



GLOBAL DAIRY UPDATE

Welcome to our
November 2014
Global Dairy
Update

IN THIS EDITION

Fonterra milk collection

- New Zealand 4% higher in October 2014 and 4% higher for the season to date
- Australia 8% higher in October 2014 and 10% higher for the season to date

Business update

- Global Operations and Ingredients first quarter update
- Guaranteed Milk Price benefits for farmers and customers

Dairy commodity prices on 4 November 2014

- Fonterra volume sold on GDT of 43,774 MT
- GDT Price index 0.3% lower than the previous event

Global dairy market overview

- Continued strength in global milk production but pressure on imports

2015
Financial Calendar

1 DECEMBER 2014
Compliance date for the Share
Standard 2014/15 season

LATE SEPTEMBER 2015
Annual results announcement

LATE MARCH 2015
Interim results announcement

FONTERRA MILK COLLECTION

NEW ZEALAND MILK COLLECTION

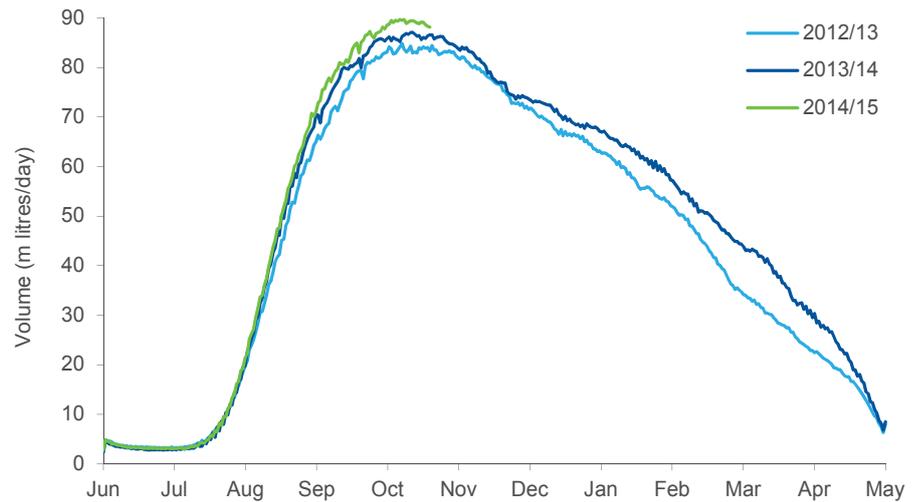
↑ **4.3%**

554m kgMS

Milk collection across New Zealand to 31 October 2014 reached 554 million kgMS, 4.3 per cent higher than the same period last year.

Milk collection volumes peaked at 89.7 million litres per day in mid-October.

NEW ZEALAND



Source: Fonterra Co-operative Group, 5 November 2014

North Island collection in October reached 147 million kgMS, seven million kgMS ahead of October last season. North Island production growth continues, supported by mild spring temperatures, good soil moisture and strong pasture growth.

South Island collection in October reached 86 million kgMS, three million kgMS ahead of October last season.

Conditions have been variable across the South Island with cooler conditions experienced in central and the lower South Island. However, current pasture growth conditions are still supporting increased production compared to last season.

Milk collection across Australia for the four months to 31 October reached 44 million kgMS, four million kgMS ahead of the same period last season.

Favourable spring conditions continued, particularly in Tasmania, where good rain and mild temperatures have continued to drive production growth. Milk collection in Australia in October reached 15 million kgMS, one million kgMS ahead of October 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)	OCTOBER 2014	OCTOBER 2013	MONTHLY CHANGE ²	JUNE 2014 TO OCTOBER 2014 ³	JUNE 2013 TO OCTOBER 2013 ³	SEASON-TO-DATE CHANGE ²
Total Fonterra New Zealand ¹	232	223	4.0%	554	531	4.3%
North Island ¹	147	140	4.7%	374	359	4.1%
South Island ¹	86	83	2.9%	181	173	4.7%
				JULY 2014 TO OCTOBER 2014 ³	JULY 2013 TO OCTOBER 2013 ³	SEASON-TO-DATE CHANGE ²
Fonterra Australia	14.6	13.5	8.1%	44.0	40.2	9.6%

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

Global Operations and Ingredients First Quarter Update

Revenue per Metric Tonne

Revenue per MT of Reference Commodity Products (RCPs) in the first quarter was down 25 per cent, while revenue per MT of Non-Reference Commodity Products (Non-RCPs) was down three percent compared to the same period last year. Prices of RCPs were at record levels in the first quarter last year compared to the first quarter this year and as a result, price decreases quarter-on-quarter have been significant. Non-RCP prices have decreased by a

relatively smaller amount.

Sales Volume – Quantity Shipped in the Quarter

Sales volume of RCPs shipped in the first quarter was only two per cent higher while sales volume of Non-RCPs in the first quarter was nine per cent higher than the same period last year. This was influenced to some extent by Chinese demand for Whole Milk Powder (WMP) being down significantly year-on-year as local production returned to more normal levels and they work through high

inventory levels. These factors have resulted in a change in product mix to cheese and protein to maximise returns.

Production Volume – Quantity Processed in the Quarter

In the first quarter, production volume of RCPs was one per cent higher and of Non-RCPs was 15 per cent higher than the same period last year. This was primarily driven by high early milk flows and product mix choices to maximise returns.

NEW ZEALAND SOURCED REVENUE

REVENUE (NZ\$ PER METRIC TONNE)	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	% CHANGE (Q1 FY15 TO Q1 FY14)
Reference Commodity Products ^{1,2}	5,967	5,914	5,981	5,446	4,458	(25)%
Non-Reference Commodity Products	6,931	7,073	7,499	7,127	6,696	(3)%

NEW ZEALAND SOURCED VOLUME

VOLUME (THOUSAND MT)	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	% CHANGE (Q1 FY15 TO Q1 FY14)
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SALES VOLUME³

Reference Commodity Products ^{1,2}	365	656	508	441	373	2%
Non-Reference Commodity Products	128	154	159	155	140	9%

PRODUCTION VOLUME

Reference Commodity Products ^{1,2}	630	761	543	103	639	1%
Non-Reference Commodity Products	196	228	142	27	225	15%

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 bulk liquid milk which is not included in the production volumes. The annual bulk liquid milk volume for 2014 financial year was 74,000 MT, including DIRA milk.

GUARANTEED MILK PRICE BENEFITS FOR FARMERS AND CUSTOMERS

Guaranteed Milk Price is a financial tool offered to our farmers that allows them to lock in a portion of their milk supply at a fixed price. It has no impact at all on Fonterra's Farmgate Milk Price as the price paid to farmers is matched against the sale of products to customers. Following a successful pilot in the 2013/14 season, Guaranteed Milk Price was offered in June this season and approximately 26 million kgMS was taken up. This volume equates to around 45,000 MT of WMP equivalent or two per cent of Fonterra's milk supply.

The applications came from a diverse range of farmers and some of the benefits

it has delivered to these farmers are:

- Certainty over a portion of their income;
- Allowed more robust budgeting and financing; and
- More confidence around debt servicing and capital investment on farm.

Guaranteed Milk Price has also allowed Fonterra to fulfill customer demand for stable pricing, and lock in longer-term supply contracts with key customers at set prices, while attracting a premium. Within one month of the June price being confirmed, Fonterra had sold more than 40,000 MT of WMP to customers at long

term fixed prices and utilised the futures markets for the remaining quantity.

Guaranteed Milk Price is still a relatively new financial tool but is becoming an established part of the dairy landscape. These initiatives are also offered by other dairy companies in Ireland and the United States, and a number of European dairy companies are working on similar financial tools.

A second offer will be available in early December for 20 million kgMS, with a price based off the updated Forecast Farmgate Milk Price announced in December. Applications will close on 19 December.

GLOBAL DAIRY MARKET OVERVIEW

Volatility has occurred frequently in the global dairy market since 2007. An example is the rapid increase seen in mid-2013, followed by the rapid decline in prices from February 2014.

Before 2007, global dairy commodity prices changed at a much slower rate than today, and in the 20 years before 2007, the global WMP price didn't change by more than 10 per cent in any month. Since 2007, the GDT price index has changed by more than 10 per cent in a month on 22 occasions.

Prior to 2007, some governments provided comprehensive support regimes for their dairy industries, designed to provide farmers with a reasonably stable and predictable income flow. In some countries they purchased surplus commodities as a key part of their support regimes, which to some extent softened market price movements. From 2000 the EU and US began to reform their dairy support mechanisms and by 2007 there were virtually no government-owned stockpiles of dairy commodities.

Over the same period demand growth had begun to outstrip production growth,

and in 2007 there were three big events in the global dairy market namely:

- Large increases in grain feed prices which pushed up milk production costs;
- Severe drought in Australia; and
- Disruption to the dairy industry in Argentina.

As a consequence, prices increased by 54 per cent from April to July 2007. A year later, prices came under downward pressure as a result of a supply response to the record-high prices, reduced consumer demand in response to the price surge and fallout from the global financial crisis. Prices collapsed, falling by more than half in just five months from August 2008.

There have been several price peaks and troughs since late 2008. Since January 2007, the average monthly change in prices (up or down) has been seven per cent, compared to the twenty years before 2007, when the average price movement was less than two per cent per month.

In a well-functioning commodity market, price is the mechanism which balances supply and demand. Until the mid-

2000s government support mechanisms had some influence on global dairy markets and supply and demand was not accurately reflected in pricing. From 2007, global dairy markets have been exposed to the full force of supply and demand changes.

The price peaks and troughs seen since early 2007 show a close correlation to milk production growth in the major exporting countries. There has been steady global demand growth over the last five years, which suggests that supply-side dynamics have been the major influence whenever prices have declined. Nevertheless there have been two periods where a fall in demand has occurred and is likely to have had a negative impact on prices: immediately following the global financial crisis in 2008 and over the last two to three quarters where Chinese demand for imported powders has been subdued.

What is clear is that volatility – the liability of prices to change rapidly – is now an integral part of the global dairy market. In response to this increased volatility the dairy industry in general and Fonterra in particular, are adopting tools to help manage price exposure.

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.

Milk production growth in New Zealand increased 4.5 per cent on a year-on-year basis for the month of August.

Australian production in August, the second month of the 2014/15 season, increased 2.3 per cent on a year-on-year basis. While production growth increased in August in both New Zealand and Australia, milk volumes are coming off seasonal lows reaching peak volumes around October.

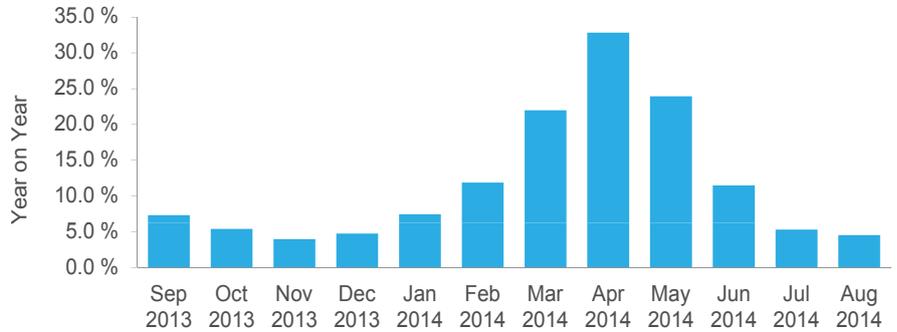
EU milk production in August increased 4.8 per cent on a year-on-year basis. Production volume in 2014 to August was 5.9 per cent above the same period in 2013. Production increased nine per cent in the UK, seven per cent in Poland, 6.8 per cent in Ireland, six per cent in France and four per cent in Germany.

Milk production in the US increased 2.5 per cent on a year-on-year basis for the month of August, the largest increase since March 2013. The US Department of Agriculture forecast milk production growth of 2.3 per cent for the full year.

Argentina and Uruguay continue to experience reduced production levels with volumes down 2.4 per cent on a year-on-year basis for the month of August. This was the smallest year-on-year decrease since March 2014, however the coming months will show if the decline has eased.

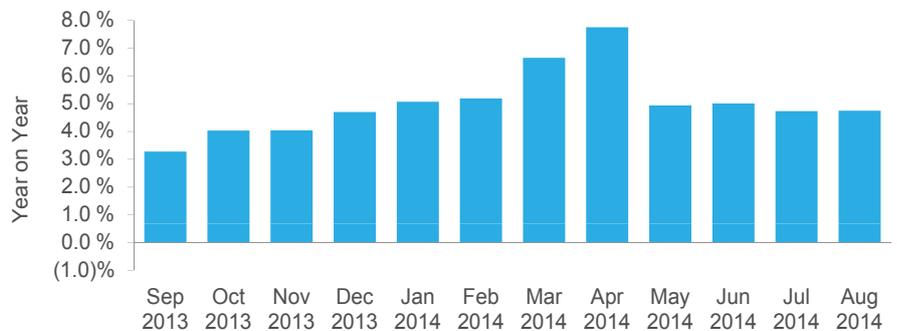
NEW ZEALAND

Annual production ~21 million tonnes of liquid milk



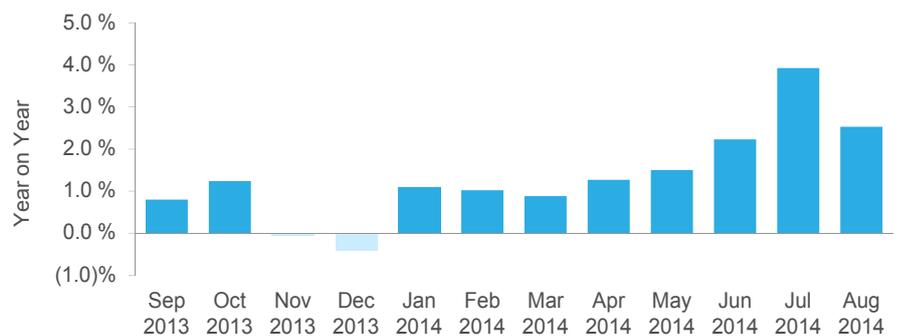
EU

Annual production ~145 million tonnes of liquid milk (collected)



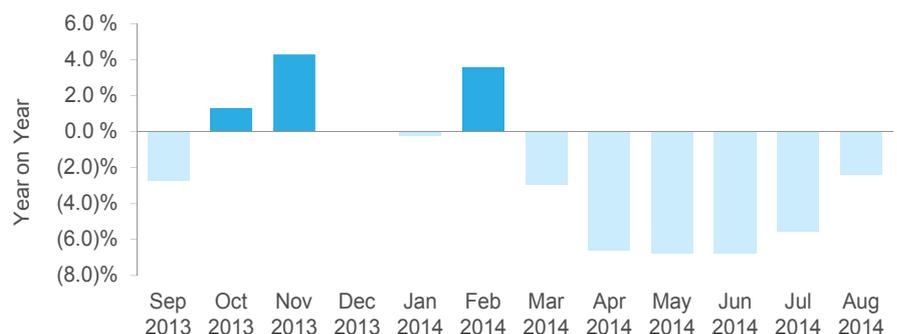
US

Annual production ~92 million tonnes of liquid milk



ARGENTINA AND URUGUAY

Annual production ~9 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 29 per cent on a year-on-year basis for the month of August. The most significant change came from WMP exports, up 28 per cent in August 2014 compared to the same month last year.

Australian exports increased 13 per cent on a year-on-year basis for the month of August. This increase in exports was a result of SMP increasing 58 per cent and fluid milk up 43 per cent. By contrast, WMP decreased 29 per cent and butter 19 per cent.

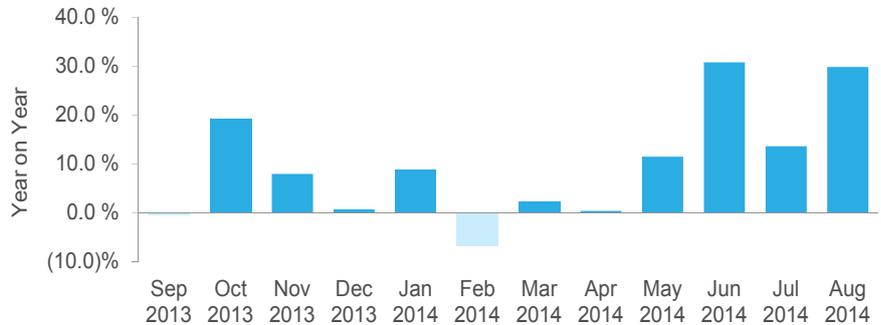
Production growth from the EU continues to impact export growth with exports increasing 12 per cent on a year-on-year basis for the month of July. Exports are now up 14 per cent year-to-date to July 2014 compared to the same period last year. The export products driving this increase are butter up 52 per cent, SMP up 47 per cent and fluid and fresh milk up 25 per cent.

US exports decreased for the second consecutive month, down 10.2 per cent on a year-on-year basis for the month of August. This is the second year-on-year decrease since 2012. Contributing factors to this decline are high domestic market prices and low global commodity prices.

The production decrease in Argentina and Uruguay continues to impact exports which decreased by 22 per cent on a year-on-year basis for the month of August. Factors that may be influencing reduced exports include low production levels, reduced demand from Brazil and export restrictions in Argentina.

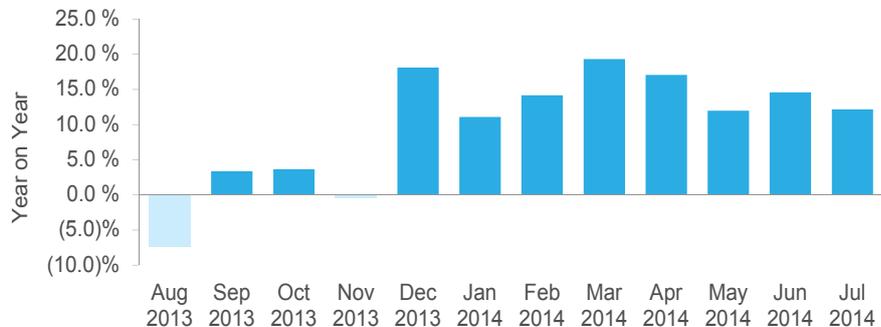
NEW ZEALAND

Annual exports ~2.9 million tonnes of product



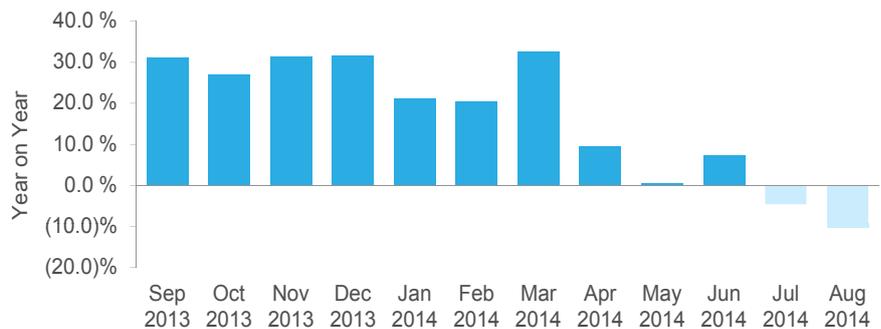
EU

Annual exports ~4.0 million tonnes of product



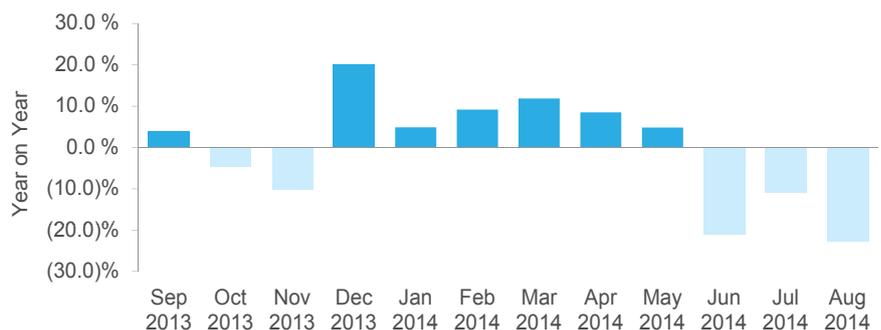
US

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 to China were 12.6 per cent lower on a year-on-year basis for the month of September with WMP imports in September being 50 per cent lower than the same month last year. The trend in imports was caused by high inventories and domestic production growth of 1.4 per cent in the first nine months of 2014 compared to the same period last year. However, year-to-date import volumes remain strong, up 31 per cent for the year to September when compared to the same period last year.

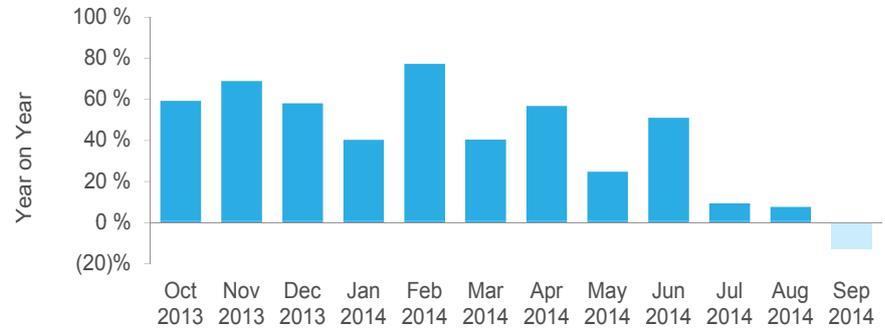
Import data for Russia has not been consistently published making it difficult to assess imports on a year-on-year basis. However, the most recent data shows 2014 import volumes to July decreased 6.9 per cent compared to the same period last year. This decrease is not as significant as first thought but the trade bans imposed from August may impact these levels further.

Imports into the Middle East and Africa (excluding Algeria) decreased 13 per cent on a year-on-year basis for the month of July. This is the largest decrease in imports since October 2013. This decrease is driven by a significant drop in cheese imports, down 50 per cent and WMP down 16 per cent in July, when compared to the previous month.

Asia (excluding China) import volumes have decreased for the second consecutive month, down 8.2 per cent on a year-on-year basis for the month of July. However, 2014 imports for the year to July remain at similar levels to the same period last year.

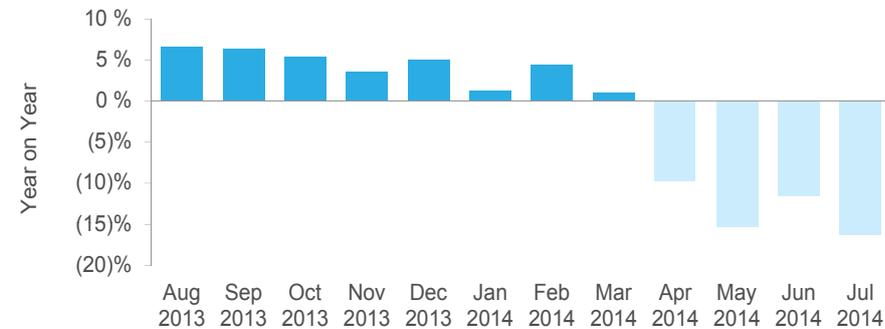
CHINA

Annual imports ~2.0 million tonnes of product



RUSSIA

Annual imports ~1.4 million tonnes of product



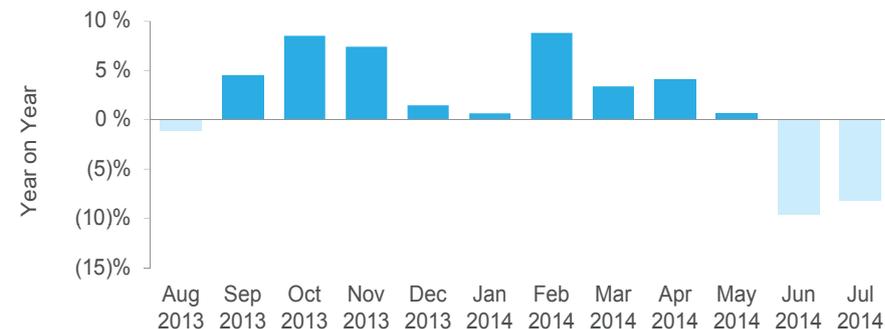
MIDDLE EAST AND AFRICA

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:
4 NOVEMBER 2014**

↓ 0.3%

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 4 November 2014 was 43,774 MT.

GDT RESULTS

	LAST TRADING EVENT (4 NOV 2014)	YEAR-TO-DATE (1 AUG 2014 TO 4 NOV 2014)
Fonterra quantity sold on GDT (Winning MT)	43,774	341,737
GDT average winning price (US\$ MT/FAS)	\$2,649	\$2,785
Change in GDT Price Index over same period last year	(45%)	(43%)
Change in GDT Price Index from previous event	(0.3%)	n/a

Dairy commodity prices were on average 0.3 per cent lower than the last trading event, with an average winning price of US\$2,649 per MT.

The GDT Price Index for the financial year to date was down 43 per cent compared to the same period last year.

Compared to the last trading event, all commodity prices were down excluding WMP which rose 1.6 per cent. The commodities that declined included Cheddar down 9.2 per cent, Butter Milk Powder down 6.9 per cent, Butter down 4.1 per cent, Rennet Casein down 2.2 per cent, Anhydrous Milk Fat down 1.6 per cent and Skim Milk Powder down 1.2 per cent. No change was published for Sweet Whey Powder.

GDT PRICE INDEX

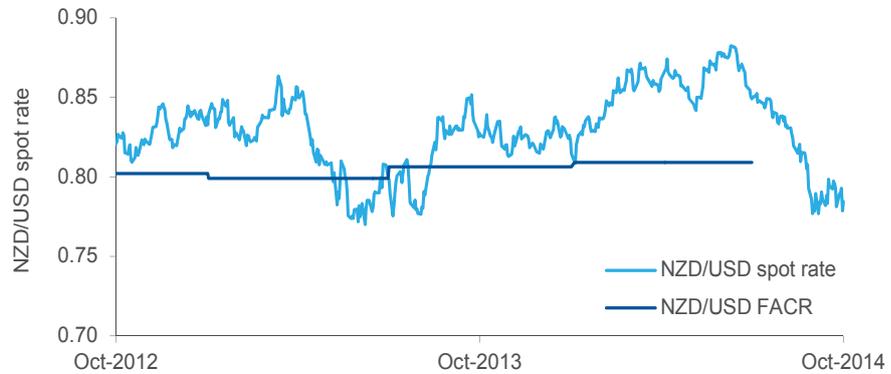


The next trading event will be held on 18 November 2014. Visit www.globaldairytrade.info for more information.

NEW ZEALAND DOLLAR TREND

The chart shows the spot price of the NZD/USD rate from October 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 31 OCTOBER 2012 TO 31 OCTOBER 2014



As at 3 November 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.