

EDITION 15
NOVEMBER 2013

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GLOBAL DAIRY UPDATE



Welcome to our latest Global Dairy Update.

This Update is Fonterra's commitment to informing our farmers and wider stakeholders about the global dairy market, trends in New Zealand milk production, and the progress we are making in our key strategic initiatives.

IN THIS ISSUE

- Fonterra's New Zealand milk solids volumes 4.7% higher for the Season to 31 October 2013
- GDT prices on 5 November 1.8% lower than the last event on 15 October, but up 41% over the same period last year
- Business Update:
 - Greater transparency around NZ Milk Products performance for the quarter – including information on revenue, sales volume, production volume and a \$157 million provision relating to inventory
 - Strengthened position in Australia through acquisition of Tamar Valley Dairy and a 6% share of Bega
 - Increased investment at Clandeboye to support the fast expansion of our foodservice business

2013/14
Financial Calendar:

27 November 2013
Shareholders' Annual Meeting

1 December 2013
Compliance date for Share Standard 2013/14 season

2 December 2013
Unit holders' Annual Meeting

Late March 2014
Interim Results Announcement

Late September 2014
Annual Results Announcement

FONTERRA'S NEW ZEALAND MILK COLLECTION

4.7 % INCREASE TO

↑ **531 M**
kgMS

Milk collection across New Zealand for the five months to 31 October 2013 was 4.7% higher than the same period last year reaching 531 million kgMS. Spring conditions continued to create some challenges through October with both the North and South Island receiving periods of strong winds and heavy rain. Despite these challenges daily milk volumes reached a new record of 87 million litres collected across New Zealand at peak on 23 October and volumes for October were up 3.7% compared to October last year.

The table below shows the milksolids collected for the 2013/14 season compared to the 2012/13 season.

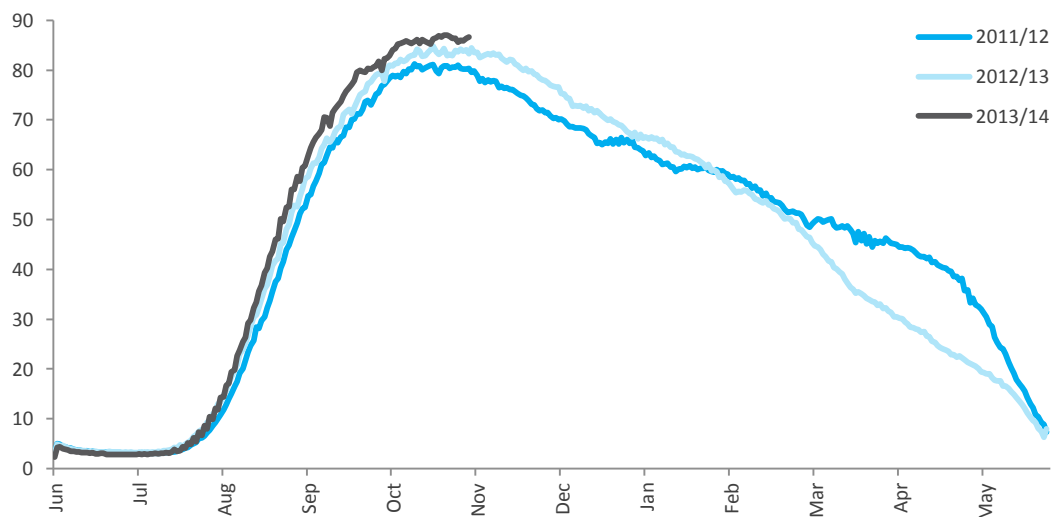
TABLE 1: SEASON TO DATE MILK SUPPLY

Milk Collection for the 2013/14 Season ¹ (million kgMS)	October 2013	October 2012	Monthly change ²	1 June 2013 to 31 October 2013	1 June 2012 to 31 October 2012	Season to date change ²
Total Fonterra milksolids collected	223	215	3.7%	531	508	4.7%
North Island milksolids	140	137	2.4%	359	344	4.5%
South Island milksolids	83	79	5.8%	172	164	5.0%

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

2: Percentage change reflects the change in the underlying figures and may be different due to rounding in million kgMS

Chart 1: Fonterra's Milk Collection in New Zealand



DAIRY COMMODITY PRICES

↓ **1.8%**

GDT Price Index

Total volume traded at the latest GDT auction on 5 November 2013 was 49,304 MT. Dairy commodity prices were on average 1.8% lower than the last trading event with an average winning price of USD 4,797. Prices remain strong, up 41% over the same period last year.

Compared to the last trading event, Whole Milk Powder was 3.7% lower, and Butter was down 7%. The other commodities' prices remained strong with Skim Milk Powder up 0.5%, Cheddar up 1.2% and Anhydrous Milk Fat up 6.9% respectively.

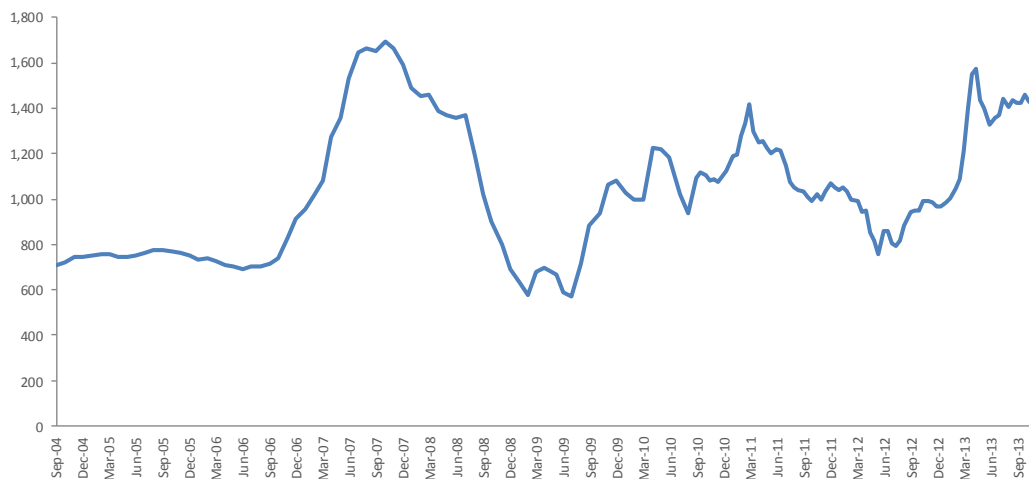
The table below summarises the latest results and provides a snapshot of the rolling year-to-date results.

TABLE 2: GDT RESULTS

	Last Trading Event (5 November 2013)	Year-to-Date (1 Aug 2013 to 5 November 2013)
Quantity Sold (MT)	49,304	354,715
Average Winning Price (USD/MT)	\$4,797	\$4,889
USD Change in GDT Price Index over same period last year	41%	53%
USD Change in GDT Price Index from previous event	-1.8%	n/a

The next trading event will be held on 19 November 2013. Visit www.globaldairytrade.info for more information.

Chart 2: GDT PRICE index

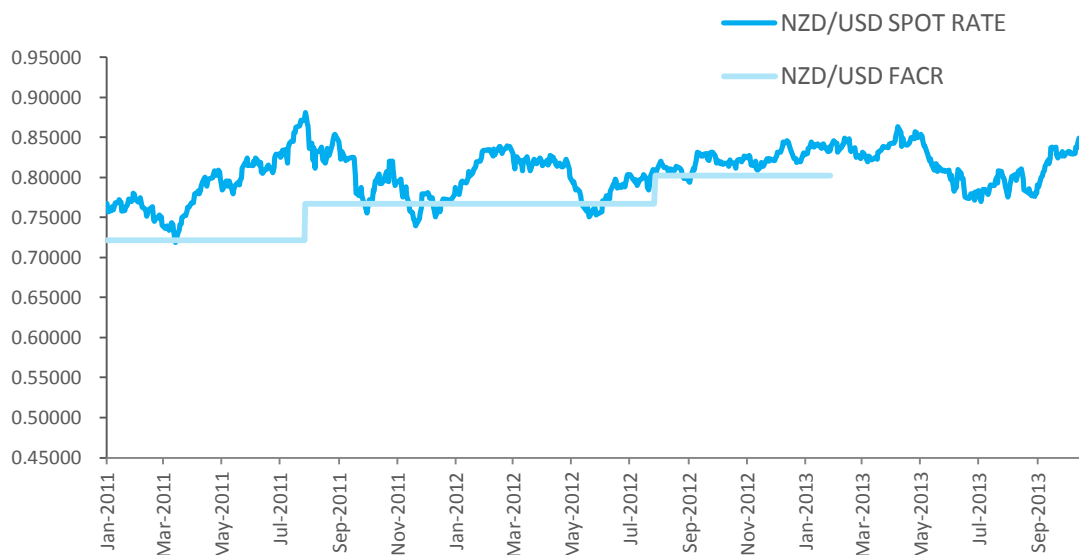


Source: GlobalDairyTrade, USDA DMN

New Zealand Dollar Trend

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

Chart 3: NZD / USD 1 Jan 2011 to 31 October 2013



BUSINESS UPDATE

NZ Milk Products First Quarter Update

As part of our ongoing commitment to transparency, we will be disclosing additional key metrics for our largest operation NZ Milk Products.

The intention is to make the following disclosures on a quarterly basis:

- Revenue: Disclosure of revenue per metric tonne by Reference Commodity Products¹ and Non-Reference Commodity Products² sales. (Refer to table 3)
- Volume: Insights into quarterly Sales and Production Volume. (Refer to table 4)

In the first quarter of the 2013/14 financial year the relative increase in the price of Reference Commodity Products (which informs the Farmgate Milk Price) was significantly higher than the increase in the price of Non-Reference Commodity Products. This resulted in a margin squeeze for Non-Reference Commodity Products due to the input costs rising disproportionately to the sales price and in some product streams the selling price being lower than input costs.

This is expected to have a temporary, but significant negative impact on stream returns (also referred to as product mix returns) and as a result on NZ Milk Products earnings. Our expectations are that the current high volatility in stream returns is likely to normalise once relative returns from Reference Commodity Products and Non-Reference Commodity Products start to converge again.

Apart from stream returns, the higher input cost can also have an impact on the valuation of inventory. To put this into perspective, if the prevailing market prices were to be reflected in a weighted average milk price for the first quarter, this would be higher than the current annual forecast of \$8.30 per kgMS and significantly higher than the \$4.68 per kgMS Milk Price for the same period last year. This means the value of some of our Non-Reference Commodity Products currently held in inventory could be higher than their expected future selling price. As a result additional provisioning has been taken in the first quarter of this financial year of \$157 million.

TABLE 3: NZ SOURCED REVENUE PER METRIC TONNE

Revenue NZD per MT	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	% Change (Q1 FY14 to Q1 FY13)
Reference Commodity Products	3,674	3,892	4,154	5,174	5,967	62%
Non-Reference Commodity Products	5,676	5,633	6,129	6,531	6,931	22%

TABLE 4: NEW ZEALAND SOURCED VOLUME (In thousand Metric Tonnes)

Volume '000 MT	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	% Change (Q1 FY14 to Q1 FY13)
Sales Volume³						
Reference Commodity Products	367	600	520	327	365	(1%)
Non-Reference Commodity Products	149	198	182	162	128	(14%)
Production Volume						
Reference Commodity Products	588	693	418	80	630	7%
Non-Reference Commodity Products	195	257	150	24	196	0.5%

Note 1: Reference Commodity Products are the commodity dairy products that are used in the calculation of the Farmgate Milk Price. These are currently Whole Milk Powder, Skim Milk Powder, and their by-products, Buttermilk Powder, Butter and Anhydrous Milk Fat.

Note 2: Manufacture of the Reference Commodity Products comprised around 75% of Fonterra's total New Zealand ingredients production in the 2013 Season. The methodology used to calculate the Farmgate Milk Price does not include any returns earned by Fonterra from specialised ingredients and consumer branded products. These products earn premiums over and above the returns to standard commodity ingredients and it is therefore appropriate that these premiums are recognised in Fonterra's earnings rather than in the Farmgate Milk Price.

Note 3: Sales Volume includes liquid milk which is not included in the production volumes. The annual liquid milk volume for 2012/13 financial year was 94,000 MT, including DIRA milk.

Fonterra Strengthens Position in Australia

Fonterra has recently taken steps to strengthen our position in the Australian dairy industry as it remains an important market for the Co-operative.

We acquired a 6% shareholding in Australian dairy company Bega Cheese Limited. The 9.3 million shares were purchased at an average price of AUD 4.95 per share. Fonterra has a longstanding partnership with Bega, licensing the Bega brand from the company and we have a substantial supply contract for cheese with them.

Fonterra has also acquired the assets of Tasmanian yoghurt business, Tamar Valley Dairy. Under the agreement, Fonterra will acquire the processing equipment, the related services and intellectual property, and the trademark for the Tamar Valley Dairy brand. The acquisition is effective towards the end of November (subject to completion of sale). The business will be fully integrated into Fonterra's Australian manufacturing footprint, creating greater efficiencies and scale, while benefitting from Tamar Valley Dairy's innovation in the yoghurt category. The acquisition will bolster Fonterra's strong national position in the chilled dairy segment in Australia and complements our existing yoghurt portfolio where we hold a market-leading position in mainstream yoghurt through the Nestle SKI brand.

New foodservice production capacity

As part of our strategy to further expand our global foodservice capabilities, Fonterra will invest \$72 million at our Clandeboye mozzarella plant. The foodservice category includes full and quick service restaurants, institutions, hotels, airline catering facilities and other commercial kitchens.

This follows our recent investment in a new UHT milk processing site at Waitoa in the Waikato, and the expansion of our Te Rapa cream cheese plant in response to increasing demand for dairy nutrition in Asia. Additional capacity is required to meet growing international demand, primarily in global fast food restaurant chains, supported by growth in regional fast food and fine dining restaurants.

The investment is the final stage of a technology upgrade that will double the capacity of the Clandeboye plant in Canterbury to produce individual quick frozen (IQF) grated mozzarella. When fully implemented, this will increase Fonterra's IQF mozzarella capacity across its two plants in New Zealand to over 50,000 MT per annum.

Clandeboye uses a manufacturing process that was developed by the Fonterra Research and Development Centre. This world-leading patented technology means that frozen natural shredded mozzarella can be made straight from milk in one day, rather than two months taken by conventional mozzarella processes.

Demand for high-value dairy products like mozzarella is being fuelled by changing dietary habits, particularly in Asia where there is a significant move toward more Westernised diets. Growth in the global foodservice category is being driven out of emerging Asian markets where the category is estimated to grow at around 13% annually to 2016.

GLOSSARY

GDT Price Index

All GDT price indices are chain-linked Fisher indices using winning quantities and winning prices. For the period prior to April 2010, the GDT Price Index and the AMF, SMP and WMP price indices use GDT prices and quantities where available, and USDA Dairy Market News prices and GTIS export volumes 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.

Farmgate Milk Price

The base price that Fonterra pays for milk supplied to it in New Zealand for a season

Reference Commodity

Products

The commodity dairy products used in the calculation of the Farmgate Milk Price, which are currently Whole Milk Powder, Powder, Butter and Anhydrous Milkfat Skim Milk Powder, and their by-products, Buttermilk

Dry Shares

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 Share Standard for a Season.

Wet Shares

Any Shares held by a Farmer Shareholder which are required to be held in accordance with the Share Standard for a Season.

DIRA

The Dairy Industry Restructuring Act 2001 (New Zealand)

Share Standard

The number of Shares a Farmer Shareholder is required from time to time to hold as determined in accordance with the Constitution. The Fonterra Board may permit the Share Standard to be satisfied through the holding of both shares and Vouchers.

Voucher

A certificate that is provided to a Farmer Shareholder upon transfer of the Economic Rights of a Wet Share to the Fund in accordance with the Trust Deed.

Season

A period of 12 months to 31 May in each year.