

EDITION 17
FEBRUARY 2014

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GLOBAL DAIRY UPDATE



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 4.2% higher for the Season to 31 January 2014
- GDT prices on 4 February 0.5% higher than the last event on 21 January, up 50% over the same six month period last year
- Business Update
 - NZ Milk Products second quarter update – including information on revenue, sales volume and production volume
 - 1.25 billion Chinese Renminbi (NZD250 million) bond issue to support China growth

**2014
Financial Calendar:**

26 March 2014
Interim Results Announced

Late September 2014
Annual Results Announced

1 June 2014
Measurement Date for the
Share Standard 2014/15
Season

1 December 2014
Compliance Date for the
Share Standard 2014/15
Season

31 July 2014
Financial Year End

FONTERRA'S NEW ZEALAND MILK COLLECTION

4.2 % INCREASE TO

↑ 1,120 M kgMS

Milk collection across New Zealand for the eight months to 31 January 2014 reached 1,120 million kgMS, 4.2% higher than the same period last year.

Rain through December and early January helped maintain milk production above last Season's level with the North Island 3.7% higher and the South Island 5.0% higher for the Season to date.

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

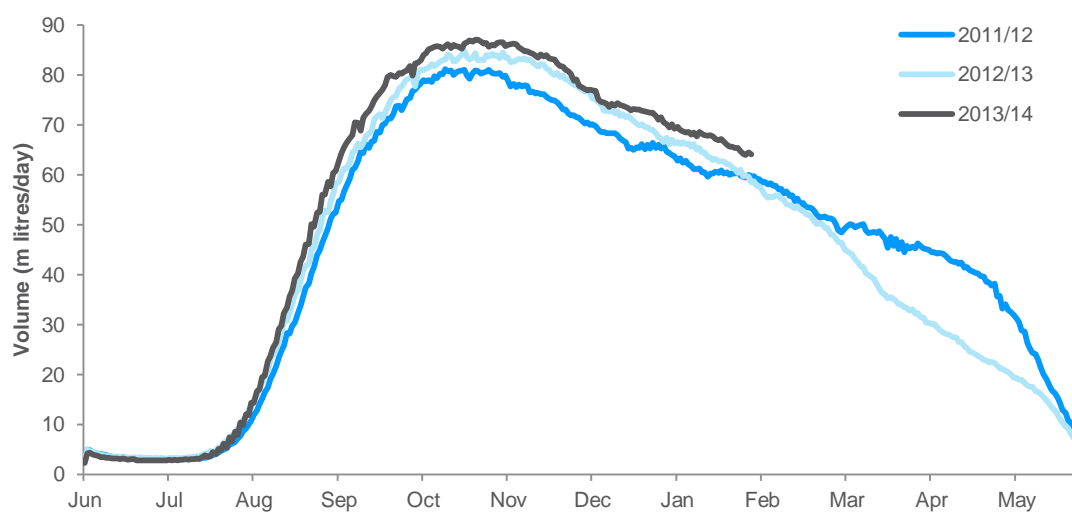
Table 1: Season to Date Milk Supply

Milk Collection for the 2013/14 Season ¹ (million kgMS)	January 2014	January 2013	Monthly change ²	1 June 2013 to 31 January 2014	1 June 2012 to 31 January 2013	Season to date change ²
Total Fonterra milksolids collected	183	171	7.3%	1,120	1,075	4.2%
North Island milksolids	111	104	7.1%	720	694	3.7%
South Island milksolids	72	67	7.7%	400	381	5.0%

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

Note 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

↑0.5%

GDT Price Index

Total volume traded at the latest GDT auction on 4 February 2014 was 35,399 MT. Dairy commodity prices were on average 0.5% higher than the last trading event with an average winning price of USD 5,042. Prices remain strong, up 50% over the same six month period last year.

Compared to the last trading event, the commodities that firmed included Butter up 2.6% and Whole Milk Powder (WMP) up 1.4%.

The commodities that softened included Cheddar down 4.3%, Rennet Casein (RenCas) down 3.7% and Anhydrous Milk Fat (AMF) down 1.2%. Skim Milk Powder (SMP) remained unchanged.

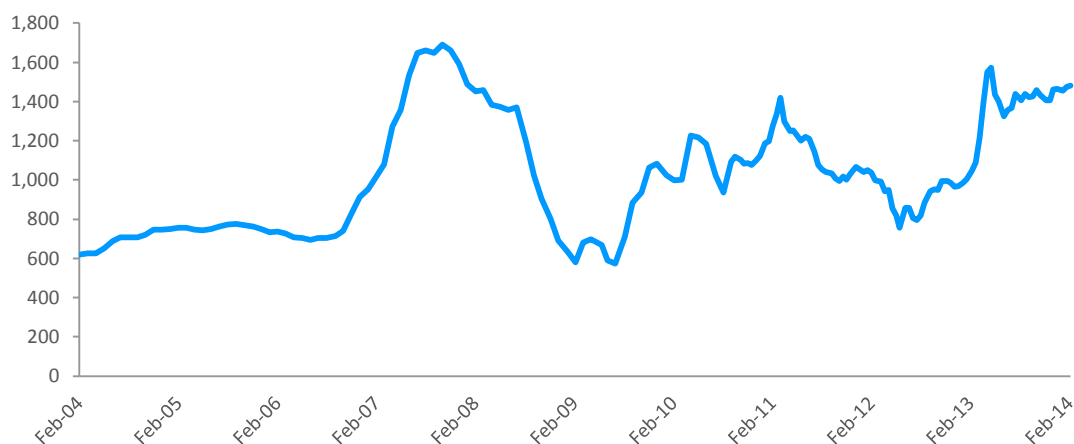
The table below summarises the latest results and provides a snapshot of the rolling year-to-date results.

Table 2: GDT Results

	Last Trading Event (4 February 2014)	Year-to-Date (1 Aug 2013 to 4 February 2014)
Quantity Sold (Winning MT)	35,399	629,655
Average Winning Price (USD MT/FAS)	\$5,042	\$4,923
USD Change in GDT Price Index over same period last year	42%	50%
USD Change in GDT Price Index from previous event	0.5%	n/a

The next trading event will be held on 18 February 2014. Visit www.globaldairytrade.info for more information.

Chart 2: GDT Price Index

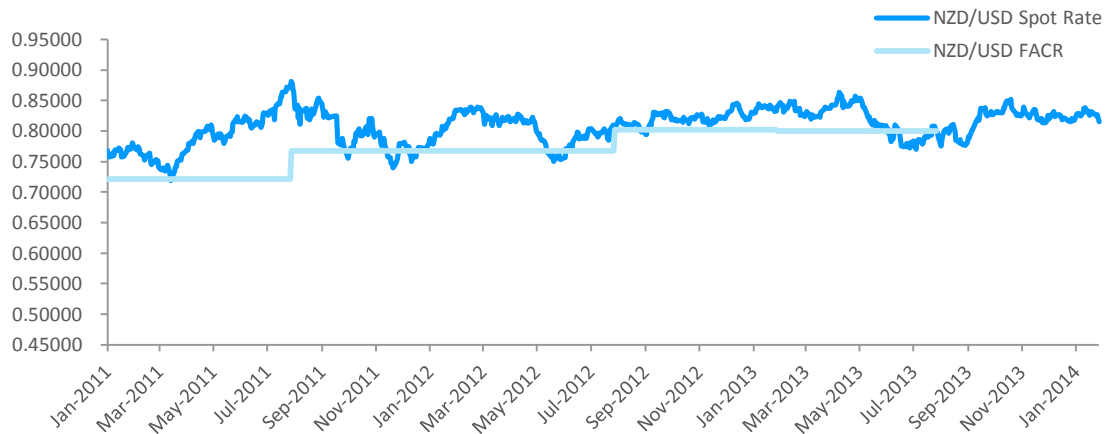


Source: GlobalDairyTrade, USDA DMN

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 January 2014



BUSINESS UPDATE

NZ Milk Products Second Quarter Update

As part of our ongoing commitment to transparency, we disclose key metrics for our largest operation NZ Milk Products on a quarterly basis.

In the second quarter of the 2013/14 financial year, the relative increase in the price of Reference Commodity Products (which informs the Farmgate Milk Price) continued to be higher than the increase in the price of Non-Reference Commodity Products, although this effect was less pronounced than in the first quarter. Reference Commodity Products were up 52% for Q2 2014 compared to Q2 2013 while Non-Reference Commodity Products were up 25.6% for the same period. This resulted in a continued margin squeeze for Non-Reference Commodity Products due to the input costs rising disproportionately to the sales price.

In December last year, we decided to maintain the Forecast Farmgate Milk Price at \$8.30 per kgMS, unchanged in the context of substantial stream return volatility. This had a positive effect on EBIT in the second quarter.

Our Board has the discretion to pay a lower Farmgate Milk Price than that specified under the Farmgate Milk Price Manual, if it is in the best interests of Fonterra. This decision was made for very good reasons. It reflected the reality that it was not possible to lift powder production above current levels because of the nature of Fonterra's existing production facilities in New Zealand. That meant a proportion of milk had to be converted to Non Reference Commodity Products, predominantly cheese and casein, which were generating significantly lower returns at the time.

This is a relatively unique situation, and we will continue to monitor it very closely. We are required to consider our Farmgate Milk Price every quarter as a condition of the Dairy Industry Restructuring Act (DIRA) and will provide a further update in March.

Table 3: New Zealand Sourced Revenue per Metric Tonne

Revenue NZD per MT	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14	% Change (Q2 FY14 to Q2 FY13)
Reference Commodity Products ^{1 2}	3,892	4,154	5,174	5,967	5,914	52%
Non-Reference Commodity Products	5,633	6,129	6,531	6,931	7,073	25.6%

Table 4: New Zealand Sourced Volume (In thousand Metric Tonnes)

Volume '000 MT	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14	% Change (Q2 FY14 to Q2 FY13)
Sales Volume³						
Reference Commodity Products ^{1 2}	600	520	327	365	656	9.3%
Non-Reference Commodity Products	198	182	162	128	154	(22.2 %)
Production Volume						
Reference Commodity Products ^{1 2}	693	418	80	630	761	9.8%
Non-Reference Commodity Products	257	150	24	196	228	(11.3)%

Chinese Renminbi Bond Issue to Support China Growth

Fonterra has raised 1.25 billion Chinese Renminbi (NZD250 million) through a 5 year “dim sum” bond issue that will be used to further strengthen and support the growth of the China business. We have a strong focus on driving growth in both volume and value in this market as our integrated business model is developed.

The dim sum bond has been undertaken to refinance some existing debt facilities and support further expansion of the consumer, foodservice and farming operations.

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.

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.