

Contents

- I NZX Agrifax Dairy Index Pg 1
- II Dairy Index Components Pg 2
 - a Dairy Commodity Markets Pg 2
 - b Exchange Rates Pg 4
 - Export Volumes & Values Pg 4
 - c Dairy Company Payouts Pg 5
 - d Dairy Company Information Pg 6
 - Share Prices Pg 6
 - Dairy Industry News Pg 6
 - e Stock Prices Pg 7
 - f Land Prices Pg 7
- III Milk Production Pg 8
- IV Guest Commentary Pg 9

Blue Read
Fonterra Shareholders' Council
Chairman

Dec-08

Editor's Monthly Summary

The fall in dairy commodity prices over the past six months has been exasperated by the current world economic climate. It is a widely accepted view that dairy commodity prices were overvalued at the beginning of 2008, however it is very unlikely that we would have seen a price correction of the magnitude we are currently seeing if the economic times were more buoyant. To date there has been little hard evidence that commodity prices have bottomed out, although there are some early indications that grain prices have turned the corner, but other commodities such as oil continue to show extreme volatility.

It is now unlikely any upswing in dairy commodity prices in 2009 will occur early enough to have a positive effect on the current season's dairy payout, which we expect will result in further announcements from dairy companies regarding downward revisions of their forecast milk payouts. The lower New Zealand dollar is of little consolation to companies who have already locked in a large portion of their foreign currency. Locking into exchange rate contracts was a great strategy for the 2007/08 season but not one that will pay dividends this season. We have revised our payout predictions for the current season downwards once again and we are now predicting a payout of \$5.15/kg MS for this season (see page 5 for more details).

Dairy production volumes are running around 1% ahead of last season and are expected to increase further when compared with the previous season due to production levels falling away rapidly in the later part of 2007/08 due to the drought. However, with a lower payout some supplementary feed options will no longer be viable and as a result NZX Agrifax does not support the view that production levels will be 8% higher than last season (see page 8 for more details).

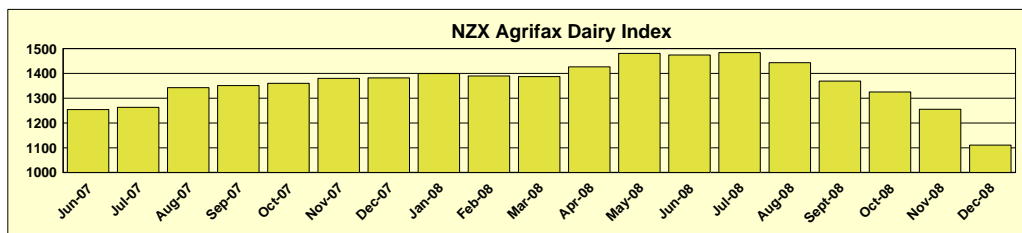
Susan Kilsby
 Editor

I The NZX Agrifax Dairy Index

	This month	Last month	6 months ago	One year ago
Overall Index	1111	1255	1484	1382
Land	274	304	293	247
Stock	29	33	36	36
Fonterra Shares	34	34	34	43
Payout	259	294	379	354
Commodity	124	158	236	262
Exchange rate	186	195	141	135
Industry Shares	205	238	365	305

The NZX Agrifax Dairy Index base line is 1000 on January 1, 2007

The NZX Agrifax Index took a heavy tumble over December with a 144 point drop to 1111 just under a 13% drop. All Dairy Index components dropped substantially with the exception of Fonterra's share price. While Fonterra announced a drop in its share value earlier in the month, this will not effect the Dairy Index until the 2009/10 season, at which point it will contribute a 7 point drop in the Index value. The revision of NZX Agrifax's prediction of Fonterra's payout for the current season coupled with Westland's revised payout has resulted in a deduction of 35 points in the overall Index. The commodity price, land values and industry shares components of the Index all fell, reducing the overall Index by around 30-34 points.



Notes on Index : The NZX Agrifax Dairy Index comprises of the 5 key elements making up NZ's dairy industry: farm capital (25%), farm income (20%), commodity prices (15%), exchange rate (15%), and the share prices of NZ traded equities involved in the dairy industry (25%). The Index had a base level of 1000 on January 1st, 2007.

II Dairy Index Components

a Dairy Commodity Market

As eluded to in last month's Dairy Report, dairy commodity prices have dropped further through the month of December. In comparison to the 20% fall in the weighted average commodity price over November, December only saw a 9% fall. Positive signs can be taken from this but there are still many uncertainties circulating globally that continue to make market conditions soft and hinder our ability to predict the direction of the market.

An increase in the level of customer inquires has been reported from many New Zealand exporters and yet actual sales remain very light. This pattern may persist for some time as customers struggle to obtain credit and insurance, all the while mindful that their inventory levels are dropping. Buying only on a short term needs basis is expected to continue.

Large produce stockpiles continue to mount throughout the world. In New Zealand, Fonterra is looking for extra storage space to enable them to hold onto product until prices pick up. Further to this, the US is continuing to place product into the CCC program (the government managed intervention scheme) while similar schemes are also being utilised in the EU. Over the course of 2009/10 stockpiled product will be fed back out into a market that producers will be banking on being healthier than the current fragile market. From where the market is currently poised one would expect a bottoming out of dairy commodities in early to mid 2009. However, price recovery in the latter part of 2009 and early 2010 will be hindered by companies and governments attempting to diminish their mounting stockpiles.

Another issue that will help hinder the recovery of commodity prices in 2009/10 is the reported 30-40% weakening of demand for dairy products in China due to the melamine debacle. However, in general it is expected that the economies of key Asian countries, which are important milk powder product clients, are expected to ride out the global economic storm in a better manner than the developed economies of the US and Western Europe. Companies such as the newly formed Dutch dairy group FrieslandCampina have already earmarked the Middle East and Asia as important target regions, so New Zealand exporters should expect increased competition in these markets. However, the governments of some oil producing countries have had to delay or cancel contracts for dairy products as they combat the extremely low oil prices. With so many small pieces making up a giant puzzle it is difficult to gauge how New Zealand's economy or the dairy commodities market will react during this global readjustment. However, dairy products, which are a relatively cheap source of protein and form a stable part of many diets, are expected to weather the storm better than many products.

Commodity Prices

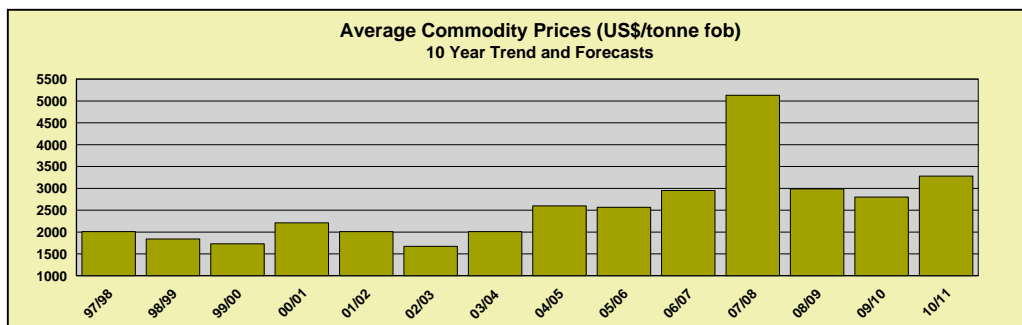
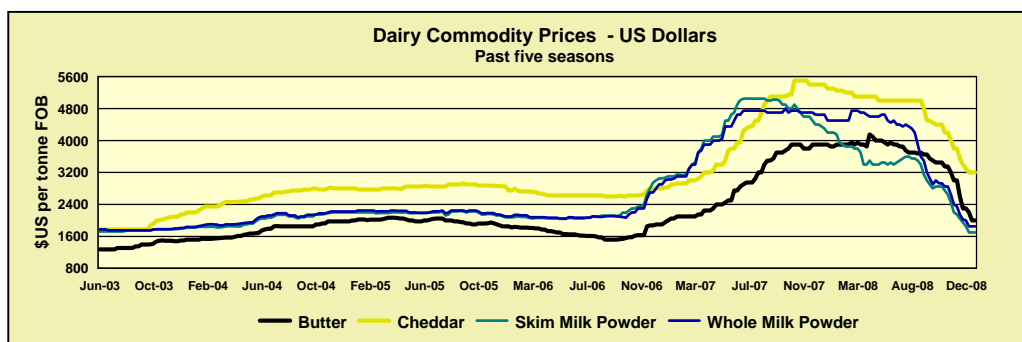
NZ Currency

	Last Week	1 mth ago	3 mths ago	1 yr ago	2 yrs ago
Butter	3520	4160	5140	5080	2690
SMP	2990	3530	4250	5740	4320
WMP	3260	3670	4370	6060	4110
Cheddar	5640	6150	6560	7040	3970
Casein	12240	13390	15280	16560	9920
Weighted Average Spot Price	4440	4990	5820	6910	4324

US Currency

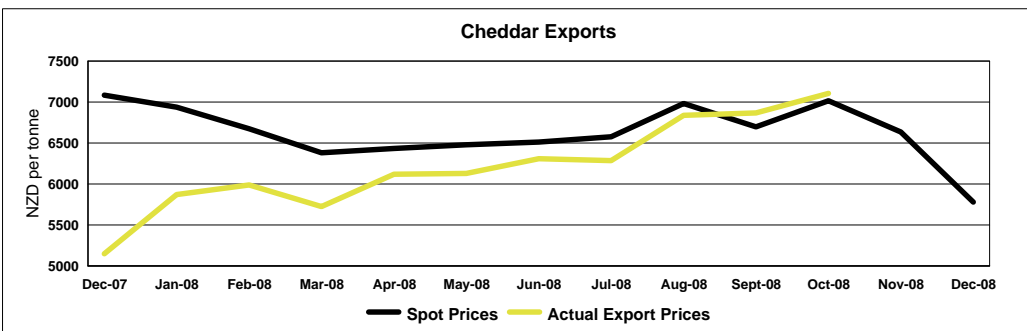
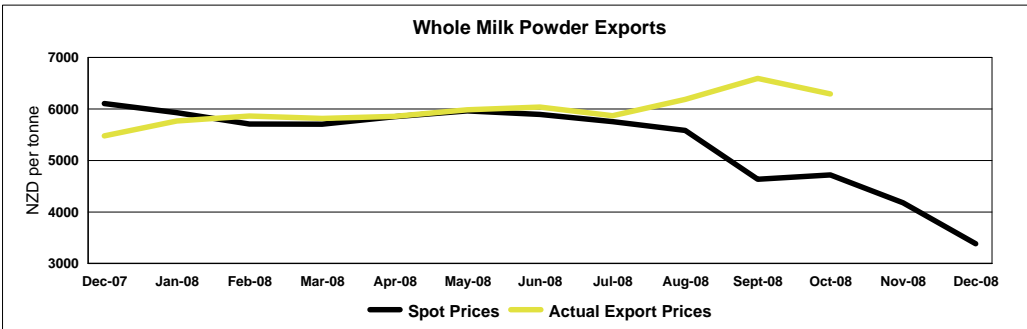
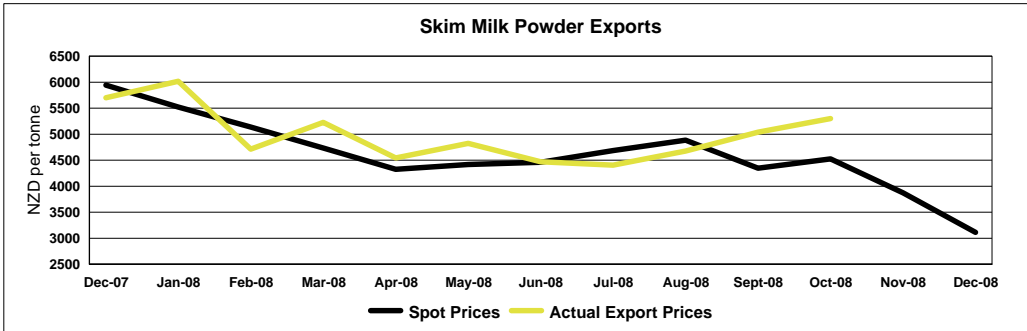
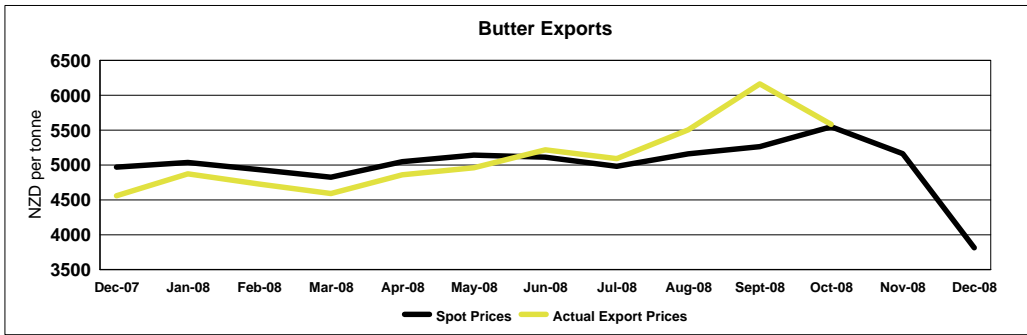
	Last Week	1 mth ago	3 mths ago	1 yr ago	2 yrs ago
Butter	2000	2300	3450	3900	1900
SMP	1700	1950	2850	4400	3050
WMP	1850	2025	2930	4650	2900
Cheddar	3200	3400	4400	5400	2800
Casein	6950	7400	10250	12700	7000
Weighted Average Spot Price	2520	2760	3900	5300	3050

Prices are indicative only. They are compiled from an assessment of sales made worldwide on a one-off basis. Quota Markets and contracts are excluded.



a Dairy Commodity Market (continued)

The graphs below show the actual export prices for each of our dairy commodities (as obtained from Statistics NZ) versus the average monthly spot prices. As most goods are sold under a three or six month contract, there tends to be a lag in the transfer of spot price increases through to actual returns.



Actual Export Prices are obtained from Statistics NZ figures. Provision of these figures is a month delayed, hence why the above graphs are not updated to the current month. Spot prices are obtained directly from Dairy Companies by NZX Agrifax.

b Exchange Rates

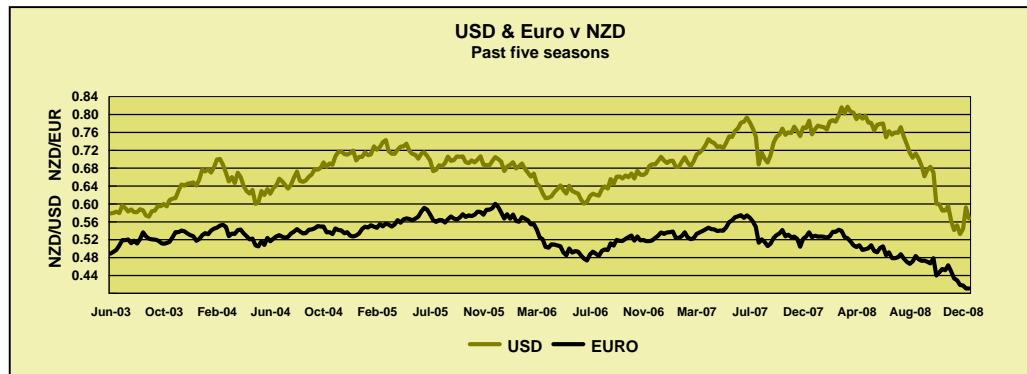
In spite of increasingly bad news on the New Zealand economy, the New Zealand dollar appreciated against the US dollar over the month, starting at US53c, spiking to a high of just over US60c mid month. This was on the back of the US Federal Reserve cutting its interest rate to virtually 0%. While the news on the New Zealand economy continues to be negative, with bad GDP and current account figures out earlier this week, and further key announcements due in mid January, the weakness of the USD against the NZD may be short lived.

The Forex markets in 2008, and more precisely the second half of 2008 have shown huge volatility, so things could change quickly. An example is that the biggest daily movements up and down over the last five years have occurred in 2008.

Predictions amongst the major banks of the value of the New Zealand dollar against the US dollar for Q1 2009 are mostly in the low 50's, while most market participants are currently forecasting Q2 and Q3 2009 to be the bottom of the market at US51c. NZX Agrifax has factored into its payout predictions the dollar to average around US55c for the remainder of the 2008/09 season.

At the time of writing the dollar had eased slightly further to around US57c after confirmation that the NZ economy had slipped further into recession

Currency	Last Week	3 mths ago	1yr ago	This Season to Date	Last Season
NZD/USD	0.568	0.671	0.767	0.627	0.767
NZD/EUR	0.411	0.479	0.529	0.453	0.524
NZD/AUD	0.833	0.853	0.877	0.841	0.857
TWI	55.90	64.26	71.83	60.86	70.87



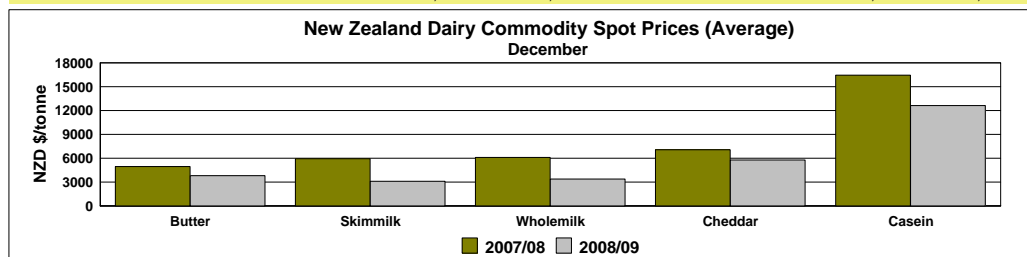
Forex Projections to 2011

These are based on current projections of 10 major banking organisations.

		Q1 09	Q2 09	Q3 09	Q4 09	2010	2011	2012
NZD/USD	Mean	0.51	0.50	0.51	0.53	0.56	0.60	0.60
	Range	0.44 - 0.54	0.4 - 0.57	0.42 - 0.58	0.44 - 0.58	0.47 - 0.62	0.54 - 0.65	0.54 - 0.65
	Standard Deviation	0.03	0.05	0.05	0.05	0.05	0.04	0.04
NZD/EUR	Mean	0.42	0.41	0.41	0.42	0.43	0.46	0.47
	Range	0.37 - 0.49	0.35 - 0.44	0.37 - 0.45	0.39 - 0.49	0.39 - 0.52	0.42 - 0.57	0.42 - 0.63
	Standard Deviation	0.03	0.03	0.02	0.03	0.03	0.05	0.07

Dairy Commodity Export Volumes & Values

	NZD Millions	Oct 2008		2008/09 Season to Date		
		Tonnes	NZD/tonne	NZD Millions	Tonnes	NZD/tonne
Butter	204	36,487	5,583	412	76,966	5,358
Skimmilk Powder	135	25,408	5,303	287	59,675	4,805
Wholemilk Powder	430	68,356	6,294	954	156,183	6,107
Cheddar	186	26,213	7,106	396	59,442	6,655
Casein	157	13,176	11,881	347	32,808	10,589



c Dairy Company Payout

Uncertainty and an overall lack of demand for our dairy products are the main driving factors behind the reduction in our predicted payout for the current season. While there has been a slight easing in the decent of the price fall for dairy commodities during December, the market is yet to show any clear indications that it has bottomed out. As we are nearing the half way point through the season, it is now very unlikely that any upswing in dairy commodity prices will occur early enough to have a positive influence on the dairy payout for the current season. Rapidly falling prices as well as credit funding issues have resulted in many buyers not being prepared to commit to large volumes of product. This leaves our dairy companies with a lot of uncertainty around the payout levels they will be able to commit to. Yesterday Westland revised their forecast payout significantly downwards to \$4.10 to \$4.40 per kg milk solids(MS). NZX Agrifax expects there will be further announcements regarding downwards revisions to payouts by our dairy companies in the near future.

On the basis of a slightly strongly New Zealand dollar against the US dollar and the lack of optimism in our dairy commodity markets, we have revised the NZX Agrifax payout prediction sharply downwards by 85 cents to \$5.15 per kg MS for the current season. A payout of this level will make balancing the books hard work for many dairy farmers, especially those who are servicing high levels of debt. In the calculation of this figure we have assumed that the average dairy commodity price for the remainder of the season will be in the vicinity of current spot dairy commodity prices. Previously we factored in a rebound of the dairy commodity prices in early 2009, which we now do not think will now occur early enough to have a positive influence on this season's payout.

For the 2009/10 season we are slightly more optimistic and are predicting a payout around the \$5.40 per kg MS mark. Next season more of the effects of the overall weakening of the New Zealand dollar will be realised and we also expect to see dairy commodity prices rebound. However, the speed of the recovery is the unknown factor given the uncertainty the global economic crisis has brought with it. Looking further ahead an exchange rate below US60c and a 30% improvement in commodity prices are the factors required to allow a dairy company payout for the 2010/11 season back above the \$6 per kg MS level.

Payout Predictors

2008/2009 Season						
Season to Date Weighted Average Prices USD per tonne FOB	Change	NZD/USD Exchange Rate				
		0.570	0.590	0.610	0.630	0.650
1820	-50%	3.58	3.47	3.37	3.28	3.19
2180	-40%	4.21	4.08	3.96	3.85	3.74
2550	-30%	4.85	4.70	4.56	4.43	4.31
2910	-20%	5.48	5.31	5.15	5.00	4.86
3280	-10%	6.13	5.93	5.75	5.58	5.42
3640	0%	6.76	6.54	6.34	6.15	5.98
4004	10%	7.39	7.16	6.93	6.73	6.53

2009/2010 Season						
Current Weighted Average Prices USD per tonne FOB	Change	NZD/USD Exchange Rate				
		0.510	0.540	0.570	0.600	0.630
1760	-30%	4.02	3.83	3.66	3.51	3.37
2020	-20%	4.53	4.31	4.11	3.94	3.78
2270	-10%	5.01	4.77	4.55	4.35	4.17
2520	0%	5.50	5.23	4.98	4.76	4.57
2770	10%	5.99	5.69	5.42	5.18	4.96
3020	20%	6.47	6.15	5.85	5.59	5.35
3280	30%	6.98	6.62	6.31	6.02	5.76

2010/2011 Season						
Current Weighted Average Prices USD per tonne FOB	Change	NZD/USD Exchange Rate				
		0.490	0.540	0.590	0.640	0.690
2270	-10%	5.36	4.90	4.52	4.20	3.92
2520	0%	5.91	5.40	4.97	4.62	4.31
2770	10%	6.45	5.89	5.43	5.04	4.70
3020	20%	7.00	6.39	5.88	5.45	5.09
3280	30%	7.57	6.91	6.35	5.89	5.49
3530	40%	8.12	7.40	6.81	6.31	5.88
3780	50%	8.66	7.90	7.26	6.73	6.27

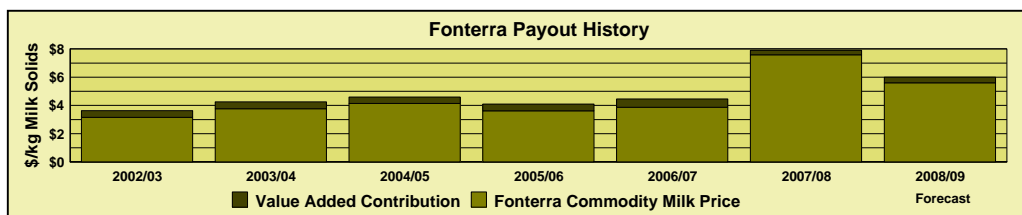
Notes on Payout Predictors

1. The predicted payout is based on the average season to date product prices for this season and the current spot prices for future seasons.
2. Allowance has been made for the increasing level of value added products and improved processing and administrative efficiency.
3. The boxed areas are focused on Fonterra's likely NZD/USD conversion rates and probable product price ranges.

d Dairy Company Information

Payout	Forecast	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03
	2008/09						
Fonterra	6.00	7.90	4.35	4.10	4.59	4.25	3.36
Westland	4.10-4.40	8.24	4.58	4.09	4.47	4.07	3.80
Tatua	N/A	8.00	4.10	4.35	4.32	4.39	5.60
Synlait	N/A	-	-	-	-	-	-
NZ Dairies Ltd	6.00	-	-	-	-	-	-
Dairy Trust	N/A	-	-	-	-	-	-

* Excludes colostrum payments

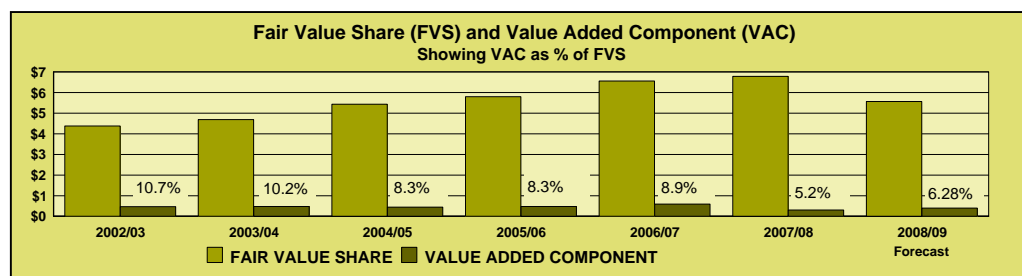


Dairy Processing Companies Share Price

	Forecast	2008/09	2007/08	June 06	June 05	June 04	June 03
	2009/10						
Fonterra	4.47	5.57	6.79	5.80	5.44	4.69	4.38
OCC		2.73	1.90	2.26	n/a	n/a	n/a
Westland		1.50	1.50				

Dairy Industry Companies Share Price

		Dec-08	Nov-08	Sept-08	Dec-07
NZX	PGW	1.15	1.55	2.00	2.03
	DEL	0.24	0.24	0.31	0.46
	AFFCO	0.38	0.40	0.47	0.33
	Allied Farmers	0.80	0.90	1.25	1.70
	NZFSU	0.60	0.86	1.40	1.58
NZAX	LIC	2.10	2.20	3.00	2.10
	A2	0.10	0.06	0.16	0.20
UNLISTED	Tasman Farms	1.12	1.12	1.10	1.10
	OCC	2.73	2.73	2.73	2.70
	Kaimai Cheese	1.75	2.00	2.40	2.75



Dairy Industry News In Brief

2 Dec: Allied Farmers Group Chief Executive, Paul Macfie, announced the appointment of Shawn Gibbon to the position of Group Real Estate Manager, reporting to the Group Chief Executive.

12 Dec: Fonterra announced its share value for the 2009/10 season would be at \$4.47. The cut of \$1.10 means a loss in value of around \$1.3b

16 Dec: PGG Wrightson advised it has revised its net earnings guidance for the year ending 30 June 2009. It now believes that net earnings are likely to be within the range from \$39 million to \$45 million. The previous earnings guidance, provided at the Annual Shareholders Meeting in October 2008, was for a range from \$46 million to \$51 million.

19 Dec: Allied Farmers Limited has injected a further \$1.4 million of share capital into its fully owned subsidiary, Allied Nationwide Finance Limited. The capital injection underpins the continued support of Allied Farmers for its finance operation.

19 Dec: Fonterra director fees for 2008-09 season will remain unchanged in the face of global financial uncertainties. Chairman Henry van der Heyden will receive \$250,000 in fees this season while directors will get \$120,000 each. Directors who chair board committees will get an additional \$15,000 while chairman of the audit, risk and finance committee David Jackson gets an extra \$20,000.

22 Dec: A2 Corporation Limited announced that the Company has implemented a strategic market review following its recent Half-Year result which saw its Australian sales increase 260% over the same period last year, but the business still record an overall loss.

23 Dec: Westland dropped its payout prediction to between \$4.10 and \$4.40 per kg/MS this follows after only a month ago announcing a range of \$5.20 - \$5.60 per kg/MS.

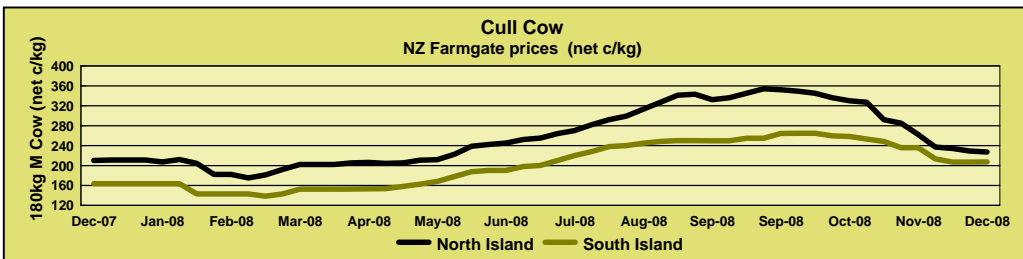
24 Dec: Fonterra confirmed that a court in Shijiazhuang China has issued a bankruptcy order against Sanlu, in response to a petition from a creditor.

e Stock Prices

	Delivery	Northern NI	Southern NI	Northern SI	Southern SI	NZ Range	NZ Average
Herds High BW	June 1st	1800 - 2000	1900 - 2000	1800 - 2000	1900 - 2000	1800 - 2000	1925
Herds Low BW	June 1st	1750 - 1900	1800 - 2000	1800 - 2000	1800 - 1900	1750 - 2000	1870
Budget Cows	June 1st	700 - 800	700 - 1000	700 - 1100	900 - 1100	700 - 1100	910
In Milk Cows	Immediate	1400 - 1400	800 - 1400	1500 - 2000	1800 - 2000	800 - 2000	1590
Carry Over Cows	June 1st	1400 - 1500	1450 - 1550	1400 - 1600	1000 - 1600	1000 - 1600	1440
In Calf R2 hrs	May 1st	1500 - 1600	1300 - 1400	1500 - 1700	1400 - 1800	1300 - 1800	1500
In Calf R2 hrs	Immediate	1100 - 1200	1000 - 1250	1100 - 1200	1100 - 1200	1000 - 1250	1125
R1 Heifers	June 1st	700 - 800	700 - 900	800 - 1100	600 - 800	600 - 1100	800
R1 Heifers	Immediate	500 - 550	400 - 550	600 - 700	500 - 650	400 - 700	550

Beef Prices

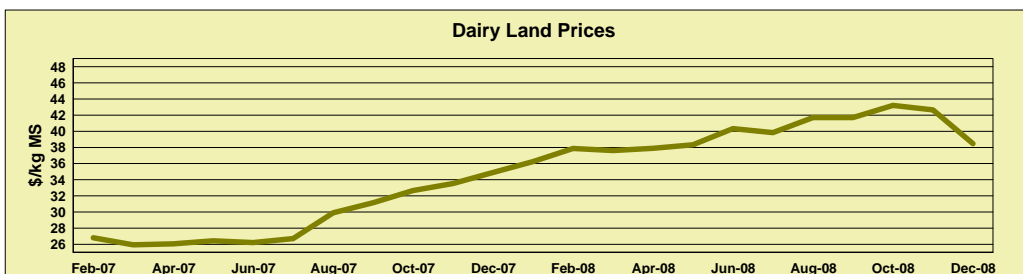
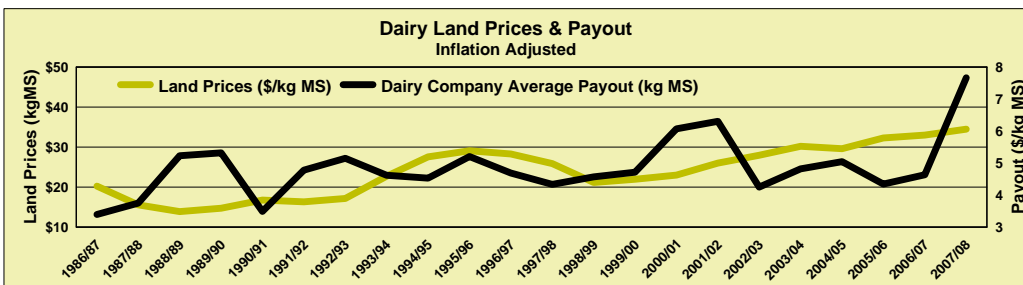
	This Week	Last Week	4 Wks ago	3 Mths ago	1 Year ago
Farmgate Prices (net \$/head)					
North Island					
Weekly Cow Kill (*000)		7.8	7.7	4.5	7.7
150 kg M Cow	330	333	383	518	305
200 kg M Cow	440	444	510	690	406
South Island					
Weekly Cow Kill (*000)		2.5	1.9	0.5	1.4
150 kg M Cow	305	304	348	391	239
200 kg M Cow	407	406	464	521	319
US Manufacturing Prices					
Imported Cow		117	114	162	124.5
Imported Bull		124	118.5	170	131



f Dairy Land Prices

	Northern NI	Southern NI	Northern SI	Southern SI	NZ Average
Average \$ per Kg MS *	\$51.27	\$39.53	\$31.53	\$31.53	\$38.46
Range	\$45 - \$61	\$32 - \$46	\$32 - \$37	\$32 - \$35	\$32 - \$61

* Land Prices exclude the value of Fonterra shares



IV Milk Production

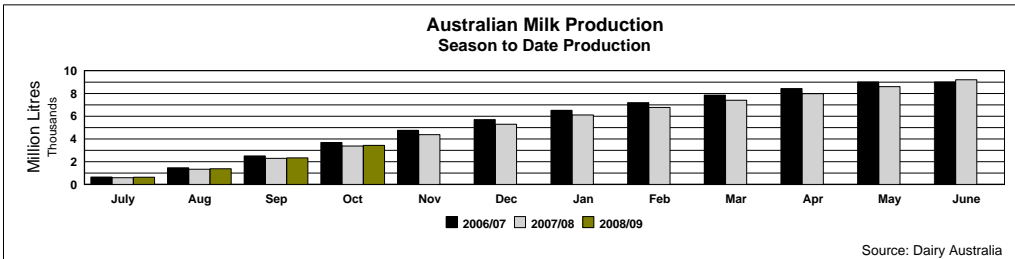
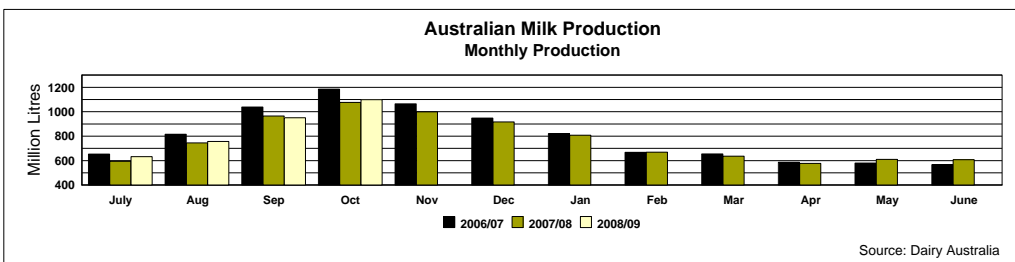
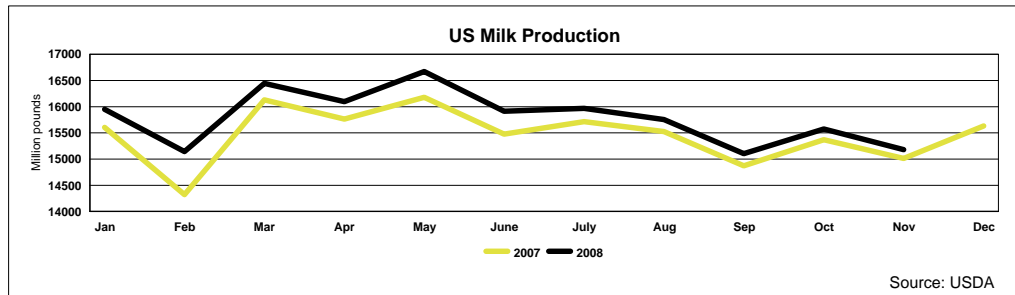
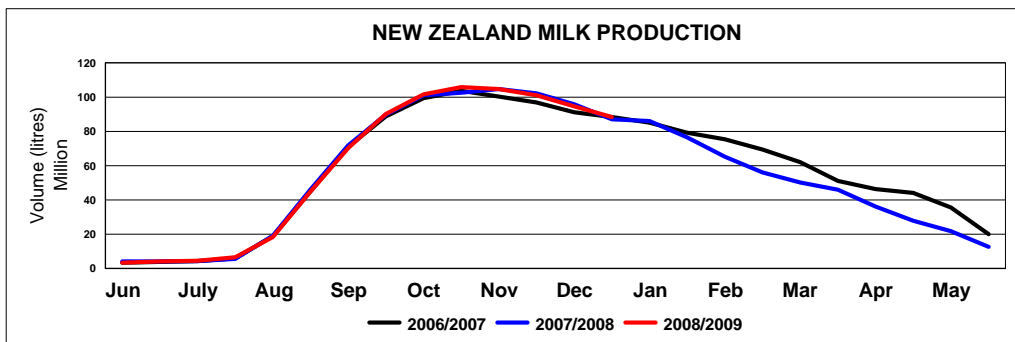
Up until a few weeks ago farmers on the east coast of New Zealand were looking to have a stressful Christmas period as it became increasingly dry in most places along the coast. However, there has been a marked turnaround reported by farmers in these areas after a good dousing of rain recently. Over the course of December we have seen New Zealand's production continuing to track only marginally ahead of last year by just under 1%.

Production in the South Island remains around 6% ahead of production volumes last season. Though this gap may shrink closer to the end of the season as due to the lower payout the cost to benefit ratio of squeezing that extra bit of milk production is less desirable than last season. In the North Island the gap has closed on the previous season yet production for the season to date still remains around 1% behind. While most of the North Island is in positive territory the influential Waikato and Central North Island regions remain 3-5% behind last season.

NZX Agrifax can only see at the very most, a 6% climb in production levels when compared with the previous season. If production levels for the 2008/09 season were to increase more than 6% then production levels for the remainder of the season would need to be extremely good. The effects of last season's drought which knocked 4% off the production volumes achieved in 2006/07, can be clearly seen on the New Zealand production graph below. The 2006/07 line represents a more 'normal' production pattern which the current season is following quite closely.

US product continues to run just over 2% ahead of last season to date. However, the month of November was only 1% ahead of the November period for last season, which indicates that the long predicted slow down in US production is starting to occur.

Milk production in Australia is 1.6% ahead for the season to date until the end of October. This is a slight overall increase from what we reported a month ago.



Outlook for 2009 reinforces strength of co-operative model

By Blue Read, Fonterra Shareholders' Council Chairman

Fonterra farmers are bracing themselves for tougher times ahead. With dairy prices falling and prospects for 2009 quite different from where we started out the year before, farm revenues will be under pressure.

Farmers recognise dairying returns are cyclical and are accustomed to managing their businesses in both good times and bad. But the level of volatility we are experiencing now, accompanied by the broad-based global economic turmoil, is new to all farmers.

The extent of last season's commodity price rises took most by surprise. But record payouts provided a welcome boost to dairying and relief for those dealing with the consequences of drought. Some farmers used this higher payout to reduce debt and manage rising on-farm costs while many others took the opportunity to expand their operations.

Though the heat seems to have gone out of the recent appreciation in land prices, most dairy farmers now have a cost structure significantly higher than they did two years ago. While a payout the size of last season's record \$7.90 (less 24 cents retention) per kilogram of milksolids would have seemed inconceivable a few years ago, many farmers will be challenged if payout returns to previous levels of between \$4 and \$5.

Farmers are long-term investors and at times such as these, the security that supplying a co-operative provides takes on an increased importance. That security comes from the knowledge that our milk will get picked up and that the co-operative's primary objective is to maximise our milk payments. However this month's announcement of a 19.7% drop in the interim Fair Value Share price for 2008/09 served as a reminder that Fonterra is not immune to the pressures that are affecting economies around the world. The reduction in the share value was disappointing news however it's worth noting that the Fair Value Share represents a small portion of the majority of farmers' total investment in dairying.

As the shareholders' representatives, the Council has a key role to play in making sure the co-operative remains strong. Ensuring our performance monitoring remains rigorous is fundamental. Because farm cash flows are paramount, during 2009 the Council will be paying close attention to Fonterra's debt position and working capital management. Yet now more than ever it's important to focus on the future. Often from times of adversity come opportunities that may not have otherwise been available.

It's been pleasing to see Fonterra conduct a round of shareholder meetings recently to further explain the strategy and business plan to farmers.

The strategic direction the Board has set out for Fonterra is one that seeks to build on our strengths to further Fonterra's position as a leading participant in the global dairy market. This is a plan that the Council supports. We're also of the view that the strategy remains relevant in the current environment. The strategy should align to shareholders' financial and operational capacity however we would not wish to see the co-operative over extend itself.

While the bid to change Fonterra's capital structure was unsuccessful, the events of this year have also left Fonterra much better positioned to address change. Farmers have reiterated exactly what's important to them now and in the future – payout, ownership and control of the co-operative that delivers the payout to our farm businesses. Establishing a secure equity base for Fonterra remains a priority and in 2009 the Council will continue to work with Fonterra's Board to look at capital structure options that will position Fonterra farmers for a prosperous future.

If you would like to provide guest commentary in future editions of the NZX Agrifax Dairy Report please contact Philip van Polanen at philip.vanpolanen@nzx.com

If you have any comments or feedback on this publication, or would like to subscribe to the NZX Agrifax Dairy Report or any other NZX Agrifax products, please email info@agrifax.co.nz or contact us on +64 4 4952807.

Published by NZX Agrifax Limited ("NZX Agrifax"). This NZX Agrifax Dairy Report is published for your information only. It is published with due care and attention to accuracy but NZX Agrifax accept no liability if, for any reason, the information is inaccurate, incomplete or out of date. You may copy and distribute all or part of the NZX Agrifax Dairy Report, only with NZX Agrifax express written consent and provided it is not for commercial usage and you acknowledge NZX Agrifax as the information provider. Copyright NZX Agrifax Limited. 2007. All rights reserved.