

IFRS:

Benefits to business of consistent regional standards

Guy Cowan CFO: October 2005



Agenda

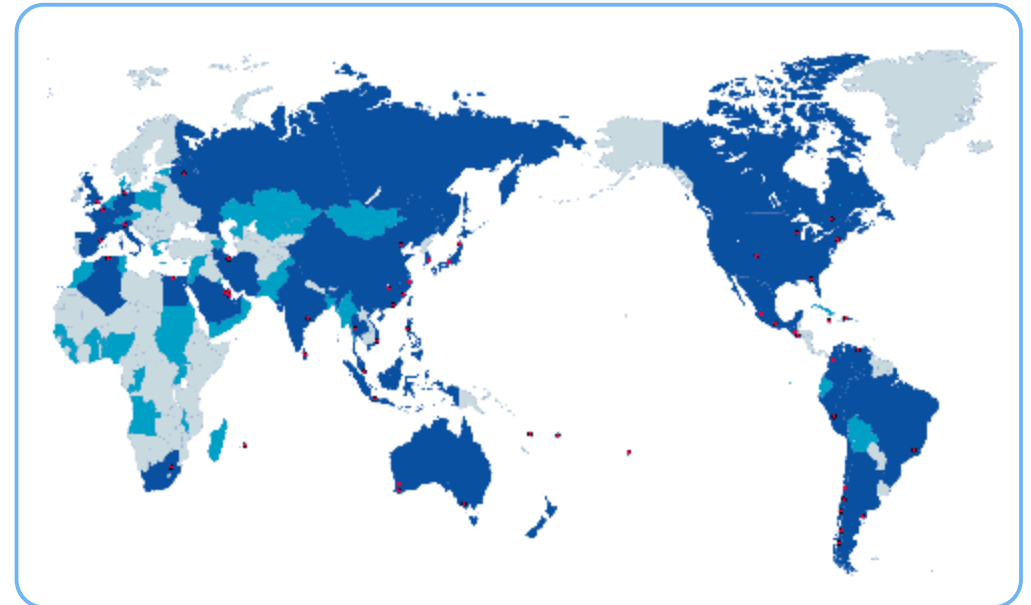


- About Fonterra
- Why Fonterra supports global harmonisation
- Wider business issues
- Fonterra's key accounting issues
- Current project activity
- Key lessons

About Fonterra



- Largest company in New Zealand
- Second largest milk processing company in the world
- Sixth largest dairy company in the world by turnover
- Formed in October 2001
- Co-operative structure regulated by the Dairy Industry Restructuring Act
- Two key varied segments:
 - Fonterra Ingredients (Core ingredients products)
 - Fonterra Brands (Consumer branded business)
- Operates in a global market

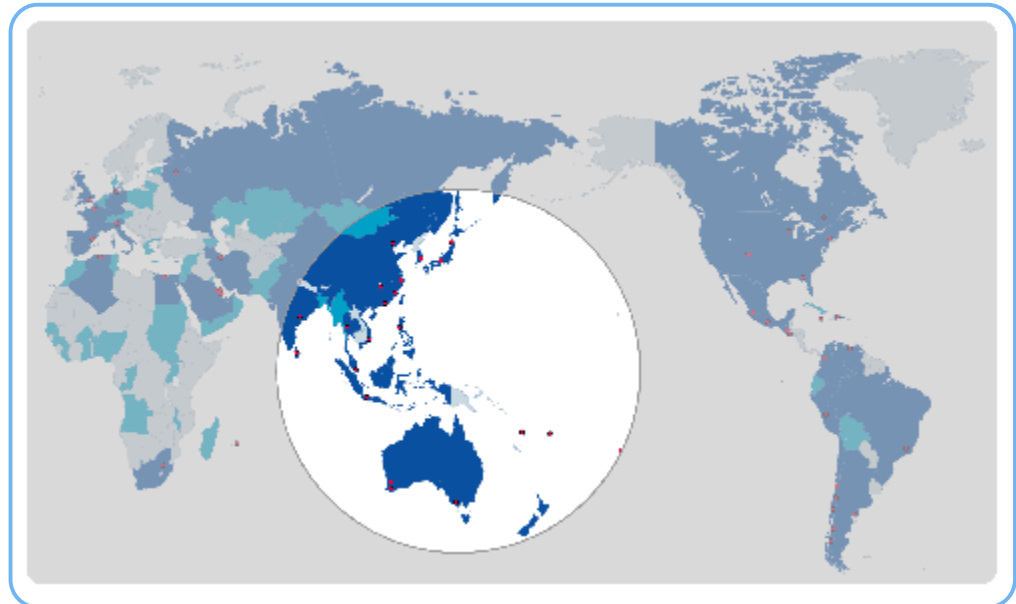


- Fonterra site
- Fonterra Revenues >100 million
- Fonterra Revenues <100 million

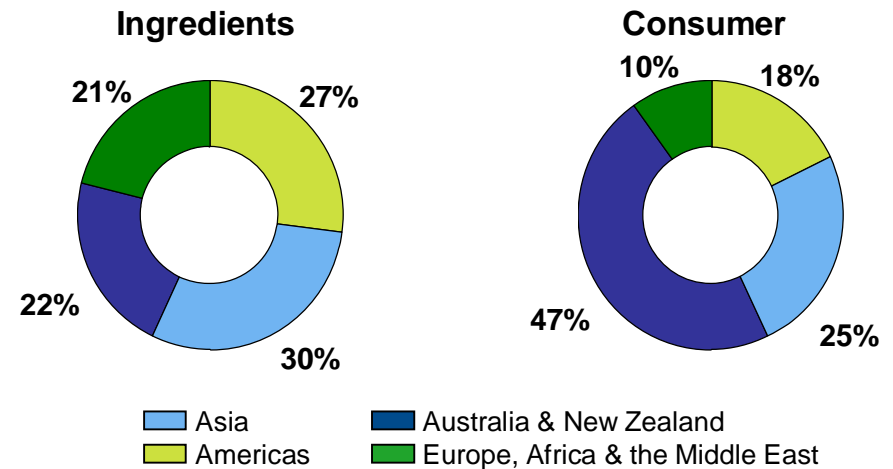
About Fonterra



- The Asia Pacific Region, encompassing New Zealand, Australia and Asia, is significant to Fonterra
 - Constitutes approx 58% of total Fonterra revenues
 - Largest markets for both the Ingredients and Consumer business segments
 - Asia is a key consumer market for Fonterra outside Australia/New Zealand
 - Involves economies at different stages of development
 - Operations are largely funded by way of intercompany debt



Operating Revenues by Region



About Fonterra



- Characteristics/complexities that are relatively unique for a NZ company include:
 - Complex capital structure over a large farmer supplier base
 - Distribution of surpluses via payout mechanism
 - Unique performance measures
 - Majority of revenues generated offshore
 - Significant number of offshore operating entities
 - Funding sourced globally



Why Fonterra supports global harmonisation



- Significant benefits
 - Access to global capital markets
 - Lower cost of funds
 - Lower cost of compliance for offshore operations
 - Promotes transparency through standardisation
 - Should lead to a reduction in present inconsistencies
 - Single framework for the accounting profession means:
 - Can move finance staff more freely on a global basis
 - All finance staff meet same minimum standards

Why Fonterra supports global harmonisation

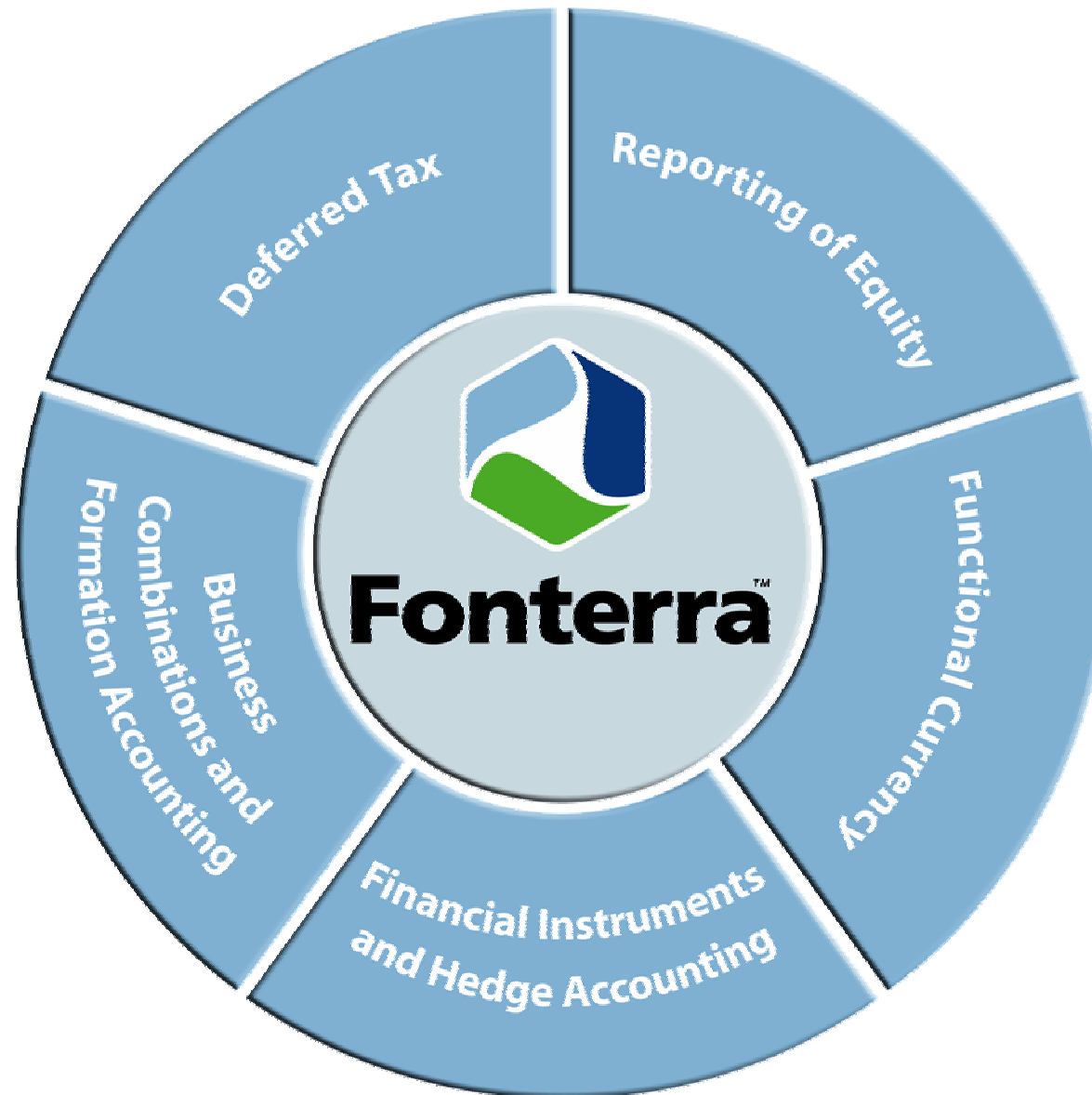


- However, compliance with IFRS also comes with some costs/issues
 - Initial conversion, training and rollout will be complex
 - Communication to shareholders will require careful planning and execution
 - Interpretation (both nationally and internationally) continues to result in different opinions and views
 - Ability to attract qualified IFRS experts with international experience in the NZ market is very challenging

 **Overall, Fonterra strongly believes that the benefits of global harmonisation outweigh the costs.**

- Financial impact
 - First time adoption of IAS (restate opening balance sheet, impact on opening equity)
 - Will introduce volatility to equity and potentially profit (in particular financial instrument requirements)
- Loan covenants & financing
- IT systems (not major issue for Fonterra, but will be for other entities)

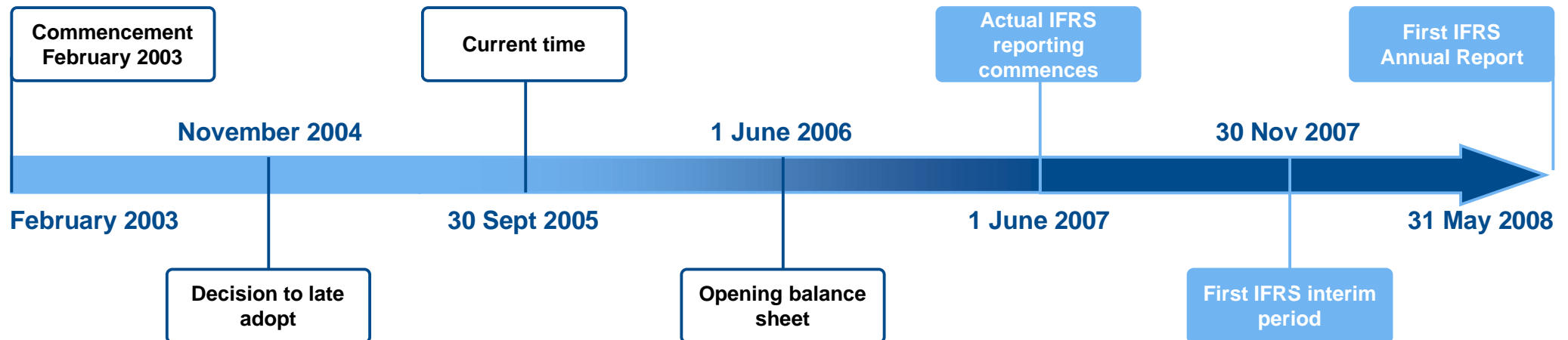
Key accounting issues



Current project activity



- Project started in February 2003
- Substantial work performed to identify key issues and impacts of conversion
- Decision made in November 2004 not to early adopt largely due to:
 - Reporting of equity – uncertainty in achieving an amendment to IAS-32
 - Functional currency – the determination of an appropriate functional currency
- Fonterra will be a late adopter (2007)
- Working towards opening balance sheet of 1 June 2006.
- Uncertainty still exists around the classification of Fonterra's capital instruments
- Some key workstreams still in progress as standards continue to evolve



Key lessons



- Need senior executive and director level sponsorship
- Project needs to be owned and supported by the business
- For larger projects need to remove team from BAU activities
- Someone in the business needs to be accountable for delivery of project milestones
- Knowledge needs to be embedded in the business during the process
- Key issues need to be identified early

Thank you

