



Fonterra: GLOBAL DAIRY UPDATE

JUNE 2013 ISSUE TEN



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 topics:

- New Zealand milk supply 2% lower for the 2012/13 season
- Milk volumes for 2013/14 season forecast to grow by 2%
- GlobalDairyTrade (GDT) prices 5.3% lower at the latest auction on 4 June 2013
- Business update including results of the Supply Offer and End of Season

2013 FINANCIAL CALENDAR:

1 June 2013

Measurement date for Share Standard compliance 2013/14 season

31 July 2013

Financial year end

25 September 2013

Annual Results announced

Late October 2013

Final dividend paid*

November 2013

Shareholders Annual Meeting

1 December 2013

Compliance date for Share Standard 2013/14 season

* Subject to Fonterra Board approval.

FONTERRA'S NEW ZEALAND MILK COLLECTION

Consistent rainfall and above average temperatures from mid April through to late May improved conditions in many drought impacted regions in New Zealand. However milk supply across the country for May was down 31.9% on last season reflecting lower cow numbers milking through to the end of the season compared to last year.

For the 2012/13 season ending 31 May 2013, 1,463 million kgMS of New Zealand sourced milk was supplied to Fonterra. This was 2% lower than last season due mainly to the drought which significantly impacted milk production from March to May in many parts of the country.

At the half year, milk collection was up 6% compared to the same period last season. This was due to excellent spring and early summer growing conditions across most of the country leading to strong growth in New Zealand dairy production.

In the second half of the season milk collection was down 8.9% compared to the same period last year due to the



drought which quickly deteriorated pasture conditions from March 2013 across New Zealand. Significant rainfall did not occur until mid April 2013 resulting in many of our farmers drying off herds much earlier than in previous seasons.

Milk supply forecast

The recent improvement in climatic conditions has brought temperatures and pasture growth back in line with historic averages and we are anticipating that the 2013/14 season will result in more normal growing conditions compared to the large variances seen in the 2012/13 season.

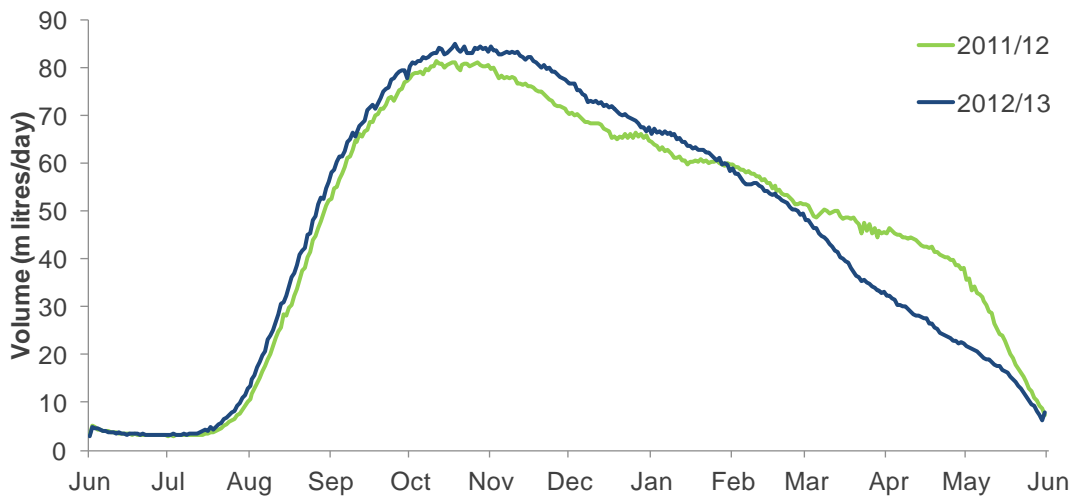
These changes have improved the volume outlook and while it is still early in the season, we are currently forecasting milk volumes to grow by 2% to 1,496 million kgMS for the 2013/14 season. Our forecast will be revised on a quarterly basis based on actual production volumes in line with DIRA requirements.

Milk Collection for the 2012/13 Season ¹	1 June 2012 to 31 May 2013 (million kgMS)	1 June 2011 to 31 May 2012 (million kgMS)	Change
Total Fonterra milksolids collected	1,463	1,492	-2.0%
North Island milksolids	890	955	-6.8%
South Island milksolids	573	537	6.7%

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

The table below shows the monthly change in milksolids collected for the 2012/13 season compared to the 2011/12 season.

CHART 1: FONTERRA’S NEW ZEALAND MILK VOLUME



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

DAIRY COMMODITY PRICES

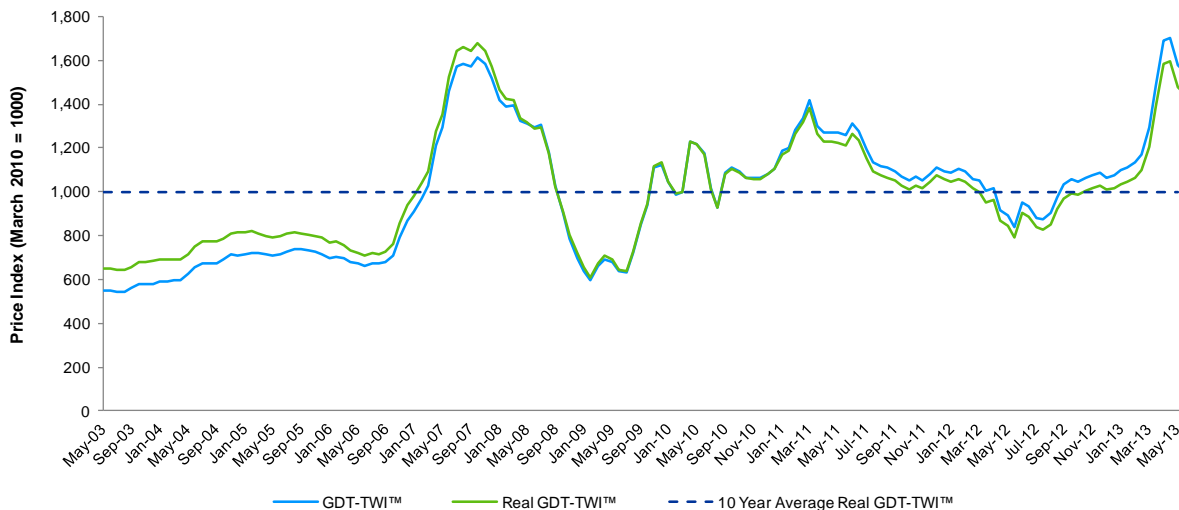
The latest GDT auction on 4 June 2013 saw the third consecutive price decline with prices 5.3% lower on average. Whole Milk Powder (WMP) experienced the largest decline, down 7.1%, whilst Butter Milk Powder was the only product to gain ground with an increase of 3.3%.

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

	Last Trading Event (4 June 2013)	Year-to-Date (Aug 2012 to 4 June 2013)
Quantity Sold (Winning MT)	24,252MT	804,103MT
Average Winning Price (USD MT/FAS)	4,443	3,504
Change in GDT-TWI over same period last year	n.a.	17%
Change in GDT-TWI Price Index from previous event	-5.3%	n.a.

The next trading event will be held on 18 June 2013. Visit www.globaldairytrade.info for more information.

CHART 2: GLOBALDAIRYTRADE TRADE WEIGHTED INDEX

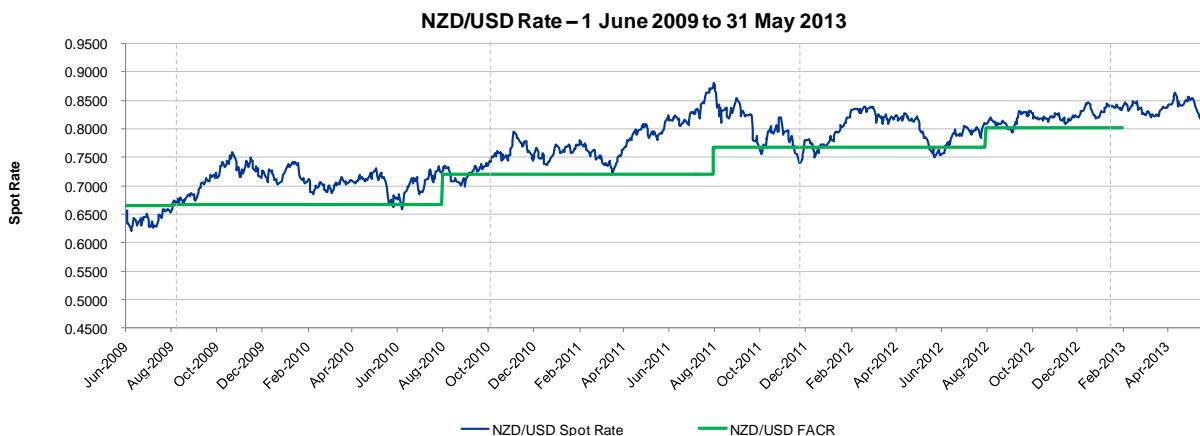


Source: GlobalDairyTrade, Global Trade Atlas, USDA DMN, USDL BLS.

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 3: NEW ZEALAND DOLLAR VS US DOLLAR



BUSINESS UPDATE

RESIGNATION OF SIR HENRY VAN DER HEYDEN

Long serving Director and former Chairman, Sir Henry van der Heyden, resigned from the Board of Fonterra effective 31 May 2013.

Chairman John Wilson paid tribute to Sir Henry's outstanding contribution to the co-operative and the wider industry over the past two decades.

Mr Wilson said the Board had determined not to fill the casual vacancy created by Sir Henry's resignation, but it would be filled following the Annual Meeting in November through the normal election process.

SUPPLY OFFER

The Supply Offer period closed on 23 May 2013 with a total of \$596 million in offers from Farmer Shareholders at the Final Price of \$7.92. Since this amount exceeded the maximum of \$475 million to be paid under the Supply Offer, Fonterra scaled acceptances to 80% on a pro-rata basis.

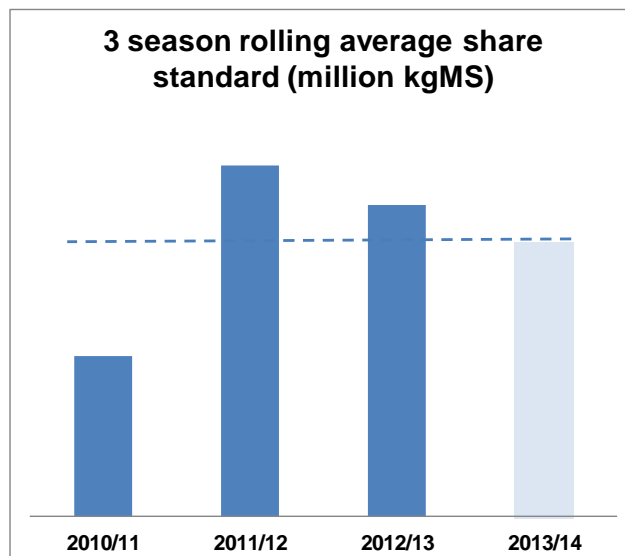
Fonterra purchased the Units that arose as a result of the Supply Offer and redeemed them for Fonterra Shares that are now held in treasury stock. Consequently, there was no change in the number of Units on issue in the Fund as a result of the Supply Offer, but the total number of shares on issue has reduced by 60 million.

END OF SEASON AND IMPACT ON FUND SIZE

The 2012/13 milk season ended on 31 May 2013 and on 6 June 2013, the minimum and maximum shareholding for each Farmer Shareholder was set for the 2013/14 Season (1 June 2013 to 31 May 2014) as required under the Share Standard.

Fonterra maintains a Share Standard that requires Farmer Shareholders to hold one Share for each kilogram of milksolids they supply to the Co-operative. For the 2012/13 season and prior to that, the requirement was based on the milksolid production for the previous season. On 1 June 2013, the requirement moved to a rolling average of three seasons' historical milksolid production.

As illustrated in the chart below, the minimum number of shares required to meet the Share Standard reduced as a result of the change to the rolling average. For the 2013/14 season, the minimum standard has been set at 1,400 million shares based on an average of production for the 2010/11, 2011/12 and 2012/13 seasons.



In addition to shares held under the Share Standard, Farmer Shareholders are able to hold further shares up to 100% of the minimum required share holding. These shares are referred to as Dry Shares and they can be freely sold on the Fonterra Shareholders' Market representing an available pool that can be exchanged for Units.

Fonterra aims to target the proportion of Dry Shares held by Farmer Shareholders to around 5% of the total number of Shares on issue and has indicated that its preferred Fund size is within a target range of 7% to 12% of the Shares on issue. The target range for the potential Fund size (which is the actual Fund size plus the Dry Shares that may be sold into the Fund) is 7% to 15%.

As at 31 May 2013, the total number of Shares on issue was 1,598 million. The minimum required under the Share Standard is 1,400 million, with the result that there are 157 million Dry Shares held by Farmer Shareholders representing 9.8% of the shares on issue.

As signalled in the prospectus, a transitional effect of the move to the Share Standard being based on the three season rolling average is that the number of Dry Shares held by Farmer Shareholders has temporarily increased above the 5% target level. As a consequence, the potential Fund size is above the target range.

This is in line with Fonterra's expectations and based on our current forecast for milk volumes for the 2013/14 season the potential Fund size is expected to normalise back below the threshold in the 2014/15 season.

The actual Fund size remains below the minimum level at 6.3%.

Shares on Issue as at 31 May 2013 (excluding treasury stock)	1,598 million Shares
Minimum shares required for Share Standard for 2013/14 season Based on historic 3 season rolling average	1,400 million Shares
Units issued by Fonterra Shareholders' Fund	101 million units
Vouchers that count toward the Share Standard	60 million vouchers
Dry Shares held by Farmer Shareholders ¹	157 million Shares
Weighted average number of Shares for year to 31 July 2013	1,615 million Shares

Note 1: Calculated by Shares on issue (1,598) less Minimum required shares (1,400) less Units issued by the Fund (101) plus Vouchers (60)

GLOSSARY

GDT-TWI™

A chain-linked, trade-weighted Fisher index that uses total international trade flows. The index uses GlobalDairyTrade prices where available and USDA Dairy Market News prices 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. From 16 August 2011 the indices includes movements in Cheese prices.

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.