Welcome to our latest Global Dairy Update. This update is part of 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 on our key strategic themes.

IN THIS ISSUE

- New Zealand milk volumes 3.8% higher for the Season to 30 November 2013
- Total global dairy imports up 2% for the 12 months to August 2013
- GDT prices on 3 December 3.9% higher than the last event on 19 November and up 52% over the same period last year
- Business Update
  - Forecast Farmgate Milk Price maintained at $8.30 for the 2013/14 Season
  - Update on earnings guidance
  - China delivering on V3 strategy through Anchor UHT and Anmum infant formula
  - New Zealand milk supply forecast to grow 6.4% in the 2013/14 Season compared to last Season
  - Further disclosure on Share Standard compliance and forecast Share requirements

2014 Financial Calendar:

<table>
<thead>
<tr>
<th>31 January 2014</th>
<th>31 July 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Half Year</td>
<td>Financial Year End</td>
</tr>
<tr>
<td>27 March 2014</td>
<td>Late September 2014</td>
</tr>
<tr>
<td>Interim Result</td>
<td>Annual Result</td>
</tr>
</tbody>
</table>
FONTERRA’S NEW ZEALAND MILK COLLECTION

3.8 % INCREASE TO

↑741 M kgMS

Milk collection across New Zealand for the six months to 30 November 2013 reached 741 million kgMS, 3.8% higher than the same period last year.

Late November rains were welcomed by farmers beginning to experience low soil moisture conditions. More rain has come into mid December driving pasture growth leading into the summer period.

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

<table>
<thead>
<tr>
<th>Milk Collection for the 2013/14 Season¹ (million kgMS)</th>
<th>November 2013</th>
<th>November 2012</th>
<th>Monthly change²</th>
<th>1 June 2013 to 30 November 2013</th>
<th>1 June 2012 to 31 October 2012</th>
<th>Season to date change²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fonterra milksolids collected</td>
<td>210</td>
<td>207</td>
<td>1.6%</td>
<td>741</td>
<td>714</td>
<td>3.8%</td>
</tr>
<tr>
<td>North Island milksolids</td>
<td>130</td>
<td>130</td>
<td>-0.1%</td>
<td>489</td>
<td>473</td>
<td>3.2%</td>
</tr>
<tr>
<td>South Island milksolids</td>
<td>80</td>
<td>77</td>
<td>4.4%</td>
<td>253</td>
<td>241</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

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
GLOBAL DAIRY OVERVIEW

With the exception of Australia, the key Southern Hemisphere exporting countries of Argentina, New Zealand and Uruguay, continue to see strong year on year growth with weather conditions resulting in good pasture and feed growth.

Despite generally favourable conditions being experienced by many farmers in Australia, milk production remains down on last season.

The latest milk delivery data shows a continued recovery in milk production in the top four exporting countries in the Northern Hemisphere.

The EU, New Zealand and the USA continue to experience strong export growth, while Australia has shown a gradual decline in exports. Overall total milk production from the top exporting countries was down 0.8% for the 12 months to August 2013 compared to the same period last year.

Russia and China (including Hong Kong) are the two leading importers of dairy products with China focussed on milk powders and Russia on cheese. Together they account for 25% of total dairy imports. For the twelve months to August 2013, total global dairy imports grew 2% to 13.7 million tonnes.

Milk production in China and Russia has been declining and this has underpinned a surge in dairy imports.

DAIRY COMMODITY PRICES

Total volume traded at the latest GDT auction on 3 December 2013 was 51,944 MT. Dairy commodity prices were on average 3.9% higher than the last trading event with an average winning price of USD 4,973. Prices remain high, up 52% over the same period last year.

Compared to the last trading event, most commodities’ firmed including a significant movement in Rennet Casein (RenCas) up 18.9%, Skim Milk Powder (SMP) was up 5.6%, Whole Milk Powder (WMP) up 3.4%, Butter up 4.5% and Anhydrous Milk Fat up 2.7%. The only commodity to soften was Cheddar down 1.5%.

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

Table 2: GDT Results

<table>
<thead>
<tr>
<th></th>
<th>Last Trading Event (3 December 2013)</th>
<th>Year-to-Date (1 Aug 2013 to 3 December 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity Sold (Winning MT)</td>
<td>51,944</td>
<td>458,956</td>
</tr>
<tr>
<td>Average Winning Price (USD MT/FAS)</td>
<td>$4,973</td>
<td>$4,889</td>
</tr>
<tr>
<td>USD Change in GDT Price Index over same period last year</td>
<td>51%</td>
<td>52%</td>
</tr>
<tr>
<td>USD Change in GDT Price Index from previous event</td>
<td>3.9%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

The next trading event will be held on 7 January 2014. Visit www.globaldairytrade.info for more information.
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 30 November 2013
BUSINESS UPDATE

Forecast Cash Payout Update for 2013/14 Season

The forecast Farmgate Milk Price for the 2013/14 Season has been maintained at $8.30 per kgMS despite the theoretical price calculated under the Milk Price Manual of $9.00 per kgMS.

The forecast Milk Price, which is calculated under the Manual, is based on processing and manufacturing milk powders. The calculation is also based on the costs involved in production for an efficient manufacturer of Fonterra’s size and scale.

However, the gap between prices for milk powder product streams compared to cheese and casein product streams is greater than it has ever been before. Fonterra’s actual asset base includes a number of cheese and casein manufacturing plants which means that we are not able to maximise profits from these plants in the current environment.

Fonterra will maintain financial discipline and not pay a Milk Price out of borrowings particularly in a year when we are forecasting a record payout for farmers. The Milk Price forecast is the highest it has been for five years and higher than that of the US and Europe for the first time in history.

Based on the forecast Milk Price of $8.30 per kgMS, EBIT for the financial year ending 31 July 2014 is currently estimated at $500-$600 million, with an estimated full year dividend of 10 cents per share.

Milk flow is expected to increase year-on-year and we have been evolving our manufacturing asset base by investing in additional powder production facilities to ensure we have the flexibility to respond to changes in global demand.

A strategic review lead by Theo Spierings (CEO) and Lukas Paravicini (CFO) is underway and will focus on making NZ Milk Products’ core operations more flexible. The key priorities are to:

- Increase Fonterra’s ability to profit during times of high dairy commodity prices by having:
  - A more flexible asset footprint;
  - More flexible global sourcing arrangements that reduce the extent of exposure to adverse relative stream return differences; and
  - Lifting returns from lower-returning streams.
- Achieve opportunities identified above as quickly as possible by improving the efficiency of existing plants and potentially advancing investment as appropriate in new capacity.

Following the $500 million investment in Darfield, we are investing a further $235 million for development of a third drier at Pahiatua that will lift our ability to produce more milk powder. At the same time, we need to continue turning the wheel to drive higher value products.

We are in a good position and our strategy is the right one. We will continue to invest in flexible manufacturing assets to meet the rapid changes in global demand and commodity cycles and to stay at the forefront of the industry.

New Zealand Milk Supply Forecast

The improvement in climatic conditions continued through spring with above average temperatures and below average soil moisture creating excellent pasture growth conditions throughout most of New Zealand’s dairy regions. This resulted in record peak milk collection of 87m litres per day in October and has underpinned the production outlook for the 2013/14 Season.

Now midway through the Season, we forecast milk volumes to grow by 6.4% to 1,556 million kgMS for the 2013/14 Season. While there remains a risk that dry conditions through summer will again impact milk supply, the record Milk Price forecast provides additional confidence that milk supply will increase above last quarter’s estimate.

Our forecast will be revised on a quarterly basis, based on actual production volumes in line with DIRA requirements.
China Delivering on V3 Strategy

Our China business plays a crucial role in delivering a number of our V3 strategic paths. The Greater China consumer brands business has taken key steps in developing our Everyday Nutrition with Anchor milk, and piloting paediatrics and maternal health through the Anmum brand.

The launch of Anchor UHT milk in August has seen packaged 250ml single-serves, in gift packs of 10, available to the market. The brand targeted a launch in the Yangtze River Delta region (Shanghai and surrounds) before expanding wider. It is now available to consumers in more than 1,000 hypermarkets and supermarkets in the Yangtze River Delta, as well as on significant online shopping websites such as Tmall. Anchor UHT milk is undertaking a comprehensive online and offline marketing campaign, themed around “we are parents too”, to connect with young mothers and showcase the quality and purity of this product.

The full range of Anmum paediatric formula products (stage 1, 2 and 3 formulas) is being piloted in Guangzhou, Chengdu and Hong Kong. This range has a strong proposition around its Fonterra-patented dairy ingredients and New Zealand origin. Anmum already has strong brand awareness in Guangzhou and in Hong Kong Anmum is the number one maternal health brand. Anmum is also undertaking a comprehensive online and offline marketing programme to connect with young mothers.

Share Standard Compliance and Forecast

As part of our ongoing commitment to transparency, every quarter we will disclose our forecast Minimum Shares required to meet the Share Standard as well as the associated impact this has on Dry Shares held by Shareholders and Units issued by the Fonterra Shareholders’ Fund.

The Minimum Shares required to meet the Share Standard is generally calculated as the average of the prior three Season’s actual production. The forecast is based on actual production for the 2011/12, 2012/13 Seasons and forecast production for the 2013/14 Season.

The table below summarises the downstream impacts on the Minimum Shares required to meet the Share Standard and Fonterra Shareholders’ Fund, resulting from forecast production this Season.

<table>
<thead>
<tr>
<th>Table 3: Current and Forecast Share Standard Requirements</th>
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<tbody>
<tr>
<td>Figures stated in millions of shares unless otherwise stated</td>
</tr>
<tr>
<td>Minimum Shares required for Share Standard</td>
</tr>
<tr>
<td>Vouchers that count towards the Share Standard</td>
</tr>
<tr>
<td>Dry Shares held by Farmer Shareholders²</td>
</tr>
<tr>
<td>Units issued by the Fonterra Shareholders’ Fund</td>
</tr>
<tr>
<td>Total Shares on Issue</td>
</tr>
<tr>
<td>Dry Shares held by Farmer Shareholders’ (% of Shares on Issue)</td>
</tr>
<tr>
<td>Fonterra Shareholders’ Fund size (% of Shares on Issue)</td>
</tr>
</tbody>
</table>

¹: Minimum Shareholding calculated as the average of the prior 3 Season’s actual production for the 2011/12 and 2012/13 Seasons’ and the forecast for 2013/14 season of 1556 million KgMS.
²: Calculated as Shares on issue less Minimum Shareholding under the Share Standard less Units issued by the Fonterra Shareholders’ Fund plus Vouchers.
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.

V3
Volume, Value and Velocity.

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