FROM THE SOURCE

FONTERRA ANNUAL REVIEW 2014
FONTERRA CO-OPERATIVE GROUP LIMITED

This is a defining year for our Co-operative. We are confident about our performance and our direction.

We live by our values. Our strategic goals are becoming reality. We have hit all the targets for global scale in processing and exporting.

Now is the time to set our sights even higher.

Next step – a globally relevant Co-operative, the trusted source of dairy excellence.

TO **THE FUTURE**

LETTER FROM **THE CHAIRMAN**

North Island volumes were up nine per cent while the South Island delivered a seven per cent rise in volumes.

The true strength of our Co-operative is measured by our resilience. We have come through a very demanding year and continued to stay on track with our strategy, focusing on securing the best returns to our farmer shareholders.

It was a year of highs and lows. We saw prices come off their first-half peaks in response to growth in supply. Demand tapered off as a result of a build in customers' inventory and the New Zealand dollar remained at historically high levels. A very good spring saw our farmer shareholders achieve record milk production through an extended peak, stretching our production capacity for whole milk and skim milk powders which inform the Farmgate Milk Price. This led to early impacts on stream returns from the less valuable products we were forced to make. We also rebuilt consumer, customer and market confidence following the precautionary recall of Whey Protein Concentrate (WPC80).

Our final Cash Payout for the 2013/14 season of $8.50 for a fully shared up farmer comprises a Farmgate Milk Price of $8.40 per kilogram of milk solids (kgMS) and a dividend of 10 cents per share. It is our highest Cash Payout to date, with the Farmgate Milk Price on its own representing a $13.3 billion distribution to farmers. We know from our 2010 New Zealand Institute of Economic Research (NZIER) study that the average dairy farmer spends over half of their income on goods and services to support on-farm operations, benefiting both rural and urban communities.

Our farmers took advantage of good conditions to produce 1,584 million kgMS, eight per cent more than last season, to make the most of stronger prevailing prices early in the season. North Island volumes were up nine per cent at 969 million kgMS, while the South Island delivered a seven per cent rise in volumes to 615 million kgMS.

Our strong Farmgate Milk Price is the direct result of a determined push to achieve the highest possible revenue. Despite it being a demanding year, we delivered a record $22.3 billion in revenue.

Our high production, especially around the extended peak, placed limits on our options for processing milk into higher returning products. The relative increase in the price of Reference Commodity Products compared to the price of Non-Reference Commodity Products, was significant for most of the year and this had a substantial impact on stream returns. Over the peak, the ideal would have been to produce only Reference Commodity Products, but capacity constraints limited our ability. For Non-Reference Commodity Products we were compelled to produce, the higher cost of milk at the farmgate meant margins were squeezed and in some cases selling prices were below actual milk costs.

In the second half of the year, this divergence in prices decreased, but too late to offset the earlier financial impact.

FINAL CASH PAYOUT

$8.50

FARMGATE MILK PRICE

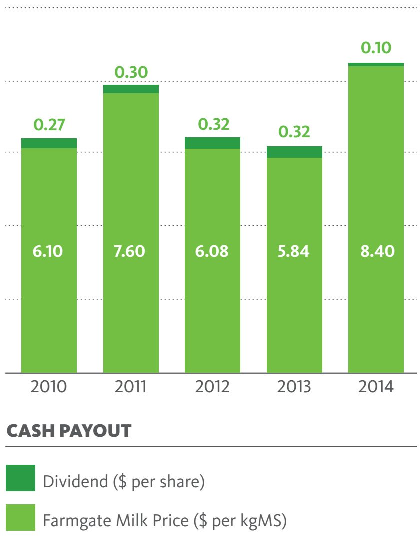
$8.40 KGMS

DIVIDEND PER SHARE

10 CPS


Fonterra
Dairy for life

Our farmers' milk is the starting point for our supply chain and it completely underpins our volume and value strategy.



In February 2014, we announced that we would accelerate investment in new capacity so we have the manufacturing flexibility to take the best advantage of relative market prices, including during the peak. Post balance date, we announced $555 million of investments to continue our capacity expansion.

Our result and final Cash Payout for the year has been very good given the volatile market conditions.

We can expect volatility to remain through the coming season, given the downward trend in prices and the geopolitical events which are unsettling the market. What is important, however, is to look beyond these cyclical events to see the overall positive outlook for demand.

This global dairy demand is forecast by market commentators to grow by 100 billion litres by 2020. We are investing ahead of this growth demand, ensuring we have the capacity in place to capture the opportunities it represents. The more competitive our costs, from the farm onwards, the better our prospective returns.

The tighter budgets farmers will need to work within in the 2014/15 season will be a real challenge, reinforcing the need to use and adapt farming systems designed to protect our low-cost, predominantly pastured-based industry. We need to stay focused on our global competitiveness both within and from the farmgate and right across our supply chain to ensure we can capitalise on the positive view of global demand.

THE BENEFITS OF BELONGING

Our farmers' milk is the starting point for our supply chain and it completely underpins our volume and value strategy. We have leveraged it to create the global presence that takes their milk to market and it has won us our place as the world's largest dairy exporter.

Our farmers' efforts have built our global scale. Since 2002, Fonterra farmer shareholders have achieved an average annual compound growth of three per cent in milk solids. This means we have over 40 per cent more milk than we did in the first year of Fonterra.

Higher milk volumes support higher sales volumes, and we have grown revenue from $13.9 billion in 2002 to today's $22.3 billion in the face of Fonterra's NZD/USD average conversion rate that has gone from an average 44 cents in 2002 to 81 cents in 2014. This revenue growth represents a compound annual growth rate of four per cent.

In simple terms we have grown revenue by 60 per cent since 2002. Adjusted for 2014 prices, the growth is still a very credible 20 per cent over the same period. Included in this revenue is a growing contribution from our consumer and foodservice businesses. They achieved $6.3 billion in revenue this year compared to the $4.6 billion earned in 2002/03.

The total Cash Payout, adjusted for inflation, has grown at an annual compound rate of five per cent while the payout per kilogram of milk solids has a compound annual growth rate of four per cent.

INDEPENDENT REVIEW BUILT CONFIDENCE

The decision of the Board to undertake a robust, independent and open inquiry was fundamental to our recovery from the WPC80 precautionary recall. The independent and impartial review, shared publicly, confirmed we have robust food safety and quality systems and standards but was frank about what we could have done better.

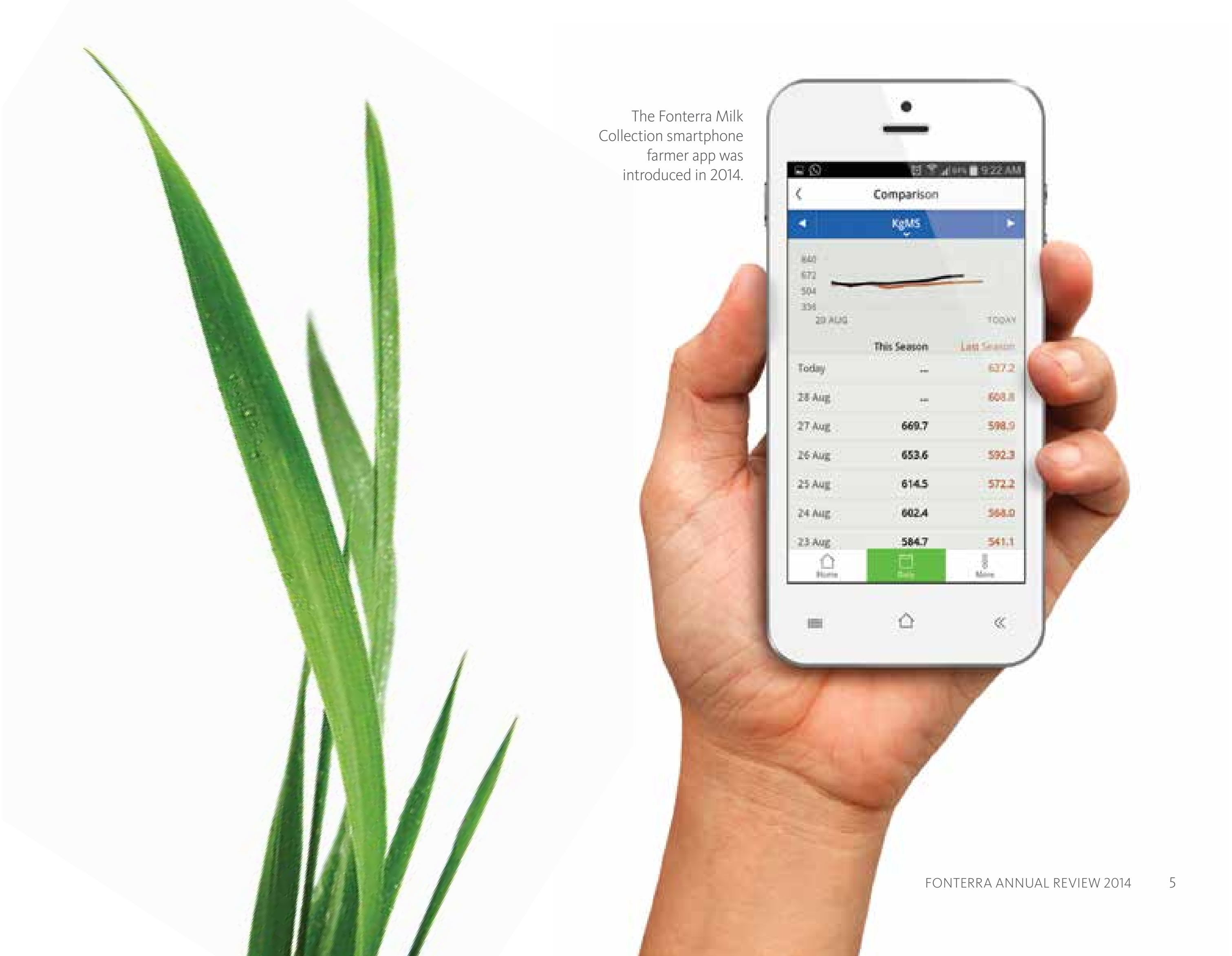
We did what was right when faced with the evidence we had at the outset of the recall. We make no apology for putting customer and consumer safety first. While we ultimately received the all clear on the safety of the product recalled, we did not use this as a signal to relax. Instead, we have taken the opportunity to identify how we can further improve our food safety and quality systems and ensure full compliance with them. All the learnings from the experience have gone into the development of an extensive programme aimed at creating a new benchmark in food safety and quality.

The Board has oversight of the work to implement the recommendations set down by the Independent Inquiry Committee and Fonterra's own internal review. The work needed to address the recommendations is now well underway.

A follow-up review by the Independent Inquiry Committee has both confirmed progress and complimented Fonterra on taking the opportunity to further lift standards. This open approach has been a clear factor in the confidence that our farmer shareholders, regulators, customers and consumers continue to have in Fonterra. It is this confidence in our integrity that supports our continued progress with our strategy.

It is important for New Zealand as a whole that producers and regulators work closely together to safeguard New Zealand's reputation for high-quality food. It is critical that together we ensure industry and government resources are in place to stay ahead of the rapidly evolving demands of customers, consumers and regulators in all of our global markets.

OUR GLOBAL MILK POOLS WILL CREATE FULLY INTEGRATED SUPPLY CHAINS FROM FARMGATE TO THE CONSUMER.



The Fonterra Milk Collection smartphone farmer app was introduced in 2014.

Farmers are always the first to roll their sleeves up when something needs doing in the neighbourhood, on their own or through their Co-operative.

THE BENEFITS OF BELONGING
(CONTINUED)

Our consistent performance to date is important to our future as it gives our farmer shareholders the confidence to grow supply. We aim to get better year-on-year to deliver sustainable returns. But it is just as important for our farmer shareholders to feel more than a financial connection to their Co-operative, especially given that there are competitors keen to secure their supply. They should be able to look to us to help them grow if they want to, and to run profitable businesses through the different phases of their farming careers.

Our farmer shareholders can expect a lot more from us in the new financial year as we support them to be more cost competitive through using our Co-operative's collective strength and bringing them better ways to manage their business with us.

CO-OPERATIVE SPIRIT IN ACTION

There are two sides to Co-operative Spirit – one of our core values. One side is the idea of the collective strength that comes from working together to a single purpose. The other side is who we are as a community of people.

Our collective strength is well known, but our scale can sometimes overshadow our Co-operative's contribution as a community of people. The work Fonterra is doing here in New Zealand is a good example. Farmers are always the first to roll their sleeves up when something needs doing in the neighbourhood, on their own or through their Co-operative. People have pitched in for generations, which is why we have such good networks of local community centres, sport and service clubs in rural New Zealand.

Thanks to Fonterra's scale this tradition of pitching in has been able to grow from informal local efforts to more organised national or regional programmes. Our farmers are solidly behind these programmes as funders and, in many cases, leading or helping on these projects. Catchment Care, which looked after local water quality initiatives, has evolved to become our Living Water partnership with the Department of Conservation. Our KickStart Breakfast partnership with Sanitarium began running two days a week in low-decile schools in 2009. In the 2014 financial year, it was extended to five days a week and was offered to all schools following financial support from Government.

Farmer shareholders have turned out to every rollout event of Fonterra Milk for Schools across New Zealand. It's their milk that is the backbone of this very worthwhile programme that provides milk to around 170,000 children. They are also out there supporting local causes through our Grass Roots Programme, which funds local projects near our sites and in our farmers' communities.

As community people, our farmer shareholders have also stepped up to the challenge of sustainable farming. They led by example in the rollout of the Clean Streams Accord of 2003 and have been working on water quality improvements since then. We have seen significant capital and hours of work invested in crossings, culverts, new effluent systems and riparian planting.

This translates into tangible and measurable results, such as the 23,300 kilometres of significant waterways that now have stock excluded from them. A further 9,000 km of smaller streams and wetlands are also stock excluded. This outstanding achievement more than underlines their commitment to sustainable dairying and improved water quality.

It is also important to acknowledge the many Fonterra employees around New Zealand and around the world who also give their time and talent to countless charities and community causes. They are quick to volunteer, to fundraise and to step up with big and small projects. We are a richer Co-operative because of this spirit.

MILK PRICE MATHS

The final Farmgate Milk Price is 53 cents per kgMS lower than the price calculated under the Farmgate Milk Price Manual.

It is a 17 cent reduction on the 70 cents gap in the forecast by the Board in December 2013 and reflects the improved relative stream returns between powders and other products in the second half of the year.

The Board exercised its discretion under the Constitution in order to protect the Co-operative by paying a lower Farmgate Milk Price than the price calculated under the Farmgate Milk Price Manual which would have required borrowing. Our decision to use our discretionary power this season should not be taken as an indication we will do so again in the future. We will always act in the best interests of the Co-operative.

The reason for the gap is straightforward. The Farmgate Milk Price Manual calculation is based on a notional and efficient competitor processing only milk powder and related product streams such as butter and Anhydrous Milk Fat (AMF)[1]. It effectively sets high efficiency benchmarks as the notional competitor has no capacity constraints. Fonterra, this season, had capacity constraints, which meant not all of the high milk flows supplied during the extended peak could be converted into the higher returning Reference Commodity Products which inform the Farmgate Milk Price Manual calculation.

Reference Commodity Products are milk powder and related streams. These products are chosen because powders account for more than half the global trade in dairy products, most new investment in New Zealand has been in milk powder plants and because in the medium term, the highest returns are expected to come from powders.

SETTING SIGHTS ON GOVERNANCE

It is important to sincerely thank Jim van der Poel, who is retiring as a director after 12 years of very dedicated and thoughtful service. Jim has been conscientious and hard-working, bringing his deep knowledge of dairying and business to the Board table.

Our strength as a Co-operative relies on farmers having the opportunity to move from the cowshed to the boardroom. Our scale requires the next generation of farmers to set their sights on local leadership and ultimately a Fonterra directorship, and to understand what is required to get there.

They need to take advantage of our Governance Development Programme which is a good stepping stone to gaining the wider governance experience on other commercial boards that potential directors should have. Our farmers are encouraged to look at the skills matrix published by the Board each year. These encourage younger leaders in their communities to build relevant experience to equip themselves for leadership roles in our Co-operative.

DEVELOPMENTS

Post balance date we announced significant progress with our strategy to build volume and value, especially in our key strategic market of China. Our Beingmate development opens the door to higher sales of our branded Anmum™ product, as well as higher sales of ingredients from New Zealand, Australia and our milk pool in Europe.

This is a further example of Fonterra's ability to form strategic partnerships that grow volume and value and leverage international milk pools. It follows on from our alliance with A-Ware in the Netherlands, which provides us access to high-quality whey protein and lactose for advanced nutrition applications, and our Dairy Crest alliance to market and sell products for the fast-growing infant food market.

We also continue to invest in growing capacity in New Zealand to increase our product flexibility and to accommodate increases in milk growth. Our new drier at Pahiatua comes on stream in the 2016 financial year adding 2.4 million litres per day of additional capacity in the lower North Island. We are keeping pace with foodservice demand through the new UHT plant at Waitoa, additional cream cheese production capacity at Te Rapa and projects expanding mozzarella and slice-on-slice cheese production at Clandeboye and Eltham.

The mix of powders and specialty products capacity enables us to meet demand that is growing across a range of products, maintain flexibility in what we make and ultimately ensure our farmers' milk flows into the highest-returning products.

Each of these projects adds employment in rural economies, with Fonterra creating 570 jobs in the past three years. This includes 110 roles at Darfield, 44 at Studholme and 90 in the Waikato for our UHT plant. We have increased the number of tanker operators by 120 over the same period. The figures exclude temporary seasonal employment opportunities and they reinforce the value of the dairy sector as an employer.

NZIER's 2010 study estimated that the dairy sector employs around 35,000 workers, excluding those who are self-employed, which could be up to 10,000 people. The study determined dairy provides more jobs than each of the finance and accommodation sectors, around 65 per cent more than the sheep and beef farming sector, 75 per cent more than the fruit growing sector and double the jobs in the wood processing sector. While Fonterra does not represent the sector entirely, our position as the sector's largest business reinforces our view that the growth of our farmer shareholders and our own growth supports a healthy rural economy, and ultimately a vibrant New Zealand.

1 Milk is processed into groups of products within one 'stream', for example, when Skim Milk Powder is made, the downstream products are butter and buttermilk powder. Combined these products form the stream covered in stream returns for Skim Milk Powder.

Investment and innovation have carved out our place as the leading supplier to the globally traded market for milk.

We keep seeing calls for Fonterra to produce fewer commodities and instead make more products that command a premium. Those comments miss the point that our strategy emphasises both volume *and* value for good reason.

The raw milk that goes into farm vats is highly perishable, which is why generations of investments by farmers have built up the processing assets which enable that milk to be exported around the world. That is how New Zealand earned its reputation for high-quality dairy exports. Investment and innovation have carved out our place as the leading supplier to the globally traded market for milk.

Our volume and value strategy works for Fonterra and it works for the economy. Commodities might not be fashionable, but they are the foundations of our economy with dairying, bringing $13.3 billion back to the economy for the season through Fonterra's Farmgate Milk Price and another $160 million through the dividend on our Fonterra shares and units, made possible from profits by our higher margin operations.

We should not forget that our economic contribution goes beyond our payout. We are a substantial employer with more than 11,000 people in New Zealand taking a pay packet home to their families, and we employ more than 6,000 people offshore. We are also a significant purchaser of goods and services including packaging, energy, transport, telecommunications and other business needs, sourcing most of these in New Zealand.

Given our economic contribution, it is important our strategy is more clearly understood. Our ingredients operations drive cash for Fonterra and the economy as a whole. Investing in ingredients capacity enables us to accommodate both growth and ensure that more of our shareholders' milk is processed into the highest returning ingredients products. But this is only half the story.

Our investment strategy also sees us creating capacity in foodservice and consumer, both areas that command premiums. Ultimately the aim is to move more milk into those products. This is all part of turning the wheel towards higher returns from milk.

As we invest in our future, it is crucial that we continue to invest as a country in the research and development to support a highly productive agricultural sector. It is equally crucial we work together to ensure we have food safety and quality systems which safeguard New Zealand's reputation as a trustworthy source of food for the discerning consumer.

The new season will be demanding. Strong global supply, geopolitical turmoil and a lower forecast Farmgate Milk Price are all factors to be dealt with, but as we have shown this financial year, the best approach in volatile markets is to stay focused on strategy. Its overarching aim is to sustainably maximise our Farmgate Milk Price, our profitability and ultimately the highest payout to our farmers.

I want to thank our farmer shareholders for their support this year, especially during the first quarter. On their behalf I also want to acknowledge our management team, who are strengthening our Co-operative, setting a new benchmark for food safety and quality and aiming for an ambitious but achievable goal of global relevance.

JOHN WILSON
CHAIRMAN OF THE BOARD

FROM
A STRONG FOUNDATION

This is what ambition looks like. It is a powerful story of growth for Fonterra and shows our volume and value strategy at work. It shows more milk steadily flowing into higher-returning products. It shows the global milk pools strategy at work as we move from a single source in New Zealand to draw on 30 billion litres across five geographies by 2025. It shows us growing returns and share value for our farmers. It's a story of building on a strong foundation to become a globally relevant Co-operative.

Formation

REVENUE[1]	INGREDIENTS[2] $7.9B	CONSUMER AND FOODSERVICE[2] $4.6B
CASH PAYOUT	$5.33	37% discount to UK milk price
MILK POOLS (LITRES)	13B	**NEW ZEALAND MILK VOLUME ONLY**
SHARE VALUE (NZD)	$4B	Based on $3.85 Fair Value Share[2]. This was within the range of $3.65–$4.25 determined by Standard & Poor's Ratings Services ('S&P')

1 Revenue represents external revenue.

2 For the 31 May 2003 financial year.

TO
A GLOBALLY RELEVANT CO-OPERATIVE

Today

INGREDIENTS	CONSUMER AND FOODSERVICE[3]
$16B	$6.3B

$8.50

No discount to UK milk price

21B

NEW ZEALAND
AUSTRALIA
CHINA
CHILE

$10B

Market value as at September 2014

Ambition by 2025

INGREDIENTS, CONSUMER AND FOODSERVICE

$35B

DELIVER HIGH SUSTAINABLE FARMGATE MILK PRICE AND DIVIDEND PER SHARE

30B

NEW ZEALAND
AUSTRALIA
EUROPE
CHINA
CHILE
USA

GROWING VALUE BY TURNING THE WHEEL

3 Oceania, Asia and Latin America business units, excluding inter-segment revenue.

LETTER FROM **THE CHIEF EXECUTIVE**

It has been a tough year, but we are off to a flying start with a game changer that really defines the 'value' part of our V3 Strategy.

It has been a testing and defining year for our Co-operative. Pressure can push you down or propel you forward. We choose the latter, setting us up for the future.

High milk powder prices are good for farmers, but in our consumer and foodservice businesses they put margins under pressure so we focused on building volume and value in our key markets, especially Asia and Latin America.

Very strong milk flows and an extended peak season stretched our powders capacity and forced us to make lower-returning products. We fast-tracked investments to expand our New Zealand capacity and undertook immediate projects to maximise output from existing plant. As these have come on stream we have announced further investments to keep us ahead of the milk curve and provide more options for the most profitable end use of our farmer shareholders' milk.

We are firmly on track with a global view of our milk processing and manufacturing capacity, forming strategic partnerships that capitalise on the competitive advantages of different geographies.

This gives us more flexibility with what we make and where we make it and lifts our operational efficiency. We can meet customer demand and keep our Farmgate Milk Price competitive by having New Zealand sites focus as much as possible on products with higher stream returns.

Establishing our Global Ingredients and Global Operations business units, operational from 1 August 2014, brings a more integrated approach to ingredients manufacturing around the world. This global grouping recognises that while our operations are predominantly New Zealand-based, we cannot be New Zealand-centric, especially as we grow our global milk pools.

The toughest challenge of all was our precautionary recall of Whey Protein Concentrate (WPC80) right at the start of the financial year. Our response was to renew our focus on food safety and quality and seize the chance to create and resource a four-year plan to achieve a global benchmark in food safety and quality. This benchmark will not be defined by us, but by our customers and consumers.

A benchmark based on respect for what we do will always be stronger than one we define ourselves. We know the expectations of our customers and consumers are high and we are determined to meet them.

It has been a tough year, but it has redefined us and we have a new year ahead. We are off to a flying start with a game changer that really defines the 'value' part of our V3 Strategy.

REVENUE

$22B

GLOBAL INGREDIENTS AND OPERATIONS REVENUE

↑30%


UNO
SOPROLE
PACK SEMANAL
1+1


SOPROLE
Batifrut
Clásico
piña


SOPROLE

We have kept turning the volume and value wheel, even in more challenging market conditions.

Post balance date we announced that we are establishing a global partnership with Beingmate, a leading infant food manufacturer in China and a long-standing customer. Our partnership represents a major step forward in terms of our strategy and will increase the volume and value of our ingredients and branded products exported to China.

Together we will create a fully integrated global supply chain from the farmgate to China's consumers, using Fonterra's milk pools and manufacturing sites in New Zealand, Australia and Europe.

This global, integrated supply chain will see more of our high-quality Anmum™ infant formula exported from here in New Zealand. It will see more high-value infant formula products made in Australia for China at our Darnum plant – a second milk pool. And it includes a third milk pool in Europe, where ingredients will be manufactured at our new plant in the Netherlands in a joint venture with A-Ware, and through an alliance with Dairy Crest in the United Kingdom. We will ultimately work with Beingmate to evaluate mutual investments in dairy farms in China.

That's the volume side of the partnership. Value will come from gaining a direct line into the infant formula market in China, which is the biggest growth story in paediatric nutrition in the world. It is worth around $18 billion today and is expected to nearly double to $33 billion[1] by 2017.

Our partnership will take our relationship with China and its consumers to a whole new level. It will benefit Fonterra, Beingmate and all our stakeholders and is part of our drive to increase returns to our farmer shareholders.

RESULTS

We have a final Cash Payout of $8.50 comprising the Farmgate Milk Price of $8.40 per kgMS and a dividend of 10 cents per share.

For our farmer shareholders, the Farmgate Milk Price is their best to date. It directly reflects the very strong dairy commodity prices for most of the year. The total Farmgate Milk Price distribution of $13.3 billion will be paid out on eight per cent more milk, with collections for the season totalling 1,584 million kgMS. The dividend will see a further $160 million in the hands of our farmer shareholders and unitholders.

These record milk volumes enabled us to meet high demand and to ship record volumes in the second and fourth quarters of the financial year. They also enabled a rebuild of inventory, run low by the previous season's drought. With carryover stocks low, total sales volume growth in ingredients was up by only one per cent over the prior year to 2.8 million MT.

Record milk volumes also meant not all of the volume could be turned into the most profitable products. We had no choice but to manufacture cheese and casein over the extended peak when powder capacity was full. Over that period 24 per cent of our production was in Non-Reference Commodity Products. In some cases, stream returns for these products were lower and more than the cost of the milk used to make them. Global Ingredients and Operations' revenue increased by 30 per cent to $18 billion and normalised EBIT was down 46 per cent to $269 million.

Our Co-operative achieved record revenue of $22.3 billion for the year. This is a direct result of our focus on achieving the highest possible revenue line that is good for the Farmgate Milk Price. A 27 per cent rise in the cost of goods sold to $19.8 billion constrained margins in our consumer and foodservice businesses and on Non-Reference Commodity Products. This together with higher interest and taxation resulted in net profit after tax being 76 per cent lower, at $179 million.

Overall, our consumer and foodservice businesses continued to achieve volume growth despite head winds, but with value growth eroded by tight margins, EBIT fell in all regions. Earnings per share, at 10 cents, were 34 cents down on the prior year.

We have kept turning the volume and value wheel, even in more challenging market conditions. Foodservice growth across Asia and China was good, growth in Indonesia has been delivered after our moves to unblock the supply chain, and volume and value has grown in Latin America. Our Oceania businesses both struggled with high input costs, but Australia and New Zealand are on a firmer footing to lift their performance in the new financial year.

1 *Baby Food In China* Euromonitor International report, November 2013.


Anchor
Crème
à fouetter UHT
Crema Para Batir
1 litre

How do we define global relevance?
It means making a difference in the lives of two billion people by 2025.

STRATEGY UPDATE: BECOMING GLOBALLY RELEVANT

Looking back over the past three years, we have packed a lot in. We have a secure base in our capital structure, we have locked down our growth choices and we have made excellent progress with our V3 Strategy, growing volume and value.

We are confident about what we stand for. We live by our values. Our determination to establish a new global benchmark in food safety and quality, as defined by our customers and consumers, gives us a real sense of purpose every day.

There is no doubt that we have hit the milestones for scale. We are the world's biggest dairy processor and the world's largest dairy exporter. But scale is not the limit of our ambition. Our next step is to become a globally relevant Co-operative.

How do we define global relevance? It means making a difference in the lives of two billion people by 2025 – 'difference' as defined by them. Getting there means listening to them, understanding what they want, and delivering the innovative high-quality, safe dairy nutrition they expect from us.

Relevance means accessing 30 billion litres of milk from five or six high-quality and secure milk pools in key geographies in the world by 2025. We have to complement our New Zealand milk to keep growing. Our farmer shareholders in New Zealand have achieved average annual compound growth of three per cent in milk solids since 2002. That's impressive, and their milk completely anchors our Co-operative's performance. But our New Zealand volumes are not enough to take advantage of the predicted global demand growth.

Relevance means aiming for $35 billion in turnover by 2025. It's a stretch, but we have achieved four per cent compound annual growth in revenue since 2002 and we hit $22.3 billion this year. It is important to keep aiming high, to keep turning the wheel.

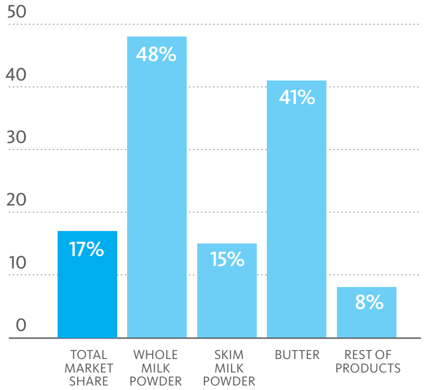
Relevance means leadership in dairy ingredients, our cash engine. We do not take our current leadership position in export markets for granted. Market dynamics are changing. Ultimately, leadership in ingredients is all about growing returns for our farmer shareholders by being the most efficient milk processor in the world with the optionality to make the most valuable products at our peak.

Relevance is being number one or number two in our eight core strategic markets. We already lead in New Zealand, Australia, Sri Lanka, Malaysia and Chile, and in China, Brazil and Indonesia we are focused on building scale operations. We will grow our consumer positions, continue to maximise our foodservice potential and really back a lean and focused portfolio of five brands – the Anlene™, Anmum™, Anchor™ and NZMP™ brands as well as our Fonterra brand, supported by some strong regional brands such as Soprole, Mainland™, Fernleaf™ and Western Star™.

Relevance is our customers, consumers, peers and stakeholders ranking us in the top tier for reputation.

GLOBAL
MILK POOLS

Our global milk pools will allow us to reach 30 billion litres of milk from five or six high-quality and secure milk pools by 2025.



FONTERRA'S SHARE OF GLOBAL DAIRY EXPORTS

Figures are for the 2013/14 season. Global Dairy Exports means the market for the cross-border trade of dairy products but excludes trade among countries within the European Union.

Strategy Update: More progress, more to come.

We have made good progress on our V3 Strategy this year. It is important for our momentum that we hit our goals, so we can keep looking forward to the next level.

OPTIMISING NEW ZEALAND MILK

Millions of litres of milk produced by our New Zealand farmers arrive at our sites every year. Our goal is to allocate it to the highest-returning ingredients, foodservice or consumer products.

This year, capacity constraints over the extended peak meant record milk volumes could not all go into the products earning the higher returns.

Since 2011, we have invested $658 million to increase our processing capacity and now have a further $946 million being invested in either fast-tracked expansion projects or new projects to build capacity in powders as well as premium products. Of this investment, $262 million is in capacity to support foodservice and consumer brands through growing our mozzarella, cream cheese, slice-on-slice cheese and UHT production.

Having this balance of investment between powders capacity and more specialised products, such as those intended for foodservice, ultimately improves the stability of our return on investment as well as our returns to farmer shareholders.

All of these investments are a clear signal to our farmer shareholders that their milk is our top priority and we will always aim to process it into the most profitable products in any season. Investments at Lichfield, Edendale and Pahiatua alone add an additional 8.2 million litres of processing capacity per day, coming on stream in 2015 and 2016.

TURNING THE WHEEL

Our strategic priorities in consumer and foodservice are designed to drive growth in value-add earnings.

To hit our goal to have 40 per cent of volumes generated by consumer and foodservice, we're sharpening our focus. Our strategy has always been about picking where we can win. In consumer and foodservice, this means concentrating our focus on eight strategic markets and going for a top one or two position in all of them.

This means shifting from a portfolio of more than 60 brands to putting our innovation, marketing and sales resources behind a tightly focused portfolio of our proven performers in the Anchor™, Anlene™, Anmum™, NZMP™ and Fonterra brands. It means playing to our strengths in dairy nutrition so we continue to match consumer trends with the products consumers want in order to support mobility, growth and development, cognition and sustained energy.

In Latin America we revised our 10-year-old Dairy Partners Americas (DPA) joint venture with Nestlé to better reflect both companies' strategies. Fonterra now has a 51 per cent controlling stake in DPA Brazil, with Nestlé holding the balance. Together with a local partner, Fonterra has taken over Nestlé's share of DPA Venezuela.

We are looking forward to continuing our strong relationship with Nestlé, while taking advantage of the new arrangement to further drive our volume and value growth focusing on everyday nutrition. The changes we have made will make our businesses in Brazil and Venezuela even stronger. The other changes to the DPA alliance, including Nestlé taking control of DPA Ecuador and the DPA milk powder manufacturing businesses, are still subject to regulatory approval and due to be completed by the end of the calendar year.

Our global partnership with Beingmate puts our Anmum™ brand and our high-quality dairy ingredients in a strong position to capitalise on the growth opportunity in China's rapidly growing infant formula market with a respected local partner. It is a major step forward in our strategy to become a globally relevant Co-operative and will significantly expand the availability of high-quality dairy products to Chinese consumers.

Our farmers' milk will be targeted to the highest-returning products in New Zealand, where we have significant powder expertise and global market share.

Our partnership is intended to come together in two phases:

- A partial tender offer to gain a stake of up to 20 per cent in Beingmate subject to regulatory approval. Depending on the response to the tender offer, Fonterra's total investment in the global partnership will be approximately $615 million (including proceeds from the joint venture in Australia), funded through debt.
- After the tender has been concluded and gained regulatory approvals, we will set up a joint venture with Beingmate to purchase Fonterra's Darnum plant in Australia and we will establish a distribution and licensing agreement to sell our Anmum™ brand in China.

Under the joint venture, Darnum will manufacture nutritional powders, including infant formula and growing-up milk powder for Beingmate as well as Fonterra and other customers. The Darnum joint venture will prioritise supply to the Chinese market and also provide supply to the rest of the world.

Fonterra will continue to run Darnum's day-to-day operations under a formal management agreement. We will also manage the supply of raw milk to Darnum, and milk collection agreements between Fonterra and dairy farmers in Australia will remain as they are today.

Beingmate, which has 80,000 retail outlets, 30 branches across China and 20,000 maternal service consultants, will distribute Anmum™ products on our behalf. As a New Zealand-made branded product, Anmum™ infant formula represents a premium extension to Beingmate's respected paediatric range.

This development represents further measurable progress towards our Co-operative's global relevance. It is a game-changer for volume, for value and for our connection with customers and consumers in the Chinese market.

The global partnership will enable both partners to drive their global growth ambitions and deliver on our shared aim to develop a safe, secure, integrated global dairy supply chain to meet the needs of consumers in China.

EXPANDING OUR MILK POOLS

It is clear that even with the consistent milk growth achieved by our farmer shareholders, we cannot meet global demand from New Zealand production alone. We are complementing New Zealand supply with milk pools offshore, protecting our scale so we can be truly globally relevant.

Our farmers' milk will be targeted to the highest-returning products in New Zealand, where we have significant powder expertise and global market share. At the same time we are tactically expanding sources of supply to capture the best share of market demand.

We have made positive steps forward this year. We formed an exclusive partnership with UK-based Dairy Crest to market and sell two products for the fast-growing global infant formula market. Galacto-oligosaccharide and demineralised whey powder, both used in the manufacture of infant formula, will be manufactured by Dairy Crest. Fonterra will be the dedicated and exclusive sales channel for the infant formula ingredients produced.

This agreement directly aligns with our strategy to develop leading positions in infant formula and growing-up milk powders and to extend and grow our infant formula business-to-business ingredient business in China, Europe and other international markets identified in our strategy.

Having an integrated business in China strengthens our place in the local market by demonstrating our commitment to the local industry and its success.

Infant formula is currently the fastest-growing dairy category in the world and demand is expected to remain strong, especially in Asia. This development is a win-win for us and for Dairy Crest.

Our alliance with Dairy Crest in the United Kingdom also has a direct connection to our partnership with Beingmate. Infant formula ingredients, along with the whey specialty ingredients that will be manufactured at our new plant in Heerenveen in the Netherlands, will contribute volume and value from our European milk pool, complementing the Australian and New Zealand milk pools that are so pivotal to this development.

Our farming hubs in China are also important to our milk pool strategy. Our Yutian hub of four farms in the Hebei province is fully operational, contributing to the increased volumes and higher prices being achieved for our locally produced milk. To progress development of our more integrated dairy business in China, work is underway at the second farm hub in the Shanxi province.

A highlight this year was the agreement between Fonterra and Abbott to develop a proposed third dairy farm hub in China. The strategic alliance, which is subject to Chinese regulatory approval, will leverage Fonterra's expertise in dairy nutrition and farming in China and Abbott's continued commitment to business development in China. If approved by authorities, it will represent a combined investment of $342 million and comprise up to five farms, more than 16,000 cows and up to 160 million litres of annual milk production by 2019.

By 2020, Fonterra aims to produce one billion litres of milk in China. Around one third will supply customers such as Abbott and the remainder will flow into our own consumer and foodservice products. Having an integrated business in China strengthens our place in the local market by demonstrating our commitment to the local industry and its success.

Establishing global multi-hubs to support our growth goals is not simply about securing more milk. It is about matching demand with the best source of supply, drawing on competitive advantages in each milk hub. Our Dairy Crest agreement is one example. Another is our A-Ware joint venture in the Netherlands, which taps into Europe's natural advantage in cheese and gives us access to high-quality whey protein and lactose for advanced nutrition applications.

The addition of the A-Ware joint venture gives Fonterra access to close to one billion litres of milk in the European market and the plant is expected to be ready by the end of the calendar year.

ALIGNING OUR BUSINESS TO STRATEGY

We made some further changes to ensure our group structure supports our strategic platforms. Going from more of a New Zealand focus to achieving global relevance requires a significant shift from an organisational perspective.

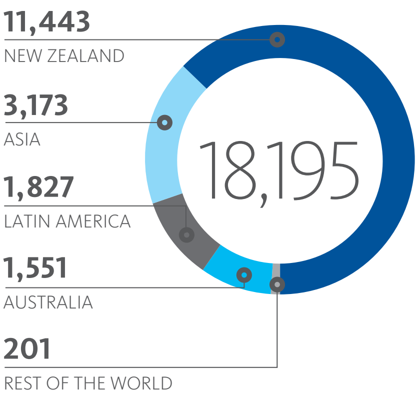
We have made that shift, with Global Operations and Global Ingredients established during the financial year and operational from 1 August 2014. The change supports our business priority to optimise our global ingredients sales and operations footprint.

From 1 August 2014, Global Ingredients will manage sales of all ingredients globally, own the relationships with our valued ingredients customers and drive our global sourcing strategy and delivery.

Global Operations, integrating our New Zealand and offshore operations, will play a pivotal role in planning production to optimise what we make and where we make it. It is closely aligned to our multi-hub strategy.

We have appointed Kelvin Wickham as Managing Director Global Ingredients and Robert Spurway as Managing Director Global Operations. Both are very experienced and capable leaders.

Johan Priem succeeds Kelvin Wickham as President Greater China from 1 August 2014. He has held two senior Fonterra leadership positions in Asia. More recently, he has contributed to developing our approach to food safety and quality, and corporate social responsibility and sustainability.



TOTAL STAFF EMPLOYED[1]

1 Permanent full-time equivalent.

BRINGING OUR PEOPLE WITH US

We are establishing a global benchmark for food safety and quality, one everyone trusts because we are looking after what matters most to our customers and our consumers.

Our Food Safety and Quality Framework makes it clear food safety and quality is everyone's responsibility. We want everyone fully engaged with this obligation and to see the world through our customers' and consumers' eyes.

Our leaders in the business, from me down, know it is up to us to lead by example, so all of our people are clear about what is expected of them. Our values stress collaboration, honesty, living up to the promises we make and above all, doing what is right. Our aim is to create a climate where everyone can succeed, because that makes our Co-operative succeed too.

My leadership team has signed up to really bringing our values to life in our everyday actions. We have a great team with a global perspective and considerable individual strengths. Brought together, we're even stronger. Working collaboratively, respecting one another, keeping promises and forming lasting partnerships are all powerful signals to our people that this is the right way to work. By bringing them with us, we are creating a Co-operative that earns respect and trust through our actions.

I am proud of what our people have achieved this year. They have been resilient and open to learning and very committed to bringing our strategic goals to life.

We are creating a climate for them to succeed through a capability strategy to define how we should develop our people so we are equipped to deliver on strategy. We are taking a global perspective on talent and culture which is open to ideas and opportunities from all corners. We are growing strong leaders, encouraging them to develop their individual strengths and to use those strengths for the good of the Co-operative.

We are encouraging performance by showing how it can be achieved through working together as one tight team, reflecting our belief that all of us together make one strong Fonterra.

Social and environmental considerations must be taken into account in the way we do business at every step in the value chain.

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

Social responsibility is an an area where the dairy sector globally can lead. We want to be part of demonstrating that leadership.

All businesses depend on healthy ecosystems and the support of society. Fonterra is no different. Natural resources underpin our ability to produce milk, and we rely on the support of our farmer shareholders and customers, consumers and communities wherever we operate. We have a responsibility to our farmer shareholders and all other stakeholders for the impacts of our decisions. Social and environmental considerations must be taken into account in the way we do business at every step in the value chain.

For Fonterra, this means sharing what we do best to make a difference wherever we are in the world. We are committed to dairy excellence and global leadership in dairy safety and quality, responsible dairying, championing the health of our environment, making dairy nutrition accessible and delivering superior products to improve health at all life stages.

This year we reached a significant milestone we've been working towards for more than a decade. Our farmer shareholders in New Zealand have achieved stock exclusion from 95 per cent[1] of waterways on their farms. They have ensured more than 23,300 km of significant waterways are stock excluded. Not only that, they have also excluded stock from more than another 9,000 km of smaller streams and wetlands.

To put it in context, that's enough fencing to stretch from New Zealand to the North Pole and back.

Our farmer shareholders have made milk more accessible through the Fonterra Milk for Schools™ programme and around 170,000 children now get free milk every day of the school term. We also received support from the New Zealand Government to extend our KickStart Breakfast programme to five days a week. These programmes are making a real difference every day to children's nutrition and their ability to learn.

Globally, we're developing dairy expertise in Sri Lanka, Indonesia and China to share our skills and knowledge of dairying excellence with local farmers. Everyone gains when local farmers improve production. Working with them to support their growth also supports local communities.

STOCK EXCLUSION FROM WATERWAYS ACHIEVED ON NEW ZEALAND FARMS

95%[1]

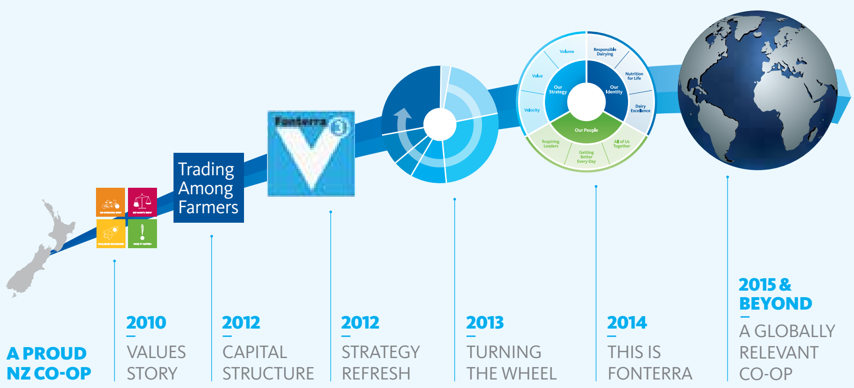
These are achievements any company would be proud of and we are not stopping there. There is still much more we want to do.

Not all the challenges we face have clear-cut solutions. Protecting our freshwater ecosystems and mitigating greenhouse gas emissions are essential priorities, not only on-farm but also across our entire supply chain. We are working with our farmer shareholders to better understand their environmental footprint and to ensure that their farms are well equipped to face increasing expectations from communities, consumers and customers.

There is no question that the capacity of our natural environment is finite. We want to ensure that the resources we depend on are maintained and enhanced wherever we operate – both for our good and that of the community. I am absolutely confident that with sound science and economics we can find solutions that promote innovation and good practice, and enable farmers to continue farming profitably and sustainably.

1 This excludes approximately 450 kilometres of waterways with dispensations, most of which have management plans requiring temporary stock exclusion measures until permanent fencing is constructed. In some cases, the dispensations relate to areas not accessed by dairy animals.

OUR JOURNEY TO BECOMING A GLOBALLY RELEVANT CO-OP



The momentum we have achieved over the past three years is an indication of what we can do with focus, clear priorities and a will to win.

We will keep sharing our progress as we go – the successes as well as the setbacks – and we will keep working with our farmer shareholders, our customers, consumers and communities around the world to make a difference. Not just because it's good business, but because it's part of who we are.

VELOCITY

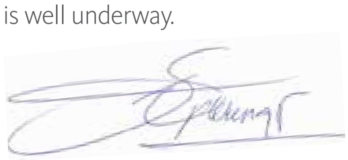
Our V3 Strategy has supported our performance in a demanding and defining year. It has kept us on track, motivated and confident about our future goals and our ambition to become globally relevant.

The momentum we have achieved over the past three years is an indication of what we can do with focus, clear priorities and a will to win. We have started a new financial year with a confident step up in terms of increasing the volume and value of our ingredients and branded products exported to China through our partnership with Beingmate. This partnership includes the potential for farm developments in China.

The partnership with Beingmate is one of several we now have in place to keep our strategy progressing at pace. Our alliance with Dairy Crest in the UK, A-Ware in the Netherlands and our agreement with Abbott to develop a third dairy farm hub in China all demonstrate our ambition to create global milk pools that match demand with strategic sources of supply. We have realigned our DPA alliance with Nestlé for mutual benefit and expect to drive more volume and value.

At home in New Zealand, our continued investment in processing capacity and a compelling new Co-operative proposition to support our farmers to grow and prosper reaffirm that New Zealand will always be our number one milk pool.

We have always said ambition has to be supported by action. Global relevance is our ambition. The action is well underway.



THEO SPIERINGS
CHIEF EXECUTIVE

KEY PARTNERSHIPS **AND INVESTMENTS IN 2014**

EUROPE

A-Ware joint venture

Dairy Crest partnership

LATIN AMERICA

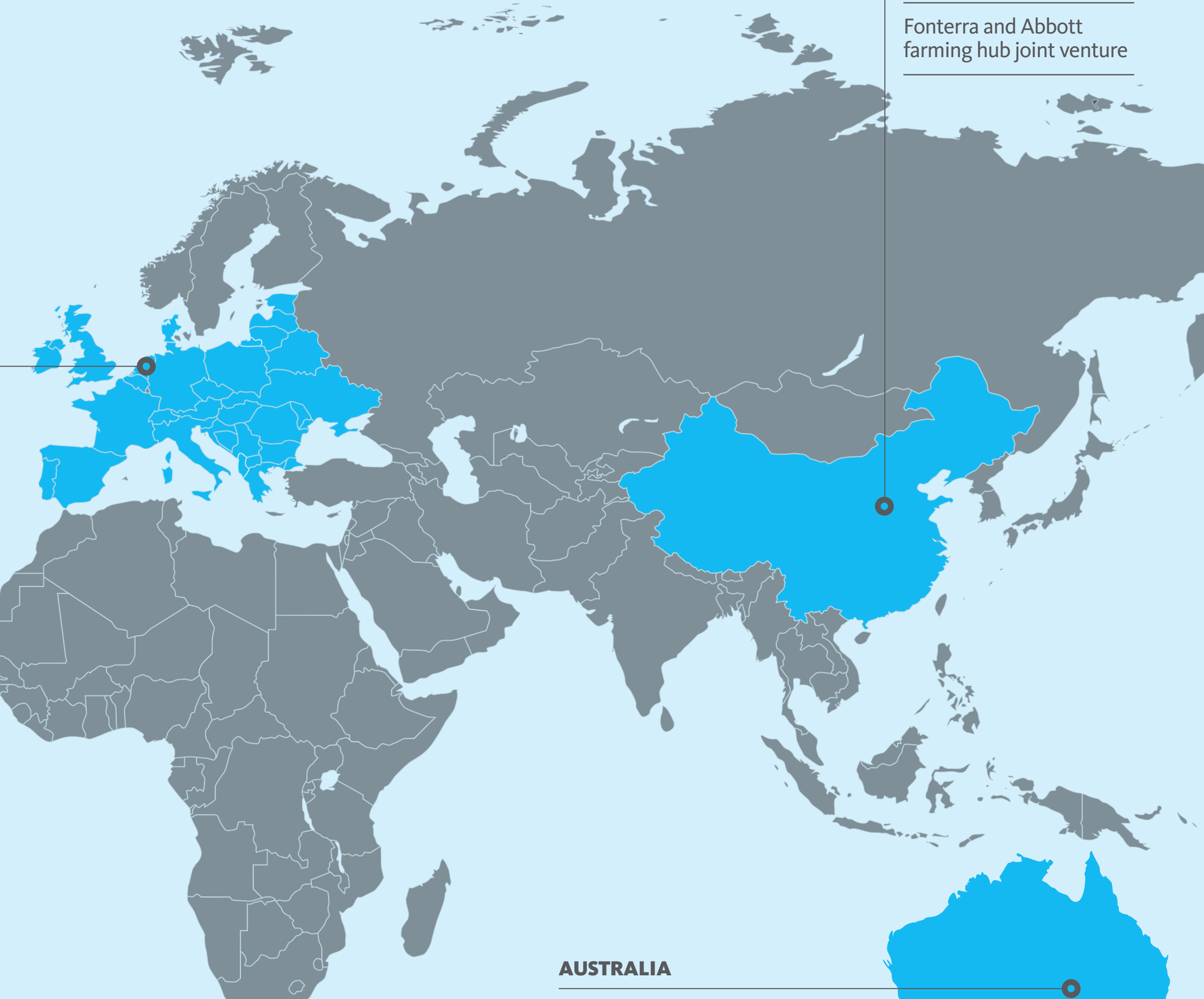
Fonterra and Nestlé's Dairy Partners of America reshape

Our strategic priorities are designed to drive growth in value-add earnings.

CHINA

Fonterra and Beingmate proposed global partnership

Fonterra and Abbott farming hub joint venture



NEW ZEALAND

$1.6b invested/approved since 2011

- **Ingredients:** Lichfield, Edendale, Pahiatua, Darfield
- **Foodservice:** Waitoa, Clandeboye, Te Rapa, Eltham

AUSTRALIA

Nine per cent investment in Bega Cheese

Acquisition of Tamar Valley Dairy

Fonterra selected as preferred supplier to process Woolworths' own brand milk in Victoria for next 10 years

FOOD SAFETY AND QUALITY

BUILDING TRUST IN SOURCE

OUR FOOD SAFETY AND QUALITY ROADMAP

BECOMING THE BENCHMARK, GAINING TRUST

What would it take to become the global benchmark for food safety and quality? We have asked ourselves, our customers and stakeholders that question this year and come up with more than the answer. What we have is a four-year programme of work to achieve this goal.

Setting a new benchmark is an ambitious goal. To achieve it, we have to bring our people, our customers and consumers with us. Where today we can say there is awareness of our commitment to making safe, high-quality food, we want to move to a point where trust is implicit and squarely earned, because we have set the new benchmark. It will not be us who determines when the benchmark is set. It will be the customers and consumers who use our products.

Our programme starts with a very strong base. Our Fonterra Quality System is already set at world standards and applies globally. These standards are based on FSSC22000, which aligns to the International Standards Organisation's (ISO) global standards for food safety management and is fully recognised by the Global Food Safety Initiative (GFSI), the world-leading standard of food safety and quality. Our standards apply to joint ventures and all supply chain partners, as well as to our operations. Full compliance with our quality system is not optional and there is a clear expectation that financial targets relating to the cost of quality failures will be met.

From year one in our four-year programme, we keep raising the bar. Short-term incentives in our remuneration schemes will reflect Right First Time performance. Our manufacturing sites, then our warehouses, then our farms will achieve 100 per cent compliance with the Global Food Safety Initiative's certification schemes. Regulatory compliance will be 100 per cent. As we reach milestones customers and ultimately consumers will be able to check against our audited performance.

DEVELOPING A CONSUMER-FOCUSED CENTRE FOR DAIRY EXCELLENCE

2014 FOCUS

MAKING A CLEAR COMMITMENT TO BE ACCOUNTABLE

- ✓ Audited global operations. 75 per cent complete and 95 per cent compliance with quality standards
- ✓ Protocol in place for engagement of external scientific and diagnostic resources, including appropriate engagement of experts
- ✓ Food Safety and Quality (FSQ) written into all senior management employment contracts
- ✓ Established fully functioning Incident Management Team
- ✓ Creation of Food Safety and Quality Council
- ✓ Appointment of Head of Food Safety and Quality
- ✓ Implementation of a quality hotline
- ✓ Built traceability architecture capability

2015 DRIVE

MAKING PURPOSEFUL PROGRESS AND EARNING TRUST

- Right First Time Quality metric launched and captured in short-term incentive for staff
- Participation in global food standards organisations and CODEX setting
- Launch Food Safety and Quality rewards and recognition programme
- Fonterra Quality System reflected in employee contracts
- Deploy traceability architecture
- Full compliance with GFSI certification (manufacturing)

Similar milestones are set out for traceability where we intend to move from today's 48 hour timeframe to just a few hours by 2016. Ultimately we will have full, open traceability accessible by consumers anywhere.

We supply a world where food security is becoming increasingly important. As demand for quality protein grows, so too do the opportunities for counterfeits, food fraud and other crimes against consumers.

Full traceability and proof of origin, sound science and open access through digital and social media to accurate information are consumers' best protections. That is where we are heading. We are benchmarking our underlying systems against the GFSI global benchmark in product identification systems, ensuring we provide world-class protections.

A significant cultural change programme is also underway to make thinking, acting on and living quality embedded in the way we work. We are making the significant mental shift from being capable makers of product to become people who are looking after what matters most to our customers and consumers. 'Do What's Right' is a core value for us.

To connect ourselves and our people with our customers we're developing social media command centres to enable consumers and customers around the clock and around the world to tell us what matters most to them. This is part of our Dairy Centre of Excellence, focused on food safety science, nutrition, dairy innovation and technology, understanding consumers and connecting with them. We will share our knowledge of dairy and they will tell us how we should be using that know-how to meet their needs. Open access will keep us constantly abreast of what they expect from us and how their needs are changing.

Genuine and lasting change takes time. Year one (2014) has us making a clear commitment to be completely accountable for thinking, acting on and living quality. Year two (2015) sees us making purposeful progress towards clearly defined goals. In year three (2016) we'll be building absolute credibility and delivering leading performance. Achieve all of this and by year four (2017) we will have the global benchmark the world looks to for food safety and quality.

By shaping the way food quality systems and practices develop today, we are opening up the way the world will see food tomorrow. As we head down this road, the everyday actions of our people will be the defining factor. We have focused, committed people and they are taking it personally and accountably, seeing our world through customers' and consumers' eyes.

2016 ACHIEVE

BUILDING ABSOLUTE CREDIBILITY AND DELIVERING LEADING PERFORMANCE

- Full accountability from every member of the Co-operative to uphold highest standards of FSQ
- Full compliance and customer visibility of Right First Time Quality metric
- Benchmark data provided internally
- Full compliance with GFSI certification (warehouses)

2017 AND BEYOND LEAD

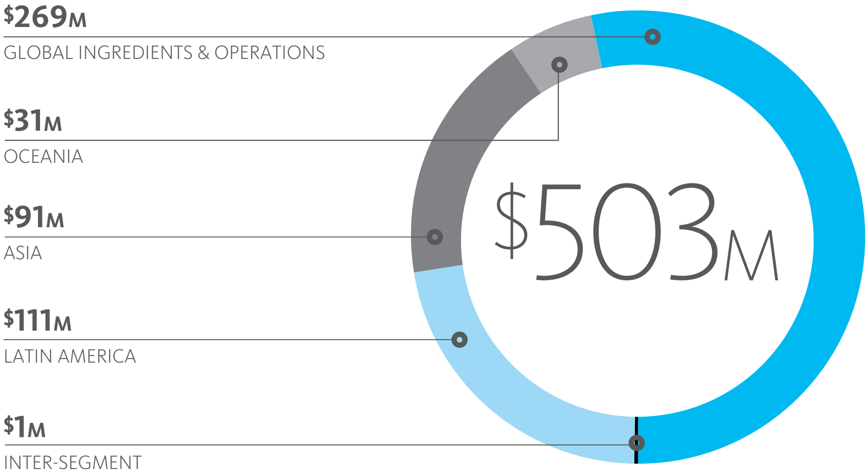
TAKING THE INITIATIVE WITH GLOBAL LEADERSHIP

- Lead global continuous improvement of food standards
- Benchmark data provided externally
- Full compliance with GFSI certification (farms)

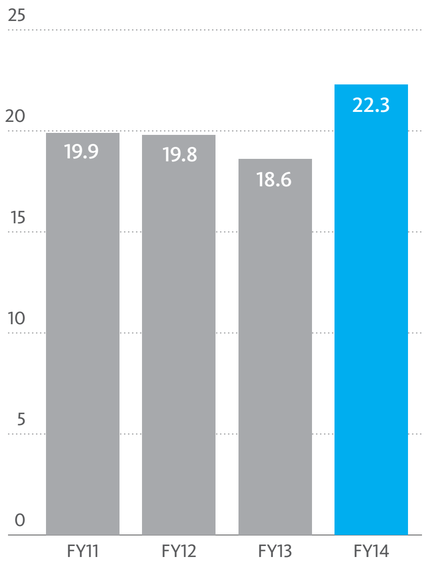
OPENING UP THE WAY THE WORLD SEES FOOD TOMORROW, BY SHAPING THE WAY FOOD QUALITY, SYSTEMS AND PRACTICES DEVELOP TODAY.

GROUP **OVERVIEW**

NORMALISED EBIT (NZD)



REVENUE (NZD BILLION)



VOLUME ('000 MT)

3,965MT

REVENUE (NZD)

$22.3B

NET PROFIT AFTER TAX (NZD)

$179M

FINAL CASH PAYOUT (NZD)

$8.50

EARNINGS PER SHARE (NZD)

10CPS

DIVIDEND PER SHARE (NZD)

10CPS

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 86 for the reconciliation of the NZ IFRS measures to the non-GAAP measures and to page 87 for definitions of the non-GAAP measures used by Fonterra.

A sharper focus on costs resulted in operating expenses being $46 million lower for the year. This was driven by a lower cost base in Australia as the reshape programme is being progressively implemented.

VOLUME

Group volumes were in line with last year, with volume growth in China offsetting lower volumes in Australia and Sri Lanka. Volume growth in China was driven primarily by the farms, supported by foodservice, while volumes in Sri Lanka were impacted by the temporary suspension of our operations.

VALUE

Revenue increased 19 per cent over the comparative period, driven by higher prices for dairy products globally. Revenue was up in every market except Australia and Sri Lanka where the volume impact was greater than price increases achieved. The largest increase was in Global Ingredients and Operations (formerly known as NZ Milk Products), reflecting the increase in market prices.

Gross margin was 19 per cent lower, due to an inventory value adjustment in our Global Ingredients and Operations business as a result of softening commodity prices and the impact of high commodity prices on the margins of our consumer and foodservice businesses.

In Global Ingredients and Operations, margins were negatively impacted by the relative increase in the price of Reference Commodity Products (RCPs), which inform the Farmgate Milk Price compared to the increase in the price of Non-Reference Commodity Products (Non-RCPs). In addition, milk collection grew eight per cent which had an unfavourable impact across the peak due to capacity constraints.

The impact of these together resulted in earnings being $653 million lower than last year and both these asset constraint issues have been largely offset by the milk price adjustment of $642 million.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2014	YEAR ENDED 31 JULY 2013	CHANGE
Volume ('000 MT)	**3,965**	3,958	
Revenue	**22,275**	18,643	19%
Gross margin	**2,462**	3,032	(19%)
Gross margin percentage	***11.1%***	*16.3%*	
Operating expenses	**(2,210)**	(2,256)	(2%)
EBIT	**503**	937	(46%)
Normalised EBIT	**503**	1,002	(50%)
Normalised EBIT percentage	***2.3%***	*5.4%*	
Net profit after tax	**179**	736	(76%)
Earnings per share (cents per share)	**10**	44	(77%)
Milk collected 2013/14 season (million kgMS)	**1,584**	1,463	8%
Operating cash flows	**1,367**	997	37%
Investing cash flows	**(1,009)**	(868)	16%
Economic debt to debt plus equity ratio	**42.3%**	39.6%	
Return on capital employed	**4.5%**	8.8%	

A sharper focus on costs resulted in operating expenses being $46 million lower for the year. This was driven by a lower cost base in Australia as the reshape programme is being progressively implemented.

Net finance costs were $97 million higher than last year mainly due to increased borrowings and unfavourable fair value movements on interest rate swaps.

The higher finance costs and lower tax credit contributed to net profit after tax being 76 per cent lower at $179 million, with earnings per share of 10 cents.

Operating cash flow improved by $370 million as advance rate payments for milk to our farmers returned to more normal terms. In the previous period advance rates were accelerated to farmers during the nationwide drought.

While this had no significant impact on earnings, it did have a material impact on cash flow.

Our gearing ratio is 42.3 per cent, up from 39.6 per cent last year. The change is a result of lower earnings, higher capital expenditure and increased business funding requirements compared to last year.

During the year we increased our holding in Bega to nine per cent resulting in a cash outflow of $78 million, investment in Fonterra's China farms increased with the expansion of the farms, including net livestock spend of $75 million. However, capital spend across the rest of the business was lower than last year's which included Darfield Two and the acquisition of the Studholme plant.

GLOBAL INGREDIENTS AND OPERATIONS

Global Ingredients and Operations (formerly 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.

MILK COLLECTION ACROSS NEW ZEALAND

1.6B KGMS

GLOBAL INGREDIENTS AND OPERATIONS REVENUE

↑30%

VOLUME

Milk collection across New Zealand for the 2013/14 season to 31 May 2014 reached 1,584 million kgMS, eight per cent higher than last season.

Farmers experienced varied conditions across the country last season. However, a mild winter and spring ensured that the season started well. The North Island faced dry conditions through summer, but returned to more favourable conditions in autumn.

North Island collection for the full 2013/14 season reached 969m kgMS, nine per cent ahead of the 2012/13 season, while South Island collection reached 615m kgMS, seven per cent ahead of the previous season.

The record milk volumes for the season did not fully translate into significantly higher sales volume, as Global Ingredients and Operations began the year with low inventory levels as a result of the previous season's drought. As a result total sales volume was up only one per cent.

Strong demand from China made the largest impact on volumes during the year. Maximising prices achieved via this market resulted in lower volumes to most other markets. It also drove a substantial change in product mix compared to the prior year, with Whole Milk Powder (WMP), which makes up the majority of our exports to China, up 18 per cent.

Butter volumes were also up, driven by the Middle East and Africa region. Sales volumes of cheese and casein were down across all key product categories as we maximised production of higher returning milk powder products in the current season.

VALUE

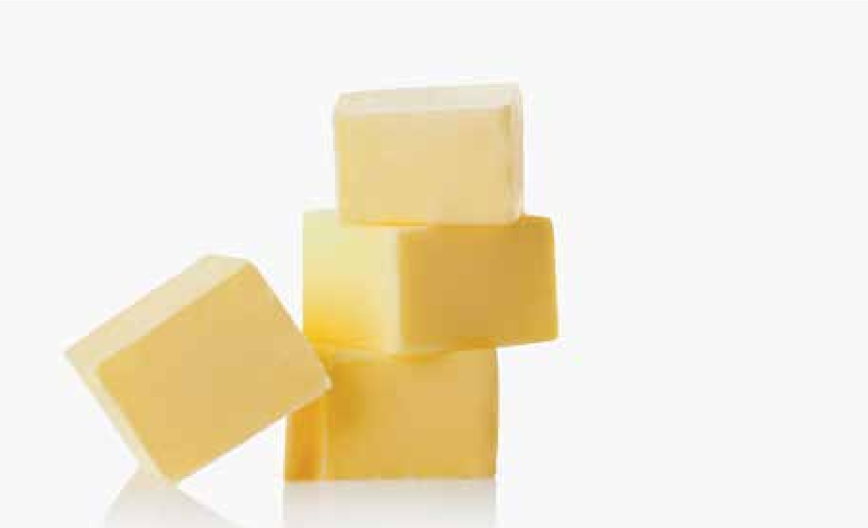
Revenue in our Global Ingredients and Operations business was up 30 per cent as a result of strong dairy commodity prices. Revenue per MT of Reference Commodity Products (RCPs) which inform the Farmgate Milk Price was up 40 per cent, while revenue per MT of Non-Reference Commodity Products (Non-RCPs) was up 20 per cent compared to last year. The softening of RCP prices and the relative increase in Non-RCP prices towards the end of the financial year has not been fully reflected in revenue due to the lag between contract and shipment of product.

Normalised EBIT was 46 per cent lower than last year, at $269 million. The largest impact on earnings of our Global Ingredients and Operations business was asset capacity, which resulted in significantly lower earnings than last year. However, this was largely offset by the milk price adjustment.

Asset Capacity Impacts

Stream Returns

The relative increase in the price of RCPs compared to the increase in the price of Non-RCPs was significant for most of the year and this had a substantial impact on stream returns. The extent of these differences was unprecedented and our asset footprint limited our ability to fully respond by switching production to higher-returning milk powders.



This was exacerbated by the fact that the relative stream returns strongly favoured RCPs during our peak milk collection period in October and November, when we have limited product mix flexibility. As a result our ability to switch production from Non-RCPs to RCPs was substantially constrained.

This resulted in significant margin pressure for Non-RCPs, with milk input costs rising disproportionately against the sales price and selling prices below the input cost in some product streams. In the second half of the year, the divergence in prices between RCPs and Non-RCPs decreased and then reversed. However, the timing of the decrease in commodity prices and the weighting of milk purchasing to the first half of the year, was insufficient to offset the impact on earnings.

Peak Production Costs

Strong milk production and capacity constraints over the peak milk collection period resulted in inefficiencies and higher wastage. This included additional cost to transport milk to other plants and inefficient processing, reducing the returns on those products. The additional cost was $75 million higher than last year.

Together, the earnings from asset capacity impacts were $653 million lower than last year.

Milk Price Adjustment

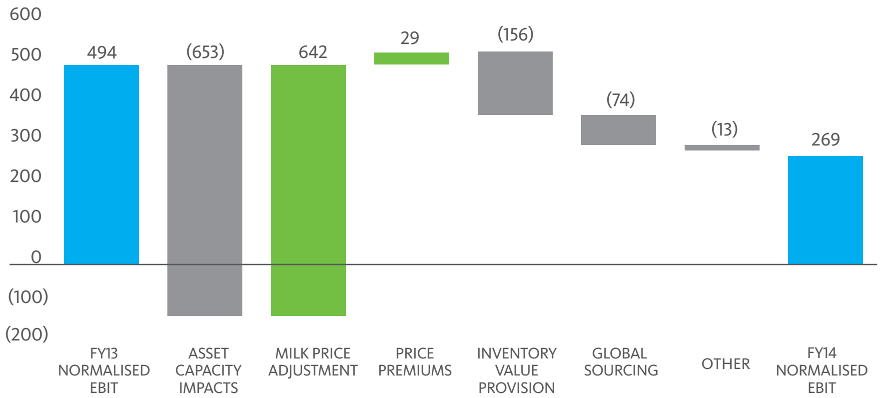
The Milk Price adjustment of 53 cents per kgMS partially offset the impact of the significantly lower asset capacity impacts, increasing normalised EBIT by $642 million due to lower cost of goods sold.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2014	YEAR ENDED 31 JULY 2013	CHANGE
Total volume[1] ('000 MT)	**2,848**	2,824	1%
Revenue	**18,041**	13,917	30%
Gross margin	**1,030**	1,251	(18%)
Gross margin percentage	***5.7%***	*9.0%*	
Operating expenses	**(960)**	(892)	8%
Normalised EBIT	**269**	494	(46%)
Normalised EBIT percentage	**1.5%**	3.5%	
Return on capital employed	**4.2%**	7.4%	

1 Total volume includes intercompany volumes.

NORMALISED EBIT: KEY PERFORMANCE DRIVERS



NEW ZEALAND SOURCED REVENUE AND VOLUME

SALES VOLUME ('000 MT)[1]	FY2014	FY2013	CHANGE
Reference Commodity Products[2]	**1,970**	1,815	9%
Non-Reference Commodity Products	**596**	692	(14%)
PRODUCTION VOLUME ('000 MT)			
Reference Commodity Products[2]	**2,037**	1,779	15%
Non-Reference Commodity Products	**593**	626	(5%)
REVENUE PER MT NZD			
Reference Commodity Products[2]	**5,836**	4,154	40%
Non-Reference Commodity Products	**7,171**	5,983	20%

1 Sales volume includes unprocessed liquid milk, which is not included in the production volumes.

2 Manufacture of the Reference Commodity Products comprised around 77 per cent of Fonterra's total New Zealand ingredients production in the 2014 financial year.

Fonterra's Te Rapa site is one of the Co-operative's largest manufacturing sites, producing more than 290,000 tonnes of milk powders and cream products every year.

Softening commodity prices towards the year end also had an impact on the valuation of inventory. This meant that the value of some of our products held in inventory at year end was higher than their expected future selling price. As a result, additional provisioning has been taken in this financial year of $156 million mainly due to pricing.

Earnings from global sourcing were $74 million lower than last year mainly due to lower exports of high-value infant formula from Australia. However, price premiums and liquid milk contributed positively to normalised EBIT. Price premiums achieved above dairy commodity prices for ingredients and services were $29 million higher than last year, which was a good result in an environment of strong dairy prices.

The contribution from liquid milk was higher than last year. Liquid milk earnings were modest but significantly improved compared to the loss in the previous year.

The Global Ingredients and Operations business unit includes corporate costs. Operating costs were eight per cent higher than last year, mainly due to higher investment in global Corporate Social Responsibility initiatives and higher technology costs, with the increase in spend on information technology being an investment to improve efficiency and productivity.

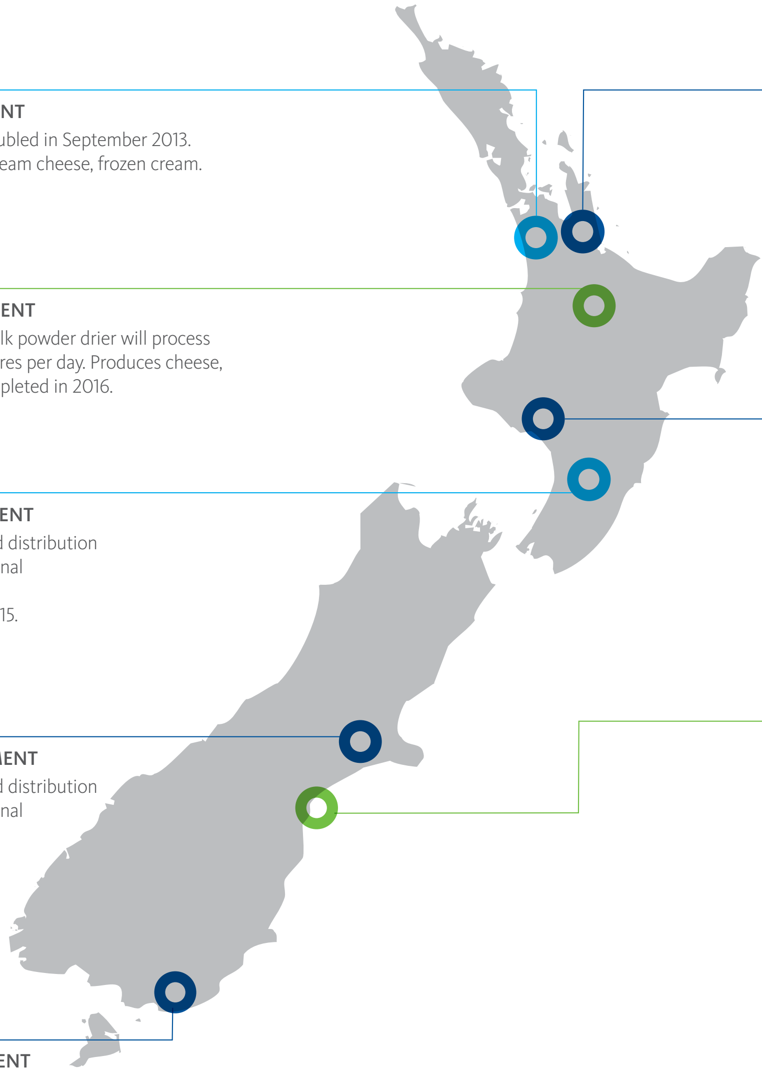
Working capital days for Global Ingredients and Operations were 1.4 days higher than last year due to higher inventory holdings driven by the sharp increase in both milk solids collected and the cost of that milk. However, part of this impact was offset by improved credit management and accounts receivable days as a result of change of sales mix to regions and customers where payments are more efficient.

INVESTING IN BRANDS AND FOODSERVICE CAPACITY

$262M

CAPACITY AND **OPTIONALITY**

Increased milk volumes are welcome and reflect farmer confidence in Fonterra's future. Since 2011, we have invested $658 million to increase our processing capacity and now have a further $946 million being invested in either fast-tracked expansion projects or new projects to build capacity in powders as well as premium products. Of this investment, $262 million is in capacity to support foodservice and consumer brands through growing our mozzarella, cream cheese, slice-on-slice cheese and UHT production.



TE RAPA

$32 MILLION INVESTMENT

Cream cheese capacity doubled in September 2013. WMP, SMP, butter, AMF, cream cheese, frozen cream.

LICHFIELD

$398 MILLION INVESTMENT

The new high efficiency milk powder drier will process an additional 4.4 million litres per day. Produces cheese, WMP, WPI and will be completed in 2016.

PAHIATUA

$235 MILLION INVESTMENT

New milk powder drier and distribution centre produces an additional 2.4 million litres per day. Completion September 2015.

DARFIELD TWO

$290 MILLION INVESTMENT

New milk powder drier and distribution centre produces an additional 4.4 million litres per day. Completed August 2013.

EDENDALE

$157 MILLION INVESTMENT

Three new plants, including an MPC plant, a Reverse Osmosis Plant and an AMF plant. Will process an additional 1.4m litres per day. Commissioned by 2015.

WAITOA UHT

$126 MILLION INVESTMENT

Waitoa is a new UHT milk processing site. Waitoa can produce more than 100 million litres a year. The first shipment of UHT to China was in July 2014. Range of products to be processed, including Anchor™ UHT White Milk and UHT Cream.

ELTHAM

$32 MILLION INVESTMENT

Processes specialty cheese and will be completed mid 2015.

CLANDEBOYE

$72 MILLION INVESTMENT

This investment increased production of individual quick frozen (IQF) mozzarella capacity across New Zealand to over 50,000 MT per year. Produces IQF grated mozzarella, WMP, SMP, cheese, butter, AMF, MPC, WPC, lactose. Fully implemented by September 2015.

KEY

AMF: Anhydrous Milkfat/butter oil/ghee
MPC: Milk Protein Concentrate
SMP: Skim Milk Powder
UHT: Ultra High Temperature
WMP: Whole Milk Powder
WPC: Whey Protein Concentrate
WPI: Whey Protein Isolate

OCEANIA

Oceania encompasses consumer and out-of-home foodservice businesses in Australia and New Zealand, and a dairy processing and manufacturing business. It also includes RD1, a rural supplies retailer in New Zealand.

OPERATING EXPENSES

↓15%

VOLUME

Total sales volume of 832,000 MT was down six per cent on the previous year. This was in part due to the sale of the Norco liquid distribution business last year. Excluding that impact, volumes are down four per cent due to decreased infant formula volumes from the Australian ingredients business and reduced yoghurt volumes in Australia. The New Zealand business held volumes despite challenging market conditions, with growth in the route channel offset by lower grocery volumes.

VALUE

Oceania normalised EBIT was 78 per cent lower than the prior year at $31 million. Both the New Zealand and Australian markets have been challenging for our consumer businesses this year, with higher input costs difficult to recover in very competitive environments. The earnings contribution from the ingredients business in Australia improved, as a result of higher commodity prices.

AUSTRALIA

Normalised EBIT in Australia was $37 million lower than last year as a result of margin squeeze in the consumer brands business. This was due to significantly higher input costs driven by high global commodity prices and competitive pressure that constrained our ability to pass these on. Competition in private label has intensified with increased industry capacity in spreads. Lower volumes in the yoghurt and dairy dessert category also contributed to lower earnings.

The yoghurt category remains challenging and is a key part of our turnaround plan. The advanced production facilities that were acquired with the purchase of the Tamar Valley Dairy business give us the opportunity to create value from better meeting customer needs through innovation and more efficient production. Plans are well progressed to broaden the distribution of the Tamar Valley Dairy brand within the high growth ‘premium’ segment of the category.

The business continues to focus on building long-term partnerships with retailers, and in April 2014 announced that it had been selected as the preferred supplier to process Woolworths’ own brand milk in Victoria for the next 10 years. The proposed long-term arrangement will see Fonterra invest more than AU$30 million into a state-of-the-art milk processing plant at its Cobden site in South West Victoria.

The Australian dairy industry contracted for the majority of the year primarily due to seasonal variations. However, excluding milk recruitment, our existing supply base grew production by two per cent year on year. This was supported by our commitment to ensuring our suppliers are profitable. We have done this by maintaining cash flow leadership for farmers and ensuring they have innovative, industry-leading support services to manage risk and grow their farm businesses.

FONTERRA IS PROUD TO SUPPORT INDUSTRY INITIATIVES

Fonterra's Foodservice 'Proud to be a Chef' programme continues to be a success story celebrating 15 years of grass-roots industry support in 2014. In the last six years, 190 trainees have gone through the programme with many going on to pursue successful careers in foodservice.

Fonterra proudly supports the best and brightest Australian chefs, and through this programme hopes to encourage them to stay with their culinary passion and inspire the future leaders of the industry.

Higher global dairy commodity prices enabled the Australian ingredients business to grow earnings compared to the previous year, which more than offset the impact of decreased infant formula product sales.

In the first half, we acquired a strategic nine per cent stake in Bega, a company with which Fonterra has a long-standing partnership.

The transformation of the Australian business continues to plan and significant progress has been made on lowering operating costs, with operating expenses down 26 per cent (down 16 per cent in constant currency) and streamlining our brands portfolio to align with Fonterra's V3 Strategy. Strong momentum has also been built in spreads, where the Western Star™ brand has achieved record share over the past 12 months, growing at almost 16 per cent in a flat but competitive category.

The new Australian leadership team is focused on milk growth to better utilise the asset base, and on turning the wheel through the V3 themes of value in retail, volume in foodservice, and volume and value in ingredients exports.

NEW ZEALAND

Normalised EBIT in our New Zealand business fell 61 per cent. This was primarily due to margin pressure in our consumer brands business, which was impacted by the higher input costs as a result of the increase in commodity prices, and a highly competitive market that made it difficult to recover those increases.

We have started to leverage our global propositions in our home market with the launch of Mainland™ Noble Cheese from Australia and Uno from Soprole, the first kids' yoghurt from Anchor™, with extra vitamins, minerals and a probiotic to help boost kids' immunity.

Our farm retailer, RD1, has delivered a strong performance with 13 per cent revenue growth as the record Milk Price boosted farmer spending. This was driven by retail store expansion and market share growth with the opening of three new stores this year, combined with strong demand for supplements and blends.

Tip Top™ normalised EBIT fell one per cent as this business was also negatively impacted by rising commodity costs and a decrease in export sales, but recovered most of the lost gross margin through cost saving initiatives. Our recent innovation of all natural preservative-free products has been very well received by customers with Tip Top™ continuing to be the market leader in ice cream in New Zealand.

A strong focus on cost savings and efficiencies this year has delivered significant results including ongoing improvements through a review of our brand architecture and product line rationalisation combined with the sale of the Pastry House business. This, combined with the integration of the Tip Top™ and consumer brands operations, including a reduction in head count, has resulted in overall operating cost savings of $17 million.

The New Zealand business continues to win awards with the Anchor™ Light Proof bottle winning Best Product from New Zealand at the World Tour By SIAL product awards in Paris in May and Kapiti™ winning 17 medals and four champion prizes at the New Zealand Champions of Cheese Awards, with our Kikorangi once again taking the people's choice award.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2014	YEAR ENDED 31 JULY 2013	CHANGE
Total volume[1] ('000 MT)	**832**	884	(6%)
Revenue	**3,600**	3,745	(4%)
Gross margin	**583**	756	(23%)
Gross margin percentage	***16.2%***	*20.2%*	
Operating expenses	**(574)**	(677)	(15%)
Normalised EBIT	**31**	142	(78%)
Normalised EBIT percentage	***0.9%***	*3.8%*	
Return on capital employed	**1.1%**	4.7%	

1 Total volume includes intercompany volumes.

ASIA

Asia comprises Fonterra's consumer and foodservice businesses in Asia, Africa, the Middle East and Greater China. Asia 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 GROWTH

↑12%

VOLUME

Asia includes a number of Fonterra's key leadership and strategic markets, and success in this region represents a critical part of delivering Fonterra's V3 Strategy. The focus in the current year has been to increase volume by taking a long-term view on global dairy pricing dynamics.

Our key leadership and strategic markets in Asia are Malaysia, Sri Lanka, Indonesia and China. These make up 80 per cent of volume across Asia.

Volume growth of 12 per cent to 419,000 MT was driven primarily by excellent performance across China. Sales volume from our farming business was up 65 per cent as a result of the continued expansion of our operations, with the first hub in the Yutian province now complete. Foodservice across Asia was up 11 per cent with continued demand for our chef-led approach, organic market growth in Indonesia and further market penetration in bakery chains in Malaysia and China.

Foodservice growth exceeded capacity available from New Zealand to fully deliver on customer needs. The investments in mozzarella capacity at Clandeboye, UHT capacity at Waitoa and cream cheese capacity at Te Rapa aim to address these constraints and support further foodservice expansion.

In Indonesia, volumes were up 20 per cent, driven by market share growth in foodservice, our premium brands, Anlene™, Anmum™ and Anchor™ Boneeto, and further expansion of our foodservice business. Indonesia is a key strategic market, with a large population and rapidly growing middle class. The current year's performance was driven by improved supply and distribution execution, after supply chain challenges around reaching customers in the previous year.

Volumes were down 20 per cent in Sri Lanka. This is a leadership market for Fonterra, where the Anchor™ brand holds the number one market share position in Full Cream Milk Powder, the largest dairy category in Sri Lanka. In the first half of the year, the temporary suspension of our operations resulted in a large short-term decline in volumes and a temporary loss of the market leadership position. Through the hard work of staff and the success of the 'We Believe in Anchor™' campaign, market share has rebounded strongly to previous levels. However, the short-term challenges had a considerable impact on volumes compared to the prior year. Excluding Sri Lanka, volumes across Asia increased 18 per cent.

Fonterra remains committed to the Sri Lanka market and is supporting the local dairy industry through partnering with farmers to help bring New Zealand farming best practice to this part of the world.

VALUE

Normalised EBIT for the year was $91 million, 56 per cent lower than last year and 53 per cent lower on a constant currency basis. Across the Asia region, significantly higher input costs as a result of the high dairy commodity prices have been the key driver of the decrease in earnings, along with the challenging market conditions experienced in Sri Lanka in the first half of the year.

Given the significance of the Asia region to our V3 Strategy, it is important to maintain our focus on market share and volume growth, which turns the wheel to higher-value products from our farmers' milk.

Price increases were taken in line with individual market conditions, while ensuring that the Co-operative was positioned for future earnings growth. This approach, along with the strength of our Anlene™, Anmum™ and Anchor™ global brands allowed us to continue to grow our volumes in a challenging year.

In Sri Lanka, earnings were impacted by the temporary suspension of our operations in August 2013. The recovery in market share back to previous levels was a significant achievement for the team in Sri Lanka given the challenging environment and reflects the strength of the Anchor™ brand in that market. Fonterra remains committed to the Sri Lanka market, and is supporting the local dairy industry through partnering with farmers to help bring New Zealand farming best practice to this part of the world.

Challenges in Malaysia's economic environment resulted in a lower take-up in the premium milk powder category, translating into lower sales of our premium segment of Anlene™ and Anmum™. On the positive side, market share of key segments of everyday nutrition expanded and our foodservice business grew volume by 14 per cent.

Indonesia had good top line growth with constant currency revenue growth of 34 per cent driven by volume growth of 20 per cent and price increases. The currency had a negative impact resulting in revenue growth of 10 per cent. Despite good growth in sales, EBIT was significantly lower than last year due to higher input costs and the significant devaluation of the Indonesian rupiah.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2014	YEAR ENDED 31 JULY 2013	CHANGE
Total volume[1] ('000 MT)	**419**	375	12%
Revenue	**2,168**	2,059	5%
Gross margin	**581**	702	(17%)
Gross margin percentage	***26.8%***	*34.1%*	
Operating expenses	**(505)**	(519)	(3%)
Normalised EBIT	**91**	209	(56%)
Normalised EBIT percentage	***4.2%***	*10.2%*	
Return on capital employed	**8.5%**	22.3%	

1 Total volume includes intercompany volumes.

Demand for foodservice products continues to grow thanks to our chef-led strategy.

Construction of the new packing and blending facility is underway in West Java and will be operational by the end of March 2015. We have invested $36 million in this plant, which is our first manufacturing facility in the country. Once complete, the plant will have the capacity to blend and pack 12,000 MT of advanced and base nutrition milk powders annually, which is the equivalent of 87,000 packs of Anlene™, Anmum™ and Anchor™ Boneeto every day.

In the Middle East, volumes were slightly lower due to exiting a co-packing partnership in Saudi Arabia. Adjusting for this, volume growth was higher than last year by three per cent, driven by jar cheese and butter.

ASIA FOODSERVICE GROWTH (EXCLUDING GREATER CHINA)

↑11%

Excluding Greater China, demand for foodservice was strong across Asia, with volumes 11 per cent higher and revenue up 21 per cent in constant currency reflecting continued strong delivery from our chef-led strategy. However, gross margins fell due to higher input costs.

Excluding Greater China, operating costs across Asia decreased eight per cent, including a favourable impact on translation from the strong New Zealand dollar. In constant currency, the reduction of one per cent was the result of better management of advertising and promotion across all markets. This was driven by the need to ensure the effectiveness of spend given the environment of increased prices, and finding value from more lower cost non-traditional marketing methods, including social media.

GREATER CHINA

In Greater China, there has been continued growth in a number of strategically important areas. Normalised EBIT grew 38 per cent, driven by our farming business and foodservice, which performed well despite supply constraints of UHT products.

Our farming operations benefited from increased volumes and higher per litre prices achieved for our milk. This was driven by supply shortages in China and the desire of our customers to secure a high-quality source of milk. Our Yutian hub of four farms in the Hebei province is complete, with work underway at the second hub in the Shanxi province.

Fonterra and Abbott have signed an agreement to develop a proposed third dairy farm hub in China. The strategic alliance, which is subject to Chinese regulatory approval, will leverage Fonterra's expertise in dairy nutrition and farming in China and Abbott's continued commitment to business development in China.

We increased our China farms' production volumes and secured higher per litre prices.

Farming hubs are a key part of our strategy to be a more integrated dairy business in China.

Farming hubs are a key part of our strategy to be a more integrated dairy business in China, contribute to the growth and development of the local Chinese dairy industry and help meet local consumers' needs for safe, nutritious dairy products.

The foodservice business in Greater China delivered growth in volume and revenue, however higher input costs put pressure on margins. The rollout into seven new Chinese cities and the development of new products as well as new applications for existing ingredients continues to support growth in this business. Foodservice is now in 26 cities in China, up from 19 cities last year.

In August last year, our China business successfully launched Anchor™ UHT and it is now available in 1,900 stores and 18 cities across the Yangtze River Delta with a market share of five per cent, as well as 14 cities outside the Yangtze River Delta.

A pilot of the full range of Anmum™ infant formula (Anmum™) was launched in the cities of Chengdu and Guangzhou late last year. The team has adopted an integrated sales strategy to introduce Anmum™ both online and in store in China enabling it to have a greater reach.

Anmum™ is now available in eight cities, while Anmum™ Materna has been rolled out to an additional 20 cities reaching 64 cities and covering most of the cities where Anlene™ has a presence. All our consumer brands, including Anchor™ UHT, are also available nationwide through the top e-retailers T-mall, Yihaodin and JD.

The China foodservice and consumer businesses suffered supply constraints from UHT being shipped from New Zealand. However, both Anchor™ UHT and the continued foodservice growth will be supported through increased investment in production capacity, including the recently commissioned Waitoa UHT plant where commercial production has commenced. The new mozzarella capacity at Clandeboye, the cream cheese facility at Te Rapa and the slice-on-slice investment at Eltham, will help to support foodservice expansion.

LATIN AMERICA

As at 31 July 2014, Latin America encompasses Soprole, the market-leading integrated dairy business in Chile and an investment in Dairy Partners Americas, a 50/50 joint venture with Nestlé covering several markets in Latin America including Brazil, Venezuela, Ecuador, Colombia and Argentina. Latin America also includes an in-market ingredients sourcing and sales business, a foodservice business in the Caribbean and an investment in Dairy Industries (Jamaica) Limited, a 50/50 joint venture with GraceKennedy Group.

SOPROLE CHEESE CATEGORY GROWTH

↑9%

VOLUME

Latin America grew volumes by three per cent to 387,000 MT, driven mainly by our Soprole business in Chile. Consumer volumes in Soprole were up two per cent, driven by growth in liquid milk, mature cheese and powdered milk, while milk powder sales to the Government Health Programme also increased.

Soprole continues to grow volumes through new product development. The cheese category in Chile is relatively small when compared to other parts of South America but the Soprole team has used innovation in serving size and packaging to expand beyond the traditional products to help grow the category by nine per cent on the prior year.

VALUE

Our business across Latin America was also impacted by higher input costs, with the Farmgate Milk Price up on average by 13 per cent. Normalised EBIT decreased 19 per cent to $111 million. Excluding the impact of the strong New Zealand dollar, earnings fell 12 per cent.

The key driver of lower normalised EBIT was Soprole, where earnings fell 40 per cent, or 31 per cent in constant currency. The higher milk price, along with increased costs in packaging, raw materials, energy and transport, principally as a result of the weaker Chilean peso, resulted in a lower margin as these increased input costs could not be fully passed on to customers, especially as economic conditions in Chile were weaker than the prior year. The business has maintained its strong market share position and is well placed for long-term success.

Storage and distribution expenses were also higher, as the business transitioned to a new centralised distribution centre, creating some duplication over the transition period. The change means that Soprole is well positioned to improve service levels and drive efficiencies in this area as the business grows.

Soprole has positioned the business for the more challenging economic environment ahead with a review and realignment of its structure.

This year, around 20 new product innovations were launched to the market including Zero Lacto (family of products for the lactose intolerant) and Soprole Light.

Innovation has a fundamental role in maintaining the relationship with our consumers and driving volume and earnings growth. This year, around 20 new product innovations were launched to the market including Zero Lacto (family of products for the lactose intolerant) and Soprole Light.

The DPA Brazil chilled and liquids business EBIT declined from the previous year as higher milk costs have only been partially recovered through retail pricing due to a competitive pricing environment. The Caribbean foodservice business also experienced lower earnings due to milk cost increases that could not be recovered.

Earnings increased for the DPA Venezuela liquid and chilled joint venture. In part this was a result of some one-offs, including a hyperinflationary accounting gain and a land sale. This remains a challenging market and the underlying business performance was constantly reviewed to meet market demands.

The Southern Cone ingredients business benefited from improved pricing for dairy ingredients and the conclusion of some spot contractual sales, resulting in a return to profitability.

Together with Nestlé, we have revised our 10-year-old Dairy Partners Americas (DPA) joint venture to better reflect each company's respective strategies. From August 2014, Fonterra now has a 51 per cent controlling stake in DPA Brazil, with Nestlé holding the balance. We have taken over Nestlé's share of DPA Venezuela together with a local partner, and increased our share to 60 per cent. The other announced changes to the DPA alliance include Nestlé buying Fonterra's share of DPA Ecuador and the DPA milk powder manufacturing businesses with settlement due to be completed later in the year.

The restructuring of the DPA agreement opens the way to develop the foodservice and everyday nutrition strategy across all dairy categories in Latin America including cheese and butter while maintaining Nestlé as a joint venture partner in Brazil.

Soprole's new distribution centre will ensure a more efficient supply chain.

KEY FINANCIALS

NZD MILLION	YEAR ENDED 31 JULY 2014	YEAR ENDED 31 JULY 2013	CHANGE
Total volume[1] ('000 MT)	**387**	377	3%
Revenue	**1,161**	1,135	2%
Gross margin	**267**	303	(12%)
Gross margin percentage	***23.0%***	*26.7%*	
Operating expenses	**(198)**	(191)	4%
Normalised EBIT	**111**	137	(19%)
Normalised EBIT percentage	***9.6%***	*12.1%*	
Return on capital employed	**15.1%**	18.2%	

1 Total volume includes intercompany volumes.

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

A healthy environment and society means a healthy business. Our contribution to environmental health, community wellbeing and economic prosperity is key to our overall success and our ability to operate effectively.

SUSTAINABLE DAIRYING

Fonterra farmers continue to take the lead in adopting sustainable farming practices.

NEW ZEALAND

In New Zealand our farmers are focused on building a sustainable, resilient dairy industry which is supported by New Zealanders. We are supporting our farmers' activities with our Supply Fonterra programme which sets out environmental, animal health and food safety requirements and assists our farmers to meet regulatory requirements and build sustainable farming operations. Our Supply Fonterra commitments include:

Annual Farm Dairy and Environmental Assessments

Every farm supplying Fonterra in New Zealand is visited annually through our Farm Dairy and Environmental Assessments. This ensures each Fonterra farm meets specific milk quality and environmental standards. If improvements are needed, plans are developed with our farmers to help them achieve these within agreed timeframes.

Roger Madson, farmer; Angus Woods, Area Manager; and Food Safety Manager, Lance Pepper – Waihi.

Effluent Management

Thanks to the investments by our farmers, good progress continues towards our aim to have effluent systems and management practices capable of meeting regional council regulations 365 days a year. These systems are checked as part of the annual Farm Dairy and Environmental Assessments.

In the 2013/14 season, the progress made by our farmers was clear with a 50 per cent reduction in the number of farms referred to our Sustainable Dairy Advisors and total identified risks reduced by 35 per cent.

STOCK EXCLUSION FROM WATERWAYS ACHIEVED ON NEW ZEALAND FARMS

95%[1]

Animal Health and Welfare

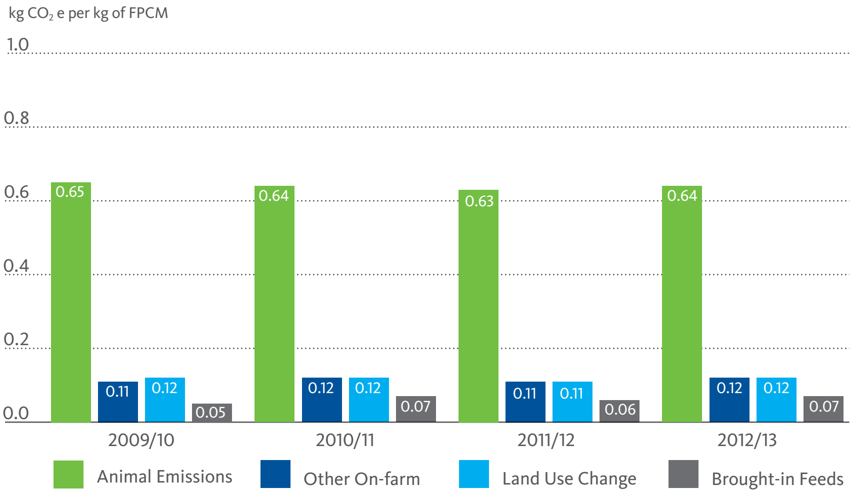
The Fonterra Animal Health and Welfare booklet provides information to support our farmers including regulations and codes of welfare, reference materials and toolsets. Compliance with a number of animal health and welfare aspects is mandatory, including humane slaughter practices, fitness for transport and humane management of painful procedures.

Waterway Management

This year, the mapping of waterways on more than 8,670 Fonterra farms was completed, and the significant efforts of our farmers saw 95 per cent[1] (23,300 kilometres) of defined waterways stock excluded. In addition, 99 per cent of regular stock crossing points now have bridges or culverts installed.

1 This excludes approximately 450 kilometres of waterways with dispensations, most of which have management plans requiring temporary stock exclusion measures until permanent fencing is constructed. In some cases, the dispensations relate to areas not accessed by dairy animals.

GREENHOUSE GAS EMISSIONS TRENDS – NZ MILK PRODUCTION



Nick Dawson, farmer, and Tony Haslett, Fonterra Area Manager – Pakatoa.

Fonterra is a signatory to the Sustainable Dairying: Water Accord, a pan-industry commitment to New Zealand to enhance the overall contribution of dairying to water quality improvements.

The accord has targets focused on effluent management, nutrient management, water use efficiency and waterway management, including stock exclusion and riparian management.

Nitrogen Management

Our Nitrogen Management Programme targets nutrient use efficiency. Farm data provided by our farmers is used to create farm specific reports showing modeled nitrogen conversion efficiency and nitrogen loss risk. Regional comparisons are included so our farmers can compare performance. This information collection and modelling process was underway in the 2013/14 season and addresses Fonterra's commitments under the Sustainable Dairying: Water Accord.

AUSTRALIA

In Australia, Fonterra's milk is supplied by around 1,200 farmers. They are always looking to identify opportunities for them to increase profitability and reduce their environmental impacts.

The Fonterra SupportCrew™ programme provides farmers in Australia with access to a team of highly skilled specialists, with expertise and skill sets in the areas of finance, nutrition and agronomy, human resource management, quality and sustainability. The aim is to improve farm profitability and production and the efficient use of natural resources.

The programme has now completed 182 on-farm environmental projects, with a further 64 still in progress. Once these projects are completed, more than 20 per cent of our suppliers in Australia will have participated in an on-farm environmental project. To deliver these projects farmers' own investments on-farm have been supported by the Australian Government's Carbon Farming Futures programme and NRM North[2] in Tasmania.

CARBON FOOTPRINT OF MILK

New Zealand

The 2012/13 full lifecycle estimate of greenhouse gas emissions for New Zealand milk at the farm gate is 0.95kg CO_2e per kg of fat and protein corrected milk (FPCM). This has increased from 0.90 in 2011/12 due to a number of factors. A revision in the Ministry for the Environment (MfE) methodology accounting for land use change has increased reported emissions[3]. There has also been an increase in the use of supplementary feed, influenced by widespread back-to-back droughts across New Zealand, which have significantly impacted pasture growth.

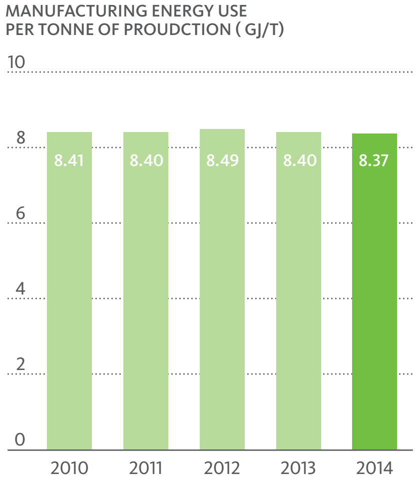
China

Quantifying the emissions of the China farms is an important first step in identifying opportunities to reduce our footprint. The 2012/13 full lifecycle estimate of greenhouse gas emissions for milk at the farmgate was calculated as an average of 1.31kg CO_2e per kg fat and protein corrected milk (FPCM) for the Yutian 1 farm.

2 NRM North is a non-profit organisation working with the North Tasmanian community on Natural Resource Management (NRM) issues.

3 An update in the Ministry for the Environment (MfE) methodology accounting for land use change includes a revision in the estimates of deforested land using satellite imagery and aerial photography. Official confirmations of deforested land are received from forest land under the Emissions Trading Scheme. As forest land owners have four years to report deforestation under the Emissions Trading Scheme, the amount of land use conversion for previous years could still be revised upwards. The final figure can only be officially confirmed after four years. Uncertainty also remains in relation to the contribution of land use change directly to dairying land. There is no primary data available in regards to the amount of forest land converted to dairying land. An assumption has been made using a Deforestation Intentions Survey produced by the University of Canterbury, taking the average value for the intended use of deforested land from forest owners surveyed between 2006 and 2013 (70 per cent conversion to dairying land, Deforestation Intentions Survey, Manly, (2006-2013)). Fonterra will update these figures annually, based on the latest data available.

New Zealand manufacturing site, Darfield.



ENERGY USE PER TONNE IN NEW ZEALAND AND AUSTRALIA MANUFACTURING OPERATIONS

SUSTAINABLE MANUFACTURING

Fonterra is the world's largest dairy processor and the scale of our operations is significant. The majority of our operations are based in New Zealand, where we collect 84 per cent of our global milk supply[4]. Australia is our second largest milk pool and asset base.

We aim to operate sustainably and efficiently with a focus on reducing emissions and waste, and improving water and energy efficiency. We take social and environmental considerations into account in our operations today and when we plan for tomorrow. Investments in new plant, for example, aim to include the most resource-efficient technologies.

NEW ZEALAND AND AUSTRALIA

Emissions

Our greenhouse gas emission intensity has decreased from 0.63 tonnes to 0.62 tonnes CO_2e per tonne of production from 2012/13 to 2013/14, representing a two per cent reduction.

While energy and emission intensity performance of our New Zealand operations overall is similar to last year, less adverse weather conditions this year have led to fuller plants and increased production volumes, which assisted our energy and emissions intensity performance. A number of factors negatively impacted energy and emission intensity results.

We experienced unexpected energy supply issues that lowered boiler efficiencies in some instances, with a number of utility failures resulting in site downtimes and increased energy use.

In Australia we achieved a six per cent reduction in emissions intensity for the year, a trend of carbon intensity reduction across our Australian operations. Our last operational coal-fired facility at Cororooke was closed in October 2013, leading to the elimination of more than 20,000 tonnes of coal-related greenhouse gas emissions per annum.

Energy

The efficient use of energy remains a key contributor towards our goal of reducing emissions. Energy use per tonne of production in New Zealand and Australia decreased from 8.40[5] GJ/tonne in the 2013 financial year to 8.37 GJ/tonne in the 2014 financial year. While parts of the business saw greater reductions in energy intensity, significantly higher milk flows in New Zealand in the year led to product mix being weighted more heavily towards the higher-intensity ingredients products.

Fonterra has one of the largest energy efficiency programmes in New Zealand which is currently in its eleventh year of operation. The programme is designed to reduce the energy intensity per tonne of product manufactured and since 2003 has achieved a 15 per cent reduction in manufacturing energy intensity.

REDUCTION IN MANUFACTURING ENERGY INTENSITY SINCE 2003

15%

This year, we commissioned the next stage of investment in our new energy-efficient Darfield site. We are recording lower energy use as a result of the stage one investment, with efficiency improvements of up to 12 per cent in comparison to older technologies. Further improvements have been made in our overall energy and emission performance through the closure of the Plains site in Christchurch, with milk diverted to more efficient manufacturing sites.

Energy efficiency initiatives continue to be developed and implemented across our manufacturing sites. A focus on energy efficiency at our Edendale and Stirling sites since 2011 has achieved an approximate three per cent reduction in energy use and reduced emissions at these sites by more than 8,800 tonnes of CO_2e per annum.

4 Of Fonterra's global milk collections by business ownership, 84 per cent for the 2013-2014 production season (1 June 2013 – 31 May 2014) was collected in New Zealand.

5 This was reported as 8.38 GJ/tonne in the 2013 Annual Report but this has increased slightly as the data for July 2013 which was used in the calculation of the prior year number was based on an estimate when the 2013 Annual Report was published.

Takapuna Grammar students in Auckland, New Zealand with Paper4Trees recycling crates, each made from 36 recycled Anchor™ Light Proof bottles.

In September 2013, Fonterra Australia completed an upgrade to energy-efficient cheese making technology at the Wynyard, Tasmania site. The upgraded vats can now be heated by surplus hot water already available on site.

This initiative leverages low-emissions energy already generated by Wynyard's cogeneration system, reducing carbon emissions from the essential milk-warming portion of the cheese making process by 90 per cent.

Water

Our New Zealand operations used 42 million cubic metres of water and recycled or reused six per cent of total use. This is an increase of two million cubic metres on the prior year, mainly as the result of more milk being processed and a new processing plant coming on stream. Water use per tonne decreased by over two per cent. As Fonterra builds new capacity we are committed to investing in resource efficient plants.

The Pahiatua site expansion will set a new water efficiency benchmark with all evaporator condensate from the new drier to be reused.

This allows the milk processing capacity of the site to be increased, without any additional water being required, over and above the water volume already consented for use by the site.

Our Australian operations used 3.2 million cubic metres of water in the period 1 July 2013 to 30 June 2014, compared to 3.7 million cubic metres of water in the prior period. The water use was reduced per tonne of production by eight per cent, primarily due to product mix decisions. Our Darnum site is water efficient and can harvest and reuse water when manufacturing skim and whole milk powders.

Waste

In our New Zealand operations, including our consumer businesses, 94 per cent of solid waste was reused or recycled. This is the fourth consecutive year we have surpassed our target to reuse or recycle at least 90 per cent of our solid waste.

We have partnered with Envirofert to divert food waste from landfill. We are converting dairy products that are past their 'best before' date, damaged or out of specification into stock food or compost. A de-packaging plant recovers product packaging for recycling and rebates are donated to local not-for-profit organisations.

Overall, our eco-efficiency programme continues to reduce the environmental impact of manufacturing through refining, reusing and recycling.

In 2011, we established the Recycle Lab, an innovative recycling and waste minimisation programme that has reduced waste to landfill by more than 8,400 tonnes since 2011.

Our Recycle Lab has cut waste to landfill by more than 8,400 MT since 2011.

NEW ZEALAND OPERATIONS REUSED OR RECYCLED SOLID WASTE

94%

TRANSPORT

Milk Collection Fleet Efficiency

We are continuing to upgrade our tanker fleet to high efficiency trucks. Changes to our milk collection scheduling processes have improved diesel consumption by 10 per cent for every 100 kilometres travelled since the 2010 financial year. The changes focused on collection routes, tanker loads and driver performance and have delivered an improvement in energy and emission intensity.

Maungaturoto Primary, celebrating the completion of the national rollout of Fonterra Milk for Schools.

More than 70 per cent of all New Zealand primary schools can now drink milk every day of the school term.

SUPPORTING COMMUNITIES

Fonterra is committed to working on initiatives that are important to our communities and to our people. We make the most valuable difference when we share what we do best – our dairy ingenuity and knowledge and the nutritional benefits of dairy.

NEW ZEALAND

Fonterra Milk for Schools

Our Fonterra Milk for Schools programme is helping to improve the health of future generations of New Zealanders. In May 2014, the national rollout of Fonterra Milk for Schools was completed. More than 1,490 schools are now participating, which means approximately 170,000 children, more than 70 per cent of all primary schools, can now drink milk every day of the school term.

With high satisfaction and participation rates from schools, drinking milk is being established as a normal part of the school day. Our Fonterra Milk for Schools programme has enabled Fonterra farmers to connect with Kiwi kids and has demonstrated our farmers' commitment to their communities by providing and promoting dairy nutrition.

KickStart Breakfast

Our KickStart Breakfast programme has been running since 2009 as a partnership between Fonterra and Sanitarium. The programme was expanded in the year, with additional support from the Government enabling the programme to be made available from two to five days a week, across all school deciles.

The programme works in partnership with schools and their communities, supports 761 schools' KickStart Breakfast clubs across the country and serves more than 100,000 breakfasts per week.

Enjoying KickStart Breakfast at Te Ara Whanui school in Alicetown, Wellington.

The Fonterra Grass Roots Fund

For seven years, our Fonterra Grass Roots Fund has supported school groups, educational groups, charitable trusts, sports clubs and local emergency services to help clever initiatives happen in our rural communities. Community groups can apply for grants of up to $5,000 to get their projects underway.

This year, approximately $600,000 was provided to 261 New Zealand community organisations and projects.

KICKSTART BREAKFASTS PER WEEK, MORE THAN

100,000

Living Water Partnership with the Department of Conservation

In March 2013, we began a 10-year, $20 million partnership agreement with the Department of Conservation (DOC) with an aim to work together to help improve the health of New Zealand's waterways. Our Living Water programme is initially focused on five sensitive water bodies including Kaipara Harbour, Tikapa Moana/ Firth of Thames, Waikato Peat Lakes, Te Waihora/Lake Ellesmere and Awarua/Waituna Lagoon. DOC's conservation expertise, with our on-farm environmental programme and the support of farmers, iwi, councils and environmental care groups, will help achieve our joint vision of a sustainable dairy industry as part of healthy functioning ecosystems.

We have developed catchment specific operational plans for our programme sites and 16 diverse start-up projects are currently underway.

Sri Lanka early childhood development centre.

Since 2011, we have been in partnership with ChildFund, with the aim of improving the overall development of some of the most deprived and vulnerable pre-school children in Southeast Asia.

CHINA

The Fonterra Rural Maternity and Infant Healthcare Community Programme

The Fonterra Rural Maternity and Infant Healthcare Community programme was established in 2009 in partnership with the China Soong Ching Ling Foundation to provide medical care and advice to pregnant women, mothers of infants and children in rural communities. This programme has touched the lives of more than 10 million people in rural communities across China.

In the 2014 financial year, the programme was expanded to multiple provinces simultaneously. Twelve fully equipped ambulances were donated to Hu'nan, Yunnan, Jiangxi, Jiangsu, Sichuan and Chongqing provinces. Maternity and child healthcare training was delivered to 2,091 medical workers from 1,591 hospitals and medicare centres across Hu'nan province.

In co-operation with the Beijing Union Medical College Hospital, a national prenatal diagnostic techniques training programme was launched as part of the programme's vision for improved rural infant and maternal healthcare.

Fonterra Farmer Training Programme

Fonterra established a Farmer Training Programme in 2012 in partnership with China's Ministry of Agriculture. It is part of our commitment to work alongside the Chinese Government to develop the local dairy industry. The programme includes courses on prevention and control of animal disease as well as management of animal health.

In the past two years, the programme has trained nearly 2,000 local farmers to improve their farming skills.

SOUTHEAST ASIA

ChildFund – Indonesia, the Philippines and Sri Lanka

Our joint programme with ChildFund supports children's nutrition, health and education activities at early childhood development centres and community based programmes in Indonesia, the Philippines and Sri Lanka.

Through our partnership with ChildFund, more than 1,500 children have received nutritious food, medical check-ups and access to multivitamins and de-worming medication. We have constructed or upgraded 49 early childhood development centres and organised 54 home-based programmes.

More than 4,000 mothers, fathers and caregivers have learned about maternal health and childcare, and more than 900 families have received seeds to plant home gardens for better child nutrition. We have also trained 461 daycare workers, pre-school teachers and community health workers to improve their knowledge, behaviour and practices in childcare and development.

Indonesia Dairy Development

Fonterra works in partnership with the Indonesian Government to improve the capability and capacity of the local dairy industry. Our industry support includes a comprehensive Fonterra Dairy Scholarship training programme. The programme scholarships are awarded to dairy farmers, dairy extension officers and dairy service providers, to enable them to improve their dairy knowledge. The Indonesian Directorate General of Livestock and Animal Health, Massey University and Taratahi Agricultural Training Centre, are valued partners in the delivery of this programme.

Soprole school sports programme.

Soprole's school sports programme supports the health and wellbeing of Chilean children.

Sri Lanka Dairy Development
Fonterra continues to support dairy development in Sri Lanka, with a focus on developing a network of farms to operate as training hubs for local staff and farmers, seeking to demonstrate best-practice, sustainable dairy farming.

Since 2013, a pilot group of 10 farmers has completed several training modules. Increases in fodder production, milk volume, animal growth rates and income have been recorded from farms participating in our pilot programme.

Milk volumes increased by around 42 per cent during the pilot, and dairy derived incomes improved by up to 37 per cent. Poor herd nutrition was addressed as a major barrier to improved farm productivity and profitability. Reproduction in herds has improved, along with calf growth rates, and training to identify mastitis led to improved milk quality on all farms.

LATIN AMERICA

Chile – Soprole school sports programme
Soprole's school sports programme attracts thousands of participants, along with the involvement of families and local communities to support the health and wellbeing of Chilean children.

Our Soprole school sports programme works with local sports clubs and organisations that manage sporting events. Over the past 13 years we have expanded to many different regions, organising sports events throughout the year from Arica to Punta Arenas. During this time, more than 1,800 educational organisations have participated in sporting events or tournaments in chess, athletics, swimming and volleyball, and nearly 4,000 football, basketball and volleyball matches were organised, with an estimated 55,000 regular participants over the year.

Cumbres vs Everest, Soprole sports programme.

TAKING CARE

Dairy products are part of a healthy diet in virtually every culture in the world. We have an unrelenting commitment to our customers and consumers in more than 100 countries that the products we make for them will meet the highest standards for food safety and quality. We also take our duty of care seriously with our own people. Their skills and experience contribute to our success. Our health and safety policies are aimed at minimising harm at work and encouraging balanced lifestyles.

FOOD SAFETY AND QUALITY

The Fonterra Quality System ensures that wherever we are located in the world, we have a clear, consistent framework to deliver quality products and services. Quality is everyone's responsibility and our quality framework includes policies, processes and training so that this responsibility can be met.

Sally Tatopau and Marie Marshall from our Bulk Take Home department at Tip Top™ ice cream factory in Auckland.

Our overall product performance was again assessed by Fonterra's customers, via the 2014 customer value management survey where we achieved a score of 8.1 for the year.

This system ensures control of product quality from farm to customer. It includes a rigorous testing regime that starts at the point of milk collection and runs through the supply chain. In addition to our own testing, independent and external tests provide further reassurance on the quality and safety of our products.

Our system undergoes regular scrutiny with audits on our plants and processes. These audits are undertaken by us, regulators and our customers. The robustness of our system was recognised in the internal and independent reviews following the precautionary recall last year. We also had this robustness acknowledged in customer audits this year.

The Fonterra Quality System is guided by four principles: think and live quality, deliver on our promises, right first time, every time, and continuous improvement.

This year, initiatives aimed at continuous improvement included benchmarking our system with other companies to reconfirm it is world class. We also added further food quality and safety standards and increasing food safety requirements of suppliers for ingredients, packaging material and raw milk supply. We strengthened our compliance audit processes and improved our group regulatory standards framework to ensure consistent compliance with country of origin and importing country regulations.

The Fonterra Quality System spans the full global supply chain from milk sourcing to customer satisfaction and is supported by quality standards and quality reference documents, and performance and compliance measurement.

Food quality and safety are always a priority for Fonterra as a producer of consumer dairy products and dairy ingredients. We have a robust system, but we are the first to acknowledge it can always be made even stronger.

2014 Financial Year Performance Achievements

- A full food safety and quality audit of all our manufacturing facilities in New Zealand and internationally is due for completion by the end of 2014. This audit builds on the annual Controlled Self Assessment (CSA) against the Fonterra Quality Standards. Once completed, a compliance score will be assigned to each site and to Fonterra as a whole. The CSA in the prior year achieved a score of 95 per cent.
- Further supplier audits were undertaken through our Fonterra Approved Supplier Programme. The programme ensures we operate a robust and safe approval process for procured ingredients, packaging and third party-sourced dairy products.
- We have continued to carry out milk quality audits and improvement programmes across the 16 countries where we source milk, thereby raising the standard of the milk we source across the globe. This has not only provided benefit to Fonterra, but also to the numerous dairy farmers we source from.
- A Quality Leadership Team has been established at senior management level to drive Fonterra's quality strategy and culture. This senior team oversees policies, standards and positions in food safety and quality, will monitor compliance and ensure emerging risks are understood and managed.

Our overall product performance was again assessed by Fonterra's customers, via the 2014 customer value management survey where we achieved a score of 8.1 for the year.

For the fifth consecutive year we have achieved a value of above 8.0, which is considered best in class.

2014 FINANCIAL YEAR KEY HEALTH AND SAFETY FOCUS AREAS

- **Zero fatal incidents** and a reduction in serious harm injuries. Greater focus on the risk of fatalities and serious harm and increased targeted management around our highest critical risks.
- **Reduction of harm overall** Shift the focus from systems to leadership, care and engagement to reduce minor injuries and harm and to support improved wellbeing.
- **Engagement and Health and Wellbeing** We have clarified and strengthened our vision and commitment in the areas of health and wellbeing. Associated with this we have developed a comprehensive wellbeing strategy and are connecting global health and wellbeing programmes with our overall people and business strategy.

Precautionary Recall

The all-clear after the precautionary recall followed a period of considerable concern for Fonterra, our customers and consumers regarding products made using WPC80. Our management internal review and an independent review commissioned by the Board examined the incident fully to identify what went wrong and to recommend actions. Both reports have been widely publicised.

The immediate actions, completed during late 2013, focused on operational improvements at plants, including a review of standards and product specifications, upgrading cleaning regimes and reviewing and updating the approach to non-standard testing. Specific food quality and safety requirements were included in new and senior level employment contracts from February 2014, with senior level performance agreements also reflecting these expectations.

By the end of July 2014, the majority of short- to medium-term actions were completed, with a full global audit of all manufacturing facilities on track for completion by the end of 2014. Progress was acknowledged and commended by the Board's Independent Inquiry Committee at its nine-month assessment in July 2014.

Governance and Risk Management

Fonterra has introduced the Fonterra Food Safety Risk Management Framework to complement the Fonterra Quality System.

It is overseen by the Risk Committee established by the Board. While the Board had oversight of risk via the Audit, Finance and Risk Committee, having a separate committee has added weight to that oversight and created a specific governance link to risk management at Fonterra.

Fonterra's Food Safety and Quality Council has been strengthened and has extended its mandate to provide long-term strategic direction of food safety, quality and regulatory affairs. The Council has oversight of the Risk Management Framework and the Food Safety Quality Strategic Plan, and provides governance across Fonterra. This includes the establishment and monitoring of group-wide quality measurements. The Food Safety Quality Council reports regularly to the Risk Committee.

Fonterra has also established a cross-disciplinary Incident Management Team to manage events that could impact the health and safety of any of our stakeholders. It is structured to enable tight and rapid escalation, assessment and management of issues.

People make the difference and caring for our people is a key foundation to the way we operate.

DECREASE IN SERIOUS HARM INJURIES

63%

HEALTH, SAFETY AND WELLBEING

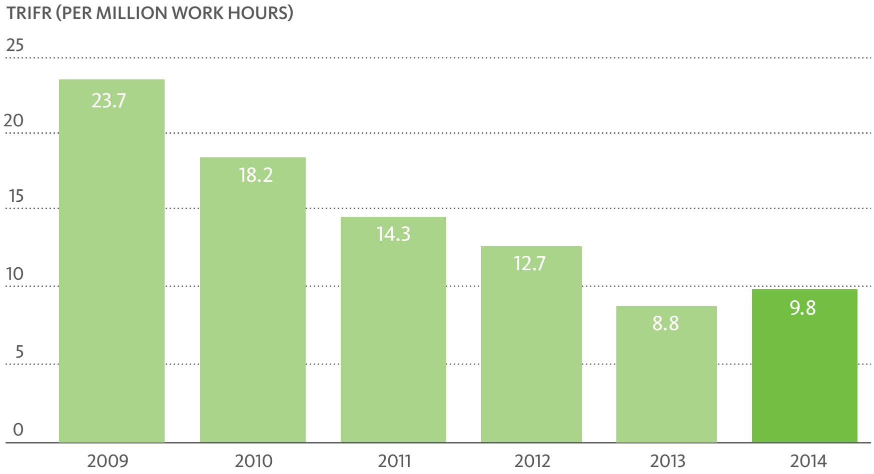
At Fonterra we believe that sustainable success can be achieved through our people. People make the difference and caring for our people is a key foundation to the way we operate. In the last few years we have made great progress in reducing harm and supporting our people's health and wellbeing.

During the year we built upon previous programmes and success in order to support our mission that our people are healthy, live with balance, and go home from work safely every day.

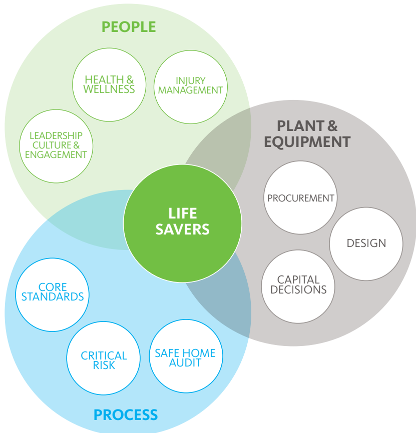
Performance against focus areas

We made progress in reducing the events and injuries that have the most significant impact on our people. During the year we had no employee or contractor deaths and we achieved a 63 per cent decrease in serious harm injuries compared to the previous year. Serious harm injuries are those injuries that cause permanent or long-term harm.

TOTAL RECORDABLE INJURY FREQUENCY RATE



Fonterra employee, Tanya Venema, preparing for a run as part of the 10,000 Steps Challenge, a Corporate and Global Sales-wide Health, Safety and Wellbeing initiative.



During the year, 358 Fonterra employees were injured (requiring medical treatment, restricted work duties or time off work), which is a negative trend compared to the previous year. We define this number as our total recordable injuries (TRI). The increase in injuries shows a plateau in performance after seeing consecutive decreases since the 2009 financial year.

Despite the number of higher TRIs, there was a significant reduction in the severity of injuries sustained. This change was reflected in a 10 per cent reduction in lost time injuries (LTI) and 29 per cent fewer days off work for our LTIs compared to the previous year.

Reducing the TRI number overall continues to be a focus. The TRI number drives the Total Recordable Injury Frequency Rate (TRIFR).

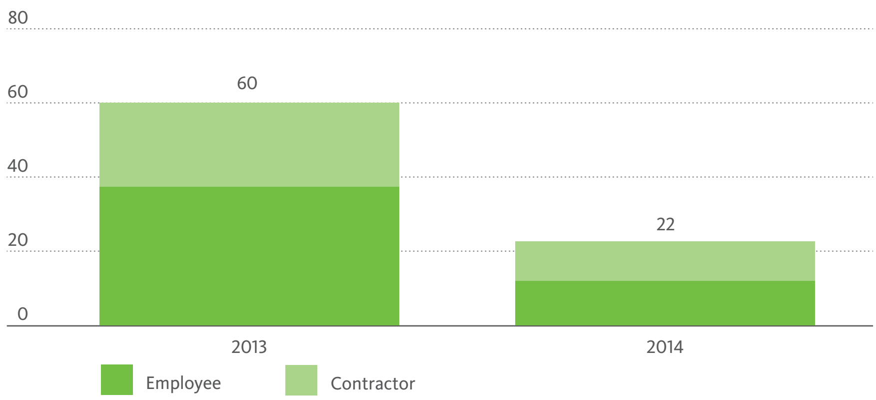
We continued to see improving scores on our Safe Home audits, which cover 25 per cent of sites globally on an annual basis. They measure our performance against key critical risks as well as core health, safety and wellbeing practices (captured in our Core Safe Home Standard 1).

Better Health, Better Safety, Better You is our new global communication platform. It is designed to bring all the elements of health, safety and wellbeing together, connecting our people on a personal level and enabling a sense of personal ownership. This new way of thinking was launched in November 2013 and has been embedded into the business globally.

Fonterra Life Savers has been introduced as a set of global behavioural expectations for our people, that bring focus to our highest critical risks. There are six behaviours which have been identified as having the greatest potential for reducing harm and raising our people's awareness of the risks that they are faced with each day:

1. Always work free of impairment from alcohol and drugs
2. Always wear and use Personal Protective Equipment (PPE)
3. Always drive safely
4. Always work with a valid permit to work, where required
5. Always operate equipment with guards and safety systems in place
6. Always follow access rules.

REDUCTION IN SERIOUS HARM OF OUR PEOPLE AND CONTRACTORS FROM THE PREVIOUS YEAR



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

CHANGES TO THE FONTERRA BOARD

There was one change to the Fonterra Board during the financial year ending 31 July 2014. Michael Spaans was elected as a Farmer Director in November 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 Corporate Governance Best Practice Code issued by NZX Limited (NZX) for the Fonterra Shareholders' Market (FSM) and the ASX Limited (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:

- determining the Farmgate Milk Price and shareholder returns
- 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
- approval and reporting of the Group's financial performance to shareholders.

WE FOCUS ON GOVERNANCE IN A WAY THAT PROMOTES:

- the interests of our farmer shareholders
- Fonterra's Co-operative philosophy, which is largely expressed through our Co-operative Principles
- transparency, giving our farmer shareholders, Fonterra Shareholders' Fund (FSF) unitholders 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, unitholders, debt investors, governments and the communities Fonterra works in.

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
- 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 People, Culture and Safety 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 in relation to the appointment of Appointed Directors.

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.

Director independence

The rules of the Fonterra Shareholders' Market require Fonterra to have a minimum of two Independent Directors.

In order to be an Independent Director, a director must not be an executive officer of Fonterra, or have a 'disqualifying relationship'.

A director has a disqualifying relationship where he or she has a direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to Fonterra. The FSM Rules contain specific examples of what may give rise to a disqualifying relationship. Appointed Directors cannot be shareholders and are expected to maintain independence for the length of their term.

At 31 July 2014, Simon Israel, David Jackson, Sir Ralph Norris and John Waller each did not have (and continue not to have) any disqualifying relationship in relation to Fonterra and are therefore Independent Directors.

The Board has determined that Simon Israel, David Jackson, Sir Ralph Norris and John Waller (being the directors appointed by the Board in accordance with Fonterra's Constitution) are Independent Directors under the FSM Rules as at 31 July 2014.

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

CORPORATE GOVERNANCE

CONTINUED

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 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, including through meetings with key executives
- the Fonterra Constitution and other governance systems.

Directors are expected to keep themselves abreast of changes and trends in the business and in Fonterra'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.

Nomination Committee

The People, Culture and Safety Committee oversees the process for appointments to the Board. To the extent the Board is responsible for appointing directors, the People, Culture and Safety Committee 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. The Shareholders' Council reviews the Board's Statement of Intentions against the performance and operation of the Group and reports on this to shareholders annually. The Board is 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 Fonterra 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 2014 financial year, 33 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 2014		PURPOSE
Audit and Finance Committee (AFC)	David Jackson (Chair) David MacLeod Ian Farrelly	John Waller Nicola Shadbolt Sir Ralph Norris	To assist the Board in fulfilling its governance responsibilities in relation to Fonterra's financial reporting, audit activities, treasury matters, financial risk management and internal control frameworks.
People, Culture and Safety Committee (PCS)	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 Michael Spaans Malcolm Bailey	David MacLeod	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.
Risk Committee (RC)	Malcolm Bailey (Chair) David Jackson John Monaghan	Jim van der Poel John Waller	To assist the Board in fulfilling its corporate governance responsibilities relating to Fonterra's management of key enterprise wide risks. This includes strategic and operational risks, through Fonterra's enterprise-wide risk management framework, the behaviours required of its people and its guidelines, policies and processes for monitoring and mitigating enterprise-wide risks.

BOARD AND COMMITTEE ATTENDANCE

	BOARD					
	REGULAR	SPECIAL	AFC	PCS	CRC	RC
John Wilson	12/12	10/10	–	7/7	–	–
Malcolm Bailey	12/12	8/10	2/6	–	5/5	4/4
Ian Farrelly	12/12	10/10	5/6	7/7	–	–
Simon Israel	12/12	7/10	–	6/7	–	–
David Jackson	12/12	8/10	6/6	7/7	–	4/4
David MacLeod	12/12	9/10	5/6	–	2/5	–
John Monaghan	12/12	8/10	–	7/7	5/5	3/4
Sir Ralph Norris	12/12	10/10	3/6	7/7	–	–
Blue Read	11/12	10/10	–	–	5/5	–
Nicola Shadbolt	12/12	10/10	4/6	–	2/5	–
Jim van der Poel	12/12	10/10	–	–	2/5	4/4
John Waller	12/12	7/10	5/6	–	–	4/4
Michael Spaans (elected 27 November 2013 – 9 meetings)	9/12	2/10	–	–	2/5	–
Total Meetings	**12**	**10**	**6**	**7**	**5**	**4**

Committee membership was reviewed when the Risk Committee was established and memberships changed. Directors' attendances may reflect serving on committees for only part of the year.

CORPORATE GOVERNANCE
CONTINUED

Diversity and Inclusion Policy

The Fonterra Board has recently approved an updated Group People Management Policy that encompasses the Diversity and Inclusion Policy requirements. Fonterra is committed to creating and maintaining an environment where people with diverse experiences and ways of thinking are encouraged and enabled. Fonterra recognises that diversity is not solely a matter of compliance; it means respecting differences and making those differences count. The Group People Management Policy requires that all policies, standards and guidelines support the intent of diversity and inclusion. Fonterra proactively identifies and maximises local talent pools to improve participation. This includes increasing gender ratios in leadership, and access for people with disabilities, and those representing different cultures and ethnicities.

As at 31 July 2014, the gender composition of the Board comprised 12 male directors and one female director (2013: 1 of 12). 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 who reported directly to the Chief Executive at the Balance Date, three were female (2013: 2 of 12).

Securities Trading Policy

Fonterra has adopted a Securities 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 and Finance Committee

There is an established Audit and Finance Committee (AFC) as described above.

The AFC comprises 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. Fonterra has a Group Audit Independence Policy, for certain activities the auditor may undertake for the Group. This policy is prescriptive as to the types of activities that the auditor may undertake, those the auditor may only undertake with the approval of the AFC, and the types of activities that are not permitted. The AFC will not approve the auditor performing any tasks that 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 2001 (New Zealand) 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 Michael Spaans. The Shareholders' Council appointees are Richard Punter and Patrick Boyle. Richard Punter retires by rotation at the end of September 2014 and is replaced by Bill Donaldson. The Board confirms that at Balance Date, John Waller, David Jackson, Richard Punter and Patrick Boyle are considered to be Independent Members of this panel.

GUIDELINE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Continuous disclosure

In order to affirm Fonterra's commitment to promoting a well informed and efficient market, Fonterra has a Group Disclosure Policy. Ongoing education programmes are run within Fonterra 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 and 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, NZX and ASX continuous disclosure regimes and with the Securities Markets Act (1988) 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.

In June 2014, the NZ Markets Disciplinary Tribunal approved a settlement agreement between NZX and Fonterra in respect of FSM Rule 9.1.1. NZX Regulation considered that Fonterra breached Rule 9.1.1 by failing to release Material Information to NZX on concerns that some of Fonterra's WPC80 product may have been contaminated with clostridium capable of causing botulism, immediately after coming into possession of that information. While Fonterra did not accept NZX Regulation's view, Fonterra did acknowledge that view and agreed to make a payment of $150,000 to the NZX Discipline Fund and pay the costs of the Tribunal.

Since the events regarding the WPC80 precautionary recall, Fonterra has taken significant steps to enhance and improve governance and communications around emerging issues to ensure compliance with continuous disclosure obligations. These include:

- Establishing a permanent, multi-disciplinary group Incident Management Team (IMT), whose role is to assess emerging issues for their potential to develop into critical incidents, and in such scenarios, address, among other matters, stakeholder engagement. One of the key functions of the IMT is to ensure that information in relation to critical incidents is escalated promptly to ensure all regulatory and other requirements are analysed and met appropriately. This team works seamlessly with Fonterra's Disclosure Committee.
- Ensuring that senior management's employment contracts include an express commitment to meeting all applicable Fonterra policies and standards in relation to disclosure of material information and escalation of issues.
- Instigating detailed e-learning modules (and testing) for employees in relation to all policies and standards including Fonterra's disclosure policy and standards. Compliance is monitored through the Office of the Chief Financial Officer.

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 37 shareholder-elected councillors, representing 35 wards. 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.

CORPORATE GOVERNANCE
CONTINUED

Fonterra's communications with farmer shareholders include Sky Broadcasts, a regular Global Dairy Update, *Farmlink* and a regular Chairman's email. As described above, Fonterra releases to the relevant stock exchanges all shareholder-related material information, and will comply with the Fonterra Shareholders' Market, NZX 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 at least twice each year. Often these are run in conjunction with the Shareholders' Council, Area Managers and the Fonterra Farmer Network.

As well, directors attend other farmer meetings during the year on specific topics.

In addition, the Board consults with 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 regular shareholder updates.

The Fencepost website enables Fonterra shareholders, 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 farmer shareholders.

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 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

In early 2014, the Fonterra Board established a Risk Committee, as described on page 55. Previously enterprise-wide risk management had been overseen by the Audit, Finance and Risk Committee. With the advent of the Risk Committee, the risk management scope of the Audit and Finance Committee was amended to financial risk management. The Risk Committee covers all other aspects of risk including ensuring a strong risk management culture in Fonterra.

The Risk Committee comprises two Appointed Directors and three Elected Directors. The Committee is chaired by Malcolm Bailey, who is an Elected Director. It is a requirement that the Chairman of the Audit and Finance Committee is also a member of the Risk Committee.

Fonterra has a global Risk Management Policy, 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 which requires the reporting of material risks as appropriate to the Fonterra Management Team, the Risk Committee and the Board.

Fonterra's Risk Management Policy was reviewed by the Board in 2014 and is aligned with the ISO31000 Risk Management Standard. The Policy is supported by a detailed Group Risk Management Standard and Guidelines that define the mandatory requirements relating to risk management for businesses. The Risk Management Policy provides a consistent methodology and approach for the execution of these mandatory requirements by specifying processes for:

- identifying existing and potential risks that 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
- regularly monitoring risks and tracking progress against action plans.

Risk reporting to the Board for review occurs on a regular basis. This includes Fonterra's Top 20 risks, and changes in risks and emerging risk areas. This process is supported by a formal annual evaluation of the top risks by all material business units along with a six-monthly review and update of this risk assessment material. The six-monthly review process also includes Management's self-assessment of the effectiveness of key controls relied upon to manage the top risks. A summary of the results of this assessment is reported to Risk Committee.

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 are Rodney Wilson (Chair), David Gasquoine, 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 two 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.

Exercise of NZX Disciplinary Powers

NZX did not exercise its powers under FSM Rule 4.2.2 to halt or suspend the quotation of Fonterra's shares during the financial year.

An agreement was reached between Fonterra and NZ Markets Disciplinary Tribunal on 5 June 2014 in relation to an allegation that Fonterra failed to disclose information relating to a suspected contamination of some of Fonterra's product. Please refer to Guideline 5 for more information in relation to the steps Fonterra has put in place in response to these events.

BOARD OF **DIRECTORS**

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

1

1. JOHN WILSON

B. Agr.Sc

John Wilson joined the Fonterra Board in 2003 as a farmer-elected Director and became Chairman in 2012. He is Chairman of the People, Culture and Safety Committee and served as the inaugural Chairman of the Fonterra Shareholders' Council. He is director of Turners & Growers Limited and is a chartered 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 near Geraldine, South Canterbury. He is on the Executive Board of the New Zealand China Council.

2. MALCOLM BAILEY

B. Agr. Econ

Malcolm Bailey was elected to the Fonterra Board in 2004. He is Chairman of the Risk Committee and sits on 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.

3. IAN FARRELLY

B. Agr.

Ian Farrelly was elected to the Fonterra Board in 2007. He serves on the Audit and Finance Committee and the People, Culture and Safety Committee and represents the Board on the Governance Development Programme. Ian 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 owns and runs a 400-hectare 10,000 animal calf rearing farm in Te Awamutu, owns a 700 cow dairy farm in the Waikato and has ownership interests in dairy farms in Canterbury.

4. SIMON ISRAEL

Diploma of Business Studies

Simon Israel was appointed to the Board in 2013 as an Appointed Director. Simon currently chairs 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. Simon was a director of Fraser & Neave, Neptune Orient Lines, Asia Pacific Breweries, Griffin Foods and Frucor Beverage Group. He had 10 years' experience in the dairy industry with Danone as a Senior Vice President and member of the Group Executive Committee. He was conferred Knight in the Legion of Honour by the French Government in 2007.

5. DAVID JACKSON

M.Com (Hons), FCA, FInstD

David Jackson joined the Fonterra Board in September 2007 as an Appointed Director. David is Chairman of the Audit and Finance Committee and serves on the Milk Price Panel and the Risk Committee. 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. David is a Fellow of the New Zealand Institute of Chartered Accountants.

6. DAVID MACLEOD

David MacLeod was elected to the Fonterra Board in 2011 and is a member of the Audit and Finance Committee and the Co-operative Relations Committee. 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, and is a shareholder of Far South Farms Limited, which owns a dairy farm in Southland.

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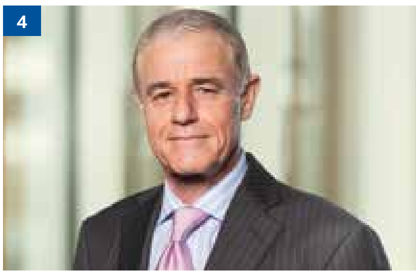

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7. JOHN MONAGHAN

John Monaghan was elected to the Fonterra Board in 2008 and is Chairman of the Co-operative Relations Committee and serves on the People, Culture and Safety Committee and the Risk Committee. Prior to joining the Board John was Chairman of the Fonterra Shareholders' Council for a three-year period. He is also a director of Centre Port Limited and Centre Port Properties Limited, and is a trustee of the Wairarapa Irrigation Trust and the Eketahuna Charitable Trust. John has dairy farming interests in the Wairarapa, Canterbury and Otago regions and beef farming interests in the Wairarapa.

8. SIR RALPH NORRIS KNZM

FNZIM, FNZCS

Sir Ralph Norris joined the Fonterra Board in 2012 as an Appointed Director. He sits on the People, Culture and Safety Committee and the Audit and Finance Committee. Sir Ralph also serves on the boards of the Manager of the Fonterra Shareholders' Fund, Origin Energy Limited and Fletcher Building Limited (where he is the Chairman-elect) and is a member of the University of Auckland Council and the New Zealand Treasury Advisory Board. He was Chief Executive of the Commonwealth Bank of Australia for six years until 2011 and prior to that served as Chief Executive and Managing Director of Air New Zealand Limited from 2002 to 2005. Sir Ralph had a 40-year career in banking and served as the Managing Director and Chief Executive of ASB Bank Limited from 1991 to 2001. Sir Ralph was made a Knight Companion of the New Zealand Order of Merit in 2009 and a Distinguished Companion of the New Zealand Order of Merit for services to business in 2006. In 2012, he had conferred on him an Honorary Doctorate of Business by the University of New South Wales.

9. BLUE READ

Blue Read was elected to the Board in 2012. He sits on the Co-operative Relations Committee and he led a Water Policy Project Team reporting through to the Co-operative Relations Committee. Blue was the Chairman of the Fonterra Shareholders' Council from 2007 to 2010, having been a Shareholders' Councillor since 2001 and Deputy Chairman from 2003 to 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 has interests in two dairy equity partnerships in the lower Waikato, and he lives and farms near Urenui in Northern Taranaki.

10. NICOLA SHADBOLT

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

Nicola Shadbolt was elected to the Fonterra Board in 2009 and serves on the Audit and Finance Committee. Nicola is a Professor of Farm and Agribusiness Management at Massey University, Director of the Centre of Excellence in Farm Business Management, a Director of the International Food and Agribusiness Management Association, and represents New Zealand in the International Farm Comparison Network in Dairying. Nicola and her husband live in the Pohangina Valley in the Manawatu, which is the base for the five farming and forestry equity partnerships they run, which include two dairy farms.

11. MICHAEL SPAANS

Graduate Diploma Finance

Elected to the Board in 2013, Michael Spaans serves on the Milk Price Panel and Co-operative Relations Committee. He was a member of the Fonterra Shareholders' Council since its formation in 2001 until 2008. Michael is Chairman of Waikato Innovation Park, a director of DairyNZ, is a director and shareholder of Manuka SA (Chile) which supplies milk to Fonterra's subsidiary Soprole SA and is a director of Shoof International Limited. Michael's family farm is in the Waikato near Te Aroha where he milks a 500-cow herd.

12. JIM VAN DER POEL

Jim van der Poel was elected to the Fonterra Board in 2002 and had previously served on the Board of the New Zealand Dairy Group. He serves on the Risk Committee and has Board responsibility for International Farming. Jim is also a director of the Manager of Fonterra Shareholders' Fund. Jim has won a number of industry awards including the AC Cameron Memorial Award, 2002 New Zealand Nuffield Farming Scholarship, Sharemilker 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.

13. 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 and Finance Committee and the Risk Committee. He is Chairman of the Bank of New Zealand and 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 more than 20 years. He was also a member of their board and led their advisory practice for many years.


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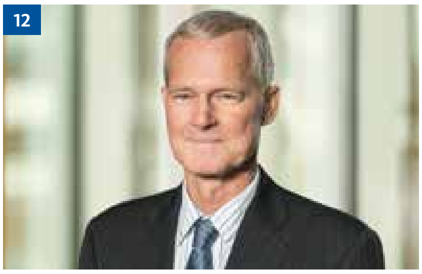
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FONTERRA **MANAGEMENT TEAM**

1. **THEO SPIERINGS**
2. **LUKAS PARAVICINI**
3. **JACQUELINE CHOW**
4. **PASCAL DE PETRINI**
5. **MAURY LEYLAND**
6. **JOHAN PRIEM**
7. **ROBERT SPURWAY**
8. **ALEX TURNBULL**
9. **KELVIN WICKHAM**

1. THEO SPIERINGS

Chief Executive

Theo Spierings sets Fonterra's overall direction and leads the Fonterra Management team. He is focused on building on Fonterra's strengths and securing future growth for the Co-operative. Theo joined Fonterra in 2011, bringing with him extensive experience from across the dairy industry, particularly in Asia, Latin America, the Middle East and Europe. Theo has 25 years' experience in the global dairy industry in a variety of roles including general management, operations and supply chain, and sales and marketing positions. He was previously the acting CEO of Royal Friesland Foods, a Dutch dairy co-operative and, in 2008, led the Dutch dairy co-operative through a merger with Campina. Before taking up his leadership role at Fonterra, Theo ran his own company in the Netherlands focusing on corporate strategy, and mergers and acquisitions, in Fast-Moving Consumer Goods (FMCG). Theo has a Bachelor of Arts in Food Technology/Biotechnology and a Master of Business Administration.

2. LUKAS PARAVICINI

Chief Financial Officer

Lukas Paravicini joined Fonterra as CFO in 2013 after 22 years with Nestlé. Most recently Lukas was General Manager for Nestlé Professional Europe. Before this role he held a number of senior finance positions including CFO of Nestlé Brazil, Nestlé's fourth largest market, Vice President of Global Business Services and CFO of Nestlé Professional, and Nestlé's globally managed Out-of-Home business. He has an in-depth understanding of dairy and has lived and worked in some of Fonterra's most strategically important markets. Lukas holds a Business and Administration degree from the University of Zurich, Switzerland, and speaks five languages.

3. JACQUELINE CHOW

Managing Director Global Brands and Nutrition

As Managing Director Fonterra Global Brands and Nutrition, Jacqueline Chow is responsible for Fonterra Group's customer and consumer brands portfolio. Her remit includes global strategic leadership for the Co-operative's nutritional platforms ensuring group-wide alignment on strategies, brands, marketing and innovation for Fonterra products. She has executive leadership for the company's Food Safety and Quality agenda, Fonterra brand stewardship, global planning and insights, research and development, and science and technology. Prior to joining Fonterra in 2013, Jacqueline was Australia and New Zealand General Manager for Arnott's, one of Asia Pacific's largest food companies. She has also held executive marketing and innovation roles at Campbell's and the Kellogg Company. She has extensive FMCG and marketing experience garnered from a 20-year career in global blue-chip multinationals. Jacqueline holds a Bachelor of Science (First Class Honours) and an MBA in International Business Strategy and Finance. She is also a graduate of the Australian Institute of Company Directors.

4. PASCAL DE PETRINI

Managing Director Asia Pacific, Middle East and Africa (APMEA)

Pascal de Petrini joined Fonterra in 2013 as Managing Director of Asia Pacific, Middle East And Africa (APMEA) following a 30-year career in Europe and Asia Pacific. Pascal has a proven track record as a strategic people leader and an ability to deliver significant growth as well as turnarounds in FMCG. His experience will greatly benefit Fonterra's consumer, nutritional and foodservice growth strategy in Asia. He has top-tier FMCG credentials from a 27-year career with Danone, where he spent four years leadings its baby nutrition unit in Asia. He also headed up their Water Business in Indonesia and was General Manager in China for the Biscuits Business. Prior to joining Fonterra Pascal was the Chief Executive Officer of Food and Beverages at Fraser and Neave Limited. Pascal holds a Master of Science in Management (ESSEC Business School Paris), and a Master of Science in Engineering (ENSMIM, France). Pascal is based in Singapore.

5. MAURY LEYLAND

Managing Director People, Culture and Strategy

Maury Leyland leads an integrated function comprising Fonterra's People and Culture and Group Strategy functions. Maury has been with the Co-operative since 2005, most recently as the Group Director of Strategy at Fonterra. She has worked across the supply chain and played an integral part in Trading Among Farmers and Fonterra's Value Stream Optimisation programme. Prior to joining Fonterra, she spent nine years with The Boston Consulting Group. Originally an engineer, Maury was a member of Team New Zealand during the successful 1995 America's Cup campaign. Maury is also on the board of Spark New Zealand Limited. Maury holds a First Class Honours Degree in Engineering Science, is a Fellow of the Institution of Professional Engineers New Zealand and a member of the Institute of Directors in New Zealand.

6. JOHAN PRIEM

President Greater China

As President Greater China Johan Priem directs the development of Fonterra's business in this priority market. Johan has a strong background in the global dairy industry. He has held senior leadership positions with Fonterra in the Asia Pacific, Middle East and Africa (APMEA) region where he was focused on driving growth across key strategic markets. His most recent role focused on enhancing Fonterra's approach to food safety and quality, corporate social responsibility and sustainability. Before joining the Co-operative in 2013, Johan was on the Board of Management at Royal Friesland Foods (which later became Royal FrieslandCampina). At various times he was responsible for branded consumer businesses in Europe, Asia, the Middle East and West Africa, as well as the Corporate Marketing and Research and Development functions. Johan holds a Diploma of Marketing. Johan is based in Shanghai, China.

7. ROBERT SPURWAY

Managing Director Global Operations

Robert Spurway joined Fonterra in 2011. As Managing Director Global Operations, Robert leads Fonterra's global operations business, responsible for the Co-operative's manufacturing and supply logistics operations in New Zealand and around the world. In his previous role he was responsible for overseeing milk collection, manufacturing and logistics for the Co-operative's New Zealand milk supply. Prior to that, he was Fonterra's South Island Regional Operations Manager. In this role, he oversaw the greenfield development of the Co-operative's Darfield site. Robert has more than 20 years' experience in the food and dairy industries. After managing the Northland Dairy Company's Dargaville site, he moved to Australia in 1999, where he held various roles in Goodman Fielder Australia. From 2008 to 2011 he led two Australian food companies before returning to New Zealand. Robert holds a Bachelor of Engineering (Chemical and Materials).

8. ALEX TURNBULL

Managing Director Latin America

Alex Turnbull leads Fonterra's business in the fast-growing markets of Argentina, Brazil, the Caribbean, Chile, Columbia, Ecuador, Mexico and Venezuela. Alex has more than 20 years' experience in the dairy industry, having joined one of the Co-operative's predecessors in 1990. Alex has extensive experience in key senior sales and general management roles within Latin America and New Zealand, and also in the leadership of Fonterra's global paediatrics business. He is fluent in Portuguese, having spent almost a decade living in Brazil. Alex holds a Diploma of Dairy Science and Technology and a Chemical and Materials Engineering Degree.

9. KELVIN WICKHAM

Managing Director Global Ingredients

Kelvin Wickham leads the sale of all Fonterra ingredients globally, delivering solutions to our global accounts, ensuring tactical optimisation of demand and supply (S&OP), and managing the NZMP™ brand. Kelvin has more than 25 years' experience in the dairy industry and has played a key role in furthering overseas markets, customer relationships and partnerships. His previous role of President Greater China and India focused on directing the development of Fonterra's business in these expanding markets. He has a deep knowledge of the China operating environment and oversaw a period of rapid growth in this market. Prior to that, he led Fonterra's Supplier and External Relations team, and was Managing Director of Fonterra's Global Trade overseeing the launch of GlobalDairyTrade. From 2005 to 2007 he was the Director of Sales and Operations Planning. Kelvin holds a Chemical and Materials Engineering Degree, a Master of Management and a Diploma of Dairy Science and Technology.


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SUMMARY **FINANCIAL STATEMENTS**

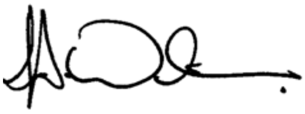
FOR THE YEAR ENDED 31 JULY 2014

CONTENTS

DIRECTORS' STATEMENT

FOR THE YEAR ENDED 31 JULY 2014

The Directors hereby approve and authorise for issue the summary financial statements for the year ended 31 July 2014 presented on pages 66 to 81. For and on behalf of the Board:



JOHN WILSON
CHAIRMAN

23 September 2014

DAVID JACKSON
DIRECTOR

23 September 2014

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 and with International Financial Reporting Standards.

The Board has elected to present summary financial statements for the year ended 31 July 2014 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 2014. The comparative information is 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 the Group's full financial statements for the year ended 31 July 2014.

The full financial statements for the year ended 31 July 2014, approved and authorised for issue by the Board on 23 September 2014, 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 2014

	NOTES	GROUP $ MILLION 31 JULY 2014	GROUP $ MILLION 31 JULY 2013
Revenue from sale of goods		**22,275**	18,643
Cost of goods sold	1	**(19,813)**	(15,611)
Gross profit		**2,462**	3,032
Other operating income		**139**	105
Selling and marketing expenses		**(593)**	(622)
Distribution expenses		**(499)**	(514)
Administrative expenses		**(762)**	(766)
Other operating expenses		**(356)**	(354)
Net foreign exchange gains/(losses)		**39**	(7)
Share of profit of equity accounted investees		**73**	63
Profit before net finance costs and tax	2	**503**	937
Finance income		**13**	25
Finance costs		**(379)**	(294)
Net finance (costs)/income		**(366)**	(269)
Profit before tax		**137**	668
Tax credit	3	**42**	68
Profit after tax		**179**	736
Profit after tax is attributable to:			
Equity holders of the Parent		**157**	718
Non-controlling interests		**22**	18
Profit after tax		**179**	736

	GROUP $ 31 JULY 2014	GROUP $ 31 JULY 2013
Earnings per share:		
Basic and diluted earnings per share	**0.10**	0.44

The accompanying notes form part of these summary financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2014

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Profit after tax	**179**	736
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges:		
– Net fair value gains	**732**	116
– Transferred and reported in revenue from sale of goods	**(505)**	(317)
– Tax (expense)/credit on cash flow hedges	**(63)**	56
Net investment hedges:		
– Net fair value gains/(losses) on hedging instruments	**25**	(5)
– Tax (expense)/credit on net investment hedges	**(7)**	2
Available-for-sale investments:		
– Net fair value losses on available-for-sale investments	**(1)**	–
Foreign currency translation losses attributable to equity holders	**(207)**	(45)
Foreign currency translation reserve transferred to income statement	**–**	(7)
Share of equity accounted investees' movements in reserves	**(11)**	(1)
Total items that may be reclassified subsequently to profit or loss	**(37)**	(201)
Items that will not be reclassified subsequently to profit or loss:		
Foreign currency translation (losses)/gains attributable to non-controlling interests	**(4)**	1
Total items that will not be reclassified subsequently to profit or loss	**(4)**	1
Total other comprehensive (expense)/income recognised directly in equity	**(41)**	(200)
Total comprehensive income	**138**	536
Total comprehensive income is attributable to:		
Equity holders of the Parent	**120**	517
Non-controlling interests	**18**	19
Total comprehensive income	**138**	536

The accompanying notes form part of these summary financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2014

	NOTES	GROUP $ MILLION 31 JULY 2014	GROUP $ MILLION 31 JULY 2013
ASSETS			
Current assets			
Cash and cash equivalents		**340**	330
Trade and other receivables		**1,950**	2,054
Inventories		**3,701**	3,078
Tax receivable		**20**	26
Derivative financial instruments		**303**	100
Assets held for sale		**58**	–
Other current assets		**112**	58
Total current assets		**6,484**	5,646
Non-current assets			
Property, plant and equipment		**5,091**	4,807
Equity accounted investments		**388**	449
Intangible assets		**2,791**	2,858
Deferred tax assets		**231**	217
Available-for-sale investments		**74**	–
Derivative financial instruments		**154**	127
Other non-current assets		**316**	269
Total non-current assets		**9,045**	8,727
Total assets		**15,529**	14,373
LIABILITIES			
Current liabilities			
Bank overdraft		**21**	1
Borrowings	7	**1,534**	1,569
Trade and other payables		**1,638**	1,491
Owing to suppliers		**1,771**	711
Tax payable		**18**	23
Derivative financial instruments		**30**	149
Provisions		**47**	82
Other current liabilities		**74**	52
Total current liabilities		**5,133**	4,078
Non-current liabilities			
Borrowings	7	**3,364**	3,108
Derivative financial instruments		**415**	346
Provisions		**65**	76
Deferred tax liability		**5**	6
Other non-current liabilities		**13**	11
Total non-current liabilities		**3,862**	3,547
Total liabilities		**8,995**	7,625
Net assets		**6,534**	6,748
EQUITY			
Subscribed equity		**5,807**	5,807
Retained earnings		**1,059**	1,249
Foreign currency translation reserve		**(455)**	(266)
Cash flow hedge reserve		**82**	(82)
Available-for-sale reserve		**(1)**	–
Total equity attributable to equity holders of the Parent		**6,492**	6,708
Non-controlling interests		**42**	40
Total equity		**6,534**	6,748

The accompanying notes form part of these summary financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2014

GROUP $ MILLION	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT							
	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	AVAILABLE-FOR-SALE RESERVE	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2013	**5,807**	**1,249**	**(266)**	**(82)**	**–**	**6,708**	**40**	**6,748**
Profit after tax	**–**	**157**	**–**	**–**	**–**	**157**	**22**	**179**
Other comprehensive (expense)/income	**–**	**(11)**	**(189)**	**164**	**(1)**	**(37)**	**(4)**	**(41)**
Total comprehensive income/(expense)	**–**	**146**	**(189)**	**164**	**(1)**	**120**	**18**	**138**
Transactions with equity holders in their capacity as equity holders:								
Dividend paid to equity holders of the Parent	**–**	**(336)**	**–**	**–**	**–**	**(336)**	**–**	**(336)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(16)**	**(16)**
As at 31 July 2014	**5,807**	**1,059**	**(455)**	**82**	**(1)**	**6,492**	**42**	**6,534**
As at 1 August 2012	5,690	1,078	(211)	63	–	6,620	35	6,655
Profit after tax	–	718	–	–	–	718	18	736
Other comprehensive (expense)/income	–	(1)	(55)	(145)	–	(201)	1	(200)
Total comprehensive income/(expense)	–	717	(55)	(145)	–	517	19	536
Transactions with equity holders in their capacity as equity holders:								
Dividend 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)
Dividend 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 2014

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Cash flows from operating activities		
Profit before net finance costs and tax	503	937
Adjustments for:		
Foreign exchange losses	11	1
Depreciation and amortisation	538	530
Movement in provisions	132	(17)
Other	(41)	(16)
	640	498
(Increase)/decrease in working capital:		
Inventories	(757)	(43)
Trade and other receivables	(111)	38
Amounts owing to suppliers	1,060	(410)
Payables and accruals	111	68
Other movements	(28)	(8)
Total	275	(355)
Cash generated from operations	1,418	1,080
Net taxes paid	(51)	(83)
Net cash flows from operating activities	1,367	997
Cash flows from investing activities		
Cash was provided from:		
– Proceeds from sale of Group entities and other business operations	46	5
– Proceeds from disposal of property, plant and equipment	12	22
– Other cash inflow	21	5
Cash was applied to:		
– Acquisition of Group entities and other business operations	(18)	(49)
– Acquisition of available-for-sale investments	(78)	–
– Acquisition of property, plant and equipment	(791)	(701)
– Acquisition of intangible assets	(102)	(147)
– Other cash outflow	(99)	(3)
Net cash flows from investing activities	(1,009)	(868)
Cash flows from financing activities		
Cash was provided from:		
– Proceeds from borrowings	4,241	3,188
– Proceeds from issue of equity instruments	–	653
– Interest received	13	26
– Other cash inflows	8	3
Cash was applied to:		
– Interest paid	(332)	(334)
– Repayment of borrowings	(3,894)	(3,268)
– Settlement of borrowing derivatives	(24)	–
– Surrendered/cancelled equity instruments	–	(475)
– Dividends paid to non-controlling interests	(16)	(14)
– Dividends paid to equity holders of the Parent	(336)	(546)
– Equity transaction costs	–	(18)
– Other cash outflows	–	(1)
Net cash flows from financing activities	(340)	(786)
Net increase/(decrease) in cash and cash equivalents	18	(657)
Cash and cash equivalents at the beginning of the year	329	991
Effect of exchange rate changes on cash balances	(28)	(5)
Cash and cash equivalents at the end of the year	319	329
Reconciliation of closing cash balances to the statement of financial position:		
Cash and cash equivalents	340	330
Bank overdraft	(21)	(1)
Closing cash balances	319	329

The accompanying notes form part of these summary financial statements.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2014

1 COST OF GOODS SOLD

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Opening inventory	3,078	2,981
Cost of Milk:		
– New Zealand sourced	13,226	8,635
– Non-New Zealand sourced	1,192	996
Other purchases	6,018	6,077
Closing inventory	(3,701)	(3,078)
Total cost of goods sold	19,813	15,611

2 PROFIT BEFORE NET FINANCE COSTS AND TAX

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
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 the financial statements	5	4
– Fees paid for other services[1]	1	2
Operating lease expense	66	72
Depreciation of property, plant and equipment	437	444
Amortisation of intangible assets	101	86
Research and development costs	87	94
Net loss on disposal of property, plant and equipment	1	5
Donations	1	2
Research and development grants received from government	(5)	(4)
Total employee benefits expense	1,717	1,735
Included in employee benefits expense are:		
– Contributions to defined contribution plans	61	58

1 The Group uses the services of PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important and auditor independence is not impaired. Other services include advisory services $0.3 million (31 July 2013: $0.6 million) and other assurance and attestation services $0.2 million (31 July 2013: $1.4 million).

NOTES TO THE SUMMARY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2014

3 TAX CREDIT

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Current tax expense	54	83
Prior period adjustments to current tax	(2)	(11)
Deferred tax movements:		
– Origination and reversal of temporary differences	(94)	(140)
Tax credit	(42)	(68)
Profit before tax	137	668
Prima facie tax expense at 28%	38	187
(Deduct)/add tax effect of:		
– Effect of tax rates in foreign jurisdictions	(13)	(18)
– Non-deductible expenses/additional assessable income	31	25
– Non-assessable income/additional deductible expenses	(36)	(29)
– Prior year over provision	(2)	(11)
Tax expense before distributions and deferred tax	18	154
Effective tax rate before distributions and deferred tax	13.1%	23.1%
Tax effect of distributions to farmer shareholders	(38)	(126)
Tax (credit)/expense before deferred tax	(20)	28
Effective tax rate before deferred tax	(14.6)%	4.2%
(Deduct)/add tax effect of:		
– Origination and reversal of other temporary differences	(45)	(40)
– Change in estimate of benefits of tax losses recognised	–	(70)
– Losses of overseas Group entities not recognised	23	14
Tax credit	(42)	(68)
Effective tax rate	(30.7)%	(10.2)%
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	201	109

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.

During the year ended 31 July 2013, transactions between segments were based on estimated market prices. During the year ended 31 July 2014, transactions between segments were based on estimated market prices adjusted for the difference between the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual and that determined by the Board.

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 (including North Asia), Global Brands & Nutrition, Co-operative Affairs and Group Services.
Oceania (formerly ANZ)	Represents Fast Moving Consumer Goods (FMCG) businesses in New Zealand (including export to the Pacific Islands) and all FMCG and ingredients businesses 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 (formerly Asia/AME)	Represents FMCG and foodservice businesses in Asia (excluding North Asia), Africa and the Middle East and China. It includes international farming ventures in China.
Latin America (Latam)	Represents FMCG businesses in Chile and equity accounted investments in South America. It includes international farming ventures in South America.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2014

4 SEGMENT REPORTING CONTINUED

a) Segment income

	GROUP $ MILLION					
	NZMP	OCEANIA	ASIA	LATAM	ELIMINATIONS	TOTAL GROUP
Segment income statement						
Year ended 31 July 2014						
External revenue	16,044	2,979	2,149	1,103	–	22,275
Inter-segment revenue	1,997	621	19	58	(2,695)	–
Revenue from sale of goods	18,041	3,600	2,168	1,161	(2,695)	22,275
Cost of goods sold	(17,011)	(3,017)	(1,587)	(894)	2,696	(19,813)
Segment gross profit	1,030	583	581	267	1	2,462
Selling and marketing expenses	(105)	(137)	(299)	(52)	–	(593)
Distribution expenses	(184)	(182)	(38)	(95)	–	(499)
Administrative and other operating expenses	(671)	(255)	(168)	(51)	27	(1,118)
Segment operating expenses	(960)	(574)	(505)	(198)	27	(2,210)
Net other operating income	95	18	27	26	(27)	139
Net foreign exchange gains/(losses)	50	(1)	(12)	2	–	39
Share of profit of equity accounted investees	54	5	–	14	–	73
Segment earnings before net finance costs and tax	269	31	91	111	1	503
Finance income						13
Finance costs						(379)
Profit before tax						137
Profit before tax includes the following amounts:						
Depreciation	(323)	(72)	(16)	(26)	–	(437)
Amortisation	(75)	(22)	(3)	(1)	–	(101)
Other income from equity accounted investees	–	2	–	24	–	26
Segment asset information:						
As at and for the year ended 31 July 2014						
Equity accounted investments	218	36	–	134	–	388
Capital expenditure	602	93	153	44	–	892

a) Segment income CONTINUED

	GROUP $ MILLION					
	NZMP	OCEANIA	ASIA	LATAM	ELIMINA-TIONS	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
Cost of goods sold	(12,666)	(2,989)	(1,357)	(832)	2,233	(15,611)
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
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						668
Profit before tax 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
Restructuring 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.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2014

4 SEGMENT REPORTING CONTINUED

b) Revenue

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Entity wide products and services:		
Consumer goods	**4,527**	4,717
Ingredients and other revenue	**17,748**	13,926
Revenue from sale of goods	**22,275**	18,643

	GROUP $ MILLION								
	EUROPE	CHINA	REST OF ASIA	AUSTRALIA	NEW ZEALAND	USA	LATAM	REST OF WORLD	TOTAL
Geographical segment external revenue:									
Year ended 31 July 2014	**946**	**5,537**	**5,787**	**1,666**	**2,162**	**1,014**	**1,802**	**3,361**	**22,275**
Year ended 31 July 2013	1,096	2,500	5,216	1,850	1,986	1,415	1,984	2,596	18,643

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

c) Non-current assets

	GROUP $ MILLION						
	NZMP		OCEANIA		ASIA	LATAM	TOTAL
	NEW ZEALAND	REST OF WORLD	NEW ZEALAND	AUSTRALIA			
Geographical segment reportable non-current assets:							
As at 31 July 2014	**4,300**	**383**	**1,387**	**1,022**	**1,123**	**445**	**8,660**
As at 31 July 2013	4,199	303	1,350	1,047	940	544	8,383

	GROUP $ MILLION	
	AS AT 31 JULY 2014	AS AT 31 JULY 2013
Reconciliation of geographical segment non-current assets to total non-current assets:		
Geographical segment non-current assets	**8,660**	8,383
Deferred tax asset	**231**	217
Derivative financial instruments	**154**	127
Total non-current assets	**9,045**	8,727

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 2013	1,597,834
Shares issued	–
Shares surrendered	–
Balance at 31 July 2014	**1,597,834**
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 farmer shareholders Supply Offer below).

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

- voting rights when backed by milk supply[3];
- the right to receive the share-backed milk price on each kilogram of milksolids produced by the farmer shareholder[3];
- rights to any distributions declared by the Board; and
- rights to share in any surplus on liquidation of the Company.

Farmer shareholders

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

In addition to Co-operative shares held under the Share Standard, farmer shareholders are able to hold further Co-operative shares up to 100 per cent of production (where production is defined as the minimum number of Co-operative shares a farmer shareholder is required to hold under the Share Standard). No farmer shareholder (including its related parties) is allowed to hold interests in Co-operative shares, not backed by milk supply, exceeding five per cent of the total number of Co-operative shares on issue.

Farmer shareholders have a number of alternatives in meeting the requirements of the Share Standard[4]. These include purchasing the required shares over a three year period, along with other flexible arrangements provided by the Co-operative.

Voting rights in the Company are dependent on milk supply supported by Co-operative shares[3]. A farmer shareholder is entitled on a poll or postal vote, to one vote per 1,000 kilograms of milksolids if that farmer shareholder holds a Co-operative share[3] 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, the aggregate milksolids eligible for voting was 1,537,000,000 kilograms of milksolids (31 May 2013: 1,424,000,000 kilograms of milksolids).

Farmer shareholders 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 farmer shareholder transfers the legal title to the Co-operative share to the Custodian. Where the Co-operative share transferred was backed by milk supply, the farmer shareholder 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 The Fonterra Board may permit the Share Standard to be satisfied through the holding of both Co-operative shares and vouchers.

5 This requirement commenced from 1 June 2013. Prior to this date, the requirement was based on kilograms of milksolids supplied for the previous season.

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

NOTES TO THE SUMMARY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2014

5 SUBSCRIBED EQUITY INSTRUMENTS AND RESERVES CONTINUED

Fonterra farmer shareholder Supply Offer

In May 2013, Fonterra provided its farmer shareholders 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, farmer shareholders 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 trust for the benefit of the Fund. At 31 July 2014, 109,777,717 Co-operative shares (31 July 2013: 107,969,310) were legally owned by the Custodian, on trust for the benefit of the Fund.

	UNITS (THOUSANDS)
Balance at 1 August 2013	**107,969**
Units issued	**13,116**
Units surrendered	**(11,307)**
Balance at 31 July 2014	**109,778**
Balance at 1 August 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 that 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 farmer shareholder 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 farmer shareholder 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 ended 31 July 2013, 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 were treated as a deduction against subscribed equity.

Dividends paid

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

On 24 September 2013, the Board of Directors declared a final dividend of 16.0 cents per share (totalling $256 million), paid on 18 October 2013 to all Co-operative shares on issue at 10 October 2013.

On 25 March 2014, the Board of Directors declared an interim dividend of 5.0 cents per share (totalling $80 million), paid on 17 April 2014 to all Co-operative shares on issue at 10 April 2014.

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[2]	AS AT 31 JULY 2014	AS AT 31 JULY 2013
Dairy Partners Americas Brasil Limitada	Brazil	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.

2 This is also the principal place of business.

	OWNERSHIP INTERESTS (%)	
NEW ZEALAND EQUITY ACCOUNTED INVESTEES	AS AT 31 JULY 2014	AS AT 31 JULY 2013
International Nutritionals Limited	50	50

7 BORROWINGS

Movements in borrowings

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Opening balance	4,677	4,949
New issues		
Bank loans	1,764	2,386
Finance leases	18	–
Commercial paper	1,344	834
Medium-term notes	1,115	–
	4,241	3,220
Repayments		
Bank loans	(1,999)	(1,937)
Finance leases	(9)	(4)
Commercial paper	(1,311)	(611)
Medium-term notes	(575)	(751)
	(3,894)	(3,303)
Other movements		
Amortisation of discount	12	18
Changes in fair value	(30)	(95)
Changes due to foreign currency translation	(108)	(112)
	(126)	(189)
Closing balance	4,898	4,677

NOTES TO THE SUMMARY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 JULY 2014

7 BORROWINGS CONTINUED

	GROUP $ MILLION	
	AS AT 31 JULY 2014	AS AT 31 JULY 2013
Net interest bearing debt position		
Total borrowings	4,898	4,677
Cash and cash equivalents	(340)	(330)
Interest bearing advances included in other non-current assets	(81)	(121)
Bank overdraft	21	1
Net interest bearing debt	4,498	4,227
Value of derivatives used to manage changes in hedged risks and other foreign exchange movements on debt	234	240
Economic net interest bearing debt[1]	4,732	4,467

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 2014	AS AT 31 JULY 2013
Net tangible assets per security[2]		
$ per listed debt security on issue	3.55	3.70
$ per equity instruments on issue	2.34	2.43
Listed debt securities on issue (million)	1,053	1,053
Equity instruments on issue (million)	1,598	1,598

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 2014 or 31 July 2013.

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

The Group's overall financial risk management programme focuses primarily on maintaining a prudent financial risk profile that provides flexibility to implement the Group's strategies, while ensuring the optimisation of the return on assets. Financial risk management is centralised, which ensures compliance with the financial risk management policies and procedures set by the Board. The Office of the Chief Financial Officer manages financial risk, including foreign exchange risk, interest rate risk, credit risk, liquidity risk and commodity price risk.

During the year, in order to manage financial risks, the key financial 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.

9 FINANCIAL RISK MANAGEMENT CONTINUED

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 more than one year. On 31 July 2014, Fonterra had $3,215 million (31 July 2013: $3,289 million) of undrawn committed facilities.

Economic debt to debt plus equity ratio

The economic debt to debt plus equity ratio at 31 July 2014 is 42.3% (31 July 2013: 39.6%).

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 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.

In early 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.

In late August 2013, the New Zealand Government confirmed that the Clostridium samples found in WPC80 were not Clostridium botulinum and were not toxigenic, meaning the consumers of products containing the relevant batches of WPC80 were never in danger from Clostridium botulinum.

In January 2014, Danone formally initiated legal proceedings against Fonterra in relation to the WPC80 precautionary recall.

Fonterra is working through the detail of Danone's claims. Based on current information available and the claims made to date, Fonterra will vigorously defend its position. Uncertainty exists regarding the outcome of the proceedings. Fonterra has provided $11 million which represents the maximum contractual liability to Danone.

The warranty claims made by the purchaser of the Group's former Western Australia dairy business are no longer outstanding, as at 31 July 2014.

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.

The Group has no other contingent liabilities as at 31 July 2014 (31 July 2013: nil).

11 SUBSEQUENT EVENTS

On 23 September 2014, the Board declared a final dividend of 5.0 cents per share, to be paid on 20 October 2014 to all Co-operative shares on issue at 9 October 2014.

On 27 May 2014 the Group entered into agreements to realign Latam segment's Dairy Partners Americas (DPA) joint venture arrangements.

In late 2014, the Group's equity accounted investments in Ecuador (Ecuajugos S.A.) and DPA's milk powder manufacturing business (DPA Manufacturing Holdings Limited) will be sold to Nestlé.

On 1 August 2014, the Group purchased additional voting equity interests in DPA Brazil (Dairy Partners Americas Brasil Limitada – from 50% to 51%, with Nestlé holding the balance) and DPA Venezuela (Lacven Corporation – from 25% to 60%, with the local partner holding the balance). These equity accounted investments became consolidated subsidiaries from that date.

The accounting for these business combinations has not yet been finalised, and therefore detailed disclosures for these business combinations is not presented in these financial statements.

There were no other material events subsequent to 31 July 2014 that would impact these financial statements.

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 JULY 2014

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 66 to 81 which comprise the statement of financial position as at 31 July 2014, 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 2014. The Group comprises the Company and the entities it controlled at 31 July 2014 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 and Group's Financial Statements

Our audit of the financial statements for the year ended 31 July 2014 was completed on 23 September 2014 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 2014 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
23 September 2014

STATUTORY INFORMATION

FOR THE YEAR ENDED 31 JULY 2014

CURRENT CREDIT RATING STATUS

Standard & Poor's long term rating for Fonterra is A with a rating outlook of stable. Fitch's long and short term default rating is AA- with a rating outlook of stable. Retail Bonds have been rated the same as the Company's long term rating 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.

FIVE YEAR SUMMARY

	JULY 2014	JULY 2013	JULY 2012	JULY 2011	JULY 2010
SHAREHOLDER SUPPLIER RETURNS					
Payout					
Farmgate Milk Price (per kgMS)[1]	**8.40**	5.84	6.08	7.60	6.10
Dividend (per share)	**0.10**	0.32	0.32	0.30	0.27
Cash payout[2]	**8.50**	6.16	6.40	7.90	6.37
Retentions (per share)[3]	–	0.14	0.10	0.25	0.23
OPERATING PERFORMANCE					
Average commodity prices (US$ per MT FOB)					
Whole Milk Powder[4]	**4,827**	3,394	3,359	3,606	2,905
Skim Milk Powder[4]	**4,509**	3,625	3,285	3,321	2,658
Butter[4]	**3,920**	3,550	3,546	4,344	3,033
Cheese[5]	**4,706**	4,124	3,498	4,285	3,819
Average NZD/USD spot exchange rate applying throughout the year[6]	**0.84**	0.82	0.80	0.77	0.71
Fonterra's average NZD/USD conversion rate[7]	**0.81**	0.80	0.77	0.72	0.67
Revenue ($ million)					
Ingredients and other revenue	**17,748**	13,926	14,824	14,623	11,818
Consumer revenue	**4,527**	4,717	4,945	5,248	4,908
Total revenue	**22,275**	18,643	19,769	19,871	16,726
Dairy ingredients manufactured in New Zealand (000s MT)	**2,519**	2,312	2,353	2,143	2,058
Total ingredients sales volume (000s MT)	**2,800**	2,765	2,660	2,486	2,392
Segment earnings ($ million)[8]					
New Zealand Milk Products	**269**	480	477	419	496
Oceania	**31**	93	218	278	299
Asia	**91**	207	182	193	176
Latin America	**111**	137	124	121	107
Eliminations	**1**	20	(14)	17	–
Segment earnings	**503**	937	987	1,028	1,078
Normalisation adjustments	–	65	41	(23)	(174)
Normalised segment earnings	**503**	1,002	1,028	1,005	904
Profit after tax attributable to shareholders ($ million)	**157**	718	609	754	669
Earnings per share[9]	**0.10**	0.44	0.41	0.53	0.50

1 From the beginning of the 2009 season the Farmgate Milk Price has been determined by the Board. In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the principles set out in the Farmgate Milk Price Manual which is independently audited.

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

3 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.

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

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

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

7 Fonterra's average conversion rate is the rate that Fonterra has converted net United States dollar receipts into New Zealand dollars based on the hedge cover in place.

8 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.

9 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 and 31 July 2010 have been restated as if the bonus issue was effective at the beginning of the periods presented.

	JULY 2014	JULY 2013	JULY 2012	JULY 2011	JULY 2010
CAPITAL EMPLOYED ($ million)					
Total assets employed	**15,529**	14,373	15,117	15,530	14,169
Average net assets[10]	**10,860**	11,135	10,900	10,772	10,433
Total equity	**6,534**	6,748	6,655	6,541	5,667
Equity excluding cash flow hedge reserve	**6,452**	6,830	6,592	6,025	5,526
Net interest bearing debt	**4,498**	4,227	3,833	3,766	4,268
Economic net interest bearing debt[11]	**4,732**	4,467	4,229	4,331	4,494
Return on net assets[10]	**4.6%**	9.0%	9.4%	9.3%	8.7%
Headline debt to debt plus equity ratio[12]	**41.1%**	38.2%	36.8%	38.5%	43.6%
Economic debt to debt plus equity ratio[12]	**42.3%**	39.6%	39.1%	41.8%	44.9%

	JULY 2014	JULY 2013	JULY 2012	JULY 2011	JULY 2010
STAFF EMPLOYED					
Total staff employed (000s, permanent full time equivalents)	**18.2**	17.5	17.3	16.8	15.8
New Zealand	**11.4**	11.2	11.0	10.8	9.8
Overseas	**6.8**	6.3	6.3	6.0	6.0

	JULY 2014	JULY 2013	JULY 2012	JULY 2011	JULY 2010
SEASON STATISTICS[13]					
Total NZ milk collected (million litres)	**17,932**	16,673	16,951	15,427	14,746
Highest daily volume collected (million litres)	**87.1**	84.8	81.2	76.8	72.3
NZ shareholder supply milksolids collected (million kgMS)	**1,533**	1,424	1,463	1,320	1,256
NZ contract supply milksolids collected (million kgMS)	**51**	39	30	26	30
NZ milksolids collected (million kgMS)	**1,584**	1,463	1,493	1,346	1,286
Total number of shareholders at 31 May	**10,721**	10,668	10,578	10,485	10,463
Total number of sharemilkers at 31 May	**3,398**	3,449	3,595	3,928	3,733
Total number of shares at 31 May (million)	**1,598**	1,598	1,433	1,377	1,343

10 Return on net assets (RONA) is derived by dividing normalised EBIT (as reported in financial statements) by 13 month average net assets (excluding net debt and deferred tax).

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

12 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.

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

NON-GAAP MEASURES

Fonterra uses several non-GAAP measures when discussing financial performance. For further details and definitions of non-GAAP measures used by Fonterra, refer to the glossary on page 87. 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 may be 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 period to Fonterra's normalised EBITDA

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Profit for the period	**179**	736
Add: Depreciation	**437**	444
Add: Amortisation	**101**	86
Add: Net finance costs	**366**	269
Less: Taxation credit	**(42)**	(68)
Total EBITDA	**1,041**	1,467
Add: Costs associated with closure of Cororooke plant in Australia	**–**	30
Add: Costs associated with Group Strategy Right-Sizing	**–**	38
Less: Other	**–**	(3)
Total normalisation adjustments	**–**	65
Normalised EBITDA	**1,041**	1,532

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

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Profit for the period	**179**	736
Add: Net finance costs	**366**	269
Less: Taxation credit	**(42)**	(68)
Total EBIT	**503**	937
Add: Normalisation adjustments (as detailed above)	**–**	65
Total normalised EBIT	**503**	1,002

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

	GROUP $ MILLION	
	31 JULY 2014	31 JULY 2013
Profit for the period	**179**	736
Add: Normalisation adjustments (as detailed above)	**–**	65
Less: Tax on normalisation adjustments	**–**	(17)
Total normalised earnings	**179**	784
Less: Share attributable to non-controlling interests	**(22)**	(20)
Net normalised earnings attributable to equity holders of the Parent	**157**	764
Weighted average number of shares (thousands of shares)	**1,597,834**	1,615,311
Normalised earnings per share ($)	**0.10**	0.47

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 period financial measure in local currency less the prior period financial measure in local currency and dividing this by prior period financial measure in local currency using the prior period 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 period before net finance costs and tax.
EBIT margin %	is calculated as profit for the period 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 period 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 and size. Excluding these transactions can assist users with forming a view of the underlying performance of the business. 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. It may also include certain fair value movements created by required accounting treatments, in particular if they are non-cash movements, and will have no impact on profit over time. Unusual transactions by size are those that are unusually large in a particular accounting period. Unusually large is defined as greater than $30 million.
Normalised EBIT	means profit for the period before net finance costs, tax and normalisation adjustments.
Normalised EBIT margin %	means profit for the period before net finance costs, tax and normalisation adjustments divided by revenue.
Normalised EBITDA	means profit for the period before net finance costs, tax, depreciation, amortisation and normalisation adjustments.
Normalised segment earnings	means segmental profit for the period before depreciation, amortisation, net finance costs, taxation expense, and normalisation adjustments.
Payout	means the total cash payment to farmer shareholders. 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 farmer shareholders 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 period before net finance costs, tax and normalisation adjustments.

GLOSSARY
CONTINUED

OTHER TERMS

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).
Dry shares	means any shares held by a farmer shareholder in excess of the number of shares required to be held by that farmer shareholder in accordance with the Minimum Shareholding requirement for a season.
Economic Rights	means the interest in Shares held by the Fonterra Farmer Custodian for the benefit of the Trustee in its capacity as the trustee of the Fund as set out in the Custody Trust Deed.
Farmer shareholder	means a Shareholder who is supplying milk to Fonterra.
Farmgate Milk Price Manual	means Fonterra's Farmgate Milk Price Manual dated 1 August 2013.
Farmgate Milk Price Statement	means the milk price statement with respect to the Farmgate Milk Price for a season, which Fonterra discloses pursuant to the Farmgate Milk Price Manual on or around the date that Fonterra releases its financial results for a financial year.
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.
FSM or Fonterra Shareholders' Market	means the exchange or trading facility selected by Fonterra which provides a facility for the trading of shares among Permitted Persons.
FSM Rules	means the listing rules of the Fonterra Shareholders' Market.
Fonterra Shareholders' Council	means the councillors whose number is not less than the required quorum set out in the Constitution, acting together as the Shareholders' Council.
FY	means Fonterra's financial year which runs from 1 August to the following 31 July.
Greater China	means Fonterra's business in China (including Hong Kong), Taiwan and India.
IFRS	means International Financial Reporting Standards.
Income Tax Act	means the Income Tax Act 2007 (New Zealand).
kgMS	means a kilogram of milk solids.
Milk Price Panel	means the Milk Price Panel established and maintained by Fonterra in accordance with section 150D of DIRA.
Milk solids	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.
Parent	means Fonterra Co-operative Group Limited.
RD1 or RD1 Limited	mean Fonterra's rural supplies retail business that operates in New Zealand.
Reference Commodity Products	means the commodity dairy products used in the calculation of the Farmgate Milk Price, which are currently Whole Milk Powder, Skim Milk Powder, Butter Milk Powder, Butter and Anhydrous Milk Fat.
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 milk solids 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.
Stream returns	means the different variable contribution margins that can be achieved by the different combinations of products and by-products that can be made from the available milk. These are usually calculated on a fixed 'bucket' of milk for comparative purposes.
Trading Among Farmers or TAF	means the share trading system known as Trading Among Farmers.
Trust Deed	means the trust deed dated 23 October 2012 constituting the Fonterra Shareholders' Fund between Fonterra, the Trustee and the Manager.
Trustee	means the trustee for the Fund, being The New Zealand Guardian Trust Company Limited and Trustees Executors Limited.
Unit	means a unit issued by the Manager of the Fund.
Unitholder	means a holder of units.
UHT	means fresh milk that is sterilised by heating it to very high temperatures. UHT milk does not require refrigeration.
V3	means Fonterra's growth strategy based on accelerating volume, value and velocity.
Voucher	means a certificate that is provided to a farmer shareholder upon transfer of the Economic Rights of a wet share to the Fonterra Shareholders' Fund in accordance with the Trust Deed.
Wet shares	means any shares held by a farmer shareholder which are required to be held in accordance with the Minimum Shareholding requirement for a season.

DIRECTORY

FONTERRA BOARD OF DIRECTORS

John Wilson
Malcolm Bailey
Ian Farrelly
Simon Israel
David Jackson
David MacLeod
John Monaghan
Sir Ralph Norris
Blue Read
Nicola Shadbolt
Michael Spaans
Jim van der Poel
John Waller

FONTERRA MANAGEMENT TEAM

Theo Spierings
Lukas Paravicini
Jacqueline Chow
Pascal De Petrini
Maury Leyland
Johan Priem
Robert Spurway
Alex Turnbull
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