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 the progress we are making on our key strategic themes.

This issue covers the following:

- GDT prices 1% lower, but up 54% over the same period last year
- New Zealand milk volumes 3% higher for the Season to 31 August 2013
- New Zealand milk supply forecast to increase for the 2013/14 season as production recovers from the drought
- Dividend Reinvestment Policy postponed to next year
- World’s largest milk powder drier opened at Darfield
- Rating agency Fitch affirmed Fonterra’s AA- rating with a stable outlook

2013 FINANCIAL CALENDAR:

**25 September 2013**
Annual Results announced

**Early October**
Record Date for final dividend

**Late October 2013**
Final dividend paid

**27 November 2013**
Shareholders’ Annual Meeting

**1 December 2013**
Compliance date for Share Standard 2013/14 season

**2 December 2013**
Unit holders’ Annual Meeting
FONTERRA’S NEW ZEALAND MILK COLLECTION

Milk collection across New Zealand for the three months to 31 August 2013 was 3.4% higher than the same period last year, reaching 120.8 million kgMS. Moderate temperatures continued through August resulting in good growing conditions across all dairy regions. Below average rainfall created favourable conditions for winter, with farmers in the North Island now well through calving and farmers in the South Island with calving underway.

<table>
<thead>
<tr>
<th>Milk Collection for the 2013/14 Season¹</th>
<th>1 June 2013 to 31 August 2013 (million kgMS)</th>
<th>1 June 2012 to 31 August 2012 (million kgMS)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fonterra milksolids collected</td>
<td>120.8</td>
<td>116.8</td>
<td>3.4%</td>
</tr>
<tr>
<td>North Island milksolids</td>
<td>94.6</td>
<td>91.5</td>
<td>3.4%</td>
</tr>
<tr>
<td>South Island milksolids</td>
<td>26.2</td>
<td>25.3</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

CHART 1: NEW ZEALAND MILK PRODUCTION

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

Key southern hemisphere exporting countries have all seen contraction in milk production over the last six to twelve months. Year-over-year milk production growth shows a very similar trend for Argentina, Australia, New Zealand and Uruguay and these four countries currently represent 31% of global exports.

Production growth in Argentina and Australia is still recovering with annualised production well down on the previous peak. New Zealand and Uruguay are beginning to show reasonable recovery from the recent drought conditions.

The top four exporting countries in the northern hemisphere have seen flat to declining milk production growth. These four countries represent 30% of global exports.

Production in Germany and France is down on an aggregate level, but the Netherlands is showing good production growth. The USA has remained surprisingly resilient notwithstanding drought conditions in California.

The top 15 exporting countries represent more than 80% of global trade. In terms of milk production, growth in aggregate is still 1% below year ago levels. While early indications are that production growth is picking up, the market continues to be in a supply constrained position.

CHART 2: GLOBAL MILK PRODUCTION OF TOP 15 EXPORTING COUNTRIES
DAIRY COMMODITY PRICES

Total volume traded at the latest GDT auction on 3 September 2013 was 53,473 MT. Dairy commodity prices were on average 1.1% lower than the last trading event with an average winning price of USD 4,891. Prices remain relatively high, up 54% over the same period last year.

Compared to the last trading event, Whole Milk Powder (WMP) was 1.7% lower, and Skim Milk Powder (SMP) was down 0.8%. Rennet Casein and Cheddar were down 2.1% and 3.2% respectively, while Butter was up 2.7% and Anhydrous Milk Fat (AMF) was up 3.1%.

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

<table>
<thead>
<tr>
<th>Last Trading Event (3 September 2013)</th>
<th>Year-to-Date (1 Aug 2013 to 3 September 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity Sold (Winning MT)</td>
<td>53,473</td>
</tr>
<tr>
<td></td>
<td>170,233</td>
</tr>
<tr>
<td>Average Winning Price (USD MT/FAS)</td>
<td>$4,891</td>
</tr>
<tr>
<td></td>
<td>$4,893</td>
</tr>
<tr>
<td>USD Change in GDT Price Index over same period last year</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>63%</td>
</tr>
<tr>
<td>USD Change in GDT Price Index from previous event</td>
<td>-1.1%</td>
</tr>
<tr>
<td></td>
<td>n/a</td>
</tr>
</tbody>
</table>

The next trading event will be held on 17 September 2013. Visit www.globaldairytrade.info for more information.

CHART 3: GDT PRICE INDEX

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 2: NEW ZEALAND DOLLAR VS US DOLLAR – 1 JAN 2010 TO 31 AUGUST 2013
BUSINESS UPDATE

New Zealand Milk Supply Forecast

The improvement in climatic conditions over the past few months 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.

While it is still early in the season, based on improved conditions across the country we are forecasting milk volumes to grow by 5% to 1,541 million kgMS for the 2013/14 season. This partly reflects an anticipated recovery in milk volumes after the significant drought in the 2012/13 season. Our forecast will be revised on a quarterly basis based on actual production volumes in line with DIRA requirements.

Drier Two Opened at Darfield

The opening of the second milk powder drier at our Darfield plant in August is a major addition to our asset footprint in the South Island. The first batches of whole milk powder have been produced at the plant and will be exported to more than 20 markets worldwide including the Middle East, China and Southeast Asia.

The new drier is the world’s largest milk powder drier and, at the peak of the season, will run 24 hours a day, seven days a week producing more than 700 MT of milk powder – the equivalent of 45 shipping containers – each day.

The demand for dairy nutrition around the world, especially for whole milk powder, is strong. This is reflected in the prices and volumes sold on GDT in the past few months. Drier Two will ensure that Fonterra has the capacity to meet this demand and to process ongoing milk growth in Canterbury, the fastest growing dairy region in New Zealand.

The drier’s first production run marked the completion of our $50 million dollar development of the Darfield site over the past three years.

Introduction of Dividend Reinvestment Plan Postponed

In February, we announced that Fonterra was considering a proposed dividend reinvestment plan (DRP) that would enable Farmer Shareholders (and Unit holders) to choose to receive dividends in the form of shares or units in 2013. The introduction of this DRP has been delayed until later in the 2014 financial year.

This year we have conducted a Bonus Issue, completed a Supply Offer, and introduced the new three season average minimum required shareholding. As we announced in June, a consequence of those activities is that Dry Shares (shares held by a farmer shareholder in excess of those required to meet the Share Standard) have temporarily increased above the target level of around 5%, and introducing a Dividend Reinvestment Plan now would further increase the number of Dry Shares above that target level. As a result we are taking a prudent approach and delaying the introduction of the DRP.
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  1,398 million Shares  
Based on historic 3 season rolling average  
Units issued by Fonterra Shareholders’ Fund  105 million units  
Vouchers that count toward the Share Standard  60 million vouchers  
Dry Shares held by Farmer Shareholders¹  155 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 (1,398) less Units issued by the Fund (105) plus Vouchers (60)

**Fitch Affirms Fonterra’s rating**

Fitch Ratings has affirmed Fonterra’s AA- rating with a stable outlook. The continuing strong rating from Fitch is positive and reflects the Co-operative’s prudent approach to ensuring a strong balance sheet and financial flexibility.
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.

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.

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