MEDIA RELEASE

FONTERRA ANNOUNCES RECORD FINANCIAL RESULTS FOR 2011

FINAL PAYOUT OF $8.25 (BEFORE RETENTIONS)

$10.6 BILLION FLOWS INTO NZ ECONOMY FROM DAIRY EXPORTS AND OVERSEAS CONSUMER BUSINESSES

A bumper year for dairy exports and strong contributions from overseas businesses have boosted Fonterra to record results for the 2011 financial year.

Fonterra Co-operative Group Limited announced today a record Payout (before retentions) of $8.25[1], comprising a Farmgate Milk Price of $7.60 per kilogram of milksolids (kgMS) for the 2011 milk season and a Distributable Profit of 65 cents per share for the 2011 financial year.

The Payout (before retentions) is $1.55 ahead of the prior period's $6.70 and exceeds the previous record of $7.90 achieved in 2008. The cash Payout (comprising Farmgate Milk Price plus dividend) of $7.90 is also a record and is $1.53 higher than the prior period's $6.37.

Other highlights of the financial result include:

- A 13 per cent increase in after tax profit to $771 million for the year ended 31 July 2011.
- A 19 per cent increase in revenue to $19.9 billion, a new record for Fonterra.
- The annual Dividend is being increased to 30 cents per share, a 3 cents per share or 11 per cent increase on last year's 27 cents per share. Dividends are paid out of Distributable Profit.
- Fonterra's balance sheet is in its strongest shape ever, with an economic gearing ratio[2] of 41.8 per cent, compared with 44.9 per cent a year earlier.
- Fonterra collected a record 1,346 million kgMS of raw milk in the 2011 season, 5 per cent higher than the prior season.
- Dairy exports for the year totalled 2.1 million tonnes, another record for Fonterra.

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[1] Payout assumes a farmer is 100 per cent shared up (owning one share per kgMS of annual milk production).

[2] Economic debt to debt plus equity, calculated as economic net interest bearing debt including the impact of debt hedging, over economic net interest bearing debt plus total equity excluding the cash flow hedge reserve.

The results reflect an improved performance by Fonterra's ingredients businesses that export to more than 100 markets as well as by overseas consumer businesses, especially across Asia and the Middle East. However, consumer business profits in New Zealand and Australia were down in a tough market environment.

Chairman Sir Henry van der Heyden said the record financial performance and record milk production meant Fonterra would distribute milk payments and dividends totalling $10.6 billion – $2.4 billion more than in 2010 and $1.5 billion more than Fonterra's previous best year in 2008.

"As Fonterra is a Co-operative that is 100 per cent owned and controlled by New Zealand farmers, that money flows right back into the local economy as farmers reinvest in their businesses and buy more farm supplies and equipment.

"An independent report by the New Zealand Institute of Economic Research (NZIER) last December found that the benefits of a higher Fonterra Payout extend well beyond farmers, as they spend around 50 cents out of every dollar earned on locally produced goods and services."

Sir Henry said the record Farmgate Milk Price of $7.60 per kgMS was well up on the prior season's $6.10 per kgMS and reflected the recent strength of world dairy markets, with prices in some categories reaching or nearing historical highs during the past year. In addition, Fonterra's hedging policy shielded farmers from the full brunt of a stronger New Zealand dollar, especially over the latter stages of the year.

"We also benefited from record milk production, as some of the best autumn conditions in recent years offset poor weather in many regions earlier in the season."

Sir Henry said the 2011 Farmgate Milk Price as calculated in accordance with the Farmgate Milk Price Manual is $7.60 per kgMS. The average amount available to pay for share-backed supply is $7.59 per kgMS, after adjusting for winter milk premiums and contract milk discounts.

He said the dividend of 30 cents per share equated to 69 per cent of adjusted Distributable Profit, which was consistent with the Board's policy to distribute 65-75 per cent of profit after adjusting for one-off items and other factors.

Fonterra CEO Andrew Ferrier said Fonterra achieved a 13 per cent increase in net profit after tax, to $771 million, even after paying farmer shareholders 29 per cent more for the milk they supplied.

"Although the business was impacted by higher dairy ingredient prices and a fragile global economy, our underlying profitability showed solid growth over last year due to improvements within our ingredients businesses and the strength of our consumer brands."

Normalised earnings from Fonterra's Standard & Premium Ingredients segment were 36 per cent higher than the previous year. As segment earnings are dependent on selling a mix of products at average prices above the cost of milk, this was an encouraging result in the face of a much higher Farmgate Milk Price, Mr Ferrier commented. Earnings growth reflected improved efficiencies in the manufacturing and supply chain, refinements to the product mix and growth in the higher-margin premium ingredients business.

Revenue from the consumer businesses hit a new record of $6.1 billion. However, the consumer businesses faced a challenging year as margins came under pressure from the rise in commodity prices.

Mr Ferrier said the standout consumer business segment was Asia/Africa, Middle East, with normalised earnings rising 12 per cent. "We continue to focus on high quality nutritional and foodservice solutions that leverage our trio of power brands, Anchor, Anlene and Anmum."

In the Australia/New Zealand business segment, however, normalised earnings fell 17 per cent. Mr Ferrier said margins were compressed as a fiercely competitive market environment made it harder to reflect fully higher commodity prices in consumer pricing. "Although it was undoubtedly a tough year in New Zealand and Australia, our market leadership positions across most categories mean we are in a sound position to work through current market challenges."

The Latam segment, comprising Soprole in Chile and the Dairy Partners Americas joint ventures with Nestlé across key Latin American markets, had another solid year with normalised earnings unchanged from the prior year.

The Fonterra Board has also confirmed its previously announced forecasts for the current 2012 season and 2012 financial year. The forecast Farmgate Milk Price is $6.75 per kgMS and the forecast Distributable Profit range is 40-50 cents per share. The lower forecast Farmgate Milk Price relative to 2011 reflects a softening of global commodity prices since early 2011.

Sir Henry said it was fitting that the record result was achieved as Fonterra marked its 10th anniversary:

"Ten years ago, the New Zealand dairy industry came together to form a national champion in Fonterra. Our collective vision was to create a business with the scale to become a world leader in dairy ingredients and maximise dairying's contribution to the New Zealand economy. That's exactly what Fonterra is doing."

Sir Henry noted that Fonterra's new CEO Theo Spierings would take office on Monday 26 September 2011, succeeding Mr Ferrier who announced in March he was stepping down after eight years as CEO.

RESULT HIGHLIGHTS

	FY2011	**FY2010**	**% change**
Revenue	$19.9 Bn	$16.7 Bn	19
Normalised earnings before net finance costs and tax	$1005 m	$904 m	11
Profit for the year	$771 m	$685 m	13
Earnings per share (per share)[1]	$0.55	$0.51	8
Standard & Premium Ingredients – normalised earnings[2]	$431 m	$316 m	36
ANZ – normalised earnings[2]	$252 m	$303 m	(17)
Asia/AME – normalised earnings[2]	$186 m	$166 m	12
Latam – normalised earnings[2]	$119 m	$119 m	0
Farmgate Milk Price (per kgMS)	$7.60	$6.10	25
Distributable Profit (per share)	$0.65	$0.60	8
Dividend (per share)	$0.30	$0.27	11

1. Attributable to shareholders of the Parent.
2. Normalised earnings are earnings before interest and tax adjusted for non-recurring items.

RECONCILIATION OF NET PROFIT AFTER TAX TO DISTRIBUTABLE PROFIT

	2011		**2010**	
	$ million	cents per share[3]	$ million	cents per share[3]
Profit for the year	771	56	685	51

Less share attributable to non-controlling interests	(17)	(1)	(16)	(1)
Profit attributable to shareholders	754	55	669	50
Adjustments for tax effect of retentions	146	10	131	10
Distributable Profit	900	65	800	60
Annual dividend	413	30	362	27

3. Based on shares on issue at season end (31 May).

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About Fonterra

Fonterra is a global leader in dairy nutrition – the preferred supplier of dairy ingredients to many of the world's leading food companies. Fonterra is also a market leader with our own consumer dairy brands in Australia/New Zealand, Asia/Africa, Middle East and Latin America.

The farmer-owned New Zealand co-operative is the largest processor of milk in the world, producing more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products every year. Drawing on generations of dairy expertise, Fonterra is one of the largest investors in dairy based research and innovation in the world. Our more than 16,000 staff work across the dairy spectrum from advising farmers on sustainable farming and milk production, to ensuring we live up to exacting quality standards and delivering every day on our customer promise in more than 100 markets around the world.