



Welcome to our June 2014 Global Dairy Update

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- **Global Dairy Overview:**
 - Exports 3% higher for the 12 months to February 2014

Financial Calendar

31 JULY 2014

Financial Year End

24 SEPTEMBER 2014

Annual Results Announced

12 NOVEMBER 2014

Shareholders' Annual Meeting

14 NOVEMBER 2014

Fonterra Shareholders' Fund
Annual Meeting

1 DECEMBER 2014

Compliance Date for the Share
Standard 2014/15 Season

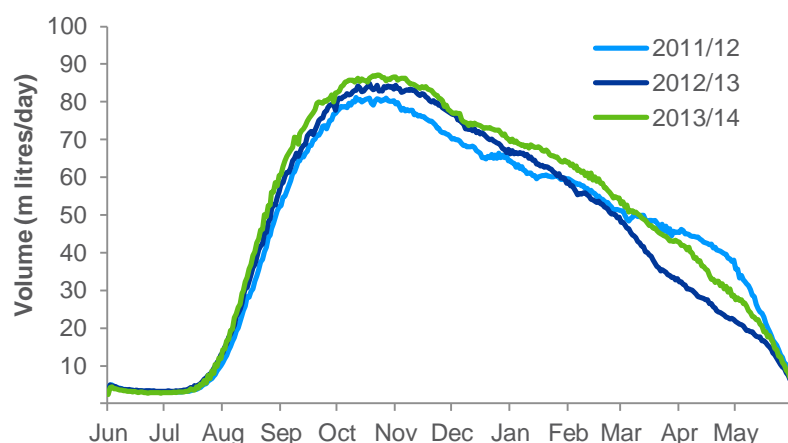
FONTERRA MILK COLLECTION

8.3% INCREASE TO

**↑ 1,584 m
kgMS**

Milk collection across New Zealand for the 12 months to 31 May 2014 reached 1,584 million kgMS, 8% higher than the 2012/13 Season.

Fonterra Milk Collection in New Zealand



Weather in early May returned to more normal autumn conditions and production growth was strong, reflecting both improved conditions and the impact of last Season's drought.

North Island collection in May reached 27m kgMS, 40% ahead of May last Season, while South Island collection reached 34m kgMS, 14% ahead of May last Season.

Farmers experienced varied conditions across the country in the 2013/14 Season. However, a mild winter and spring ensured that the Season started well. The North Island faced dry conditions through summer, but returned to more favourable conditions in autumn. Most cows have now been dried off in New Zealand as farmers prepare for spring calving.

North Island collection for the full 2013/14 Season reached 970m kgMS, 9% ahead of the 2012/13 Season, while South Island collection reached 615m kgMS, 7% ahead of the previous Season.

Milk collection across Australia for the 11 months to 31 May 2014 reached 112m kgMS, 2% behind the same period last Season as a result of below-average spring conditions.

Continued rainfall, coupled with milder than average temperatures across most regions of Victoria and particularly Tasmania, created particularly favourable autumn pasture growth conditions. This resulted in collection in May reaching 9m kgMS, 13% ahead of May last Season.

The table below shows Fonterra milksolids collected in New Zealand and Australia for the 2013/14 Season compared to the 2012/13 Season.

Fonterra Milk Collection

FONTERRA MILK COLLECTION (MILLION KGMS)	MAY 2014	MAY 2013	MONTHLY CHANGE ²	JUNE 2013 TO MAY 2014 ³	JUNE 2012 TO MAY 2013 ³	SEASON-TO-DATE CHANGE ²
Total Fonterra New Zealand ¹	61	49	24.0%	1,584	1,463	8.3%
North Island ¹	27	19	39.5%	970	890	8.9%
South Island ¹	34	29	13.9%	615	573	7.3%
				JULY 2013 TO MAY 2014 ³	JULY 2012 TO MAY 2013 ³	SEASON-TO-DATE CHANGE ²
Fonterra Australia	9	8	12.6%	112	114	(1.7%)

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

³ Data includes the period from the first calendar day, to the last calendar day of the quoted months

BUSINESS UPDATE

Minimum Shareholding Requirements for Farmer Shareholders

At the commencement of each Season (1 June), Farmer Shareholders are advised their Minimum and Maximum Shareholding limits for the Season. Shareholders are required to be compliant with these limits by 1 December each Season.

A Farmer Shareholder's Minimum Shareholding is generally based on the average of their farms prior three Season's actual production.

The Minimum Shares required across the Co-operative for the Share Standard in the 2013/14 Season has reduced marginally from our previous forecast in March 2014.

A contributing factor to this reduction is that the eligibility to supply Fonterra on a contract basis has been widened. 2014 contracts were open to farm sales, existing Farmer Shareholder growth milk and business restructures, including succession planning. By taking on a contract, less upfront investment is required, but the Farmer Shareholder is committed to supply Fonterra while progressively sharing up over a six to ten year period.

The table below summarises the downstream impacts on the Share Standard and Fonterra Shareholders' Fund, resulting from forecast production this Season.

Current and Forecast Share Standard Compliance

FIGURES IN MILLIONS UNLESS OTHERWISE STATED	2013/14 SEASON OPENING BALANCE AT JUNE 2013	2014/15 SEASON OPENING BALANCE AT JUNE 2014	FORECAST 2015/16 SEASON OPENING BALANCE AT JUNE 2015
Minimum Shares required for Share Standard	1,400	1,421	1,423 ¹
Vouchers that count towards the Share Standard	-60	-55	-55
Dry Shares held by Farmer Shareholders ²	157	126	124
Units issued by the Fonterra Shareholders' Fund	101	106	106
Total Shares on Issue	1,598	1,598	1,598
Dry Shares held by Farmer Shareholders (% of Shares on Issue)	9.8%	7.9%	7.8%
Fonterra Shareholders' Fund size (% of Shares on Issue)	6.3%	6.6%	6.6%

¹ Forecast Minimum Shareholding calculated as the rolling three Season average of actual production for the 2012/13 and 2013/14 Seasons and the forecast for 2015/16 Season of 1,616 million kgMS.

² Dry Shares are calculated as Shares on Issue less Minimum Shareholding under the Share Standard less Units issued by the Fonterra Shareholders' Fund plus Vouchers

Fonterra and Nestlé Realign Latin American Joint Venture

The 10-year old Dairy Partners America (DPA) 50/50 joint venture has been realigned to reflect the respective strategies of both Nestlé and Fonterra.

Under agreements signed last month in São Paulo, Brazil:

- Fonterra will take a 51% controlling stake in DPA Brazil, with Nestlé holding the balance.
- Together with a local partner Fonterra will acquire Nestlé's share of DPA Venezuela.
- Fonterra will sell its share in DPA's milk powder manufacturing business to Nestlé.
- Nestlé will buy Fonterra's share in Ecuador.

The controlling stake in DPA Brazil gives Fonterra operational control of a business that operates in one of the fastest growing economies in Latin America. Growing market share in Brazil is core to Fonterra's LATAM Strategy and the changes allow Fonterra more flexibility to drive forward its Everyday Nutrition plans.

New Zealand's dairy industry has had a presence in Venezuela for decades and, although it has been a challenging market, there still remains significant long-term potential. With the right focus and grass roots development in the dairy industry, Fonterra is looking to realise this potential. Fonterra is seeing steady growth out of the Venezuelan market, with dairy consumption around 134kg per person.

DAIRY COMMODITY PRICES

GDT PRICE INDEX

↓4.2%

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

Fonterra volume traded at the GDT auction on 3 June 2014 was 33,824 MT.

GDT Results

	LAST TRADING EVENT (3 JUNE 2014)	YEAR-TO-DATE (1 AUG 2013 TO 3 JUNE 2014)
Fonterra Quantity Sold on GDT (Winning MT)	33,824	832,597
GDT Average Winning Price (USD MT/FAS)	\$3,756	\$4,673
Change in GDT Price Index over same period last year	(17%)	22.5%
Change in GDT Price Index from previous event	(4.2%)	n/a

Dairy commodity prices were on average 4% lower than the last trading event with an average winning price of USD 3,756 per MT. The GDT Price Index for the financial year-to-date was up 22% compared to the same period in FY2013.

Compared to the last trading event, the commodity prices that firmed included Cheddar up 8.0% and Skim Milk Powder (SMP) up 2.1%. The commodity prices that softened included a significant movement in Rennet Casein (RenCas) down 10.2% and Whole Milk Powder (WMP) down 8.5%. In addition Anhydrous Milk Fat (AMF) was down 5.0%, Butter Milk Powder (BMP) down 1.9% and Butter was unchanged.

GDT Price Index



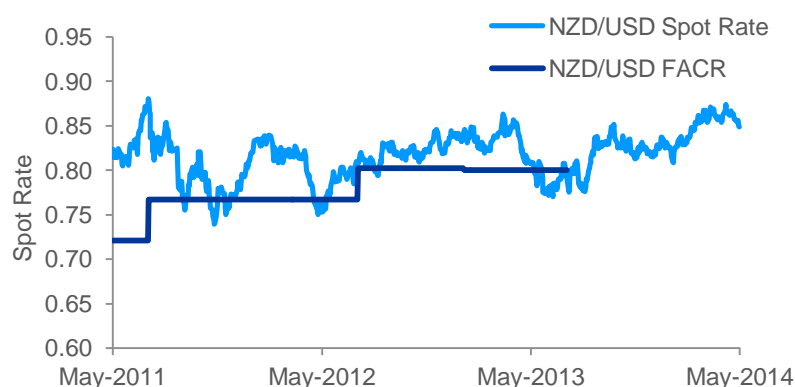
Source: GlobalDairyTrade, USDA DMN

The next trading event will be held on 17 June 2014. Visit www.globaldairytrade.info for more information

New Zealand Dollar Trend

The chart shows the spot price of the NZD/USD rate from May 2011. 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 31 May 2011 to 31 May 2014



GLOBAL DAIRY OVERVIEW

↑ **3.0%**

TOTAL DAIRY EXPORTS OF
14.2M MT

A shift in supply and demand over the past few months is indicating that volatility continued to exert influence over the global outlook for dairy. Prices have come off the peak reached in February this year.

There is currently more milk available for the international market to absorb, although demand from China and Russia still appears strong as global supply and demand rebalances.

Fonterra's assessment of published industry statistics indicates that total dairy exports have reached 14.2 million MT, up 3% for the 12 months through to February 2014.

Most of this growth appears to be from the European Union (EU), New Zealand (NZ) and the United States (US).

Growth in Supply

Milk production growth in the top four major Southern Hemisphere exporting countries of Argentina, Australia, New Zealand and Uruguay is reported to have increased by 7.2% in the first quarter of 2014. This was primarily driven on the back of growth in New Zealand production.

Uruguay production growth slowed due to challenging climatic conditions and remained flat in Argentina. Argentina faces a range of challenges including a weakening currency, higher manufacturing costs and a lower milk price. Uruguay has overtaken Argentina as the main supplier of milk to Brazil, supplying more than 50% of Brazil's current milk imports.

Strong growth in production continued in the top three EU exporting countries of France, Germany and the Netherlands. In aggregate the EU countries were up 5.8% for the first three months of 2014.

US production growth continued at around 1% year-on-year for the first three months of 2014, which is below USDA forecasts.

Russia and China

China and Russia are key drivers of the global dairy market and demand still appears strong with around 20% growth in dairy imports annually in total from these two countries, and imports increasing from 6% of total global imports in 2008 to 27% at present. This has been primarily driven by demand for milk powders in China and cheese in Russia.

Dairy imports into China have surged in the past six months, with imports reaching almost 2 million tonnes or around 16% of global imports. Growth in imports of dairy products into China were up 39% for the 12 months through to February 2014.

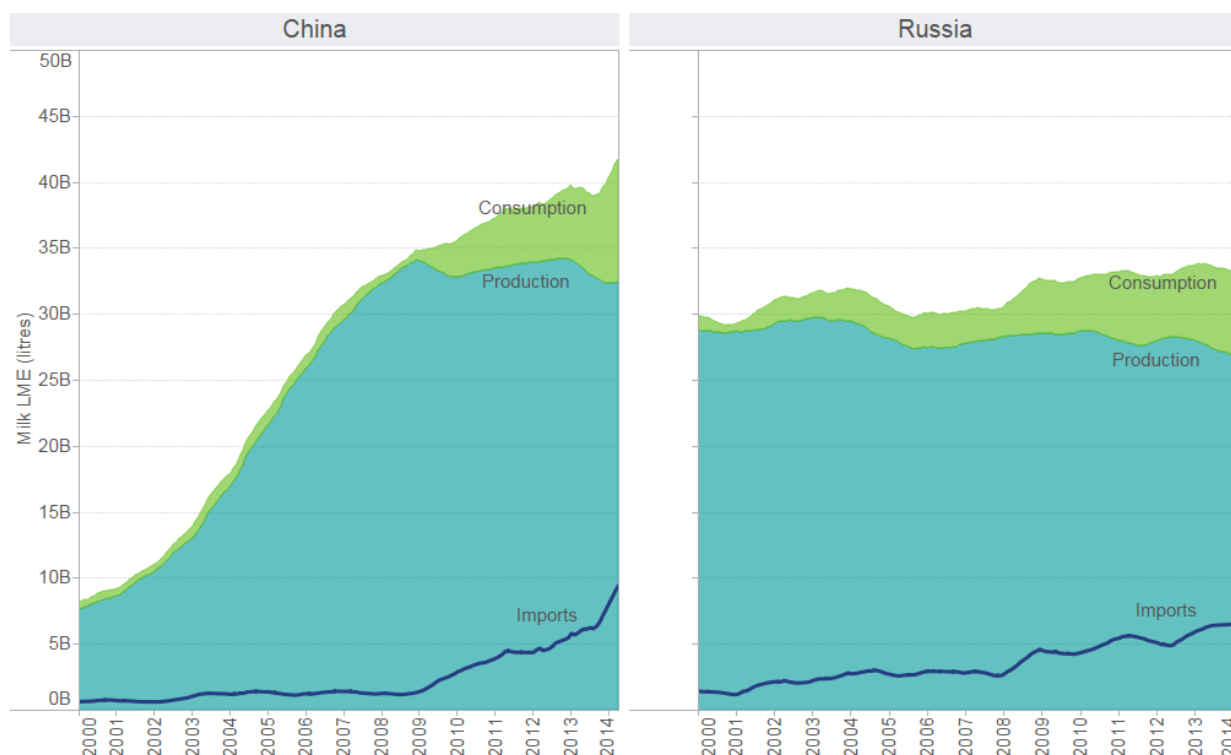
New Zealand is an important contributor to China's imports, with volume exported to China reaching 37% of New Zealand's total dairy exports in the past 12 months. The demand from China is mainly in Whole Milk Powder (WMP), with China now accounting for 32% of global WMP imports and 15% of Skim Milk Powder (SMP) imports.

Assessment of industry statistics shows China's milk production has shown signs of recovery in the first three months of 2014 compared to the same period last year.

Underlying demand in China continues to grow and while domestic production is growing in response, it is clear the supply gap is widening, which could open the door for more imports. Recent Rabobank analysis estimates the supply gap at 10 billion litres plus and widening.

Global exports to Russia have grown 9%, reaching around 1.5 million tonnes for the 12 months through February 2014. Despite competitive feed costs and warm winter conditions in Russia, production appears flat in the first three months of 2014.

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



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, Skim Milk Powder, Butter Milk Powder, Butter and Anhydrous Milk Fat.

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.

Wet Shares

Any Shares held by a Farmer Shareholder which are required to be held in accordance with the Minimum Shareholding requirement 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

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

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.