



GLOBAL DAIRY UPDATE

Welcome to our
February 2015
Global Dairy
Update

IN THIS EDITION

Fonterra milk collection

- New Zealand 3% lower in January 2015 and 3% higher for the season to date
- Australia unchanged in January 2015 and 6% higher for the season to date

Business update

- Global Operations and Ingredients (formerly NZMP) second quarter update
- New Zealand forecast milk supply reduced for the 2014/15 season

Global dairy market overview

- Easing growth in global milk production and steady import growth in the Middle East, Africa and Asia

Dairy commodity prices on 3 February 2015

- Fonterra volume sold on GDT of 26,750 MT
- GDT Price Index 9% higher than the previous event

2015
Financial Calendar

25 MARCH 2015
Interim results announcement

LATE SEPTEMBER 2015
Annual results announcement

1 JUNE 2015
Measurement date for the Share
Standard 2015/16 season

1 DECEMBER 2015
Compliance date for the Share
Standard 2015/16 season

FONTERRA MILK COLLECTION

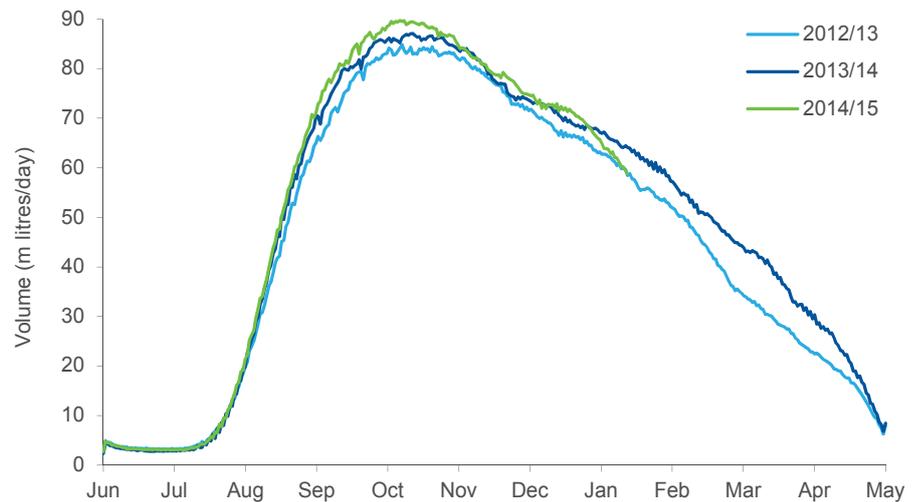
NEW ZEALAND MILK COLLECTION

↑ 2.7%

1,150 million kgMS

Milk collection in New Zealand for the eight months to 31 January reached 1,150 million kgMS, three per cent higher than the same period last season. The rate of growth continued to slow, impacted by deteriorating dry conditions across the country.

NEW ZEALAND



Source: Fonterra Co-operative Group, 3 February 2015

North Island collection in January reached 110 million kgMS, one per cent lower than January last season. Conditions have dried out considerably over the month with little rain falling across the North Island and above average temperatures impacting pasture growth rates.

South Island collection in January reached 69 million kgMS, five per cent lower than January last season. Dry conditions continue to impact milk

collection in the South Island and irrigation restrictions remain a threat. Some farmers with no capacity to irrigate face drying off early as the current economics of supplementary feeds do not support their widespread use.

Milk collection in Australia for the seven months to 31 January reached 82 million kgMS, six per cent higher than the same period last season.

The rate of growth has slowed and milk

collection across Australia in January reached 11 million kgMS, consistent with January last season. Weather conditions brought some widespread rain and milder than normal summer temperatures which provided some improvement to summer pasture and forage crop availability.

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)	JANUARY 2015	JANUARY 2014	MONTHLY CHANGE ²	JUNE 2014 TO JANUARY 2015 ³	JUNE 2013 TO JANUARY 2014 ³	SEASON-TO-DATE CHANGE ²
Total Fonterra New Zealand ¹	178	187	(2.9)%	1,150	1,120	2.7%
North Island ¹	110	111	(1.4)%	744	720	3.3%
South Island ¹	69	72	(5.2)%	406	400	1.5%
				JULY 2014 TO JANUARY 2015 ³	JULY 2013 TO JANUARY 2014 ³	SEASON-TO-DATE CHANGE ²
Fonterra Australia	11	11	0.0%	82	78	5.5%

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 (formerly NZMP) Second Quarter Update

Fonterra manufactures five commodity products that inform its Farmgate Milk Price. These are referred to as Reference Commodity Products (RCPs). All other products are referred to as Non-Reference Commodity Products (Non-RCPs). The relative difference between RCP and Non-RCP prices can impact Fonterra's gross margins.

Revenue per Metric Tonne

In the second quarter revenue per MT of RCPs decreased 37 per cent compared to the same period last financial year, while revenue per MT of Non-RCPs decreased 17 per cent. Prices of RCPs were coming off record highs in the second quarter FY2014 compared to

the lows in the second quarter FY2015. As a result price decreases quarter-on-quarter have been significant. Over this same period Non-RCP prices have decreased at a slower rate and their relative price performance has improved.

Sales Volume

Sales volume of RCPs shipped in the second quarter were unchanged compared to same period last financial year. While Chinese purchasing of Whole Milk Powder (WMP) was down, purchasing from Asia, the Middle East and Africa increased. The sales volume of Non-RCPs in the second quarter increased 16 per cent reflecting our change in product mix towards cheese

and protein to maximise returns.

Production Volume

Production volume of RCPs in the second quarter decreased two per cent and Non-RCPs increased 11 per cent compared to the same period last financial year. This was primarily driven by high North Island peak season milk flows and product mix choices to optimise returns.

Inventory

A significant proportion of last year's inventory provisioning has been released as product has been sold. No significant new market price provisioning is anticipated at the half-year result.

NEW ZEALAND SOURCED REVENUE

REVENUE (NZ\$ PER METRIC TONNE)	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	% CHANGE (Q2 FY15 TO Q2 FY14)
Reference Commodity Products	5,914	5,981	5,446	4,458	3,723	(37)%
Non-Reference Commodity Products	7,073	7,499	7,127	6,696	5,838	(17)%

NEW ZEALAND SOURCED VOLUME

VOLUME (THOUSAND MT)	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	% CHANGE (Q2 FY15 TO Q2 FY14)
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SALES VOLUME¹

Reference Commodity Products	656	508	441	373	655	0%
Non-Reference Commodity Products	154	159	155	140	179	16%

PRODUCTION VOLUME

Reference Commodity Products ²	761	543	103	639	742	(2)%
Non-Reference Commodity Products	228	142	27	225	253	11%

¹ 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.

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

**NEW ZEALAND MILK SUPPLY
FORECAST****1,532****MILLION KGMS****For the 2014/15 season**

The milk supply forecast for the 2014/15 season has been reduced to 1,532 million kgMS, 3.3 per cent below milk supply in the 2013/14 season.

Season-to-date milk volumes continue to track ahead of last season, supported by favourable early season pasture growth conditions across most of New Zealand.

However, the rate of growth has slowed as a result of dry conditions and daily milk production across New Zealand is now eight per cent lower than the same period last season.

In the central and lower North Island, and central South Island, conditions have been particularly dry and our milk supply forecasts in these regions is now more than 40 million kgMS lower than the previous forecast.

In some regions farmers are drying off early and with the low forecast Farmgate Milk Price, there is less reliance on supplementary feeds as the current economics do not support their widespread use.

GLOBAL DAIRY MARKET OVERVIEW

PRODUCTION

New Zealand production in November increased three per cent compared to the same month the previous year. Production in the year to November 2014 increased nine per cent compared to the same period in 2013. However, growth in early 2015 is likely to be impacted by the dry conditions being experienced across the country.

Australian production in November increased three per cent compared to the same month the previous year.

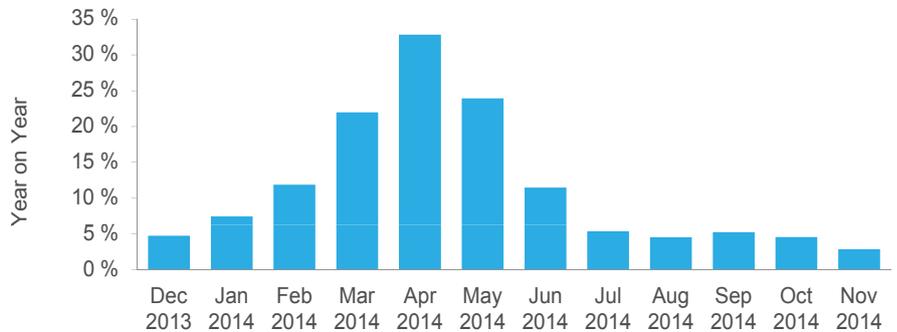
EU production in November increased three per cent compared to the same month the previous year, the seventeenth consecutive year-on-year increase. Production in the year to November 2014 was five per cent higher than the same period in 2013. This increase in production equates to a volume of over six million tonnes of liquid milk.

US production in November increased three per cent compared to the same month the previous year. Production in the year to November 2014 was two per cent higher than the same period in 2013. This increase in production in 2014 equates to a volume of over one million tonnes of liquid milk.

Argentina and Uruguay production in November decreased seven per cent compared to the same month the previous year. Production in the year to November 2014 was four per cent lower than the same period in 2013. While Uruguay production in 2014 has decreased one per cent, Argentina production has decreased almost five per cent due to climatic and political challenges.

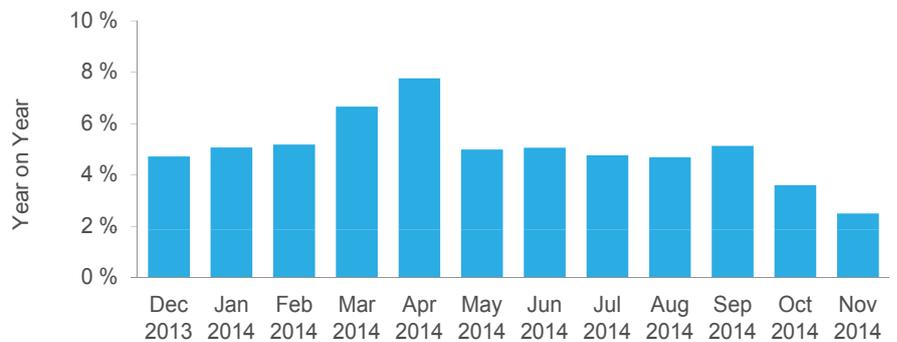
NEW ZEALAND

Annual production ~21 million tonnes of liquid milk



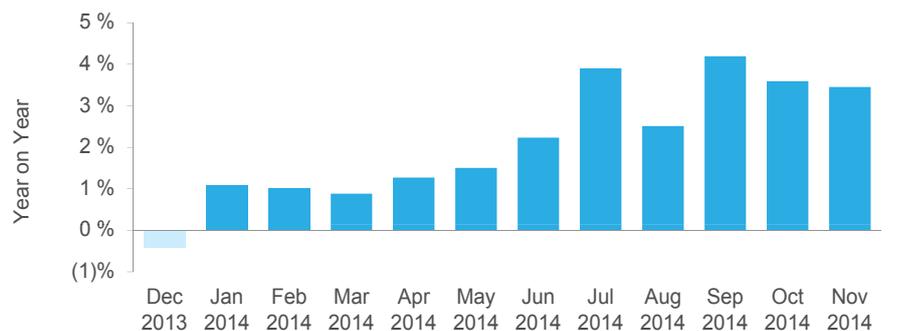
EU

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



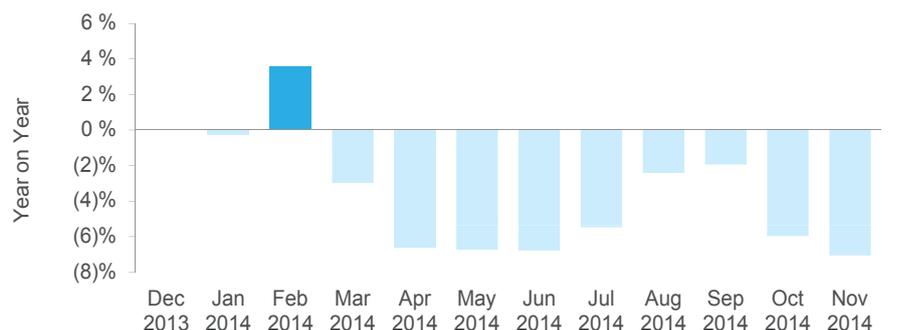
US

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

New Zealand exports in November decreased two per cent compared to the same month the previous year. While exports decreased in November, they remain up six per cent in the year to November 2014 when compared to the same period in 2013. This year-to-date increase is driven by butter up 22 per cent and WMP up 11 per cent.

Australian exports in November decreased one per cent compared to the same month the previous year.

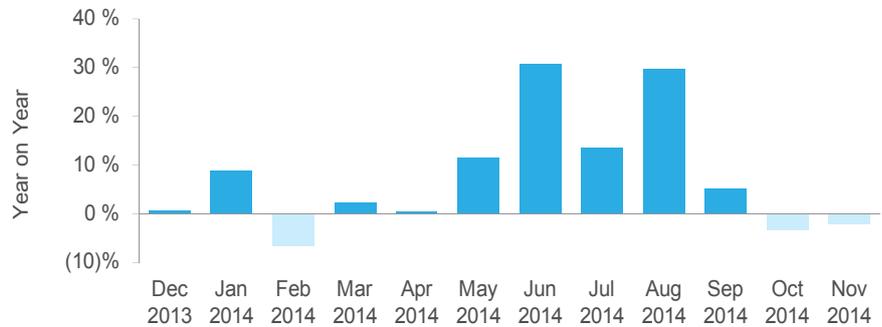
EU exports in October increased 12 per cent compared to the same month the previous year. Exports in the year to October 2014 are five per cent higher than the same period in 2013. This year-to-date increase is driven by skim milk powder (SMP) up 48 per cent and fluid and fresh milk up 11 per cent.

US exports in November decreased seven per cent compared to the same month the previous year. However, exports in the year to November 2014 are three per cent higher than the same period in 2013. This year-to-date increase is impacted by cheese exports up 23 per cent and SMP up three per cent.

Argentina and Uruguay continue to face challenges with exports, which in November decreased 13 per cent compared to the same month the previous year. Exports in the year to November 2014 are eight per cent lower than the same period in 2013. This decrease is seen across most major product categories excluding fluid and fresh milk, which increased 25 per cent to November 2014 compared to the same period in 2013.

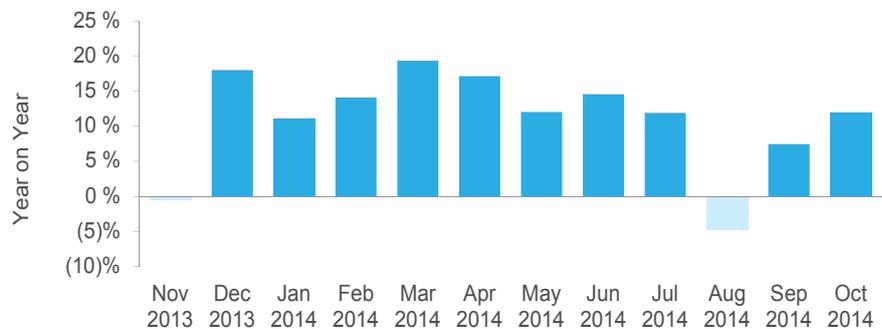
NEW ZEALAND

Annual exports ~2.9 million tonnes of product



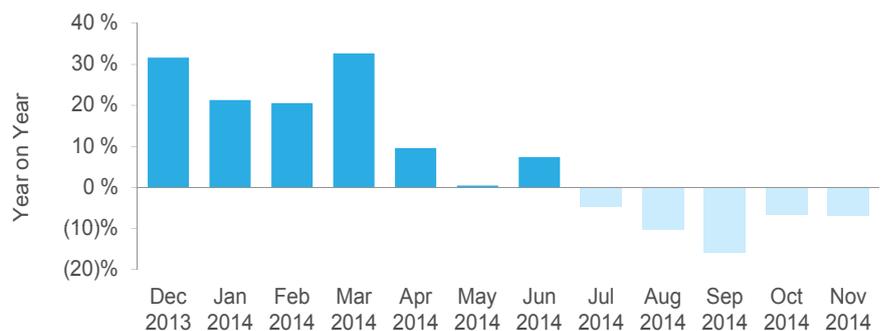
EU

Annual exports ~4.0 million tonnes of product



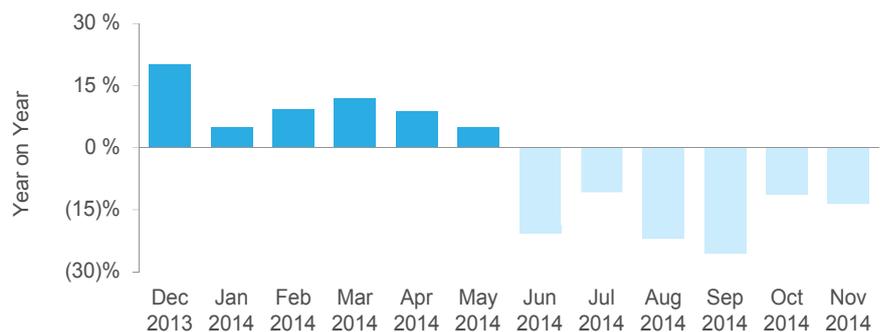
US

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

China imports in December decreased 33 per cent compared to the same month the previous year. This is the fourth consecutive month of decreasing imports. This monthly change is impacted by WMP down 79 per cent and SMP down 58 per cent. However, 2014 imports for WMP and SMP remain strong, both eight per cent higher than in 2013.

Middle East and Africa remains an important market for global dairy trade importing three million tonnes annually.

Imports for October (excluding Algeria) increased 10 per cent compared to the same month the previous year driven by increases across most of the major dairy categories. Imports in the year to October 2014 are four per cent higher than the same period in 2013 with fluid and fresh milk up 24 per cent, butter up 17 per cent, infant formula up 11 per cent and SMP up eight per cent.

Asia (excluding China) is one of the largest markets for global dairy trade importing over three million tonnes of product annually.

Imports for October increased 7.5 per cent compared to the same month the previous year. Imports in the year to October 2014 are four per cent higher than the same period in 2013. This year-to-date increase is driven by butter up 22 per cent, WMP up 11 per cent, SMP up nine per cent and fluid and fresh milk up six per cent.

Import data for Russia has not been consistently published, making it difficult to provide an accurate assessment.

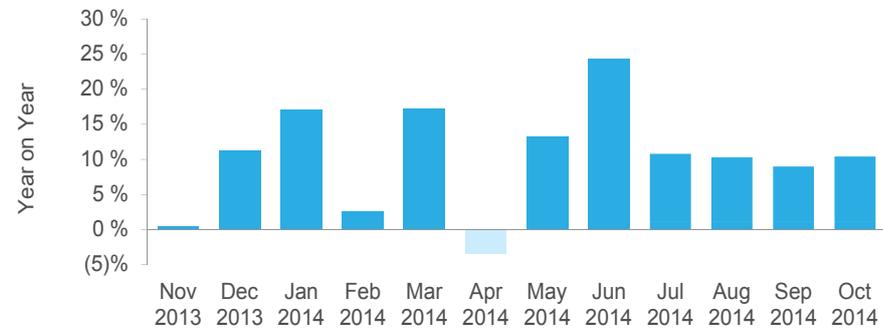
CHINA

Annual imports ~2.0 million tonnes of product



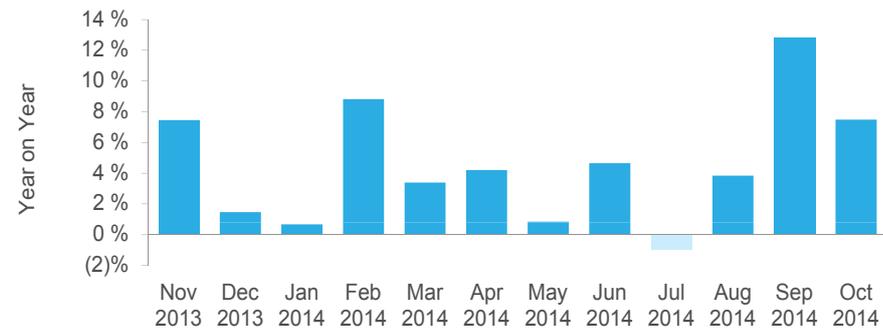
MIDDLE EAST AND AFRICA

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:
3 FEBRUARY 2015**

↑ 9.4%

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

GDT RESULTS

	LAST TRADING EVENT (3 FEB 2015)	YEAR TO DATE (1 AUG 2014 TO 3 FEB 2015)
Fonterra quantity sold on GDT (Winning MT)	26,750	541,357
GDT average winning price (US\$ MT/FAS)	\$3,042	\$2,745
Change in GDT Price Index over same period last year	(42%)	(45%)
Change in GDT Price Index from previous event	9.4%	n/a

Dairy commodity prices were on average nine per cent higher than the last trading event, with an average winning price of US\$3,042 per MT.

The GDT Price Index for the financial year-to-date decreased 45 per cent compared to the same period the previous year.

Significant increases were seen in WMP up 19.2 per cent and rennet casein up 7.7 per cent. Additionally, skim milk powder was up 6.7 per cent and butter up 6.1 per cent.

The commodity prices that declined included cheddar down 11.1 per cent, anhydrous milk fat down 5.4 per cent and buttermilk powder down 0.4 per cent.

The Fonterra volume sold was 26,750 MT (down 18 per cent) with prices increasing 10 per cent compared to the last event.

There was a significant increase in Fonterra's WMP price, up 20 per cent to US\$2,874 per MT, with volume down 11 per cent compared to the last event.

While other commodity prices including

skim milk powder, butter milk powder and rennet casein also increased, this was not to the same degree as WMP.

This WMP price increase is a likely result of rising demand and reduced offer volumes over the coming months, reflecting dry conditions in New Zealand, and Fonterra's lower milk supply forecast.

The Middle East, Africa, South East Asia and China remain the largest buyers as they balance supply from local production and imports with medium term demand.

GDT PRICE INDEX



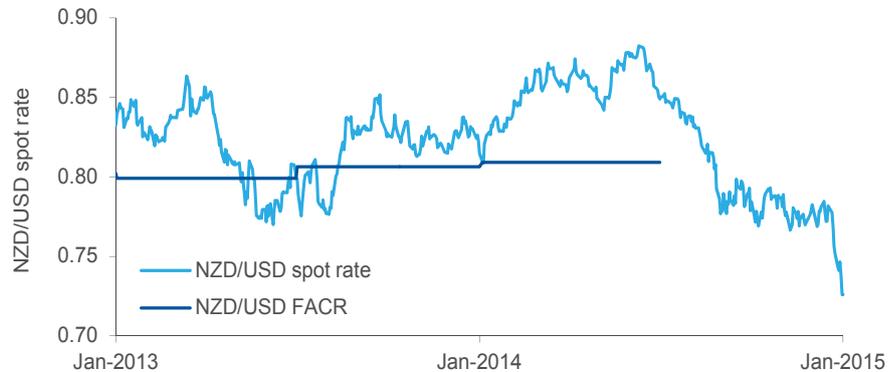
Source: GlobalDairyTrade, 3 February 2015

The next trading event will be held on 17 February 2015. Visit www.globaldairytrade.info for more information.

NEW ZEALAND DOLLAR TREND

The chart shows the spot price of the NZD/USD rate from January 2013. 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 JANUARY 2013 TO 31 JANUARY 2015



As at 31 January 2015

GLOSSARY

DIRA

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 price for milk supplied in New Zealand to Fonterra by farmer shareholders.

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, buttermilk 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.