



Fonterra: GLOBAL DAIRY UPDATE

ISSUE SEVEN, FEBRUARY 2013



Welcome to our latest Global Dairy Update. The Update is Fonterra's commitment to continually educating and informing our stakeholders about the global dairy market, trends in New Zealand milk production and progress we are making on our key strategic themes.

This issue covers the following topics:

- Fonterra's New Zealand milk collection up 6.7 per cent on last milk season
- GDT TWI at highest level since December 2011
- Global trade in dairy ingredients up 5.7 per cent for the year up to September 2012
- Changes to Executive Roles and continued expansion in China

2013 FINANCIAL CALENDAR:	27 March 2013 Interim Results announced	26 September 2013 Annual Results announced
	Late April 2013* Interim dividend paid	Late October 2013* Final dividend paid
	31 July 2013 Financial year end	November 2013 Shareholders' Annual Meeting

* Subject to Fonterra Board approval.

FONTERRA'S NEW ZEALAND MILK COLLECTION

The 2012/13 season progressed well until December with historically high volumes of milk as a result of favourable weather conditions in parts of the country. Milk collection was up 6.7 per cent compared to the same period last year, reaching 904 million kgMS collected for the seven months to 31 December 2012. Dry conditions across most of the North Island from mid December through January have been challenging for our Farmer shareholders with a slowdown in milk supply growth.

The table below shows the volume of milksolids collected for the 2012/13 season to date.

Milk Collection for the 2012/13 Season	1 June 2011 to 31 Dec 2011 (million kgMS)	1 June 2012 to 31 Dec 2012 (million kgMS)	Change
Total Fonterra milksolids collected	848	905	6.7%
North Island milksolids	563	591	5.0%
South Island milksolids	285	314	10.2%

Source: Fonterra



DAIRY COMMODITY PRICES

The latest GDT auction on 19 February 2013 saw a continuation of steadily rising prices, with an average increase of 3.1%. Anhydrous Milk Fat (AMF) and Whole Milk Powder (WMP) prices increased strongly at 4% and 5.8%, respectively, while cheddar was up 1.8% and Skim Milk Powder (SMP) increased 1%. Fonterra started selling general trade butter products on GDT for the first time at this event, achieving an average price of USD 3,726 per MT.

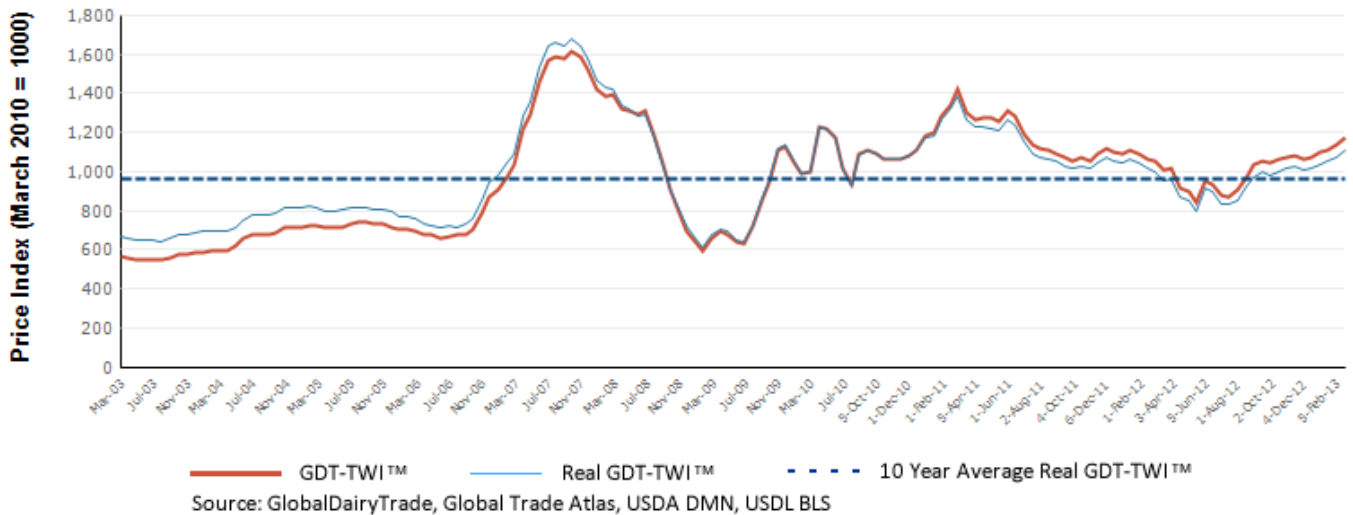
The table summarises the latest results and provides a snapshot of the rolling year-to-date results.

	Last Trading Event (19 Feb 2013)	Year-to-Date (Aug 2012 to 19 Feb 2013)
Quantity Sold (Winning MT)	33,467	678,130
Average Winning Price (USD MT/FAS)	\$3,756	\$3,303
Change in GDT-TWI over same period last year	10.3%	-0.9%
Change in GDT-TWI Price Index from previous event	3.1%	N.A.

The next trading event will be held on 5 March 2013. Visit www.globaldairytrade.info for more information.

The GDT-TWI is a good indicator of historical trends in global dairy prices.

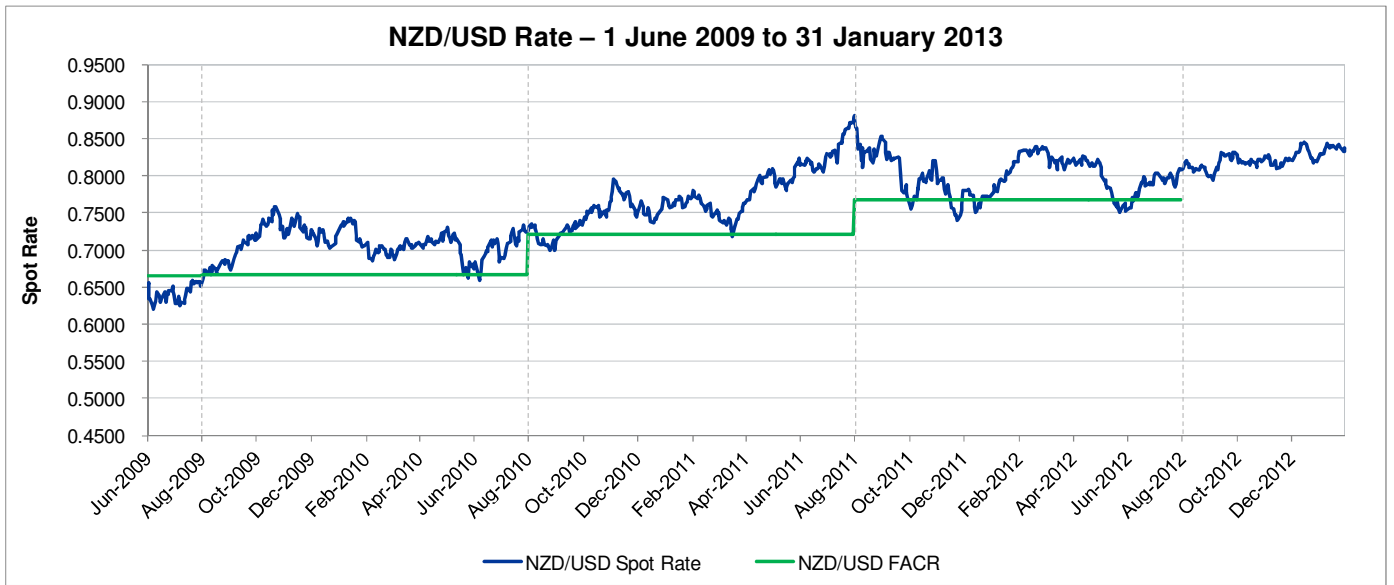
GlobalDairyTrade Trade Weighted Index



Source: GlobalDairyTrade, Global Trade Atlas, USDA DMN, USDL BLS.

GDT-TWI™ is a chain-linked, trade-weighted Fisher index that uses total international trade flows. The index uses GlobalDairyTrade prices where available and USDA Dairy Market News prices elsewhere. USDA Western Europe average price for Butter Oil is used for AMF prior to December 2009, USDA Oceania average price for SMP is used prior to April 2010, and USDA Oceania average price for WMP is used prior to August 2008. From 16 August 2011 the indices includes movements in Cheese prices.

The chart below shows the spot price of the NZD/USD rate over the past three years. The green line is the Fonterra Average Currency Rate (FACR). It shows our foreign currency rate adjusted for the gains and losses arising from Fonterra's currency hedging.



Source: Fonterra

GLOBAL DAIRY MARKET UPDATE

Global trade in dairy ingredients was up 5.7% to 12.7 million tonnes¹. Growth in Whole Milk Powder (WMP) remained solid with imports up 6.6%. Growth continued for Skim Milk Powder (SMP) with imports up 9.1% for the period.

New Zealand and Argentinean exports of WMP continued to grow in response by the growth in demand. US SMP exports were down, with the decrease in shipments to Mexico and the Philippines outweighing the recent increase in Asian shipments. European Union growth in SMP exports remained strong.

Asia continues to be the major growth market, accounting for 34.7% of all dairy imports in 2011². Asia accounts for 49% of the world's SMP and 38% of the world's WMP imports.

The global dairy milk production growth statistics in the tables below are global dairy industry statistics and are based on available government statistics, industry association reports and other published industry reports. We provide these figures for information purposes only.

¹ For the 12 months to 30 September 2012. ² For the 12 months to 31 December 2011.

Rolling 12 month to 31 October 2012	Global Dairy Milk Product Growth	Global Dairy Consumption Growth
Global	3.0%	3.3%
United States	2.4%	2.9%
Europe	1.8%	1.2%
Latin America	4.6%	5.4%
Australia/New Zealand	7.8%	N/A ⁽¹⁾
Asia	3.3%	3.7%
MENA	5.6%	4.5%

Source: Global Trade Info Services (GTIS), USDA, EuroStat, DCANZ, Dairy Australia, and other government and industry websites.

Note: (1) Consumption is calculated from production and trade (Consumption = Production + Imports – Exports) and includes stocks. Oceania "consumption" is strongly influenced by seasonal stock profile.

Top Import Region by Product

Top Import Region By Product for 12 months to September 2012	Import Region	Quantity in '000 metric ton (MT)	% Total Global Imports
Whole Milk Powder (WMP)	Asia	829,524	38%
Skim Milk Powder (SMP)	Asia	862,248	49%
Butter/Anhydrous Milk Fat (AMF)	MENA	267,185	31%
Cheese	Europe	646,917	31%
Protein	Asia	269,172	25%
Whey Products	Asia	1,183,016	61%

Source: Global Trade Info Services (GTIS).

Top Export Region by Product

Top Export Region By Product for 12 months to September 2012	Export Region	Volume in '000 metric ton (MT)	% Total Global Exports
Whole Milk Powder (WMP)	Oceania	1,347,155	62%
Skim Milk Powder (SMP)	Europe	693,565	39%
Butter/Anhydrous Milk Fat (AMF)	Australia/New Zealand	539,228	63%
Cheese	Europe	1,031,368	50%
Protein	Asia	341,141	32%
Whey Products	North America	822,973	43%

Source: Global Trade Info Services (GTIS).

BUSINESS UPDATE

Half Year Results

Fonterra will announce its half year results to the market on 27 March 2013. Following the announcement Fonterra will hold farmer meetings from 3 to 5 April to communicate the half year results and provide a business update.

Changes to Executive Roles

The following changes to Fonterra's Executive Team were recently announced to the market:

- Chief Financial Officer Jonathan Mason will be retiring in the next six months and Fonterra has commenced an international search to replace him. Jonathan joined Fonterra in the midst of the global financial crisis in 2009 and, under his leadership, ensured the Co-operative's financial position was strengthened through those difficult times. Jonathan also played a leading role in the launch of Trading Among Farmers, which has significantly improved the Co-operative's capital structure.
- We have reorganised our consumer businesses across the Asia/Pacific region and Australia New Zealand (ANZ) and ASEAN/Middle East/North Africa businesses have been combined to form a single Asia Pacific/Middle East/Africa (APMEA) business unit.

Mark Wilson has been appointed as the Managing Director APMEA. He is Fonterra's existing Managing Director ASEAN/MENA and is a very experienced global business leader who has grown our Asian business from strength to strength. After six years of working in Melbourne away from his Sydney based family, Fonterra's Managing Director ANZ, John Doumani, has indicated that he will take the opportunity to leave the Co-operative, but he will assist in the transition period leaving at the end of March.

Continued expansion in China

A key strategic area of focus for Fonterra is our foodservice business in the out-of-home market and consumer brands in China. Below is a brief update of the progress being made in China.

To meet the growing demand from Chinese consumers for natural dairy nutrition, our Fonterra China team recently launched an online flagship store for Anlene. It has been established within China's leading e-commerce website Tmall, and will become one of our high-calcium milk brand's core online sales platforms in mainland China. It follows the success of Annum's flagship store in Tmall. The Anlene and Annum Tmall stores help us reach a broader and younger base of consumers who tend to do online shopping for themselves and their families.

Fonterra's Foodservice products and service quality were recently recognised by our customers in China, as it received the title of "most popular food ingredients" by Restaurateur's Choice (RC). The RC award is organised by Ringier, a magazine published by the largest Swiss media company with more than 120 newspapers and magazines under its belt across the world. This annual award acknowledges the most popular brands in the foodservice/hotel industry.

Our strategy to expand our business further into tier two (T2) cities in China marked another milestone in December. In Tianjin, our Foodservice team introduced Anchor products such as cream and cream cheese to local bakeries at a seminar attended by one hundred potential bakery customers and key media outlets. The local market demand for dairy ingredients in China has been growing by double digits in the past few years and is expected to continue the growth momentum in the future – this presents a good opportunity for our Foodservice business' growth.

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