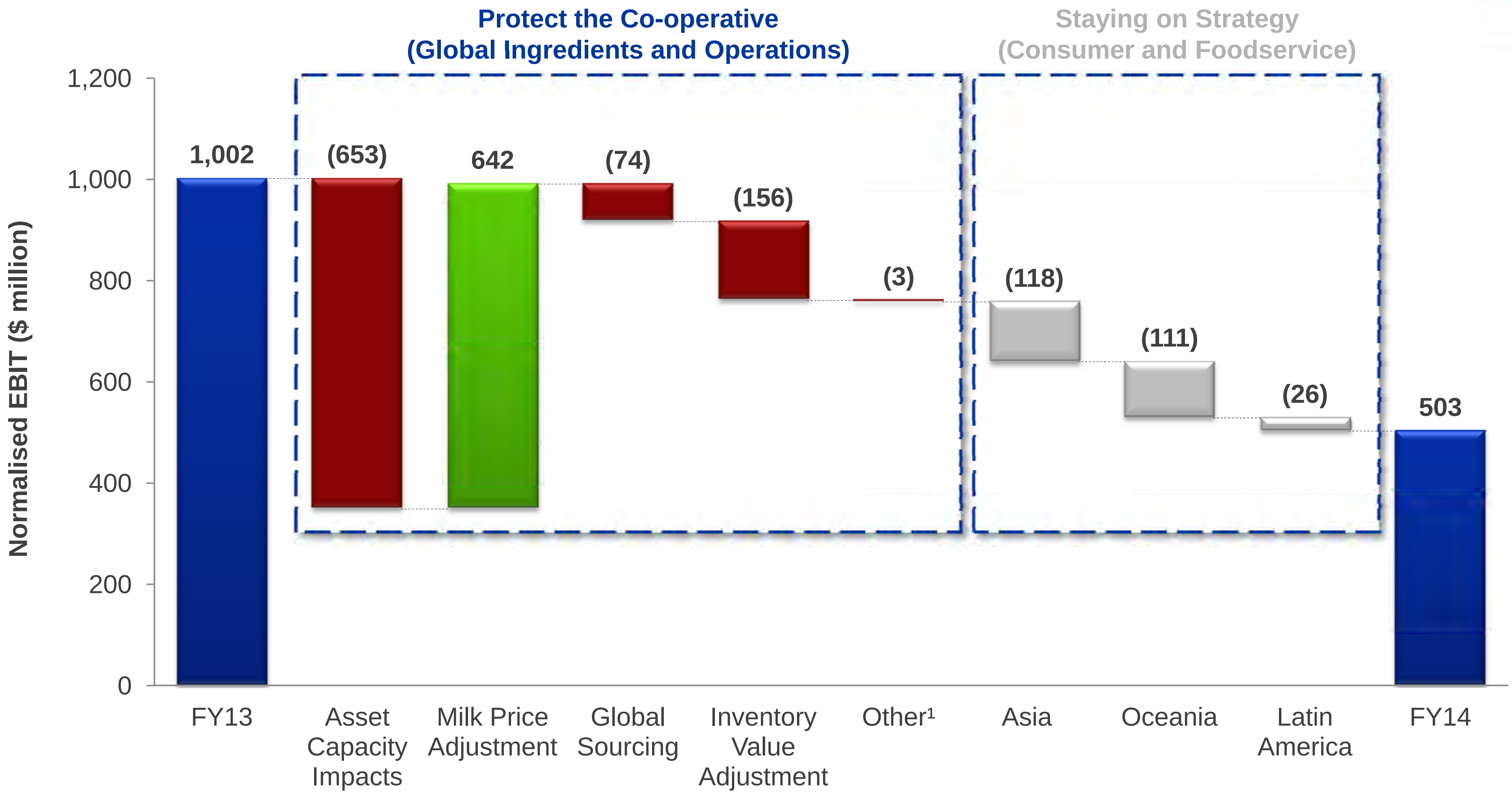
Value[1]: $269m -46%

- Strong growth in milk production volumes
  - Unable to optimise production over peak
  - Production inefficiencies and higher wastage
- Relative increase in price of RCPs compared to increase in price of Non-RCPs impacted gross margins
- Solid progress on procurement costs with $33 million saved during the period

1. *Normalised EBIT.*

Global Ingredients and Operations

Key performance drivers



1. *Other includes intercompany eliminations.*

Oceania
Performance review

Volume: 832,000 MT -6%

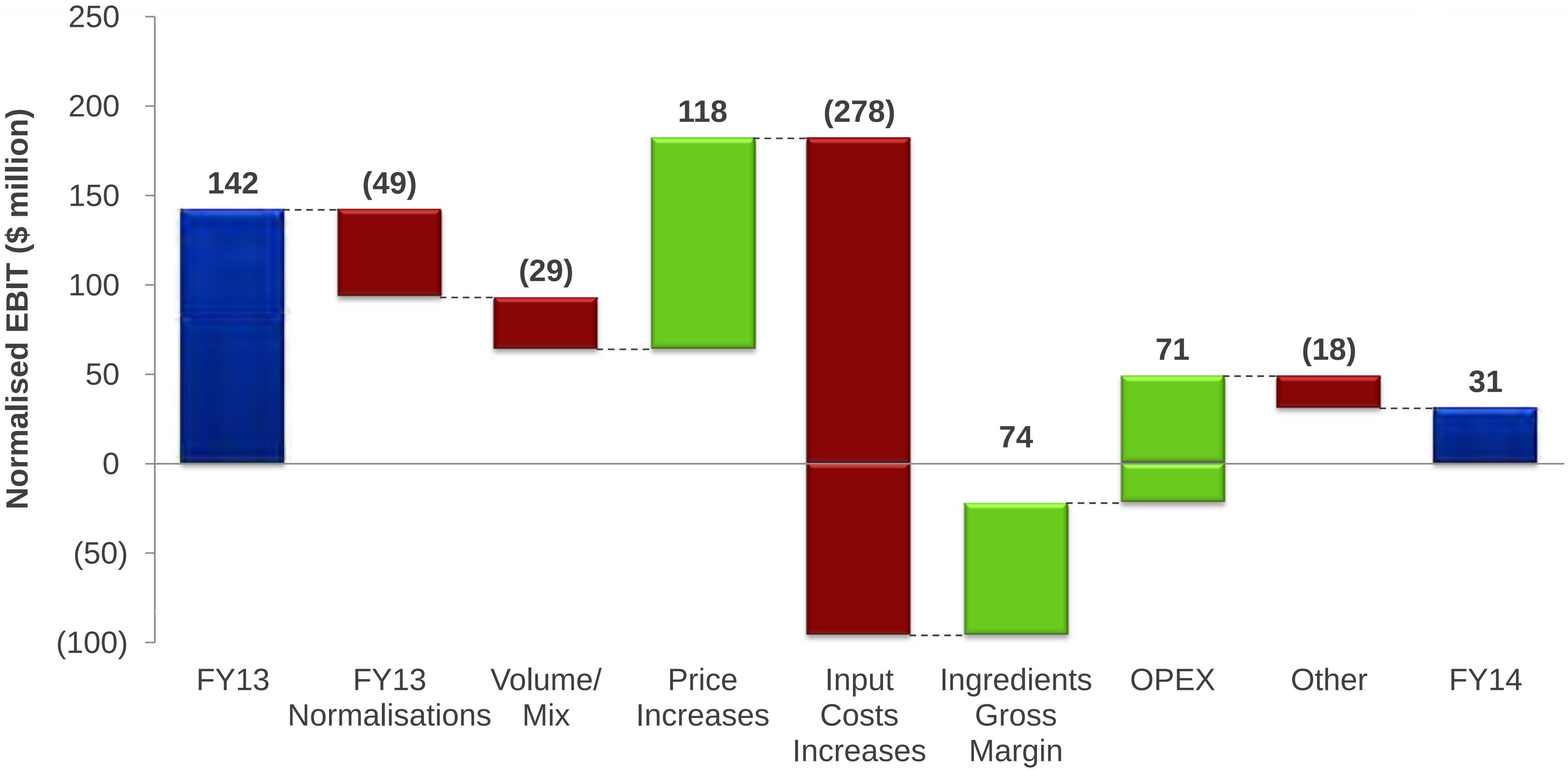
- Growth in Australian milk supply
- Decreased nutritional volumes from the Australian ingredients business
- Reduced yoghurt volumes in Australia

Value[1]: $31m -78%

- Margin squeeze in consumer brands due to significantly higher input costs
- Australia turnaround continues
  - Opex down 26 per cent
  - Streamlining brands portfolio
  - Woolworths Own Brand agreement

1. *Normalised EBIT .*

Oceania
Key performance drivers



Asia
Performance review

Volume: 419,000 MT +12%

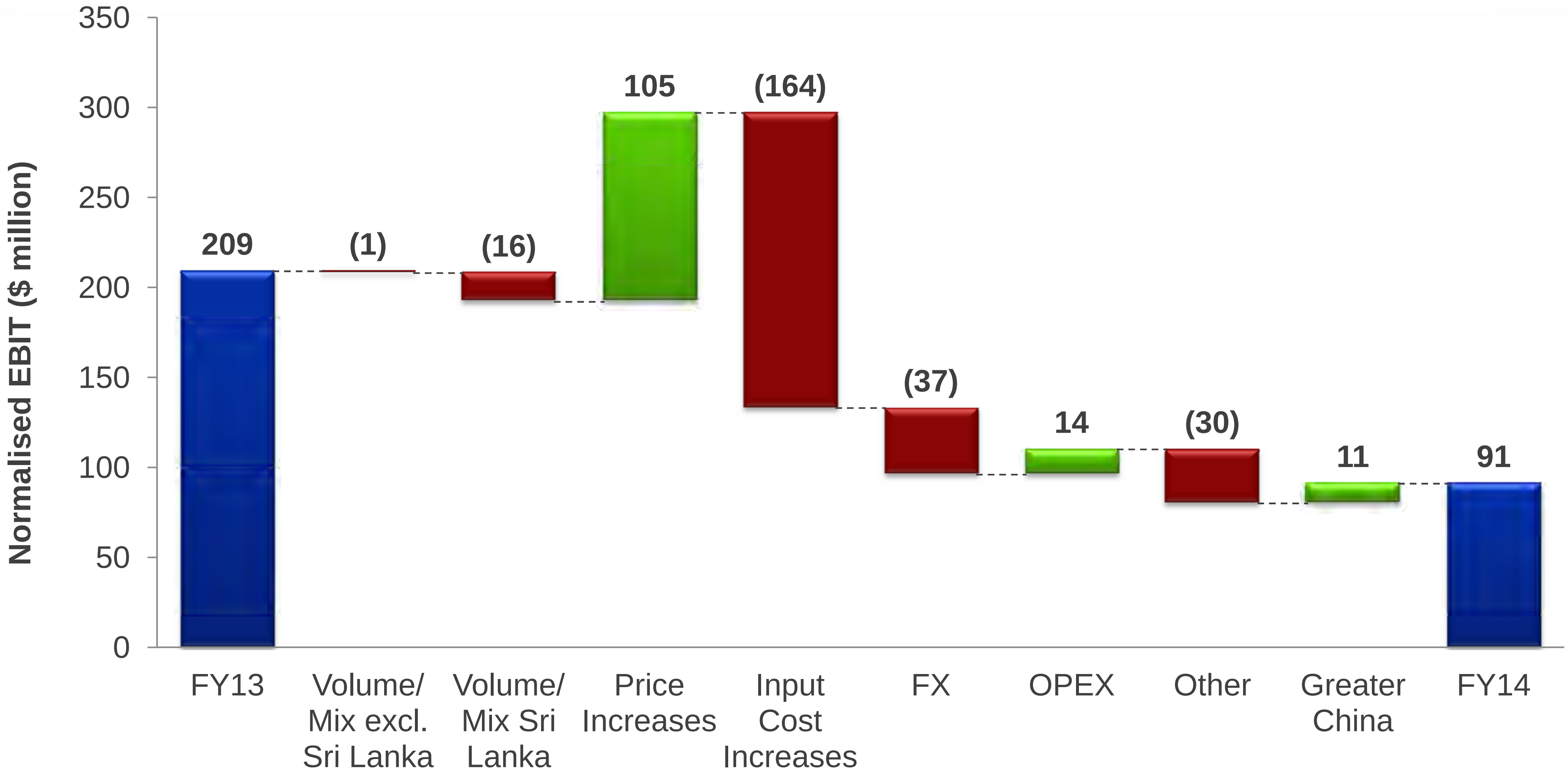
- Strong performance across China
- China Farm volume up 65 per cent
- Foodservice across Asia and Greater China up 11 per cent
- Excluding Sri Lanka up 18 per cent

Value[1]: $ 91m -56%

- Asia
  - Significantly higher input costs
  - Strategic call to price to meet market conditions
  - Sri Lanka impacted by temporary suspension of operations
- Greater China: EBIT[1] up 38 per cent
  - Foodservice growth
  - Farming hub expansion
  - Investing in Anmum™ and Anchor™ brand launch

1. Normalised EBIT .

Asia
Key performance drivers



Good returns from Greater China investments

- Total sales of $5.5 billion (including ingredients)
- ~100 million litres of fresh milk
- Invested $112 million
- China consumer brands
  - Anmum™ Materna rolled out to 20 new cities – now 64
- China Foodservice
  - Rolled out to seven new cities – now 26
- China Farms – second hub underway

Latin America

Performance review

Volume: 387,000 MT +3%

- Volume growth driven by Soprole
  - Consumer volumes up two per cent
  - Growth in liquid milk, mature cheese and powdered milk

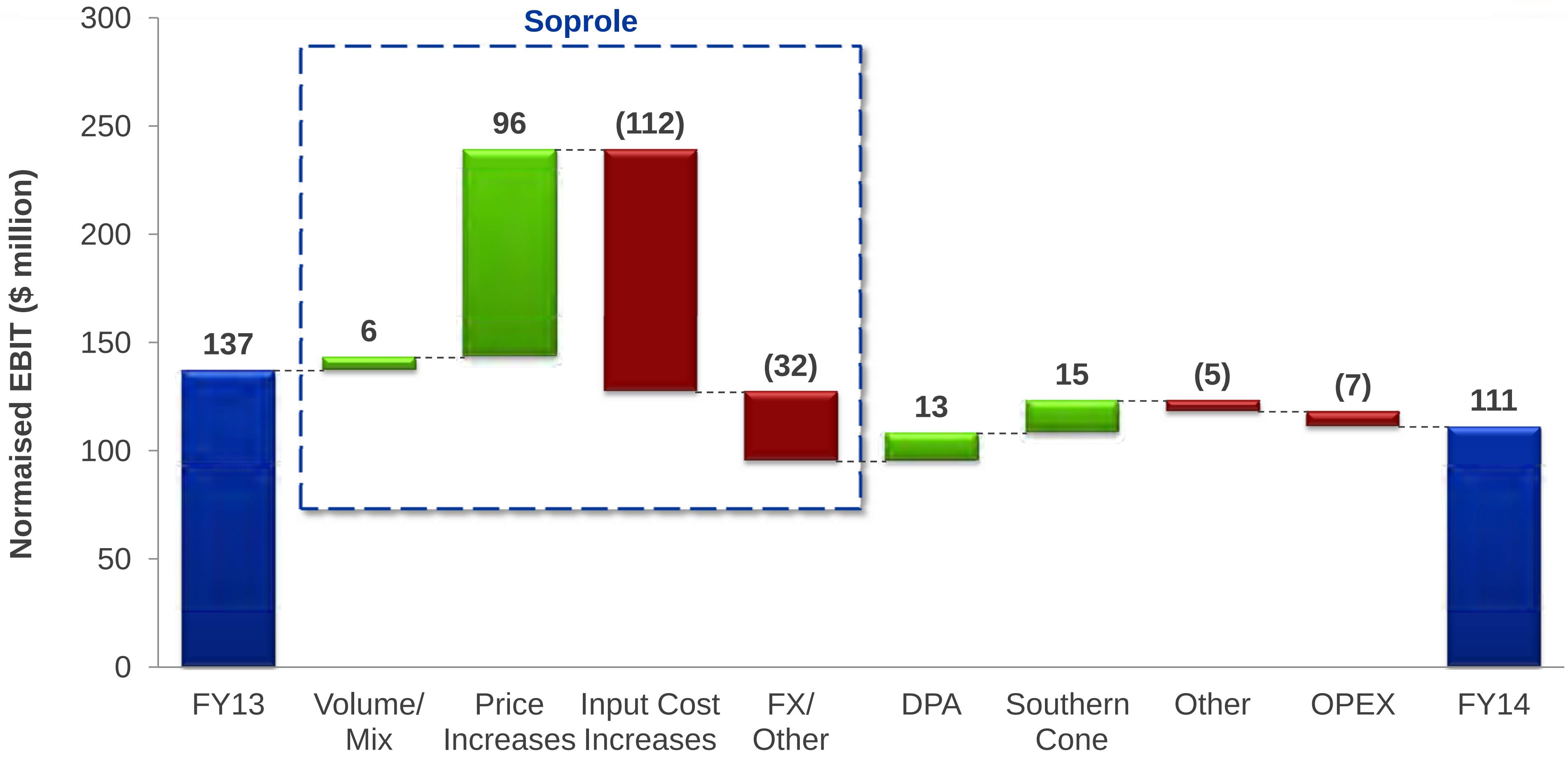
Value[1]: $111m -19%

- Soprole
  - Margin squeeze due to higher input costs
  - Higher opex as business transitioned to new centralised distribution centre
  - Innovation continues – around 20 new products launched
- DPA
  - Brazil – higher milk prices only partially recovered
  - Venezuela earnings recovery from improved product mix
- Southern Cone returned to profitability

1. *Normalised EBIT .*

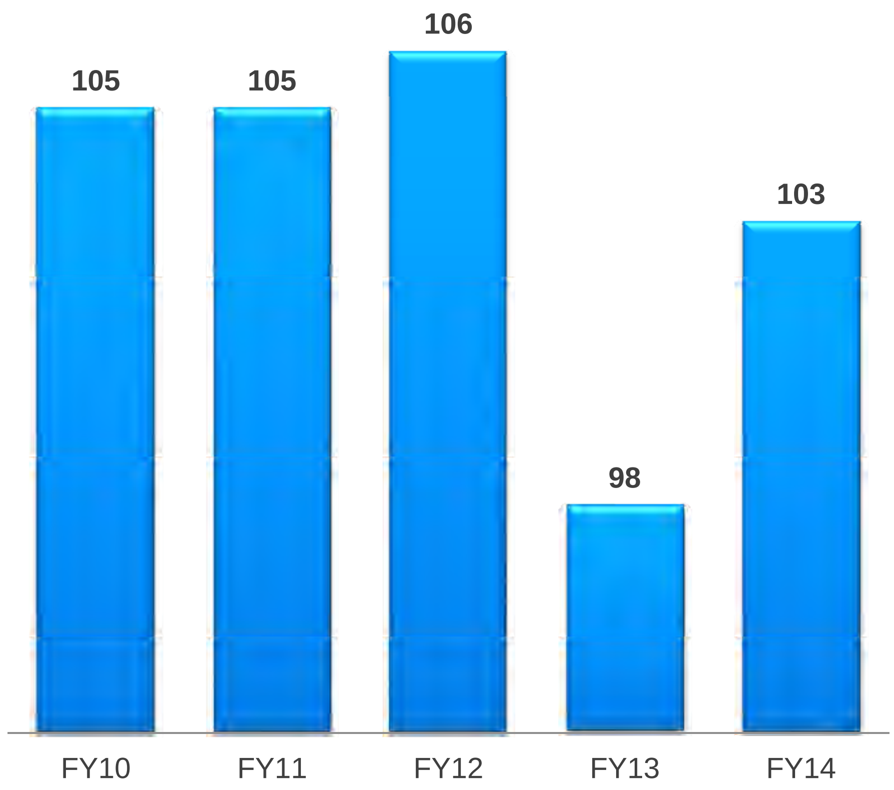
Latin America

Key performance drivers

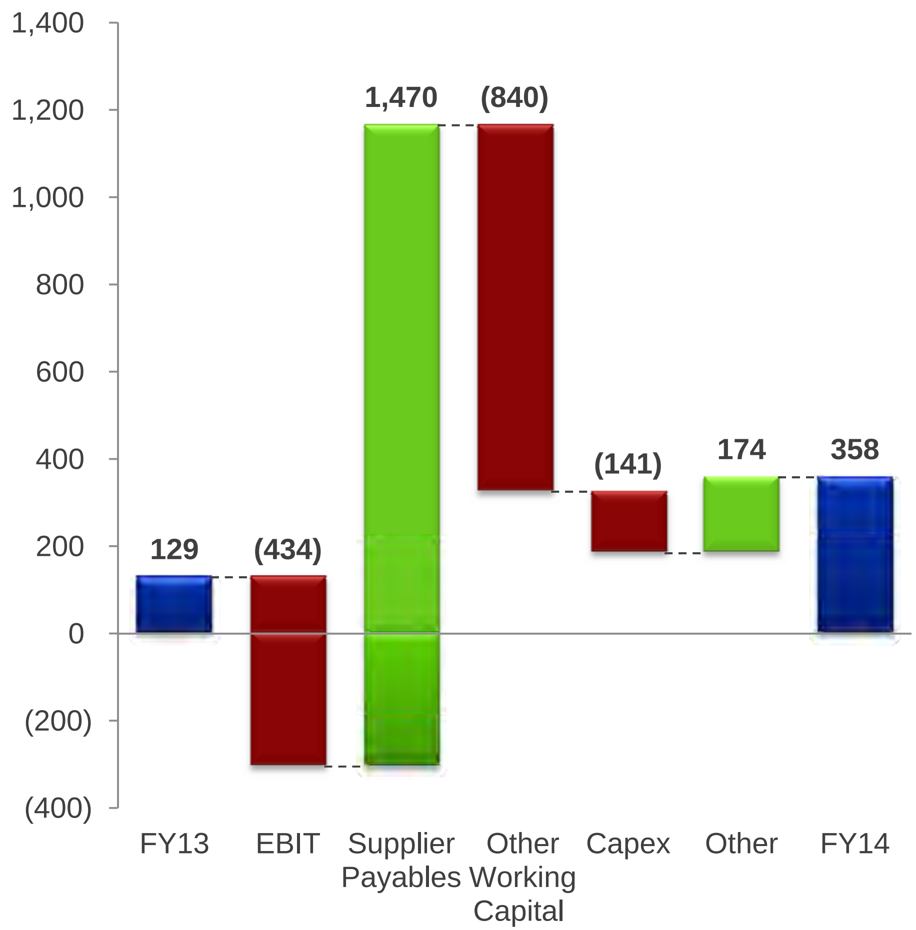


Working capital and cash flow

Working capital days[1]



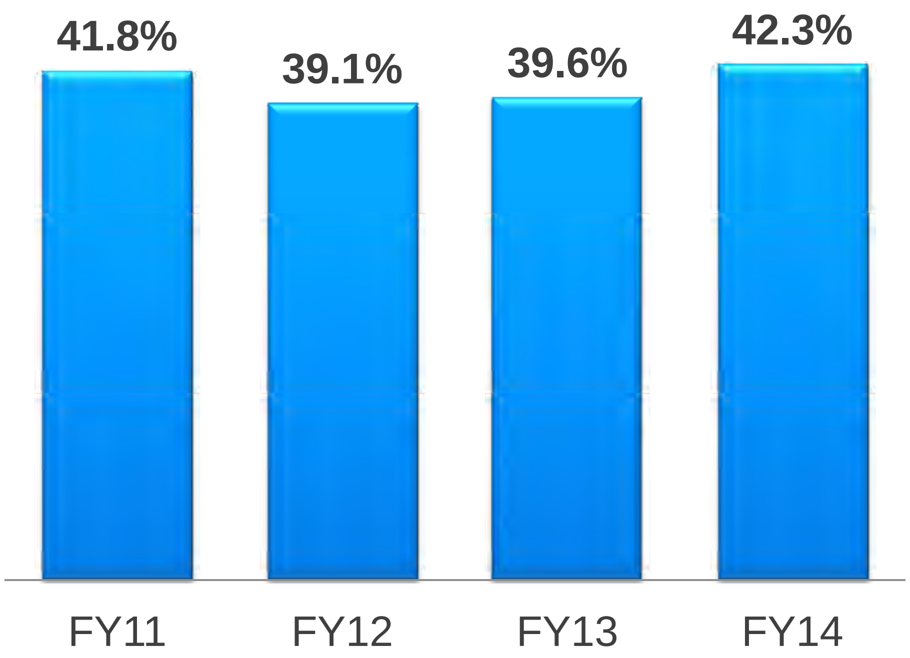
Free cash flow ($ million)



1. *Excluding supplier payables.*

Balance sheet strength

Economic debt to debt plus equity[1]



- Higher gearing levels due to:
  - Lower earnings this period and FX translation movements
  - Higher working capital
  - Increased investment in growth – BEGA, Waitoa, A-Ware, China Farms

Strong Fundamentals

Credit Rating	Fitch	AA- (stable outlook)
	S&P	A (stable outlook)
Weighted Average Term to Maturity	As at 31 July 2014 (Drawn debt)	4.1 years[2]

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 cashflow reserve.*
2. *If bank facilities are fully drawn upon then Weighted Average Term to Maturity is 3.6 years.*

Strong focus on value creation

Improve Value Drivers	Drive Return on Capital (ROC)	Maximise Shareholder Wealth
Volume Growth	Improve ROC	Earnings per Share
EBIT Growth	Economic Value Add	Milk Price
Working Capital		Share Price

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Strategy Update

Theo Spierings – Chief Executive

Strategic priorities

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

Transform milk supply model

Invest in optionality to achieve higher less volatile returns

Invest to support turning the wheel

Focus on 8 strategic and leadership markets

Focus on 5 global brands

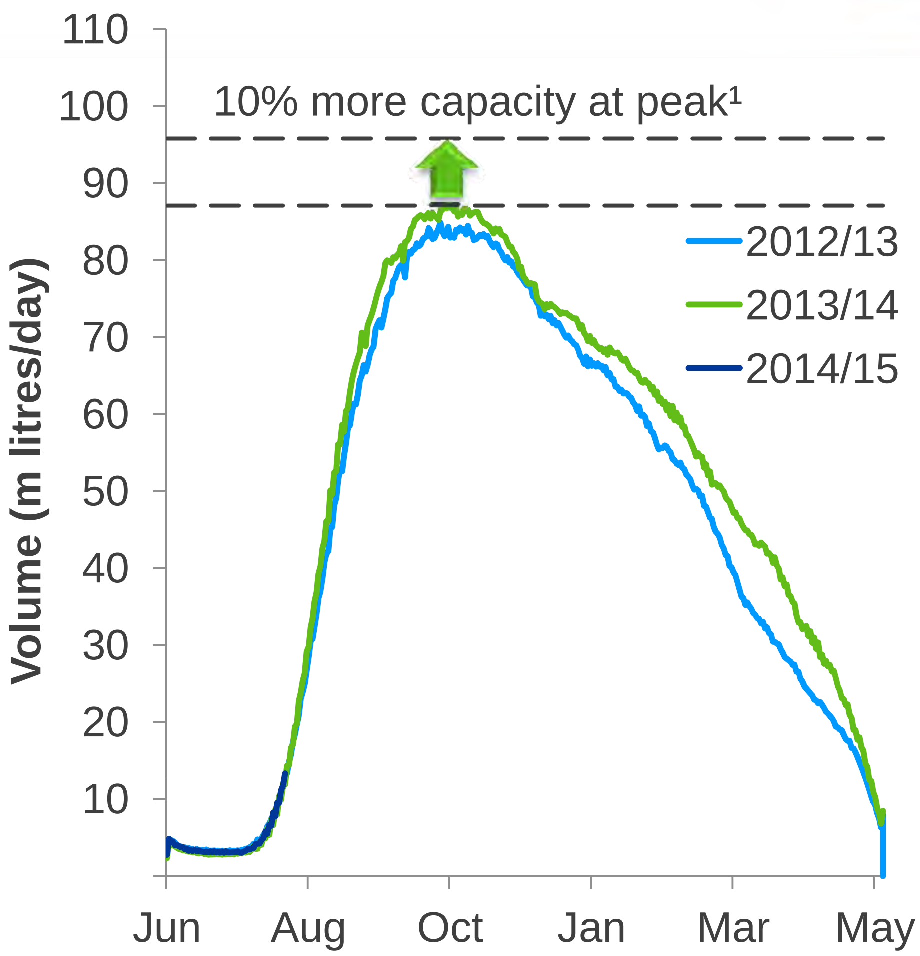
Investment in global multi-hubs

Organisational changes to support strategy

New approach to food safety and quality

Investing in optionality to achieve higher less volatile returns

- More processing options over the peak
- Additional 8.2m litres per day[1]
  - Lichfield – 4.4m litres per day
  - Edendale – 1.4m litres per day
  - Pahiatua – 2.4m litres per day
- Investing $50 million on improving plant capacity



Source: Fonterra Co-operative Group Limited
1. Coming on stream FY16/17.

Investing to support turning the wheel

- **Waitoa UHT facility**
  - Commissioned with the first shipments of UHT to China
  - $126 million investment to meet Asian demand
  - Will process >100 million litres a year
- **Clandeboye**
  - $72 million investment
  - Will double capacity to produce individual quick frozen (IQF) grated mozzarella
- **Eltham**
  - $32 million for slice-on-slice cheese
  - Expected completion in mid-2015
  - Used in Quick Service Restaurants
- **Te Rapa**
  - $32 million investment for cream cheese to support foodservice growth
  - Capacity to process additional 20,000 MT

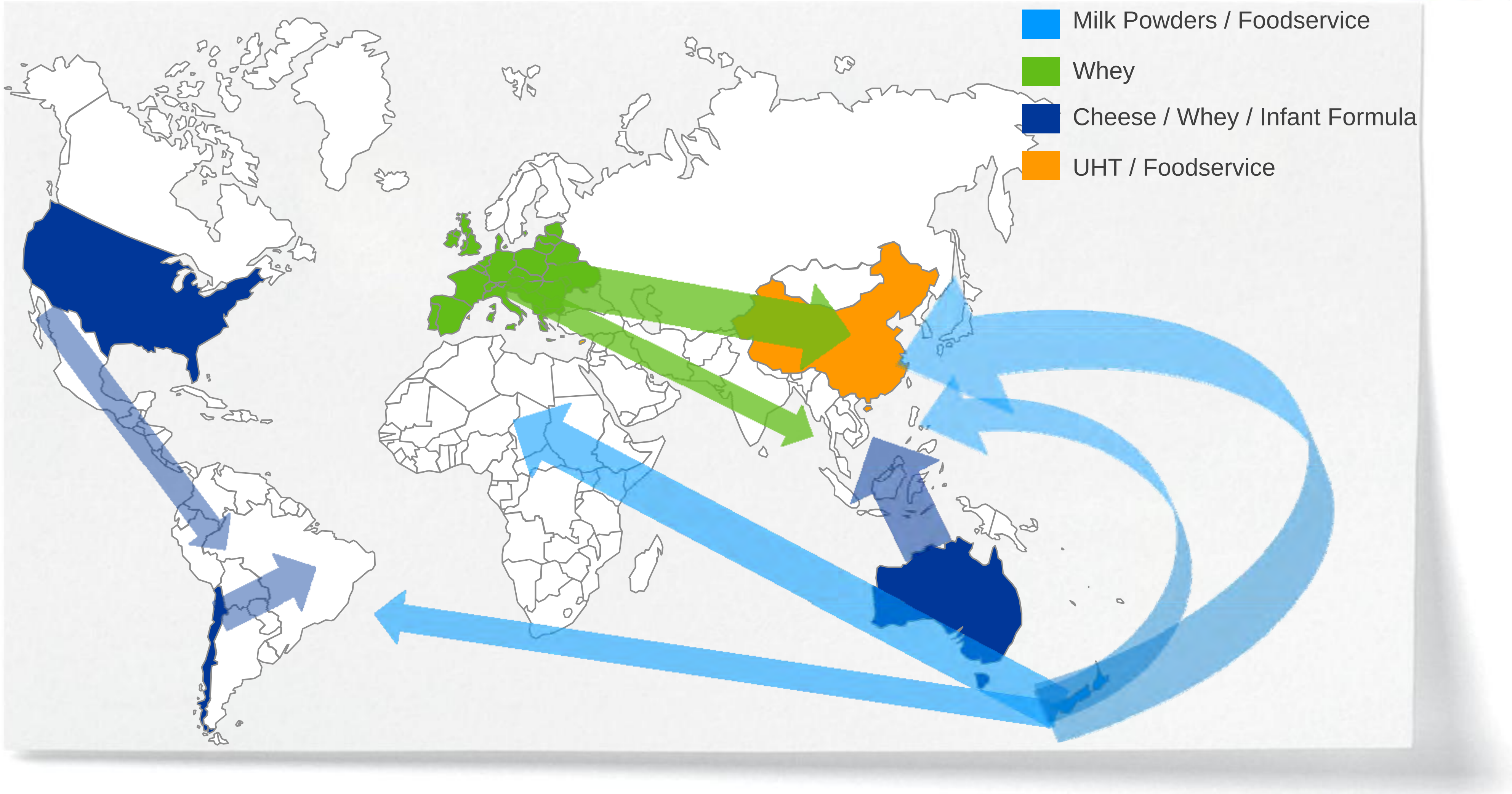
Global brands aligned to benefit and technology platforms

Fonterra Dairy for life

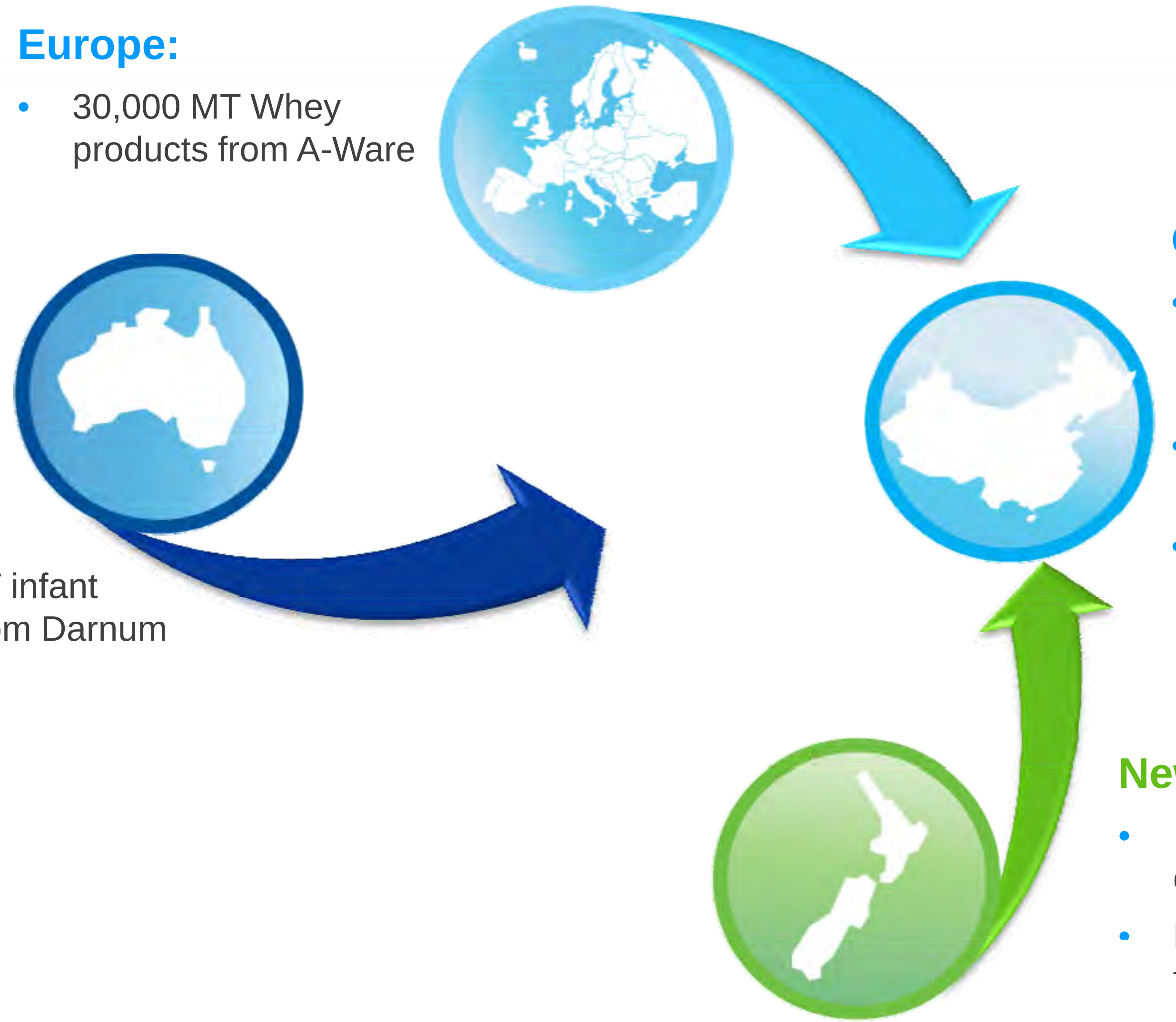
Strategic Platforms	Global Brands	Benefit Platforms	Technology Platforms
1 **Optimise** NZ milk	nzmp™	Natural Energy	Dairy Farming Systems
2 **Build and grow** beyond our current consumer positions	Anchor™	Growth & Development	Dairy Nutrition
3 **Deliver on** Foodservice potential	Anlene™	Mobility	Dairy Food Design
4 **Grow** our Anlene™ business	Anmum	Cognition	Dairy Processing
5 **Develop** leading positions in paed & maternal nutrition	New Global Brand		
6 **Selectively invest** in milk pools			

Uncompromising Taste, Texture & Stability

Investment in global multi-hubs



Example of connecting via global multi-hubs



Europe:

- 30,000 MT Whey products from A-Ware

China:

- Global Fonterra and Beingmate potential partnership
- Partial Tender Offer for 20% of Beingmate
- Anmum™ distribution agreement

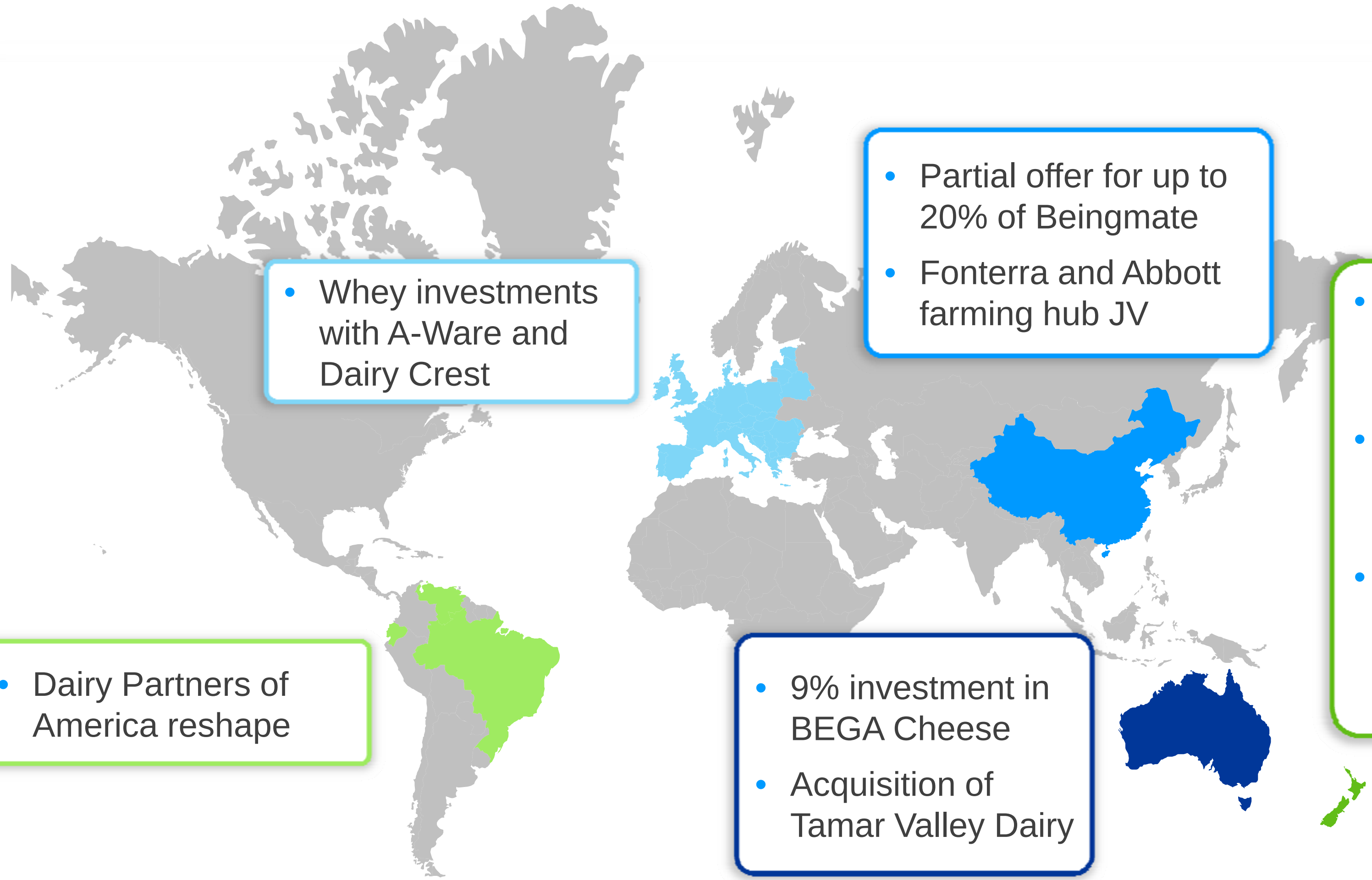
Australia:

- 50,000 MT infant formula from Darnum

New Zealand:

- Increased capacity of over 8m litres per day
- Higher Anmum™ infant formula volumes

Recap – investments and acquisitions in 2014



- Whey investments with A-Ware and Dairy Crest

- Partial offer for up to 20% of Beingmate
- Fonterra and Abbott farming hub JV

- $1.6b invested/ approved since 2011
- **Ingredients** – Lichfield, Edendale, Pahiatua, Darfield
- **Foodservice** – Waitoa, Clandeboye, Te Rapa, Eltham

- Dairy Partners of America reshape

- 9% investment in BEGA Cheese
- Acquisition of Tamar Valley Dairy

Our food safety and quality roadmap

BUILDING TRUST IN SOURCE

OUR FOOD SAFETY AND QUALITY ROADMAP

DEVELOPING A CONSUMER FOCUSED CENTRE FOR DAIRY EXCELLENCE

2014
FOCUS
Making a clear commitment to be accountable

2015
DRIVE
Making purposeful progress and earning trust

2016
ACHIEVE
Building absolute credibility and delivering leading performance

2017 AND BEYOND
LEAD
Taking the initiative with global leadership

OPENING UP THE WAY THE WORLD SEES FOOD TOMORROW, BY SHAPING THE WAY FOOD QUALITY, SYSTEMS AND PRACTICES DEVELOP TODAY.

Outlook

- Forecast Cash Payout of $5.55-$5.65
  - Forecast Farmgate Milk Price $5.30 per kgMS
  - Targeting dividend of 25 to 35 cents per share
- Outlook for global economic environment remains far from certain
- Expect continued volatility for dairy prices driven by geo-political events and supply/demand balance
- Consumer and foodservice margins expected to recover from second quarter of this financial year
- Stream returns currently making positive earnings contribution but still very early in the financial year
- Forecast capex of $1.6 billion for 2015 financial year as signalled in earlier announcements
- Will provide further update at the Annual Meeting in November

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Supplementary Information

Annual results summary

$ million	Year ended 31 July 2014	Year ended 31 July 2013	Change
Total volume (million MT)	3.97	3.96	0%
Revenue	**22,275**	**18,643**	**19%**
Normalised EBIT	**503**	**1,002**	**(50%)**
Net profit after tax	179	736	(76%)
Earnings per share (cents)	10	44	(77%)
Dividend per share (cents)	10	32	(69%)

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Normalisation adjustments

$ million	Year ended 31 July 2014	Year ended 31 July 2013
Total EBIT	**503**	**937**
Costs associated with closure of Cororooke plant in Australia	–	30
Costs associated with the Group Strategy Right-Sizing	–	38
Other items		(3)
Total normalisation adjustments	**–**	**65**
Total normalised EBIT	**503**	**1,002**

Global Ingredients and Operations

$ million	Year ended 31 July 2014	Year ended 31 July 2013	Change
Total volume[1] ('000 MT)	2,848	2,824	1%
Revenue	18,041	13,917	30%
Gross margin	1,030	1,251	(18%)
Gross margin percentage	*5.7%*	*9.0%*	
Operating expenses	**(960)**	**(892)**	**8%**
Other	**199**	**121**	**64%**
Normalised EBIT	**269**	**494**	**(46%)**
Normalised EBIT percentage	*1.5%*	*3.5%*	

1. *Total volume includes intercompany volumes.*

Global Ingredients and Operations

Contribution margin

$ million	Year ended 31 July 2014	Year ended 31 July 2013
Sales volume[1] ('000 MT)	2,848	2,824
Gross margin	**1,030**	**1,251**
Selling, marketing and distribution expenses	(289)	(277)
Contribution margin	741	974
Contribution margin per MT	**260**	**345**
Change	*(24.6%)*	

1. *Total volume includes intercompany volumes.*

Oceania

$ million	Year ended 31 July 2014	Year ended 31 July 2013	Change
Total volume[1] (‘000 MT)	832	884	(6%)
Revenue	**3,600**	**3,745**	**(4%)**
Gross margin	**583**	**756**	**(23%)**
Gross margin percentage	*16.2%*	*20.2%*	
Operating expenses	(574)	(677)	(15%)
Normalised EBIT	**31**	**142**	**(78%)**
Normalised EBIT percentage	*0.9%*	*3.8%*	

1. *Total volume includes intercompany volumes.*

Asia

$ million	Year ended 31 July 2014	Year ended 31 July 2013	Change
Total volume[1] (‘000 MT)	419	375	12%
Revenue	**2,168**	**2,059**	**5%**
Gross margin	**581**	**702**	**(17%)**
Gross margin percentage	*26.8%*	*34.1%*	
Operating expenses	(505)	(519)	(3%)
Normalised EBIT	**91**	**209**	**(56%)**
Normalised EBIT percentage	*4.2%*	*10.2%*	

1. *Total volume includes intercompany volumes.*

Latin America

$ million	Year ended 31 July 2014	Year ended 31 July 2013	Change
Total volume[1] ('000 MT)	387	377	3%
Revenue	**1,161**	**1,135**	**2%**
Gross margin	**267**	**303**	**(12%)**
Gross margin percentage	*23.0%*	*26.7%*	
Operating expenses	(198)	(191)	4%
Normalised EBIT	**111**	**137**	**(19%)**
Normalised EBIT percentage	*9.6%*	*12.1%*	

1. *Total volume includes intercompany volumes.*

Capital expenditure