



GLOBAL DAIRY UPDATE

Welcome to our
September 2014
Global Dairy
Update

IN THIS EDITION

Fonterra milk collection:

- New Zealand 5% higher in August 2014 and 5% higher for the season to date
- Australia 9% higher in August 2014 and 10% higher for the season to date

Business update:

- Minimum shareholding requirements for farmer shareholders
- Financial Year 2014 results announcement and reaffirming \$500-600 million EBIT range but at the lower end
- New Zealand milk supply forecast to grow 2% in the 2014/15 season
- Strengthening our infant formula presence in China with Beingmate

Global dairy market overview:

- Continued strength in global milk production and dairy exports

Dairy commodity prices on 5 August 2014:

- Fonterra volume sold on GDT of 55,267 MT
- GDT price index 6% lower than the previous event

2015
Financial Calendar

24 SEPTEMBER 2014
Annual Results announcement

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

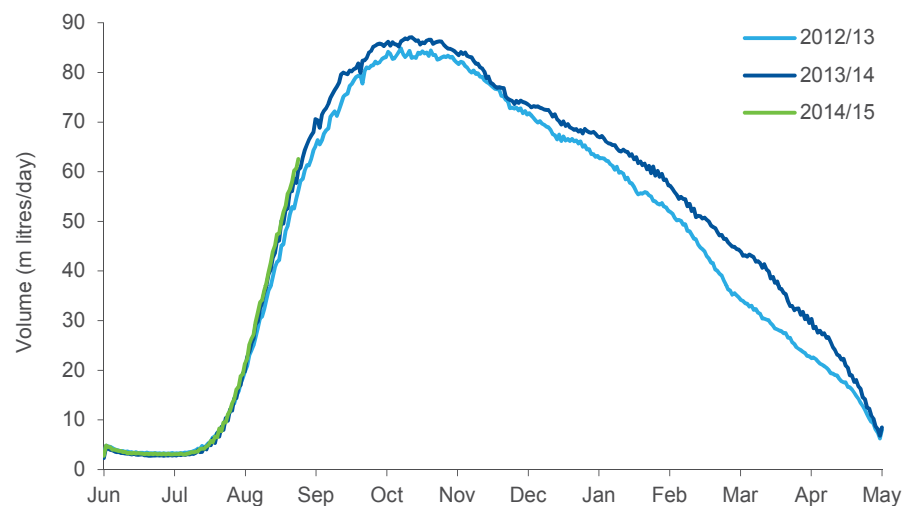
↑ **5.4%**

127M kgMS

Milk collection across New Zealand for the season to 31 August 2014 reached 127 million kgMS, 5.4 per cent higher than the same period last season.

Volumes continue to build from the seasonal low as calving progresses and the season gets underway.

NEW ZEALAND



Source: Fonterra Co-operative Group, 3 September 2014

North Island collection in August reached 79 million kgMS, three million kgMS ahead of August last season. The North Island has started the season well with favourable temperatures and pasture growth.

South Island collection in August reached 25 million kgMS, two million kgMS ahead of August last season. Calving is now well underway in the South Island with

dry conditions in late August helping to improve soil moisture after a wet start to the season for most farmers.

Milk collection across Australia for the two months to 31 August reached 17 million kgMS, two million kgMS ahead of the same period last season. Calving is now largely complete and milk volumes are building as the season progresses.

Pasture growth conditions remain favourable with good rainfall and mild temperatures, particularly in Tasmania. This resulted in milk collection in August reaching nine million kgMS, one million kgMS ahead of August last season.

The table below shows Fonterra milk solids 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)	AUGUST 2014	AUGUST 2013	MONTHLY CHANGE ²	SEASON-TO-DATE 2014 ³	SEASON-TO-DATE 2013 ³	SEASON-TO-DATE CHANGE ²
Total Fonterra New Zealand ¹	103	99	4.7%	127	121	5.4%
North Island ¹	79	76	3.3%	99	95	4.6%
South Island ¹	25	23	9.4%	28	26	8.3%
				SEASON-TO-DATE 2014 ³	SEASON-TO-DATE 2013 ³	SEASON-TO-DATE CHANGE ²
Fonterra Australia	9.2	8.5	8.6%	16.9	15.3	10.0%

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 of their shareholding requirement for the season and are required to be compliant by 1 December.

A farmer shareholder's minimum shareholding requirement is generally based on the average of their farm's prior three seasons' actual production.

The forecast aggregate minimum shareholding across the Co-operative for the 2015/16 season is 1,414 million, one million below the current minimum shareholding.

The Fonterra Shareholders' Fund has increased in size since June 2014 and is currently 7.3 per cent of shares on issue, the first time since launch in 2012

that the Fund has been within the target range of 7-12 per cent of shares on issue.

The table below summarises the downstream impacts of shareholding requirements and the Fonterra Shareholders' Fund, resulting from forecast production this season.

CURRENT AND FORECAST SHAREHOLDING REQUIREMENTS

FIGURES IN MILLIONS UNLESS OTHERWISE STATED	2014/15 SEASON OPENING BALANCE AT JUNE 2014	2014/15 SEASON BALANCE AT SEPTEMBER 2014	FORECAST 2015/16 SEASON OPENING BALANCE AT JUNE 2016
Minimum shareholding requirement	1,421	1,415	1,414 ¹
Vouchers that count towards the minimum shareholding	-55	-55	-52
Dry shares held by farmer shareholders ²	126	122	120
Units issued by the Fonterra Shareholders' Fund	106	116	116
Total shares on issue	1,598	1,598	1,598
Dry shares held by farmer shareholders (% of shares on issue)	7.9%	7.6%	7.5%
Fonterra Shareholders' Fund size (% of shares on issue)	6.6%	7.3%	7.3%

¹ Forecast minimum shareholding is calculated as the average of actual production for the 2012/13 and 2013/14 seasons and the forecast for the 2014/15 season of 1,616 million kgMS.

² Dry shares are calculated as shares on issue less minimum shareholding less units issued by the Fonterra Shareholders' Fund.

FINANCIAL YEAR 2014 RESULTS AND ANNOUNCEMENT

Fonterra will announce its 2014 annual results on 24 September and provide an update on performance.

There will be a range of communications on the day, including a market announcement, a Sky broadcast available for farmer shareholders on channel 950 and a results webcast, as well as detailed information available on our website www.fonterra.com.

The Co-operative wishes to reconfirm its earnings guidance range for the financial year 2014 of \$500-\$600 million EBIT. However, expectations are for EBIT to be at the lower end of this range due mainly to the adjustment to the value of Fonterra's year-end inventory. This reflects a significant reduction in global dairy prices with the GDT Price Index decreasing 45 per cent since February 2014.



**NEW ZEALAND MILK
SUPPLY FORECAST****↑ 2%****For the 2014/2015 season**

Milk volumes are currently forecast to grow by two per cent to 1,616 million kgMS for the 2014/15 season. This forecast remains consistent with our previous forecast in May.

Milk production in most regions of the North Island has been progressing well and favourable pasture growth has increased milk volumes above forecast. Rain has created some difficulties in Northland, with flooding of some low-lying areas occurring for a third time this season.

The South Island experienced challenging conditions through winter, with above-average soil moisture levels across the region. Conditions have improved with the start of the warmer weather and calving is now well underway.



STRENGTHENING OUR INFANT FORMULA PRESENCE IN CHINA WITH BEINGMATE

We recently announced our intention to form a global partnership with Beingmate Baby & Child Food Co. Ltd, a leading Chinese infant food manufacturer, which will help meet China's growing demand for infant formula. The partnership will create a fully integrated global supply chain from the farm gate directly to China's consumers, using Fonterra's milk pools and manufacturing sites in New Zealand, Australia and Europe.

Fonterra will shortly start the process to issue a partial tender offer to gain up to a 20 per cent stake in Beingmate. After gaining regulatory approvals and completing the partial tender offer, Fonterra and Beingmate will set up a joint venture to buy Fonterra's Darnum plant in Australia and will establish a distribution agreement to sell Fonterra's Annum™ brand in China.

Beingmate is an infant foods company headquartered in Hangzhou, China, focused on providing products and services to mothers and children aged 0-12 years.

Beingmate's business started in 1992 launching rice cereal into the Chinese market, and in 2003 Beingmate Group was established.

It has six plants which produce baby cereals, biscuits, infant formula and children's milk products.



LEADERSHIP IN THE CHINESE MARKET

6

Plants and logistics centres

80,000

Outlets across China

20,000

Maternal service consultants

30

Branches across China

7,000

Staff

1,000

Authorised stores across China

Beingmate has invested more than CN¥ 1 billion (\$196 million) in its operations in Anda city, which is ideal for dairy production and supports its drive to establish a large-scale milk powder manufacturing site and milk source base.

As part of its commitment to food safety and quality, Beingmate complies with a range of global standards including ISO 9001 (quality management) and ISO 22000 (food safety management).

In 2010, Beingmate entered the Hong Kong market after gaining accreditation from the Hong Kong Standards and Testing Centre, and in 2011 it listed on the Shenzhen Stock Exchange. In the 2013 financial year, the company had revenue of \$1.1 billion and EBITDA of \$191 million.

GLOBAL DAIRY MARKET OVERVIEW

Global dairy market prices continue to fall with supply driving world commodity markets and demand muted. Milk production and exports continue to grow with most of the major suppliers to world markets seeing year on year growth.

Imports into China continued to grow on a year on year basis, nine per cent higher in July 2014 compared to July last year. However, growth has slowed and July was the smallest year on year increase in 12 months.

Imports to Russia fell 50 per cent in May 2014 compared to May last year and import volumes are at a level not seen for three years.

Russia has imposed trade bans on Australia, Canada, the European Union (EU), Norway, the United States (US) and Ukraine. The trade bans include dairy products (excluding infant formula and dairy-related products such as lactose) and this has the potential to impact on global trade in dairy products.

The impact on the EU is likely to be the most significant as Russia is the EU's

largest dairy export market, purchasing 416,000 tonnes of dairy products in 2013. Cheese is the most important product, accounting for 260,000 tonnes or 63 per cent of the total. Exports to Russia represent 33 per cent of the EU's total cheese exports, and 30 per cent of the total cheese consumed in Russia.

Russia is also the largest export market for EU butter, but volumes are a more modest 30,000 tonnes per year, which accounts for 32 per cent of total EU butter exports.

The Ukraine was a significant supplier of cheese (50,000 tonnes in 2013) and whey powder (13,000 tonnes in 2013) to Russia.

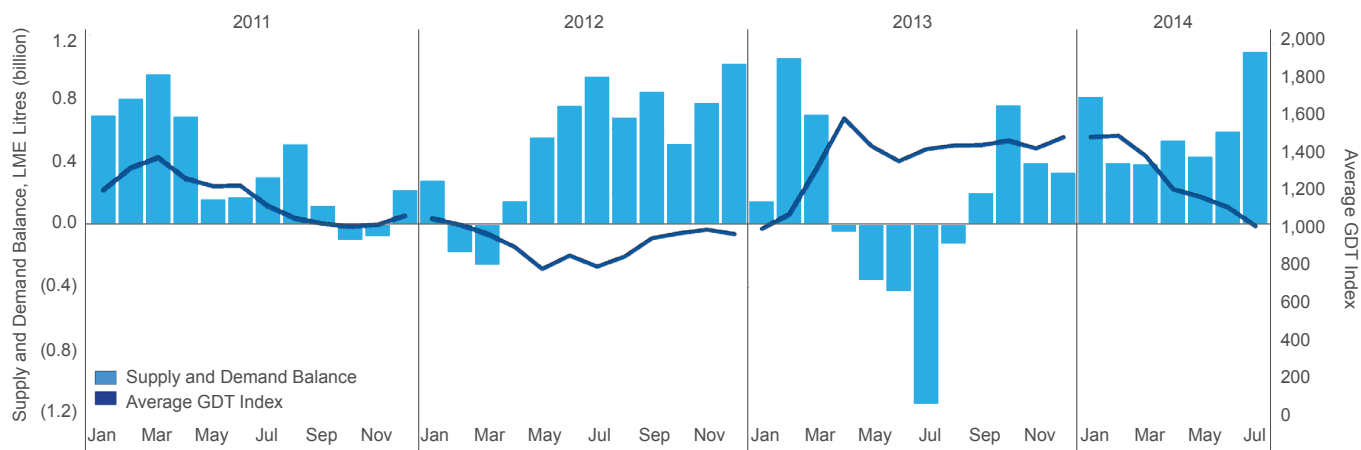
European companies may struggle to sell the extra volume of cheese into the local EU market as consumption growth for dairy is currently growing at less than one per cent per year and EU production is currently growing at around four per cent per year. As a result EU cheese suppliers are likely to export the displaced volumes to other markets or store the products waiting for the trade

bans to lift. The globally traded cheese market, excluding Russia, is some 800,000 tonnes per year and adding around 300,000 tonnes to that market will take time to digest.

The alternative for EU producers is to change their product mix towards those not impacted by the Russian ban, including milk powders. The EU Commission has signalled it is ready to support the industry through the crisis and some assistance may be used to mitigate the impact on the markets.

The non-banned countries that could make a credible impact on the market and fill the gap of the banned countries are New Zealand, Switzerland, Argentina, Brazil and Uruguay. New Zealand has been unable to export much product to Russia since late 2013, pending the audit of New Zealand dairy factories by Russian health authorities. The other countries could increase exports to Russia, but are likely to fall well short of filling the supply gap especially for cheese.

As the chart below shows, supply growth temporarily exceeds demand growth, which has contributed to the decline in dairy commodity prices over the past five months. The blue bars indicate the supply and demand balance. When the bar is above a zero supply demand balance, supply exceeds demand. When it is below a zero supply demand balance, demand exceeds supply. The blue line is the GDT price index and shows the impact that excess supply has on prices.



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

PRODUCTION

Growth in milk production from the major suppliers to world markets continued on a year on year basis, with the exception of Argentina and Uruguay.

EU milk production growth slowed somewhat increasing 4.3 per cent on a year on year basis for the month of May, which was lower than the year on year growth over the previous two months. Year-to-date production has increased 5.4 per cent compared to the same period last year.

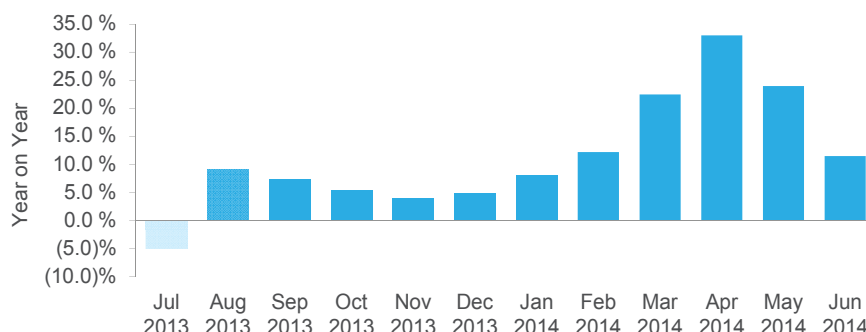
Milk production growth in the US increased by 3.9 per cent on a year on year basis for the month of July, the largest increase since March 2012. The US Department of Agriculture forecast milk production growth of 2.3 per cent for the full year.

Milk production in New Zealand increased 11 per cent on a year on year basis for the month of June. Australia finished the 2012/13 production season 0.4 per cent higher than the previous season, helped by a production increase of nine per cent on a year on year basis for the month of June. Production was strong for the month of June in both countries, but milk volumes were at a seasonal low.

Milk production in Argentina and Uruguay was 6.6 per cent lower on a year on year basis for the month of May, the fourth consecutive month production has decreased.

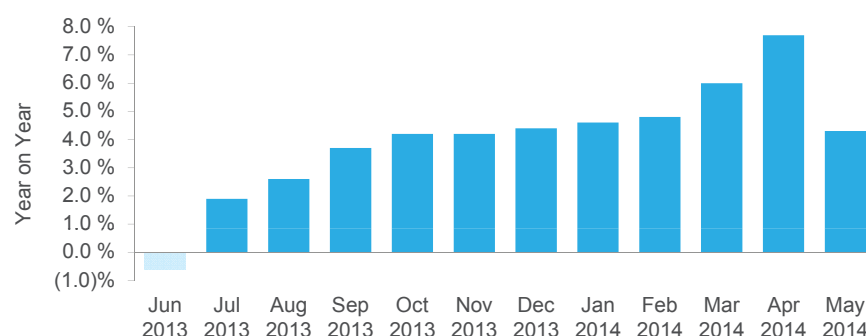
NEW ZEALAND

Annual production ~23 million tonnes of liquid milk



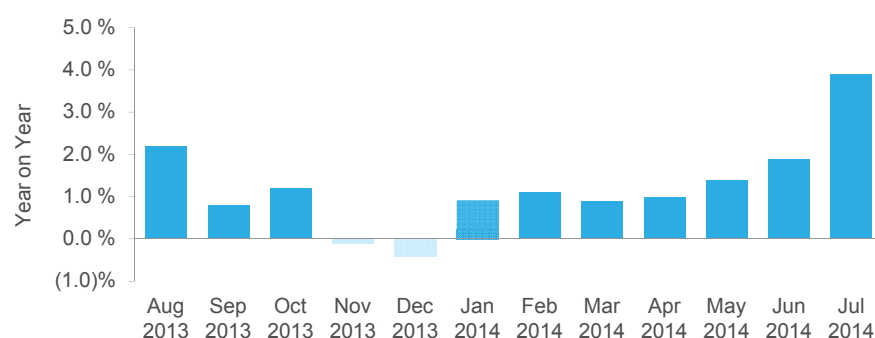
EU

Annual production ~148 million tonnes of liquid milk



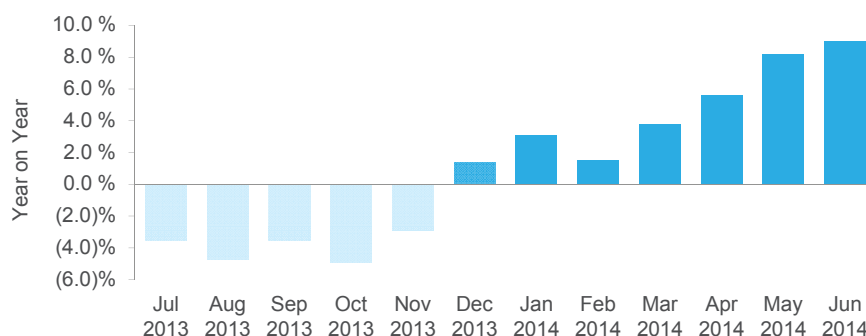
US

Annual production ~84 million tonnes of liquid milk



AUSTRALIA

Annual production ~10 million tonnes of liquid milk



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

EXPORTS

Growth in dairy exports has continued into the month of June, with significant increases for the EU and New Zealand.

Export growth from the EU increased 20 per cent on a year on year basis for the month of June. Skim Milk Powder (SMP) is driving this growth; the 24,000 tonnes exported in June is 71 per cent ahead of June 2013 and Whole Milk Powder (WMP) decreased slightly over the same period. For the first half of 2014 SMP and WMP exports increased 62 per cent and 19 per cent respectively.

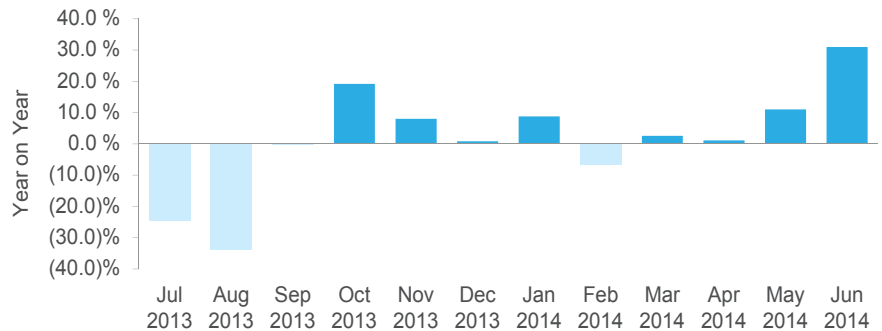
New Zealand exports were up 31 per cent on a year on year basis for the month of June, however this growth was impacted by the drought in 2013, reducing available export volumes. Australia exports increased slightly, up 0.3 per cent on a year on year basis for the month of June and up four per cent for the first half of 2014.

US exports increased 6 per cent on a year on year basis for the month of June with cheese and SMP exports contributing to this increase. Cheese exports increased 33 per cent on a year on year basis for the month of June and have increased 34 per cent in the first half of 2014.

Argentina and Uruguay exports decreased 15 per cent on a year on year basis for the month of June.

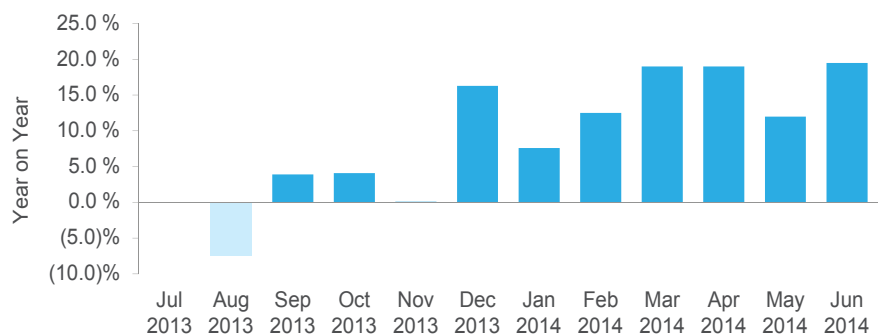
NEW ZEALAND

Annual exports ~2.9 million tonnes of product



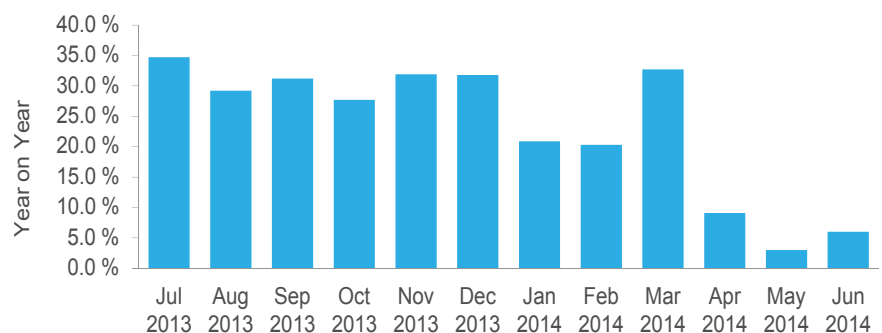
EU

Annual exports ~4.0 million tonnes of product



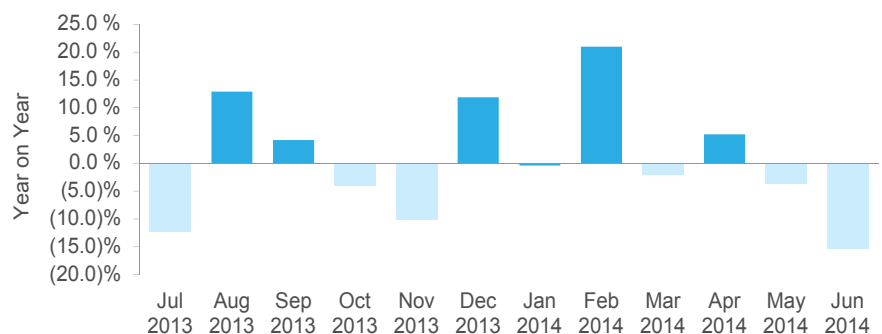
US

Annual exports ~2.2 million tonnes of product



ARGENTINA AND URUGUAY

Annual exports ~0.6 million tonnes of product



IMPORTS

Imports into China continued to grow on a year on year basis, 9 per cent higher in July 2014 compared to July last year. Growth has slowed and July was the smallest year on year increase in 12 months.

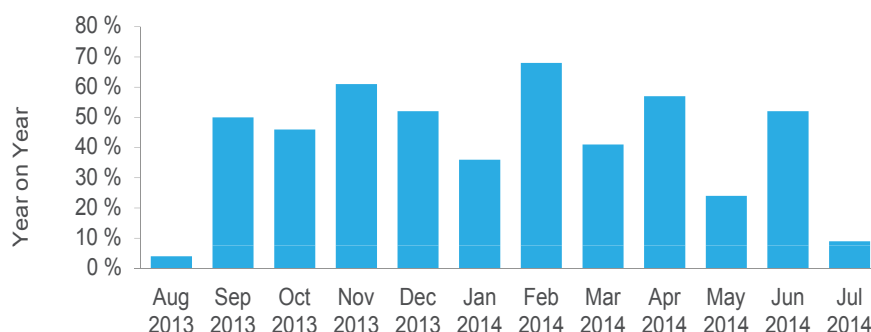
In July 2014 WMP and SMP imports increased 17 per cent and 11 per cent compared to July last year. However, for the seven months to July 2014 both WMP and SMP imports were 68 per cent higher than the same period last year. Butter and cheese import volumes, while being significant lower than powders, have shown strong growth year-to-date increasing 121 per cent for butter and 56 per cent for cheese

Global Trade Information Services show that imports into Russia fell 50 per cent or 52,000 tonnes in May 2014 compared to May last year. May import volumes are at a level not seen for three years.

Imports into the Middle East, Africa, and Asia (excluding China and Algeria) increased significantly, 15 per cent higher in May 2014 compared to May last year. Import growth over this same period was considerable with Saudi Arabia up 28 per cent, Iraq up 21 per cent, Libya up 18 per cent and Nigeria up 12 per cent.

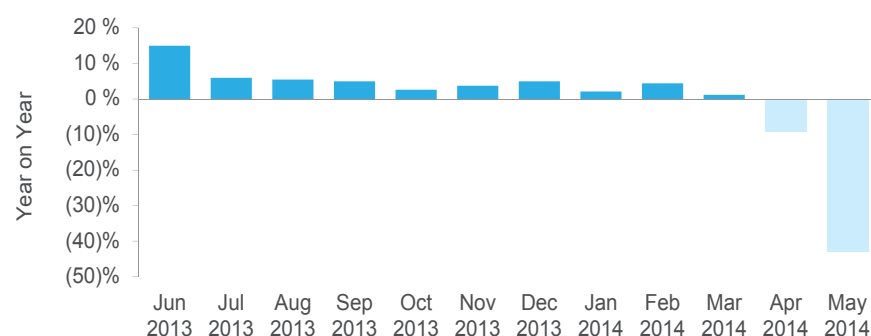
CHINA

Annual imports ~2.0 million tonnes of product



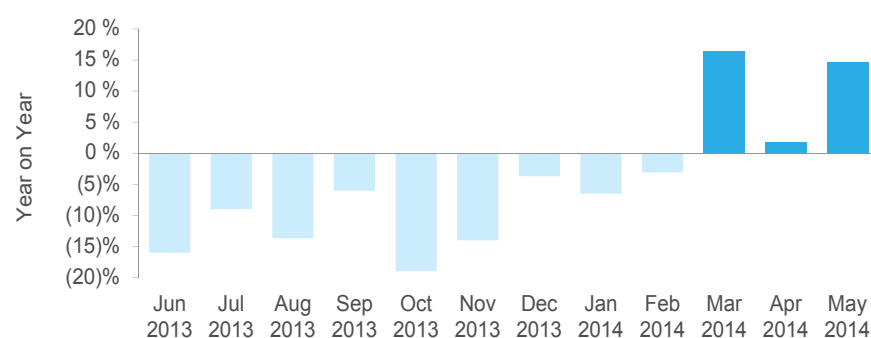
RUSSIA

Annual imports ~1.4 million tonnes of product



MIDDLE EAST AND AFRICA

Annual imports ~2.9 million tonnes of product



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

DAIRY COMMODITY PRICES

GDT PRICE INDEX
LAST TRADING EVENT:
2 SEPTEMBER 2014

↓ 6%

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

Fonterra quantity sold on the GDT auction on 2 September 2014 was 55,267 MT.

GDT RESULTS

	LAST TRADING EVENT (2 SEP 2014)	YEAR-TO-DATE (1 AUG 2014 TO 2 SEP 2014)
Fonterra quantity sold on GDT (Winning MT)	55,267	147,373
GDT average winning price (US\$ MT/FAS)	\$2,787	\$2,937
Change in GDT Price Index over same period last year	(42.2%)	(39.6%)
Change in GDT Price Index from previous event	(6.0%)	n/a

Dairy commodity prices were on average six per cent lower than the last trading event with an average winning price of US\$2,787 per MT.

The GDT Price Index for the financial year to date was down 39.6 per cent compared to the same period last year.

Compared to the last trading event, all commodity prices were down, including a significant movement in Rennet Casein down 14.3 per cent, Butter Milk Powder down 12.9 per cent and Skim Milk Powder down 9.5 per cent. In addition Anhydrous Milk Fat was down 5.8 per cent, Butter down 5.6 per cent, Cheddar down 4.9 per cent and Whole Milk Powder down 4.3 per cent.

GDT PRICE INDEX



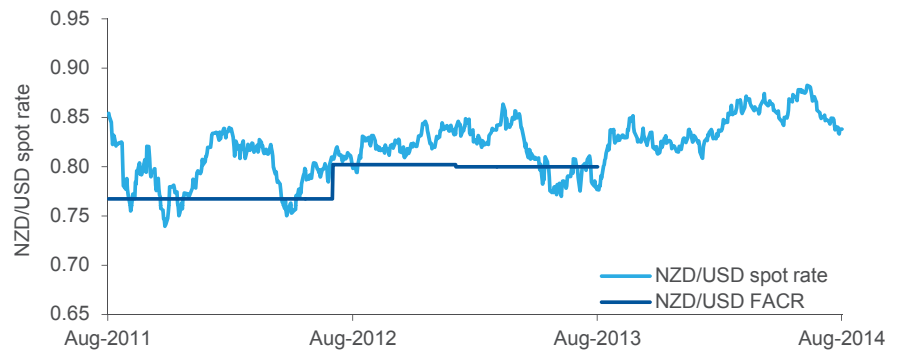
Source: GlobalDairyTrade, USDA DMN 3 September 2014

The next trading event will be held on 16 September 2014. Visit www.globaldairytrade.info for more information.

NEW ZEALAND DOLLAR TREND

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



As at 1 September 2014

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 Anhydrous Milk Fat (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 that are required to be held in accordance with the minimum shareholding requirement for a season.