

APRIL 2016

GLOBAL DAIRY UPDATE



Dairy for life



OUR MARKETS



- In March, Fonterra New Zealand milk collection decreased 2% and Fonterra Australia milk collection decreased 7%.



- The milk production growth rate in the EU has stabilised and has eased in the other major exporting countries.



- Dairy exports remain strong for New Zealand, Australia and Europe but the United States is down largely due to increased domestic demand.



- China, Asia and Latin America continue to see strong growth in dairy imports, while the Middle East and Africa imports ease.

OUR PERFORMANCE



- Anmum™ launches in New Zealand.
- Anchor™ voted one of Sri Lanka's favourite brands.



OUR CO-OP



Salvation Army acknowledges Fonterra's support.



Living Water's new partnership.





To view a chart that illustrates year-on-year changes in production –

THE MILK PRODUCTION GROWTH RATE IN THE EU HAS STABILISED AND HAS EASED IN THE OTHER MAJOR EXPORTING COUNTRIES

NEW ZEALAND

1 % ↓

Production change for the 12 months to February 2016

Total New Zealand production increased 6% in February compared to the same month last year, which includes an additional day in February 2016. Excluding this, production increased 2%.

Milk production for the 12 months to February is down 1% compared to the same period the previous year.

Milk production for the remainder of the New Zealand production season will continue to be influenced by changes in farming systems, such as decreased stocking rates and supplementary feeding, as farmers respond to the low milk price environment.

AUSTRALIA

1 % ↑

Production change for the 12 months to January 2016

Australia production decreased 4% in January compared to the same month the previous year.

Production for the 12 months to January was up 1% compared to the same period the previous year. However, the rate of growth continues to slow as pasture growth conditions have deteriorated due to dry conditions across many dairying regions.

EUROPEAN UNION

3 % ↑

Production change for the 12 months to January 2016

Production in the EU in January increased 5% compared to the same month the previous year. The EU has now averaged over 5% growth in the previous four months.

Production for the 12 months to January increased 3% compared to the same period the previous year.

Over this period, the major contributors to production growth are Ireland up 14%, the Netherlands up 8%, Poland and the UK up 3%, and Germany up 2%.

Despite this growth, the EU Commission is forecasting milk deliveries to increase 1% in 2016.¹

USA

1 % ↑

Production change for the 12 months to February 2016

US production in February increased 4% compared to the same month last year.

Milk production for the 12 months to February increased 1% compared to the same period the previous year.

While the rate of milk production growth continues to slow the United States Department of Agriculture is forecasting milk production to increase 1% in 2016.²

¹ EU Commission Short-Term Outlook – Winter 2016.

² World Agricultural Supply and Demand Estimates Report – March 2016.



To view a chart that illustrates year-on-year changes in exports –

DAIRY EXPORTS REMAIN STRONG FOR NEW ZEALAND, AUSTRALIA AND EUROPE BUT THE UNITED STATES IS DOWN LARGELY DUE TO INCREASED DOMESTIC DEMAND

NEW ZEALAND

4% ↑

Export change for the 12 months to January 2016

Total New Zealand exports continue to see solid growth, increasing 9% in January compared to the same month the previous year, with significant increases in cheese up 20%, AMF up 17% and SMP up 14%.

Exports for the 12 months to January increased 4% compared to the same period the previous year. This increase is largely driven by cheese up 18% or 50,000 MT, SMP up 7% or 26,000 MT, and AMF up 5%.

AUSTRALIA

8% ↑

Export change for the 12 months to January 2016

Australia exports increased 12% in January compared to the same month the previous year. Increases were seen across most of the major dairy categories with fluid and fresh dairy the largest, up 27%.

Exports for the 12 months to January remain strong, up 8% compared to the same period the previous year. This is largely due to SMP up 23%, cheese up 13%, and fluid and fresh dairy up 9%.

EUROPEAN UNION

8% ↑

Export change for the 12 months to December 2015

EU exports increased 18% in December compared to the same month the previous year with increases seen across all the major dairy categories.

Exports increased 8%, or 338,000 MT, for the 12 months to December with the largest movers fluid and fresh dairy up 18% or 200,000 MT, whey powder up 10% or 43,000 MT, and infant formula up 6% or 24,000 MT.

USA

6% ↓

Export change for the 12 months to January 2016

US exports increased 7% in January compared to the same month the previous year, driven by lactose and SMP increasing 25% and 23% respectively.

Exports for the 12 months to January decreased 6% as a result of whey powder down 18%, cheese down 13% but partially offset by lactose up 9% and SMP up 4%.

This decrease in exports is largely due to increased domestic demand, particularly for cheese and butter.



To view a chart that illustrates year-on-year changes in imports –

CHINA, ASIA AND LATIN AMERICA CONTINUE TO SEE STRONG GROWTH IN DAIRY IMPORTS, WHILE THE MIDDLE EAST AND AFRICA IMPORTS EASE

LATIN AMERICA

10%↑

Import change for the 12 months to December 2015

Latin America¹ import volumes increased 1% in December compared to the same month the previous year, with all major dairy categories up excluding WMP, which decreased 21%.

Imports for the 12 months to December remain strong, increasing 10%, or 157,000MT, with the largest increases coming from WMP up 32% or 50,000MT, SMP up 24% or 73,000MT, cheese up 12% or 32,000MT and infant formula up 10%.

ASIA

8%↑

Import change for the 12 months to December 2015

Asia (excluding China)² import volumes increased 11% in December compared to the same month the previous year. Increases were seen across all major dairy categories with cheese and WMP up 33% and 21% respectively.

Imports for the 12 months to December increased 8%, or 301,000MT, compared to the same period the previous year. This is due to increases across most major dairy categories but with the largest increases coming from SMP up 14% or 106,000MT and cheese up 12% or 54,000MT.

MIDDLE EAST & AFRICA

1%↑

Import change for the 12 months to December 2015

Middle East and Africa³ imports decreased 9% in December compared to the same month the previous year. This was one of only three monthly decreases seen in 2015 and driven by SMP down 41%, WMP down 19% and cheese down 13%.

While the rate of growth has slowed during the year, imports remain up 1% for the 12 months to December with fluid and fresh dairy up 8% or 70,000MT, and WMP up 8% or 65,000MT.

CHINA

6%↑

Import change for the 12 months to February 2016

China imports increased 14% in February compared to the same month last year. Significant increases were seen across most of the major dairy categories, in particular fluid and fresh dairy up 105% and infant formula up 38%.

Imports for the 12 months to February have increased 6% compared to the same period last year with infant formula up 51% or 63,000MT, fluid and fresh dairy up 50% or 170,000MT, and whey powder up 15%.

¹ Excluding Venezuela and includes estimate for Panama in December

² Includes estimate for Indonesia and the Philippines in December

³ Includes estimate for Algeria and Egypt in December

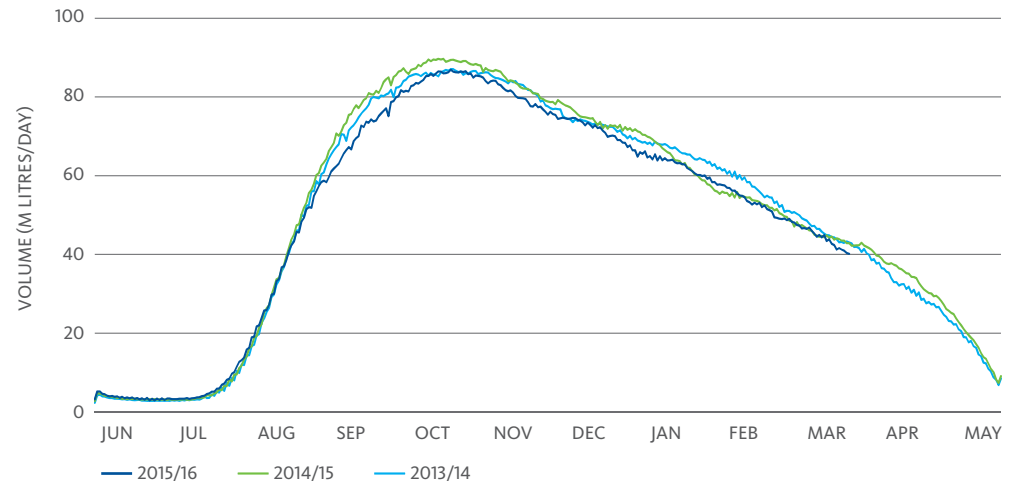
OUR MARKETS

FONTERRA MILK COLLECTION 2015/16 SEASON



To view a table that shows our detailed milk collection in New Zealand and Australia compared to the previous season –

NEW ZEALAND MILK COLLECTION



NEW ZEALAND

3% ↓

Decrease for the season to date from 1 June to 31 March compared to last season

Fonterra's milk collection across New Zealand in March was 2% lower than March last season.

For the 10 months to 31 March milk collection reached 1,388 million kgMS, 3% behind the same period last season.

Lower milk collections for the 2015/16 season are largely a result of the low milk price environment, where farmers are continuing to reduce stocking rates and supplementary feeding in order to reduce costs.

NORTH ISLAND

5% ↓

Decrease for the season to date from 1 June to 31 March compared to last season

North Island milk collection in March reached 76 million kgMS, 4% behind March last season.

SOUTH ISLAND

0%

No change for the season to date from 1 June to 31 March compared to last season

South Island milk collection in March reached 60 million kgMS, in line with March last season.

Good weather continues throughout the South Island, supporting milk production this season.

AUSTRALIA

1% ↓

Decrease for the season to date from 1 July to 31 March compared to last season

Australia milk collection in March reached 9 million kgMS, 7% lower than March last season.

Milk collection across Australia for the nine months to 31 March reached 99 million kgMS, 1% behind the same period last season.

Production has decreased below the same period last season as a result of unfavourable pasture growth due to dry conditions across most dairying regions, especially Victoria. Tasmania is better placed, receiving regular rainfall.

OUR MARKETS

DAIRY COMMODITY PRICES



Last trading event

19 April 2016:

The **Fonterra volume sold was 20,509 MT**, with Fonterra's weighted average prices increasing 3% compared to the last event.

3.8% ↑

Change in GDT Price Index from previous event

USD **2,263**

GDT Average winning price (USD/MT, FAS)

Compared to the **last trading event:**

RENNET CASEIN

7.5% ↑

USD 4,742/MT

WMP

7.5% ↑

USD 2,156/MT

BMP

2.4% ↑

USD 1,460/MT

BUTTER

2.0% ↑

USD 2,746/MT

AMF

1.6% ↑

USD 3,240/MT

SMP

0.3% ↑

USD 1,727/MT

CHEDDAR

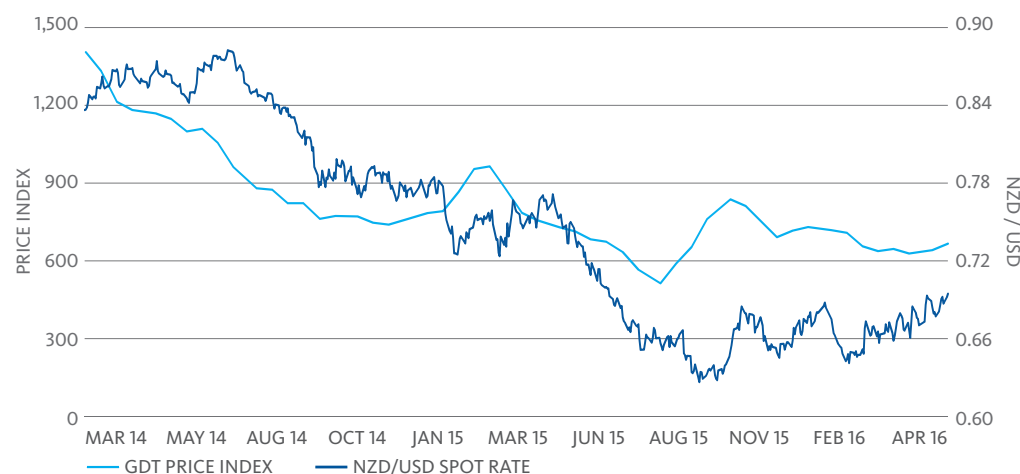
3.9% ↓

USD 2,636/MT

Dairy commodity prices and New Zealand dollar trend

To view a table that summarises the latest results and provides a snapshot of the rolling year-to-date results –

In March the New Zealand dollar strengthened against the US dollar, closing the month at the highest level since June 2015.



► The next trading event will be held on **3 May 2016**. Visit www.globaldairytrade.info for more information.

OUR PERFORMANCE



Annum™ launches in New Zealand

Our internationally established Annum™ infant nutrition brand is now available in New Zealand.

It is a \$200 million brand in our Asian markets with an established track record of quality and trust with parents. Annum™ infant nutrition aims to become one of the top three brands in the \$77 million New Zealand formula market.

The Annum™ product range includes our own patented *Bifidobacterium lactis* DR10™

cultures, and the Annum™ PediaPro™ toddler milk has no added sugars of any kind, which is an important factor for parents.

Paediatric nutrition is the fastest-growing dairy category in the world and developing leading positions in this category is one of Fonterra's seven strategic paths.

The range is blended and packed locally and is sold in select supermarkets nationwide.



For more information on Annum™ –

Anchor™ voted one of Sri Lanka's favourite brands

The Anchor™ brand was founded in 1886 in New Zealand, evolving from a single butter factory in the Waikato to one of our most established global brands today. Anchor™ is now sold in around 80 countries with over \$1.6 billion in sales from more than 600 products.

Anchor™ is the number one dairy brand in New Zealand and Sri Lanka.

In Sri Lanka, it has recently been chosen as the 'Hot Beverage Brand of the Year' and 'Youth Choice Fast Moving Consumer Goods' brand of the year, further strengthening its position as one of Sri Lanka's most recognised and preferred brands.

Organised by the Sri Lanka Institute of Marketing, the People's Awards are the country's largest public poll of everyone's favourite and most trusted brands.

These awards show the success of Anchor™ in one of our eight key markets. This is the second year Anchor™ has achieved the Hot Beverage Brand of the Year award.

Sri Lanka remains an important market for Fonterra and contributes to the Asia business through the consumer and foodservice platform, moving more milk into higher-value products. Asia delivered a strong six-month performance with volume growth of 7% on a liquid milk equivalent basis, compared to the first half last year.

Anchor™ offers a wide range of dairy products across Sri Lanka which includes fresh milk, yoghurt, curd, butter and cream in addition to milk powder. These products cater to a broad range of consumers, from mothers and children, to chefs and restaurants.



Check out our Anchor™ website for more information –



Salvation Army acknowledges Fonterra's support

The Salvation Army in New Zealand has recognised Fonterra Brands New Zealand's (FBNZ) continued support by awarding it a Valued Partner trophy.

For more than five years FBNZ has donated dairy products, such as Anchor™ UHT milk and Mainland™ cheese, to The Salvation Army's foodbanks and Christmas foodbank drives.

The Salvation Army's Public Relations Director Shane Chisolm said the products FBNZ donates are an important part of the food parcels The Salvation Army distributes, and the Co-operative's support is a vital contribution to its services.



FONTERRA ENVIRONMENTAL MANAGER NIC BISHOP, SALVATION ARMY PUBLIC RELATIONS DIRECTOR SHANE CHISOLM AND MANAGING DIRECTOR FONTERRA BRANDS NZ LEON CLEMENT

UHT milk products are always popular and so too are yoghurt and cheese that can go into school lunch boxes.

FBNZ also donates compost produced at its Recycle Lab to The Salvation Army community gardens, where they grow vegetables for food parcels.

Living Water's new partnership

Fonterra's Living Water partnership with the Department of Conservation (DOC) has joined forces with the Queen Elizabeth II (QEII) National Trust to protect significant land in Living Water catchments.

The QEII National Trust helps farmers and land owners legally protect areas of natural and cultural heritage forever.

This partnership is right at the heart of what Living Water is about – working with others to enhance our biodiversity and water quality for future generations.

Hikurangi farmers Graeme and Sharon Gillett will be the first to work with the QEII National Trust under the new agreement.



QEII NATIONAL TRUST CHIEF EXECUTIVE MIKE JEBSON, SHARON AND GRAEME GILLETT AND FONTERRA DIRECTOR SOCIAL RESPONSIBILITY CAROLYN MORTLAND

The Gilletts run a 360 hectare farm in the Living Water Hikurangi catchment with their son who is their sharemilker.

Graeme Gillett understands the importance of preserving the land and placing a covenant on it will safeguard it for generations to come.

Living Water will help them legally protect 12 hectares of native bush on the farm by providing some of the funding for the Trust to put the covenant in place.

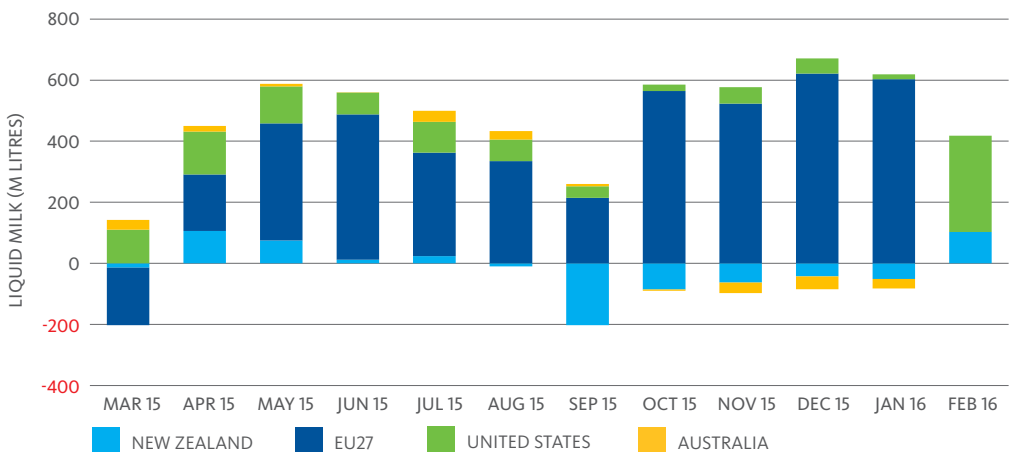
SUPPLEMENTARY INFORMATION

Global Dairy Market

The charts on the right illustrate the year-on-year changes in production, exports and imports for a range of countries that are important players in global dairy trade.

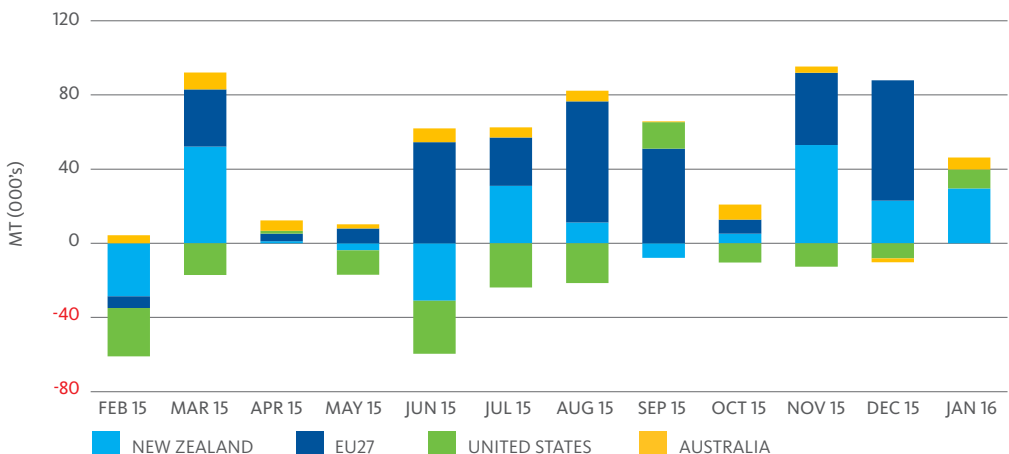
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

PRODUCTION



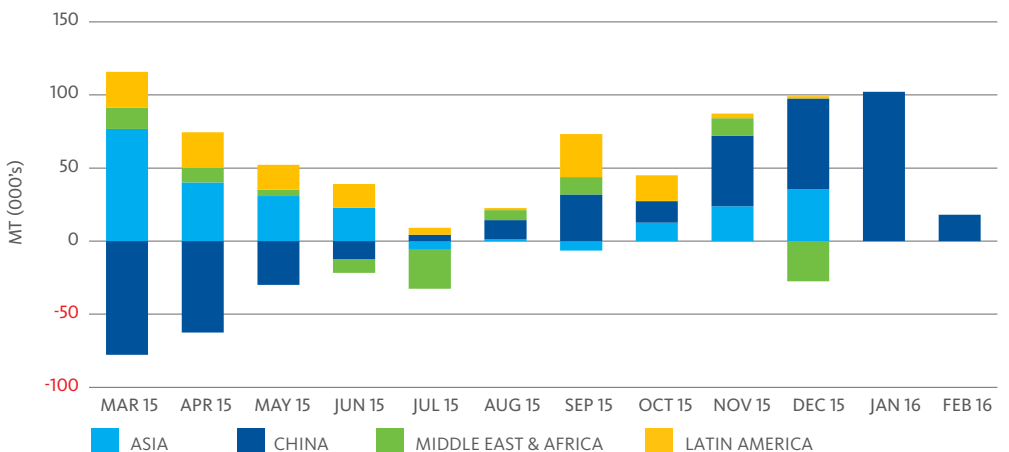
SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

EXPORTS



SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

IMPORTS



SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

SUPPLEMENTARY INFORMATION

Fonterra milk production

The table on the right shows Fonterra milk solids collected in New Zealand and Australia compared to the previous season.

MILK COLLECTION (MILLION KGMS)	MAR 2016	MAR 2015	MONTHLY CHANGE	SEASON- TO-DATE 2015/16	SEASON- TO-DATE 2014/15	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	136.1	139.4	(2.4%)	1,387.5	1,435.4	(3.3%)
North Island	76.4	79.9	(4.4%)	860.7	909.9	(5.4%)
South Island	59.6	59.4	0.3%	526.8	525.6	0.2%
Fonterra Australia	8.8	9.5	(7.4%)	98.9	100.3	(1.4%)

GDT results

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

	LAST TRADING EVENT (19 APRIL 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2015)
Fonterra Quantity Sold on GDT (Winning MT)	20,509	505,674
GDT Average Winning Price (USD/MT, FAS)	2,263	2,345
Change in GDT Price Index over same period last year	(12.0%)	(16.1%)
Change in GDT Price Index from previous event	3.8%	–

GLOSSARY

AMF

Anhydrous Milk Fat.

BMP

Butter Milk Powder.

DIRA

Dairy Industry Restructuring Act 2001 (New Zealand).

Farmgate Milk Price

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

Fluid and Fresh Dairy

The Fonterra grouping of fluid milk products (skim milk, whole milk and cream – pasteurised or UHT processed), concentrated milk products (evaporated milk and sweetened condensed milk) and yoghurt.

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 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 Products

The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF.

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.

SMP

Skim Milk Powder.

WMP

Whole Milk Powder.