



Fonterra: GLOBAL DAIRY UPDATE

MAY 2013 ISSUE NINE



Welcome to our latest Global Dairy Update. The Update is Fonterra's commitment to continually educating and informing our farmers and wider 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 to 30 April 2013 down 0.5% on last season with collection for April down 34%
- GlobalDairyTrade (GDT) prices 7% lower at the latest auction on 1 May 2013
- Business update including our strategy of reinvesting for growth and details of the Supply Offer.

2013 FINANCIAL CALENDAR:

24 April 2013

Bonus issue settled

2 May 2013

Supply Offer opens

16 May

Supply Offer price announced

23 May 2013

Supply Offer closes

1 June 2013

Measurement Date for Share Standard compliance 2013/14 season

31 July 2013

Financial year end

26 September 2013

Annual Results announced

Late October 2013

Final dividend paid*

November 2013

Shareholders Annual Meeting

1 December 2013

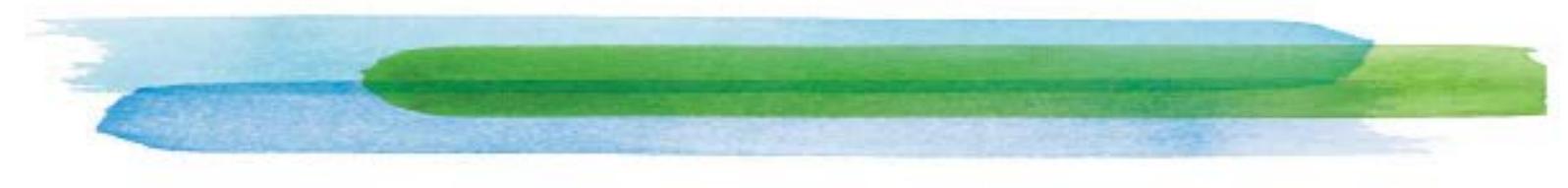
Compliance Date for Share Standard 2013/14 season

* Subject to Fonterra Board approval.

FONTERRA'S NEW ZEALAND MILK COLLECTION

Milk collection across New Zealand is down 0.5 percent for the eleven months to 30 April 2013 compared to the same period last year, reaching 1,414 million kgMS collected.

The volume of milksolids collected is down season to date, due to lower monthly collections for February, March and April compared to the same period last season. Consistent rainfall across the country in April has helped to improve on farm conditions, but this has been too late to stop milk production falling below last season's record levels as many suppliers have already stopped producing for the season. Milk collected across New Zealand for April was down 34.4% on last season reflecting the impact of the recent dry conditions compared to the strong end to the 2011/12 season.



Milk Collection for the 2012/13 Season ¹	1 June 2011 to 30 April 2012 (million kgMS)	1 June 2012 to 30 April 2013 (million kgMS)	Change
Total Fonterra milksolids collected	1,421	1,414	-0.5%
North Island milksolids	919	871	-5.2%
South Island milksolids	502	543	8.2%

¹: Milk collection data includes DIRA milk which is collected and sold to other NZ processors.

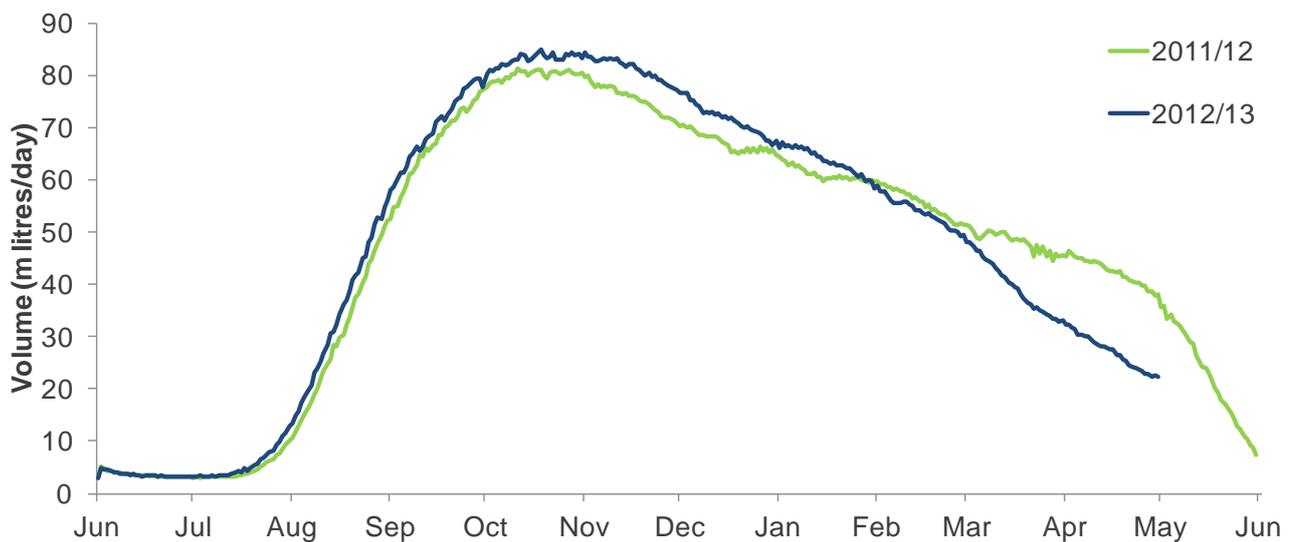
The table below shows the monthly change in milksolids collected for the 2012/13 season compared to the 2011/12 season.

Milk collection compared to previous season ¹	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April
% change	2.3%	21.5%	13.5%	4.9%	3.4%	7.9%	7.1%	3.8%	-2.3%	-16.3%	-34.4%

¹: Milk collection data includes DIRA milk which is collected and sold to other NZ processors.

CHART 1:

Fonterra's New Zealand Milk Volume



DAIRY COMMODITY PRICES

The latest GDT auction on 1 May 2013 saw the first overall decline in prices since early December 2012 with prices 7.3% lower on average. Skim Milk Powder (SMP) and Whole Milk Powder (WMP) experienced the largest declines, down 9.5% and 10.2% respectively. Cheddar was the only product to gain ground with an increase of 3.4%.

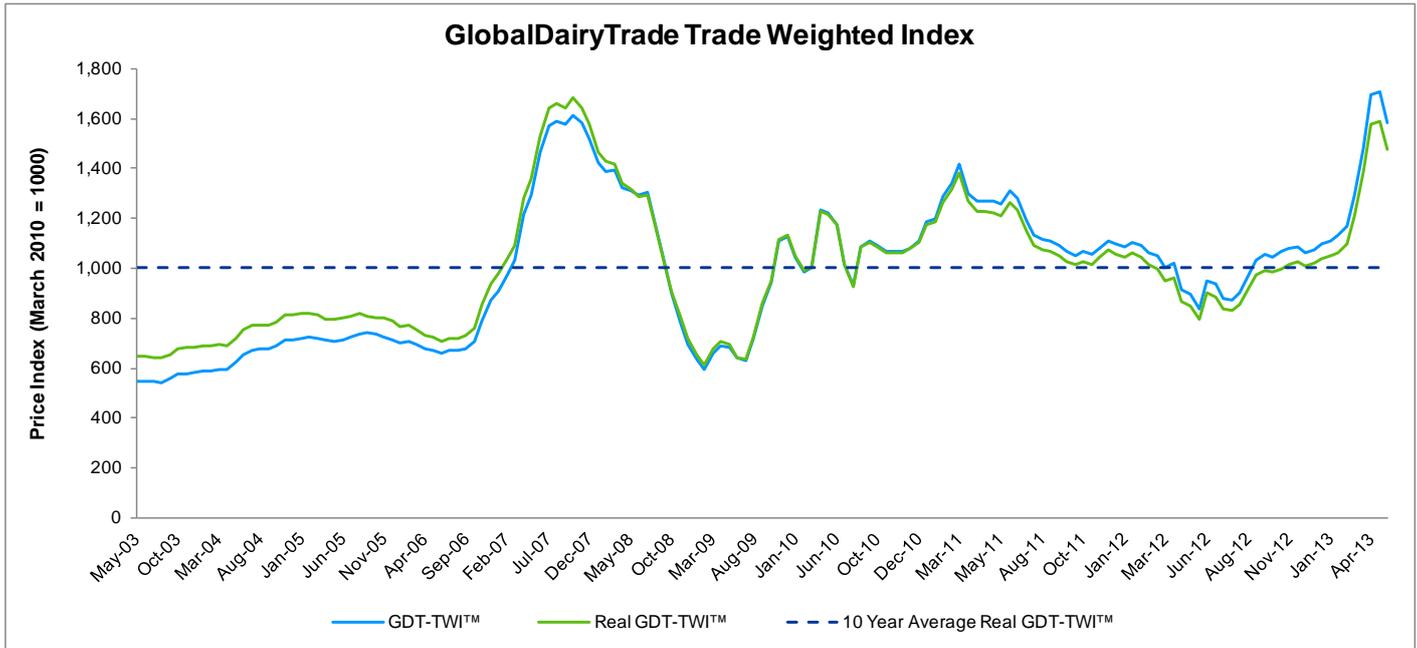
The table summarises the latest results and provides a snapshot of the rolling year-to-date results.

	Last Trading Event (1 May 2013)	Year-to-Date (Aug 2012 to 1 May 2013)
Quantity Sold (Winning MT)	17,237	762,241
Average Winning Price (USD MT/FAS)	4,597	3,450
Change in GDT-TWI over same period last year	n.a.	13%
Change in GDT-TWI Price Index from previous event	-7.3%	n.a

The next trading event will be held on 15 May 2013. Visit www.globaldairytrade.info for more information.

The GDT-TWI¹ is a good indicator of historical trends in global dairy prices.

CHART 2:

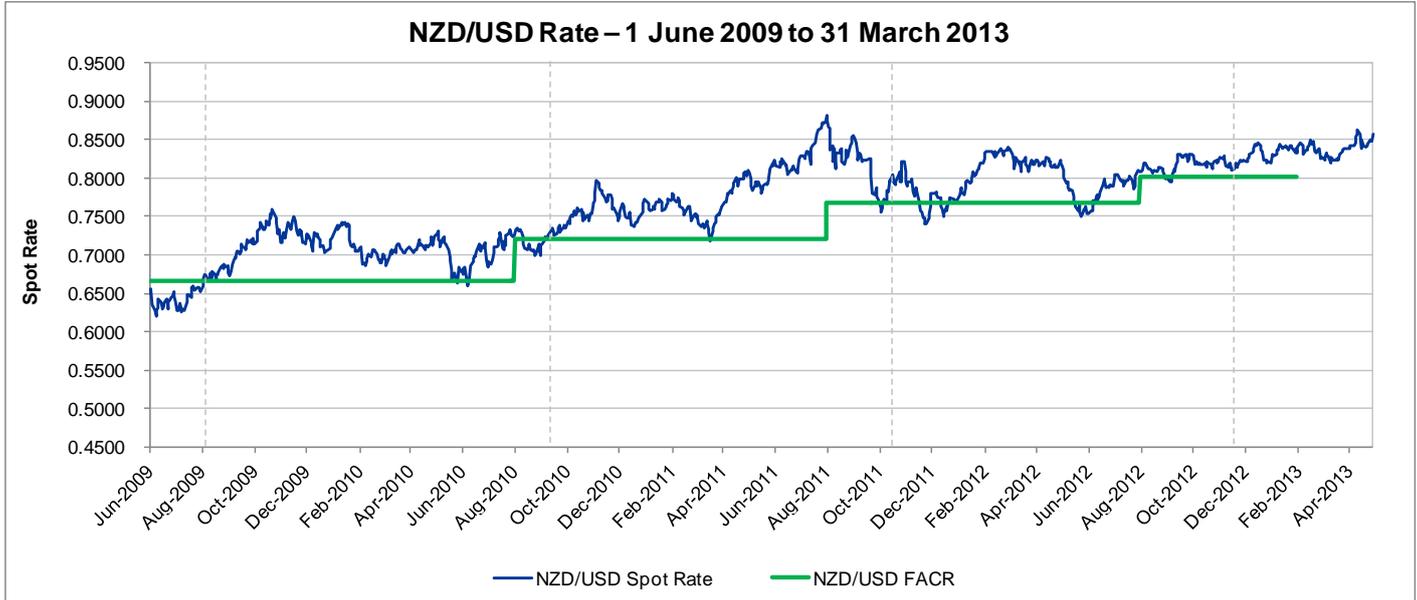


Source: GlobalDairyTrade, Global Trade Atlas, USDA DMN, USDL BLS.

New Zealand Dollar Trend

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.

CHART 3:



Note 1: 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.

BUSINESS UPDATE

Reinvesting for Growth

We have recently undertaken three major initiatives to position Fonterra for future growth:

- **Group wide Cost Out Programme**

We are well on track to deliver the \$60 million in cost savings that we committed to for this financial year. We are achieving these savings through tighter management of consulting fees, travel and entertainment.

- **APMEA Reorganisation**

The creation of our new Asia Pacific Middle East Africa (APMEA) business unit will drive synergies and scale across Fonterra's consumer businesses and a new leadership team was recently confirmed for this business.

The leadership team includes Judith Swales who has been appointed as Managing Director of Fonterra Australia. Judith Swales joins Fonterra after leading Heinz across Australasia and before that the Goodyear Dunlop Business in Australia.

Other appointments include Managing Director ASEAN, Juan Carlos Pestana, who was the head of Fonterra's Latin American JV with Nestle and Managing Director ISMEA (Indian Sub-continent, Middle East-Africa), Alan Fitzsimmons, who is currently General Manager of Fonterra's Indo-China business.

Peter McClure will continue in his role as Managing Director New Zealand.

With the new management team in place, Mark Wilson, Fonterra's Managing Director APMEA, has indicated his intention to leave Fonterra for family reasons. He has made a significant contribution to Fonterra as part of the executive management and he will be missed. A search for a replacement is underway and, in the interim, Johan Priem will be the Acting Managing Director APMEA.

- **Support Services Review**

We are conducting a review of our support services in New Zealand and the proposed changes are designed to enable the Co-operative to deliver on its growth strategy.

The review has identified potential opportunities for us to deliver a range of corporate services centrally, reducing duplication and removing layers of management. The proposed changes will potentially lead to the loss of 300 positions in Fonterra's corporate offices in New Zealand and provide ongoing savings of \$65 million a year, before restructuring costs. Most of these savings will be reinvested to support Fonterra's growth priorities.

Supply Offer

The Supply offer opened on 2 May and will close on 23 May. Farmer shareholders have the opportunity to sell economic rights of up to 25 per cent of their minimum required shares ("Wet Shares") to the Fund. The final price will be announced on 16 May and will be calculated based on the average price for each trading day between 2 May and 15 May (inclusive).

Fonterra will purchase the Units that arise as a result of the Supply Offer, using the \$475 million raised at the launch of TAF, and subsequently redeem them for Fonterra Shares. This means that in net terms the offer will not affect the total number of Units on issue and the Fund size will not increase as a result of the Supply Offer.

The outcome of the Supply Offer will be announced on 28 May.