



Fonterra: GLOBAL DAIRY UPDATE

AUGUST 2013 ISSUE TWELVE



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:

- Record sales for Fonterra at the latest GDT auction on 6 August 2013
- GDT prices 2.4% lower, but up 72% over the same period last year
- New Zealand milk volumes 10% lower for the Season to 31 July 2013
- Summary of key announcements on the WPC80 quality issue

2013 FINANCIAL CALENDAR:	25 September 2013 Annual Results announced	27 November 2013 Shareholders Annual Meeting
	Early October Record Date for final dividend	1 December 2013 Compliance date for Share Standard 2013/14 season
	Late October 2013 Final dividend paid	

FONTERRA'S NEW ZEALAND MILK COLLECTION

Milk collection across New Zealand for the two months to 31 July was 10.4 % lower than the same period last year reaching 22.2 million kgMS. However, moderate temperatures and limited rainfall across most dairy regions improved conditions during July and the start of August. Calving is now underway in both the North and South Islands.

Milk Collection for the 2013/14 Season ¹	1 June 2013 to 31 July 2013 (million kgMS)	1 June 2012 to 31 July 2012 (million kgMS)	Change
Total Fonterra milksolids collected	22.2	24.8	-10.4%
North Island milksolids	18.5	20.9	-11.1%
South Island milksolids	3.6	3.9	-7.7%

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



DAIRY COMMODITY PRICES

Total volume traded at the latest GDT auction on 6 August 2013 was 60,587 MT. This was more than double the volume traded at the previous event.

The combination of higher volume and relatively higher prices resulted in record sales for Fonterra of around \$275 million. There was strong support from customers across our key regions including substantial volumes sold into China, and WMP prices remain close to historic highs.

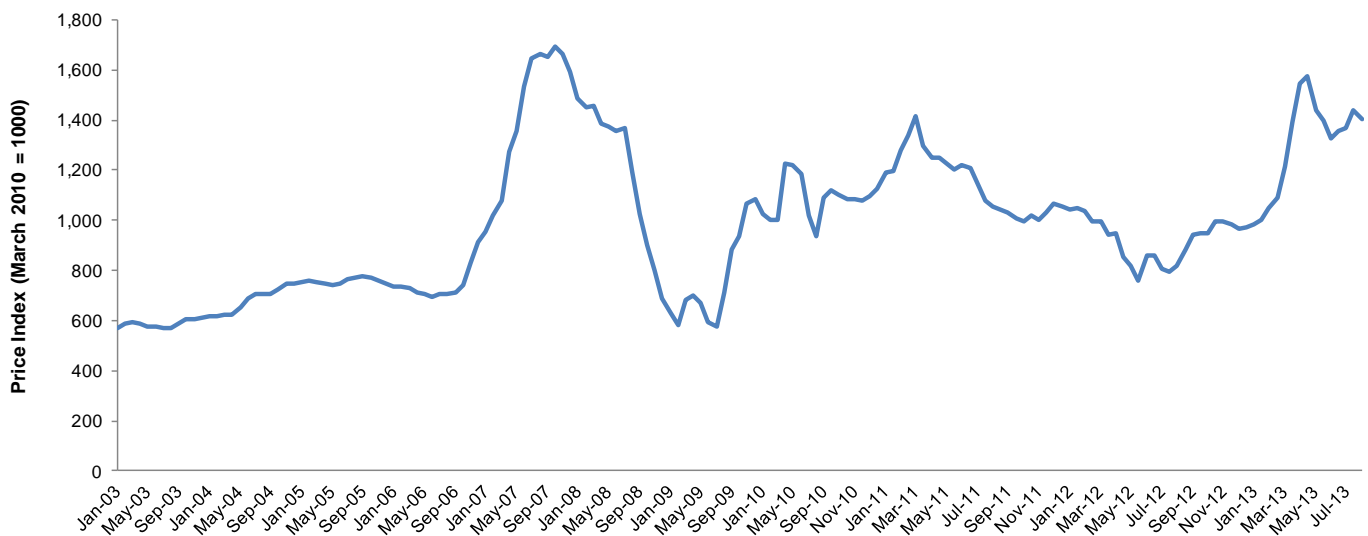
Dairy commodity prices were on average 2.4% lower. Whole Milk Powder (WMP) was down 1.6% and Skim Milk Powder (SMP) was 3% lower. Butter, Anhydrous Milk Fat (AMF) and Cheddar were down 5.5%, 4.9% and 4.4% respectively, while Rennet Casein and Butter Milk Powder were the only products to gain ground with increases of 1.2% and 0.4% respectively.

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

	Last Trading Event (6 August 2013)
Quantity Sold (Winning MT)	60,587 MT
Average Winning Price (USD MT/FAS)	4,847
USD Change in GDT Price Index over same period last year	n.a.
USD Change in GDT Price Index from previous event	-2.4%

The next trading event will be held on 20 August 2013. Visit www.globaldairytrade.info for more information.

CHART 1: GDT PRICE INDEX

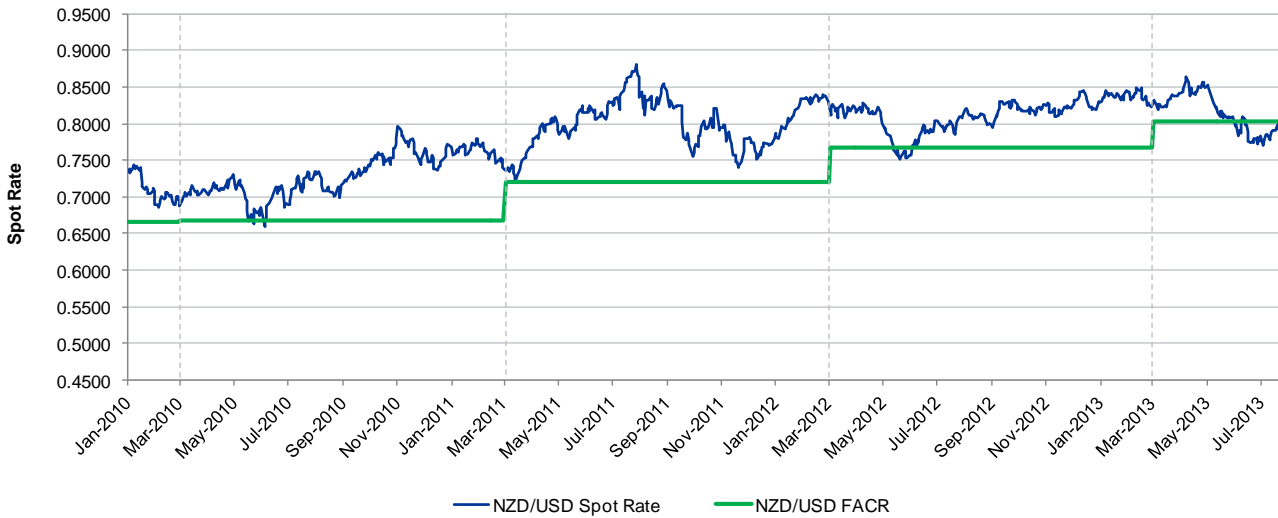


Source: GlobalDairyTrade, USDA DMN

NEW ZEALAND DOLLAR TREND

The chart below shows the spot price of the NZD/USD rate over the past three years. The green 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 2: NEW ZEALAND DOLLAR VS US DOLLAR – 1 JAN 2010 TO 31 JULY 2013



BUSINESS UPDATE

SUMMARY OF KEY ANNOUNCEMENTS ON QUALITY ISSUE

Fonterra has advised regulatory authorities and customers of a quality issue involving three batches of Fonterra whey protein concentrate (WPC80) produced at the Hautapu manufacturing site in New Zealand. The affected product potentially contained a strain of Clostridium, which has the potential to cause botulism and we decided to take a precautionary approach.

There have been no confirmed reports of any illness linked to consumption of the affected whey protein. However, food safety is Fonterra’s number one priority and the Co-operative takes matters of public health extremely seriously. We are doing everything we can to assist our eight impacted customers to take appropriate actions in the consumer marketplace.

On Saturday afternoon we confirmed that no Fonterra-branded consumer products are affected by the quality issue. We assured consumers in global markets including Australia, Asia, China, Latin America, New Zealand and the Middle East that none of our range of branded consumer products contained the affected WPC80.

The three specific batches of WPC80 produced at Hautapu, are the only NZMP ingredients affected by this quality issue. These batches were sold to eight of Fonterra’s customers – with some receiving it as base product and others receiving finished product manufactured by Fonterra using the affected WPC80 as an ingredient. Of these customers, three are food companies, two are beverage companies and three are companies that manufacture animal stock feed.

Prior to the market opening on Monday 5 August 2013 we updated the market on developments over the weekend and on that afternoon we hosted another media conference. Theo Spierings was in China to meet with Chinese government officials, regulators and customers, and held a media conference there.

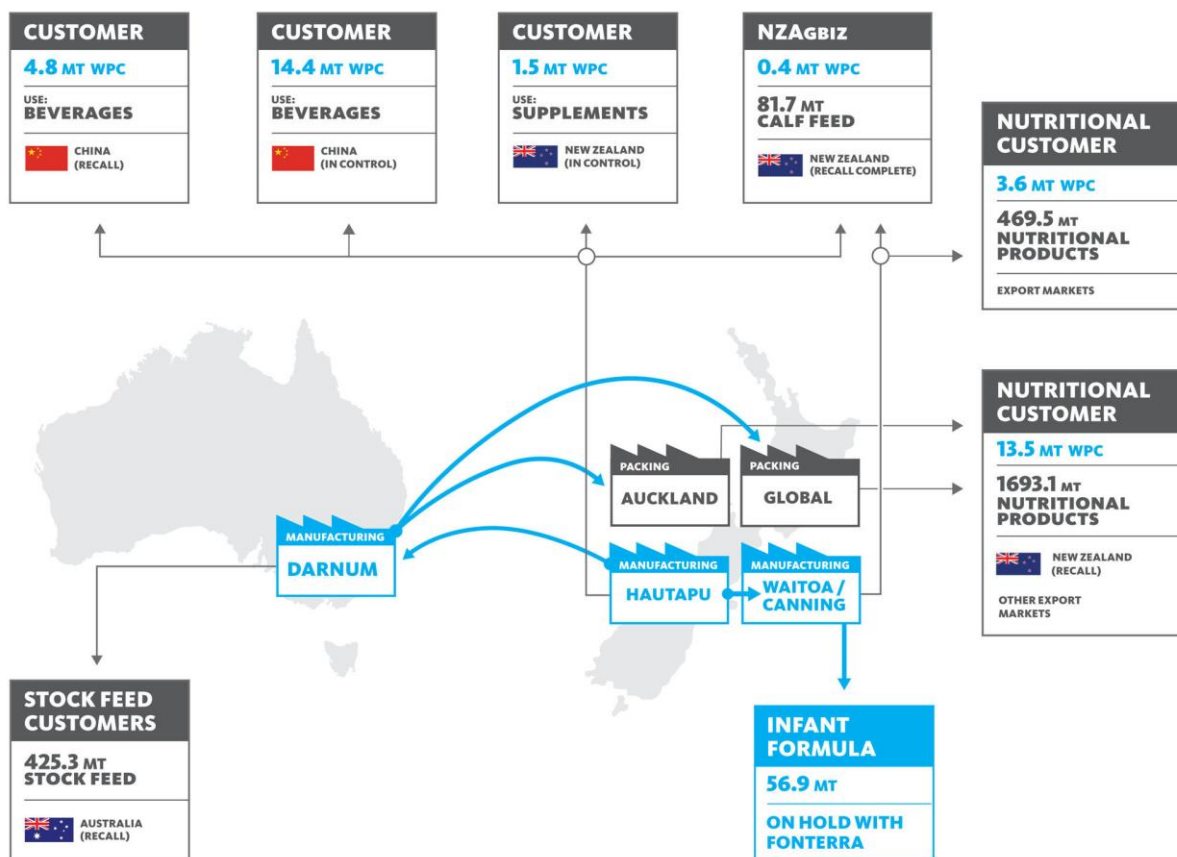
We received confirmation on Monday afternoon from the Ministry for Primary Industries that China has not imposed a blanket ban on Fonterra’s products. Chinese authorities have temporarily suspended importation of whey powder and dairy base powder (a whey based dairy ingredient used in the manufacture of infant formula) produced by Fonterra, or

produced in Australia using Fonterra’s whey protein powder as an ingredient (including whey protein concentrate).

On Tuesday 6 August, The Australian Department of Agriculture, Fisheries and Forestry (DAFF) published a media release providing an update in contaminated dairy products imported from New Zealand. The statement said that DAFF has a high level of confidence in the quality and safety of Australian-made dairy products. It also said “DAFF can assure the Australian dairy industry, consumers and export markets that dairy products made with potentially contaminated NZ dairy ingredients have been removed from the Australian dairy production system.”

DAFF has been working on the advice from the New Zealand Ministry of Primary Industries and Fonterra in New Zealand. DAFF continues to reassure all trading partners about the high quality and safety of Australian-produced dairy products. Further to this, Food Standards Australia New Zealand (FSANZ) today issued a statement confirming that products available for sale in Australia are not affected.

The diagram below gives a high level illustration which estimates the distribution of the affected product of WPC80 to our customers.



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.

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.