MEDIA RELEASE

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FONTERRA ANNOUNCES 2012 FINANCIAL RESULTS

PAYOUT DOWN 19%

STRONG OPERATING PERFORMANCE – NORMALISED EARNINGS[1] UP 2%

Fonterra Co-operative Group announced today a payout of $6.40 for a fully shared up farmer for the 2012 year, 19 per cent down on the prior year.

The result includes a lower Farmgate Milk Price of $6.08 per kilogram of milksolids (kgMS), down from $7.60 last year reflecting lower commodity prices and a strong New Zealand dollar. A dividend of 32 cents per share has been announced, with retentions of 10 cents per share[2].

Announcing the result, Chairman Sir Henry van der Heyden said the 2012 year had been one out of the box for dairy: "All around the world, we saw record dairy production which was mirrored back here in New Zealand.

"Global dairy demand held up reasonably well but this ocean of milk obviously impacted on global commodity prices, with the GlobalDairyTrade (GDT) index reaching its lowest value in 34 months in May.

"This contributed to a lower Farmgate Milk Price in the 2012 year, however, the impact of this decline on overall earnings for farmers has been eased a little by the much higher volumes of milk they produced."

Fonterra Chief Executive Theo Spierings said the Co-operative had posted a strong operating performance, with normalised earnings[1] of NZ$1.03 billion for the 2012 year, up 2 per cent on the prior year.

Profit before tax was up 9 per cent on the prior year and net profit after tax was $624 million, down 19 per cent, largely due to tax credits of $202 million in the prior year not repeated in the current year. Excluding those credits, Fonterra's net profit after tax improved by 10 per cent.

Results highlights compared to the prior year include: -

- Record New Zealand milk flows, up 11 per cent to 1,493m kgMS in the current season
- 11 per cent increase in export volumes to 2.32 million metric tonnes (MT)
- Sales volumes increased 2 per cent to 3.94 million MT
- Flat revenues of $19.8 billion
- Higher operating cash flows of $1.4 billion, up $206 million
- Balance sheet strengthened with economic gearing ratio[3] improving from 41.8 per cent to 39.1 per cent

Mr Spierings said the result showed Fonterra's success in growing both volumes and value.

"The hard work of our farmers in producing record milk flows was matched by the efforts of the business in processing, selling and shipping these higher volumes, while also managing inventory levels," said Mr Spierings.

"We know volatility is here to stay and we showed our ability to manage this volatility by adding value to our products, generating prices above GDT."

Business units

NZ Milk Products
NZ Milk Products had a strong year, with a 23 per cent increase in normalised earnings to $515 million. Revenue increased by 1 per cent to $15.72 billion for the year. Effective product mix management, a 7 per cent rise in sales volumes to 2.8 million MT[4] and the ability to attain prices above GDT through continued efforts to add value to our products. Year-end inventory levels were $373 million lower at $2.13 billion, with a 14 per cent increase in volume on hand offset by lower prices.

Australia New Zealand (ANZ)
The integrated ANZ business faced a difficult year with a 20 per cent decline in normalised earnings to $204 million. After adjusting for the sales of the Western Australian dairy business last year, volumes were down 4 per cent or 44,000 MT[4]. The lower earnings were impacted by lower prices to support market shares across all categories. Normalised earnings were up slightly in New Zealand; however, the trading environment in Australia remains challenging with a continued downturn in consumer spending and aggressive competition. The ANZ business is implementing a plan to increase profitability and maximise cash flow in these tough market conditions.

Asia/Africa, Middle East (Asia/AME)
Asia/AME achieved good results given the various challenges, including supply constraints and flooding encountered during the year with normalised earnings increasing 1 per cent to $194 million. In constant currency terms, Asia/AME achieved an increase in normalised earnings of 8 per cent. Sales volumes increased by 3 per cent[4] contributing to revenue growth of $62 million, with strong performance in Sri Lanka, Vietnam Hong Kong, Philippines and Malaysia contributing to this result. The "big three" brands of Anmum™, Anlene™ and Anchor/Fernleaf™, all achieved revenue growth, with Anlene now the established market leader in over 10 countries across Asia, and the Middle East.

Latin America (LATAM)
LATAM's normalised earnings increased by 16 per cent on a constant currency basis. Sales volumes increased by 2 per cent[4], driving a constant currency increase in revenue of 4 per cent, with growth achieved in milk powder and beverages. Improved product mix, along with product innovation and higher volumes in higher margin products such as mature cheese contributed to the result.

Strategy Refresh
During the year, Fonterra completed a review of its business strategy and reorganised the business to align with its Strategy Refresh. The Strategy Refresh is now being deployed via approximately 90 projects, each aimed to deliver higher volumes and value for the Co-operative. Restructuring costs of $30 million associated with this re-organisation were included in the current year result.

The Co-operative is targeting to reduce operating expenses by $90 million, and is aiming to deliver $60 million of this amount in the 2013 financial year.

Global Situation

Fonterra announced in August a forecast Farmgate Milk Price for the 2012/13 season of $5.25 per kilogram of milksolids. While there has been a combined increase of 9 per cent over the last two GDT events, the recovery had been expected and was partly offset by further appreciation of the NZ dollar versus the US dollar.

(Note: Fonterra is working towards the launch of Trading Among Farmers later this year and is in a "blackout" period until the release of its prospectus. Accordingly, the Co-operative will not be updating its earnings forecast at this time.)

- ENDS -

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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.*

[1] Normalised earnings before interest and tax, adjusted for non-recurring items.

Reconciliation of Normalised EBIT to net profit after tax

	$ million
Normalised EBIT	**1028**
Impairment losses recorded in equity accounted investees	-8
Restructuring costs associated with the Group Strategy Refresh	-30
Other	-3
Total non-recurring items	-41
EBIT	**987**
Net interest expense	-310
Tax expense	-53
Net profit after tax	**624**

[2] Calculated as net profit after tax attributable to Co-operative Shareholders divided by the number of shares at 31 May 2012, less dividend per share.
[3] Gearing is measured as economic net interest bearing debt over net interest bearing debt plus equity (reflecting the effect of debt hedging in place at reporting date). Equity excludes the cash flow hedge reserve.
[4] Total sales volumes, including inter-segment.