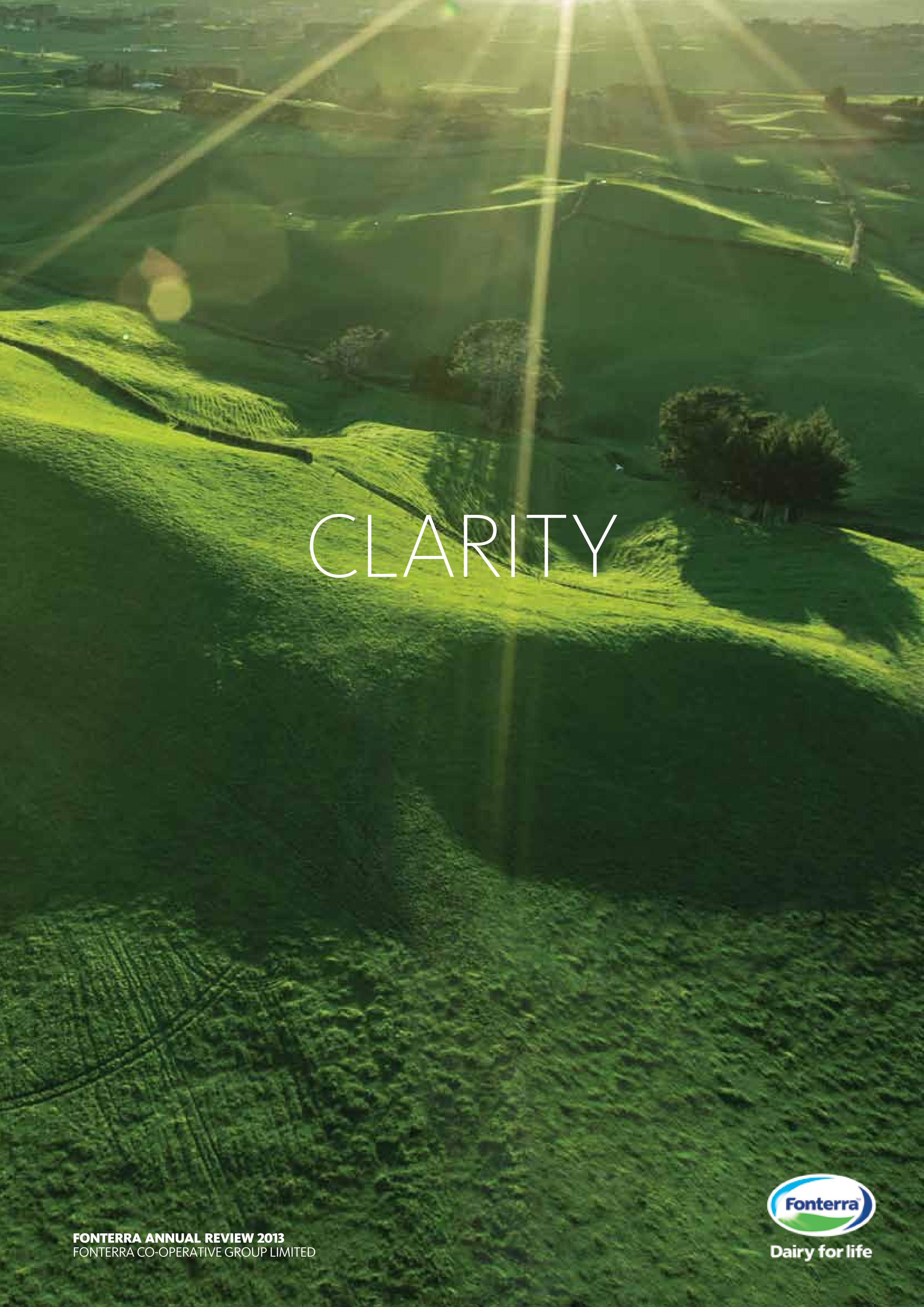


CLARITY

FONTERRA ANNUAL REVIEW 2013
FONTERRA CO-OPERATIVE GROUP LIMITED

COMMITMENT

Contents

Being a world-class leader in food quality and safety takes both courage and commitment; courage to make the hard calls, commitment to keep getting better.

We're a business built on trust – in our people and in our products. When we believe we have any risk to consumer safety, no matter how minute, we protect that trust by protecting people.

This year we did the right thing with our product recall and we would do it again without hesitation. Looking back, we've done things right but we also could have done things better. This is where our commitment to keep getting better comes into play.

We have complete clarity about what we need to do. Fonterra will be a co-operative known for our transparency, our high levels of food safety and quality and the trust shown in us by customers and consumers. That's our commitment.

Fonterra
Dairy for life

LETTER FROM **THE CHAIRMAN**

This year has been a test of our resilience. After an outstanding first half for both production and performance, our Farmer Shareholders were hit by the widespread and, in places, extreme drought across New Zealand.

FINAL CASH PAYOUT

$6.16

FARMGATE MILK PRICE

$5.84 /kgMS

ANNUAL DIVIDEND

32 cents per share

As farms and farmer confidence began to recover through autumn with a generally mild winter, we were then faced with our whey protein precautionary recall.

The drought meant a drop in production of nine per cent in the second half of the Season, with milk supply for the full year down two per cent to 1,463 kgMS. It hit our farmers hard, both physically and financially. With our stronger capital structure we were able to utilise our Co-operative's financial strength to help our farmers through the drought's immediate impact by raising the Advance Rate we pay for their milk.

We paid a final Cash Payout to our 100 per cent shared up Farmer Shareholders of $6.16, comprising the Farmgate Milk Price of $5.84 per kgMS and a stable dividend of 32 cents per share.

This final Cash Payout is higher than our forecast made at the beginning of the Season, but the financial pressure on-farm during the drought means few Farmer Shareholders will be enjoying a strong budget surplus for the 2012/13 Season.

Lower dairy commodity prices over the first half of the year, followed by the drought, saw revenue fall by six per cent to $18.6 billion. We delivered a net profit after tax of $736 million, an increase of 18 per cent on the prior year. Earnings per share were up seven per cent to 44 cents per share.

We ended the year with a strong balance sheet, with a debt to debt plus equity ratio of 39.6 per cent compared to 39.1 per cent in the prior year.

The slight increase is attributable to the higher Advance Rate paid to our farmers to assist them during the drought. This balance sheet strength enabled us to confidently invest for growth, including total capital expenditure of $925 million. This included completing our greenfields Darfield site. These investments ensure we continue to provide new capacity and meet demand for high value products.

A Sense of Perspective

As we set about strengthening our reputation post our precautionary recall, it is important to apply some perspective and take the long-term view, an approach that is fundamental to our farmers.

Without downplaying the events in any way, it is important to acknowledge that fears for the worst did not happen. We saw confidence in Fonterra displayed in the GlobalDairyTrade events after the precautionary recall. Prices rose and record sales volumes and revenues were achieved with 109,664 tonnes selling for $685 million in August. Two very strong results don't make a long-term trend given commodity markets are volatile, but we are optimistic about demand patterns as we look out over the first half of the new Season.

"**Without downplaying the events in any way,** it is important to acknowledge the fears for the worst did not happen. We saw confidence in Fonterra displayed in the GlobalDairyTrade events after the precautionary recall."

“We provided additional flexibility to encourage milk growth through new milk supply contracts.”

We have a strong Co-operative and an equally strong track record. Generations of farmers have built up a reputation for the quality of milk produced in New Zealand and exported to the world. We have kept true to our values, refusing to take risks with public safety.

At the same time it is important that we continue with our reviews and use them to bring new levels of discipline and strength to our Co-operative. The thorough internal inquiry instigated by our Chief Executive is completed and an action plan is already in place.

The Board is also undertaking its own independent inquiry. We have also indicated our full co-operation with the New Zealand Government's Joint Ministerial Inquiry which will take place over a longer timeframe. With all reviews there is an opportunity to learn.

This includes examining the events from a wider New Zealand perspective. We have an agriculturally dependent economy, with dairy the lead contributor, and agriculture will remain the backbone of our economy for the foreseeable future. As a country we must develop new technology-based export industries, but we must also celebrate and safeguard the role of the pastoral sector, especially given a world where food demand is growing rapidly.

The expectations of consumers and customers are growing rapidly. China is an excellent example. Consumers there are rapid adopters of technology and trends, often leapfrogging ahead of consumers in more mature markets when it comes to embracing change.

We need to be just as forward-looking in our market approach. This is not simply about getting food on the table and it would be a mistake to think so. We're not the only country to see China as a significant growth opportunity. There is significant competition out there, and we need to earn and maintain a reputation for being smart as well as safe producers of food.

The dairy industry, along with the other primary food industries, can do this. As we take a smarter approach to our new growth markets, the reputation we have built up for food safety and quality, which will become increasingly important, must still be protected. As sectors achieve new levels of safety and traceability, regulators need to conclusively confirm this to their global counterparts. Market access cannot be taken for granted and regulatory frameworks must reflect global expectations.

New Zealand has successfully negotiated valuable regional and bilateral trade agreements. Keeping those market doors open needs constant attention as consumers look to their governments to ensure the food on their tables is safe.

The markets of South East Asia, Middle East, Africa and China provide us with new opportunities. It is critical that together we ensure industry and government resources are in place to ensure that we can stay ahead of the rapidly evolving demands of consumers in the developing markets.

Our Stronger Capital Structure

We now have a very real asset in our capital structure and this came into its own during the financial year.

We saw the successful launch of both the Fonterra Shareholders' Market and the Fonterra Shareholders' Fund. The Fonterra Shareholders' Market brought in greater flexibility, with farmers able to buy and sell Shares throughout the year at the prevailing price.

Meanwhile, the response to the Fund from both institutions and smaller investors, was a genuine expression of confidence in the Co-operative and our performance.

We have seen the good levels of liquidity required for a successful market. This in turn led to strong price discovery which gave us the confidence to proceed with a Bonus issue and a successful Supply Offer.

This provided farmers with additional flexibility in managing their own farming businesses.

We provided further flexibility to encourage milk growth through new milk supply contracts. These include the option for Farmer Shareholders who want to grow to take advantage of different, staged payment options for Shares. We hold to the principle of shares backing milk, but we are now able to give more time for farmers to have fully backed production. Expect to see more of this flexibility going forward.

Sustainability Leadership

Fonterra continues to take the lead in encouraging and supporting our Farmer Shareholders' efforts in sustainable farming.

A national roadshow in April, undertaken in partnership with DairyNZ, saw some 1,500 farmers turn out to talk about changing market expectations, the importance of sustainability and the support being provided by their Co-operative.

> Farmers have made a significant investment in recent years in upgrading farm systems, fencing and riparian planting, and providing bridges or culverts for herd crossings to protect waterways.

Our farmers deserve credit and they also deserve advice and support from us which is straightforward and accurate. They also need realistic timeframes in which to get work done to meet sustainability goals.

Our Supply Fonterra programme, with its environmental, food integrity and animal welfare components, is helping farmers to identify sustainability risks, achieve compliance with regional rules and to future proof their farm systems. The standards set in the programme mean our Farmer Shareholders are well placed to meet the new water protection goals laid out in the Sustainable Dairying Water Accord.

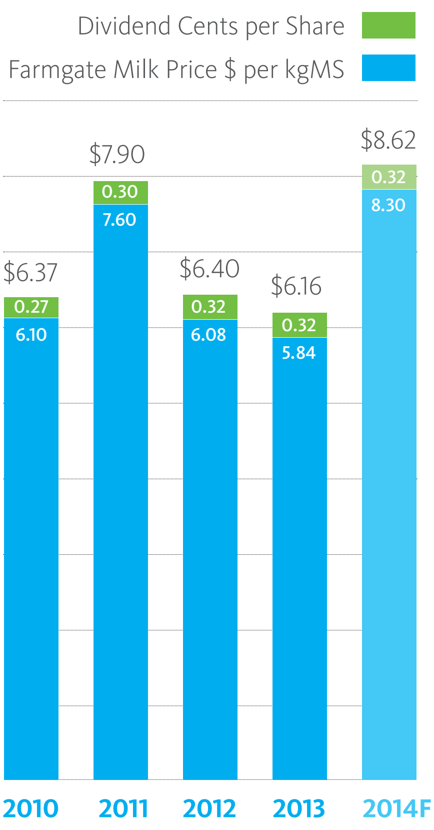
We are increasingly working in partnership with our Farmer Shareholders and we bring this same approach to our community initiatives. An excellent example of this is our Fonterra Milk for Schools programme. By April 2014 we will have completed the national rollout of this. A real highlight of the rollout has been the enthusiasm of our Farmer Shareholders who have got involved visiting schools to coincide with their first milk deliveries and hosted children on farms.

Forecast Reflects Confidence

Following our September Board meeting, we announced a lift in our Forecast Farmgate Milk Price for the 2013/14 Season of 50 cents to $8.30 per kgMS.

The increase – along with an estimated dividend of 32 cents per share – amounts to a Forecast Cash Payout of $8.62 for our 100 per cent shared up Farmer Shareholders. It reflects the continuing strong international prices for dairy. While we do expect volatility and the Forecast Cash Payout could move up or down over the coming months, this Season is highly likely to produce a strong payout to our farmers.

CASH PAYOUT



Acknowledgements

It is important to pay tribute to Sir Henry van der Heyden and Ralph Waters who retired as Directors during the year.

Sir Henry stepped down as Chairman in December after 11 years of service to Fonterra. His clear sense of direction and his complete faith in the concept of a single united Co-operative helped Fonterra through its crucial formative years and saw us emerge as a strong, integrated and successful Co-operative. Under his leadership, our Farmer Shareholders have seen their investment in dairying grow and the Co-operative successfully pursue its Volume and Value strategy.

Ralph Waters joined the Fonterra Board in July 2006 as an Appointed Director. He brought to the table all the qualities we seek in an Appointed Director; a wide and experienced view of global business and governance, a sharp intellect and genuine commitment to seeing Fonterra reach its considerable potential. We have all gained from his knowledge and wise counsel.

As Farmer Shareholders we owe them both a debt of gratitude and we wish them both well as they take on fresh responsibilities.

We have welcomed two new Directors to our Board this year. Blue Read, a dairy farmer from Urenui was elected to the Board by Farmer Shareholders. Blue brings significant knowledge of our industry through his past leadership experience which included being Chairman of the Co-operative's Shareholders' Council.

Simon Israel, joined the Board as an Appointed Director and his appointment will need to be ratified by Farmer Shareholders at the Annual Meeting. Simon has more than 30 years experience in Asian consumer and financial businesses and his invaluable knowledge is a real asset to the Board, as Fonterra pursues our business strategy with its emphasis on emerging markets.

It is equally important to acknowledge the support given to us by our Farmer Shareholders. It has been a big year and the unity and support of our farmers has allowed us to deal with the issues while continuing to deliver our strategy.

Our unity is a real strength. It makes us unique and having a shared ambition for our Co-operative will contribute to our long-term success.

During my time in market in recent weeks, both customers and regulators have expressed a genuine understanding that Fonterra will never take risks with consumer safety. They have shown a growing confidence in our ongoing commitment to having the best food safety and quality systems.

In the immediate future we have a real opportunity to bring new levels of discipline to our food safety and quality systems. This will be a defining moment for us and our future success.

JOHN WILSON
CHAIRMAN OF THE BOARD


V² Strategy
Volume
Value
Velocity

LETTER FROM THE **CHIEF EXECUTIVE**

What a difference a drought makes. In the first six months of our financial year we were right on the mark with volume and value growth, with increased milk production and sales volumes, good margins being achieved over commodity benchmarks and more export records achieved.

> **"Even with the tough second half,** we recorded a net profit after tax of $736 million."

THEO SPIERINGS
CHIEF EXECUTIVE

As we celebrated an outstanding first half however, the widespread New Zealand drought deepened in the second half, with conditions confirmed as some of the most extreme on record and the worst since 1945.

As a result, the drought affected our second-half earnings even as we continued to make good headway on strategy then, on the final day of our financial year, 31 July, we saw test results returned which triggered our precautionary whey protein concentrate recall.

That single day and the subsequent events both had a real impact and I'll talk about that later in this letter, but it's equally important to put it in the context of our full year's results.

> Our final Cash Payout of $6.16 per share for a 100 per cent share-backed Farmer Shareholder, while higher than forecast at the beginning of the Season, reflects the difficult second half. It comprises the Farmgate Milk Price of $5.84 per kgMS and a stable dividend of 32 cents per share.

The drought meant lower milk production, affecting Farmer Shareholders' incomes, especially those drying off early to maintain the condition of their herds. Backed by our strong balance sheet and operating cash flows, we were able to mitigate the impact by increasing the Advance Rate paid to farmers for milk. The improved Advance Rate, together with an improvement to the forecast Farmgate Milk Price since the start of the year, meant that, on average, Farmer Shareholders received around $100,000[1] earlier in the season.

Our milk volumes for the year were down two per cent to 1,463 million kgMS. Exceptional autumn production in the 2011/12 Season which helped our inventory position meant the drop in milk volumes was mitigated slightly in market. As a result, we had a modest one per cent increase in our total NZ Milk Products sales volumes of 2.8 million metric tonnes.

Our good performance in Asia/Africa Middle East (Asia/AME) and Latin America was offset by a weaker second half from NZ Milk Products and the Australia/New Zealand consumer business. The combined impact of the drought, losses on liquid milk and tough market conditions in Australia meant normalised EBIT, at $1 billion, fell three per cent short of last year. Earnings also benefitted from a tax credit of $68 million which was primarily due to the reassessment of deferred tax balances and recognition of New Zealand tax losses.

The net result was that, even with the tough second half, we recorded a net profit after tax of $736 million, up 18 per cent compared to the prior year on revenue of $18.6 billion which was down six per cent compared to last year.

1 As at June 2013 compared to the opening advance rate schedule.

OUR NET PROFIT FOR THE 2013 YEAR

$736M

ASIA/AME BECOMES OUR LARGEST CONSUMER BUSINESS BY NORMALISED EBIT

↑15%

We delivered a seven per cent increase in earnings per share.

Earnings per share was 44 cents after taking into account our 1:40 Bonus issue, with normalised earnings per share[1] being 47 cents per share up nine per cent compared to last year.

The year also saw our Co-operative working with the benefits of permanent capital, as Trading Among Farmers became part of our business-as-usual way of operating. Permanent capital helped protect our Co-operative against redemption risk, especially relating to the drought, and has given us a solid foundation to invest in our Volume and Value growth strategy.

We lived up to promises made to our communities, launching the national rollout of Fonterra Milk for Schools. The programme provides each child with a free pack of chilled Anchor™ Lite UHT Milk during the school terms.

By April 2014 we will have completed the national rollout. We have 350,000 year 1–6 (primary) children at more than 2,000 schools eligible and more than 75 per cent of schools have indicated their interest.

We also extended our KickStart breakfast partnership with Sanitarium in low-decile schools and entered into our $20 million partnership with the Department of Conservation (DOC). The 10-year programme with DOC will make a meaningful difference to the water quality at five sites near Fonterra's farms and factories. We have made good progress in a short timeframe.

Precautionary Recall

As we drive forward on strategy, we also have important work to do following the precautionary recall we made in August 2013. I am determined both will run in parallel.

Doing what's right is one of our Co-operative's values. We did the right thing at the beginning of August by calling for a precautionary recall of a small batch of our whey protein product, triggered by elevated levels of sulphate reducing clostridia (SRC).

This was a potential food safety issue. Although we believed the risk of botulism was minute – one in millions – the odds don't matter when it comes to public safety, and especially the safety of children.

We escalated our concern. With the support of our customers and regulators, most products containing the whey protein were recalled within 24 hours, and the rest within 72 hours.

We received confirmation at the end of August that additional testing by the Ministry for Primary Industries definitively confirmed that there was no Clostridium botulinum in our whey protein concentrate. In short, the ingredient was never a health risk.

1 Normalised earnings per share is calculated as net profit after tax adjusted for normalisation adjustments, divided by the weighted average number of Co-operative Shares on issue. The normalisation adjustments are tax effected.

“As we drive forward on strategy, we also have important work to do following the precautionary recall. I am determined both will run in parallel.”

While we are very relieved by the news, it does not change our view that the actions we took were the right ones based on the information we had at the time. That information dictated there was no other responsible course of action than a precautionary recall. Faced with the same information, and in the same circumstances, I would do the same thing again.

As many of you know, I am very familiar with China and China is our number one market. The word crisis in Chinese means opportunity as well as risk. I believe we have that opportunity.

We have an opportunity to make a change for the better. I am leading that work, right now. We have three areas; review, rebuild and restore reputation.

Our Operational Review, which I commissioned to find out what happened and why, concluded that no single occurrence led to the recall and the events that ensued, and that no single issue was the sole contributor. Instead, we had a series of separate and unrelated incidents that occurred in an unforeseen sequence.

The review confirmed we have robust food safety and quality systems. It also showed we have a clear commitment to consumer safety.

It identified some shortcomings around elevating food safety concerns to me earlier, but it also confirmed that Fonterra's staff acted conscientiously on new information, and generally sought to do the right thing.

We are now implementing the review's key findings which cover 20 recommendations. Underway is a significant programme of work, to enable Fonterra to take a leadership position in product traceability and food safety and quality in the global food and dairy industries.

Although the 'all clear' has been given on the safety of our recalled product, this is not the time for us to heave a sigh of relief and go back to business as usual. That would mean a missed opportunity for the Co-operative to step up and become stronger as a result of what has happened.

We have a great opportunity to effect positive change. We won't drop the ball in running the business and looking for new opportunities. We already know our current priority areas for reshaping and work is well underway.

As we do this, we won't lose sight of the strength we have in our integrated business. In fact we need to have integration as a stronger part of our culture. Thinking, acting and working as One Fonterra will ensure better decision making, greater collaboration and a combined focus on the future.

Action Plan

A solid plan is in place with three clear stages.

Review

↓

Rebuild

↓

Reputation

“**We have an opportunity to make a change for the better.** I am leading that work, right now. We have three areas: review, rebuild and restore reputation.”

Anchor™ UHT launched in China promoting New Zealand's strong farming heritage.

Volume, Value, Velocity – Strategy for Growth on Track

Our V3 strategy aims to grow both volumes and value in our ingredients and consumer businesses.

In ingredients, we aim to sell more volume at prices higher than commodity benchmarks by providing additional benefits to customers in order to gain a price premium. Through our growth strategies in the foodservice, everyday nutrition and advanced nutrition categories, we are growing value returns, as we grow sales volumes.

Our good progress this year shows we have a strategy which is delivering the results we want in our priority areas. A good example is our Asia, Africa and the Middle East consumer business. It is now our largest consumer business by normalised EBIT, achieving a 15 per cent increase in normalised EBIT to $209 million. Across Asia, the Middle East and North Africa we have achieved 21 per cent normalised EBIT growth in everyday nutrition, six per cent growth in advanced nutrition and 45 per cent growth in foodservice.

Our Greater China operations spanning China, Hong Kong and Taiwan, continue to deliver on the promise we identified when we made it a priority area for Fonterra.

We again achieved double digit normalised EBIT growth this year, helped by China foodservice growth of 28 per cent. Our foodservice rollout to second and third tier cities is on track, with foodservice growing from 12 to 19 cities across China, achieving volume growth for bulk butter, UHT cream and cheese.

Our China consumer business has also experienced volume growth as we invest in our brands. As a result, our Anlene™ brand sits at number one in both Shanghai and Guangzhou. Our market share has risen in Jiangsu and we have successfully introduced Anlene™ into Chengdu and Chongqing. We also launched our new Anchor™ UHT milk in China and we believe that there is significant potential to grow this brand over the coming years.

We continue to make good progress developing our integrated business model in China. Milk volumes sold by our China Farms increased to 61,000 metric tonnes with our Yutian 1 farm near capacity and our Yutian 2 farm commissioned. Yutian 3 and 4 are likely to be commissioned later this calendar year.

We invested $48 million in China Farms this year and post balance date announced a second farming hub to be developed at Ying County, Shanxi Province.

Its development is in line with our strategy to produce one billion litres of milk in China by 2020.

While our precautionary recall did have an impact in China, our work to date with government officials, the media and customers gives us confidence that we are right to remain committed to this market and our place in it.

We made a stand on public safety which was completely the right approach and we now need to reinforce that this is always our number one priority, so consumers can have continued confidence. We're in an industry which takes the long view, something which sits well with the Chinese view around the value of long-term relationships. All relationships get tested occasionally, but when you act honestly, they tend to emerge stronger for that. That is our aim in this valued market.

In Latin America, normalised EBIT for Soprole rose 31 per cent to $109 million. These results come from further volume growth with sales up six per cent and revenue from them up 12 per cent to $1.1 billion. We do well in everyday nutrition in this market, earning our space in the family fridge through innovation which sees new products accounting for almost 30 per cent of revenue.

Foodservice, as a whole, shows us meeting our goal to deliver on our potential in this rapidly growing area.

The foodservice category includes full and quick service restaurants, institutions, hotels, bakeries and airline catering facilities. With demand for "out-of-home" meals increasing annually, we expect our sales in this category to grow further.

We have grown this business through innovation such as successfully integrating with commercial kitchens. Our chefs work alongside customers' chefs to develop products and menus. These generate sustainable, profitable demand across a full range of dairy categories including creams, butter, ghee, cheeses and milk. This integration strategy is not confined to emerging markets. In Australia, where foodservice is a $12 billion industry, we have built ourselves a 25 per cent market share of the foodservice dairy category and rank as the number one supplier. We have also profitably expanded our foodservice operation in the United States.

We continued to see tough Australian market conditions which impacted our performance with normalised EBIT for Australia and New Zealand dropping 37 per cent to $142 million.[1]

We expect the reshaping of our Australia business will, over time, turn performance around. The New Zealand consumer business performed well with a continued focus on innovation to drive volume and value growth.

Operating expenses were forecast to increase by seven per cent this year, but with a focus on cost saving through various initiatives, we managed to hold the increase in operating costs across the group to only one per cent compared to last year.

Foodservice Chef Peter Wright supervising Rhys Barrington.

Operating and other expenses were $63 million lower than the forecast in the prospective financials as a result of savings made. In addition, selling and marketing expenses, although 10 per cent higher than last year, were well below our forecast as a result of more targeted advertising and promotional spend in consumer markets.

We optimised our working capital to reduce average days by eight to 98 days. This excludes Farmer Shareholder payables. The impact of this is that the average trade working capital reduced by $400 million compared to last year driven by our focus on converting inventory into cash faster.

We are making solid progress and we are confident we are on the right track.

1 Normalisation adjustments in Australia relate to $30 million in costs associated with the planned closure of the Cororooke site in Australia, $7 million relating to brand impairments as part of Fonterra's global brand strategy and restructuring costs of $8 million as we right-sized the business

Resourced for Growth

A mild winter, spring underway and some very good production conditions on-farm all point to a flying start to the 2013/14 Season.

Our investments over the financial year mean we've resourced up to accommodate both milk growth and demand growth. That is very much in line with our first strategic priority to make the most of the milk produced by our Farmer Shareholders in New Zealand.

When we invest, it's all about creating more capacity resources to meet growing market demand for high value products such as UHT milk and high volume products such as powders.

This year we have invested $925 million building production, manufacturing and supply chain capability to make the most of our New Zealand milk and developing our China Farms.

Darfield Drier Two, the biggest milk powder drier in the world, came on stream in August 2013 as we wrapped up development of our Darfield site in the milk growth region of Canterbury. The full development involved around $500 million in capital investment, growing our total annual production capacity by 220,000 metric tonnes.

We acquired the former NZDL Studholme plant in South Canterbury, increasing our daily Canterbury capacity by around 840,000 litres. Studholme is a smart acquisition and is a natural complement to our Darfield site and we have optimised its processing performance.

Darfield Drier Two, the largest milk drier in the world, came on stream in August 2013.

With UHT milk more commonly consumed than fresh milk in emerging markets, particularly China, our $126 million investment in a new UHT plant at Waitoa will meet demand in Asia with supply from the Waikato.

The new plant, to be progressively commissioned from March to May 2014, will increase our UHT production by 50 per cent over the next few years. The plant will include five new UHT lines that will produce a range of products including UHT white milk and the UHT cream products increasingly in demand from the foodservice sector. A new distribution centre will also be commissioned.

In the Netherlands, we are making progress with the development of a new cheese and dairy ingredients plant in a $144 million partnership with the A-ware Food Group. We have increased the manufacturing capacity of this joint venture by 25 per cent since it was first announced.

INVESTMENT IN EUROPE

$144M

Leadership Strength

To achieve speed and focus with our strategy and with our reshaping, we must have all our people working on the right priorities and our capital invested in the best growth opportunities.

We have reshaped our group support to remove duplication, flatten management layers and bring in even higher levels of accountability for progressing our priorities. Our new structure has us even more sharply focused on the activities connected with our strategy and our markets.

Key leadership appointments have invigorated and diversified the management team. In addition to the appointment of Judith Swales as Managing Director Australia, we have Lukas Paravicini joining as Chief Financial Officer and Jacqueline Chow as Managing Director of Global Brands & Nutrition, effective from the new financial year.

They join a strong, dedicated management team. We will bring all our collective energy to achieving the volume and value goals we set for the business in the coming year, to get the best performance out of our Co-operative.

Outlook

We have a Forecast Cash Payout of $8.62 for the new season, comprising a Farmgate Milk Price of $8.30 per kgMS and an estimated dividend of 32 cents per share. To deliver, we need to build on the good progress we made last year.

Our new forecast reflects continuing strong international prices for dairy, but it also represents some headwinds, especially in the first half of the 2014 financial year where we expect earnings will be significantly lower than the strong performance delivered in the first half of 2013.

To turn volume into value we have to keep earning prices that are better than the commodity benchmarks and we're currently seeing those benchmarks rise.

This trend will make it more difficult to drive value growth, especially across our consumer and foodservice portfolios in the first half of the financial year.

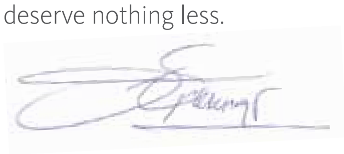
We also expect to see a negative impact on our product mix returns during the first half of the 2014 financial year as milk powder prices significantly outpace the relative prices of cheese and casein. It is difficult to predict when this extreme volatility on product mix will reverse, but expectations are that the impact is likely to be short-term.

Prospects for the second half look more positive for our consumer businesses, but remain uncertain for NZ Milk Products. We are looking through the current volatility and our estimated dividend of 32 cents per share is unchanged. We believe we can draw upon our balance sheet and cash flow strength to support the estimated dividend.

We continue to have confidence in our Volume and Value strategy in our key markets.

Looking ahead, the prospects for dairy look positive and our growth ambitions remain unchanged.

We strive to achieve the absolute best returns for our Shareholders who deserve nothing less.

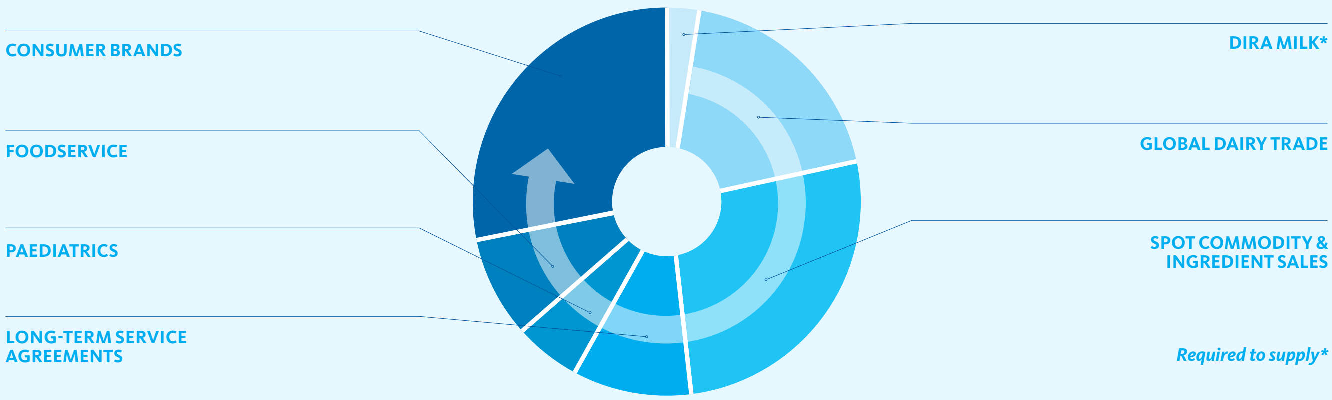


THEO SPIERINGS
CHIEF EXECUTIVE

Driving the Wheel

Adding value to our New Zealand milk pool

Each year Fonterra collects around 17 billion litres of milk in New Zealand. Our Strategy is to increase earnings by driving more milk volume into higher value uses.



This diagram shows at a glance how we add value to the volumes of milk and dairy products we sell. At the most basic level milk is supplied to competitors under the Dairy Industry Restructuring Act (DIRA), effectively at cost as the price paid is based on our Farmgate Milk Price. From there, we aim to add value around the wheel.

First, we continue to aim to grow business-to-business volumes at a premium to the GlobalDairyTrade benchmarks. Premiums are earned through additional benefits to customers such as service, supply or technical agreements. We increase value further in commodities and ingredients through long-term supply agreements, both within the business to our consumer operations and outside of it – e.g. supermarket chains or companies selling branded liquid milk.

We generate further value on sales volumes through third-party manufacturing in paediatrics, where we secured new contracts in the financial year and grew our manufacturing capacity in Australia. Value on volume increases even further in foodservice. Here we successfully generate value as we lift both sales volumes and earnings. Finally, the wheel is completed by growing consumer volumes, given the margins we command on our premium products.

Underpinning the volume and value cycle is a cost base aligned to strategy and a continuous drive to lock in working capital improvements.

FOCUSING ON PERFORMANCE

VOLUME

NZ MILK PRODUCTS SALES VOLUME

↑1%

AUSTRALIA & NEW ZEALAND[1]

↓2%

ASIA, AFRICA & MIDDLE EAST

↑11%

LATIN AMERICA

↑6%

VALUE

FINAL CASH PAYOUT

$6.16 ↓4%

NORMALISED EBIT

$1,002M ↓3%

NET PROFIT AFTER TAX

$736M ↑18%

EARNINGS PER SHARE

44CPS ↑7%

Fonterra refers to normalised segment earnings, normalised EBIT, EBIT, EBITDA, constant currency variances, normalisation adjustments and Payout when discussing financial performance. These are non-GAAP financial measures and are not prepared in accordance with IFRS. Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They are used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with IFRS. Please refer to page 79 for the reconciliation of the NZ IFRS measures to the non-GAAP measures and to page 82 for definitions of the non-GAAP measures used by Fonterra.

1 Excluding Norco divestment.

NORMALISED EBIT

$1BN[1]

1 Includes Eliminations of $20 million.

GROUP OVERVIEW

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2013	YEAR ENDED 31 JULY 2012	CHANGE
Volume ('000 MT)	**3,958**	3,941	
Revenue	**18,643**	19,769	(6%)
Gross margin	**3,032**	3,048	(1%)
Gross margin percentage	**16.3%**	15.4%	
Operating expenses	**(2,256)**	(2,238)	1%
EBIT	**937**	987	(5%)
Normalised EBIT	**1,002**	1,028	(3%)
Normalised EBIT percentage	**5.4%**	5.2%	
Normalised EBITDA	**1,532**	1,520	1%
Net profit after tax	**736**	624	18%
Earnings per share (cents per share)	**44**	41	7%
Milk collected 2012/13 Season (million kgMS)	**1,463**	1,493	(2%)
Operating cash flows	**997**	1,390	(28%)
Investing cash flows	**(868)**	(826)	5%
Debt to debt plus equity ratio	**39.6%**	39.1%	
Return on Capital Employed	**8.8%**	9.3%	

"**Earnings per share was up seven per cent to 44 cents,** with normalised earnings per share being 47 cents per share."

REVENUE

$18.6BN

Volume

Total sales volume growth was flat compared to last year, but volumes increased in all business units excluding Australia and New Zealand. Sales volume was up one per cent in NZ Milk Products, 11 per cent in Asia, Africa and the Middle East (Asia/AME) and six per cent in Latin America (Latam). This was offset by lower volume in Australia and New Zealand.

Value

The Group recorded a net profit after tax of $736 million, up 18 per cent compared to the prior year, with revenue of $18.6 billion which was six per cent lower than last year. The combined impact of the drought and our reshaping programme in Australia meant we fell short of our Prospectus normalised EBIT forecast of $1.1 billion, achieving a normalised EBIT of $1 billion.

Market conditions had an impact on earnings from NZ Milk Products with normalised EBIT one per cent lower and resulted in a 37 per cent decline in normalised EBIT in Australia and New Zealand where reshaping of our Australian operations continues. However, we made good progress with our Volume and Value strategy during the year, especially in foodservice, everyday nutrition and advanced nutrition and this is reflected in the strong performance from our Soprole business in Chile and the EBIT growth across all dairy platforms in Asia/AME.

The key normalisation adjustments for the 2013 year were the $30 million in costs associated with the planned closure of the Cororooke site in Australia and $38 million in costs related to the Group's right-sizing strategy in Australia and New Zealand, Asia/AME and NZ Milk Products.

We made good progress with our Volume and Value strategy during the year, especially in foodservice.

Operating expenses were up one per cent to $2.3 billion mainly as a result of an increase in selling and marketing expenses in China to support the Anlene™ roll out and the launch of Anmum™ paediatric powders and Anchor™ UHT milk, and higher distribution costs in Latam due to volume growth. This was offset to some extent by targeted cost savings initiatives.

The result includes a provision of $14 million to cover inventory affected by the precautionary recall of our WPC80 product in August 2013.

Normalised EBITDA increased one per cent to $1,532 million. Depreciation and amortisation both increased during the period as a result of recent growth in capital expenditure.

Net finance costs were $41 million lower than last year mainly due to the benefit of an increase in fair value gains from fixed interest rate hedging and the lower cost of funding. Earnings also benefitted from a tax credit of $68 million which was primarily due to the reassessment of deferred tax balances and recognition of New Zealand tax losses.

Earnings per share[1] was up seven per cent to 44 cents after taking into account the Bonus issue, with normalised earnings per share being 47 cents per share.

NET PROFIT AFTER TAX

↑18%

1 Normalised earnings per share is calculated as net profit after tax, adjusted for normalisation adjustments, divided by the weighted average number of Co-operative Shares on issue during the year. The normalisation adjustments are tax effected.

GROUP OVERVIEW CONTINUED

"**The new capital structure has addressed redemption risk,** and has ended the flow of funds in and out of the Co-operative at the end of each Season."

STRONG BALANCE SHEET

39.6%

DEBT TO DEBT PLUS EQUITY

CAPITAL EXPENDITURE FOR THE YEAR

$925M

Balance Sheet and Cash Flow

Operating cash flow benefitted from both lower collection volumes and Farmgate Milk Price, but this was more than offset by the earlier payments to our farmers with the result that operating cash flow was lower than last year. This change in the Advance Rate schedule was also the key driver for the slight increase in gearing at year end to 39.6 per cent compared to 39.1 per cent last year.

Although the change in the Advance Rate schedule had an impact on cash flow and balance sheet, it did not have a material impact on earnings.

Average working capital days reduced to 98 days excluding Farmer Shareholder payables. This meant that average trade working capital reduced by $400 million compared to last year driven by converting inventory into cash faster.

Capital expenditure was $925 million for the year with the major spend being on our new processing plant at Darfield and investment in China Farms.

Capital Structure

The financial year ended 31 July was the first in which Fonterra operated under our new capital structure, including Trading Among Farmers.

The structure, ratified by Farmer Shareholders in June 2012, addressed redemption risk. It has ended the flow of funds in and out of the Co-operative at the end of each Season with farmers redeeming or buying shares to match supply.

Its ratification enabled the introduction of the Fonterra Shareholders' Market and enabled external investors to participate in our performance through Units in the Fonterra Shareholders' Fund.

Developments under Trading Among Farmers included:

- The February 2013 Bonus issue of one Share or Unit for every 40 held on 12 April 2013. The Bonus issue gave farmers options made possible by Trading Among Farmers, including using the bonus shares to back current or future production increases, holding them as a "dry shares" investment or selling them to free up cash.
- A second Supply Offer, announced in February in which around 20 per cent of our Farmer Shareholders participated, offering to sell a total of $596 million Economic Rights to shares at the final price of $7.92. The response was such that the offer was scaled to 80 per cent on a pro-rata basis. There was no change in the number of Units on issue in the Fund as a result of the Supply Offer, but the total number of shares on issue was reduced by 60 million.
- No drought-related capital outflows, confirming redemption risk has been addressed. This contrasts with the drought of 2008 that saw $742 million outflow of capital from the Co-operative as farmers redeemed shares. Fonterra had to borrow at high interest rates in the volatile debt markets during the global financial crisis to fund those redemptions.

Major investment in infrastructure continues.

NZ MILK PRODUCTS

NZ Milk Products comprises the core New Zealand milk supply chain from collection, manufacturing and logistics through to the end sale of dairy products to business customers and the Fonterra regional businesses. It also includes international milk sourcing, dairy nutrition-related joint ventures and the Co-operative's corporate activities.

Volume

MILK PRODUCTION

New Zealand milk collection of 1,463 million kgMS for the Season[1] was two per cent lower than last Season mainly due to the drought which significantly impacted milk production from March to May in many parts of the country.

At the half year, milk collection was up six per cent compared to the same period last Season.

This was due to excellent spring and early summer growing conditions across most of the country leading to robust growth in New Zealand dairy production.

In the second half of the Season milk collection was down nine per cent compared to the same period last year as the drought quickly deteriorated pasture conditions from March to May 2013 across New Zealand. Some regions experienced the worst drought in 70 years and significant rainfall did not occur until mid April 2013 resulting in many of our farmers drying off herds much earlier than in previous seasons.

Consistent rainfall and above average temperatures from mid April through to late May improved conditions in many drought impacted regions in New Zealand. However milk supply across the country for May and June was lower than last Season reflecting lower cow numbers milking through to the end of the Season compared to last year.

SALES VOLUME

Although milk collected was two per cent lower than last Season, total sales volume was one per cent higher than the prior year with 2.8 million metric tonnes of dairy product sold. Volumes were driven by a high opening inventory position as a result of the exceptional autumn production in the 2011/12 Season and lower closing inventory at year end.

1 The term Season refers to 1 June 2012 to 31 May 2013.

Value

Normalised EBIT of $494 million was one per cent lower than last year. In the first half NZ Milk Products delivered a strong performance on the back of price premiums, product mix, cost savings and productivity gains.

In the second half, unprecedented volatility caused by the extreme drought had a negative influence on earnings. The drought contributed to a spike in Whole Milk Powder (WMP) prices which were up 64 per cent from 2 January to 16 April 2013 peak price. This had a significant impact on the cost of milk purchased by NZ Milk Products.

The key contributor to the lower normalised EBIT was the reduction in product mix due to the loss from liquid milk, and this was offset to some extent by a positive contribution from price premiums, global sourcing and tighter cost control.

Price premiums were $26 million higher than last year mainly due to higher margin sales on value added products into North Asia, Latin America, Middle East, Africa and the United States.

This aligns with our strategy to get more value from New Zealand milk through tailoring our services and products to match our customers' requirements.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2013	YEAR ENDED 31 JULY 2012[1]	CHANGE
Total volume[2] ('000 MT)	**2,824**	2,790	1%
Revenue	**13,917**	14,992	(7%)
Gross margin	**1,251**	1,285	(3%)
Gross margin percentage	***9.0%***	*8.6%*	
Operating expenses	**(892)**	(934)	(4%)
Normalised EBIT	**494**	501	(1%)
Normalised EBIT percentage	***3.5%***	*3.3%*	
Return on Capital Employed	**7.4%**	7.7%	

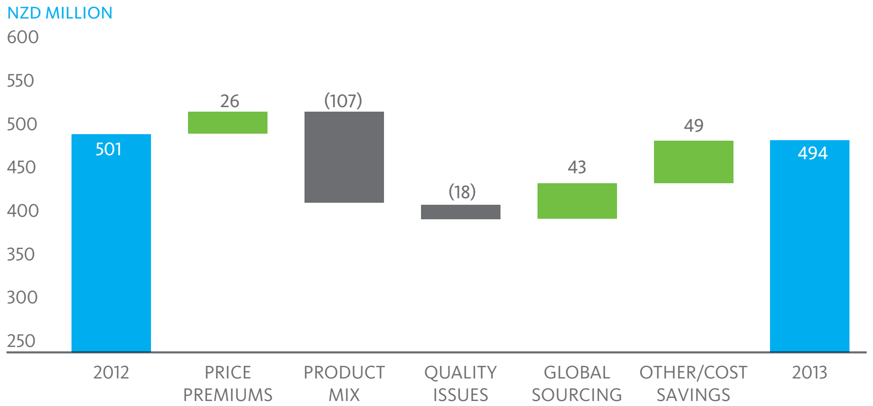
1 The 2012 figures have been restated to reflect the movement of RD1 from NZ Milk Products to Australia and New Zealand, and China Farms and South America farming ventures from NZ Milk Products into Asia/AME and Latam respectively.

2 Total volume includes intercompany volumes.

CONTRIBUTION MARGIN PER MT

NZD MILLION	YEAR ENDED 31 JULY 2013	YEAR ENDED 31 JULY 2012
Total sales volumes ('000 MT)	**2,824**	2,790
Gross margin	**1,251**	1,285
Selling, marketing and distribution expenses	**(277)**	(269)
Contribution margin	**974**	1,016
Contribution margin per MT	**345**	364

NORMALISED EBIT: KEY PERFORMANCE DRIVERS



NZ MILK PRODUCTS CONTINUED

The contribution from product mix was $107 million lower than last year, driven largely by the loss on liquid milk. The high contribution from product mix in the first half as a result of favourable relative cheese and protein pricing and positive optimising decisions, was eroded away in the second half as raw milk costs increased sharply through the drought period.

As part of the DIRA regulatory requirements and some legacy contractual obligations, Fonterra is required to supply liquid milk to a number of local processors across New Zealand. This year as a result of the drought, the loss on liquid milk sales had a significant impact on NZ Milk Products' normalised EBIT. This was mainly due to actual (spot) milk prices in the second half being considerably higher than the annual forecast Farmgate Milk Price, and sales volume of DIRA milk being biased towards the second half.

The loss was a combination of the impact of DIRA milk and losses on liquid milk pricing on a small number of long-term customer contracts, which are priced on a quarterly basis. While price risk on our long-term contracts had the larger impact, this Season was the last under DIRA when competitors could cherry pick when they purchased milk. Competitors required Fonterra to supply large volumes of milk when milk flows were very low, which led to milk shortages in our own sites, and we were unable to benefit from high dairy commodity prices.

Global sourcing contributed $43 million more than last year mainly due to improved margins on value added product sourced out of Australia and sold into our global sales network.

NZ Milk Products had a strong focus on cost control and achieved a $42 million or four per cent improvement in operating expenses compared to last year.

This was largely due to an improved bad debt position, supported by reductions in discretionary and staff costs.

Another positive contribution to normalised EBIT includes an increase in the share of profit from DairiConcepts, our joint venture with Dairy Farmers of America, which improved following the sale of its underperforming Portales plant in June 2012.

NORMALISED EBIT

$494M

Contribution Margin

Contribution margin is a measure of the underlying performance of the business. Contribution margin of $345 per metric tonne of sales was five per cent lower than last year reflecting the pressure on gross margin from the relatively higher WMP prices.

Capital Investment

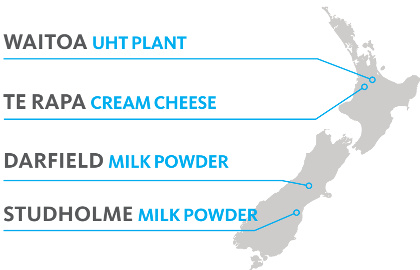
Total capital expenditure for NZ Milk Products was $683 million. During the year we made a number of investments in new and existing plants as part of the implementation of our strategy to simplify our supply chain and align our production footprint to global demand.

The largest capital expenditure for the year related to the new development at our Darfield site with a total cost of $152 million this year.

Other major spend related to the acquisition of the Studholme plant, expansion of capacity at our cream cheese plant at Te Rapa, and initial development of our new UHT plant at Waitoa.

INVESTMENT IN OUR UHT PLANT AT WAITOA

$126M



On top of our investments in Darfield, we have also boosted our daily Canterbury processing capacity by around 840,000 litres, acquiring the former NZDL Studholme plant in South Canterbury.

We have budgeted $61 million to extend our export cream cheese manufacturing operation at Te Rapa in the Waikato and to expand our dry store facilities. The investments gear us up to meet proven and growing demand while reducing supply chain costs.

Cream cheese is a profitable product category and demand is growing in our key markets of China, Japan, Asia and the Middle East. Sales have grown rapidly with Chinese bakeries, cheesecake manufacturers and our Japanese ingredients business some of the biggest customers for Te Rapa's cream cheese.

We are keeping pace with this demand by more than doubling our current production capacity of 13,500 tonnes of cream cheese for export. Production began in August 2013.

The new dry store doubles capacity at Te Rapa, allowing all production to be stored on site prior to shipping, reducing third party storage costs and associated truck movements.

With UHT milk more commonly consumed than fresh milk in emerging markets, particularly China, our $126 million investment in a new UHT plant at Waitoa is bridging demand in Asia with supply from the Waikato.

The new plant will increase UHT production by 50 per cent. The plant will include five new UHT lines that will produce a range of products including UHT white milk and the UHT cream products increasingly in demand from the foodservice sector. A new distribution centre will also be commissioned.

A further $29 million investment at Whareroa is improving our logistics network's storage capacity. The site produces 403,000 metric tonnes a year and this project will overcome storage constraints.

The investment follows a $23 million upgrade of Whareroa's cool stores in 2012. These investments contribute to our logistics efficiency, reducing freight movements and transport costs.

Darfield Drier Two came on stream in August 2013 as we wrapped up development of our Darfield site in the milk growth region of Canterbury. The total investment was approximately $500 million with $152 million spent this year.

Total annual production capacity is 220,000 metric tonnes, and this will help meet growing demand in Asia, Africa and the Middle East.

Drier Two is the world's largest milk powder drier and at the peak of the Season, it will run 24 hours a day, 7 days a week producing more than 30 metric tonnes of whole milk powder every hour. With Drier Two's commissioning, Darfield's production capacity reaches 6.6 million litres per day.

Milk tankers at Darfield.

AUSTRALIA & NEW ZEALAND

Australia and New Zealand encompasses consumer and foodservice businesses, and a dairy processing and manufacturing business that collects approximately 20 per cent of Australia's milk supply. The business also includes RD1 (New Zealand's largest rural supplies retailer).

Four Kapiti brand cheeses were ranked "champion" in the 2013 NZ Champions of Cheese Awards.

Volume

Total volume for Australia and New Zealand was nine per cent lower than last year. After adjusting for the sale of the Norco liquid distribution business in November 2012, which accounted for approximately 66,000 metric tonnes, sales volume for Australia and New Zealand was two per cent lower than last year.

New Zealand volumes (excluding the impact of RD1) were five per cent ahead of last year, but volume in our consumer brands business in Australia was lower, driven primarily by the loss of a large private label contract which offset the volume growth in butter and spreads.

Value

Normalised EBIT for Australia and New Zealand was down 37 per cent to $142 million. Normalisation adjustments relate to $30 million in costs associated with the planned closure of the Cororooke site in Australia, and $19 million in costs associated with group strategy right-sizing.

The New Zealand businesses grew normalised EBIT compared to last year amidst a tough trading environment, which was more than offset by Australia. The key issues in Australia were the heightened competition for milk supply, and the continuation of the challenging trading environment for consumer brands which pressured margins.

The ingredients business had volume growth in the first half, but this was more than offset in the second half with lower milk supply due to the dry conditions and reduced export volumes.

7% REDUCTION IN AUSTRALIAN OPERATING EXPENSES FOR A SAVING OF:

$49M

AUSTRALIA

Our ingredients manufacturing business in Australia was impacted by lower milk volumes as well as margin squeeze as the competition for milk intensified. Due to dry seasonal conditions in the second half of the year, the ingredients business was unable to capture the full extent of the late Season commodity rally.

The tough trading environment in the consumer brands business that has been prevalent in Australia in the last few years intensified this financial year. Normalised EBIT was lower due to the reduction in cheese sales to supermarkets with lower private label sales, the loss of some distribution of the Mainland brand, and lower yoghurt sales due to aggressive competitive pricing.

Our margins were impacted by increased trade spend to defend market share and secure distribution primarily in cheese and yoghurts, but we managed to maintain our market position with volume growth in butter and spreads.

Our foodservice business in Australia delivered a good performance despite the challenging trading environment.

This environment saw competitors dealing on price. Our business supplies premium products into the foodservice channel and while volumes remained relatively flat, we were able increase margins over a two-year period reflecting our superior offering of service, quality and brand. The business won a number of awards this year including the Subway 2013 Gold Standard Quality Award.

The Anchor™ LIGHT PROOF™ bottle helped drive a seven per cent gain in supermarket sales volume.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2013	YEAR ENDED 31 JULY 2012[1]	CHANGE
Total volume[2] ('000 MT)	**884**	972	(9%)
Revenue	**3,745**	4,299	(13%)
Gross margin	**756**	869	(13%)
Gross margin percentage	***20.2%***	*20.2%*	
Operating expenses	**(677)**	(672)	1%
Normalised EBIT	**142**	227	(37%)
Normalised EBIT percentage	***3.8%***	*5.3%*	
Return on Capital Employed	**4.7%**	7.5%	

1 The 2012 figures have been restated to reflect the movement of RD1 into Australia and New Zealand from NZ Milk Products.

2 Total volume includes intercompany volumes.

AUSTRALIA & NEW ZEALAND CONTINUED

"**The reshape of the Australian business is progressing to plan.** It is a tough market with aggressive competition, but it is also an important market."

RESHAPE OF AUSTRALIA

The reshape of the Australian business is progressing to plan. It is a tough market with aggressive competition, but it is also an important market where we have strong brands, a premium foodservice business, good export volumes, efficient sites and 1,300 valued farmers supplying high-quality milk.

We are also reshaping our manufacturing facilities, aligning them to our best market demand prospects. Fonterra's Australian manufacturing facilities now supply 75 per cent of Fonterra's global high-value nutritional sales.

The significant reshape of the Australian operations has already resulted in a seven per cent reduction in operating expenses of $49 million after excluding the impact of Cororooke and brand impairments.

Our reshaping strategy has four priorities to turn the business around:

- Streamlining our brands portfolio to focus on fewer, stronger brands and supporting them with greater marketing and trade resources. Our focus is on Mainland, Perfect Italiano, Bega and Western Star which are A$100 million brands in terms of retail sales, with Western Star the single largest brand in the A$700 million spreads category.
- Ensuring our brands portfolio are part of the Australian every day diet.
- Expanding our high-value nutritionals output to make sure we are capitalising on the growing demand for quality dairy products in emerging markets.
- Continuing to drive our market-leading foodservice business and deliver chef-led solutions.

NEW ZEALAND

The New Zealand business delivered a good result with normalised EBIT up two per cent, despite the pressure on brands as a result of the demand for private label. Although price discounting by the retailers continued, the consumer business retained its market share leadership position, holding the top position in every dairy category in branded products across New Zealand.

Product innovation continued with the launch of Symbio yoghurt targeting digestive health and the Mainland cheese snacking range including cheese sticks, blocks and crackers, which had a very good response from the market and contributed to volume growth.

Following the launch of the new Anchor™ LIGHT PROOF™ Bottle for fresh white milk, volumes grew seven per cent compared to last year in supermarkets. Anchor™ milk has maintained market share and remains the top brand in the New Zealand Grocery channel.

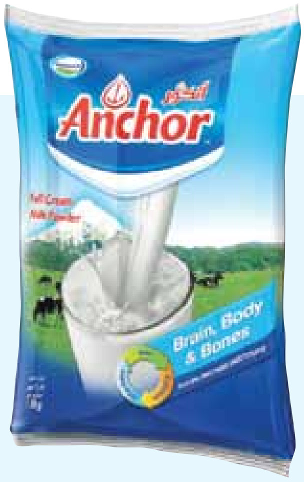
Tip Top innovation helped lift market share.

Tip Top increased market share with the launch of new ice cream products. The business has started moving to all natural ingredients including the removal of palm oil from production and we are slowly converting the whole range which the market has responded to very positively.

EBIT for RD1, our rural services business held in line with last year despite the impact of the lower forecast Farmgate Milk Price and the impact of the drought in New Zealand, which led to lower on-farm spend by farmers.

Tip Top had its best ever result at the New Zealand Ice cream awards in 2013, sweeping the field with 12 medals.

ASIA, AFRICA & THE MIDDLE EAST INCLUDING CHINA



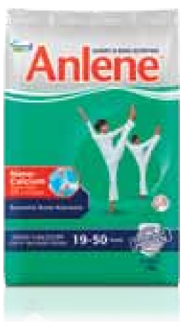
Asia/AME comprises Fonterra's consumer and foodservice businesses in Asia, Africa, the Middle East and Greater China. Asia/AME's brands cover a wide range of consumer and customer needs ranging from everyday dairy nutrition under Anchor™, Fernleaf™ and Ratthi™, to advanced nutrition offerings under Anlene™ and Anmum™. The business also includes China Farms.

Volume

Volume growth in Asia/AME was 11 per cent driven primarily by new operations in China Farms, strong growth in foodservice across the region, and growth in everyday nutrition in Indonesia and Malaysia. This was supported by distribution expansion of advanced nutrition in Vietnam and geographic development in China foodservice.

ASEAN/MENA EBIT (CONSTANT CURRENCY)

↑22%



Value

Asia/AME is now our largest consumer business by normalised EBIT. The business comprises ASEAN/MENA (South East Asia, the Middle East, North Africa and Sri Lanka) and Greater China.

Normalised EBIT for Asia/AME was up 15 per cent to $209 million. This was driven mainly by strong growth in foodservice across the region and growth in the everyday nutrition category in Indonesia and Malaysia.

ASEAN/MENA

ASEAN/MENA delivered a strong result with normalised EBIT growth of 15 per cent primarily as a result of growth in Malaysia, Indonesia, the Middle East and Vietnam. This was partially offset by the Philippines where flooding and intensified competition impacted earnings. On a constant currency basis normalised EBIT was up 22 per cent as the ASEAN/MENA currencies weakened against the New Zealand dollar.

Everyday nutrition, advanced nutrition and foodservice are key platforms for growth in terms of Fonterra's group strategy. Across the ASEAN/MENA region, all three platforms delivered growth in normalised EBIT with everyday nutrition up 21 per cent, advanced nutrition up six per cent and foodservice up 45 per cent.

Everyday nutrition includes the Anchor™, Anchor™ Boneeto, Fernleaf™ and Ratthi™ brands. The robust growth was a result of increased demand for Anchor™ butter and cheese in the Middle East, continued momentum in yoghurts due to successful promotional activities and distribution expansion in Malaysia, and a strong offtake for Anchor™ Boneeto in Indonesia.

Advanced nutrition comprises the Anlene™ and Anmum™ brands, which maintained their market share positions across the region with Anlene™ in first position across all key markets and Anmum™ in the top three across our key markets.

The business continues to leverage the model that has proved successful in South East Asia and has benefitted from customers with increasing disposable incomes coming in to the category.

Growth in advanced nutrition was due to an improved performance from Vietnam driven by distribution expansion, and a recovery in earnings from Thailand after normalised EBIT was impacted by floods last year.

Product innovation has contributed to growth this year.

The launch of the new, convenient single serve sachets of Anlene™ and Anmum™ in Thailand was well received by the market.

Our foodservice business delivered another strong result benefitting from new bakeries and hotel chains opening up as economies develop across ASEAN/MENA. It achieved volume growth of 18 per cent compared to last year despite capacity constraints in UHT Cream. Indonesia, Singapore, Malaysia, Thailand, Vietnam, Phillipines and Sri Lanka all achieved double-digit volume growth compared to last year.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2013	YEAR ENDED 31 JULY 2012[1]	CHANGE
Total volume[2] ('000 MT)	**375**	339	11%
Revenue	**2,059**	2,001	3%
Gross margin	**702**	648	8%
Gross margin percentage	***34.1%***	*32.4%*	
Operating expenses	**(519)**	(473)	10%
Normalised EBIT	**209**	182	15%
Normalised EBIT percentage	***10.2%***	*9.1%*	
Return on Capital Employed	**22.3%**	20.2%	

1 The 2012 figures have been restated to reflect the movement of China Farms into Asia/AME from NZ Milk Products.
2 Total volume includes intercompany volumes.

The launch of the new, convenient single serve sachets of Anlene™ and Anmum™ in Thailand was well received.

ASIA, AFRICA & THE MIDDLE EAST INCLUDING CHINA CONTINUED

The bakery and hotel channels were key contributors to earnings growth. Our focus on differentiated, functional product for the pastry and hot kitchen, supported by our network of chefs, continues to be successful.

Margins remained strong through the year, driven by sales mix and market positions relative to competition.

The year saw significant investment in sales capability building focused on product knowledge and sales call processes and tools.

GREATER CHINA

Normalised EBIT for Greater China was up 20 per cent on last year with a strong result from China foodservice, Hong Kong and our businesses in Taiwan. This was partially offset by a lower contribution from China brands, as a result of increased investment to grow market share and roll out Anlene™ into new cities. On a constant currency basis normalised EBIT was up 22 per cent compared to last year.

China foodservice continues to perform well with volume growth of 28 per cent underpinned by the rollout of the business model across a number of new second and third tier cities.

During the year, the foodservice business expanded from 12 to 19 cities across China with particular focus on the bakery and the hotel channels. Volume growth was supported by higher demand for bulk butter, UHT cream and cheese.

In Taiwan earnings improved as a result of higher sales of UHT milk and strong demand for butter, while the Hong Kong business strengthened both its brands and foodservice operations. This growth was offset by the China consumer business which benefitted from higher volume growth, but had lower earnings as a result of higher advertising and promotional spend. This increased investment in our brands ensured that we maintained our market share in Anlene™ at number one in both Shanghai and Guangzhou, increased our market share in Jiangsu, and rolled out the Anlene™ products into Chengdu and Chongqing. We also had pre-launch spend on our new Anchor™ UHT milk and our consumer paediatric milk powder products.

CHINA FOODSERVICE VOLUME GROWTH

↑28%

The precautionary recall which occurred close to financial year end had some impact on our business in China. We worked through the issues with government officials, media and customers to manage the impact on our brands. We took a decision to do a "soft" launch of Anchor™ UHT on our e-commerce channel Tmall rather than the heavy promotion that we had originally planned.

Milk volumes sold by China Farms increased to 61,000 metric tonnes driven by expansion with the Yutian 1 farm near capacity and the Yutian 2 farm commissioned in the current year.

At Yutian 1, the biodigester, which manages farm effluent, was damaged resulting in additional effluent trucking costs and an impairment charge of $7 million relating to the biodigestive and associated waste treatment systems. The Yutian 2 farm is now complete and the Yutian 3 and 4 farms are likely to be commissioned later this calendar year. We invested $48 million in China Farms this year.

Anchor™ UHT foodservice products in China.

"The Yutian 2 farm is now complete and the Yutian 3 and 4 farms are likely to be commissioned later this calendar year."

LATIN AMERICA

Latin America (Latam) encompasses Soprole, the market-leading integrated dairy business in Chile, and an investment in Dairy Partners Americas (DPA), a 50/50 joint venture with Nestlé covering several markets in Latin America including Brazil, Venezuela, Ecuador, Colombia and Argentina. Latam also includes Southern Cone, an in-market ingredients sourcing and sales business, investments in developing dairy farms in Brazil, a branded consumer cheese and butter business in the Caribbean and an investment in Dairy Industries (Jamaica) Limited, a 50/50 joint venture with GraceKennedy Group offering a range of dairy consumer products.

Volume

Total sales volume for Latam was up six per cent. This was mainly due to volume growth in Soprole, which was up four per cent to 332,000 metric tonnes driven by higher consumer demand for liquid milk, mature cheese, desserts and butter, and volume growth of 43 per cent in the Southern Cone ingredients business.

Volumes in Dairy Partners Americas (DPA) were up two per cent to 342,000 metric tonnes driven mainly by growth in new yoghurt categories in its primary market Brazil. Fonterra equity accounts for its 50 per cent share of the DPA business.

Value

Soprole, our largest operation in Latam, performed well with strong growth in its consumer business. Normalised EBIT of $109 million was up 31 per cent compared to last year driven by volume increases, product innovation and improved pricing in the yoghurt and dairy dessert categories. On a constant currency basis normalised EBIT was also up 31 per cent as the currency was relatively stable.

Sales from new products launched over the past three years account for almost 30 per cent of Soprole's revenue and product innovation continued this year with the launch of 32 new products. Our new indulgent panna cotta and crème caramel desserts exceeded expectations.

Yoghurt is the largest contributor to normalised EBIT and growth in earnings was driven by our ability to increase revenue and margin in a price competitive market as a result of our strong premium brand position in the category.

The new San Bernardo plant in Chile, was successfully commissioned in April increasing capacity and providing the opportunity to capture future market growth.

We maintained our number one market share position in yoghurt, liquid milk, dairy desserts and butter, and increased our market share in the mature cheese category again this year, consolidating our number two position.

SOPROLE NORMALISED EBIT

↑31%

In a recent "Chile-3D"[1] brand research study of 260 brands, which measured consumer opinions across three pillars, "Prestige", "Most loved" and "Most remembered", Soprole was ranked as the number one brand for "Prestige" and "Most Loved" by the Chilean people, and was the fourth ranked brand overall. It was also the number one company across all dairy brands.

Normalised EBIT in DPA was 46 per cent lower at $25 million driven mainly by lower earnings in DPA Manufacturing. This was due to a $19 million benefit last year arising from the review of manufacturing cost recovery arrangements which has not been repeated in the current year. In addition, normalised EBIT in DPA was negatively impacted by currency movements.

1 "Chile 3D-2013" survey from GFK Adimark, April 2013.

Brazil, which is the largest market for DPA, delivered a solid performance in the first half with some pressure on margins in the second half due to the cost of milk rising.

The business showed a good recovery compared to last year in local currency, up nine per cent, but earnings were adversely affected by the devaluation of the Brazilian Real.

Earnings from DPA Venezuela improved, however volumes were flat and margins continue to be impacted by government price control restrictions in the market and currency devaluation. We have continued to make strategic choices to manage the business profitably. Our expectation is that Venezuela is likely to remain a difficult market in which to operate for some time.

Of the remaining businesses in Latam the Southern Cone ingredients business continued its turnaround towards profitability and the Caribbean brands business delivered another strong year of profitable growth.

Operating costs across Latam increased nine per cent mainly due to higher storage and distribution costs in Soprole, where volume growth drove higher wage and freight costs. Expenses were also temporarily higher as a result of the planned transition to our new distribution facility.

Soprole brand was ranked as the number one brand for "Prestige" and "Most Loved" in Chile.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2013	YEAR ENDED 31 JULY 2012[1]	CHANGE
Total volume[2,3] ('000 MT)	**377**	354	6%
Revenue	**1,135**	1,010	12%
Gross margin	**303**	260	17%
Gross margin percentage	***26.7%***	*25.7%*	
Operating expenses	**(191)**	(176)	9%
Normalised EBIT	**137**	132	4%
Normalised EBIT percentage	***12.1%***	*13.1%*	
Return on Capital Employed	**18.2%**	18.8%	

1 The 2012 figures have been restated to reflect the movement of South America farming ventures from NZMP into Latam.

2 Total volume includes intercompany volumes.

3 Volume excludes DPA (Dairy Partners Americas).

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

Fonterra seeks to ensure an enduring Co-operative that sustains our farmers and the communities in which we live and work around the world. Driven by the needs of our consumers, customers and communities we deliver on this commitment by leading the way in dairying performance, providing the natural source of nutrition for all and ensuring we work as part of healthy resilient ecosystems.

Theo Spierings, Brand Ambassador Richie McCaw on Ritchie and Sue Morgan's farm, Arapuni.

Sustainable Farming

We recognise that sustainability starts at home, on-farm, with our farmers leading the way by responsibly and efficiently managing the use of natural resources and ensuring a safe and secure source of quality milk.

SUPPLY FONTERRA

Fonterra has created an innovative programme to guide and support our farmers to achieve good management practices on-farm. The Supply Fonterra programme is a first for dairy in New Zealand and provides proactive initiatives that support our farmers and industry as a whole. Our programme sets out environmental and food safety requirements and provides support to help farmers identify and manage risk, and future-proof their farming systems.

The environmental programmes currently cover effluent management, waterway management and nitrogen management. A water use management programme is being implemented.

EFFLUENT MANAGEMENT

Every dairy farm is required to have effluent systems and management practices capable of 365-day compliance with regional council regulations. Farms are assessed each year during the annual Farm Dairy and Environmental Assessment to ensure they meet these standards. Environmental Improvement Plans are agreed with farmers to ensure resolution of any issues identified and to future-proof systems as appropriate.

The Season-end numbers show a 23 per cent reduction in effluent issues referred from on-farm Farm Dairy and Environmental Assessments. A total of 3,915 cases have been resolved for the programme to date (since August 2010), of which 1,516 were closed in the past financial year.

WATERWAY MANAGEMENT

Fonterra requires permanent exclusion of all stock from waterways on farms by 1 December 2013. A waterway is defined as a river, stream, drain, canal, lake or wetland that permanently contains water and is, at any time of the year, more than a metre wide and 30 centimetres deep. Using mapping technology, farms and waterways are mapped during the annual Farm Dairy and Environmental Assessment to ensure we can measure progress.

As at 31 July 2013, we had mapped 8,483 farms. Farmers are making significant progress to exclude stock from defined waterways, with 18,480 kilometres of waterways currently mapped as being stock excluded.

NITROGEN MANAGEMENT

Efficient nitrogen use can help reduce the risk of nutrient loss to surface and ground water. The Nitrogen Management Programme aims to let farmers know where their farm sits relative to peers for nitrogen conversion efficiency and nitrogen leaching loss risk. This year farmers who provided nitrogen records will receive a report showing their farm's performance on these metrics.

Fonterra Farmer Shareholder Mark McDonald is passionate about his riparian planting.

SUSTAINABLE DAIRYING: WATER ACCORD

Fonterra is a signatory to the pan industry Sustainable Dairying Water Accord which supersedes the Dairying and Clean Streams Accord. The stated purpose of the Accord is to enhance the overall performance of dairy farming as it affects freshwater and is an expression of the dairy sector's commitment to industry self-improvement.

Supply Fonterra will continue to align its environmental programmes to the Water Accord's requirements to support our farmers in meeting the commitments.

ANIMAL HEALTH AND WELFARE

Fonterra's commitment to Animal Welfare is based on the Five Freedoms as set by the World Organisation for Animal Health. Animals are the core of our business and their welfare and wellbeing is paramount. We are committed to ensuring dairy cattle have a good quality of life.

One of our key sustainability goals is to have global animal welfare standards and supporting programmes across all regions by 2020. We are working closely with global industry organisations such as the Sustainable Agriculture Initiative and the World Organisation for Animal Health to develop global animal welfare best practice standards, indicators and outcome measures. These will become the benchmark for Fonterra's 2020 Animal Welfare standards and will incorporate measures for our on-farm performance.

> “**Our goal builds on our leadership as the first major dairy producer** to provide a carbon footprint for our New Zealand origin productions.”

NEW ZEALAND

CARBON FOOTPRINT

Our goal builds on our leadership as the first major dairy producer to provide a carbon footprint for our New Zealand origin productions. It measures the total quantity of greenhouse gases released to the atmosphere over the life cycle associated with the production of the measured dairy ingredients or products. We were also significant contributors to the development of a globally accepted methodology of accounting for greenhouse emissions in dairy.

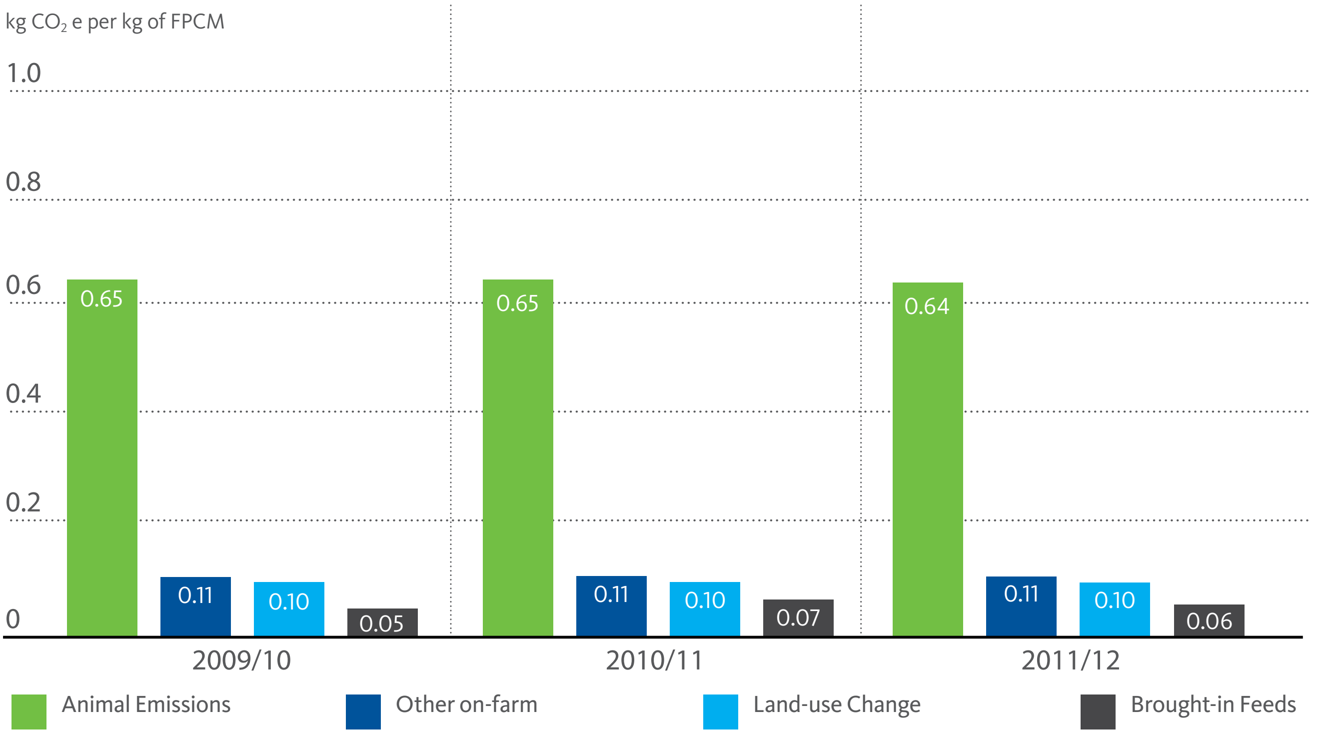
NEW ZEALAND-SOURCED MILK

The 2011/12 full lifecycle emission for milk at the farm gate is 0.90kg CO_2e per kg of fat and protein corrected milk (FPCM). This is a three per cent reduction on the previous year and a one per cent reduction from the 2009/2010 baseline emissions.

The annual emission milk footprint for New Zealand milk is subject to economic and, particularly, climatic factors such as drought. In 2011/12, good growing conditions meant higher production per cow was achieved with less need for supplementary feeds compared to 2010/11. On-farm emissions, which make up approximately 85 per cent of the total carbon footprint, have reduced by two per cent since 2009/10, but the use of supplementary feeds, including palm kernel expeller (PKE), has increased.

The graph on the right shows New Zealand milk emissions trends by major element. Deforestation emissions relating to the production of PKE (brought-in feeds) as a by-product of the palm oil industry are taken into account according to the International Dairy Federation (IDF) accounting methodology. Fonterra continues to work with PKE suppliers towards developing better transparency and a reduction in PKE related emissions.

GREENHOUSE GAS EMISSIONS-ON-FARM TRENDS



AUSTRALIA

SUSTAINABILITY FARM PROJECTS AUSTRALIA

Fonterra is committed to improving farmer profitability and environmental performance. Since 2011 Fonterra Australia has rolled out programmes to support both these objectives and 20 per cent of our farm base has been included in one or more since their inception. Some of the benefits realised have been the contribution to reducing greenhouse gas emission and the reduction of fertiliser waste to streams or the atmosphere.

Successful models designed and trialled by Fonterra, in co-operation with our farmers, saw immediate results which attracted outside funding partners like the Australian and State Governments, which have invested over A$500,000 in additional funds to extend the programme to a greater Fonterra supplier base.

These projects are proving to be a great example of 'Learning by doing' to improve farm sustainability.

CHINA

Fonterra acknowledges the need to progressively establish benchmarks and targets for other geographies where we operate, and to report on progress against these. An on-farm carbon footprint assessment will be completed for our China farms and will be reported against at the end of the 2014 financial year.

Sustainable Manufacturing

Operating sustainably is a foundation of our success and we are actively committed to reducing emissions, waste reduction and water efficiency and using energy in a more efficient way. We aim to improve our performance each year in these priority areas.

Darfield Drier Two.

NEW ZEALAND AND AUSTRALIA

EMISSIONS

Greenhouse gas emission intensity decreased from 0.64 to 0.63 tonnes CO_2e per tonne of production, from 2011/12 to 2012/13, a two per cent reduction. The drought in the North Island of New Zealand impacted emission intensity as a higher proportion of milk was processed in coal-fired plants in the South Island where natural gas is not available. This led to an increase in the average emission intensity but this was offset by efficiencies elsewhere.

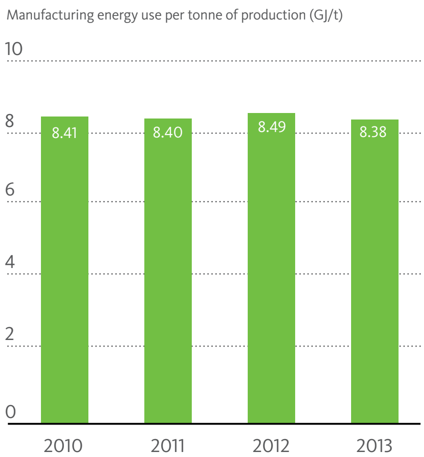
During the year, Fonterra's Spreyton site in Tasmania invested A$6.5 million to convert from coal to natural gas-fired boilers which has led to a 48 per cent reduction in reported emissions intensity for this site.

ENERGY

The efficient use of energy contributes to our goal of reducing emissions. We have, to date, focused on reducing and measuring the energy consumption involved in producing a tonne of ingredients and reporting has been on this basis. The reporting this year includes emissions for both ingredient and consumer products.

Energy use per tonne of production in New Zealand and Australia decreased by one per cent from 8.49 GJ/tonne in the 2012 financial year to 8.38GJ/tonne in the 2013 financial year.

ENERGY USE PER TONNE IN AUSTRALIA AND NEW ZEALAND MANUFACTURING OPERATIONS



ENERGY EFFICIENCY PROGRAMME

Fonterra is in its 10th year of running one of New Zealand's largest energy efficiency programmes aimed at reducing the energy intensity per tonne of product manufactured. In the 2013 financial year, the energy intensity per tonne for ingredient products has decreased by 14 per cent compared to when the programme began in 2003.

Energy efficiency initiatives have continued with the commissioning of Stage 1 of the Darfield site, where the incorporation of energy efficient technology is reflected in a low energy use per tonne recorded over the 2012/13 Season for the site. Several energy saving initiatives were undertaken at the Edendale site during 2012/13 and these are indicative of activity throughout New Zealand manufacturing. One of Edendale's initiatives focused on improving the pasteurisers' heat regeneration resulting in significant energy savings and a reduction in the site's greenhouse gas emissions.

WASTE

Fonterra's eco-efficiency programme continues to develop and incorporate best practice into new and existing manufacturing operations across New Zealand. In 2013, 94 per cent of waste was reused or recycled in our New Zealand operations, including our consumer business, against a commitment of 90 per cent.

The ongoing success in minimising waste to landfill is due to the benefits realised through programmes such as Solid Waste Reduction systems and the Recycle Lab. The Recycle Lab is an innovative recycling and waste minimisation program that, since being established in 2011, has reduced waste to landfill by over 3,700 tonnes.

WATER

In the 2013 financial year, Fonterra New Zealand's operations used 40 million cubic metres of fresh water and recycled or reused six per cent of this. The higher consumption in 2013 relates to higher milk processing and the inclusion of the New Zealand consumer sites, plus the new Darfield and Studholme sites, in the monitoring.

Our Australian sites used 3.7 million cubic metres of water in the period from 1 July 2012 to 30 June 2013, compared to 3.2 million cubic metres in the prior year. This was an increase over the previous year largely driven by increased production and a higher proportion of water intensive products, notably demineralised whey at Stanhope.

QUALITY

In 2013, we continued our strong focus on our quality and food safety infrastructure, through the enhancement of our Quality Standards within the Fonterra Quality System. These outcome-based Standards specify our non-negotiable requirements with which our global operations must comply.

A controlled self-assessment against the Fonterra Quality Standards across all our majority owned operations revealed an inaugural compliance score of 95 per cent providing baseline data from which we are generating improvement programmes.

We established a food safety and quality risk management framework to ensure we identify and remain ahead of emerging food safety risks, including mitigation activities and escalation reporting. We established a Food Integrity Council at senior management level, both to track emerging risks and to lead Fonterra's commitment to quality and food safety.

Raw milk quality continues to lift as our international milk pools continue to focus on quality and safety improvements. Milk quality audits and improvement programmes are being carried out across the 16 countries where we source milk. At the same time there is an increasing awareness regarding on-farm sustainability and how it relates to the local business environment where we operate.

One milk quality improvement project of note was the successful installation of a solar refrigeration unit at Hanwella Chilling Centre in Sri Lanka. During 2013, this became fully operational, delivering a reduction in energy usage and improvement in quality through reliable and consistent raw milk chilling.

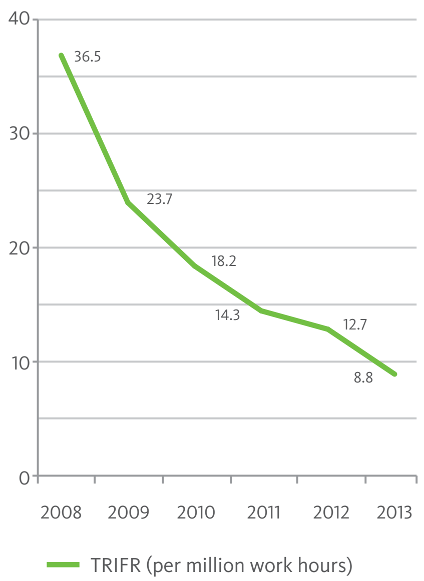
The Fonterra Approved Supplier Programme uses a risk based approval process, which incorporates certification schemes recognised through the Global Food Safety Initiative. The programme ensures we operate a robust and safe approval process for procured ingredients, packaging and third party sourced dairy products. The level of compliance of our suppliers to the programme continues to improve and audits of our high risk suppliers and joint ventures were conducted in over 25 countries.

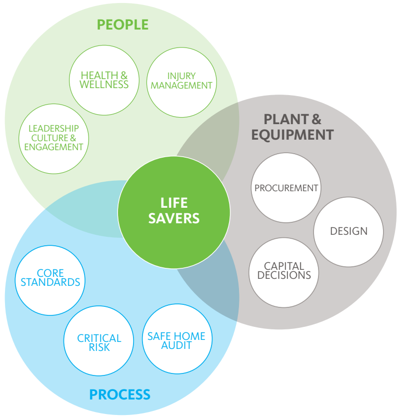
Our overall product performance was once again assessed by Fonterra's customers as being world class, via our 2013 customer value management survey where we achieved a score of 8.1 for the year. It is the fourth consecutive year in which we have achieved a value of above 8.0 which is considered best in class.

HEALTH AND SAFETY

At Fonterra we believe that sustainable success can only be achieved through our people. People make the difference and caring for our people is a key foundation to the way we operate. Nothing is more important. We focus on taking care of our people, contractors and any other people involved with Fonterra, including suppliers, customers and the public.

TOTAL INJURY FREQUENCY RATE





We believe that no harm is acceptable and this is reflected in our zero harm approach to health and safety.

In the 2013 financial year we had three key health and safety measures:

- Zero fatal incidents – employees, contractors and members of the public in operations within our control.
- Total Recordable Injury Frequency rate (TRIFR) of less than 10 per million work hours.
- Audit scores showing that systems and process are implemented and that there is extensive engagement within our teams.

We achieved over a 30 per cent reduction in Total Injury Frequency Rate (TRIFR) from 12.7 to 8.8, sending 164 more employees home safely, compared to 2012. We have delivered a new Health and Safety Audit Tool with a score across Fonterra of 1.84, indicating health and safety systems are in place and being embedded. Minimum global standards for general health and safety requirements, and specific standards and control plans to manage our critical risks; those risks that can result in death or serious harm (including process safety risks) have been developed. We have launched a governance panel with cross-functional and cross-business unit representation for each critical risk. The panel ensures effective compliance of the critical risk standard and control plan. In 2013 we undertook global research involving 17,103 of our people to understand what drives engagement for health and safety for Fonterra overall, as well as within our different regions and business units. These research insights will drive our leadership and engagement initiatives in the 2014 financial year. We completed the rollout of First Priority – our risk and incident management system across all of our global locations. This allows for consistent reporting of incidents and management of risk in all the countries in which we operate.

A Fonterra tanker driver talks to students at Riverdale School.

Supporting our Communities

As part of the communities where we live and work we have a responsibility to nourish, care and protect. Our community activities are targeted to enrich people's lives and make a real difference to those around us.

NEW ZEALAND

FONTERRA MILK FOR SCHOOLS

'Fonterra Milk for Schools is caring for New Zealand kids'

Fonterra Milk for Schools is helping build the health of future generations of New Zealanders. Primary-aged school children (Year 1–6) are eligible for the programme, covering 350,000 children in more than 2,000 schools. The national rollout will be completed by the end of April 2014, with all children participating in the programme benefiting from the goodness of milk provided daily in a free pack of chilled Anchor™ Lite UHT Milk.

Fonterra expects to invest $15–$20 million per year in the Milk for Schools programme, depending on the final number of participating schools and children. Over 75 per cent of eligible schools have indicated their interest in participating.

KICKSTART BREAKFAST

KickStart Breakfast is a New Zealand breakfast-in-schools programme. Sanitarium provides the Weet-Bix, Fonterra the Anchor™ Milk, and together we work collaboratively with local school communities to provide a healthy breakfast to those children that need it most.

KickStart Breakfast is the largest programme of its kind in New Zealand, with more than 590 schools enrolled. Over five million breakfasts have been served since 2009.

In May 2013, the New Zealand Government announced support of up to $9.5 million ($1.9 million per year for five years) to extend the KickStart Breakfast programme from two to five days a week, matching the value of the contribution from Fonterra and Sanitarium. This expansion of KickStart Breakfast will be rolled out to all schools that want and need the programme over the next year.

Riparian planting by volunteers in their local community.

DEPARTMENT OF CONSERVATION PARTNERSHIP

This year, we joined forces with the Department of Conservation (DOC) in a $20 million, 10-year programme to enhance the natural habitat of sensitive waterways around New Zealand. With DOC's conservation advice and expertise, along with Fonterra's on-farm environmental progamme and support, our partnership is out to make a meaningful difference to the water quality at five sites near Fonterra's farms and factories.

Catchment Care, a four-year partnership with non-profit organisation Conservation Volunteers New Zealand, has provided volunteer support to help local communities complete riparian and wetland planting, fencing, weed removal, building and maintaining walking tracks. 186 hectares have been improved by the programme this year, bringing the total hectares improved to 388.

Conservation Volunteers New Zealand will continue to provide volunteer support services where appropriate through the partnership with the Department of Conservation.

FONTERRA GRASS ROOTS FUND

FONTERRA GRASS ROOTS FUND

The Fonterra Grass Roots Fund provides support for a wide range of community projects with grants between $500 and $5,000. Seven regional Committees and Champions are spread across New Zealand to ensure that the local communities where we operate each year get a fair share of support. This year, we received 841 applications and provided approximately $600,000 to 289 New Zealand community organisations and projects. In 2014, two call periods will be held, in August and March. We look forward to supporting and giving back to the communities where we live and work, through initiatives which meet a social need, in line with our commitment to make a difference.

CHINA

SOONG CHING LING FOUNDATION

The Fonterra Rural Maternity and Infant Healthcare initiative, in partnership with the Soong Ching Ling Foundation, continues to improve the lives of mothers and their babies in rural China.

We committed US$5 million to this five-year programme in 2009. It has delivered ambulances and medical equipment for healthcare workers and has helped increase hospital delivery rates and decrease maternal and infant mortality in Guizhou in 2013.

In the past year, in Guizhou, average hospital delivery rates have increased by 12 per cent; maternal mortality has decreased by 33 per cent and infant mortality by nine per cent. The programme has provided training for 11,467 healthcare workers in 37 counties within the Guizhou province, improving their medical skills. The fleet of 15 ambulances has carried 2,269 women and patients in critical condition – driving a total of 154,601 kilometres in often difficult, mountainous areas to reach medical facilities.

Fonterra is now working on a range of collaborative partnerships with the Soong Ching Ling Foundation and China's Ministry of Agriculture to promote good nutrition through educational and community initiatives.

Our scholarship programme, which has operated since 2010, is designed to attract, support and encourage more young talent to farming and food-related study in order to promote the development of the food industry in China. We provide RMB4,000 to 100 students a year studying animal husbandry or food science, and there are currently 400 students in the programme.

In partnership with the Ministry of Agriculture we operate farmer education programmes in Hebei, Shandong and Shanxi. These events attract some 1,000 farmers annually, with agricultural experts lecturing on animal welfare, nutrition and environmental sustainability. The programme, which is part of our commitment to develop China's dairy industry, also involves visits to New Zealand by Ministry delegations.

We are also partnering with the Soong Ching Ling Foundation to provide safe drinking water for more than 3,000 villagers in Guang'an City, Sichuan Province. The RMB 1 million project has seen 140 wells drilled and some 40 kilometres of water pipeline developed.

SOUTH EAST ASIA

FONTERRA CHILDFUND PARTNERSHIP

Since 2011, Fonterra has partnered with international child development organisation, ChildFund, to improve the overall development of the most deprived, excluded and vulnerable children aged 0–5 years old in Asia.

Our joint programmes support integrated early childhood development services, both in centres and community-based programmes, in target communities in Indonesia, the Philippines and Sri Lanka.

More than 2,000 children, siblings, parents, teachers, partners and volunteers benefitted from fast-tracked health, education and nutrition services in year one. The next stage of this programme will benefit more than 1,800 children at pre-schools or home-based early learning centres, and 700 teachers and facilitators from an integrated set of health and education activities.

Sri Lanka early childhood development centre.

SRI LANKA

Fonterra has operated in Sri Lanka for over 35 years. In February 2013, a small farmer development programme, to support the sustainability of the local dairy industry by increasing the capability and capacity of local milk producers, was established. We collect milk from these producers for processing at our local site. The Milk Sourcing Project spans three areas: farmer training and development, model farms and milk collection hubs, and working with the Sri Lankan authorities and contributing to student development opportunities to advance the industry.

Farmer training and development favours the "hands on" approach through field days, discussion groups, practical demonstrations and mentoring.

We are aiming for best practice farming techniques to be learnt and adopted by local farmers so they can farm more sustainably, productively and profitably.

This is a long-term commitment but we are confident that best practice techniques can become embedded in local farming systems within a 5–10 year timeframe.

We also work with model farms to provide practical training and advice, which acts as local demonstrations of best dairy farming practice to local farmers.

CORPORATE GOVERNANCE

The Board and Management of Fonterra are committed to achieving the highest standard of corporate governance and leadership.

To support our role as a Board, we have developed governance systems that reflect Fonterra's unique characteristics and requirements as a significant New Zealand based co-operative competing in the global dairy market.

THEO SPIERINGS
CHIEF EXECUTIVE

JOHN WILSON
CHAIRMAN OF THE BOARD

IAN BROWN
SHAREHOLDERS' COUNCIL CHAIRMAN

We focus on governance in a way that promotes:

- The interests of our Shareholders.
- Fonterra's Co-operative philosophy which is largely expressed through our Co-operative Principles.
- Transparency, giving our Shareholders and other stakeholders the information they need to assess our performance.
- Effective risk management to ensure that Fonterra meets its business objectives and all legal requirements.
- A good balance between the roles and functions of the Board and Management.
- Communication with important stakeholder groups, including Farmer Shareholders, employees, customers, Unit holders, debt investors, governments and the communities within which Fonterra works.

CHANGES TO THE FONTERRA BOARD

There were a number of changes to the Fonterra Board during the financial year ending 31 July 2013.

In December 2012, John Wilson became Chairman of the Board following the retirement of Sir Henry van der Heyden. Sir Henry stayed on as a Director until resigning from the Board in May 2013.

In April 2013 Ralph Waters retired from the Board as an Appointed Director, having served on the Board for over six years.

Blue Read was elected as a Farmer Director in December 2012.

Simon Israel was appointed as an Appointed Director in May 2013.

Compliance with Best Practice Governance Standards

The Fonterra Board's governance framework takes into consideration contemporary standards in New Zealand and Australia, incorporating principles and guidelines issued by the Financial Markets Authority, the best practice code issued by NZX for the Fonterra Shareholders' Market and the ASX Corporate Governance Council Principles and Recommendations (ASX Principles). These are guidelines designed to maximise company performance and accountability in the interests of shareholders and the broader community.

Fonterra complies with the Fonterra Shareholders' Market Corporate Governance Best Practice Code.

GUIDELINE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Our Board Charter

The Board Charter outlines the key values and practices of Fonterra and provides a reference point for the Board as a whole, and for individual Directors, in the execution of their duties. The Charter is reviewed annually, as are the Committee Charters, and is available on fonterra.com.

The roles and responsibilities of the Board as set out in the Board Charter include:

- declaration of the Farmgate Milk Price and Dividends;
- review of the dividend policy and declaration of the interim and final dividend;
- review and approval of the Group strategy and business plans;
- appointment of the Chief Executive and reviewing the Chief Executive's performance;
- delegation of authority to management, and monitoring the exercise of that authority;
- engagement in the development of the strategic plan and setting the strategy for the Group and for the major business units within the Group;
- approval of significant acquisitions and disposals outside management's delegated authorities;
- oversight of the Board Committees and the areas covered by each of those Committees; and,
- approval and reporting of the Group's financial performance to Shareholders.

The performance of senior executives is evaluated using the same principles that are applied to the performance assessment of other managers and people leaders in Fonterra. There is a performance framework agreed with the Fonterra Management Team that includes key principles of:

- clarity and prioritisation of objectives;
- agreement of expectations;
- managing performance with respect to clear milestones;
- 'how' as well as 'what' – Fonterra's values guiding everyday behaviours;
- ensuring sustainable growth in capability and performance; and,
- ongoing feedback, coaching and review.

New executives are introduced into the business using a robust induction programme with clearly defined expectations and timescales tailored to their specific role, covering areas such as team leadership, stakeholder management and operational expectations relevant to their position.

GUIDELINE 2: STRUCTURE THE BOARD TO ADD VALUE

Our Board

The Constitution of Fonterra provides for not more than 13 Directors and sets out how they are appointed.

In accordance with the Constitution, not more than nine Directors are elected by Farmer Shareholders from the Shareholder base, and not more than four Directors are appointed by the Board. The Appointments, Remuneration and Development Committee oversees the process for identifying and recommending potential appointees, and makes appropriate recommendations to the Board. The Board of the Fonterra Shareholders' Fund is also consulted.

The Appointed Directors are selected to enable the Board to access a full complement of skills and competencies needed to lead an enterprise of Fonterra's size, sophistication and complexity. They bring to the Board perspectives and experience to augment the direct industry knowledge and other expertise provided by the Elected Directors.

Elected Directors must be qualified as Shareholders under section 12.3 of the Constitution and are therefore not considered Independent Directors. Appointed Directors may not be Shareholders and they are expected by Fonterra to maintain independence for the length of their term. The Board has determined that Simon Israel, David Jackson, Sir Ralph Norris and John Waller are Independent Directors under the Fonterra Shareholders' Market Rules as at 31 July 2013.

John Wilson, who is an Elected Director, is the Board-elected Chairperson and following good governance, the Chairperson and Chief Executive Office roles at Fonterra are not exercised by the same individual.

Board meetings

The Board meets formally at least seven times a year and has regular and ad hoc teleconferences to ensure the Board is kept informed, and to deal with specific issues as they arise. Between full Board meetings, the Board uses Committees and Working Groups to advance its work programme and to enhance the efficiency and effectiveness of its decision making.

Information for the Board

It is important that all members of the Board are appropriately informed of the Group's activities.

Directors are supplied with detailed monthly performance reports and analysis in advance of all Board meetings, together with papers on any significant commercial initiatives, and information on the Group's competitive position and general economic indicators.

The Directors also make a point of meeting away from head-office on a semi-regular basis so that they can broaden their understanding of the business through direct contact with managers and customers. Directors also regularly visit key markets to gain a better understanding of the global dairy market.

Director Training

Following appointment to the Board, Directors undertake an induction programme to familiarise themselves with the Group. Areas covered include:

- business strategy and planning;
- an overview of key financial metrics to monitor business performance;
- an overview of material areas of the Fonterra business, through meetings with key executives; and,
- the Fonterra Constitution and other governance systems.

Directors are expected to keep themselves abreast of changes and trends in the business and in the Company's environment and markets, and trends in the economic, political, social and legal climate generally. Directors are also expected to keep up to date with governance issues.

Nominations Committee

As noted above, the Appointments, Remuneration and Development Committee oversees the process for appointments to the Board. To the extent the Board is responsible for appointing Directors, the Appointments, Remuneration and Development Committee (AR&D) satisfies the role of a Nomination Committee.

Performance assessment

Directors formally assess the performance of the Board as a whole each year. A regular programme of peer review of individual Directors also occurs. Feedback from senior management is incorporated into these processes as appropriate, and the performance of the Board against its Statement of Intentions is monitored by the Shareholders' Council and reported to Shareholders annually. The Board is also responsible for reviewing the Chief Executive's performance.

Independent professional advice

Any Director of the Board is entitled to seek independent professional advice relating to the affairs of the Company or to his or her other responsibilities as a Director. Fonterra will pay the reasonable cost of independent professional advice.

GUIDELINE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Ethics framework

The Board is committed to maintaining high ethical standards across the Group, in all aspects of the business in all parts of the world. Fonterra's Code of Business Conduct – The Way We Work – provides practical guidelines on how to apply Fonterra's values in everyday work situations and when working with customers, Shareholders, suppliers and the wider community. This document is available in several languages, to facilitate its accessibility to Fonterra's global employee base.

The Way We Work has been written in simple, straightforward language. An independently run telephone, e-mail and web-based Hotline provides individuals with a confidential channel to raise difficult ethical issues. In the 2013 financial year, 20 calls were raised globally with the Hotline. All were fully investigated and appropriate action taken, including managing issues through other HR processes.

Board Committees

COMMITTEE OR GROUP	MEMBERSHIP AS AT 31 JULY 2013		PURPOSE
Audit, Finance and Risk Committee (AFRC)	David Jackson (Chair) David MacLeod Ian Farrelly	John Waller Malcolm Bailey Sir Ralph Norris	To assist the Board in fulfilling its governance responsibilities in relation to Fonterra's financial reporting, audit activities, treasury matters and risk management and internal control frameworks.
Appointments, Remuneration and Development Committee (AR&D)	John Wilson (Chair) David Jackson (observer) Ian Farrelly John Monaghan	Simon Israel Sir Ralph Norris	To assist the Board in fulfilling its governance responsibilities in relation to the recruitment, retention, remuneration and development of Directors, executives and other employees, and to promote a safe and healthy working environment.
Co-operative Relations Committee (CRC)	John Monaghan (Chair) Ian (Blue) Read Jim van der Poel	Malcolm Bailey Nicola Shadbolt	To assist the Board in fulfilling its governance responsibilities in relation to the supply of milk from Fonterra suppliers, and to seek to resolve supplier complaints before reference to the Milk Commissioner.
Governance and Representation Committee (GRC)	Malcolm Bailey (Chair) John Monaghan Ian (Blue) Read	Nicola Shadbolt	To assist the Board in reviewing and developing the model for Governance and Representation.
International Farming Board Committee (IFBC)	Jim van der Poel (Chair) Ian Farrelly David Jackson	Nicola Shadbolt John Wilson	To assist the Board in ensuring that International Farming and farm extension services options are consistent with strategy and that appropriate risk mitigations, financial measures and operational controls are in place.

Board and Committee Attendance

	BOARD					
	REGULAR	SPECIAL	AFRC	AR&D	CRC	IFBC
John Wilson[1]	9/9	9/9	–	8/9	–	4/4
David Jackson	8/9	8/9	6/6	–	–	4/4
David MacLeod	9/9	9/9	6/6	–	–	–
Sir Henry van der Heyden[2]	8/8	7/7	–	7/9	–	–
Ian Farrelly	9/9	8/9	5/6	9/9	1/2	4/4
Jim van der Poel	9/9	9/9	–	–	3/3	3/4
John Monaghan	9/9	9/9	–	9/9	3/3	–
John Waller	9/9	9/9	6/6	–	–	–
Malcolm Bailey	9/9	8/9	3/6	–	3/3	–
Nicola Shadbolt	9/9	8/9	–	–	2/3	3/4
Ralph Waters[3]	4/7	6/6	–	7/7	–	–
Sir Ralph Norris	7/9	8/9	1/3	5/9	–	–
Ian (Blue) Read[4]	4/4	5/5	–	–	2/2	–
Simon Israel[5]	2/2	1/2	–	–	–	–
Total Meetings	**9**	**9**	**6**	**9**	**3**	**4**

1 Chairman from 17 December 2012.

2 Retired as Chairman 17 December 2012, resigned as Director 31 May 2013.

3 Resigned 18 April 2013.

4 Elected 17 December 2012.

5 Appointed 1 May 2013.

Note: The GRC attendances are not tabulated since members of that committee exercised their role during the year through a number of workshops rather than formal committee meetings.

Diversity & Inclusion Policy

Fonterra established a Diversity & Inclusion Policy in the latter part of the 2013 financial year. This policy acts as a statement of intent rather than a prescriptive set of instructions or measures. A diversity and inclusion strategy and accompanying initiatives will be developed and prioritised in the 2014 financial year to achieve the desired impact on diversity. Work will progress through the year and will be reported in the 2014 Annual Report.

As at 31 July 2013, the gender composition of the Board comprised 11 male Directors and one female Director, with one casual vacancy on the Board. The nine Elected Directors on the Fonterra Board are elected by postal ballot of the Shareholders conducted by the Shareholders' Council, and the four Appointed Directors are appointed by the Board and ratified by Farmer Shareholders. Of 12 Officers that reported directly to the Chief Executive at the Balance Date, two were female.

Securities trading policy

Fonterra has adopted a trading policy that details the rules for trading in Units and/or Shares. The policy applies to Directors, officers, employees and contractors of Fonterra and members of the Shareholders' Council and Milk Price Panel, and is additional to legal prohibitions on insider trading in New Zealand and Australia.

All Directors comply with the legislative requirements for disclosing interests and with the Securities Trading Policy which regulates both Directors and management in their personal dealings with Fonterra securities and those of related companies.

GUIDELINE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit, Finance and Risk Committee

There is an established Audit, Finance and Risk Committee (AFRC) as described above. The AFRC comprises of three Appointed Directors and three Elected Directors. The committee is chaired by David Jackson, who is an Independent Director.

The auditor is appointed by the Shareholders at the Annual Meeting. Fonterra encourages the rotation of the lead external audit partner in the relationship in accordance with best practice. AFRC approval is required, under the Group's auditor independence policy, for certain activities the auditor may undertake for the Group. The AFRC will not approve the auditor performing any tasks which have the potential to create a conflict except in exceptional circumstances and then only if appropriate safeguards are in place.

Milk Price Panel

The Board has created the Milk Price Panel for the purpose of providing assurances as to the governance of the Farmgate Milk Price and the proper application of the Farmgate Milk Price Manual and the Milk Price Principles.

The Panel does not determine the Farmgate Milk Price as this is a decision for the Board.

The Dairy Industry Restructuring Act requires that the Chair and a majority of the members of the Panel (including the Chair) are independent. The Panel consists of two Appointed Directors, one Elected Director and two appropriately qualified persons nominated by the Shareholders' Council, at least one of whom must be independent. The Chair must be one of the Appointed Director members.

The Panel is currently chaired by John Waller. Other Board members are David Jackson and David MacLeod. The Shareholders' Council appointees are Richard Punter and Patrick Boyle. The Board confirms that at Balance Date, John Waller, David Jackson, Richard Punter and Patrick Boyle are Independent Members of this panel.

GUIDELINE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Continuous disclosure

The Board originally affirmed Fonterra's commitment to promoting a well-informed and efficient market by signing off a Fonterra Group Disclosure Policy in December 2010. A major education programme was run within Fonterra in 2012 to ensure staff are aware of Fonterra's obligations as an equity issuer.

The Policy applies to all Directors and Officers of Fonterra and its subsidiaries, all Shareholders' Councillors, the members of the Milk Price Panel and all employees (including contractors, consultants, advisers or secondees).

The objectives of the Policy are to ensure Fonterra continues to provide timely and accurate information and fully comply with the Fonterra Shareholders' Market, NZSX and ASX continuous disclosure regimes and with the Securities Markets Act and applicable market rules.

Fonterra and the Manager of the Fonterra Shareholders' Fund have entered into an arrangement to co-operate with each other and take all steps reasonably required to ensure that information to be disclosed by either of them under the listing rules of the FSM, the NZSX or the ASX (as the case may be) is disclosed simultaneously to the Fonterra Shareholders' Market, the NZX Main Board and ASX. It is intended that where NZX, as market operator of the Fonterra Shareholders' Market, receives information provided by Fonterra for release under the Fonterra Shareholders' Market, NZX will simultaneously release the information under the code relating to the Fund. This process is intended to be automatic. Fonterra simultaneously discloses relevant information on ASX.

GUIDELINE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholders' Council

One of the Board's most important relationships is with the Shareholders' Council. The Council, which is established under the Fonterra Constitution, is independent of the Board and comprises 35 Shareholder-elected councillors, each representing a different ward. The functions of the Council are set out in the Constitution. The Council reviews the Board's statement of intentions for the performance and operations of the Group and publishes an Annual Report, commenting on these matters. The Council and the Board meet regularly, as do the Chairs of the Board and the Council and the Chairs of their respective Committees.

Farmer communications

Fonterra is committed to maintaining and improving dialogue with our Shareholder base to ensure that the objectives of both the Group and the Shareholders are understood. An extensive Farmer Shareholder and supplier relations programme is managed by the Group Director Co-operative Affairs. Channels for electronic communication are provided through the fonterra.com and Fencepost websites.

Fonterra's communications with Farmer Shareholders include a Sky Broadcast, a monthly Global Dairy Update, Farmlink and a regular Chairman's email.

As described above Fonterra will release to the relevant stock exchanges all Shareholder-related information, and will comply with the Fonterra Shareholders' Market, NZSX and NZDX Listing Rules and ASX Listing Rules with respect to Shareholder communications.

Farmer meetings

A schedule of regular meetings with Shareholders and suppliers is held across the country each year. Often these are run in conjunction with the Shareholders' Council, Area Managers and the Fonterra Farmer Network.

In addition, the Board consults with supplying Shareholders on specific issues as they arise.

Fonterra.com and Fencepost

Presentations on the development of the business are available on the fonterra.com website. The Group also uses email alerts, including regular updates from the Chairman and monthly Shareholder updates.

The Fencepost website enables Fonterra suppliers, their employees and business partners to transact online with Fonterra and access information and tools on milk production and quality, online statements and up to the minute news and weather.

This site is also used to provide information on the business to suppliers.

Annual Meeting

The Board views the Annual Meeting of Shareholders, which is held at a different venue around New Zealand each year, as an opportunity to communicate directly with Shareholders and ensures that adequate time is provided at these meetings for Shareholders to raise issues or ask questions from the floor.

Notices of meetings will be sent to Shareholders at least 10 working days before the meeting.

The Constitution describes the process whereby a Shareholder can raise a proposal for discussion or resolution at the next meeting of Shareholders at which the Shareholder is entitled to vote.

Annual Report

The Group's Annual Report including financial statements and Annual Review, together with the half-year reports and other material announcements, are designed to present a balanced and clear view of Fonterra's activities and prospects and are available on the website, fonterra.com.

Other Disclosures

Information on the Group's performance and the expected Cash Payout, annual and half-year financial results, Director changes, and other significant matters, is advised to the market through the NZX and ASX in accordance with the Disclosure policy. Shareholders and other stakeholders receive regular updates on these and other issues relevant to them.

GUIDELINE 7: RECOGNISE AND MANAGE RISK

Risk management

Fonterra has a global Group Risk Management Policy and Practice, the purpose of which is to embed an enterprise-wide risk management capability within Fonterra to provide a consistent method for the identification, assessment, control, monitoring and reporting of risks faced by the organisation. The policy recognises that risk represents both opportunity and threat and that risk is an integral part of business.

Fonterra's tolerance for risk is defined in the Risk Management Framework (RMF), which requires the reporting of material risks as appropriate to the Fonterra Management Team, Audit, Finance and Risk Committee (AFRC) and the Board of Directors.

Fonterra's Group Risk Management Framework was reviewed by the Board in 2012 and is consistent with the ISO 31000 Risk Management Standard.

The Policy is supported by a detailed Group Risk Management Standard and Guidelines which define the mandatory requirements relating to risk management for businesses. The Risk Management Framework provides a consistent methodology and approach for the execution of these mandatory requirements by specifying processes for:

- Identifying existing and potential risks which may impact upon business objectives;
- Assessing the consequence and likelihood of risks identified;
- Identifying key controls in place to address risks;
- Evaluating the design and operating effectiveness of controls in mitigating risks to an acceptable level;
- Generating action plans to improve controls where required; and,
- Regularly monitoring risks and tracking progress against action plans.

Fonterra's Top 20 risks are presented for independent review to the Board on an annual basis. This process is supported by a formal annual evaluation of Top 15 risks by all material business units.

In addition to the annual risk assessment process, management performs a six-monthly self-assessment of the effectiveness of key controls relied upon to manage their top risks. A summary of the results of this assessment of the effectiveness of Fonterra's internal control environment is reported to the AFRC.

Fonterra's Internal Audit function is accountable for formally reviewing the effectiveness of the Group's risk management processes, including using the outputs of risk assessments to compile its audit plan and performing independent validation of the control environment.

GUIDELINE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration of Directors

The Constitution modifies the discretion of the Board to set remuneration of Directors.

In accordance with the Constitution, Shareholders elect an independent committee of six Shareholders to consider and make recommendations to the Annual Meeting on Elected Director remuneration. The members of the Directors' Remuneration Committee (DRC) are Rodney Wilson (Chair), David Gascoigne, Murray Holdaway, Scott Montgomerie, Philip Wilson and Gerard Wolvers.

The Board has full discretion over the remuneration of Appointed Directors.

OTHER GOVERNANCE BEST PRACTICES

The Board has also reviewed compliance with the Principles for Corporate Governance issued by the Financial Markets Authority. While the Board believes it complies with the Principles, there are some points of divergence from specific Guidelines.

- Audit Committee membership (Guideline 3.4). The majority of members are not independent, due to the proportion of farmer-elected Directors on the Board.
- Management representation (Guideline 4.4). The Chief Executive and Chief Financial Officer do not certify in the published accounts their compliance with generally accepted accounting practice in New Zealand. The Board is directly and legally responsible for these documents, and obtains all relevant assurances from management or other parties.

FSM Waivers

There have been no FSM Waivers granted.

FSM Trading Halts

During the reporting period, there were no trading halts in the Fonterra Shareholders' Market imposed by the NZX as set out in Rule 4.2.2 of the FSM Rules or requested by Fonterra other than routine temporary halts following the release of price-sensitive information to the market under the Continuous Disclosure policy.

BOARD OF DIRECTORS

JOHN WILSON BECAME CHAIRMAN OF THE BOARD IN DECEMBER 2012 FOLLOWING THE RETIREMENT OF SIR HENRY VAN DER HEYDEN.

1. JOHN WILSON
2. BLUE READ
3. DAVID JACKSON
4. DAVID MACLEOD
5. IAN FARRELLY
6. JIM VAN DER POEL
7. JOHN MONAGHAN
8. JOHN WALLER
9. MALCOLM BAILEY
10. NICOLA SHADBOLT
11. SIMON ISRAEL
12. SIR RALPH NORRIS KNZM

1.

2.

4.

3.

5.

1. JOHN WILSON

B. Agr.Sc

John Wilson joined the Fonterra Board in 2003 and became Chairman in 2012. He is Chairman of the Appointments, Remuneration and Development Committee, and is a member of Fonterra's International Farming Board Committee, a director of Turners & Growers Limited and a member of the Institute of Directors in New Zealand. John lives on his dairy farm near Te Awamutu and jointly owns a dairy farming business based in Geraldine, South Canterbury.

2. BLUE READ

Blue Read was elected to the Board in 2012. He sits on the Co-operative Relations Committee and the Governance & Representation Committee. He was previously the Chairman of the Fonterra Shareholders' Council from 2007 to 2010, having been a Shareholders' Councillor since 2001 and Deputy Chairman from 2003 - 2007. Blue has previously been Chairman of Cooperative Business New Zealand, Taranaki Dairy Section of Federated Farmers and Chairman of the New Zealand Sharemilkers Association. Blue lives and farms near Urenui in Northern Taranaki.

3. DAVID JACKSON

M.Com (Hons), FCA

David Jackson joined the Fonterra Board in September 2007 as an Appointed Director. David is Chairman of the Audit, Finance and Risk Committee, is a member of the International Farming Board Committee and serves on the Milk Price Panel. David also serves on the boards of Nuplex Industries Limited and Mitre 10 (New Zealand) Limited and is Chairman of The New Zealand Refining Company Limited. David spent more than 30 years with accounting firm Ernst & Young in a variety of roles, and served as Chairman of the board of management for the firm in New Zealand from 1999 to 2002.

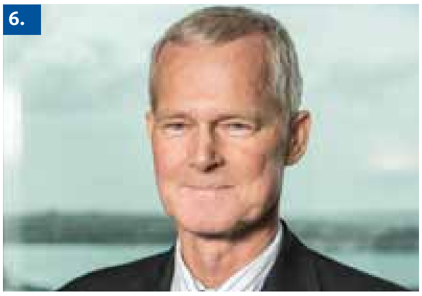
4. DAVID MACLEOD

David MacLeod was elected to the Fonterra Board in 2011. He is a member of the Audit, Finance and Risk Committee and the Milk Price Panel. David also serves on the boards of Port Taranaki Limited and A.J. Greaves Electrical Limited. He is Chairman of the Taranaki Regional Council. David lives near Hawera in South Taranaki and is a director of P.K.W. Farms GP Limited, one of Fonterra's largest Shareholders.

5. IAN FARRELLY

B. Agr.

Ian Farrelly was elected to the Fonterra Board in 2007. He serves on the Audit, Finance and Risk Committee, the Appointments, the Remuneration and Development Committee, the International Farming Board Committee and the Governance Development Committee. Prior to this he had a 20-year career in the banking industry including 15 years as head of ASB's Rural Division. Ian is also a director of First Mortgage Managers Limited, Spectrum Dairies Limited, Fortuna Group Limited and is an Advisor to Waikato Stud. He also owns and runs a 400-hectare 10,000 animal calf rearing farm in Te Awamutu, owns a 50 per cent share in three Waikato dairy farms and has ownership interests in dairy farms in Canterbury.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12.

6. JIM VAN DER POEL

Jim van der Poel was elected to the Fonterra Board in 2002. He serves on the Co-operative Relations Committee and is Chairman of Fonterra's International Farming Board Committee and is on the Fonterra Shareholders' Fund Board. Jim has won a number of industry awards including the AC Cameron Memorial Award, 2002 New Zealand Nuffield Farming Scholarship, Sharemilker/Equity Farmer of the Year and the Dairy Exporter Primary Performer Award. Jim and his wife Sue live at Ngahinapouri in the Waikato and have farming interests in Waikato, Canterbury and the United States.

7. JOHN MONAGHAN

John Monaghan was elected to the Fonterra Board in 2008 and is currently Chairman of the Co-operative Relations Committee and serves on the Appointments, Remuneration and Development Committee and the Governance and Representation Committee. He previously chaired the External Relations Committee and sat on the Capital Structure Committee. Prior to joining the Board John was Chairman of the Shareholders' Council. He is also a director of Centre Port Limited and Centre Port Properties Limited. He has farming interests in the Wairarapa and Canterbury regions.

8. JOHN WALLER

BCom, FCA

John Waller joined the Fonterra Board in February 2009 as an Appointed Director. John is Chairman of the Milk Price Panel and is also a member of the Audit, Finance and Risk Committee. He is Chairman of the Bank of New Zealand and the Eden Park Trust. He is a director of National Australia Bank Limited, BNZ Investments Limited, Haydn & Rollett Limited, National Equities Limited, Alliance Group Limited, Sky Network Television Limited, Property for Industry Limited and Donaghys Limited. John was a partner at PricewaterhouseCoopers for over 20 years. He was also a member of their board and led their advisory practice for many years.

9. MALCOLM BAILEY

B. Agr. Econ

Malcolm Bailey was elected to the Fonterra Board in 2004. He sits on the Audit, Finance and Risk Committee and the Co-operative Relations Committee. Malcolm also represents Fonterra on the Dairy Companies Association of New Zealand, and is a member of the International Food and Agricultural Trade Policy Council. He is a director of Westpac New Zealand Limited, Hopkins Farming Group Limited, Gleneig Holdings Limited and Agrico Holdings Limited. He is also the Independent Chair of the Red Meat Profit Partnership. Malcolm's dairy farming interests are as a shareholder in Hopkins Farming Group Limited.

10. NICOLA SHADBOLT

BSc(Hons), MAgrSc(Hons), FNZIPIM(Reg)

Nicola Shadbolt was elected to the Fonterra Board in 2009. She serves on the Co-operative Relations Committee and Fonterra's International Farming Board Committee. Nicola is a Professor at Massey University, Director of the Centre of Excellence in Farm Business Management, a director of the International Food and Agribusiness Management Association, trustee of the Agri-Women's Development Trust and represents New Zealand in the International Farm Comparison Network in Dairying. Nicola is a shareholder and a director of five farming and forestry equity partnerships that include two dairy farms in the Manawatu.

11. SIMON ISRAEL

Diploma of Business Studies

Simon Israel was appointed to the Fonterra Co-operative Group Board in 2013. Simon is currently the Chairman of Singapore Telecommunications Limited and is a Director of CapitaLand, one of Asia's largest real estate companies. He was an Executive Director of Temasek Holdings for six years and President from 2010 to 2011. Prior to that he was Chairman for Asia Pacific of the Danone Group. He was also a director of Fraser & Neave, Neptune Orient Lines, Asia Pacific Breweries, Griffin Foods and Frucor Beverage Group. Simon has ten years' experience in the dairy industry with Danone as a Senior Vice President and member of the Group Executive Committee and as Chairman for the Asia Pacific region. He was conferred Knight in the Legion of Honour by the French Government in 2007 and awarded the Public Service Medal in Singapore in 2011.

12. SIR RALPH NORRIS KNZM

FNZIM, FNZCS

Sir Ralph Norris joined the Fonterra Board in 2012 as an Appointed Director and he sits on the Appointments, Remuneration and Development Committee and the Audit, Finance and Risk Committee. Sir Ralph also serves on the Board of the Fonterra Shareholders' Fund, Origin Energy Limited and the New Zealand Treasury, and on the Council of The University of Auckland. In addition, Sir Ralph serves on a number of Advisory Boards in both Australia and New Zealand. Sir Ralph had a 40-year career in banking and was Chief Executive of the Commonwealth Bank of Australia until December 2011. Prior to that, he served as Chief Executive of Air New Zealand Limited and Chief Executive of ASB Bank Limited. Sir Ralph was made a Knight Companion of the New Zealand Orderof Merit in 2009 and a Distinguished Companion of the New Zealand Order of Merit for services to business in 2006.

SUMMARY FINANCIAL STATEMENTS

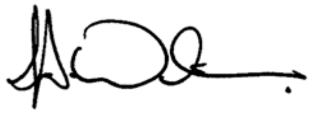
For the year ended 31 July 2013

Contents:

DIRECTORS' STATEMENT

FOR THE YEAR ENDED 31 JULY 2013

The Directors hereby approve and authorise for issue the summary financial statements for the year ended 31 July 2013 presented on pages 56 to 76. For and on behalf of the Board:



JOHN WILSON
Chairman
24 September 2013

DAVID JACKSON
Director
24 September 2013

Fonterra Co-operative Group Limited (Fonterra or the Company) is a co-operative company incorporated and domiciled in New Zealand. Fonterra is registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and is an issuer for the purposes of the Financial Reporting Act 1993. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001.

These summary financial statements are those of Fonterra and its subsidiaries (together referred to as the Group) and the Group's interest in its equity accounted investees. They have been prepared in accordance with Financial Reporting Standard No. 43: Summary Financial Statements and have been extracted from the Group's full financial statements that have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. Fonterra's full financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and with International Financial Reporting Standards.

The Board has elected to present summary financial statements for the year ended 31 July 2013 as part of the Annual Review sent to Shareholders. These summary financial statements include notes setting out the key information.

These summary financial statements are presented for the year ended 31 July 2013. The comparative information is for the year ended 31 July 2012.

The full financial statements for the year ended 31 July 2013, approved and authorised for issue by the Board on 24 September 2013, have been audited by PricewaterhouseCoopers and given an unqualified opinion.

The Group is primarily involved in the collection, manufacture and sale of milk and milk derived products and is a profit-oriented entity. These summary financial statements are presented in New Zealand dollars ($), which is the Company's functional and presentation currency, and rounded to the nearest million.

The summary financial statements cannot be expected to provide as complete an understanding of the financial affairs of the Group as the full financial statements, which are available from the Company's registered office at 9 Princes Street, Auckland, New Zealand or on the Company's website, www.fonterra.com.

INCOME STATEMENT
FOR THE YEAR ENDED 31 JULY 2013

		GROUP $ MILLION	
	NOTES	31 JULY 2013	31 JULY 2012
Revenue from sale of goods		18,643	19,769
Cost of goods sold	1	(15,611)	(16,721)
Gross profit		3,032	3,048
Other operating income		105	132
Selling and marketing expenses		(622)	(568)
Distribution expenses		(514)	(501)
Administrative expenses		(766)	(784)
Other operating expenses		(354)	(385)
Net foreign exchange losses		(7)	(7)
Share of profit of equity accounted investees		63	52
Profit before net finance costs and tax	2	937	987
Finance income		25	30
Finance costs		(294)	(340)
Net finance costs		(269)	(310)
Profit before tax		668	677
Tax credit/(expense)	3	68	(53)
Profit for the year		736	624
Profit for the year is attributable to:			
Equity holders of the Parent		718	609
Non-controlling interests		18	15
Profit for the year		736	624

	GROUP $	
	31 JULY 2013	RESTATED[1] 31 JULY 2012
Earnings per share:		
Basic and diluted earnings per share	0.44	0.41

1 Restated for impact of the non-cash Bonus issue of shares, issue date 24 April 2013.

The accompanying notes form part of these summary financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2013

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Profit for the year	736	624
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges:		
– Net fair value gains/(losses)	116	(229)
– Transferred and reported in revenue from sale of goods	(317)	(400)
– Tax credit on cash flow hedges	56	176
Net investment hedges:		
– Net fair value losses on hedging instruments	(5)	(33)
– Tax credit on net investment hedges	2	9
Foreign currency translation (losses)/gains attributable to equity holders	(45)	37
Foreign currency translation reserve transferred to income statement	(7)	(7)
Share of equity accounted investees' movements in reserves	(1)	1
Total items that may be reclassified subsequently to profit or loss	(201)	(446)
Items that will not be reclassified subsequently to profit or loss:		
Foreign currency translation attributable to non-controlling interests	1	1
Total items that will not be reclassified subsequently to profit or loss	1	1
Total other comprehensive expense recognised directly in equity	(200)	(445)
Total comprehensive income for the year	536	179
Attributable to:		
Equity holders of the Parent	517	163
Non-controlling interests	19	16
Total comprehensive income for the year	536	179

The accompanying notes form part of these summary financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2013

	NOTES	GROUP $ MILLION 31 JULY 2013	GROUP $ MILLION 31 JULY 2012
ASSETS			
Current assets			
Cash and cash equivalents		**330**	1,033
Trade and other receivables		**2,054**	2,302
Inventories		**3,078**	2,981
Tax receivable		**26**	18
Derivative financial instruments		**100**	275
Other current assets		**58**	83
Total current assets		**5,646**	6,692
Non-current assets			
Property, plant and equipment		**4,807**	4,569
Equity accounted investments	6	**449**	439
Intangible assets		**2,858**	2,882
Deferred tax asset		**217**	99
Derivative financial instruments		**127**	198
Other non-current assets		**269**	238
Total non-current assets		**8,727**	8,425
Total assets		**14,373**	15,117
LIABILITIES			
Current liabilities			
Bank overdraft		**1**	42
Borrowings	7	**1,569**	1,204
Trade and other payables		**1,491**	1,386
Owing to suppliers		**711**	1,083
Tax payable		**23**	28
Derivative financial instruments		**149**	255
Provisions		**82**	83
Other current liabilities		**52**	44
Total current liabilities		**4,078**	4,125
Non-current liabilities			
Borrowings	7	**3,108**	3,745
Derivative financial instruments		**346**	413
Provisions		**76**	81
Deferred tax liability		**6**	85
Other non-current liabilities		**11**	13
Total non-current liabilities		**3,547**	4,337
Total liabilities		**7,625**	8,462
Net assets		**6,748**	6,655
EQUITY			
Subscribed equity		**5,807**	5,690
Retained earnings		**1,249**	1,078
Foreign currency translation reserve		**(266)**	(211)
Cash flow hedge reserve		**(82)**	63
Total equity attributable to equity holders of the Parent		**6,708**	6,620
Non-controlling interests		**40**	35
Total equity		**6,748**	6,655

The accompanying notes form part of these summary financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2013

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
GROUP $ MILLION	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2011	5,261	943	(217)	516	6,503	38	6,541
Profit for the year	–	609	–	–	609	15	624
Other comprehensive income/(expense) for the year	–	1	6	(453)	(446)	1	(445)
Total comprehensive income/(expense) for the year	–	610	6	(453)	163	16	179
Transactions with equity holders in their capacity as equity holders:							
Dividends paid to equity holders of the Parent	–	(475)	–	–	(475)	–	(475)
Equity instruments issued	584	–	–	–	584	–	584
Equity instruments surrendered	(155)	–	–	–	(155)	–	(155)
Dividends paid to non-controlling interests	–	–	–	–	–	(19)	(19)
As at 31 July 2012	5,690	1,078	(211)	63	6,620	35	6,655
As at 1 August 2012	**5,690**	**1,078**	**(211)**	**63**	**6,620**	**35**	**6,655**
Profit for the year	**–**	**718**	**–**	**–**	**718**	**18**	**736**
Other comprehensive (expense)/income for the year	**–**	**(1)**	**(55)**	**(145)**	**(201)**	**1**	**(200)**
Total comprehensive income/(expense) for the year	**–**	**717**	**(55)**	**(145)**	**517**	**19**	**536**
Transactions with equity holders in their capacity as equity holders:							
Dividends paid to equity holders of the Parent	**–**	**(546)**	**–**	**–**	**(546)**	**–**	**(546)**
Equity instruments issued	**611**	**–**	**–**	**–**	**611**	**–**	**611**
Equity instruments cancelled	**(475)**	**–**	**–**	**–**	**(475)**	**–**	**(475)**
Equity instruments surrendered	**(1)**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Equity transaction costs	**(18)**	**–**	**–**	**–**	**(18)**	**–**	**(18)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(14)**	**(14)**
As at 31 July 2013	**5,807**	**1,249**	**(266)**	**(82)**	**6,708**	**40**	**6,748**

The accompanying notes form part of these summary financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2013

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Cash flows from operating activities		
Profit before net finance costs and tax	937	987
Adjustments for:		
Foreign exchange losses	1	16
Depreciation and amortisation	530	492
Movement in provisions	(17)	109
Other	(16)	(7)
	498	610
Increase/(decrease) in working capital:		
Inventories	(43)	307
Trade and other receivables	38	196
Amounts owing to suppliers	(410)	(567)
Payables and accruals	68	(64)
Other movements	(8)	(13)
Total	(355)	(141)
Cash generated from operations	1,080	1,456
Net taxes paid	(83)	(66)
Net cash flows from operating activities	997	1,390
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from disposal of property, plant and equipment	22	11
– Proceeds from settlement of net investment hedges	–	26
– Proceeds from sale of Group entities and other business operations	5	–
– Other cash inflow	5	–
Cash was applied to:		
– Acquisition of property, plant and equipment	(701)	(673)
– Acquisition of intangible assets	(147)	(184)
– Outflows on settlement of net investment hedges	–	(2)
– Acquisition of Group entities and other business operations	(49)	–
– Advances made to equity accounted investees	(2)	(4)
– Other cash outflow	(1)	–
Net cash flows from investing activities	(868)	(826)
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	3,188	2,215
– Proceeds from issue of equity instruments	653	505
– Proceeds for equity instruments not yet issued	–	44
– Proceeds from settlement of borrowing derivatives	3	13
– Interest received	26	31
Cash was applied to:		
– Interest paid	(334)	(406)
– Repayment of borrowings	(3,268)	(2,097)
– Settlement of borrowing derivatives	–	(5)
– Surrendered/cancelled equity instruments	(475)	(155)
– Dividends paid to non-controlling interests	(14)	(19)
– Dividends paid to equity holders of the Parent	(546)	(475)
– Equity transaction costs	(18)	–
– Other cash outflow	(1)	–
Net cash flows from financing activities	(786)	(349)
Net (decrease)/increase in cash and cash equivalents	(657)	215
Cash and cash equivalents at the beginning of the year	991	762
Effect of exchange rate changes on cash balances	(5)	14
Cash and cash equivalents at the end of the year	329	991
Reconciliation of closing cash balances to the statement of financial position:		
Cash and cash equivalents	330	1,033
Bank overdraft	(1)	(42)
Closing cash balances	329	991

The accompanying notes form part of these summary financial statements.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 JULY 2013

These summary financial statements of the Group have been prepared using the same accounting policies and measurement basis as, and should be read in conjunction with, the Group's full financial statements for the year ended 31 July 2013. The accounting policies applied by the Group are consistent with those applied for the year ended 31 July 2012, except for:

a) Change in accounting policy

Cash flow statement

Fonterra adopted the Amendments to various existing New Zealand International Financial Reporting Standards (Harmonisation Amendments) during the year ended 31 July 2013. One of the changes the Harmonisation Amendments introduced was the option to use the indirect method of presenting cash flows from operating activities in the cash flow statement. The Board has concluded that the indirect method provides users of the financial statements with more relevant information on the key factors influencing Fonterra's operating cash flows and improves comparability with international peers, and therefore, for the year ended 31 July 2013, Fonterra has changed its accounting policy to use the indirect method of presenting cash flows from operating activities. This change in accounting policy has been applied retrospectively and the comparative figures in the Cash Flow Statement have been updated to use the indirect method. This change in accounting policy is presentational only.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2013

1 COST OF GOODS SOLD

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Opening inventory	2,981	3,277
Cost of Milk:		
– New Zealand sourced	8,635	9,033
– Non-New Zealand sourced	996	1,148
Other purchases	6,077	6,244
Closing inventory	(3,078)	(2,981)
Total cost of goods sold	15,611	16,721

2 PROFIT BEFORE NET FINANCE COSTS AND TAX

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
The following items have been included in arriving at profit before net finance costs and tax:		
Auditors' remuneration:		
– Fees paid for the audit or review of financial statements	4	4
– Fees paid for other services[1]	2	2
Operating lease expense	72	73
Depreciation of property, plant and equipment	444	410
Amortisation of intangible assets	86	82
Research and development costs	94	93
Net loss on disposal of property, plant and equipment	5	2
Net loss on derecognition of software	–	9
Donations	2	3
Research and development grants received from government	(4)	(9)
Total employee benefits expense	1,735	1,704
Included in employee benefits expense are:		
– Contributions to defined contribution plans	58	54

1 Other services include financial reporting, advisory services, financial and information technology controls assurance and other attest services.

3 TAX (CREDIT)/EXPENSE

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Current tax expense	83	53
Prior period adjustments to current tax	(11)	1
Deferred tax movements:		
– Origination and reversal of temporary differences	(140)	(1)
Tax (credit)/expense	**(68)**	53
Profit before tax	**668**	677
Prima facie tax expense at 28%	187	190
Add/(deduct) tax effect of:		
– Effect of tax rates in foreign jurisdictions	(18)	(11)
– Non-deductible expenses/additional assessable income	25	21
– Non-assessable income/additional deductible expenses	(29)	(38)
– Prior year (over)/under provision	(11)	1
Tax expense before distributions and deferred tax	**154**	163
Effective tax rate before distributions and deferred tax	**23.1%**	24.1%
Tax effect of distributions to Shareholder suppliers	(126)	(128)
Tax expense before deferred tax	**28**	35
Effective tax rate before deferred tax	**4.2%**	5.2%
Add/(deduct) tax effect of:		
– Origination and reversal of other temporary differences	(40)	14
– Change in estimate of benefits of tax losses recognised	(70)	–
– Losses of overseas Group entities not recognised	14	4
Tax (credit)/expense	**(68)**	53
Effective tax rate	**(10.2%)**	7.8%
Imputation credits		
Imputation credits available for use in subsequent reporting periods	20	20
Tax losses		
Gross tax losses available for which no deferred tax asset has been recognised	109	63

4 SEGMENT REPORTING

The Group operates predominantly in the international dairy industry.

The Group has four reportable segments that are defined by product type and geographic area to reflect how the Group's operations are managed.

The reportable segments presented reflect the Group's management and reporting structure as viewed by the Fonterra Management Team, which is the Group's chief operating decision maker.

Transactions between segments are based on estimated market prices.

On 1 August 2012, Fonterra's organisational structure was re-aligned. As a result, certain operations were placed under the control of different business units. The most significant changes impacting reported segment earnings were:

- RD1 has been moved from NZMP to ANZ;
- International farming ventures has been moved from NZMP to Asia/AME (international farming ventures in China) and Latam (international farming ventures in South America).

Certain functions within NZMP have also been renamed.

Comparatives have been restated to reflect these changes.

REPORTABLE SEGMENT	DESCRIPTION
New Zealand Milk Products (NZMP)	Represents the collection, processing and distribution of New Zealand milk, global sales and marketing of New Zealand and non-New Zealand milk products, Fonterra Nutrition, Group Strategy & Optimisation, Co-operative Affairs and Group Services.
Australia/New Zealand (ANZ)	Represents Fast Moving Consumer Goods (FMCG) operations in New Zealand (including export to the Pacific Islands) and all FMCG and Ingredients operations in Australia (including Milk Supply and Manufacturing). It includes foodservice sales in Australia and New Zealand (except for foodservice sales to Quick Service Restaurants), and RD1.
Asia/Africa and Middle East (Asia/AME)	Represents FMCG operations in Asia (excluding North Asia), Africa and the Middle East, and foodservices sales in Asia/AME and China. It includes international farming ventures in China.
Latin America (Latam)	Represents FMCG operations in Chile and equity accounted investments in South America. It includes international farming ventures in South America.

In April 2013, Fonterra announced a new Asia Pacific Middle East Africa (APMEA) business unit combining ANZ and Asia/AME. No changes to internal reporting or decision making have occurred during the year ended 31 July 2013, therefore no change has been reflected in the reportable segments.

a) Segment income

	GROUP $ MILLION					
	NZMP	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Year ended 31 July 2013						
External revenue	12,358	3,101	2,057	1,127	–	18,643
Inter-segment revenue	1,559	644	2	8	(2,213)	–
Revenue from sale of goods	13,917	3,745	2,059	1,135	(2,213)	18,643
Segment gross profit	1,251	756	702	303	20	3,032
Selling and marketing expenses	(89)	(150)	(324)	(59)	–	(622)
Distribution expenses	(188)	(203)	(42)	(81)	–	(514)
Administrative and other operating expenses	(615)	(324)	(153)	(51)	23	(1,120)
Segment operating expenses	(892)	(677)	(519)	(191)	23	(2,256)
Net other operating income	69	11	24	24	(23)	105
Net foreign exchange losses	(7)	–	–	–	–	(7)
Share of profit of equity accounted investees	59	3	–	1	–	63
Segment earnings before net finance costs and tax	480	93	207	137	20	937
Normalisation adjustments	14	49	2	–	–	65
Normalised segment earnings before net finance costs and tax	494	142	209	137	20	1,002
Normalisation adjustments						(65)
Finance income						25
Finance costs						(294)
Profit before tax for the year						668
Profit before tax for the year includes the following amounts:						
Depreciation	(320)	(83)	(14)	(27)	–	(444)
Amortisation	(68)	(13)	(4)	(1)	–	(86)
Other income from equity accounted investees	3	2	–	24	–	29
Normalisation adjustments consist of the following amounts:						
Costs associated with closure of Cororooke plant in Australia	–	30	–	–	–	30
Costs associated with the Group Strategy Right-Sizing	14	19	5	–	–	38
Other	–	–	(3)	–	–	(3)
Total normalisation adjustments[1]	14	49	2	–	–	65
Segment asset information:						
As at and for the year ended 31 July 2013						
Equity accounted investments	218	31	–	200	–	449
Capital expenditure	683	144	70	29	–	926

1 Of the $65 million normalisation adjustments, $47 million related to operating expenses and $18 million to cost of goods sold.

4 SEGMENT REPORTING CONTINUED

a) Segment income CONTINUED

	GROUP $ MILLION					
	NZMP	ANZ	ASIA/AME	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Year ended 31 July 2012						
External revenue	13,228	3,538	1,998	1,005	–	19,769
Inter-segment revenue	1,764	761	3	5	(2,533)	–
Revenue from sale of goods	14,992	4,299	2,001	1,010	(2,533)	19,769
Segment gross profit	1,285	869	648	260	(14)	3,048
Selling and marketing expenses	(81)	(144)	(288)	(55)	–	(568)
Distribution expenses	(188)	(215)	(37)	(61)	–	(501)
Administrative and other operating expenses	(665)	(313)	(148)	(60)	17	(1,169)
Segment operating expenses	(934)	(672)	(473)	(176)	17	(2,238)
Net other operating income	78	17	17	37	(17)	132
Net foreign exchange gains/(losses)	8	(5)	(10)	–	–	(7)
Share of profit of equity accounted investees	40	9	–	3	–	52
Segment earnings before net finance costs and tax	477	218	182	124	(14)	987
Normalisation adjustments	24	9	–	8	–	41
Normalised segment earnings before net finance costs and tax	501	227	182	132	(14)	1,028
Normalisation adjustments						(41)
Finance income						30
Finance costs						(340)
Profit before tax for the year						677
Profit before tax for the year includes the following amounts:						
Depreciation	(304)	(72)	(10)	(24)	–	(410)
Amortisation	(66)	(12)	(3)	(1)	–	(82)
Other income from equity accounted investees	1	–	–	38	–	39
Normalisation adjustments consist of the following amounts:						
Impairment losses recorded in equity accounted investees	–	–	–	8	–	8
Restructuring costs associated with the Group Strategy Refresh	23	7	–	–	–	30
Other	1	2	–	–	–	3
Total normalisation adjustments[1]	24	9	–	8	–	41
Segment asset information:						
As at and for the year ended 31 July 2012						
Equity accounted investments	196	29	–	214	–	439
Capital expenditure	586	192	57	53	–	888

1 Of the $41 million normalisation adjustment, $19 million related to operating expenses, $14 million to cost of goods sold and the $8 million of impairment losses were recognised in share of profit of equity accounted investees.

b) Revenue

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Entity wide products and services:		
Consumer goods	**4,717**	4,945
Ingredients and other revenue	**13,926**	14,824
Revenue from sale of goods	**18,643**	19,769

	GROUP $ MILLION							
	EUROPE	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	USA	REST OF WORLD	TOTAL
Geographical segment external revenue:								
Year ended 31 July 2013	**1,096**	**2,500**	**5,216**	**1,850**	**1,986**	**1,415**	**4,580**	**18,643**
Year ended 31 July 2012	1,169	2,031	5,676	2,300	1,928	1,445	5,220	19,769

Revenue is allocated to geographical segments on the basis of the destination of the goods sold.

c) Non-current assets

	GROUP $ MILLION						
	NZMP		ANZ		ASIA/AME	LATAM	TOTAL
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA			
Geographical segment reportable non-current assets:							
As at 31 July 2013	**4,199**	**303**	**1,350**	**1,047**	**940**	**544**	**8,383**
As at 31 July 2012	3,950	267	1,394	1,087	858	572	8,128

	GROUP $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Reconciliation of geographical segment non-current assets to total non-current assets:		
Geographical segment non-current assets	**8,383**	8,128
Deferred tax asset	**217**	99
Derivative financial instruments	**127**	198
Total non-current assets	**8,727**	8,425

5 SUBSCRIBED EQUITY INSTRUMENTS AND RESERVES

Subscribed equity instruments include Co-operative shares and Units in the Fonterra Shareholders' Fund (the Fund).

Co-operative shares, including shares held within the Group

	CO-OPERATIVE SHARES (THOUSANDS)
Balance at 1 August 2011	1,406,945
Shares issued	129,157
Shares surrendered	(34,318)
Balance at 31 July 2012	1,501,784
Balance at 1 August 2012	**1,501,784**
Shares issued prior to the launch of TAF	25,886
Shares surrendered prior to the launch of TAF	(99)
Total number of shares on issue prior to the launch of TAF	**1,527,571**
Shares issued on the launch of TAF	89,809
Bonus issue[1]	40,427
Shares cancelled[2]	(59,973)
Balance at 31 July 2013	**1,597,834**

1 On 27 February 2013, Fonterra announced a non-cash Bonus issue of one share for every 40 shares held. The Bonus issue increased the number of shares on issue by 40.4 million. The record date for the Bonus issue was 12 April 2013 and the issue date was 24 April 2013.

2 Shares cancelled following the Supply Offer (refer to Fonterra Shareholder suppliers Supply Offer below).

Co-operative shares may only be held by a Shareholder supplying milk to the Company in a season (Shareholder supplier) and Fonterra Farmer Custodian Limited (the Custodian). Rights attaching to Co-operative shares[3] include:

- voting rights when backed by milk supply;
- the right to receive the share-backed milk price on each kilogram of milksolids produced by the Shareholder supplier;
- rights to any distributions declared by the Board; and
- rights to share in any surplus on liquidation of the Company.

Shareholder suppliers

The Company maintains a share standard that requires a Shareholder supplier to hold one Co-operative share for each kilogram of milksolids supplied to the Company by that Shareholder supplier. This is measured as an average over the three preceding seasons[4] production (excluding milk supplied under contract supply in that season)[5]. Shareholder suppliers are permitted to hold more or fewer Co-operative shares than required by the share standard in certain circumstances. Shareholder suppliers supplying under contract must hold at least 1,000 Co-operative shares.

In addition to Co-operative shares held under the share standard, Shareholder suppliers are able to hold further Co-operative shares up to 100% of production (where production is defined as the minimum number of Co-operative shares a Shareholder supplier is required to hold under the share standard). No Shareholder supplier (including its related parties) is allowed to hold interests in Co-operative shares, not backed by milk supply, exceeding 5% of the total number of Co-operative shares on issue.

New Shareholder suppliers have a number of alternatives in meeting the requirements of the share standard. This includes purchasing the required shares over a three year period, with one third of the required holding of Co-operative shares to be held in the first Season, two thirds in the second Season, with the share standard to be met in the third Season.

Voting rights in the Company are dependent on milk supply supported by Co-operative shares or vouchers held. A Shareholder supplier is entitled on a poll or postal vote, to one vote per 1,000 kilograms of milksolids if that Shareholder supplier holds a Co-operative share or a voucher for each of those kilograms of milksolids. The amount of milksolids that support voting rights are measured at 31 May, the season end date[6]. As at the season end date, 31 May 2013, the aggregate milksolids eligible for voting was 1,424,000,000 kilograms of milksolids (31 May 2012: 1,463,000,000 kilograms of milksolids).

Shareholder suppliers are able to buy and sell Co-operative shares directly on the Fonterra Shareholders' Market. Shareholders may elect to sell the economic rights of some of their Co-operative shares to the Fund, subject to an individual limit set by the Board within an overall individual limit set out in the Company's constitution. On the sale of an economic right of a Co-operative share to the Fund, a Shareholder supplier transfers the legal title to the Co-operative share to the Custodian. Where the Co-operative share transferred was backed by milk supply, the Shareholder supplier is issued a voucher by the Custodian (subject to limits).

3 These rights are also attached to vouchers when backed by milk supply (subject to limits).

4 This requirement commences from 1 June 2013. Prior to this date, the requirement is based on kilograms of milksolids supplied for the previous season.

5 The Fonterra Board may permit the share standard to be satisfied through the holding of both Co-operative shares and vouchers.

6 Aggregate milksolids eligible for voting at season end date are adjusted for Shareholder suppliers who have joined the Co-operative or are no longer supplying milk to the Co-operative in the period between the season end date and the record date for the meeting at which the vote is to be held.

Fonterra Shareholder suppliers Supply Offer

In May 2013, Fonterra provided its Shareholder suppliers with an opportunity to sell economic rights of shares backed by milk supply to the Fund, and to sell to Fonterra the resulting Units (Supply Offer).

Under this Supply Offer, Shareholder suppliers sold the economic rights of 60 million Co-operative shares to the Custodian, resulting in the issuance of 60 million Units in the Fund. Fonterra acquired the 60 million Units via the New Zealand Stock Exchange (NZX) and immediately redeemed these, resulting in the transfer of 60 million Co-operative shares to Fonterra by the Custodian. Fonterra subsequently cancelled these shares. As a result of this redemption, the Supply Offer did not ultimately affect the total number of Units on issue.

The Custodian

The Custodian holds legal title of Co-operative shares of which the economic rights have been sold to the Fund on trusts for the benefit of the Fund. At 31 July 2013, 107,969,310 Co-operative shares were legally owned by the Custodian, on trusts for the benefit of the Fund.

UNITS	UNITS (THOUSANDS)
Balance at 31 July 2012[1]	–
Units issued[2]	**169,470**
Units surrendered[3]	**(61,501)**
Balance at 31 July 2013	**107,969**

1 The Fund commenced issuing Units on 30 November 2012.

2 Includes 60 million Units issued under the Supply Offer.

3 Includes 60 million Units redeemed by Fonterra under the Supply Offer.

Units are issued by the Fund. In respect of the Co-operative shares which it holds, the Custodian is required under trust to pass to the Fund the following rights of those Co-operative shares:

- the right to receive any dividends declared by the Fonterra Board;
- the right to any other distributions made in respect of Co-operative shares; and
- rights to share in any surplus on liquidation of Fonterra.

The Fund then attaches these rights to Units it issues.

A Shareholder supplier who holds a Unit can require the Fund to effectively exchange it for a Co-operative share held by the Custodian. The Custodian relinquishes legal ownership of that Co-operative share (provided that completion of this transaction would not put that Shareholder supplier in breach of the limits on Co-operative share ownership explained above). A Unit is cancelled by the Fund, as all Units in the Fund must be backed by a Co-operative share held by the Custodian.

Equity transaction costs

During the year, the Group incurred transaction costs of $18 million, which were directly attributable to the issue of shares and Units as a part of the launch of Trading Among Farmers. These costs have been treated as a deduction against subscribed equity.

Dividends paid

All Co-operative shares, including those held by the Custodian on trusts for the benefit of the Fund, are eligible to receive a dividend if declared by the Board.

On 25 September 2012, the Board declared a dividend of 20 cents per Co-operative share (totalling $287 million), paid on 20 October 2012 to all Co-operative shares on issue at 31 May 2012.

On 26 March 2013, the Board declared an interim dividend of 16 cents per share (totalling $256 million), paid on 19 April 2013 to all Co-operative shares on issue at 12 April 2013.

The dividend declared after balance date is explained in Note 11.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the effective portion of translation or fair value changes of instruments that hedge the Group's net investment in foreign operations.

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

6 EQUITY ACCOUNTED INVESTMENTS

The ownership interest of the following entities is 50% or less and the Group is not considered to exercise a controlling interest. These entities are therefore accounted for as equity accounted investees.

		OWNERSHIP INTERESTS (%)	
OVERSEAS EQUITY ACCOUNTED INVESTEES[1]	COUNTRY OF INCORPORATION	AS AT 31 JULY 2013	AS AT 31 JULY 2012
DPA Manufacturing Holdings Limited	Bermuda	**50**	50
Dairy Partners Americas Brasil Limitada	Brazil	**50**	50
Ecuajugos S.A.	Ecuador	**50**	50
DMV Fonterra Excipients GmbH & Co KG	Germany	**50**	50
Dairy Industries (Jamaica) Limited	Jamaica	**50**	50
DairiConcepts, L.P.	USA	**50**	50
DairiConcepts Management, L.L.C.	USA	**50**	50
Lacven Corporation	Barbados	**25**	25

1 All investees have balance dates of 31 December.

	OWNERSHIP INTERESTS (%)	
NEW ZEALAND EQUITY ACCOUNTED INVESTEES	AS AT 31 JULY 2013	AS AT 31 JULY 2012
International Nutritionals Limited	**50**	50

7 BORROWINGS

Movements in borrowings

	GROUP $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Opening balance	**4,949**	4,650
New issues		
Bank loans	**2,386**	1,394
Finance leases	**–**	2
Commercial paper	**834**	626
Retail bonds	**–**	–
Medium-term notes	**–**	193
	3,220	2,215
Repayments		
Bank loans	**(1,937)**	(1,606)
Finance leases	**(4)**	(7)
Commercial paper	**(611)**	(480)
Medium-term notes	**(751)**	(4)
	(3,303)	(2,097)
Other movements		
Amortisation of discount	**18**	7
Changes in fair value	**(95)**	62
Changes due to foreign currency translation	**(112)**	112
	(189)	181
Closing balance	**4,677**	4,949

	GROUP $ MILLION	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Net interest bearing debt position		
Total borrowings	**4,677**	4,949
Cash and cash equivalents	**(330)**	(1,033)
Interest bearing advances included in other non-current assets	**(121)**	(125)
Bank overdraft	**1**	42
Net interest bearing debt	**4,227**	3,833
Value of derivatives used to manage changes in hedged risks and other foreign exchange movements on debt	**240**	396
Economic net interest bearing debt[1]	**4,467**	4,229

1 Economic net interest bearing debt reflects the effect of debt hedging in place at balance date.

Net interest bearing debt is managed on a Group basis.

	GROUP	
	AS AT 31 JULY 2013	AS AT 31 JULY 2012
Net tangible assets per security[2]		
$ per listed debt security on issue	**3.70**	3.58
$ per equity instrument on issue	**2.43**	2.51
Listed debt securities on issue (million)	**1,053**	1,053
Equity instruments on issue (million)	**1,598**	1,502

2 Net tangible assets represents total assets less total liabilities less intangible assets.

8 BUSINESS COMBINATIONS

There were no material business combinations during the year ended 31 July 2013 or 31 July 2012.

9 FINANCIAL RISK MANAGEMENT

Overview

Global financial and commodity markets remain volatile. The nature of Fonterra's business is such that managing risks in the foreign exchange, interest rate, commodity, credit and liquidity markets is critical to minimising the volatility in returns to equity holders.

The Board has overall responsibility for the establishment and oversight of the Group's financial risk management framework. The Board:

– has established risk management policies and procedures to identify, analyse and, where appropriate, manage the risks faced by the Group;
– has approved a Treasury Policy that covers appropriate risk limits and controls (including, but not limited to, delegated authority levels and authorised use of various financial instruments); and
– monitors risks and adherence to approved limits.

The Group's overall financial risk management programme focuses primarily on maintaining a prudent risk profile that provides flexibility to implement the Group's strategies, while ensuring the optimisation of the return on assets. Risk management is predominantly carried out by a central treasury department (Group Treasury), which ensures compliance with the risk management policies and procedures set by the Board.

During the year in order to manage financial risks, the key risk management activities undertaken by the Group included, but were not limited to, the following:

Capital structure

Fonterra launched Trading Among Farmers (TAF) in November 2012. A key objective in establishing TAF was to support the establishment of the Fonterra Shareholders' Market in order to eliminate redemption risk and provide a permanent capital base for the Co-operative. Equity instruments comprise Co-operative shares and Units in the Fonterra Shareholders' Fund. These are classified as subscribed equity. Further detail is given in Note 5.

Bank facility renewal

Fonterra's banking facilities are renewed at least annually with the exception of certain facilities where renewals are required at agreed periods of over one year. On 31 July 2013, Fonterra had $3,289 million (31 July 2012: $3,565 million) of undrawn committed facilities.

Economic debt to debt plus equity ratio

As a result of the above activities and close management of the financial risks faced by Fonterra, the economic debt to debt plus equity ratio has increased from 39.1% at 31 July 2012 to 39.6% at 31 July 2013.

For more details in respect of financial risks faced by the Group, refer to the Group's full consolidated financial statements.

10 CONTINGENT LIABILITIES

In the normal course of its business, Fonterra, its subsidiaries and equity accounted investees are exposed to claims, legal proceedings and arbitrations that may in some cases result in costs to the Group.

On 2 August 2013, Fonterra publically announced a potential food safety issue with three batches of Whey Protein Concentrate (WPC80) produced at the Hautapu manufacturing site and initiated a precautionary product recall. WPC80 is used as an ingredient in the manufacture of a number of other products which have been subsequently identified and recalled by Fonterra's customers.

For the financial year ended 31 July 2013, Fonterra has provided for costs associated with the replacement of the recalled product of $14 million. No further provision has been included in the financial statements. There is significant uncertainty as regards any future impacts that may be experienced as a consequence of this precautionary recall. No contingent liability can be reliably quantified in regards to potential market access, customer claims or reputational consequences.

In October 2012 the purchaser of the Group's former Western Australian dairy business made warranty claims as disclosed in the Fonterra Shareholders' Fund Prospectus and Investment Statement, of AUD 103 million. The claimant subsequently revised their total claim and confirmed it as being AUD 37 million. The claim is in dispute and in May 2013 the claimant lodged a formal statement of claim with the Australian Court. Based on currently available information and the claims made to date, Fonterra will vigorously defend its position and does not believe that it is likely these claims will result in a material obligation.

The Directors believe that these claims, legal proceedings and arbitrations have been adequately provided for and disclosed by the Group and that there are no additional legal proceedings or arbitrations that are pending at the date of these financial statements that require provision or disclosure.

At 31 July 2013 the Group had no other contingent liabilities (31 July 2012: nil).

11 SUBSEQUENT EVENTS

On 24 September 2013, the Board of Directors declared a final dividend of 16 cents per share to be paid on 18 October 2013 to all Co-operative shares on issue at 10 October 2013.

There were no other material events subsequent to 31 July 2013 that would impact these financial statements.

12 COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION

In order to facilitate TAF, the Fonterra Shareholders' Fund Prospectus was issued in October 2012. The prospectus included Prospective Financial Information (PFI) in relation to Fonterra for the year ended 31 July 2013. The following information summarises the key variances between Fonterra's prospective financial information and its actual performance.

Income statement

	NOTES	GROUP $ MILLION 31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Revenue from sale of goods		18,627	18,643
Cost of goods sold		(15,319)	(15,611)
Gross profit	a	3,308	3,032
Selling and marketing expenses		(693)	(622)
Distribution expenses		(526)	(514)
Administrative and other operating expenses		(1,183)	(1,120)
Net other operating income		76	98
Share of profit of equity accounted investees		72	63
Profit before net finance costs and tax	b	1,054	937
Net finance costs	c	(328)	(269)
Profit before tax		726	668
Tax (expense)/credit	d	(36)	68
Profit for the year		690	736
Profit for the year is attributable to:			
Equity holders of the Parent		673	718
Non-controlling interests		17	18
Profit for the year		690	736

		RESTATED[1] $	$
Earnings per share			
Basic and diluted earnings per share	e	0.43	0.44

1 Restated for impact of the non-cash Bonus issue of shares, issue date 24 April 2013.

Adjusted FY2013 prospective profitability by segment for changes in organisational structure from 1 August 2012

	GROUP $ MILLION NZMP	ANZ	ASIA/AME	LATAM	INTER-SEGMENTS	TOTAL
Prospective EBIT[1]	517	201	223	125	(12)	1,054
Adjustments:						
Changes in organisational structure	(17)	12	(2)	6	1	–
Prospective EBIT – adjusted[2]	500	213	221	131	(11)	1,054
Prospective normalisation adjustment	–	25	–	–	–	25
Prospective normalised EBIT – adjusted[2,3]	500	238	221	131	(11)	1,079
Actual EBIT	480	93	207	137	20	937
Actual normalisation adjustments	14	49	2	–	–	65
Actual normalised EBIT	494	142	209	137	20	1,002

1 EBIT is defined as earnings before net finance costs and tax.

2 As described in the prospectus, Fonterra's organisational structure was realigned from 1 August 2012. However, the prospective financial information was presented on the basis of Fonterra's organisational structure that existed prior to 1 August 2012. The most significant organisational changes were the transfer of the RD1 Group from NZMP to ANZ, and the transfer of international farming ventures from NZMP to Asia/AME and Latam.

3 Prospective normalised EBIT excluded a forecast of the costs associated with the closure of a plant in Australia.

12 COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION CONTINUED

a Gross profit was lower than forecast as a result of a number of differences across the respective business units.

Revenue from the NZMP business was higher than forecast, driven by higher sales volumes, dairy commodity prices that were higher than expectations, along with a product mix that when compared to the prospective assumptions favoured higher priced commodities such as cheese.

This increase in revenue was more than offset by the increase in cost of goods sold. The prospectus assumed a Farmgate Milk Price of $5.25, however the increase in dairy commodity prices in the second half of the financial year resulted in a much higher cost of milk for the NZMP business, and a final Farmgate Milk Price for the Season of $5.84. These rapid and then sustained increases in commodity prices were not able to be passed on immediately to customers, negatively impacting gross margin. Changes in base commodity prices and changes in the prices of products that are not included in the calculation of Farmgate Milk Price were highlighted as risks in the prospective information.

Decreased gross profit in the ANZ business, was driven by weaker than expected performance from the consumer business in Australia, which was highlighted as a significant risk in the preparation of the prospective information. Further, margins in the Australian Ingredients business were negatively impacted by competitive pricing for raw milk in Australia.

Asia/AME gross profit was lower as a result of lower than forecast sales volumes.

b EBIT was lower than the forecast, due to the impact of lower than expected gross profit, partially offset by operating expense saving achieved.

Administrative and other operating expenses were $63 million lower than forecast as a result of savings made through various initiatives. Whilst not included in the forecast, this saving programme, including a FY2013 target of $60 million was highlighted in the prospectus.

Selling and marketing expenses were lower as a result of cost control initiatives in ANZ, and a programme to target advertising and promotion spend in growth markets in Asia/AME.

c Net finance costs are lower as a result of lower average borrowings and interest rates, coupled with better than forecast fair value gains on interest rates swaps as the Group locked more of its borrowings to fixed rates.

d The tax credit recognised compared to the tax expense forecast was predominately driven by the recognition of deferred tax, resulting from the change of the applicable tax rate in certain offshore jurisdictions. Lower than forecast profit before tax also contributed to the decrease.

e Earnings per share was ahead of forecast as a result of the higher profit after tax number, partially offset by the dilutive effect of the Bonus share offer undertaken, which was not included in the forecast numbers.

Statement of comprehensive income

		GROUP $ MILLION	
	NOTES	31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Profit for the year		**690**	**736**
Movement in cash flow hedge reserve		(128)	(145)
Movement in net investment hedges		–	(3)
Movement in foreign currency translation reserve		(4)	(52)
Share of equity accounted investees' movements in reserves		–	(1)
Foreign currency translation attributable to non-controlling interests		–	1
Other comprehensive expense recognised directly in equity	a	**(132)**	**(200)**
Total comprehensive income for the year		**558**	**536**
Attributable to:			
Equity holders of the Parent		541	517
Non-controlling interests		17	19
Total comprehensive income for the year		**558**	**536**

a Lower other comprehensive income was a result of the unfavourable impact of the translation of net investments denominated in foreign currencies, particularly in Australia.

Statement of changes in equity

	NOTES	GROUP $ MILLION 31 JULY 2013 PROSPECTIVE	GROUP $ MILLION 31 JULY 2013 ACTUAL
Opening equity as at 1 August		6,655	6,655
Total comprehensive income attributable to equity holders		541	517
Total comprehensive income attributable to non-controlling interests		17	19
Total comprehensive income for the year		558	536
Transactions with equity holders in their capacity as equity holders:			
Dividends paid to equity holders	a	(506)	(546)
Dividends paid to non-controlling interests		(15)	(14)
Equity instruments issued/(cancelled)/(surrendered) net of transaction costs	b	276	117
Total equity		6,968	6,748

a Dividends paid to equity holders were higher than forecast as a result of a higher than forecast interim dividend per share.

b The net proceeds from share transactions were lower than forecast. The funds received from the issue of shares to launch TAF were returned to Shareholders via the Supply Offer in May 2013, whereas the forecast assumed $150 million remained with Fonterra at 31 July 2013.

Statement of financial position

	NOTES	GROUP $ MILLION 31 JULY 2013 PROSPECTIVE	GROUP $ MILLION 31 JULY 2013 ACTUAL
Cash and cash equivalents	a	1,271	330
Trade and other receivables		2,143	2,054
Inventories	b	2,660	3,078
Other current assets		164	184
Total current assets	a	6,238	5,646
Property, plant and equipment	c	5,079	4,807
Equity accounted investments		497	449
Intangible assets		2,868	2,858
Other non-current assets		626	613
Total non-current assets	c	9,070	8,727
Total assets		15,308	14,373
Bank overdraft and borrowings	a	1,066	1,570
Supplier, trade and other payables		2,244	2,202
Other current liabilities		241	306
Total current liabilities		3,551	4,078
Borrowings	a	4,296	3,108
Other non-current liabilities		493	439
Total non-current liabilities		4,789	3,547
Total liabilities		8,340	7,625
Net assets		6,968	6,748
Subscribed equity		5,966	5,807
Retained earnings		1,245	1,249
Foreign currency translation reserve		(215)	(266)
Cash flow hedge reserve		(65)	(82)
Total equity attributable to equity holders of the Parent		6,931	6,708
Non-controlling interests		37	40
Total equity		6,968	6,748

a Total current assets are lower as a result of lower than forecast cash holdings. When considered together with borrowings, net interest bearing debt has increased as a result of the decision to pay out a higher proportion of the cost of milk to Farmer Shareholders earlier in the Season, than projected in the prospectus.

b Inventory balances are higher than forecast as a result of higher dairy commodity prices later in the production Season increasing the cost of milk, a key component of the cost of inventory.

c Total non-current assets are lower as a result of lower than forecast capital spend due to timing of spend on key international growth projects.

12 COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION CONTINUED

Cash flow statement

		GROUP $ MILLION	
	NOTES	31 JULY 2013 PROSPECTIVE	31 JULY 2013 ACTUAL
Net cash flows from operating activities	a	1,803	997
Net cash flows from investing activities	b	(1,138)	(868)
Net cash flows from financing activities	c	(416)	(786)
Net increase in cash and cash equivalents		249	(657)
Cash and cash equivalents at the beginning of the year		991	991
Effect of exchange rate changes on cash balances		1	(5)
Cash and cash equivalents at the end of the year		1,241	329
Reconciliation of closing cash balances to the statement of financial position:			
Cash and cash equivalents		1,271	330
Bank overdraft		(30)	(1)
Closing cash balances	c	1,241	329

a Cash flows from operating activities are lower than forecast as a result of the decision to pay a higher proportion of the cost of milk to Farmer Shareholders earlier in the Season, coupled with lower earnings before interest, tax, depreciation and amortisation.

b The net cash outflow from investing is lower than forecast predominately due to lower than forecast capital spend.

c Net cash outflows from financing activities are higher than forecast primarily due to the Group holding of lower cash balances, and instead paying down borrowings.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF FONTERRA CO-OPERATIVE GROUP LIMITED

Report on the Summary Financial Statements

We have audited the accompanying summary financial statements of Fonterra Co-operative Group Limited ("the Company") on pages 56 to 76 which comprise the statement of financial position as at 31 July 2013, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which are derived from the audited financial statements of the Company for the year ended 31 July 2013. The Group comprises the Company and the entities it controlled at 31 July 2013 or from time to time during the financial year.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Fonterra Co-operative Group Limited.

Directors' Responsibility for the Summary Financial Statements

The Directors are responsible for the preparation of the summary financial statements in accordance with FRS-43: Summary Financial Statements ("FRS-43").

Auditors' Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) 810: Engagements to Report on Summary Financial Statements.

We carry out other assignments on behalf of the Company and the Group in the areas of other audit related services, transaction and other advisory services. Partners and employees of our firm may deal with the Company and the Group on normal terms within the ordinary course of trading activities of the Company and the Group. These matters have not impaired our independence as auditors of the Company and the Group.

Opinion on the Company's Financial Statements

Our audit of the financial statements for the year ended 31 July 2013 was completed on 24 September 2013 and our unmodified opinion was issued on that date.

Opinion on the Summary Financial Statements

In our opinion, the summary financial statements have been correctly derived from the audited financial statements of Fonterra Co-operative Group Limited for the year ended 31 July 2013 and are consistent, in all material respects, with those financial statements, in accordance with FRS-43.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants, Auckland
24 September 2013

STATUTORY INFORMATION

FOR THE YEAR ENDED 31 JULY 2013

CURRENT CREDIT RATING STATUS

Standard & Poor's has rated the Company A+ with a rating outlook of stable. Fitch has rated the Company AA- with a rating outlook of stable. Retail Bonds have been rated the same as the Company by both Standard & Poor's and Fitch. Capital Notes which are subordinate to other Fonterra debt issued are rated A by Standard & Poor's and A+ by Fitch.

EXCHANGE RULINGS AND WAIVERS

NZX Limited (NZX) has ruled that Capital Notes do not constitute "equity securities" under its Listing Rules (Rules). This means that where Capital Notes are quoted on NZX's debt market (NZDX), the Company is not required to comply with certain Rules which apply to an issuer of quoted equity securities.

NZX has granted waivers from NZDX Rule 11.1.1 to enable Fonterra to decline to accept or register transfers of Capital Notes or Retail Bonds (NZDX listed debt securities FCGHA, FCG010 and FCG020) if such transfer would result in the transferor holding or continuing to hold Capital Notes or Retail Bonds with a face value or principal amount of less than $5,000 or if such transfer is for an amount of less than $1,000 or multiple thereof. The effect of these waivers is that the minimum holding amount in respect of the Capital Notes and Retail Bonds will at all times be $5,000 in aggregate and that Retail Bonds can only be transferred in multiples of $1,000.

NZX has also granted a waiver from NZDX Rule 5.2.3 in respect of Retail Bond FCG020 to enable that Bond to be quoted on the NZDX market even though it did not meet the requirement that at least 500 members of the public held at least 25% of the Bonds being issued.

NON-GAAP MEASURES

Fonterra uses several non-GAAP measures when discussing financial performance. For definitions of non-GAAP measures used by Fonterra, refer to page 82. These are non-GAAP measures and are not prepared in accordance with NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business.

They are used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Reconciliations for the NZ IFRS measures to certain non-GAAP measures referred to by Fonterra are detailed below.

Reconciliation from the NZ IFRS measure of profit for the year to Fonterra's normalised EBITDA

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Profit for the year	736	624
Add: Depreciation	444	410
Add: Amortisation	86	82
Add: Net finance costs	269	310
(Less)/add: Taxation (credit)/expense	(68)	53
Total EBITDA	1,467	1,479
Add: Costs associated with closure of Cororooke plant in Australia	30	–
Add: Costs associated with Group Strategy Right-Sizing	38	–
Add: Costs associated with Group Strategy Refresh	–	30
Add: Impairment losses recorded in equity accounted investees	–	8
Add: Other	(3)	3
Total normalisation adjustments	65	41
Normalised EBITDA	1,532	1,520

Reconciliation from the NZ IFRS measure of profit for the year to Fonterra's normalised EBIT

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Profit for the year	736	624
Add: Net finance costs	269	310
(Less)/add: Taxation (credit)/expense	(68)	53
Total EBIT	937	987
Add: Normalisation adjustments (as detailed above)	65	41
Total normalised EBIT	1,002	1,028

Reconciliation from the NZ IFRS measure of profit for the year to Fonterra's normalised earnings per share

	GROUP $ MILLION	
	31 JULY 2013	31 JULY 2012
Profit for the year	736	624
Add: Normalisation adjustments (as detailed above)	65	41
(Less)/add: Tax on normalisation adjustments	(17)	(7)
Total normalised earnings	784	658
Less: Share attributable to non-controlling interests	(20)	(16)
Net normalised earnings attributable to equity holders of the Parent	764	642
Weighted average number of Shares (thousands of Shares)	1,615,311	1,476,220
Normalised earnings per share ($)	0.47	0.43

FIVE YEAR SUMMARY

	JULY 2013	JULY 2012	JULY 2011	JULY 2010	JULY 2009
SHAREHOLDER SUPPLIER RETURNS					
Payout					
Farmgate Milk Price (per kgMS)[1]	**5.84**	6.08	7.60	6.10	4.72
Dividend (per Share)[2]	**0.32**	0.32	0.30	0.27	0.48
Cash payout[3]	**6.16**	6.40	7.90	6.37	5.20
Retentions (per Share)[4]	**0.14**	0.10	0.25	0.23	0.01
OPERATING PERFORMANCE					
Average commodity prices (US$ per MT FOB)					
Whole Milk Powder[5]	**3,394**	3,359	3,606	2,905	2,446
Skim Milk Powder[5]	**3,625**	3,285	3,321	2,658	2,133
Butter[5]	**3,550**	3,546	4,344	3,033	1,993
Cheese[6]	**4,124**	3,498	4,285	3,819	3,114
Average NZD/USD spot exchange rate applying throughout the year[7]	**0.82**	0.80	0.77	0.71	0.60
Fonterra's average NZD/USD conversion rate[8]	**0.80**	0.77	0.72	0.67	0.67
Revenue ($ million)					
Ingredients and other revenue	**13,926**	14,824	14,623	11,818	10,987
Consumer revenue	**4,717**	4,945	5,248	4,908	5,048
Total revenue	**18,643**	19,769	19,871	16,726	16,035
Dairy ingredients manufactured in New Zealand (000s MT)	**2,312**	2,353	2,143	2,058	2,021
Total ingredients sales volume (000s MT)	**2,765**	2,660	2,486	2,392	2,310
Segment earnings ($ million)[9]					
New Zealand Milk Products	**480**	477	419	496	584
ANZ	**93**	218	278	299	240
Asia/AME	**207**	182	193	176	63
Latam	**137**	124	121	107	106
Eliminations	**20**	(14)	17	–	(3)
Segment earnings	**937**	987	1,028	1,078	990
Normalisation adjustments	**65**	41	(23)	(174)	29
Normalised segment earnings	**1,002**	1,028	1,005	904	1,019
Profit for the year attributable to Shareholders ($ million)[10]	**718**	609	754	669	599
Earnings per share[11]	**0.44**	0.41	0.53	0.50	0.48

1 From the beginning of the 2009 Season the Farmgate Milk Price has been determined in accordance with the Farmgate Milk Price Manual and is independently audited.

2 On 18 November 2009, Shareholders approved stages one and two of the capital structure changes. As a result of the changes to the capital structure all Shares are eligible to receive a dividend if declared by the Board. Previously in addition to the Farmgate Milk Price, returns to Shareholder Suppliers were by way of the Value Return payment. The Value Return payment was calculated per kgMS. The dividend payment is calculated on a per Share basis using number of Shares at 31 May.

3 Average Payout for a 100% share-backed supplier.

4 Retentions are calculated as net profit after tax attributable to Co-operative Shareholders at 31 July divided by the number of Shares at 31 May, less dividend per Share. Profit after tax attributable to Shareholders for 2009 has been restated to recognise the tax effects of distributions to Shareholders within tax expense in the income statement. This was previously recorded directly in equity.

5 Source: Fonterra Farmgate Milk Price Statements (2013-2011) representing the weighted-average United States Dollars (USD) contract prices of Reference Commodity Products.

6 Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.

7 Average spot exchange rate is the average of the daily spot rates for the financial period.

8 Fonterra's average conversion rate is the rate that Fonterra has converted net US dollar receipts into NZ dollars based on the hedge cover in place.

9 Represents segment earnings before unallocated finance income, finance costs and tax. The year ended 31 July 2012 has been restated to reflect changes to the organisation of business units within reported segments which occurred in the year ended 31 July 2013. The years ended 31 July 2011 and 31 July 2010 have been restated to reflect changes to the organisation of business units within reported segments which occurred in the year ended 31 July 2012. For 2009, normalisation adjustments consists of normalisation adjustments as reported in the segment note plus impairment of equity accounted investees.

10 Profit after tax attributable to Shareholders for 2009 has been restated to recognise the tax effects of distributions to Shareholders within tax expense in the income statement. This was previously recorded directly in equity.

11 On 27 February 2013, Fonterra announced a non-cash bonus issue of one Share for every 40 Shares held. The bonus issue increased the number of Shares on issue by 40.4 million. The record date for the bonus issue was 12 April 2013 and the issue date was 24 April 2013. Earnings per share for the years ended 31 July 2012, 31 July 2011, 31 July 2010 and 31 July 2009 have been restated as if the bonus issue was effective on at the beginning of the periods presented.

	JULY 2013	JULY 2012	JULY 2011	JULY 2010	JULY 2009
CAPITAL EMPLOYED ($ million)					
Total assets employed	**14,373**	15,117	15,530	14,169	14,117
Average net assets[12]	**11,135**	10,900	10,772	10,433	10,975
Total equity	**6,748**	6,655	6,541	5,667	4,805
Equity excluding cash flow hedge reserve	**6,830**	6,592	6,025	5,526	4,635
Net interest bearing debt	**4,227**	3,833	3,766	4,268	5,166
Economic net interest bearing debt[13]	**4,467**	4,229	4,331	4,494	5,221
Return on net assets[12]	**8.4%**	9.4%	9.3%	8.7%	9.2%
Headline debt to debt plus equity ratio[14]	**38.2%**	36.8%	38.5%	43.6%	52.7%
Economic debt to debt plus equity ratio[14]	**39.6%**	39.1%	41.8%	44.9%	53.0%

	JULY 2013	JULY 2012	JULY 2011	JULY 2010	JULY 2009
STAFF EMPLOYED					
Total staff employed (000s, permanent full time equivalents)	**17.5**	17.3	16.8	15.8	15.6
New Zealand	**11.2**	11.0	10.8	9.8	9.5
Overseas	**6.3**	6.3	6.0	6.0	6.1

	JULY 2013	JULY 2012	JULY 2011	JULY 2010	JULY 2009
SEASON STATISTICS[15]					
Total NZ milk collected (million litres)	**16,673**	16,951	15,427	14,746	14,764
Highest daily volume collected (million litres)	**84.8**	81.2	76.8	72.3	73.7
NZ Shareholder supply milksolids collected (million kgMS)	**1,424**	1,463	1,320	1,256	1,227
NZ contract supply milksolids collected (million kgMS)	**39**	30	26	30	54
NZ milksolids collected (million kgMS)	**1,463**	1,493	1,346	1,286	1,281
Total number of Shareholders at 31 May	**10,668**	10,578	10,485	10,463	10,537
Total number of sharemilkers at 31 May	**3,449**	3,595	3,928	3,733	3,990
Total number of Shares at 31 May (million)	**1,598**	1,433	1,377	1,343	1,216

12 Return on net assets (RONA) is derived by dividing profit before normalisation adjustments, net finance costs and tax (as reported in financial statements) by 13 month average net assets (excluding net debt and deferred tax).

13 Economic net interest bearing debt reflects the effect of debt hedging in place at balance date.

14 Headline debt to debt plus equity ratio is before taking account of the effect of debt hedging. Economic debt to debt plus equity includes the effect of debt hedging.

15 All Season statistics are based on the 12 month milk Season of 1 June – 31 May.

GLOSSARY

NON-GAAP MEASURES

Fonterra refers to non-GAAP financial measures throughout the Annual Review, and these measures are not prepared in accordance with NZ IFRS. The definitions below explain how Fonterra calculates the non-GAAP measures referred to throughout the Annual Review.

Average net assets	is calculated as net interest bearing debt and total equity less deferred tax averaged over a rolling 13 month period.
Constant currency	means a measure that eliminates the effect of exchange rate movements. Constant currency variances are calculated by taking the current year financial measure in local currency less the prior year financial measure in local currency and dividing this by prior year financial measure in local currency using the prior year local currency to the New Zealand Dollar exchange rate.
Contribution margin	is calculated as segmental gross profit less distribution, selling and marketing expenses.
EBIT	means earnings before interest and tax (EBIT) and is calculated as profit for the year before net finance costs and tax.
EBIT margin	is calculated as profit for the year before net finance costs and tax and divided by revenue.
EBITDA	means earnings before interest, tax, depreciation and amortisation and is calculated as profit for the year before net finance costs, tax, depreciation and amortisation.
Economic debt to debt plus equity ratio	is calculated as net interest bearing debt divided by net interest bearing debt plus equity. Net interest bearing debt includes the effect of debt hedging, and equity excludes the cash flow hedge reserve.
Farmgate Milk Price	means the base price that Fonterra pays for milk supplied to it in New Zealand for a season. The season refers to the 12 month milk season of 1 June to 31 May.
Net tangible assets	means total assets less total liabilities less intangible assets.
Normalisation adjustments	means transactions that are unusual by nature or size so that they materially reduce the ability of users of the financial results to understand the ongoing performance of the Group or operating segment to which they relate. Unusual transactions by nature are the result of a specific event or set of circumstances that are outside the control of the business, or relate to the major acquisitions or disposals of an asset/group of assets or business. Unusual transactions by size are those that are unusually large in a particular accounting period that is not expected to repeat regularly to the same extent in future periods.
Normalised EBIT	means profit for the year before net finance costs, tax and normalisation adjustments.
Normalised EBIT margin	means profit for the year before net finance costs, tax and normalisation adjustments divided by revenue.
Normalised EBITDA	means profit for the year before net finance costs, tax, depreciation, amortisation and normalisation adjustments.
Normalised segment earnings	means segmental profit the year before depreciation, amortisation, net finance costs, taxation expense, and normalisation adjustments.
Payout	means the total cash payment to Shareholder suppliers. It is the sum of the Farmgate Milk Price (kgMS) and the dividend per Share. Both of these components have established policies and procedures in place on how these are determined.
Retentions	means net profit after tax attributable to Shareholder suppliers divided by the number of Shares at 31 May, less dividend per Share.
Return on Capital Employed	means normalised EBIT divided by capital employed. Capital employed is calculated as monthly average net assets excluding net debt, derivatives, taxes, and investments (other than equity accounted investments).
Segment earnings	means segmental profit for the year before net finance costs, tax and normalisation adjustments.

OTHER TERMS

ANZ	means Fonterra's reportable segment that operates in Australia and New Zealand.
ASEAN/MENA	means Fonterra's business unit that operates in South East Asia, the Middle East and North Africa. There are some countries that fall within the ASEAN/MENA business unit that are located outside these geographical regions such as Sri Lanka and Mauritius. It is part of the Asia/AME reportable segment.
Asia/AME	means Fonterra's current reportable segment that operates in Asia, Africa and the Middle East.
Auditor	means PricewaterhouseCoopers, the auditor of Fonterra and the Fund.
CO_2e	means greenhouse gas emissions, based upon accepted International Dairy Federation methodology.
Co-operative	means Fonterra.
DIRA	means the Dairy Industry Restructuring Act 2001 (New Zealand).
Farmer Shareholder	means a Shareholder who is supplying milk to Fonterra.
Fonterra	means Fonterra Co-operative Group Limited and, where relevant, includes the other members of the Fonterra Group.
Fonterra Board	means the Board of Directors of Fonterra.
Fonterra Group	means Fonterra and its subsidiaries.
FSF or the Fund	means the Fonterra Shareholders' Fund.
Foodservice	means the business of preparing meals for consumption outside of homes.
FY	means financial year.
GDT™	means GlobalDairyTrade™, the auction platform for internationally-traded commodity dairy products.
Greater China	means Fonterra's business unit that operates in China (including Hong Kong), Taiwan and India. It is part of the Asia/AME reportable segment.
IFRS	means International Financial Reporting Standards.
Income Tax Act	means the Income Tax Act 2007 (New Zealand).
kgMS	means a kilogram of milksolids.
KT	means a kilo tonne (being 1,000 MT).
Latam	means Fonterra's reportable segment that operates in Latin America.
Milksolids	means the valued components of milk which are determined by the Fonterra Board from time to time.
MT	means a metric tonne.
NZ GAAP	means generally accepted accounting practice in New Zealand.
NZ Milk Products or NZMP™	means Fonterra's reportable segment which collects and processes milk from New Zealand farmers, manufactures and markets dairy nutrition products (including specialty dairy ingredients and base nutrition powders such as whole milk powder and skim milk powder) under the NZMP™ brand. It also includes Fonterra Nutrition, Group Strategy and Optimisation, Co-operative Affairs and Group Services.
Parent	means Fonterra Co-operative Group Limited.
RD1 or RD1 Limited	mean Fonterra's rural supplies retail business that operates in New Zealand.
Season	means a period of 12 months to 31 May (or such other date as the Fonterra Board may specify from time to time) in each year.
Share Standard	means the number of Shares a Farmer Shareholder is required from time to time to hold as determined in accordance with the Constitution, one Share for each kilogram of milksolids obtainable from milk supplied to Fonterra by a Farmer Shareholder in the relevant Season (excluding milk supplied on contract supply). The Fonterra Board may permit the Share Standard to be satisfied through the holding of both Shares and Vouchers.
Shareholder	means a holder of Shares.
Trading Among Farmers or TAF	means the Share trading system known as Trading Among Farmers.
UHT	means fresh milk that is sterilised by heating it to very high temperatures. UHT milk does not require refrigeration.

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