2011 Half Year Result

Media Briefing

23 March 2011

Fonterra

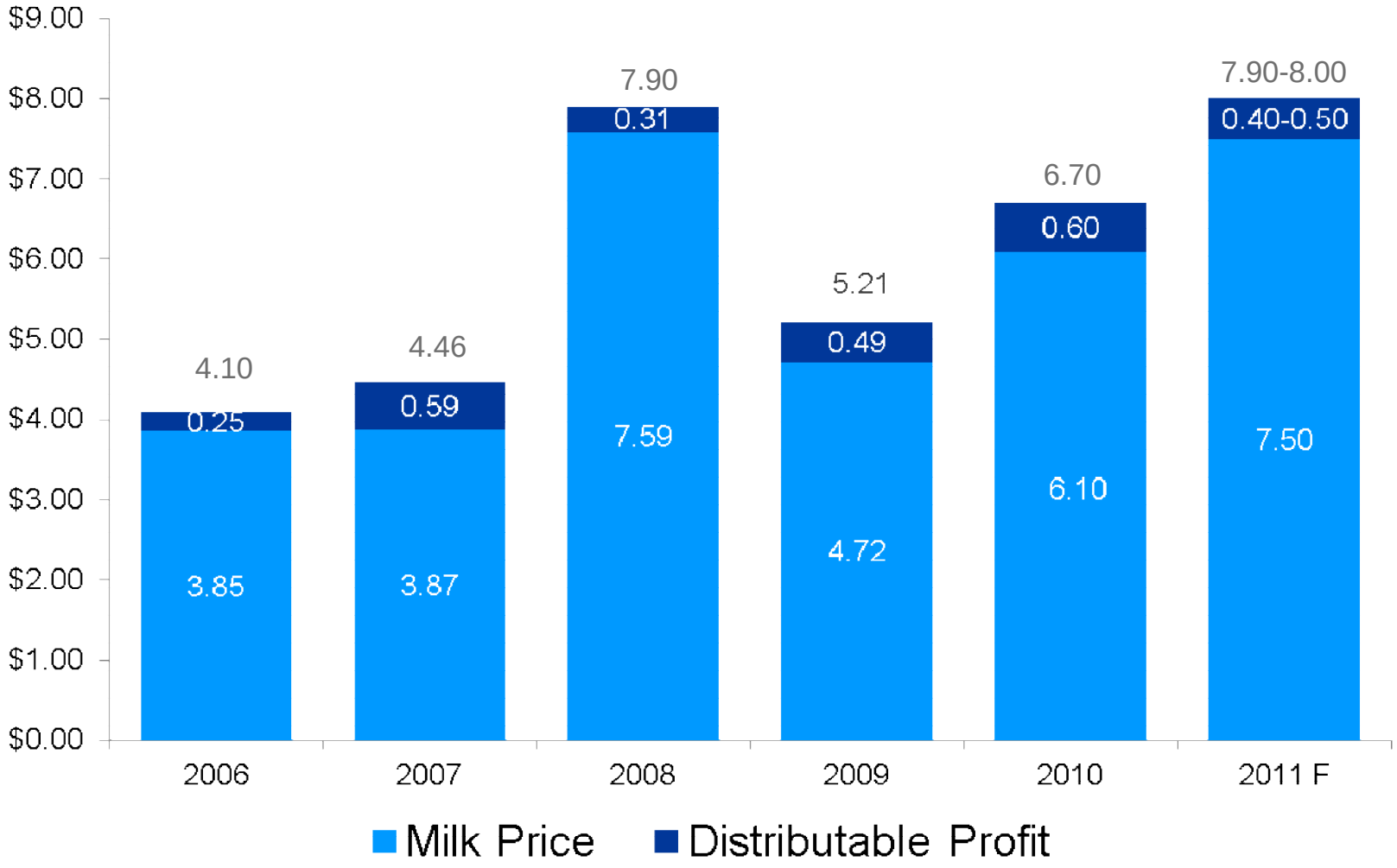
Dairy for life

Result highlights

- On track for one of the best ever payouts to farmer shareholders
  - Forecast Payout range $7.90-$8.00 (before retentions), $7.75-$7.80 (cash), made up of:
    - Forecast Milk Price $7.50 per kgMS
    - Forecast Profit $550-$690 million (40-50 cents per share)
    - Target Dividend 25-30 cents per share (interim dividend 8 cents)
- After-tax profit for six months to 31 Jan 2011 of $293 million
  - 21 cents per share[1]
  - First time reporting half year profit
- 1H revenue up 21% to $9.4 bn on back of higher dairy prices
- Gearing ratio 48.5%, improved from 54.3% at 31 Jan 10

1. Attributable to Co-operative shareholders after taking into account non-controlling interests.

Generating strong returns



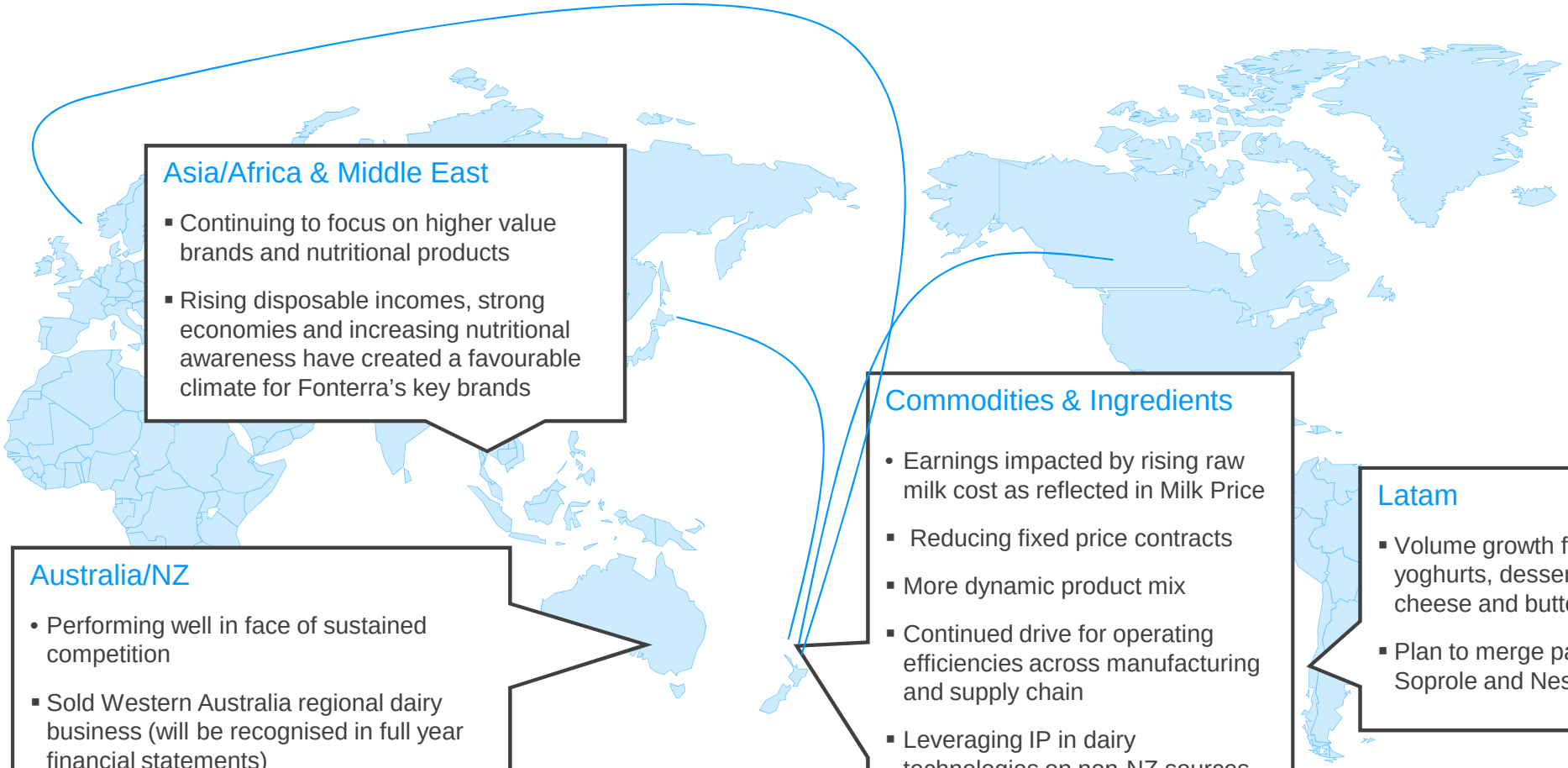
1. Since FY2010, Distributable Profit is recognised on a $ per share basis. Prior to FY2010, Distributable Profit was recognised on a $ per kgMS basis.
2. Milk Price is $ per kgMS.

Financial result snapshot

	1H 2011 $m	1H 2010 $m	Movement $m	Movement %
Revenue	**9,356**	**7,738**	**1,618**	**21%**
Cost of NZ Milk[1]	(6,561)	N/C		
Other purchases/inventory movement[2]	(1,354)	N/C		
Operating expenses	(1,031)	(1,006)	(25)	(2%)
Other operating income	49	222	(173)	(78%)
EBIT[3]	**492**	**N/C**		
Net finance costs	(192)	(172)	(20)	(12%)
Tax	(7)	(36)	29	81%
Profit after tax[3]	**293**	**N/C**		

1. In the second half of the 2010 financial year, we adopted a monthly Milk Price for determining the cost of milk supplied in New Zealand for financial reporting purposes. In previous half years, we have used a Milk Price in our interim financial statements that results in a nil profit to attributable to shareholders, on the basis that the final Milk Price could only be confirmed at the end of the financial year. Thus the cost of NZ milk in the two half years is not comparable.
2. As this change impacts inventory valuation, the inventory movement is not comparable.
3. There are no therefore comparable profit numbers for the 2010 half year.

Review of business segments



Asia/Africa & Middle East

- Continuing to focus on higher value brands and nutritional products
- Rising disposable incomes, strong economies and increasing nutritional awareness have created a favourable climate for Fonterra's key brands

Australia/NZ

- Performing well in face of sustained competition
- Sold Western Australia regional dairy business (will be recognised in full year financial statements)
- Announced price freeze on liquid milk sold to NZ retailers for rest of calendar 2011

Commodities & Ingredients

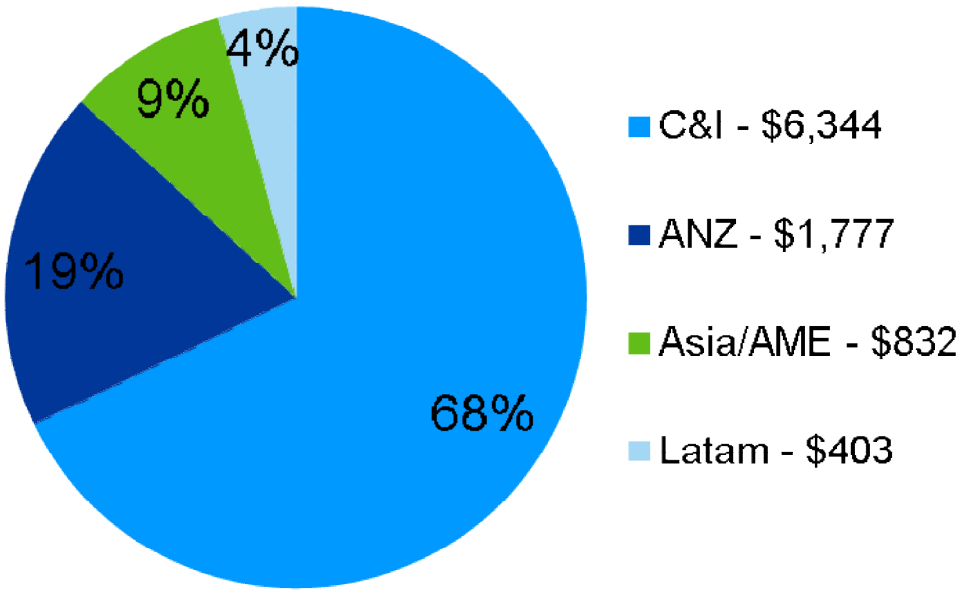
- Earnings impacted by rising raw milk cost as reflected in Milk Price
- Reducing fixed price contracts
- More dynamic product mix
- Continued drive for operating efficiencies across manufacturing and supply chain
- Leveraging IP in dairy technologies on non-NZ sources of milk

Latam

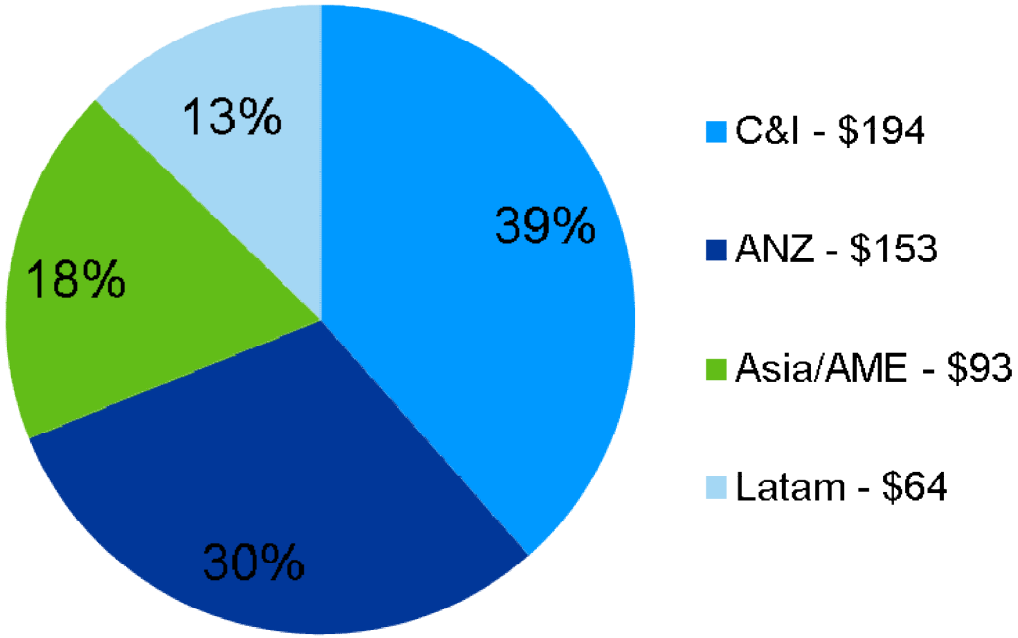
- Volume growth from yoghurts, desserts, milk, cheese and butter
- Plan to merge parts of Soprole and Nestlé Chile

1H 2011 revenue and normalised EBIT by business segments

Segment Revenue
($m)

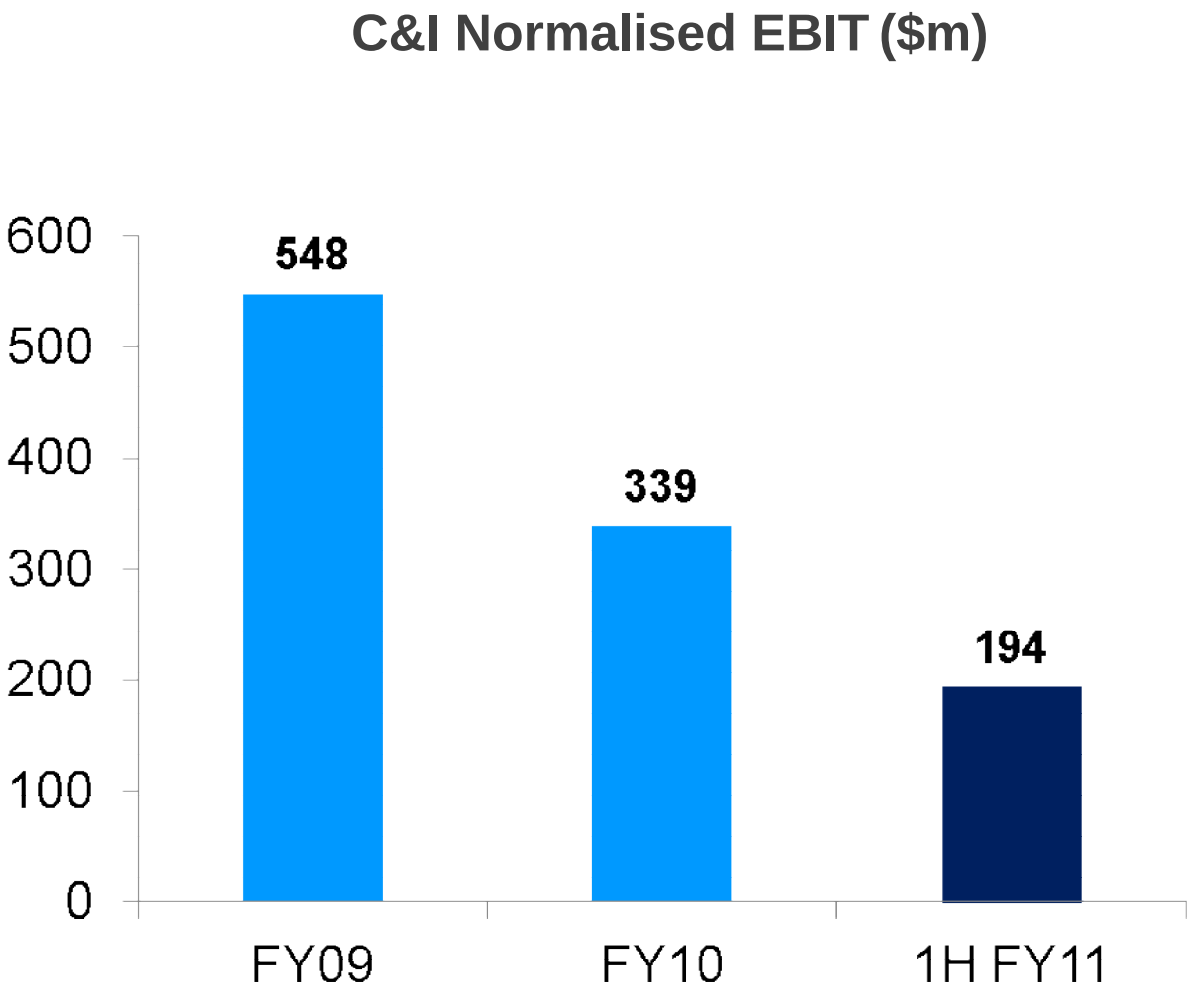


Normalised EBIT[1]
($m)



1. After excluding non-recurring items. Does not include Group eliminations of $5 million.

C&I normalised earnings broadly in line with FY10

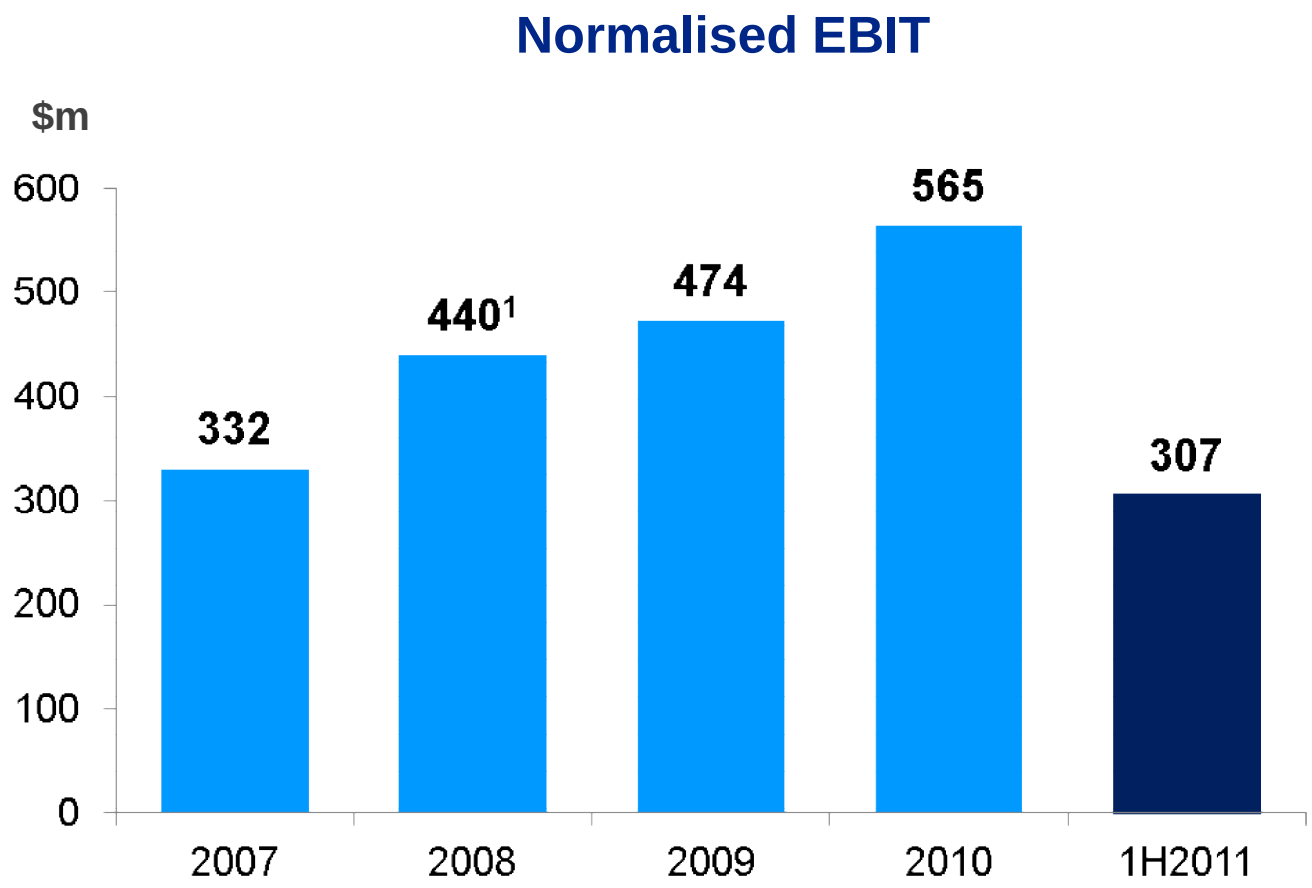


- Reduce fixed price contracts with customers
- More dynamic product mix
- Continue drive for operating efficiencies across manufacturing and supply chain
- Investing in our position as a higher value, more highly differentiated dairy provider across the globe

The Milk Price methodology

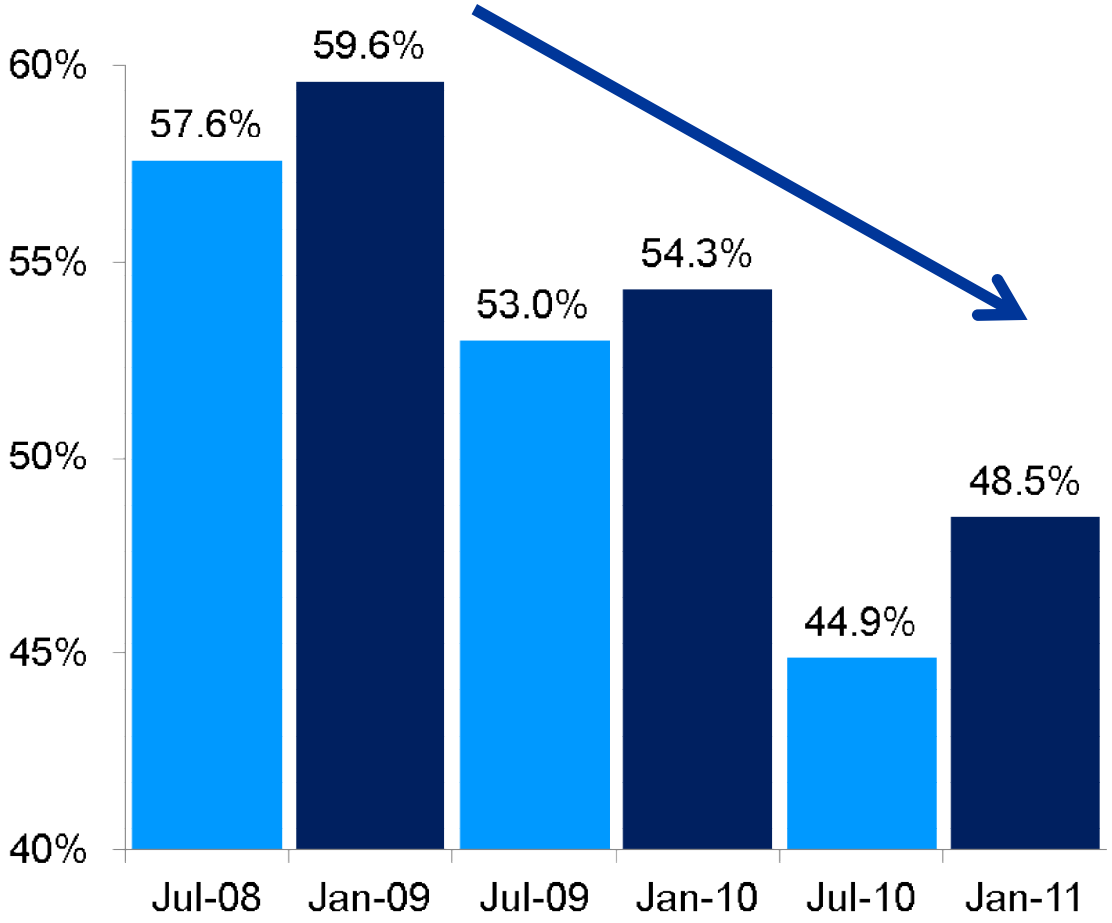
- Price paid to NZ farmers based on the Milk Price Manual, which assumes:
  - All of Fonterra's NZ milk is processed into a basket of mostly powder commodity products and sold at market prices
  - Costs of processing are based on a notional efficient competitor
- Aggregate Milk Price is recorded in Cost of Goods Sold in Fonterra's financial statements

Our consumer businesses earnings are broadly on track with FY10



[1] 14 month period

Gearing has improved substantially



- 48.5% at 31 Jan 11 vs 54.3% at 31 Jan 10
  - Half year comparison more relevant than full year because of seasonality factors

KEY DRIVERS

- Share issues
- Dividend Policy
- Interim profit recorded

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).

We are focused on executing our strategy

Strategic Priorities

①	Deliver sustainable co-operative performance	**by…**	Optimising the core NZ ingredients business and managing volatility
②	Grow lasting customer partnerships	**by…**	Investing in our existing and future platforms for growth
③	Build trusted brands in chosen markets	**by…**	Continuing to grow our Consumer businesses in ANZ, Asia/AME, Latam

Priorities for second half FY11

- Drive further earnings improvement from existing resources and platforms
  - Continue initiatives to simplify core NZ milk processing business
  - Address portfolio mix and contract terms to reduce earnings impact even when prices are rising
  - Seek improved margins on premium ingredients
- Keep consumer businesses performing in a likely tough environment of high commodity prices
- Continue to tightly manage costs across our business

Outlook for Full Year

- Forecast Distributable Profit (=NPAT) of $550m-$690m compared with $685m NPAT in FY10
  - Normalised earnings expected to be broadly in line with last year
  - Some one-off profit benefits to be confirmed during 2H
    - Aggregate expected to be lower than indicated in February reforecast primarily due to possible losses associated with Christchurch and Japan earthquakes

- Board is targeting a dividend for FY11 of 25-30 cents per share, compared with 27 cents for FY10