Welcome to our December 2014 Global Dairy Update

IN THIS EDITION

Fonterra milk collection
- New Zealand 3% higher in November 2014 and 4% higher for the season to date
- Australia 3% higher in November 2014 and 8% higher for the season to date

Business update
- New Zealand milk supply forecast of 1,584 million kgMS in the 2014/15 season
- Forecast Farmgate Milk Price for 2014/15 season
- Minimum shareholding requirements for farmer shareholders

Global dairy market overview
- Continued strength in global milk production but decreasing exports and imports

Dairy commodity prices on 2 December 2014
- Fonterra volume sold on GDT of 37,998 MT
- GDT Price Index 1.1% lower than the previous event

2015 Financial Calendar

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>LATE MARCH 2015</td>
<td></td>
</tr>
<tr>
<td>Interim results announcement</td>
<td>1 JUNE 2015</td>
</tr>
<tr>
<td>LATE SEPTEMBER 2015</td>
<td></td>
</tr>
<tr>
<td>Annual results announcement</td>
<td>1 DECEMBER 2015</td>
</tr>
</tbody>
</table>
North Island collection in November reached 135 million kgMS, five million kgMS ahead of November last season. November weather conditions brought rain and moderate temperatures to most dairy regions in the North Island, supporting grass growth and increased milk production.

South Island collection in November reached 81 million kgMS, one million kgMS ahead of November last season. The South Island continued to experience challenging pasture growth conditions, with Southland receiving above average rainfall and cool temperatures and Canterbury experiencing less than optimal soil moisture levels.

Milk collection in Australia for the five months to 30 November reached 58 million kgMS, eight per cent higher than the same period last season.

Milk collection across Australia in November reached 14 million kgMS, one million kgMS ahead of November last season.

Production for the season remains strong, however drier than average spring conditions across most of south east Australia slowed pasture growth, resulting in a reduced milk growth rate relative to earlier in the season.

The table below shows Fonterra milk solids collected in New Zealand and Australia for the 2014/15 season compared to the 2013/14 season.
The milk supply forecast for the 2014/15 season has been reduced to 1,584m kgMS, consistent with milk supply in the 2013/14 season.

While season to date volumes have been tracking ahead of last season, milk volumes for the remainder of the season could be impacted by the current forecast Farmgate Milk Price.

Historically, we have seen that climatic conditions can cause a large amount of volatility in late season milk collection when the Farmgate Milk Price is at lower levels.

Farmers are likely to become heavily reliant on rainfall to support grass growth and milk production, with less reliance on supplementary feed.
BUSINESS UPDATE

Forecast Farmgate Milk Price for 2014/15 Season

The forecast Farmgate Milk Price for the 2014/15 season has been reduced from $5.30 per kgMS to $4.70 per kgMS. When combined with the previously announced estimated dividend range of 25-35 cents per share, this amounts to a forecast Cash Payout of $4.95-$5.05 for the current season.

Global milk supply remains greater than demand, which has resulted in GlobalDairyTrade™ prices for whole milk powder falling 16.9 per cent since late September, while skim milk powder prices have fallen 7.7 per cent.

The revised forecast reflects the Fonterra Board and management’s best estimate at this time and updates will be given as the season progresses. The Board expects to look at the estimated dividend range at the time of the Interim Results announcement.

Fonterra is undertaking a targeted programme to generate more cash to support shareholders. This will include further strengthening of tight controls on operating expenditure, driving harder on working capital, and deferring capex – provided this does not slow progress on the V3 business strategy.

Share Standard Compliance and Forecast

The forecast aggregate minimum shareholding across the Co-operative for the 2015/16 season is 1,405 million, which would be seven million below the current minimum shareholding for the 2014/15 season.

At the commencement of each season (1 June), farmer shareholders are advised of their minimum shareholding requirement for the season, and are required to be compliant by 1 December.

A farmer shareholder’s minimum shareholding requirement is generally based on their average production for the prior three seasons.

The decrease in the forecast minimum shareholding is impacted by the decrease in Fonterra’s forecast milk supply to 1,584 million kgMS for the current season (consistent with milk supply last season), and more farmer shareholders taking up Share-up Over Time options, giving them the ability to spread share purchases over a period of three to 10 years.

The table below summarises the downstream impacts on shareholding requirements and the Fonterra Shareholders’ Fund, based on the forecast milk supply this season.

CURRENT AND FORECAST SHAREHOLDING REQUIREMENTS

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<tbody>
<tr>
<td>Minimum shareholding requirement</td>
<td>1,421</td>
<td>1,412</td>
<td>1,405¹</td>
</tr>
<tr>
<td>Vouchers that count towards the minimum shareholding requirement</td>
<td>-55</td>
<td>-55</td>
<td>-53</td>
</tr>
<tr>
<td>Dry shares held by farmer shareholders²</td>
<td>126</td>
<td>118</td>
<td>123</td>
</tr>
<tr>
<td>Units issued by the Fonterra Shareholders’ Fund</td>
<td>106</td>
<td>123</td>
<td>123</td>
</tr>
<tr>
<td>Total shares on issue</td>
<td>1,598</td>
<td>1,598</td>
<td>1,598</td>
</tr>
<tr>
<td>Dry shares held by farmer shareholders (% of shares on issue)</td>
<td>7.9%</td>
<td>7.4%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Fonterra Shareholders’ Fund size (% of shares on issue)</td>
<td>6.6%</td>
<td>7.7%</td>
<td>7.7%</td>
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¹ Forecast minimum shareholding is calculated as the average of actual production for the 2012/13 and 2013/14 seasons and the forecast for the 2014/15 season of 1,584 million kgMS.

² Dry shares are calculated as shares on issue less minimum shareholding less units issued by the Fonterra Shareholders’ Fund.
GROWTH IN MILK PRODUCTION FROM THE MAJOR SUPPLIERS TO WORLD MARKETS CONTINUED ON A YEAR-ON-YEAR BASIS, WITH THE EXCEPTION OF ARGENTINA AND URUGUAY.

Milk production growth in New Zealand increased 5.3 per cent on a year-on-year basis for the month of September.

Australian production increased 4.2 per cent on a year-on-year basis for the month of September. Production growth remains particularly strong in Tasmania, increasing 16 per cent in September on the same basis.

EU milk production increased 5.2 per cent on a year-on-year basis for the month of September. Production volume in 2014 to September is 5.5 per cent above the same period in 2013. This increase in production year-to-date equates to a volume of 5.8 million tonnes of liquid milk.

Milk production in the US increased 4.2 per cent on a year-on-year basis for the month of September, the ninth consecutive month of production growth.

Argentina and Uruguay continue to experience reduced production levels, with volumes down 1.9 per cent on a year-on-year basis for the month of September. This was the seventh consecutive month of falling production, but the smallest year-on-year decrease since January 2014.

PRODUCTION

Growth in milk production from the major suppliers to world markets continued on a year-on-year basis, with the exception of Argentina and Uruguay.

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**EXPORTS**

Growth in dairy exports from the major exporting countries has slowed, with the EU, US, Argentina and Uruguay all experiencing a decrease in volumes.

New Zealand exports continued to grow, increasing 5.3 per cent on a year-on-year basis for the month of September. Even though this is the smallest increase since May 2014, exports are 8.2 per cent higher year-to-date to September 2014, when compared to the same period last year.

Australian exports increased 26 per cent on a year-on-year basis for the month of September. For the three months to September, year-on-year export growth has been driven by SMP up 54 per cent, liquid milk up 49 per cent and cheese up 12 per cent.

Production growth in the EU decreased 4.6 per cent on a year-on-year basis for the month of August. This is the first decrease since November 2013 and while exports decreased for the month, they remain up 12 per cent year-to-date to August 2014, when compared to the same period last year.

US exports decreased 16 per cent on a year-on-year basis for the month of September. This is the third consecutive year-on-year decrease and the largest decrease since November 2012. Butter exports fell 79 per cent year-on-year, SMP decreased 29 per cent and whey powder decreased 13 per cent. High domestic prices and good product availability from other countries have made exporting difficult for US producers.

The production challenges in Argentina and Uruguay continue to impact exports, which decreased by 23 per cent on a year-on-year basis for the month of September. This is the largest decrease in exports since March 2013. Factors that are impacting exports include low production levels, reduced demand from Brazil and export restrictions in Argentina.

**NEW ZEALAND**

Annual exports ~2.9 million tonnes of product

**EU**

Annual exports ~4.0 million tonnes of product

**US**

Annual exports ~2.2 million tonnes of product

**ARGENTINA AND URUGUAY**

Annual exports ~0.6 million tonnes of product

Source: Government milk production statistics / GTIS trade data / Fonterra analysis
IMPORTS
Imorts to China decreased 22 per cent on a year-on-year basis for the month of October. This change is impacted by WMP imports in October being 72 per cent lower than the same month last year. However, year-to-date import volumes for WMP remain strong, up 41 per cent to October when compared to the same period last year. Fluid and fresh milk import growth remains strong, increasing 71 per cent in October on a year-on-year basis and 76 per cent higher year-to-date, when compared to the same period last year.

Import data for Russia has not been consistently published, making it difficult to assess imports on a year-on-year basis. However, the most recent data shows imports decreased 25 per cent on a year-on-year basis for the month of August. The trade ban imposed since August is likely to be one of the drivers of this decrease.

Imports into the Middle East and Africa (excluding Algeria) increased 7.6 per cent on a year-on-year basis for the month of August. This increase is driven by an increase in cultured products, up 38 per cent and fluid and fresh dairy, up 13 per cent on a year-on-year basis. 2014 imports to August are 10 per cent higher when compared to the same period last year.

Asia (excluding China) import volumes increased 3.5 per cent on a year-on-year basis for the month of August. This increase is driven by butter up 58 per cent, WMP up 21 per cent and cheese up seven per cent on a year-on-year basis for the month of August. 2014 imports to August for WMP are five per cent higher and butter 18 per cent higher, when compared to the same period last year. However, import volumes across all dairy products remain at similar levels to last year.

Source: Government milk production statistics / GTIS trade data / Fonterra analysis
DAIRY COMMODITY PRICES

GDT RESULTS

<table>
<thead>
<tr>
<th></th>
<th>(2 DEC 2014)</th>
<th>YEAR TO DATE (1 AUG 2014 TO 2 DEC 2014)</th>
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<tbody>
<tr>
<td>Fonterra quantity sold on GDT (Winning MT)</td>
<td>37,998</td>
<td>418,099</td>
</tr>
<tr>
<td>GDT average winning price (US$ MT/FAS)</td>
<td>$2,513</td>
<td>$2,730</td>
</tr>
<tr>
<td>Change in GDT Price Index over same period last year</td>
<td>(49%)</td>
<td>(44%)</td>
</tr>
<tr>
<td>Change in GDT Price Index from previous event</td>
<td>(1.1%)</td>
<td>n/a</td>
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</tbody>
</table>

Dairy commodity prices were on average 1.1 per cent lower than the last trading event, with an average winning price of US$2,513 per MT.

The GDT Price Index for the financial year to date was down 44 per cent compared to the same period last year.

Compared to the last trading event, the commodity prices that firmed included a significant movement in rennet casein up 9.3 per cent, anhydrous milk fat up 9.0 per cent, buttermilk powder up 8.8 per cent and butter up 7.3 per cent. In addition skim milk powder rose 5.7 per cent and cheddar rose 5.2 per cent.

The only commodity price that declined was a significant movement in WMP, down 7.1 per cent.

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

Fonterra quantity sold on the GDT auction on 2 December 2014 was 37,998 MT.

GDT PRICE INDEX

The next trading event will be held on 16 December 2014. Visit www.globaldairytrade.info for more information.
NEW ZEALAND DOLLAR TREND

The chart shows the spot price of the NZD/USD rate from November 2012. The dark blue line is the Fonterra average conversion rate (FACR). It shows Fonterra’s foreign currency rate adjusted for the gains and losses arising from Fonterra’s currency hedging.

NZD/USD 30 NOVEMBER 2012 TO 30 NOVEMBER 2014

GLOSSARY

DIRA
The Dairy Industry Restructuring Act 2001 (New Zealand).

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 minimum shareholding requirement for a season.

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

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 anhydrous milk fat (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.

Reference Commodity Products
The commodity dairy products used in the calculation of the Farmgate Milk Price, which are currently whole milk powder, skim milk powder, buttermilk powder, butter and anhydrous milk fat.

Season
New Zealand: A period of 12 months to 31 May in each year.
Australia: A period of 12 months to 30 June in each year.

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.

V3
Fonterra’s growth strategy based on accelerating volume, value and velocity.

Voucher
A certificate that is provided to a farmer shareholder upon transfer of the Economic Rights of a wet share to the Fonterra Shareholders’ Fund in accordance with the Trust Deed.

Wet shares
Any shares held by a farmer shareholder that are required to be held in accordance with the minimum shareholding requirement for a season.