



GLOBAL DAIRY UPDATE

Welcome to
our August 2014
Global Dairy
Update

IN THIS EDITION

Fonterra Milk Collection:

- New Zealand one million kgMS higher in July 2014 and two million kgMS higher for the season to date
- Australia one million kgMS higher in July 2014

Business Update:

- NZ Milk Products fourth quarter update

Dairy Commodity Prices on 5 August 2014:

- Fonterra volume sold on GDT of 46,597 MT
- GDT Price index 8.4% lower than the previous event

Global Dairy Market Overview:

- Global milk production and dairy exports continue to grow

2015
Financial Calendar

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

NEW ZEALAND MILK COLLECTION

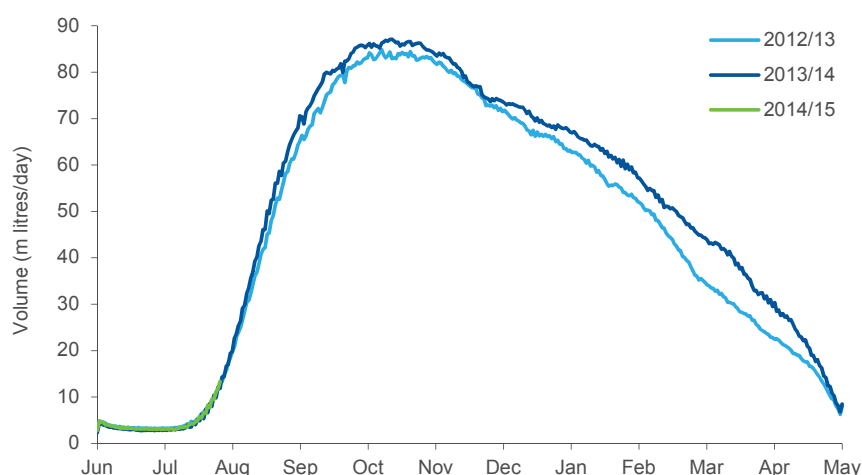
↑ **2m kgMS**

24 MILLION kgMS

Milk collection across New Zealand for the two months to 31 July 2014 reached 24 million kgMS, two million kgMS higher than the same period last season.

Volumes are building as the season gets underway with calving progressing in the North Island, and starting in the South Island.

NEW ZEALAND



North Island collection in July reached 13 million kgMS, one million kgMS ahead of July last season. The central and lower regions of the North Island have started the season with favourable conditions, however heavy rain created challenges in Northland with some regions experiencing significant flooding.

South Island collection in July reached

two million kgMS, consistent with July last season. Only a small number of South Island farmers supply milk in winter, but with spring calving commencing, we will see collection volumes lift over the coming months.

The new season in Australia commenced on 1 July and collection reached eight million kgMS, one million kgMS ahead of July last season, which

was impacted by poor pasture growth conditions and a lower Australian Milk Price. The growth in milk collection is being supported by good pasture growth and Fonterra continuing to attract new milk from other processors.

The table below shows Fonterra milksolids collected in New Zealand and Australia for the 2014/15 season compared to the 2013/14 season.

FONTERRA MILK COLLECTION

FONTERRA MILK COLLECTION (MILLION KGMS)	JULY 2014	JULY 2013	MONTHLY CHANGE ¹	SEASON-TO-DATE 2014 ³	SEASON-TO-DATE 2013 ³	SEASON-TO-DATE CHANGE ²
Total Fonterra New Zealand ¹	15	14	7.2%	24	22	8.3%
North Island ¹	13	12	8.1%	20	19	9.7%
South Island ¹	2	2	0.3%	4	4	1.1%
				SEASON-TO-DATE 2014 ³	SEASON-TO-DATE 2013 ³	SEASON-TO-DATE CHANGE ²
Fonterra Australia	7.6	6.8	11.2%	7.6	6.8	11.2%

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

NZ Milk Products Fourth Quarter Update

Revenue per Metric Tonne

Revenue per MT of Reference Commodity Products (RCPs) in the fourth quarter was up 5%, while revenue per MT of Non-Reference Commodity Products (Non-RCPs) was up 9% compared to the same period last year. Prices of RCPs rose sharply in the fourth quarter last year and as a result price increases quarter-on-quarter have been modest. The recent softening of RCP prices and the relative increase in Non-RCP prices will reflect

in our results over the next two quarters due to the lag between contract and shipment of product.

Sales Volume – Quantity Shipped in the Quarter

Sales volume of RCPs shipped in the fourth quarter was 35% higher due to the impact of the drought last year and timing of product shipments between quarters. Sales volume of Non-RCPs in the fourth quarter was 4% lower than the same period last year. Total sales volume for the financial year was up

11% compared to last year.

Production Volume – Quantity Processed in the Quarter

In the fourth quarter, production volume of RCPs was 29% higher and Non-RCPs was 12% higher than the same period last year. This was primarily driven by product mix choices to maximise returns from expected demand. For the full financial year, production volume was 9% higher reflecting the impact of the 2013 drought.

NEW ZEALAND-SOURCED REVENUE

REVENUE (NZ\$ PER METRIC TONNE)	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	% CHANGE (Q4 FY14 TO Q4 FY13)
Reference Commodity Products ^{1,2}	5,174	5,967	5,914	5,981	5,446	5%
Non-Reference Commodity Products	6,531	6,931	7,073	7,499	7,127	9%

NEW ZEALAND-SOURCED VOLUME

VOLUME (THOUSAND MT)	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	% CHANGE (Q4 FY14 TO Q4 FY13)
----------------------	---------	---------	---------	---------	---------	-------------------------------

SALES VOLUME³

Reference Commodity Products ^{1,2}	327	365	656	508	441	35%
Non-Reference Commodity Products	162	128	154	159	155	(4)%

PRODUCTION VOLUME

Reference Commodity Products ^{1,2}	80	630	761	543	103	29%
Non-Reference Commodity Products	24	196	228	142	27	12%

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, Butter Milk Powder, Butter and Anhydrous Milk Fat.

² Manufacture of the Reference Commodity Products comprised around 77% of Fonterra's total New Zealand ingredients production in the 2014 financial year.

³ Sales Volume includes liquid milk, which is not included in the production volumes. The annual liquid milk volume for 2013 financial year was 94,000 MT, including DIRA milk.

DAIRY COMMODITY PRICES

GDT PRICE INDEX
LAST TRADING EVENT:
5 AUGUST 2014

↓ 8.4%

Fonterra quantity sold on the GDT auction on 5 August 2014 was 46,597 MT.

Dairy commodity prices were on average 8% lower than the last trading event, with an average winning price of USD 3,025 per MT.

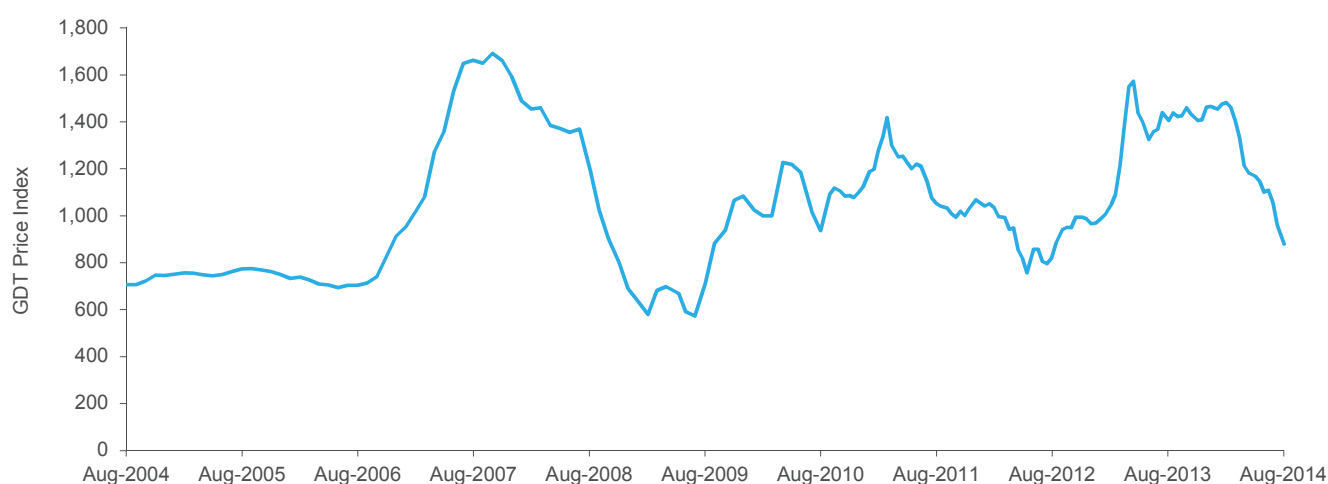
GDT RESULTS

	LAST TRADING EVENT (5 AUGUST 2014)	YEAR-TO-DATE (1 AUG 2014 TO 5 AUG 2014)
Fonterra Quantity Sold on GDT (Winning MT)	46,597	46,597
GDT Average Winning Price (USD MT/FAS)	\$3,025	\$3,025
Change in GDT Price Index over same period last year	(37.4)%	(37.4)%
Change in GDT Price Index from previous event	(8.4)%	n/a

The GDT Price Index for the financial year-to-date was down 37% compared to the same period last year.

Compared to the last trading event, the only commodity price that firmed was Anhydrous Milk Fat (AMF) up 6%. The commodity prices that softened included a significant movement in Whole Milk Powder (WMP) down 11.5%, Cheddar down 10.2%, Butter Milk Powder (BMP) down 10.1% and Butter down 9.6%. In addition Skim Milk Powder (SMP) was down 6.5% and Rennet Casein (RenCas) down 0.7%.

GDT PRICE INDEX



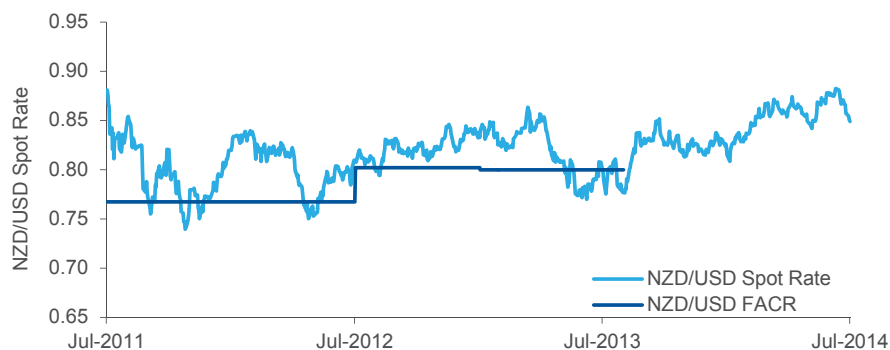
Source: GlobalDairyTrade, USDA DMN 6 August 2014

The next trading event will be held on 19 August 2014. Visit www.globaldairytrade.info for more information.

NEW ZEALAND DOLLAR TREND

The chart shows the spot price of the NZD/USD rate from July 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 JULY 2011 TO 31 JULY 2014



As at 1 August 2014

GLOBAL DAIRY MARKET OVERVIEW

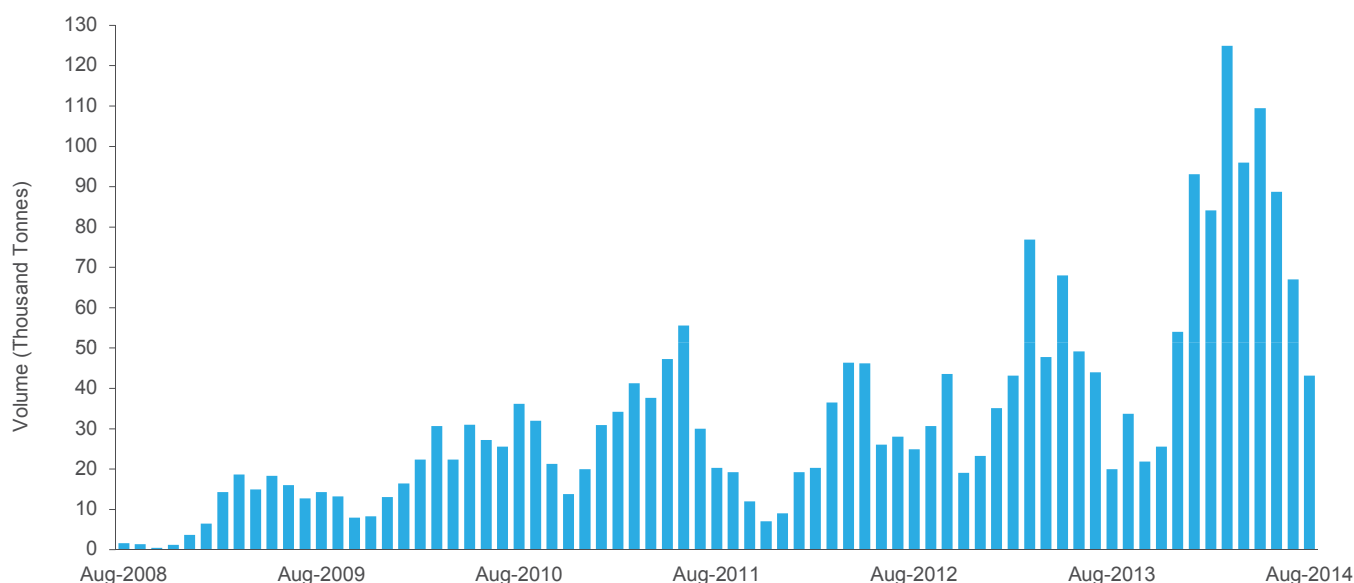
Global milk production and dairy exports continue to grow, while demand from China, although strong compared to last year, has slowed as they work through inventory levels.

Fonterra's assessment of published industry statistics indicates that supply growth temporarily exceeds demand

growth, which has contributed to the decline in dairy commodity prices over the past four months. Milk prices in the European Union (EU) and United States (US) remain at relatively high levels, feed costs are low and weather patterns have been benign, supporting production growth. Global Trade Information Services (GTIS) data shows

that for the month of June imports into China have fallen month-on-month for the past four months, however WMP was up 93% compared to June last year. The US Department of Agriculture considers that underlying demand from China will continue to be driven by rising incomes, growing urbanisation and an expanding population.

CHINA WHOLE MILK POWDER IMPORT VOLUMES



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

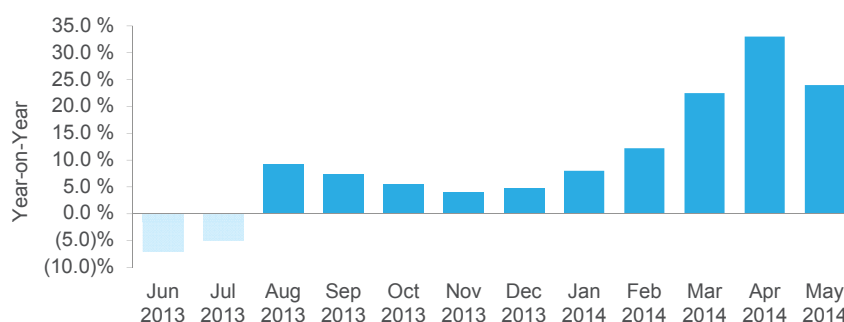
PRODUCTION

Milk production in the major dairy exporting countries increased on a year-on-year basis, with the exception of Argentina, where production is lower. Growth has slowed in the EU, but still remains relatively strong with estimates for milk production indicating growth of 4% on a year-on-year basis for the month of May. Full year milk supply is forecast by the EU Commission to be 2.8% above 2013.

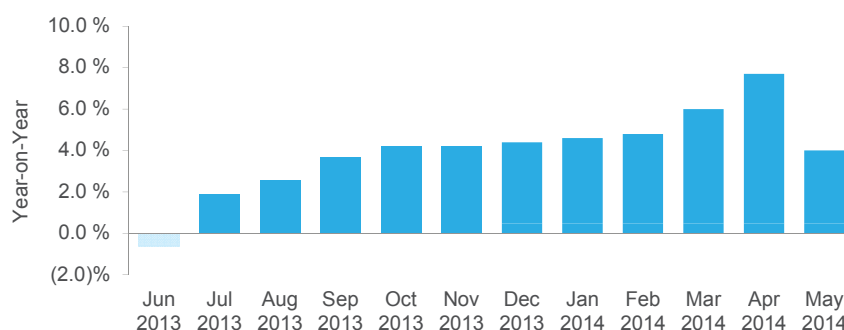
Milk production growth in the US increased to 1.9% on a year-on-year basis for the month of June. The 2013/14 production season in New Zealand closed 10% higher than the previous season. The 2013/14 season in Australia is likely to finish with production at around the same level as the previous season. This was due to challenging conditions at the start of the season, but improved milk flows in the past few months.

Combined milk production in Argentina and Uruguay was 6.3% lower on a year-on-year basis for the month of May, with a 1.8% increase in Uruguay offset by an 8% decrease in Argentina. On a year-to-date basis, production in the two countries combined continues to be lower than the same period in 2013.

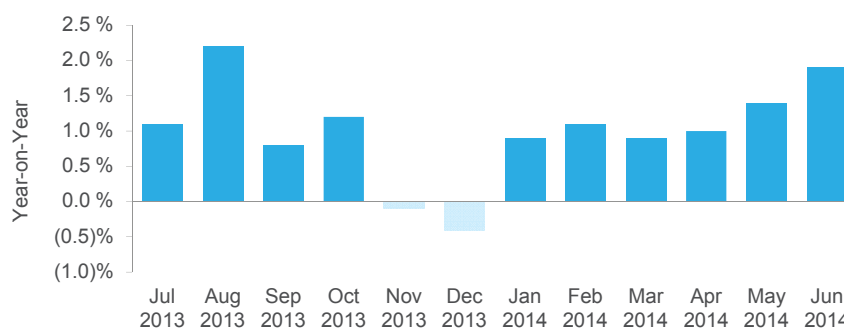
NEW ZEALAND



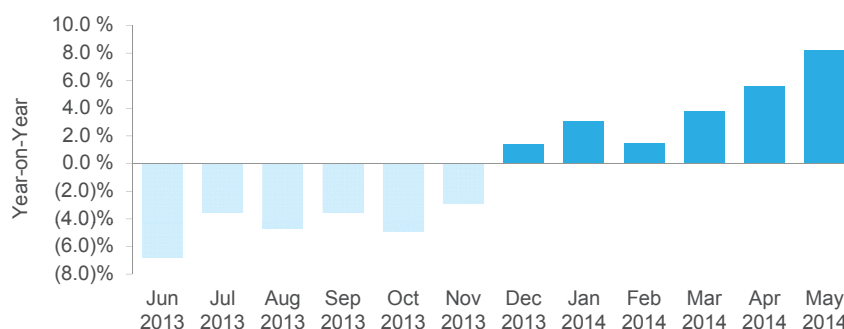
EUROPEAN UNION



US



AUSTRALIA



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

EXPORTS

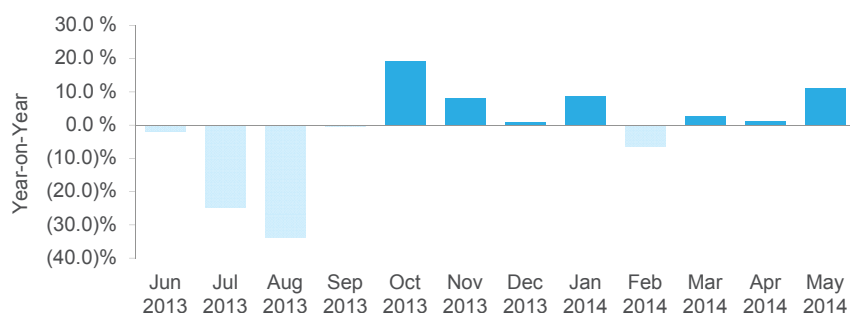
The trend in export growth of dairy products changed to some extent in May, with the rate of growth from the US and the EU slowing and growth from New Zealand increasing.

Export growth from the EU slowed in May, but still remained up 12% compared to May last year. Exports from Australia were flat on a year-on-year basis for the month of May, bringing year-to-date growth to just over 5%. There was a small decrease in exports from Latin America.

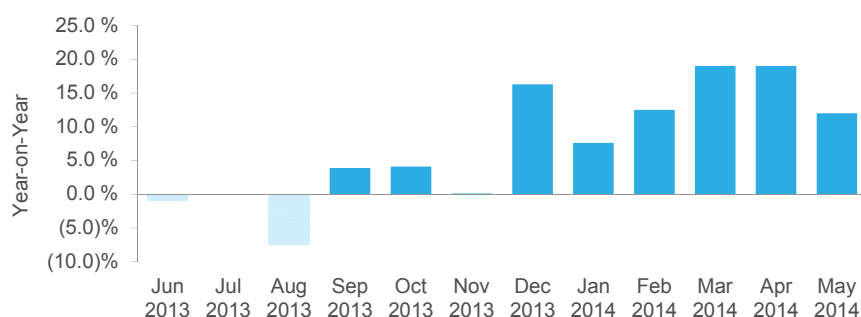
Powders were the major driver of export growth in May, with significant increases in WMP exports from New Zealand, EU, Uruguay and the US. In addition, there were significant increases in SMP exports from Australia, EU, New Zealand and the US.

Cheese exports were mixed, with continued growth on a year-on-year basis for the month of May from the US, but decreases from Australia, EU and New Zealand. Cheese is the only major product where exports from the EU have declined in 2014, with the major cause being an 11% year-to-date fall in shipments to Russia, the largest export market for EU cheese.

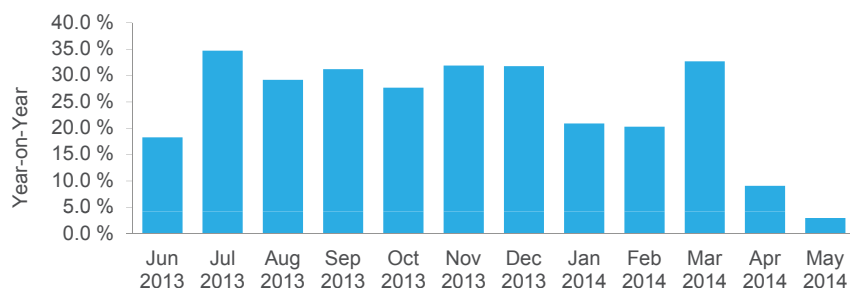
NEW ZEALAND



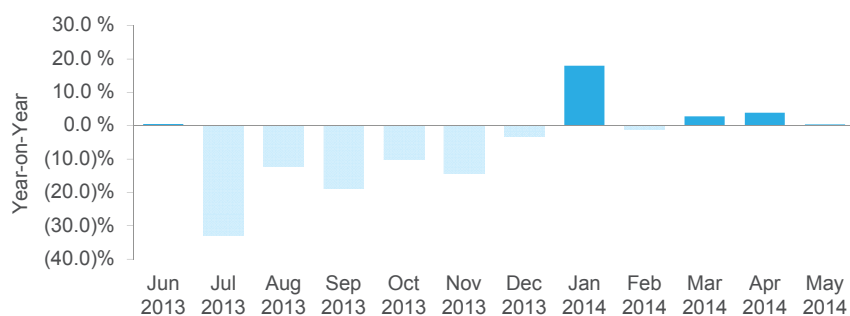
EUROPEAN UNION



US



AUSTRALIA



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

IMPORTS

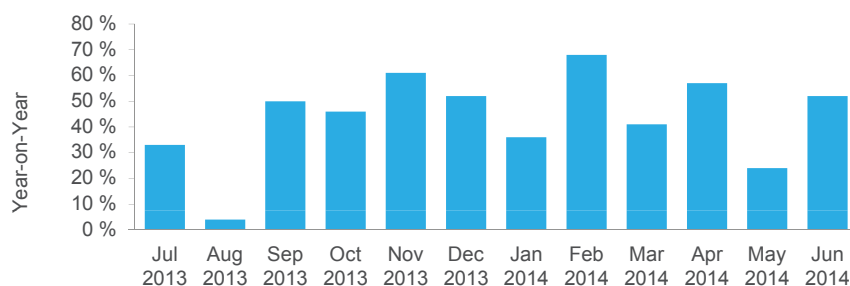
Imports into China continue to grow on a year-on-year basis, with a 52% increase in June 2014 compared to June last year. However growth has slowed, with import volumes decreasing over the past four months.

In June 2014 powder imports were 93% higher than June last year, but 24% lower than May 2014. Imports of butter and cheese grew on a year-on-year basis, while whey volumes were flat.

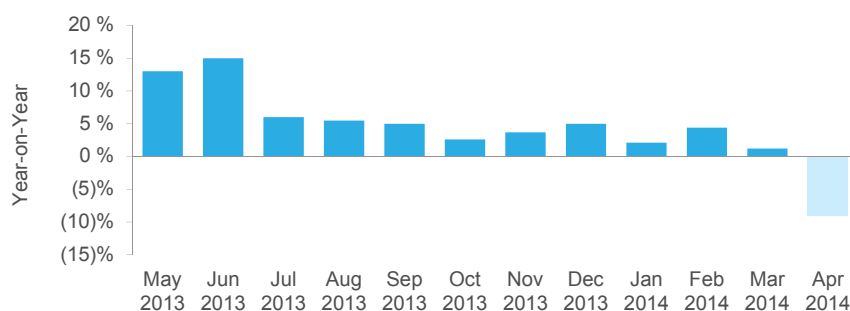
Imports into Russia fell 9% or 12,000 MT in April, the first drop in 26 months.

Preliminary data for April indicates modest import growth in Middle East, Africa, and Asia (excluding China), but a significant decline in Mexico and Brazil – two of the big importing countries in Latin America.

CHINA



RUSSIA



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

GLOSSARY

DIRA

The Dairy Industry Restructuring Act 2001 (New Zealand).

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.

Farmgate Milk Price

The base price that Fonterra pays for milk supplied to it in New Zealand for a season.

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.

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.

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.

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.

V3

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

Voucher

A certificate that is provided to a farmer shareholder upon transfer of the Economic Rights of a Wet share to the Fonterra Shareholders' Fund in accordance with the Trust Deed.

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.
