



FROM
THE
SOURCE

FONTERRA ANNUAL MEETING

Chairman John Wilson

12 November 2014

Cash Payout 2013/14

Farmgate Milk Price

\$8.40_{kgMS}

+

Dividend

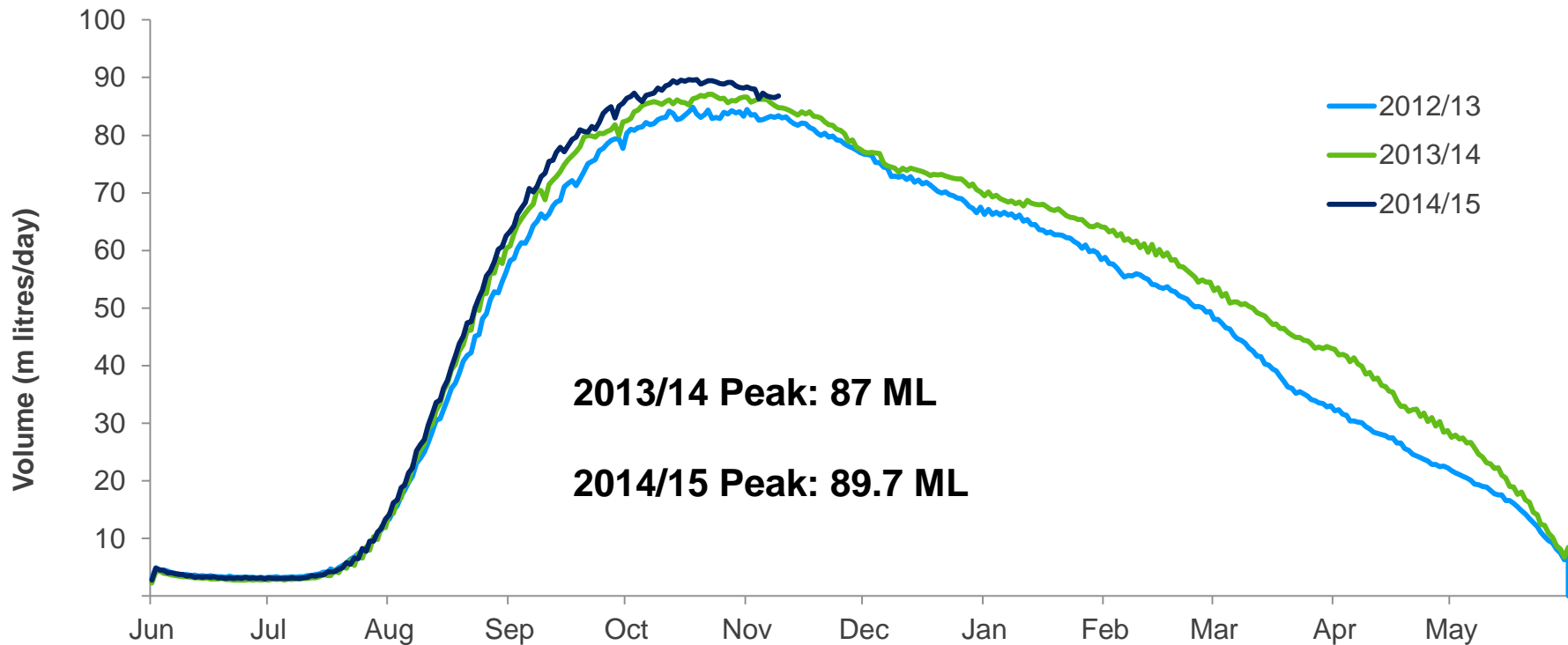
10_{cps}

=

Cash Payout

\$8.50

Fonterra's New Zealand season milk volume



Despite challenging year we stayed on strategy...

**Milk Solids
2013/14**

**1,584M
kgMS**

**Milk Volume
at peak**

87 ML

**Total sales
volume**

**4M MT
0%**

**Total Group
revenue**

**\$22.3B
+19%**

**Normalised
EBIT**

**\$503M
-50%**

**Net profit
after tax**

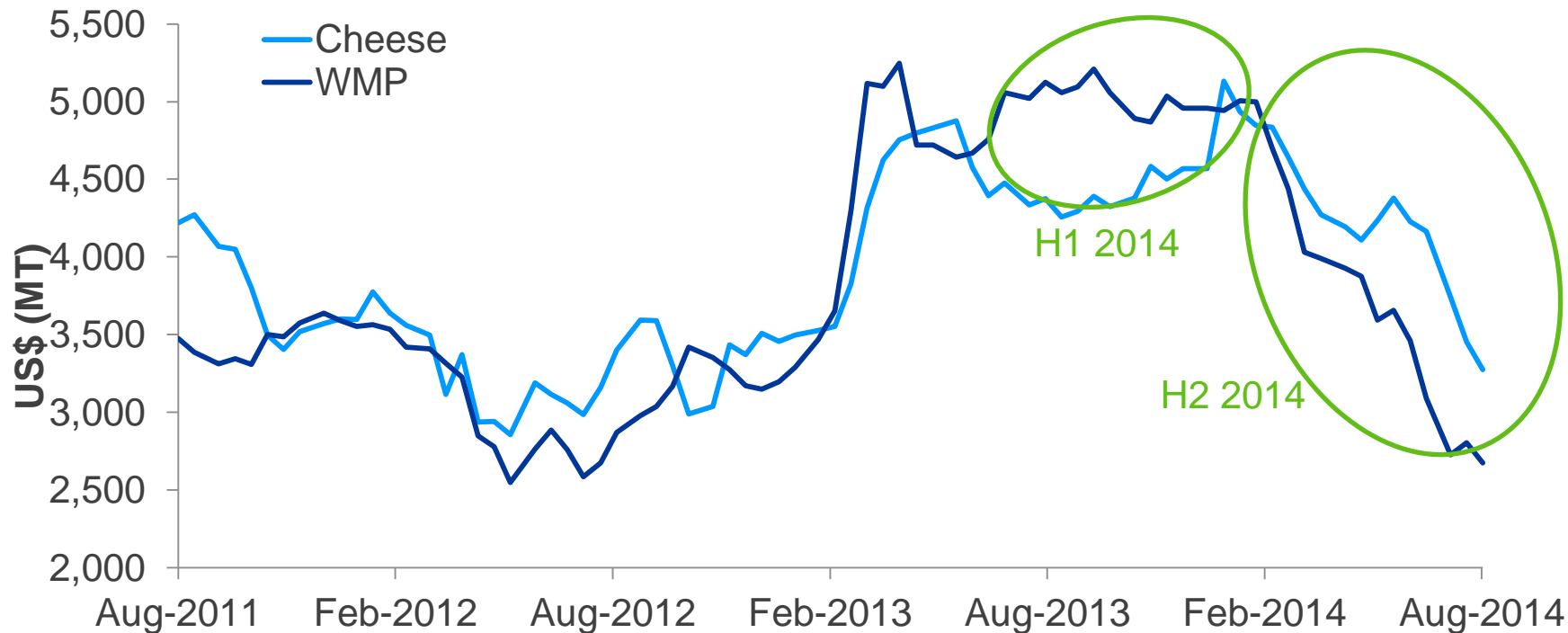
**\$179M
-76%**

EPS

**10CPS
-77%**

Extreme volatility impacting on margins:

Weighted average USD GDT cheese prices vs. WMP prices



Making the most of our Co-operative unity and strength...



**FARM SOURCE BRINGS TOGETHER
ALL THE BENEFITS OF BEING
PART OF OUR CO-OPERATIVE.
IT'S EXCLUSIVE – AND IT'S
CREATED JUST FOR YOU.**

Fonterra's values

CO-OPERATIVE SPIRIT



Put the whole of Fonterra before its parts
Pitch in, volunteer my knowledge, capability and networks
Safety first, for me and for others
Form lasting partnerships
Promote our reputation and honour our heritage
Honour what's important to local communities

DO WHAT'S RIGHT



Do what I say I will
Treat others as I would expect to be treated
Speak openly and honestly
Have the tough conversations
Have the courage to challenge when things don't seem right

CHALLENGE BOUNDARIES



Look at the future through customers' eyes
Keep us one step ahead
Welcome the unfamiliar, encourage different thinking
Continuously lift standards, improve quality
Find a way – invent, improve, solve
Learn from success and mistakes

MAKE IT HAPPEN



Create the climate for others to succeed
Aim high, deliver exceptional results
Step up, take accountability
Plan thoroughly, include contingencies
Persevere and do what it takes
Celebrate success

FROM A STRONG FOUNDATION Formation

REVENUE¹

INGREDIENTS²

\$7.9B

CONSUMER AND
FOODSERVICE²

\$4.6B

CASH
PAYOUT

\$5.33

37% discount to
UK milk price

MILK POOLS
(LITRES)

13B

NEW ZEALAND MILK
VOLUME ONLY

MILK SOLIDS
(kgMS)

1,111M

SHARE VALUE
(NZD)

\$4B

Based on \$3.85 Fair Value
Share². This was within the
range of \$3.65-\$4.25
determined by Standards &
Poor's Rating Services ('S&P')

TO A GLOBALLY RELEVANT CO-OPERATIVE Today

INGREDIENTS

\$16B

CONSUMER AND
FOODSERVICE ³

\$6.3B

\$8.50

No discount to
UK milk price

21B

NEW ZEALAND
AUSTRALIA
CHINA
CHILE

1,584M

2013/14 season

\$10B

Market value as at
September 2014

Ambition by 2025

INGREDIENTS, CONSUMER AND FOODSERVICE

\$35B

- Retain low-cost milk base
- Deliver high sustainable
Farmgate Milk Price

30B

NEW ZEALAND
AUSTRALIA
EUROPE
CHINA
CHILE
USA

Growing value by
turning the wheel

Increasing New Zealand ingredients capacity

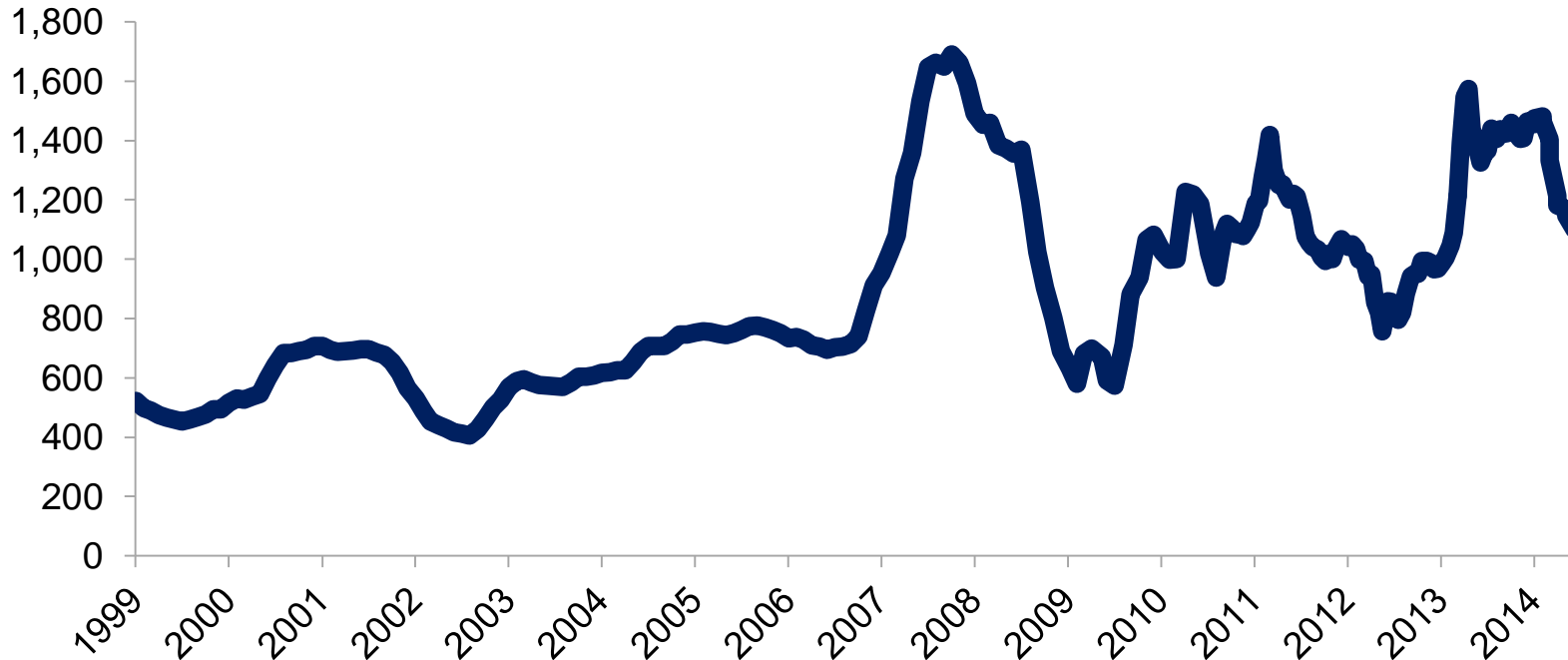
- Darfield One and Two driers
 - 7m litres per day
- New Lichfield milk powder drier and distribution centre
 - 4.4m litres per day
- Three new plants at Edendale
 - 1.4m litres per day
- \$235m drier at Pahiatua underway
 - 2.4m litres per day



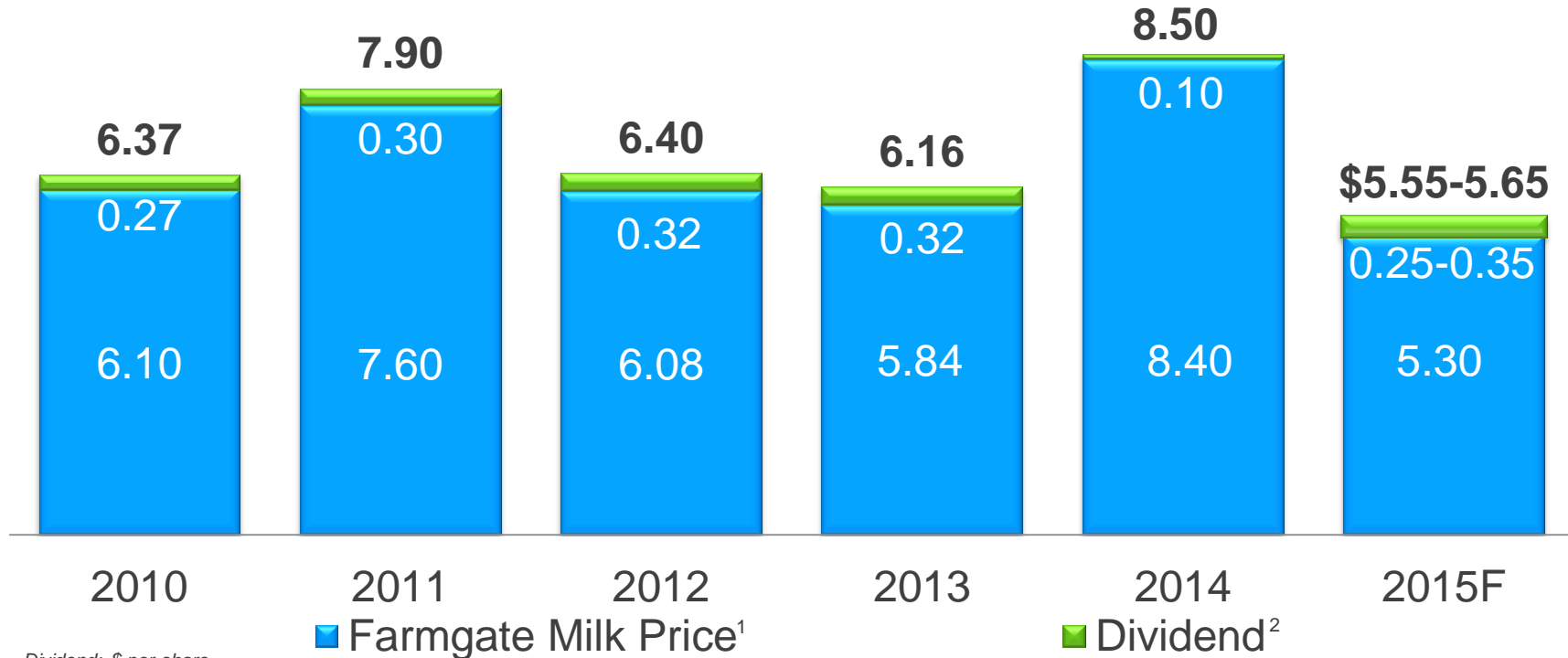


TO
**THE
FUTURE**

GDT Price Index



Forecast Cash Payout



1. Dividend: \$ per share.

2. Farmgate Milk Price: \$ per kgMS.



Dairy for life

FROM
THE
SOURCE





FROM
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FONTERRA ANNUAL MEETING

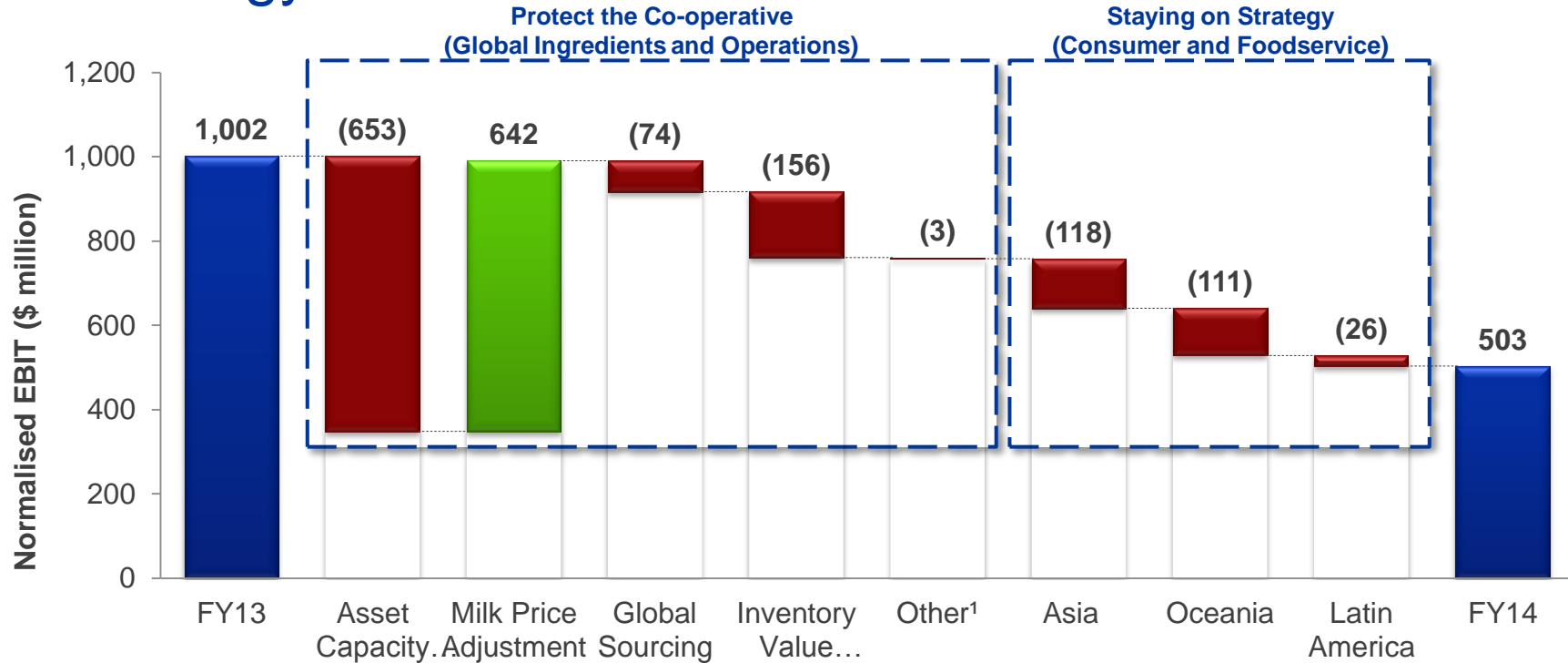
Theo Spierings CEO

Annual Result



TO
**THE
FUTURE**

Protecting the Co-operative and staying on strategy



1. Other includes intercompany eliminations.

Protecting the Co-op - 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 million¹

Total Milk Price Adjustment
(1.6bn kgMS x 53 cents)

=

\$842 million¹

\$11m
impact
on EBIT

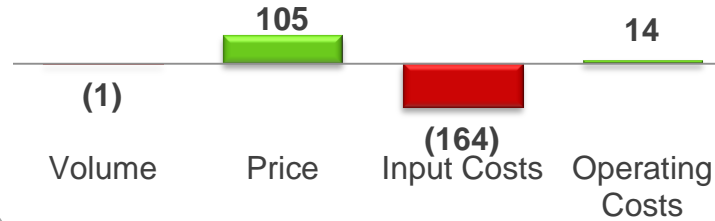
Note: Stream Returns is the relative return from the mix of products produced compared to the theoretical return from that same milk if only RCPs were produced.

Staying on Strategy - Consumer and Foodservice

Asia

Volume: 419,000 MT +12%

Value: \$91m -56%



Latin America

Volume: 387,000 MT +3%

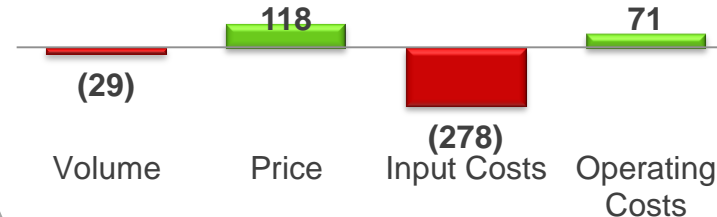
Value: \$111m -19%



Oceania

Volume: 832,000 MT -6%

Value: \$31m -78%



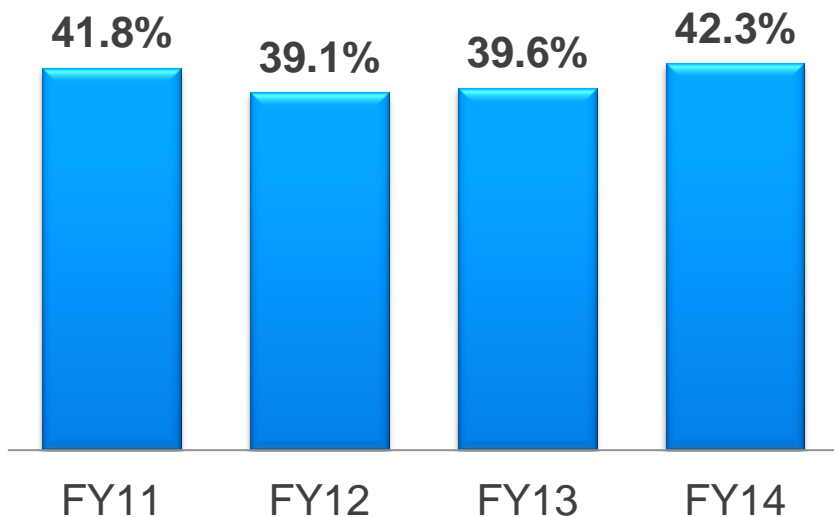
Controlling our costs

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2014	YEAR ENDED 31 JULY 2013	CHANGE
Volume ('000 MT)	3,965	3,958	
Revenue	22,275	18,643	19%
Gross margin	2,462	3,032	(19%)
<i>Gross margin percentage</i>	11.1%	16.3%	
Operating expenses	(2,210)	(2,256)	(2%)
EBIT	503	937	(46%)
Normalised EBIT	503	1,002	(50%)
<i>Normalised EBIT percentage</i>	2.3%	5.4%	
Net profit after tax	179	736	(76%)
Earnings per share (cents per share)	10	44	(77%)
Cash Payout	\$8.50	\$6.16	38%
Milk collected 2013/14 season (million kgMS)	1,584	1,463	8%
Operating cash flows	1,367	997	37%
Investing cash flows	(1,009)	(868)	16%

Balance sheet strength

Economic debt to debt plus equity¹



- 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.

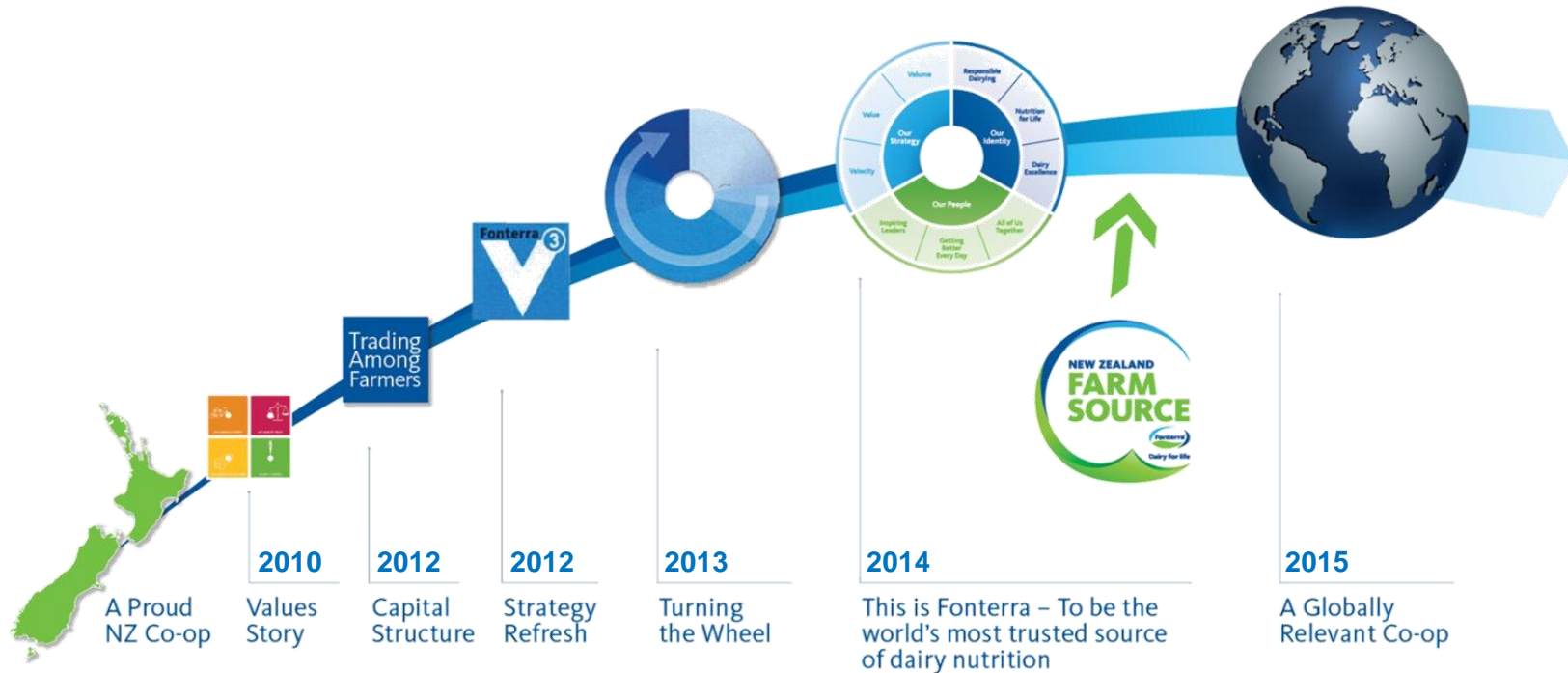
2. If bank facilities are fully drawn upon then Weighted Average Term to Maturity is 3.6 years.

V3 Strategy



TO
**THE
FUTURE**

Our journey... building a globally relevant Co-op



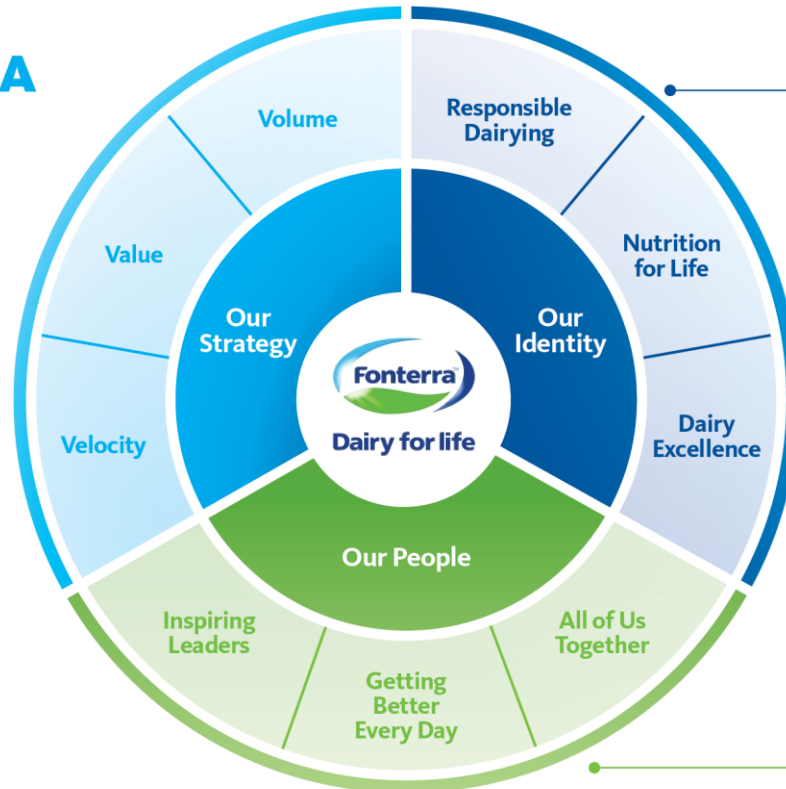
THIS IS FONTERRA FRAMEWORK

With our purpose, story and values at the heart, our 'This is Fonterra framework' brings together our people, identity and strategy commitments

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.

Ambition:

To build a globally relevant Co-op which makes a difference in the lives of 2 billion people by 2025



30 Billion
Litres
5-6 Milk
Pools



\$35 Billion
Turnover



No. 1
Ingredients



No. 1 or 2
Consumer
Business
In Our 8 Strategic Markets



Top 3
Reputation

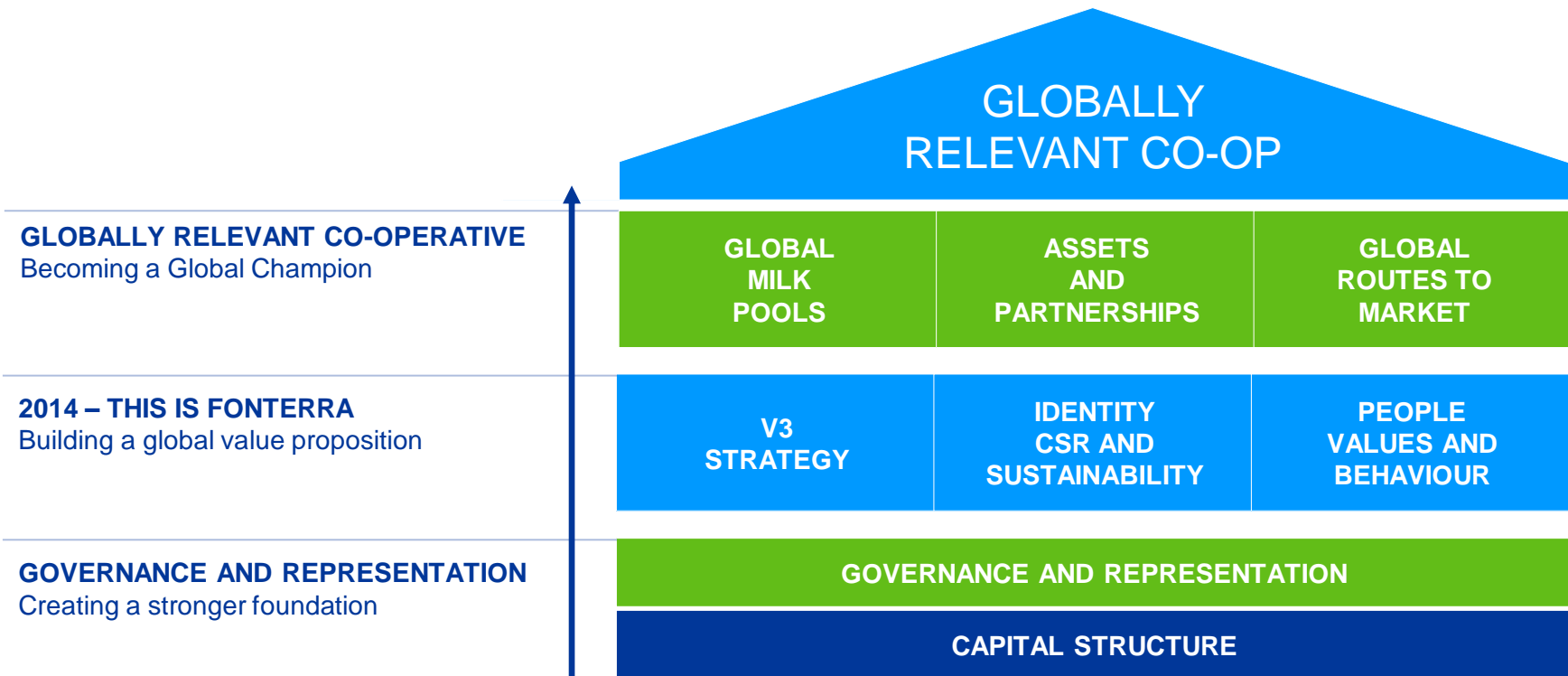


World
Class
Engagement



This is
globally
relevant

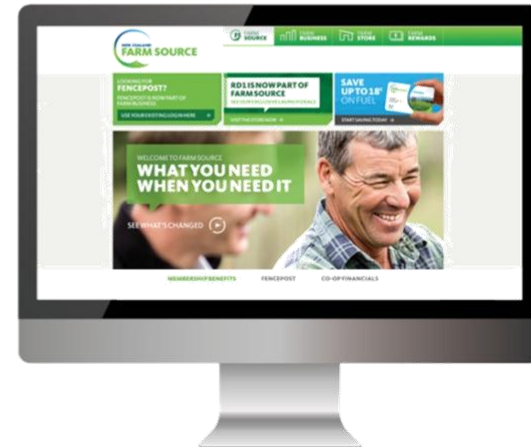
The globally relevant co-operative



Strategic priorities

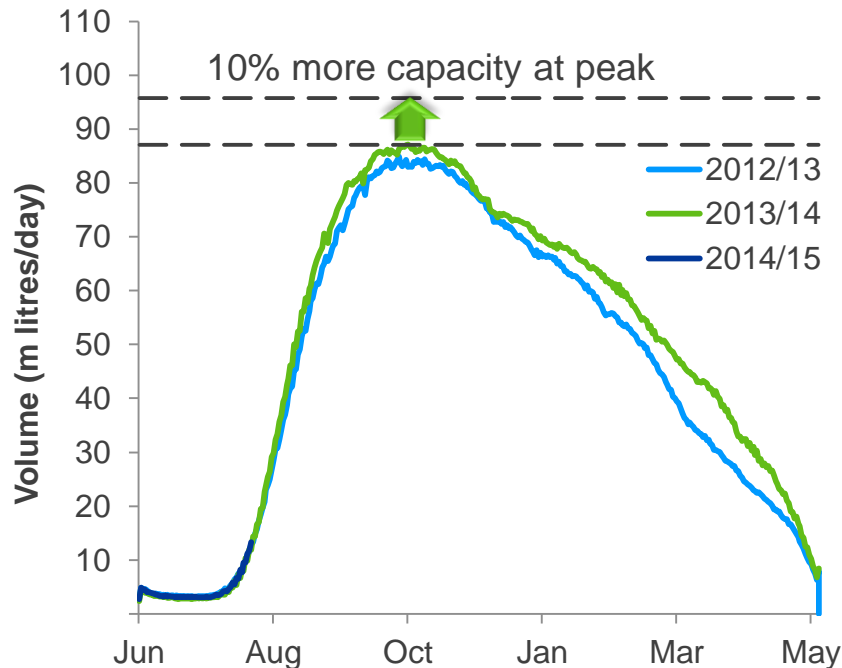


Farm Source: real benefits exclusive to our farmers



Investing in additional capacity

Optionality

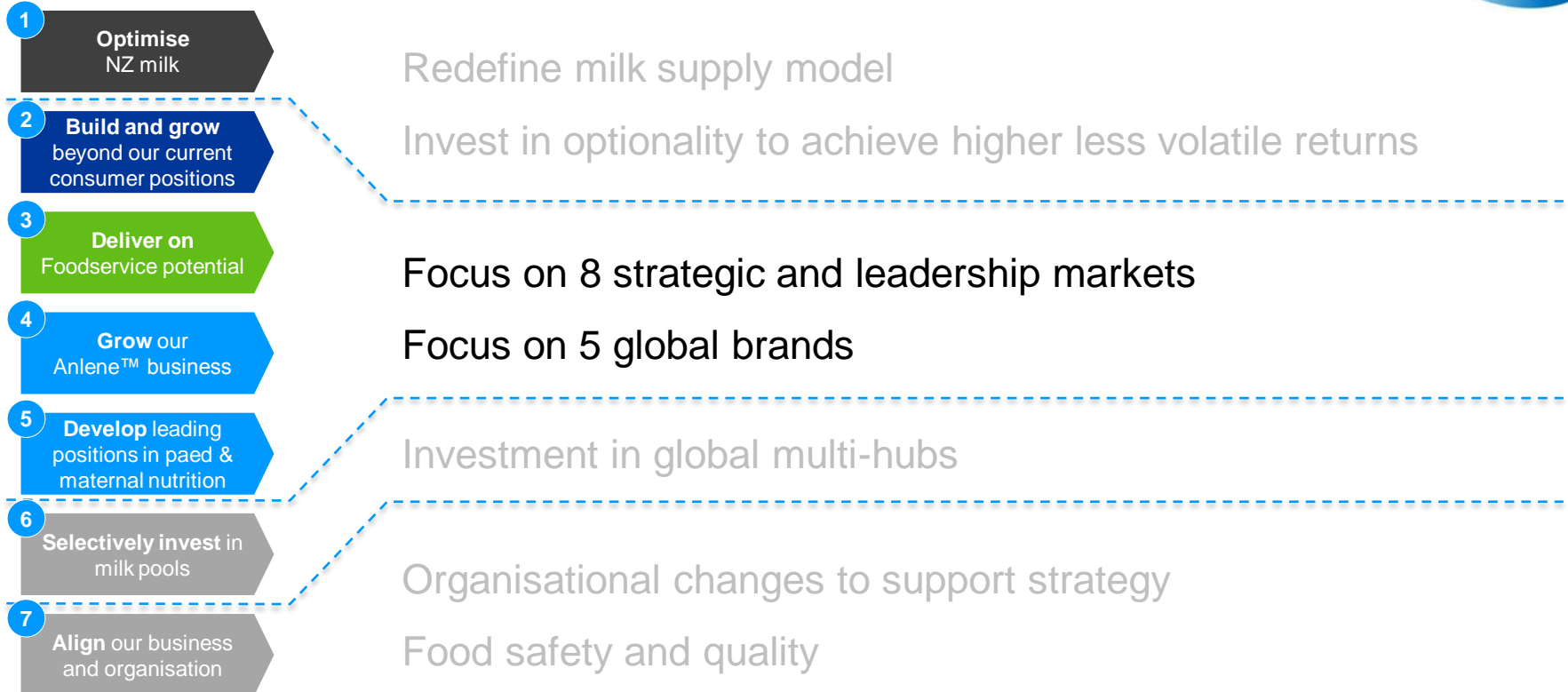


- \$755 million investment in Lichfield, Edendale and Pahiatua
- \$50 million on improving plant capacity

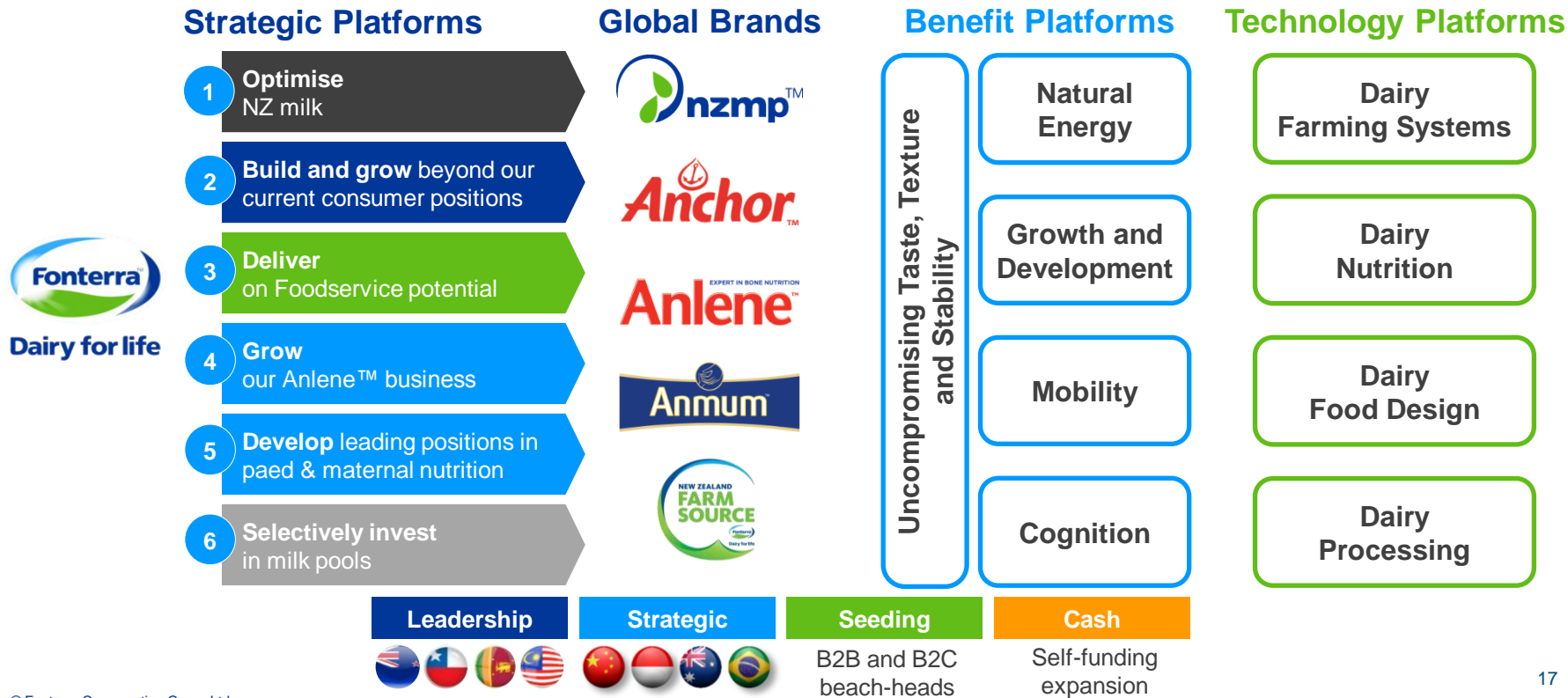
Consumer and Foodservice

- Waitoa UHT facility
 - First shipments of UHT sent 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 – foodservice
 - Capacity to process additional 20,000 tonnes

Strategic priorities



Global brands aligned to benefit and technology platforms



China Strategy - “Waikato to Shanghai”



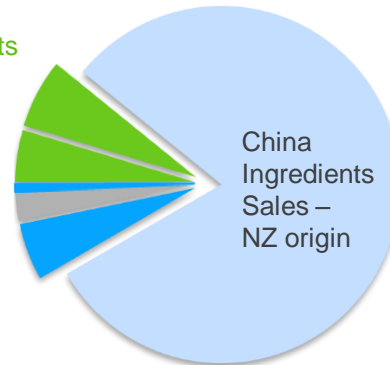
China plays a key role to Fonterra's strategy of Turning the Wheel

7 strategic paths

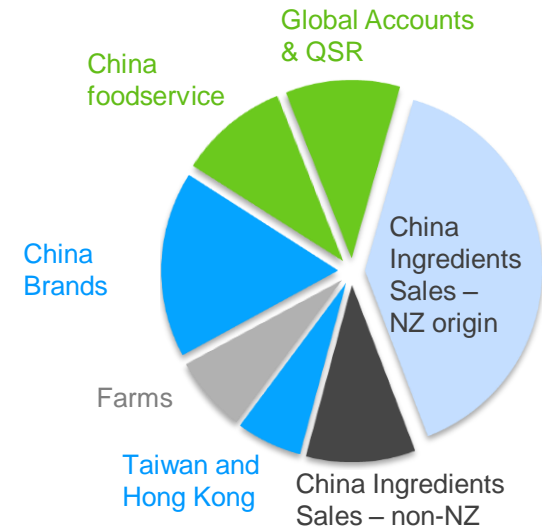
Turning the Wheel

- 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

Global Accounts & QSR
China foodservice
China Brands
Farms
Taiwan and Hong Kong

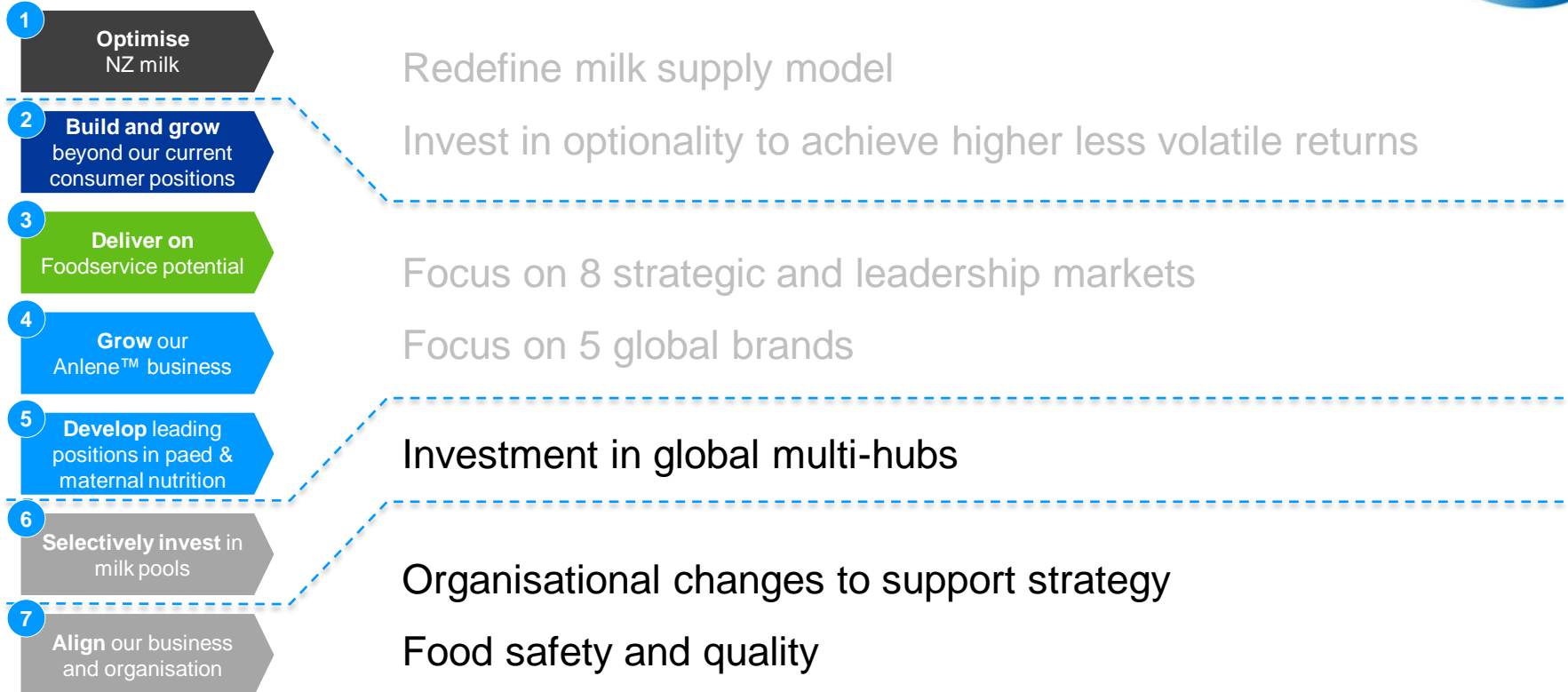


FY14 Volume
4bn litres LME

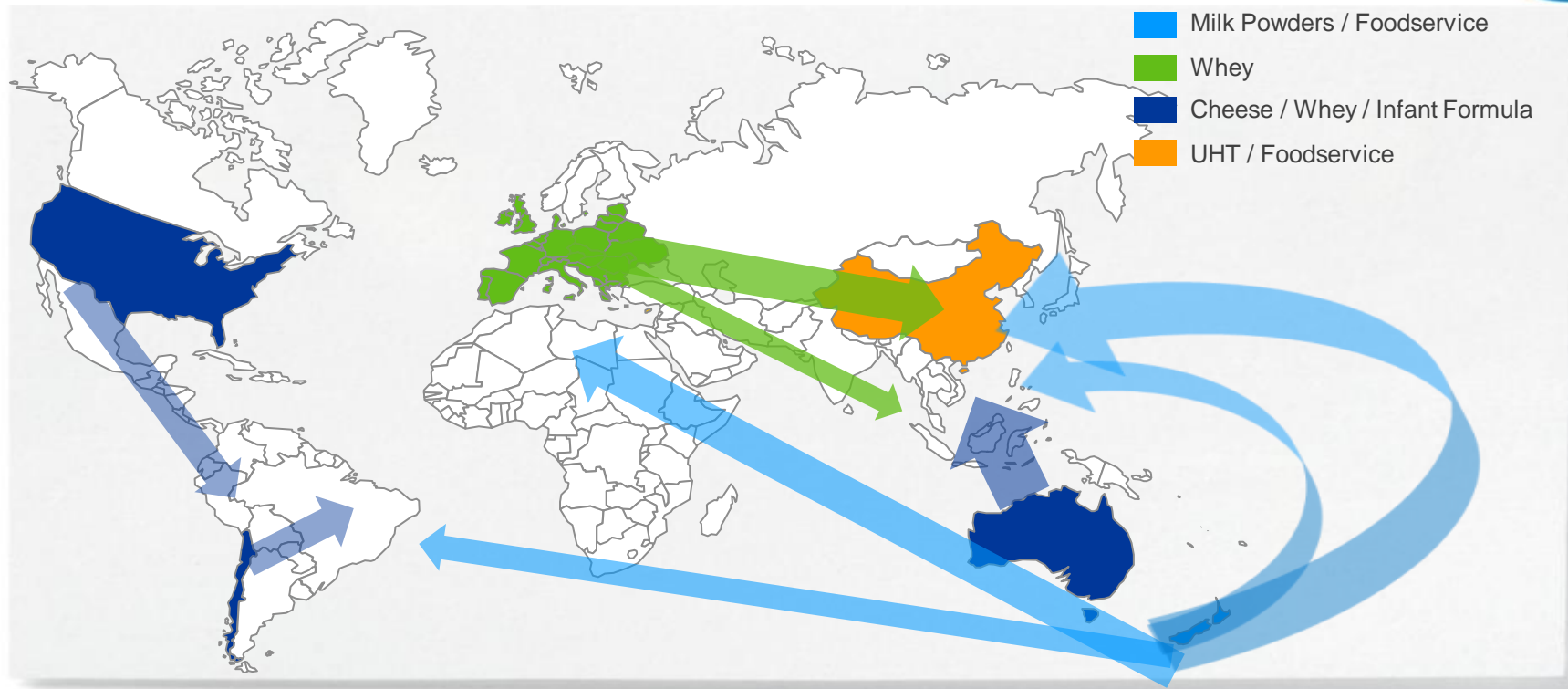


2020 Volume
8bn litres LME

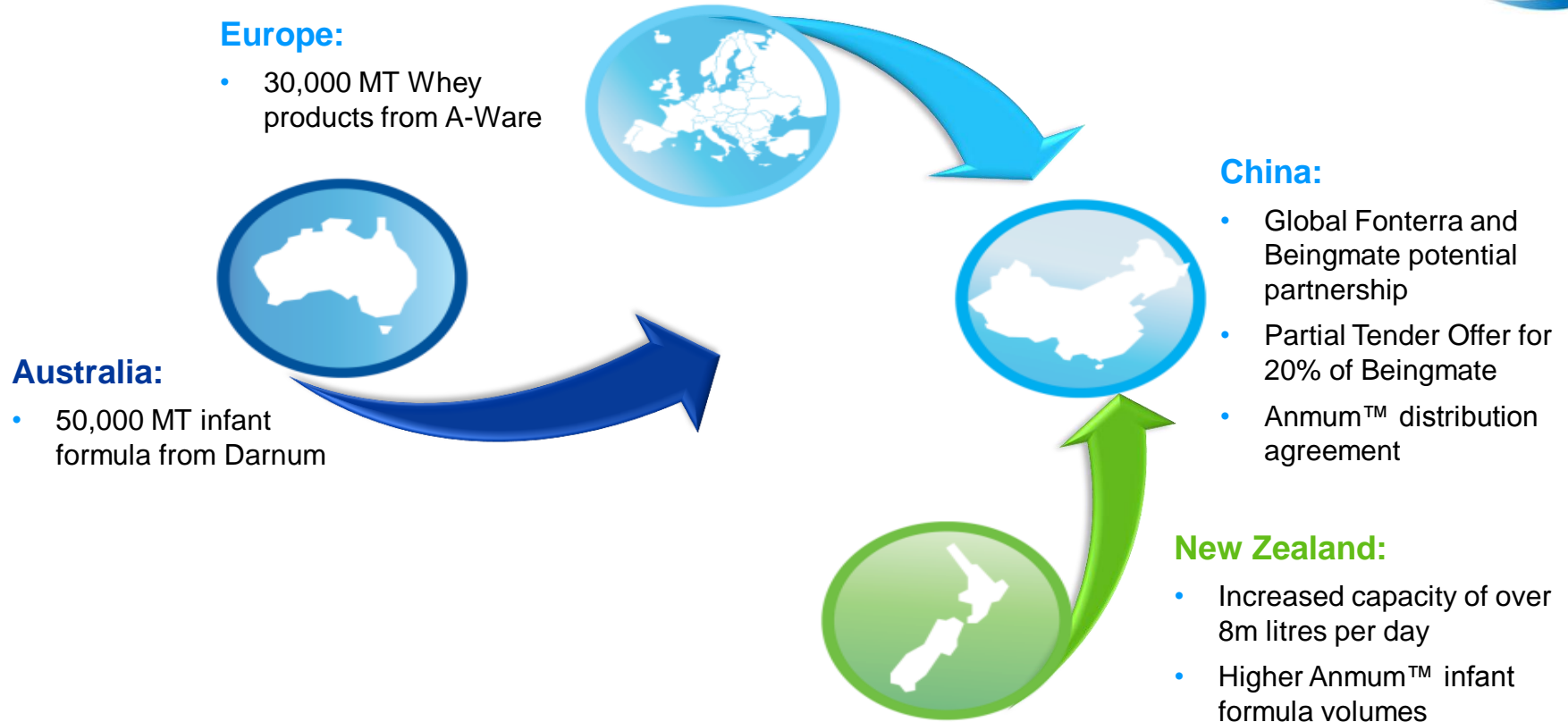
Strategic priorities



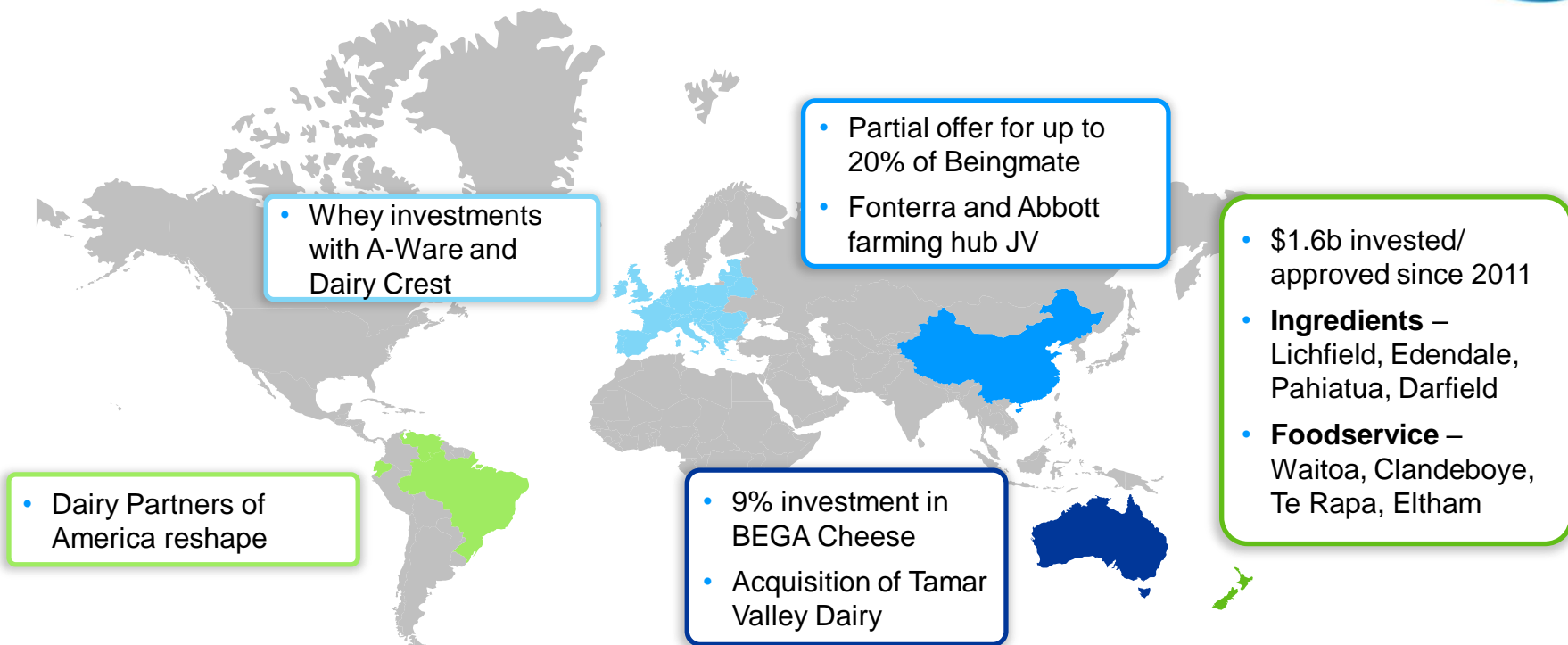
Global multi-hubs – 30b litres by 2025



Example of connecting via global multi-hubs



Investments and acquisitions in 2014



Our food safety and quality roadmap



Our Co-operative ...



From

The world's largest
exporter of dairy



To

A Co-op that makes a difference in the lives of
2 billion people by 2025



Strong Co-op, getting stronger





TO
**THE
FUTURE**