



GLOBAL DAIRY UPDATE

Welcome to our October 2014 Global Dairy Update

IN THIS EDITION

Fonterra milk collection

- New Zealand 4% higher in September 2014 and 5% higher for the season to date
- Australia 10% higher in September 2014 and 10% higher for the season to date

Business update

- Launch of Fonterra's Farm Source™ initiative

Dairy commodity prices on 1 October 2014

- Fonterra volume sold on GDT of 52,691 MT
- GDT Price index 7% lower than the previous event

Global dairy market overview

- Continued strength in global milk production but pressure on imports

2015
Financial Calendar

20 OCTOBER 2014
Final dividend payment date

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

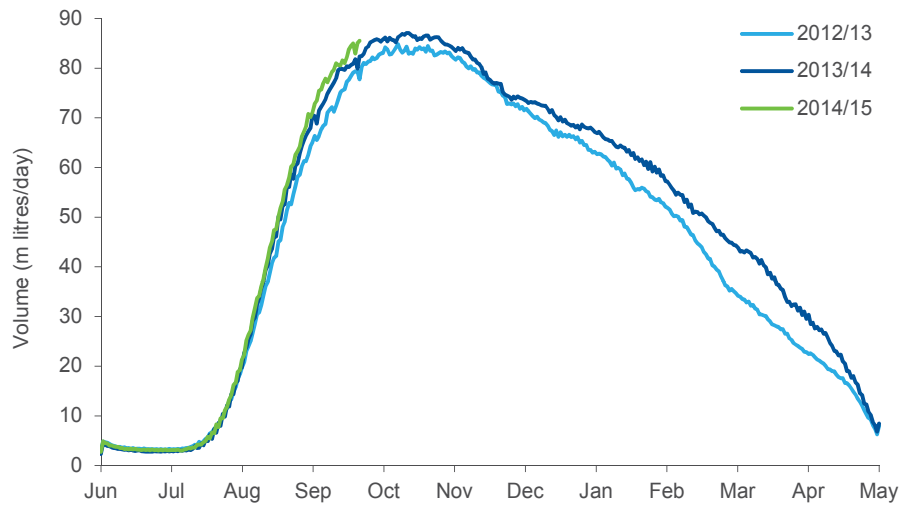
↑ 4.5%

322m kgMS

Milk collection across New Zealand to 30 September 2014 reached 322 million kgMS, 4.5 per cent higher than the same period last year.

Volumes are approaching peak collection for the season, which is forecast for mid-October 2014.

NEW ZEALAND



Source: Fonterra Co-operative Group, 3 October 2014

North Island collection in September reached 128 million kgMS, four million kgMS ahead of September last season. Despite some unsettled weather, favourable pasture growth in the North Island has helped maintain early season volumes above last year's levels.

South Island collection in September reached 67 million kgMS, four million kgMS ahead of September last season.

The South Island experienced favourable soil moisture conditions for the month, however temperatures were cooler than average in most dairy producing regions.

Milk collection across Australia for the three months to 30 September reached 29 million kgMS, three million kgMS ahead of the same period last season.

The milder winter, good cow condition

and pasture growth have contributed to strong production early in the season across most regions. This resulted in milk collection in September reaching 12 million kgMS, one million kgMS ahead of September 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)	SEPTEMBER 2014	SEPTEMBER 2013	MONTHLY CHANGE ²	JUNE 2014 TO SEPTEMBER 2014 ³	JUNE 2013 TO SEPTEMBER 2013 ³	SEASON-TO-DATE CHANGE ²
Total Fonterra New Zealand ¹	195	187	3.9%	322	308	4.5%
North Island ¹	128	124	3.1%	227	219	3.7%
South Island ¹	67	63	5.6%	95	89	6.4%
				JULY 2014 TO SEPTEMBER 2014 ³	JULY 2013 TO SEPTEMBER 2013 ³	SEASON-TO-DATE CHANGE ²
Fonterra Australia	12.5	11.4	10.1%	29.4	26.7	10.1%

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



Farm Source was launched on 29 September with the opening of a new store in Methven.

Farm Source has been developed to support our farmers and their businesses, bringing them the full strength of our global Co-operative while bolstering our connection with rural communities. It is a global brand that starts in New Zealand and will be rolled out in other markets around the world where we are selectively investing in milk pools. We want to access a 30 billion litre global milk pool by 2025 to support our V3 strategy, based on accelerating volume, value and velocity.

Farm Source will bring farmers a better connection with the Co-operative through a new approach to Farm Source Hubs, a Rewards Card, Farm Source Dollars, access to collective buying power, a new digital platform and a Financial Toolbox.

Farm Source Hubs

Our existing farm supplies network of 67 RD1 stores (and four more in development) will be converted to Farm Source Hubs. They will bring together service, prices and a product range offered by local stores, together with new facilities that farmers and the community can call their own.

LAUNCH OF FONTERRA'S FARM SOURCE™ INITIATIVE

Each Farm Source Hub will have facilities that farmers and the local community can use including meeting rooms, and a drop-in space where people can catch up with neighbours, have a coffee and use the free wifi.

Larger meeting spaces will be a base for local farmer ward meetings, seminars and roadshows.

Farm Source Rewards

All Fonterra farmers will receive a Farm Source Rewards card providing them with exclusive discounts and Farm Source Dollars. Farmers can redeem their dollars from December 2014 for their farm business, their family or their community. Farm Source Dollars can be converted to Farm Source store vouchers, products, services or experiences including travel.

Farm Source Regional Teams

Every farming region is different. Farm Source will provide our farmers more streamlined support from people in the know – people who understand the region and local council regulations, local business leaders and local climate conditions.

We're strengthening our regional networks, increasing regional knowledge and creating stronger links between our farmers and store staff, tanker operators, service centre, area managers, sustainable dairying advisors, technical sales reps, the vat assets team, food safety advisors, networkers and Shareholders' Council members.

Farm Source Digital

Technology is more and more important to the future of farming, so we've given

our farmer internet site, Fencepost, an overhaul. Nearly 90 per cent of our farmers are online daily, checking milk quality and production information. The milk production app we launched earlier this year has more than 5,000 users.

Farm Source online is an expanded source of advice, tools and information to help farmers manage their farm operations and financials. It's easily accessed on mobile, computer or tablet.

Farm Source Financial Toolbox

The Farm Source Financial Toolbox includes:

- Share-up Over Time: allowing shareholders to spread their share purchases over three to 10 years – available now
- Dividend Reinvestment Plan: allowing share and unit holders to receive shares/units in lieu of a cash dividend – available from December 2014
- Invest As You Earn: allowing shareholders to use a portion of their monthly milk payment to invest in shares, where the shares are purchased on their behalf – available from December 2014
- Guaranteed Milk Price – gives shareholders an opportunity to lock in the price they receive for a percentage of their milk – available in December 2014 and June 2015

We are also looking to consult on the possibility of establishing an Equity Partners' Fund which could provide our New Zealand and Australian farmers with a source of equity funding to support their goals.

More information on Farm Source can be found at nzfarmsource.co.nz



GLOBAL DAIRY MARKET OVERVIEW

Global dairy market prices continue to fall with softening demand and steady supply driving world commodity markets. Milk production continued to grow in the key export regions.

Demand for dairy continues to be impacted by the decrease in imports into Russia and the slow-down of imports into China. This has been offset to some extent by strong growth in demand from the Middle East and Africa, and Asia (excluding China).

Historically, the 'Big 3' dairy markets for New Zealand were the EU (cheese, butter, protein), Japan (cheese, powders) and the US (milk fat blends, protein and cheese). The 'Big 3' have declined significantly since the Global Financial

Crisis in 2008. However, exports to China have increased tenfold, with the growth predominantly from Whole Milk Powder (WMP). This has been driven by general growth in demand for dairy in China as well as local milk supply challenges. Although year to date imports into China are significantly higher than the same period last year, import growth has slowed over the past few months.

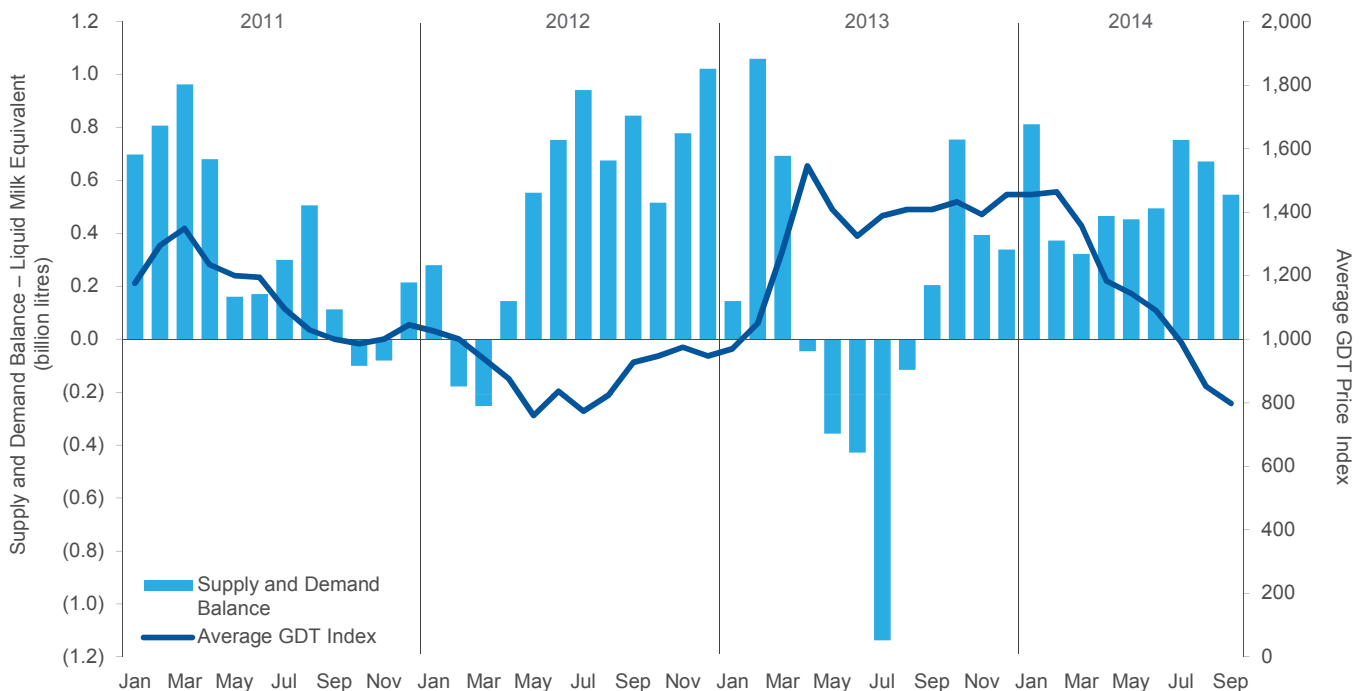
The Middle East and Africa have been the traditional stronghold of exports from the EU and the US. Significant growth in both EU and US exports to Asia and China has also occurred for whey products, infant formula and UHT milk.

The Middle East and Africa are significant

markets for dairy products, with annual imports of three million tonnes, compared to China importing two million tonnes. Imports into the Middle East and Africa have grown over the past four months, reflecting higher demand for dairy at lower commodity prices. This demand is generally for Skim Milk Powder (SMP), Milk Protein Concentrate (MPC), butter, cheese and more recently WMP.

Growth in demand from the EU has also been from Russia, which has represented almost all growth in cheese exports. However, trade bans imposed by Russia are likely to have an impact on the EU's export market.

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 as they continue to face production challenges.

Milk production growth in New Zealand increased 5.8 per cent on a year-on-year basis for the month of July. However, Fonterra production for the full 2014/15 season is forecast to increase by two per cent compared to the 2013/14 season.

Australia production in July, the first month of the 2014/15 season, increased 1.5 per cent on a year-on-year basis. While production growth increased in July in both New Zealand and Australia, milk volumes were at a seasonal low.

EU milk production growth in June was consistent with May, increasing 4.3 per cent on a year-on-year basis. Production for the first half of 2014 is 5.1 per cent higher than the same period in 2013.

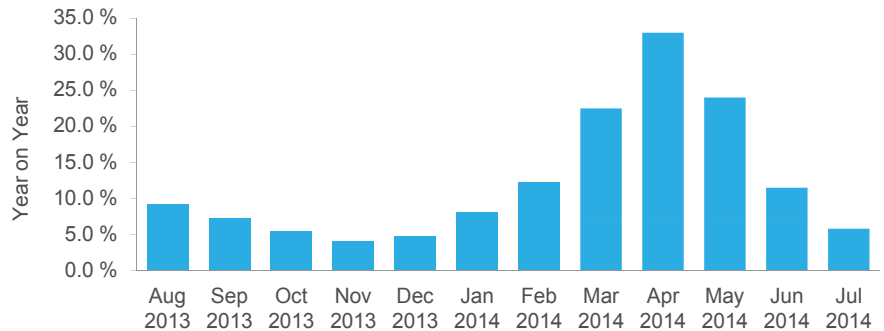
Milk production growth in the US increased 2.5 per cent on a year-on-year basis for the month of June, the eighth consecutive month of increased production growth. Of the major producing regions in the US, the most significant growth was seen in the South West, five per cent higher on a year-on-year basis for the month of June.

Production growth in the EU and US in particular has been driven by high milk prices, and although there has been a recent fall in commodity prices, margins have been maintained at acceptable levels due to decreasing global grain prices.

Argentina and Uruguay continue to experience unfavourable production levels with volumes significantly lower than 12 months ago. Production across both countries was 5.5 per cent lower on a year-on-year basis for the month of June, the fifth consecutive month production has decreased.

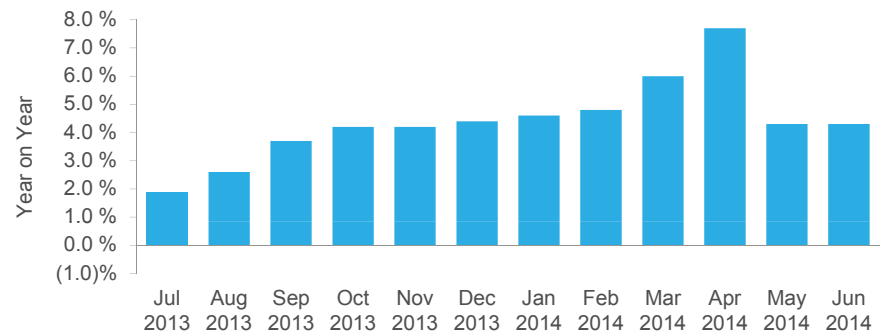
NEW ZEALAND

Annual production ~23 million tonnes of liquid milk



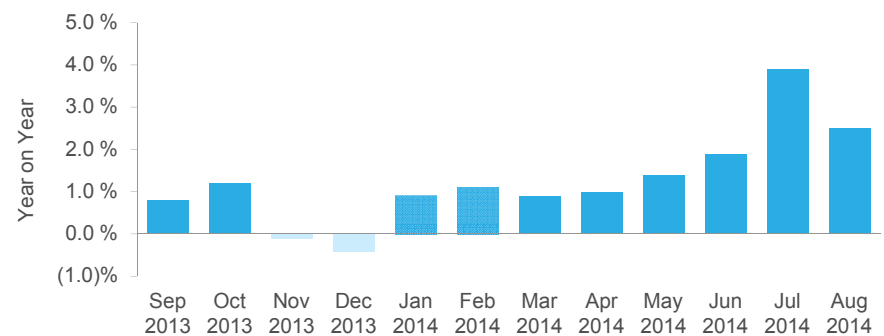
EU

Annual production ~148 million tonnes of liquid milk



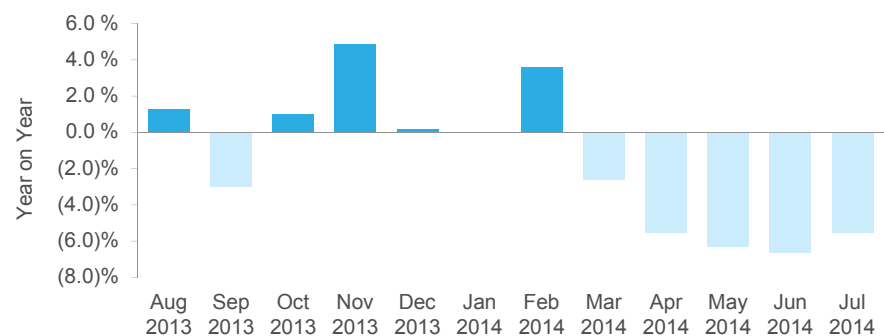
US

Annual production ~84 million tonnes of liquid milk



ARGENTINA AND URUGUAY

Annual production ~10 million tonnes of liquid milk



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

EXPORTS

Growth in dairy exports from the major exporting countries has slowed with the US, Argentina and Uruguay experiencing a decrease in volumes.

New Zealand exports continued to grow, increasing 14 per cent on a year-on-year basis for the month of July. This increase was driven in particular by powders, with SMP up 42 per cent and WMP up 33 per cent. However, cheese exports decreased 12 per cent and butter five per cent over the same period. Australia exports increased 7.5 per cent on a year-on-year basis for the month of July, the largest increase since January 2014. This increase in exports was a result of SMP increasing 80 per cent, cheese 19 per cent and butter seven per cent over the same period.

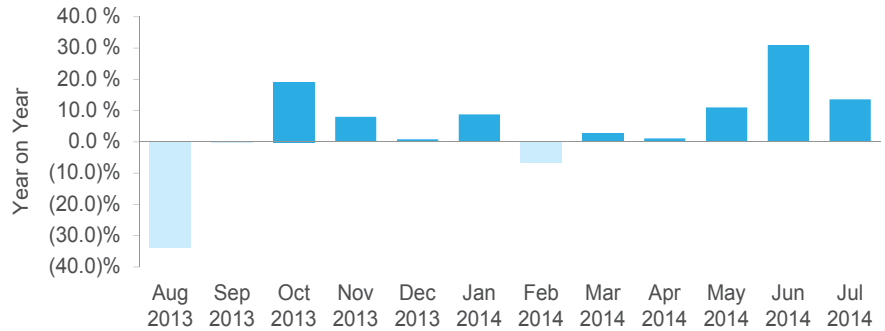
Production growth from the EU has continued to impact exports, with the four major product groups (WMP, SMP, butter and cheese) increasing 14 per cent on a year-on-year basis for the month of July. SMP continues to drive this growth, with exports increasing 46 per cent on a year-on-year basis for the month of July and 60 per cent year to date. WMP exports decreased 14 percent on a year-on-year basis for the month of July, but have increased 13 per cent year to date.

US exports decreased 4.6 per cent on a year-on-year basis for the month of July, the first year-on-year decrease since 2012. A contributing factor to this decline is high domestic market prices and falling global commodity prices.

The production decrease in Argentina and Uruguay continues to impact exports, decreasing 20 per cent on a year-on-year basis for the month of July. Argentina and Uruguay exports combined are now exporting less than Australia, and with the recent restrictions imposed on exports by the Argentine government, this may impact volumes further.

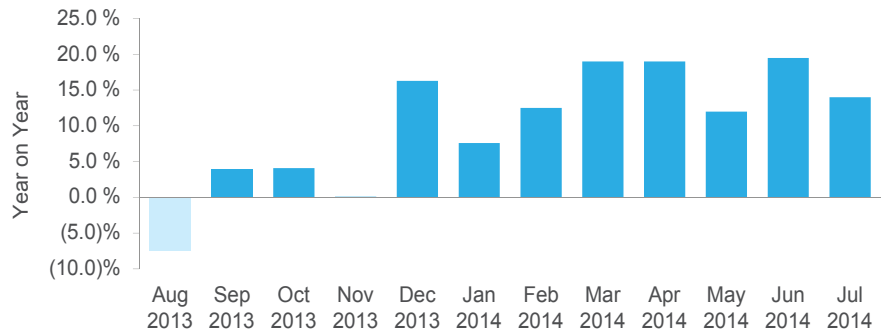
NEW ZEALAND

Annual exports ~2.9 million tonnes of product



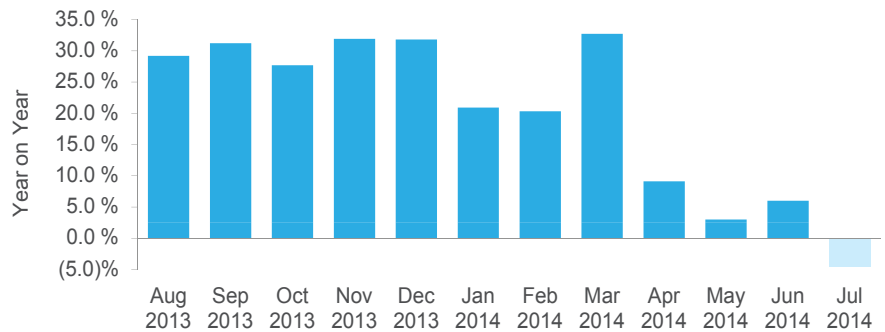
EU

Annual exports ~4.0 million tonnes of product



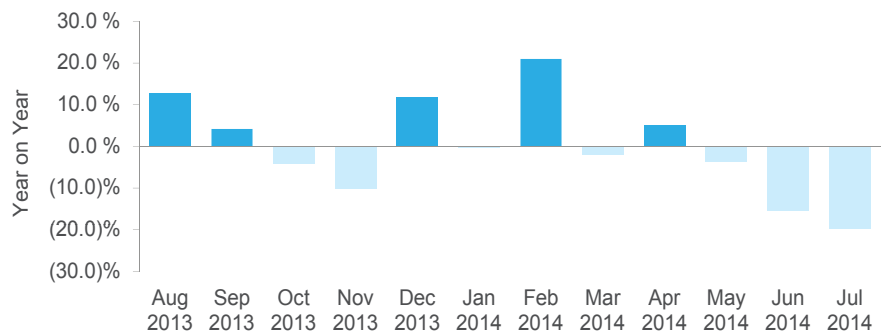
US

Annual exports ~2.2 million tonnes of product



ARGENTINA AND URUGUAY

Annual exports ~0.6 million tonnes of product



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

IMPORTS

Imports into China continued to grow on a year-on-year basis, eight per cent higher in August 2014 compared to August last year. SMP and WMP volumes increased two per cent and butter and cheese volumes increased 14 per cent.

However, the trend of decreasing month-on-month import volumes continues, despite the year-on-year growth. Powder imports in August were 32 per cent lower than the previous month and less than half than the monthly average of the first six months of 2014.

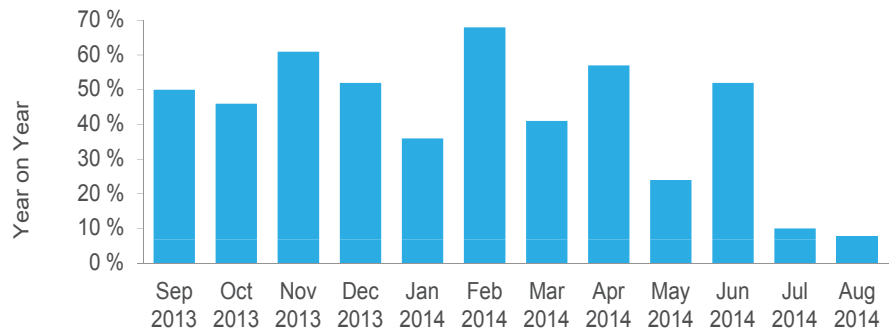
Global Trade Information Services import data for Russia has not been complete since April 2014, making it difficult to assess imports on a year-on-year basis. However, exports from Belarus to Russia have jumped in the months of June and July 2014. This breaks a declining trend observed since August 2013.

Imports into the Middle East and Africa excluding Algeria continued to grow on a year-on-year basis, 11 per cent higher in June 2014. This is the fourth consecutive month of import growth. Substantial growth was seen once again in Saudi Arabia, up 46 per cent, and Libya, up 24 per cent, over the same period.

Asia (excluding China) import volumes have increased once again following May 2014 being consistent with May 2013. Imports increased 9.5 per cent on a year-on-year basis, for the month of June (no data yet for Indonesia and Philippines). This is the largest increase since October 2013, driven by lower commodity prices. Large year-on-year increases were recorded for Bangladesh up 70 per cent, India up 26 per cent, Japan up 22 per cent, Vietnam up 16 per cent and Taiwan up 10 per cent over the same period.

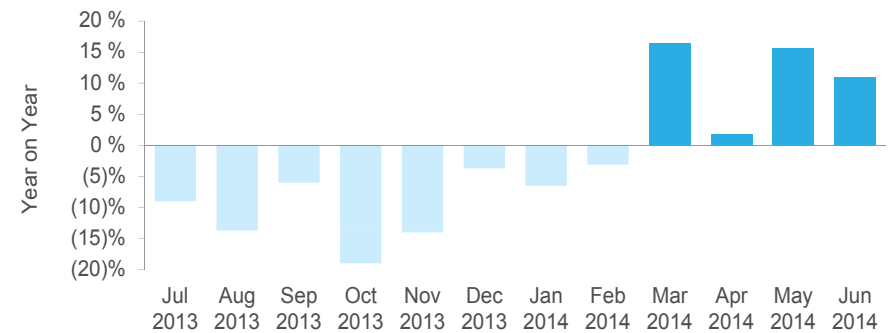
CHINA

Annual imports ~2.0 million tonnes of product



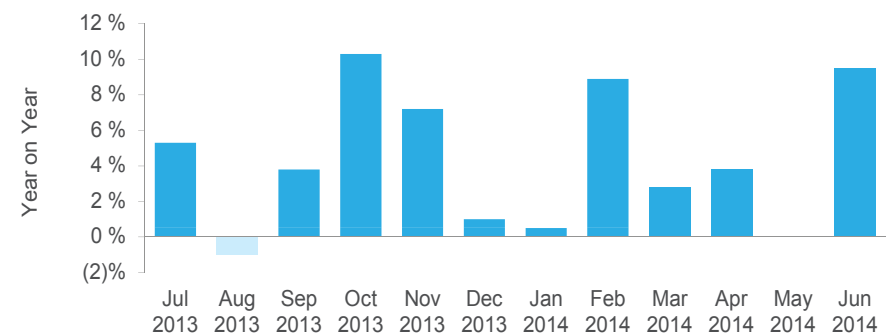
MIDDLE EAST AND AFRICA

Annual imports ~3.0 million tonnes of product



ASIA EXCLUDING CHINA

Annual imports ~3.2 million tonnes of product



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

DAIRY COMMODITY PRICES

**GDT PRICE INDEX
LAST TRADING EVENT:
1 OCTOBER 2014**

↓ **7%**

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 1 October 2014 was 52,691 MT.

GDT RESULTS

	LAST TRADING EVENT (1 OCT 2014)	YEAR-TO-DATE (1 AUG 2014 TO 1 OCT 2014)
Fonterra quantity sold on GDT (Winning MT)	52,691	248,802
GDT average winning price (US\$ MT/FAS)	\$2,599	\$2,841
Change in GDT Price Index over same period last year	(47.8%)	(41.8%)
Change in GDT Price Index from previous event	(7.3%)	n/a

Dairy commodity prices were on average seven per cent lower than the last trading event, with an average winning price of US\$2,599 per MT.

The GDT Price Index for the financial year to date was down 41.8 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 Butter Milk Powder down 11.3 per cent, Whole Milk Powder down 10 per cent and Sweet Whey Powder down 9.3 per cent. In addition butter was down 6.6 per cent, Anhydrous Milk Fat down five per cent, Skim Milk Powder down 2.7 per cent, Rennet Casein down 1.4 per cent and cheddar down 1.2 per cent.

GDT PRICE INDEX



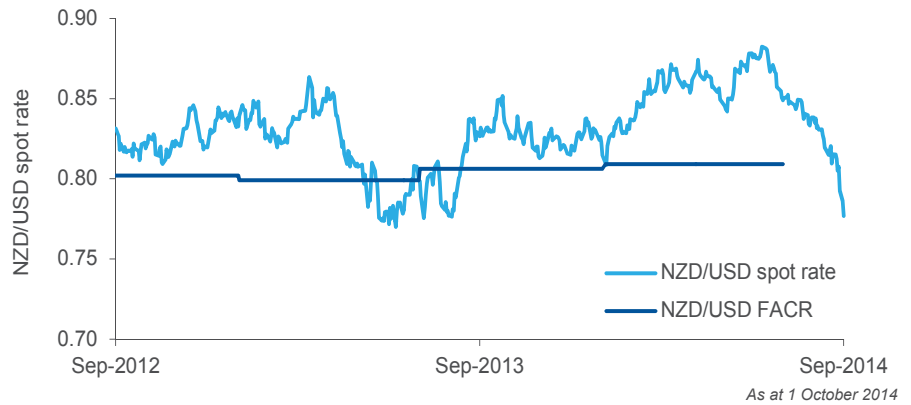
Source: GlobalDairyTrade, USDA DMN 2 October 2014

The next trading event will be held on 15 October 2014. Visit www.globaldairytrade.info for more information.

NEW ZEALAND DOLLAR TREND

The chart shows the spot price of the NZD/USD rate from September 2012. 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 30 SEPTEMBER 2012 TO 30 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.