

THE MILK PRICE STATEMENT



THE FONTERRA FARMGATE MILK PRICE STATEMENT 2013
FOR THE SEASON ENDED ON 31 MAY 2013



1. INTRODUCTION

This Farmgate Milk Price Statement:

- outlines the way that Fonterra Co-operative Group Limited (Fonterra) has calculated the Fonterra Farmgate Milk Price for the milk Season that ended on 31 May 2013 (2013 Season); and
- sets out information about the Farmgate Milk Price.

A report by Fonterra's external auditors that confirms that the Farmgate Milk Price for the 2013 Season has been derived in accordance with the Principles, Methodologies and Detailed Rules in Fonterra's Farmgate Milk Price Manual (Manual) is attached to this Statement following section 7.

The purpose of this Statement is to help Fonterra Farmer Shareholders, Unit holders in the Fonterra Shareholders' Fund, and other interested parties better understand the Farmgate Milk Price.

This Statement covers the following:

- Section 2 sets out the final Farmgate Milk Price for the 2013 Season. It also describes the way the Farmgate Milk Price relates to Fonterra's financial year ended 31 July 2013.
- Section 3 provides an overview of the Farmgate Milk Price. It also sets out the revenue and cost components of the Farmgate Milk Price for the last three Seasons.
- Section 4 describes the key factors that influence revenue. This is the most significant factor that affects the Farmgate Milk Price from Season to Season.
- Section 5 describes the costs that go into the Farmgate Milk Price.
- Section 6 describes how adjustments can be made to the Farmgate Milk Price Manual, and sets out recently approved adjustments that will take effect from the 2014 Season.

- Section 7 contains a glossary of terms used in this Statement.

There are five attachments that provide further detail, for the last three Seasons, on the most significant factors that impact the Farmgate Milk Price.

Numbers in this Statement have been rounded and, as a result, some tables may not exactly total or sum to 100%. The information presented in this statement is based on data used within the Milk Price Model not Fonterra's actual data.

A Farmgate Milk Price Statement will be made available each year with Fonterra's annual results on www.fonterra.com. A hard copy can be requested by phoning the Supplier Services Team on 0800 65 65 68.

2. THE FARMGATE MILK PRICE FOR THE 2013 SEASON

The Manual sets out the methodology for determining the base amount to be paid by Fonterra for milk supplied to Fonterra in New Zealand in a Season. Fonterra's Milk Price Panel advises the Fonterra Board on matters concerning the Manual, including the calculation of the Farmgate Milk Price. For the 2013 Season, the Fonterra Board has determined that this amount is New Zealand dollars (NZD) 8.549 billion.

The Farmgate Milk Price is described in this Statement as the total amount calculated under the Manual of NZD 8.549 billion. For convenience, the Manual also defines the 'Farmgate Milk Price per kgMS' as this total amount

divided by Fonterra's total New Zealand milk supply (1.463 billion kilogram of milk solids (kgMS)), or NZD 5.84 per kgMS.

The total amount calculated under the Manual of NZD 8.549 billion is used for payments for New Zealand milk supplied in the 2013 Season. It includes payments for milk supplied by Farmer Shareholders, milk supplied on contract, and a portion of the premiums paid for Winter Milk. The total payment amount set by the Fonterra Board also includes Approved Adjustments (e.g. premium payments for Specialty Milk and the remaining portion of the premiums paid for Winter Milk).¹

The cost of New Zealand sourced milk sold, as disclosed in Fonterra's most recent financial statements, is NZD 8.649 billion. The NZD 100 million difference between this amount and the NZD 8.549 billion calculated under the Manual primarily arises because the financial statements report the cost of milk acquired during the financial year comprising the 12 month period ending on 31 July 2013, plus the Approved Adjustments. In contrast the Farmgate Milk Price for the Season is the cost of milk supplied in respect of the 12 month period ending on 31 May 2013.

¹ A commodity manufacturer of milk powders is unlikely to pay premiums for Specialty Milk or to pay the level of premiums for Winter Milk that an integrated processor such as Fonterra would pay. These payments are therefore not funded from the total amount calculated under the Manual and are paid over and above this total amount. For the 2013 Season, these Approved Adjustments amounted to NZD 20 million.

3.

FARMGATE MILK PRICE OVERVIEW

3.1

Rationale for Farmgate Milk Price

Fonterra currently collects around 88% of New Zealand's milk production. Because Fonterra purchases such a large proportion of New Zealand's total milk, there is no 'market price' for milk that is independent of the price paid by Fonterra. As a result, since its formation in 2001, Fonterra has calculated a Farmgate Milk Price that enables total returns to be allocated between payments for milk and returns on the capital invested by Fonterra Farmer Shareholders and Unit holders in the Fonterra Shareholders' Fund.

3.2

Farmgate Milk Price methodology

Since the 2009 Season, the Farmgate Milk Price has been calculated in accordance with the Manual by:

- Determining the revenue that Fonterra would earn if the equivalent of all the milk Fonterra collects was converted into commodity specifications of whole milk powder (WMP) and skim milk powder (SMP), and their by-products, which are butter, anhydrous milkfat (AMF) and buttermilk powder (BMP). These products are referred to in the Manual as 'Reference Commodity Products'. Prices primarily reflect USD prices achieved on the twice-monthly GlobalDairyTrade (GDT) trading events, converted to NZD using Fonterra's actual average monthly foreign-exchange conversion rate.²

- Deducting costs, including the cost of transporting raw milk to factories, and the cost of efficiently manufacturing Reference Commodity Products and then transporting them to the point of export from New Zealand, along with selling and administration expenses. These costs also include amounts for depreciation of fixed assets and an appropriate return on investment, including investment in working capital.

The balance comprises the Farmgate Milk Price. While this is an aggregate amount, it is usually referred to on the basis of a Farmgate Milk Price per kgMS.

3.3

Rationale for Reference Commodity Products

Manufacture of the Reference Commodity Products comprised around 75% of Fonterra's total New Zealand ingredients production in the 2013 Season.

Almost all additional milk collected over the last decade in New Zealand by Fonterra and its competitors has been used to make milk powders. Because returns from the sale of milk powders and their by-products represent the 'marginal' returns that would drive the price of milk in a competitive market in New Zealand, the Farmgate Milk Price is based on these products. Returns from non-powder commodities, such as cheese and casein, have largely been irrelevant in driving investment in the dairy industry over the last 10 years and are therefore not taken into account in determining the Farmgate Milk Price.

The Farmgate Milk Price approach does not include any returns earned by

Fonterra from specialised ingredients and consumer branded products. These types of products earn premiums over and above the returns to standard commodity ingredients. It is therefore appropriate that these premiums are recognised in Fonterra's earnings rather than in the Farmgate Milk Price.

3.4

DIRA 'default' price

The 'default' price paid by Independent Processors for milk obtained from Fonterra under the Raw Milk Regulations made under the Dairy Industry Restructuring Act 2001 (DIRA) is based on the "farm gate milk price" as defined in the Raw Milk Regulations. While this "farm gate milk price" is based on the Farmgate Milk Price calculated under the Manual, it is not exactly the same (for instance, it does not include Winter Milk premiums, with such premiums separately payable by Independent Processors who order Winter Milk under the Raw Milk Regulations).

To date, under the regulations, Independent Processors have tended to demand proportionately more of their milk during 'shoulder' early spring and autumn periods compared to Fonterra's actual seasonal pattern of milk supply. This has imposed extra costs on Fonterra, since it effectively pays more for milk during the shoulder periods than it does for milk collected during peak production in late spring.³ Fonterra has been able to recover a portion of these additional costs by charging a premium of 10 cents per kgMS in the default price for milk supplied under the Raw Milk Regulations.

2 For WMP, SMP and AMF, which comprised 89% of revenue in the 2013 Farmgate Milk Price, all prices were sourced from GDT. For Butter and BMP a mixture of GDT and non-GDT prices were used.

3 Higher effective payments for milk supplied in shoulder periods are a consequence of the capacity adjustment, which results in farmers with above-average ratios of shoulder milk to peak milk receiving a higher average Farmgate Milk Price.

The Raw Milk Regulations were replaced in 2012, with effect from the 2014 Season. Under the new Raw Milk Regulations:

- Fonterra is required to supply Independent Processors up to 795 million litres of raw milk in total each Season (approximately 5% of the milk collected by Fonterra). The previous cap was 600 million litres.
- Independent Processors' milk orders are subject to maximum monthly amounts to address the problem of Fonterra being required to supply a disproportionately high volume of milk in the shoulder periods, and Fonterra is no longer able to charge a premium of 10 cents per kgMS in the default price.
- Independent Processors with less than 30 million litres of own supply in the previous Season may elect to pay a price based on the most recent quarterly estimates (i.e. with no "wash-up" amounts payable at the end of the Season, as is the case for other independent processors who order milk under the Raw Milk Regulations).
- From 1 June 2016 onwards, Independent Processors who have had 30 million litres or more of their own supply in each of the three consecutive previous Seasons will not be entitled to purchase milk under the Raw Milk Regulations.

3.5

Farmgate Milk Price Governance

The Fonterra Board sets the total amount to be paid by Fonterra for all milk supplied to it in New Zealand in each Season. This amount is made up of the Farmgate Milk Price and any Approved Adjustments (e.g. premium payments for some Winter Milk and Specialty Milk such as organic milk).

Fonterra's constitution requires Fonterra to maintain the Manual, which sets out Fonterra's policies and methodology for determining the Farmgate Milk Price. The Manual must reflect the Milk Price Principles set out in Fonterra's constitution. The Farmgate Milk Price has been calculated in accordance with the Manual since the start of the 2009 Season.

The Fonterra Board has established a robust governance structure to oversee the setting of the Farmgate Milk Price, which comprises the elements illustrated in the diagram to the right.

1 Milk Price Panel:

The Milk Price Panel plays a key role. It has five members. Two are Fonterra-appointed directors (one of whom is the Chair), one a Fonterra farmer-elected director and two are appropriately-qualified nominees of the Fonterra Shareholders' Council. The current members of the Panel are: John Waller (Chair) and David Jackson who are appointed Fonterra directors; David MacLeod who is a farmer-elected Fonterra director; and Richard Punter and Paddy Boyle who are nominees of the Council.

The Panel oversees the governance of the Farmgate Milk Price and the Manual, including changes to the Manual and verification by independent external experts of key parameters

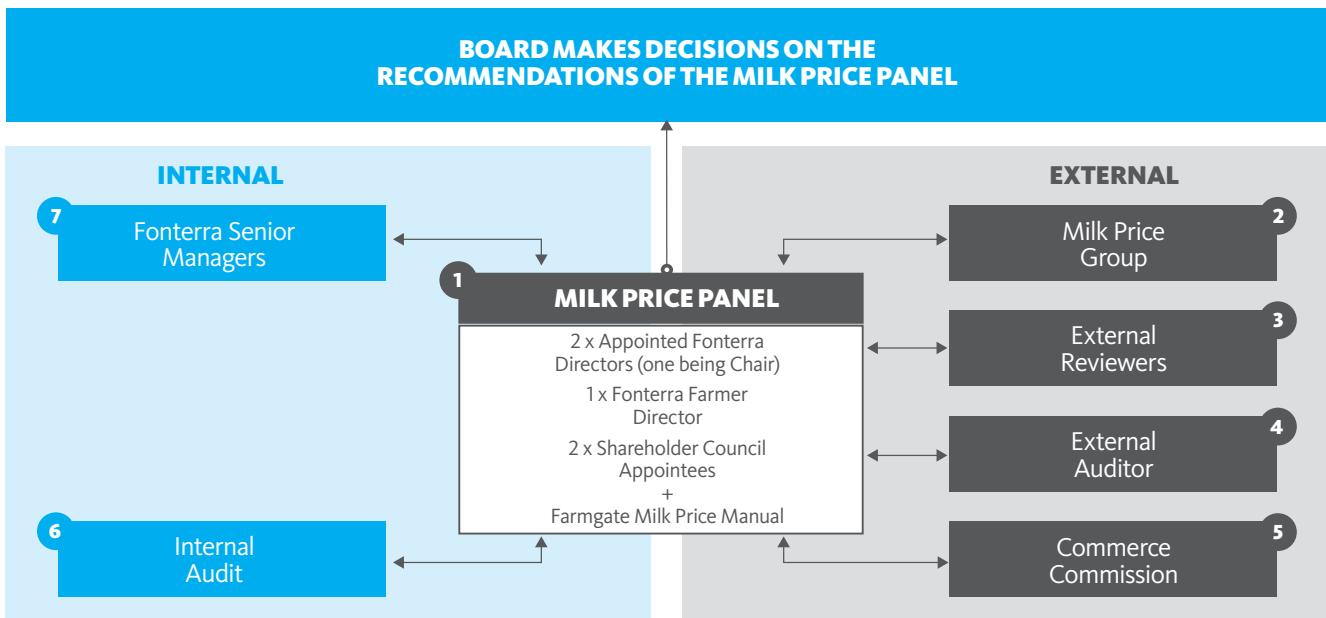
(such as resource usage rates, product yields and fixed manufacturing costs). The Panel is responsible for supervising the calculation of the Farmgate Milk Price and making a recommendation on it to the Fonterra Board and providing recommendations to the Fonterra Board on changes to the Manual and assurance to the Fonterra Board that the Farmgate Milk Price has been calculated each year in accordance with the Manual.

2 Milk Price Group:

The Milk Price Group is a working group established by Fonterra. The Head of the Milk Price Group is independent of Fonterra's management and reports directly to the Chair of the Milk Price Panel. The role of the Milk Price Group includes:

- ensuring that the Farmgate Milk Price is calculated in accordance with the Manual and making recommendations in respect of the Farmgate Milk Price to the Panel;
- considering any proposed amendments to the Manual, including those the Milk Price Group itself considers are appropriate, and ensuring they are in accordance with the Milk Price Principles in Fonterra's Constitution;
- providing assurance to the Fonterra Board over the calculation of the forecast of the Farmgate Milk Price;
- managing engagement with External Reviewers; and
- engaging with the Commerce Commission, including to ensure full disclosure of all material aspects of the Farmgate Milk Price derivation each year.

The functions of the Milk Price Group are contracted out to Ernst & Young and other technical experts who are not employees of Fonterra.



Source: Fonterra

3 External Reviewers:

- Provide expert advice on various inputs, as well as assurance over accuracy of financial models.
- Participate in reviews of key parameters of the Farmgate Milk Price at regular intervals (which can be up to four years).

4 External Auditor:

- Audits the Farmgate Milk Price each year.
- Provides assurance that the Farmgate Milk Price has been derived in accordance with the Milk Price Principles, Methodologies and Detailed Rules of the Farmgate Milk Price Manual.
- Fonterra's external auditor is PricewaterhouseCoopers.

5 Commerce Commission Milk Price Oversight:

Subpart 5A of DIRA, which was passed into law in July 2012, gives the Commerce Commission an oversight role with respect to the Farmgate Milk Price. The purpose of Subpart 5A is to promote the setting of a Farmgate Milk Price that provides an incentive to Fonterra to operate efficiently, while providing for contestability in the market for the purchase of milk from farmers (section 150A). Each year, the Commission is required to review and report on the extent to which the Manual and the Farmgate Milk Price are consistent with this purpose:

- The Commerce Commission's final report on the Manual for the 2012/13 Season was released on 14 December 2012 and can be found at <http://www.comcom.govt.nz/regulated-industries/dairy-industry/review-of-fonterra-s-farm-gate-milk-price-and-manual/statutory-review-of-milk-price-manual/>.

- The final report on the Farmgate Milk Price calculation was released on 16 September 2013 and can be found at <http://www.comcom.govt.nz/regulated-industries/dairy-industry/review-of-fonterra-s-farm-gate-milk-price-and-manual/statutory-review-of-milk-price-calculation/>.

6 Internal Audit:

Provides assurance over forecasting process controls and data.

7 Fonterra Senior Managers:

Provide internal oversight of the calculation of the actual and forecast Farmgate Milk Price in accordance with the Manual and detailed models and procedures.

3.6

Summary of Farmgate Milk Price revenue and costs

Table 1 below summarises the Farmgate Milk Price for the milk supplied in the 2011, 2012 and 2013 Seasons.

TABLE 1: FARMGATE MILK PRICE SUMMARY

| SEASON | 2013 | | 2012 | | 2011 | | 2013/2012 | 2012/2011 |
|------------------------------------|--------------|---------------|--------------|---------------|--------------|---------------|---------------------|---------------------|
| | NZD BN | \$/KGMS | NZD BN | \$/KGMS | NZD BN | \$/KGMS | % CHANGE \$/KGMS | % CHANGE \$/KGMS |
| FARMGATE MILK PRICE REVENUE | 12.1 | 8.24 | 12.4 | 8.29 | 13.1 | 9.76 | (0.6%) | (15.0%) |
| LACTOSE | (0.8) | (0.52) | (0.6) | (0.42) | (0.3) | (0.25) | 23.0% | 72.3% |
| NET REVENUE | 11.3 | 7.72 | 11.7 | 7.87 | 12.8 | 9.51 | (1.9%) | (17.3%) |
| FARMGATE MILK PRICE CASH COSTS | (1.7) | (1.18) | (1.6) | (1.10) | (1.5) | (1.13) | 7.6% | (2.5%) |
| FARMGATE MILK PRICE CAPITAL COSTS* | (1.0) | (0.69) | (1.0) | (0.68) | (1.1) | (0.78) | 2.0% | (13.2%) |
| TOTAL COSTS | (2.7) | (1.88) | (2.7) | (1.78) | (2.6) | (1.91) | 5.4% | (6.9%) |
| FARMGATE MILK PRICE | 8.5 | 5.84 | 9.1 | 6.08 | 10.2 | 7.60 | (4.0%) | (19.9%) |
| MILK COLLECTIONS (MILLION KGMS) | | 1,463 | | 1,493 | | 1,346 | (2.0%) | 10.9% |

* Includes depreciation, tax and capital charge

Both Table 1 and Figure 2 below show that changes in the Farmgate Milk Price over the last three Seasons have been driven mainly by changes in commodity prices converted into NZD. Key determinants of the movements in average costs between the 2012 and the 2013 Seasons are explained in section 5.

FIGURE 2: CHANGES IN THE FARMGATE MILK PRICE: SEASONS 2011 – 2013



4.

FARMGATE MILK PRICE REVENUE

4.1

Supply, Production and Sales Volumes

Farmgate Milk Price Revenue varies according to the milk supplied during the Season, product mix, sales volumes and prices in NZD. Farmgate Milk Price Revenue is the most significant driver of the Farmgate Milk Price.

FIGURE 3: TIMING OF SUPPLY, PRODUCTION AND SALES VOLUMES

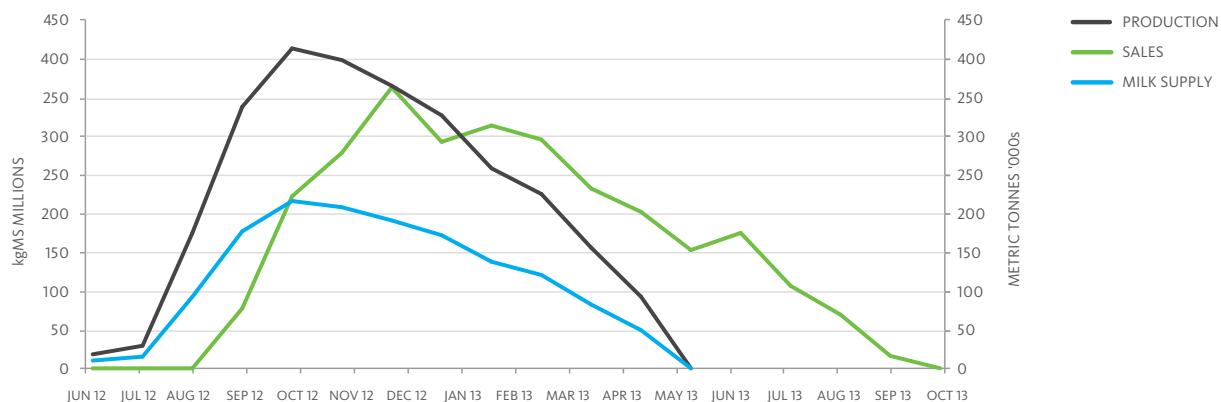


Figure 3 above shows the relationship between when milk is collected during a Season (the light-blue line), the volume of products manufactured from that milk (the dark-blue line) and when that product is sold (the light-green line). The key points to note are as follows:

- Milk supplied during the 2013 Season comprised 1.463 billion kgMS. Attachment 1 provides information on milk supplied every quarter for each of the last three Seasons.
- This amount of milk is assumed to be converted into Reference Commodity Products. The mix between the various products that goes into the Farmgate Milk Price is updated on a forward-looking basis during the Season to reflect Fonterra's projected mix between WMP and SMP, and between butter and AMF. (Production of BMP is a residual amount.) Attachment 1 provides Farmgate Milk Price production by quarter for each Reference Commodity Product for the last three Seasons.

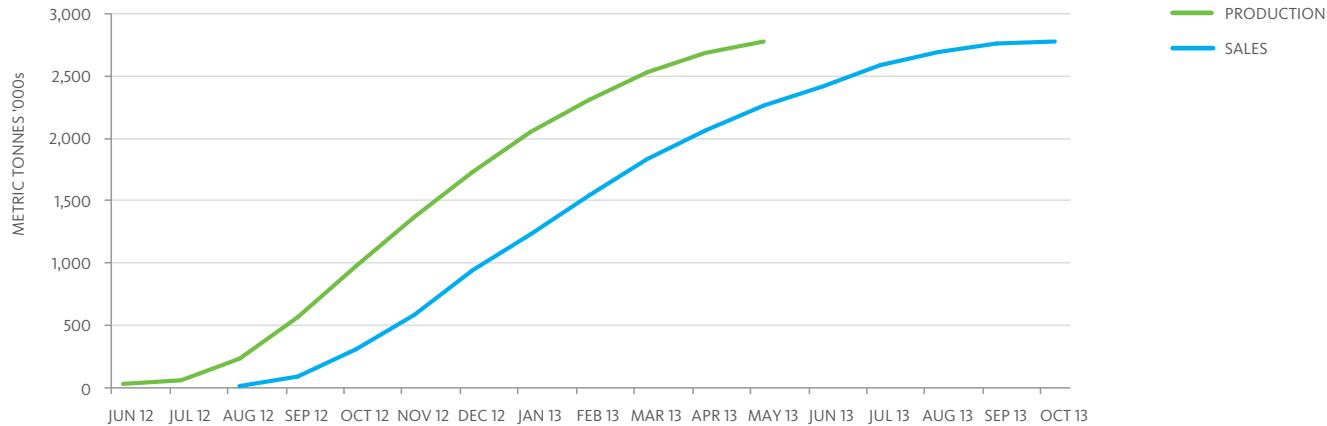
- Sales volumes reflect the pattern of Fonterra's actual shipments of Reference Commodity Products manufactured from milk supplied during the Season. Figure 3 shows the lag between production and shipment, as well as the fact that minimal milk is supplied in June and July. These factors mean that shipments of products manufactured from milk collected in a Season (beginning 1 June) do not normally commence until August, at the earliest. Shipments are normally complete by the end of October in the following year, again as illustrated in Figure 3. Attachment 2 sets out sales volumes by quarter for each of the last three Seasons.

Revenues are recognised when sales are invoiced, at the time of shipment. Sales prices included in the Farmgate Milk Price are always set prior to the month of shipment (primarily via GDT events). Figure 4 shows the average lag between when prices are struck and when product is shipped. This matches Fonterra's actual average lag for

product that is sold on terms which are typical for the sale of commodity products from New Zealand. To ensure that this is the case, contracts with more than five months between when a price is set and shipment occurs are not taken into account in determining shipment prices.

Attachment 3 sets out the average number of months prior to shipment that prices were established for each quarter over the last three Seasons. Attachment 3 also sets out the average percentage of sales contracted in each month prior to shipment in the last three Seasons.

FIGURE 4: LAG BETWEEN WHEN PRICES WERE STRUCK AND SHIPMENT



4.2 Prices

For the 2013 Season, GDT was the sole source of prices for WMP, SMP and AMF, and was the primary reference point for BMP. GDT sales of Butter commenced on 19 February 2013 and have been included as a source of prices since then. Non-GDT contracts that Fonterra entered into were used to establish prices for some butter and BMP shipments.

Detailed Rules in the Manual dictate which contracts can be taken into account. Contracts that are excluded, for example, include sales to Fonterra subsidiaries.

Attachment 1 highlights that WMP, SMP and AMF (2,475,000 Metric Tonnes MT) accounted for 89% of the Farmgate Milk Price production of Reference Commodity Products (2,781,000 MT) in the 2013 Season.

The average shipment prices incorporate provisions for the lower prices received for 'downgrade product'. These are products that do not meet manufacturing specifications, some of which may only be suitable for use as stock feed.

Table 2 on the opposite page shows the weighted-average United States Dollars (USD) contract prices of Reference Commodity Products for the last three Seasons. It shows that prices for milk powders increased slightly between the 2012 Season and the 2013 Season (3.7 % on a weighted average basis), but that cream products (butter and AMF) decreased slightly (3.9 % on a weighted-average basis). Average USD prices per MT for each Reference Commodity Product by quarter for the last three Seasons are set out in Attachment 4.

TABLE 2: WEIGHTED AVERAGE USD PRICE 2011 – 2013 SEASONS

Weighted Average Price (USD) per MT

| SEASON | 2013 | 2012 | 2011 | 2013/2012 % CHANGE | 2012/2011 % CHANGE |
|--------|-------|-------|-------|--------------------|--------------------|
| WMP | 3,394 | 3,359 | 3,606 | 1.1% | (6.9%) |
| SMP | 3,625 | 3,285 | 3,321 | 10.3% | (1.1%) |
| BUTTER | 3,550 | 3,546 | 4,344 | 0.1% | (18.4%) |
| AMF | 3,450 | 3,825 | 5,258 | (9.8%) | (27.3%) |
| BMP | 3,457 | 3,163 | 3,259 | 9.3% | (3.0%) |

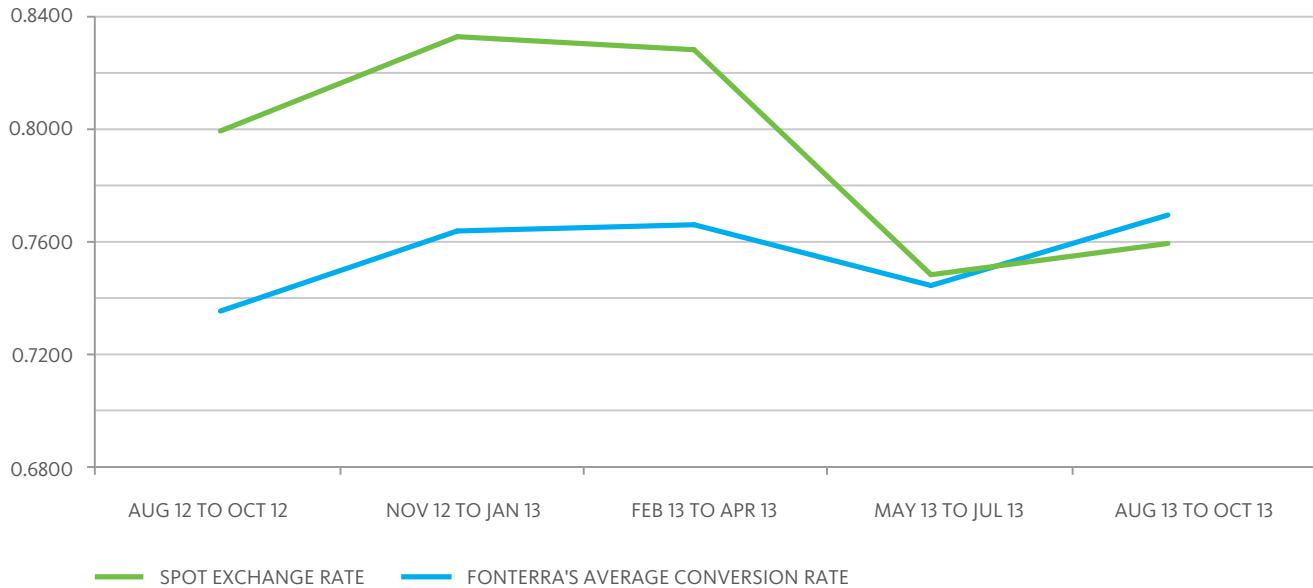
The Manual provides for the conversion of notional USD Farmgate Milk Price receipts to NZD for each month at the average rate at which Fonterra actually converts its USD-equivalent foreign-currency receipts for the month, taking into account the costs and benefits of Fonterra's hedging activities. Fonterra's policy is to hedge 100% of net recognised foreign currency trade receivables and payables. It also requires hedging of up to 100% of forecast cash receipts from sales for a period of up to 18 months

within limits approved by Fonterra's Board. Fonterra uses both forward foreign-exchange contracts and currency options to hedge its foreign-exchange risk.

Figure 5 below shows the average foreign-exchange conversion rate (USD:NZD) for the Farmgate Milk Price Revenue for each quarter in the 2013 Season, based on Fonterra's actual hedging contracts in place, compared to the weighted-average spot rate that prevailed in the quarter. Figure 5, in conjunction with Attachment 5, shows

that Fonterra's hedging policy resulted in an average foreign-exchange conversion rate for the 2013 Season of USD:NZD exchange rate 0.7986 against a spot rate of 0.8200 USD:NZD. Attachment 5 also provides equivalent information by quarter for the 2011 and 2012 Seasons. Although the data over the last three years shows Fonterra achieving a better rate through its use of hedging, the opposite situation can also occur. This was the case in the 2009 Season, the data for which was published in the 2011 Farmgate Milk Price Statement.

FIGURE 5: AVERAGE USD:NZD CONVERSION AND SPOT RATES BY SALES QUARTER



As at 31 July 2013, Fonterra had foreign exchange contracts in place in respect of approximately 67% of the USD-equivalent operating cash flow exposure expected to impact on the Farmgate Milk Price for the 2014 Season. At a spot exchange rate of 0.7993, these contracts would result in an average USD:NZD conversion rate of 79.8 cents.⁴

⁴ As noted above, Fonterra uses currency options as well as forward exchange contracts to hedge its foreign currency receipts. Use of options means the average hedged conversion rate may vary with the spot exchange rate.

TABLE 3: EFFECT OF HEDGING POLICY ON THE FARMGATE MILK PRICE FOR THE 2011 – 2013 SEASONS

| | 2013 SEASON | | 2012 SEASON | | 2011 SEASON | |
|--|-------------|--------|-------------|--------|-------------|--------|
| | MILK PRICE | SPOT | MILK PRICE | SPOT | MILK PRICE | SPOT |
| AVERAGE CONVERSION RATE (USD:NZD) | 0.7986 | 0.8200 | 0.7706 | 0.8023 | 0.7184 | 0.7879 |
| MILK PRICE (NZD / KGMS) | 5.84 | 5.64 | 6.08 | 5.76 | 7.60 | 6.72 |
| GAIN (LOSS) FROM HEDGING (NZD / KGMS) | 0.21 | | 0.32 | | 0.88 | |

4.3

Lactose

Lactose is used as an ingredient in the manufacture of WMP, SMP and BMP to achieve a standard protein composition aligned to internationally-recognised specifications. Most of the lactose content of milk powders is obtained from the milk supplied to Fonterra. However, a portion is purchased at international prices. Because the cost of purchased lactose depends on global prices and the exchange rate, it is presented in Table 1 as a deduction from Farmgate Milk Price Revenue.

Table 4 below provides the basis for the cost of purchased lactose in the 2013, 2012 and 2011 Seasons.

TABLE 4: PURCHASED LACTOSE & PRICE

| SEASON | 2013 | 2012 | 2011 | 2013/2012 % CHANGE | 2012/2011 % CHANGE |
|--|-------|-------|------|--------------------|--------------------|
| PURCHASED LACTOSE ('000 METRIC TONNES) | 297 | 310 | 275 | (4.4%) | 12.9% |
| AVERAGE PRICE (USD) PER MT | 2,036 | 1,558 | 848 | 30.7% | 83.7% |
| TOTAL LACTOSE PURCHASES (USD \$M) | 604 | 483 | 233 | 25.0% | 107.4% |

5.

FARMGATE MILK PRICE COSTS

5.1

Farmgate Milk Price Cash Costs

Farmgate Milk Price Cash Costs reflect:

- Fonterra's actual supply chain and collection costs.
- Costs associated with Fonterra's actual daily processing capacity which is mapped to more than 20 reference manufacturing sites (some of which contain multiple plants) with associated overhead costs. The costs of operating these plants are based on daily processing capacities that match Fonterra's averages, and with operating parameters that reflect manufacturers' specifications and Fonterra's per-unit costs.

- Overhead and selling costs that are typical of a commodity-only business which sells product from New Zealand. Overhead costs are calculated by reference to Fonterra's actual costs, but exclude costs that are attributable to the much broader scope of Fonterra's business. Selling costs reflect the sale of products through an equivalent platform to GDT with an offshore supporting network.

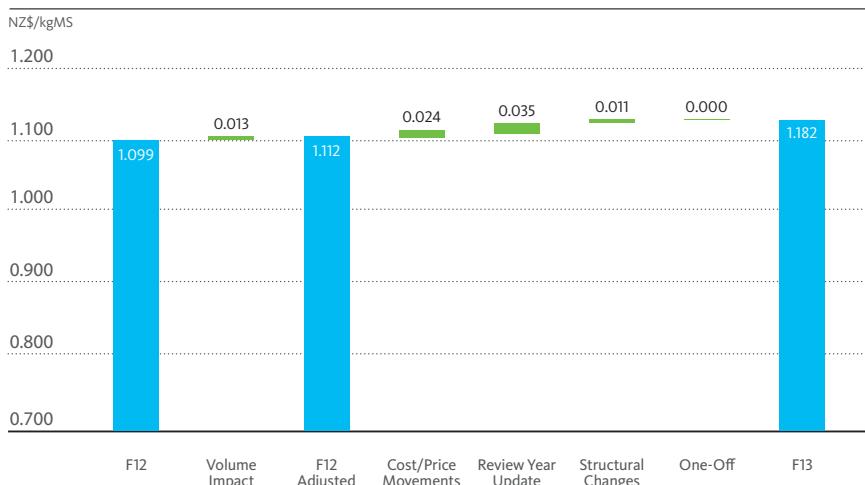
Table 5 below and Figure 6 on the opposite page summarise the major categories of cash costs, and the sources of movements in each category between the 2012 and 2013 Seasons.

TABLE 5: SUMMARY OF MOVEMENTS IN CASH COSTS

| \$M | F12 | VOLUME / PRODUCT MIX EFFECT | COST MOVEMENTS | REVIEW YEAR MOVEMENTS | STRUCTURAL CHANGES | ONE-OFF CHARGES | F13 | % CHANGE DUE TO COST | TOTAL % CHANGE |
|--|-------|-----------------------------|----------------|-----------------------|--------------------|-----------------|-------|----------------------|----------------|
| SALES COSTS | 117 | - | -* | - | - | - | 117 | 0.0% | (0.3%) |
| VARIABLE MANUFACTURING & SUPPLY CHAIN COSTS | 704 | (7) | 19 | (22) | (13) | - | 682 | 2.8% | (3.1%) |
| FIXED MANUFACTURING, SITE OVERHEADS, REPAIRS & MAINTENANCE, & FIXED SUPPLY CHAIN COSTS | 264 | - | 8 | 38 | 29 | - | 339 | 3.1% | 28.2% |
| COLLECTION COSTS | 338 | (7) | 5 | - | - | - | 336 | 1.5% | (0.5%) |
| OTHER COSTS | 217 | - | 3 | 35 | - | 1 | 256 | 1.6% | 18.1% |
| TOTAL CASH COSTS | 1,641 | (14) | 36 | 51 | 16 | 1 | 1,730 | 2.2% | 5.5% |
| % MOVEMENTS | | (0.8%) | 2.2% | 3.1% | 1.0% | 0.0% | | | |

* Sales costs show no cost movement as this has been cancelled out due to the rate at which its USD component has been converted back to NZD.

FIGURE 6: SOURCES OF MOVEMENTS IN AVERAGE CASH COSTS



The movements in costs shown above reflect the following:

- The widespread drought in early 2013 resulted in a 2% decrease in milk supply compared to the 2012 Season. By itself, this factor resulted in an increase in cash costs per kgMS of 1.3 cents.
- Costs increased by an average of 2.2%, or 2.4 cents per kgMS, due to inflationary factors.
- A major review, undertaken every four years, resulted in changes to a number of the cost inputs into the Farmgate Milk Price. The most significant of these reflected a change in the allocation of costs related to maintaining the effective lives and productive capacity of the manufacturing assets. Previously, a substantial portion of these costs were reflected in the provision for capital costs. From 2012/13, the portion previously reflected in capital costs has largely been replaced by an assumed increase in the provision for repairs and maintenance costs. (There has also been a materially offsetting decrease in capital costs.) This adjustment accounts for 3.0 cents per kgMS of the increase in cash costs attributable to review year updates.

- A net increase of NZD 1 million in 'one-off' costs in 2013 relative to the 2012 Season. One-off costs in respect of higher-than-forecast peak milk supply and the failure in October 2011 of the Maui gas pipeline were included in 2012. In 2013 an allowance has been included for costs arising from some specific quality and regulatory issues faced by Fonterra. These costs do not include any allowance for costs that may be incurred by Fonterra in relation to the precautionary recall of product containing WPC80 in August 2013. These costs would not have been incurred by a manufacturer of commodity milk powders.

at Fonterra's Edendale manufacturing site in Southland in 2009 and the DD2 drier currently being installed at Fonterra's Darfield Site but are larger and more efficient than Fonterra's older smaller plants.

The basis for deriving the benchmark depreciation, tax costs and capital charge is set out in detail in the Manual. In broad terms:

- The capital charge on fixed assets is designed to recover the full cost (through a depreciation charge) of the manufacturing and other assets required to manufacture Reference Commodity Products over the assets' economic lives, and to generate a return at the benchmark Weighted Average Cost of Capital (WACC) on the undepreciated balance each year.
- The capital charge is also calculated in a manner that results in its aggregate amount growing each year approximately in line with milk supply and capital goods inflation, as long as the WACC does not change. This means that changes in the average age of the asset base do not result in material year-on-year movements in the capital charge, and therefore in the Farmgate Milk Price.

5.2 Farmgate Milk Price Capital Costs

The Milk Price Model uses 'standard' plants to calculate both operating and plant-related capital costs. These plants have capacities that approximate Fonterra's average daily capacities for each type of plant and reflect current technology of the type typically employed across the industry.⁵ The standard plants are smaller than Fonterra's newest large manufacturing plants, such as the ED4 drier installed

5 The average daily processing capacity of the standard WMP and SMP plants installed prior to the 2013 Season is approximately 1.9 million litres. As a consequence of the review year updates (see section 6), incremental and replacement WMP and SMP plants incorporated in the asset base from the 2013 Season have an average daily processing capacity of approximately 2.4 million litres.

- The Farmgate Milk Price cost base also includes a provision for a capital charge on the monthly net working capital balances implied by the sale and manufacture of the Reference Commodity Products, and by the phasing of Fonterra's payments for milk to its suppliers. Each of these items varies somewhat between years,

resulting in some annual variation in this element of the capital charge.

- The WACC used to determine the capital charge is specified on an after-tax basis, so the Farmgate Milk Price cost base includes a separate provision for corporate tax. This amount is a relatively constant

proportion of the WACC charges on fixed assets and net working capital each year.

Table 6 below shows capital costs and the aggregate book value of the Farmgate Milk Price fixed asset base and monthly average net working capital for the 2011, 2012 and 2013 Seasons.

TABLE 6: AGGREGATE BOOK VALUE OF FIXED ASSET BASE AND MONTHLY AVERAGE NET WORKING CAPITAL

| SEASON | 2013 NZD MILLION | 2012 NZD MILLION | 2011 NZD MILLION |
|-----------------------------------|------------------------|------------------------|------------------------|
| DEPRECIATION | 244 | 218 | 203 |
| WACC CHARGE – FIXED ASSETS | 447 | 469 | 498 |
| WACC CHARGE – NET WORKING CAPITAL | 134 | 137 | 130 |
| TAX | 191 | 193 | 226 |
| TOTAL CAPITAL CHARGE | 1,017 | 1,017 | 1,056 |
| TOTAL FIXED ASSETS (BOOK VALUE) | 6,098 | 6,121 | 5,915 |
| AVERAGE NET WORKING CAPITAL | 1,601 | 2,244 | 1,570 |
| WACC RATE | 7.4% | 7.7% | 8.5% |

Three matters are relevant to a comparison of capital costs between the 2013 and 2012 Seasons:

- The change in the allocation of costs relating to maintaining the effective lives and productive capability of the manufacturing assets noted in section 5.1, resulted in a reduction in capital costs of approximately NZD 27 million, or 1.8 cents per kgMS and also contributed to the reduction in the book value of the fixed assets.
- In the 2013 Season, the WACC reduced from 7.7% in 2012 to 7.4% in 2013. By itself, this change resulted in a reduction of NZD 13 million in the capital charge on fixed assets, a reduction of NZD 6 million in the charge on net working capital, and a reduction of NZD 10 million in the tax charge. These reductions were however largely offset by an increase in capital costs

due to the effects of the underlying methodology, which is designed to result in an aggregate capital charge that increases approximately in line with inflation and milk supply, holding other things equal.

- The calculation of the WACC and depreciation charges for milk collection assets moved from being based on a modelled fleet with standard lives to being based on the actual capital cost and depreciation of Fonterra's milk collection assets. This change resulted in a small increase in total capital costs.

Working Capital Charge is calculated using the 'simplified Brennan Lally' methodology employed by the Commerce Commission.⁶ The methodology applied through to the 2011 Season provided for input parameters into the WACC to be updated every four years. Consequently, the WACC was held constant at 8.5% between the 2009 and 2011 Seasons, and reflected market interest rates as of mid 2008. From the 2012 Season, the methodology was revised to be based on rolling five-year averages of market interest rates, including the five year New Zealand government stock rate, resulting in a reduction in the WACC to 7.7% for the 2012 Season and to 7.4% for the 2013 Season. The 2014 Season WACC will be 6.8%.

5.3 Calculation of Benchmark Weighted Average Cost of Capital (WACC)

The WACC used to determine the Fixed Asset Capital Charges and the Net

6 See, for example, the various papers at [/www.comcom.govt.nz/cost-of-capital/](http://www.comcom.govt.nz/cost-of-capital/)

6.

FARMGATE MILK PRICE MANUAL

Since the Manual was introduced in the 2009 Season, various minor refinements have been made as practical issues were identified and addressed. Such refinements were to be expected given the importance to Fonterra of ensuring the Farmgate Milk Price approach is robust. Any modification to the Manual is required to be consistent with the Milk Price Principles which are set out in the Fonterra Constitution.

The Manual itself also allows for various parameter adjustments to be made. An example of this is the Detailed Rule that allows for the addition of new Reference Commodity Products if certain conditions established in the Manual are met. The Manual also provides for reviews of various aspects of the Manual to be carried out at least once every four years. These reviews can result in changes to the application of rules in the Manual or inputs into the Farmgate Milk Price. The first of these four-yearly reviews has been completed and the results from this have been incorporated into the 2013 Milk Price. The review resulted in a number of amendments which in aggregate have not had a material impact on the Farmgate Milk Price for the 2013 Season.

A material impact on the Farmgate Milk Price is considered to be 2.2 cents per kgMS (in aggregate or for any individual change).

As noted in Section 3.5, the Commerce Commission's final report on the 2012/13 Manual was released on 14 December 2012.

The Board approved a number of amendments to the Manual in July 2013, and the updated version of the Manual is available on www.fonterra.com. Only two of these amendments could be considered substantive, but are not expected to have a material effect on the Farmgate Milk Price for the 2014 Season:

- The first amends the approach taken to calculating Repairs & Maintenance (R&M) costs, to provide that a key input (R&M cost as a percentage of asset replacement cost) will be updated annually, rather than at four-yearly intervals. This amendment recognises that Fonterra's actual R&M spend has been increasing materially in recent years, in part due to the change in asset maintenance philosophy which has been reflected in the removal from the Farmgate Milk Price of a provision for capital costs relating to maintaining the effective lives and productive capability of the manufacturing assets.

- The second comprises a similar amendment to the approach taken to setting working capital assumptions in respect of accounts receivables and accounts payable balances, to provide that these will now be updated annually rather than once every four years. This amendment will enable closer alignment between the pricing series used in the Milk Price Model and the working capital terms applying to the relevant sales.

7. GLOSSARY

In this Statement, unless the context otherwise requires, the terms set out below have the meanings set out next to them:

AMF means anhydrous milk fat.

Approved Adjustments means an amount approved by the Fonterra Board to be paid for milk in addition to, or to be subtracted from, the amount calculated under the Farmgate Milk Price Manual.

BMP means buttermilk powder.

Detailed Rules means the detailed rules for calculating the Farmgate Milk Price as set out in the Manual.

DIRA means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities.

Farmgate Milk Price means Fonterra's Farmgate Milk Price as determined under the Manual.

Farmgate Milk Price Capital Costs are defined in the Manual.

Farmgate Milk Price Cash Costs are defined in the Manual.

Farmgate Milk Price Manual or **Manual** means Fonterra's Farmgate Milk Price Manual.

Fonterra means Fonterra Co-operative Group Limited.

Financial year means Fonterra's financial year which runs from 1 August to the following 31 July.

GlobalDairyTrade or **GDT** means the electronic auction platform that is used to sell commodity dairy products.

Independent Processors means entities who are independent of Fonterra and process raw milk.

kgMS means kilograms of milksolids.

Methodologies means the methodologies for calculating the Farmgate Milk Price as set out in the Manual.

Milk Price Model means the model used to calculate the Farmgate Milk Price set out in the Manual.

Milk Price Principles or **Principles** means the Milk Price Principles set out in Fonterra's Constitution.

MT means metric tonnes.

NZD means New Zealand dollars.

Season means the 12-month period from 1 June to the following 31 May.

SMP means skim milk powder.

Specialty Milk means milk that has special properties such as organic milk.

Raw Milk Regulations means the Dairy Industry Restructuring (Raw Milk) Regulations 2001 or, where applicable, the Dairy Industry Restructuring (Raw Milk) Regulations 2012.

Reference Commodity Products are defined in the Manual.

USD means United States dollars.

Winter Milk means milk supplied by farmers in the months of May, June and July.

WMP means whole milk powder.

Other capitalised terms used in this Statement have the meanings given to them in the Manual.

INDEPENDENT ASSURANCE REPORT

TO THE DIRECTORS OF FONTERA CO-OPERATIVE GROUP LIMITED

Scope

We have audited the application of the Principles, Methodologies and Detailed Rules as defined in the Farmgate Milk Price Manual of 1 August 2012 (the 'Manual') by the Milk Price Group ('MPG') in establishing the F13 Season's Milk Price of \$5.84 (the 'Fonterra Farmgate Milk Price'). We have confirmed the balances contained in the Fonterra Farmgate Milk Price Statement are correctly extracted from the calculation of the Fonterra Farmgate Milk Price.

Milk Price Group's and Fonterra Directors' Responsibilities

The MPG is responsible for ensuring that the Fonterra Farmgate Milk Price is calculated in accordance with the Manual and that the Fonterra Farmgate Milk Price has been derived in accordance with the Principles, Methodologies and Detailed Rules set out in the Manual. The Directors are responsible for the preparation of the Fonterra Farmgate Milk Price Statement.

Independent Auditor's Responsibilities

We are responsible for expressing an independent opinion on whether the Fonterra Farmgate Milk Price has been derived in accordance with the Manual and that the Fonterra Farmgate Milk Price Statement includes information that has been correctly extracted, in all material respects, from the calculation of the Fonterra Farmgate Milk Price and reporting our opinion to you.

We conducted our independent assurance engagement in accordance with International Standards on Assurance Engagements (NZ) and Standards on Assurance Engagements. Those standards require that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the calculation of the Fonterra Farmgate Milk Price is fairly stated in accordance with the Principles, Methodologies and Detailed Rules set out in the Manual, and that the balances contained in the Fonterra Farmgate Milk Price Statement are correctly extracted from the calculation of the Fonterra Farmgate Milk Price.

Inherent Limitations

Our engagement includes examining, on a test basis, evidence relevant to the amounts used to derive the Fonterra Farmgate Milk Price. It also includes assessing the significant assumptions, estimates and judgements made by the MPG in the calculation of the Fonterra Farmgate Milk Price and ensuring the Principles, Methodologies and Detailed Rules applied are consistent with those set out in the Manual. As the procedures performed are undertaken on a test basis, our assurance engagement cannot be relied on to detect all instances where the Principles, Methodologies and Detailed Rules set out in the Manual have not been complied with. Our opinion expressed in this report has been formed on that basis.

We carry out other assignments on behalf of Fonterra and the entities it controlled at 31 July 2013 or from time to time during the financial year in the areas of other audit related services, transaction and other advisory services. Partners and employees of our firm may deal with Fonterra on normal terms within the ordinary course of trading activities of Fonterra. These matters have not impaired our independence as auditors of Fonterra.

Independent Assurance Opinion

In our opinion the MPG has complied, in all material respects, with the Principles, Methodologies and Detailed Rules in the Manual in deriving the Fonterra Farmgate Milk Price of \$5.84. We have confirmed the balances contained in this Fonterra Farmgate Milk Price Statement are correctly extracted from the Fonterra Farmgate Milk Price calculation where appropriate.

Restriction on Distribution or Use

This report is made solely to the members of the Board. Our report has been prepared at the request of Fonterra Co-operative Group Limited and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Group for this report, or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants, Auckland
24 September 2012

Numbers in this Statement (including in the following Attachments) have been rounded and, as a result, some tables may not exactly total or sum to 100%. The data in these tables is the data used within the Milk Price Model not Fonterra's actuals.

ATTACHMENT 1: MILK SUPPLIED & PRODUCTION VOLUMES

| 2013 SEASON | MILK SUPPLIED (MILLION KGMS) | PRODUCTION (000 MT) FINISHED PRODUCT | | | | | |
|------------------|---------------------------------|--------------------------------------|------------|------------|------------|-----------|--------------|
| | | WMP | SMP | BUTTER | AMF | BMP | TOTAL |
| JUN 12 TO AUG 12 | 117 | 171 | 24 | 9 | 13 | 3 | 221 |
| SEP 12 TO NOV 12 | 598 | 642 | 294 | 119 | 63 | 25 | 1,143 |
| DEC 12 TO FEB 13 | 498 | 541 | 232 | 86 | 64 | 22 | 945 |
| MAR 13 TO MAY 13 | 251 | 340 | 63 | 31 | 27 | 10 | 472 |
| TOTAL | 1,463 | 1,694 | 614 | 245 | 168 | 61 | 2,781 |

| 2012 SEASON | MILK SUPPLIED (MILLION KGMS) | PRODUCTION (000 MT) FINISHED PRODUCT | | | | | |
|------------------|---------------------------------|--------------------------------------|------------|------------|------------|-----------|--------------|
| | | WMP | SMP | BUTTER | AMF | BMP | TOTAL |
| JUN 11 TO AUG 11 | 103 | 141 | 29 | 11 | 10 | 3 | 194 |
| SEP 11 TO NOV 11 | 567 | 562 | 305 | 112 | 69 | 26 | 1,074 |
| DEC 11 TO FEB 12 | 487 | 578 | 186 | 80 | 55 | 20 | 919 |
| MAR 12 TO MAY 12 | 336 | 487 | 65 | 39 | 30 | 12 | 632 |
| TOTAL | 1,493 | 1,768 | 585 | 242 | 164 | 60 | 2,819 |

| 2011 SEASON | MILK SUPPLIED (MILLION KGMS) | PRODUCTION (000 MT) FINISHED PRODUCT | | | | | |
|------------------|---------------------------------|--------------------------------------|------------|------------|------------|-----------|--------------|
| | | WMP | SMP | BUTTER | AMF | BMP | TOTAL |
| JUN 10 TO AUG 10 | 95 | 139 | 20 | 6 | 11 | 3 | 179 |
| SEP 10 TO NOV 10 | 522 | 547 | 262 | 105 | 58 | 23 | 995 |
| DEC 10 TO FEB 11 | 434 | 468 | 199 | 88 | 47 | 19 | 821 |
| MAR 11 TO MAY 11 | 296 | 409 | 70 | 32 | 33 | 11 | 555 |
| TOTAL | 1,346 | 1,563 | 551 | 232 | 149 | 56 | 2,550 |

ATTACHMENT 2: SALES VOLUMES

| 2013 SEASON | SHIPMENTS (000 MT) OF FINISHED PRODUCT | | | | | TOTAL SALES |
|------------------|--|------------|------------|------------|-----------|--------------|
| | WMP | SMP | BUTTER | AMF | BMP | |
| AUG 12 TO OCT 12 | 197 | 57 | 16 | 17 | 10 | 297 |
| NOV 12 TO JAN 13 | 559 | 225 | 70 | 54 | 19 | 928 |
| FEB 13 TO APR 13 | 561 | 156 | 61 | 48 | 11 | 838 |
| MAY 13 TO JUL 13 | 312 | 111 | 50 | 39 | 14 | 527 |
| AUG 13 TO OCT 13 | 65 | 64 | 47 | 9 | 6 | 191 |
| TOTAL | 1,694 | 614 | 245 | 168 | 61 | 2,781 |

| 2012 SEASON | SHIPMENTS (000 MT) OF FINISHED PRODUCT | | | | | TOTAL SALES |
|------------------|--|------------|------------|------------|-----------|--------------|
| | WMP | SMP | BUTTER | AMF | BMP | |
| AUG 11 TO OCT 11 | 188 | 58 | 7 | 12 | 3 | 268 |
| NOV 11 TO JAN 12 | 512 | 187 | 79 | 52 | 24 | 854 |
| FEB 12 TO APR 12 | 442 | 139 | 65 | 43 | 15 | 704 |
| MAY 12 TO JUL 12 | 500 | 131 | 54 | 41 | 11 | 737 |
| AUG 12 TO OCT 12 | 126 | 69 | 37 | 16 | 7 | 256 |
| TOTAL | 1,768 | 585 | 242 | 164 | 60 | 2,819 |

| 2011 SEASON | SHIPMENTS (000 MT) OF FINISHED PRODUCT | | | | | TOTAL SALES |
|------------------|--|------------|------------|------------|-----------|--------------|
| | WMP | SMP | BUTTER | AMF | BMP | |
| AUG 10 TO OCT 10 | 223 | 50 | 18 | 30 | 9 | 329 |
| NOV 10 TO JAN 11 | 418 | 171 | 65 | 37 | 18 | 710 |
| FEB 11 TO APR 11 | 506 | 159 | 61 | 33 | 14 | 774 |
| MAY 11 TO JUL 11 | 320 | 121 | 46 | 32 | 9 | 528 |
| AUG 11 TO OCT 11 | 96 | 50 | 42 | 16 | 5 | 209 |
| TOTAL | 1,563 | 551 | 232 | 149 | 56 | 2,550 |

ATTACHMENT 3: AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT THAT PRICES WERE STRUCK

| 2013 SEASON | | AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT | | | | |
|---------------------------------------|--|--|------------|------------|------------|------------|
| SHIPMENT PERIOD | | WMP | SMP | BUTTER | AMF | BMP |
| AUG 2012 TO OCT 2012 | | 2.7 | 2.9 | 2.5 | 3.0 | 2.7 |
| NOV 2012 TO JAN 2013 | | 2.7 | 3.0 | 2.5 | 3.1 | 3.1 |
| FEB 2013 TO APR 2013 | | 2.7 | 2.9 | 2.9 | 3.0 | 2.8 |
| MAY 2013 TO JUL 2013 | | 3.2 | 2.9 | 2.5 | 2.9 | 2.5 |
| AUG 2013 TO OCT 2013 | | 2.5 | 2.8 | 2.7 | 2.8 | 2.9 |
| VOLUME-WEIGHTED ANNUAL AVERAGE | | 2.8 | 2.9 | 2.7 | 3.0 | 2.8 |
| 2012 SEASON | | AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT | | | | |
| SHIPMENT PERIOD | | WMP | SMP | BUTTER | AMF | BMP |
| AUG 2011 TO OCT 2011 | | 3.3 | 2.7 | 2.1 | 3.1 | 2.5 |
| NOV 2011 TO JAN 2012 | | 3.5 | 3.0 | 2.8 | 3.2 | 2.8 |
| FEB 2012 TO APR 2012 | | 3.5 | 3.2 | 3.5 | 3.6 | 3.0 |
| MAY 2012 TO JUL 2012 | | 3.2 | 2.9 | 2.9 | 3.1 | 2.6 |
| AUG 2012 TO OCT 2012 | | 3.4 | 3.3 | 2.7 | 3.1 | 3.1 |
| VOLUME-WEIGHTED ANNUAL AVERAGE | | 3.4 | 3.0 | 3.0 | 3.2 | 2.8 |
| 2011 SEASON | | AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT | | | | |
| SHIPMENT PERIOD | | WMP | SMP | BUTTER | AMF | BMP |
| AUG 2010 TO OCT 2010 | | 3.6 | 2.9 | 2.4 | 4.2 | 3.0 |
| NOV 2010 TO JAN 2011 | | 3.6 | 3.3 | 2.5 | 3.7 | 2.7 |
| FEB 2011 TO APR 2011 | | 3.8 | 3.6 | 2.6 | 3.5 | 3.0 |
| MAY 2011 TO JUL 2011 | | 4.0 | 3.5 | 3.0 | 3.4 | 2.6 |
| AUG 2011 TO OCT 2011 | | 3.1 | 4.4 | 2.3 | 3.1 | 3.1 |
| VOLUME-WEIGHTED ANNUAL AVERAGE | | 3.7 | 3.5 | 2.6 | 3.6 | 2.8 |

The tables on the next page supplement that above by providing information on the average percentages of sales contracted in each of months 1 to 8 prior to shipment in the 2011 to 2013 Seasons.

2013 SEASON: AVERAGE % OF SALES CONTRACTED IN EACH OF MONTHS 1–8 PRIOR TO SHIPMENT

| MONTHS BEFORE SHIPMENT | WMP | SMP | BUTTER | AMF | BMP |
|------------------------|-----|-----|--------|-----|-----|
| 1 | 7% | 5% | 13% | 5% | 5% |
| 2 | 40% | 33% | 34% | 32% | 38% |
| 3 | 33% | 33% | 36% | 30% | 32% |
| 4 | 14% | 21% | 12% | 21% | 22% |
| 5 | 8% | 8% | 5% | 12% | 3% |
| 6 | 0% | 0% | 0% | 0% | 0% |
| 7 | 0% | 0% | 0% | 0% | 0% |
| 8 | 0% | 0% | 0% | 0% | 0% |

2012 SEASON: AVERAGE % OF SALES CONTRACTED IN EACH OF MONTHS 1–8 PRIOR TO SHIPMENT

| MONTHS BEFORE SHIPMENT | WMP | SMP | BUTTER | AMF | BMP |
|------------------------|-----|-----|--------|-----|-----|
| 1 | 4% | 9% | 11% | 6% | 7% |
| 2 | 35% | 35% | 33% | 33% | 38% |
| 3 | 23% | 26% | 26% | 28% | 33% |
| 4 | 15% | 16% | 19% | 15% | 17% |
| 5 | 11% | 6% | 7% | 11% | 5% |
| 6 | 5% | 4% | 2% | 4% | 1% |
| 7 | 4% | 2% | 2% | 2% | 0% |
| 8 | 3% | 2% | 0% | 2% | 0% |

2011 SEASON: AVERAGE % OF SALES CONTRACTED IN EACH OF MONTHS 1–8 PRIOR TO SHIPMENT

| MONTHS BEFORE SHIPMENT | WMP | SMP | BUTTER | AMF | BMP |
|------------------------|-----|-----|--------|-----|-----|
| 1 | 3% | 6% | 12% | 4% | 8% |
| 2 | 22% | 28% | 40% | 27% | 40% |
| 3 | 26% | 28% | 33% | 25% | 28% |
| 4 | 20% | 19% | 10% | 16% | 13% |
| 5 | 16% | 7% | 4% | 10% | 6% |
| 6 | 6% | 7% | 1% | 6% | 2% |
| 7 | 4% | 3% | 0% | 9% | 0% |
| 8 | 4% | 2% | 0% | 3% | 3% |

From the 2013 Season forward shipments contracted more than 5 months prior to shipment are excluded from the Milk Price calculation.

ATTACHMENT 4: AVERAGE USD PRICES

| 2013 SEASON | | USD PER MT OF FINISHED PRODUCT | | | | |
|---|--|--------------------------------|--------------|--------------|--------------|--------------|
| SHIPMENT PERIOD | | WMP | SMP | BUTTER | AMF | BMP |
| AUG 2012 TO OCT 2012 | | 2,740 | 2,780 | 2,921 | 2,903 | 2,531 |
| NOV 2012 TO JAN 2013 | | 3,086 | 3,117 | 3,191 | 3,030 | 2,925 |
| FEB 2013 TO APR 2013 | | 3,271 | 3,511 | 3,431 | 3,214 | 3,552 |
| MAY 2013 TO JUL 2013 | | 4,219 | 4,608 | 4,189 | 4,219 | 4,317 |
| AUG 2013 TO OCT 2013 | | 5,144 | 4,726 | 3,767 | 4,871 | 4,562 |
| ANNUAL-WEIGHTED AVERAGE (INCLUDING DOWNGRADE ADJUSTMENT) | | 3,394 | 3,625 | 3,550 | 3,450 | 3,457 |
| 2012 SEASON | | USD PER MT OF FINISHED PRODUCT | | | | |
| SHIPMENT PERIOD | | WMP | SMP | BUTTER | AMF | BMP |
| AUG 2011 TO OCT 2011 | | 3,663 | 3,594 | 4,081 | 4,837 | 3,430 |
| NOV 2011 TO JAN 2012 | | 3,436 | 3,376 | 3,829 | 4,115 | 3,176 |
| FEB 2012 TO APR 2012 | | 3,503 | 3,386 | 3,728 | 3,867 | 3,330 |
| MAY 2012 TO JUL 2012 | | 3,147 | 3,085 | 3,337 | 3,376 | 3,107 |
| AUG 2012 TO OCT 2012 | | 2,925 | 2,957 | 2,836 | 3,167 | 2,683 |
| ANNUAL-WEIGHTED AVERAGE (INCLUDING DOWNGRADE ADJUSTMENT) | | 3,359 | 3,285 | 3,546 | 3,825 | 3,163 |
| 2011 SEASON | | USD PER MT OF FINISHED PRODUCT | | | | |
| SHIPMENT PERIOD | | WMP | SMP | BUTTER | AMF | BMP |
| AUG 2010 TO OCT 2010 | | 3,513 | 3,003 | 3,943 | 4,548 | 2,902 |
| NOV 2010 TO JAN 2011 | | 3,346 | 3,034 | 4,104 | 4,821 | 3,010 |
| FEB 2011 TO APR 2011 | | 3,579 | 3,290 | 4,449 | 5,529 | 3,323 |
| MAY 2011 TO JUL 2011 | | 3,992 | 3,700 | 4,677 | 6,022 | 3,738 |
| AUG 2011 TO OCT 2011 | | 3,803 | 3,800 | 4,365 | 5,507 | 3,702 |
| ANNUAL-WEIGHTED AVERAGE (INCLUDING DOWNGRADE ADJUSTMENT) | | 3,606 | 3,321 | 4,344 | 5,258 | 3,259 |

ATTACHMENT 5: AVERAGE USD:NZD CONVERSION AND SPOT RATE

| 2013 SEASON | | AVERAGE USD:NZD RATE | |
|--|--|----------------------|---------------|
| SHIPMENT PERIOD | | ACHIEVED CONVERSION | SPOT |
| AUG 2012 TO OCT 2012 | | 0.7874 | 0.8191 |
| NOV 2012 TO JAN 2013 | | 0.8015 | 0.8357 |
| FEB 2013 TO APR 2013 | | 0.8026 | 0.8334 |
| MAY 2013 TO JUL 2013 | | 0.7919 | 0.7938 |
| AUG 2013 TO OCT 2013 | | 0.8043 | 0.7993 |
| REVENUE-WEIGHTED ANNUAL AVERAGE | | 0.7986 | 0.8200 |
| 2012 SEASON | | AVERAGE USD:NZD RATE | |
| SHIPMENT PERIOD | | ACHIEVED CONVERSION | SPOT |
| AUG 2011 TO OCT 2011 | | 0.7391 | .0.7721 |
| NOV 2011 TO JAN 2012 | | 0.7690 | 0.8121 |
| FEB 2012 TO APR 2012 | | 0.7742 | 0.7962 |
| MAY 2012 TO JUL 2012 | | 0.7804 | 0.8045 |
| AUG 2012 TO OCT 2012 | | 0.7781 | 0.8195 |
| REVENUE-WEIGHTED ANNUAL AVERAGE | | 0.7706 | 0.8023 |
| 2011 SEASON | | AVERAGE USD:NZD RATE | |
| SHIPMENT PERIOD | | ACHIEVED CONVERSION | SPOT |
| AUG 2010 TO OCT 2010 | | 0.6927 | 0.7607 |
| NOV 2010 TO JAN 2011 | | 0.7041 | 0.7576 |
| FEB 2011 TO APR 2011 | | 0.7231 | 0.7935 |
| MAY 2011 TO JUL 2011 | | 0.7308 | 0.8334 |
| AUG 2011 TO OCT 2011 | | 0.7519 | 0.7879 |
| REVENUE-WEIGHTED ANNUAL AVERAGE | | 0.7184 | 0.7879 |

Note that the spot data is based on the weighted average conversion rate that would have been achieved if the revenue collected during the shipping period was converted at the average spot rate in the month of collection. Data in previous Milk Price Statements was based on the average spot in the month of shipment.

