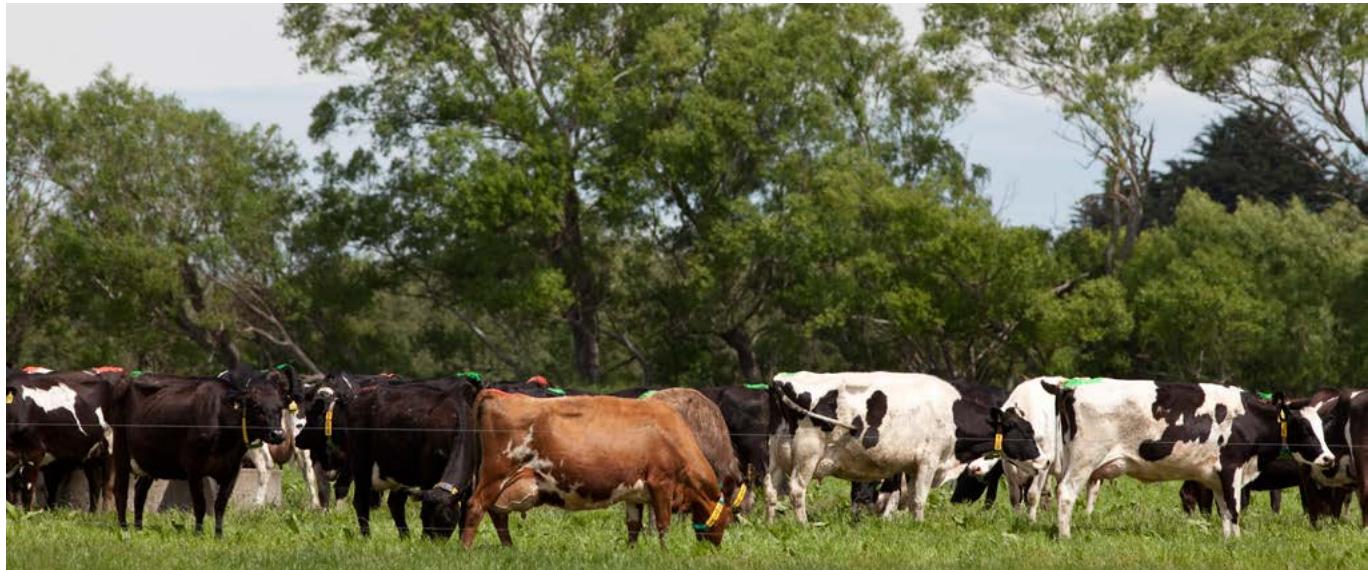


# GLOBAL DAIRY UPDATE



## OUR MARKETS



- In February, Fonterra New Zealand milk collection decreased 1% and Fonterra Australia milk collection decreased 3%.
- Fonterra's New Zealand milk collection forecast for the 2015/16 season down 4%.



- EU milk production growth continues, while growth rates have eased from other major exporters as farmers respond to lower global dairy prices.



- 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 have seen continued growth in dairy imports

## OUR PERFORMANCE



- Milk prices in our global milk pools



## OUR CO-OP



**KickStart Breakfast** serves up milestone breakfast

**Fonterra Milk for Schools**  
'Good Business Egg' hatches.



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

## EU MILK PRODUCTION GROWTH CONTINUES, WHILE GROWTH RATES HAVE EASED FROM OTHER MAJOR EXPORTERS AS FARMERS RESPOND TO LOWER GLOBAL DAIRY PRICES

### NEW ZEALAND

**2 %** ↓

Production change  
for the 12 months to  
January 2016

**Total New Zealand production** decreased 2% in January compared to the same month last year.

Milk production for the 12 months to January is down 2% 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  
December 2015

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

Production for the 12 months to December 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 weather across many dairy regions.

### EUROPEAN UNION

**2 %** ↑

Production change  
for the 12 months to  
December 2015

**Production in the EU** in December increased 5% compared to the same month the previous year.

The EU has seen growth in milk production in each of the nine months following the removal of quotas on 1 April 2015.

Production for the 12 months to December increased 2% compared to the same period the previous year, or an increase of 3.2 billion litres. Over this period Ireland was up 13%, Netherlands up 7%, Poland up 3%, the UK up 2%.

### USA

**1 %** ↑

Production change  
for the 12 months to  
January 2016

**US production** in January was in line with the same month last year.

While the rate of milk production growth has continued to slow, for the 12 months to January, it remains up 1% compared to the same period last year.



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 December 2015

**New Zealand exports** increased 6% in December compared to the same month the previous year, with increases seen across most major dairy categories, excluding WMP and SMP.

Exports for the 12 months to December increased 4% compared to the same period the previous year. An increase of around 117,000 tonnes for the 12 months was largely driven by cheese up 18%, SMP up 7% and AMF up 5%, but partially offset by butter down 5% and WMP down 3%.

### AUSTRALIA

**7 %**

Export change for the 12 months to December 2015

**Australia exports** increased 1% in December compared to the same month the previous year. A significant increase in cheese, up 26%, and fluid and fresh dairy up 6% was almost fully offset by WMP, whey powder and SMP, which were all down.

Exports for the 12 months to December remain strong, up 7% compared to the same period the previous year. This is largely due to SMP up 23%, cheese up 14%, and fluid and fresh dairy up 9%.

### EUROPEAN UNION

**7 %**

Export change for the 12 months to November 2015

**EU exports** increased 10% in November compared to the same month the previous year. Increases were seen across most of the major dairy categories with only SMP decreasing over the month.

Exports have increased 7% for the 12 months to November largely as a result of fluid and fresh dairy up 15%, whey powder and SMP up 9%, and infant formula up 7%.

### USA

**8 %**

Export change for the 12 months to December 2015

**US exports** decreased 5% in December compared to the same month the previous year, with a significant increase in SMP of 35%, fully offset by whey powder, cheese and lactose.

Exports for the 12 months to December decreased 8%, or more than 185,000 tonnes, reflecting a drop across most of the major dairy categories, in particular butter down 69%, whey powder down 19% and cheese down 14%.

This decrease is due to higher domestic demand, particularly in cheese and butter.



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

## CHINA, ASIA AND LATIN AMERICA HAVE SEEN CONTINUED GROWTH IN DAIRY IMPORTS

### LATIN AMERICA

**12 %**

Import change for 12 months to November 2015

**Latin America<sup>1</sup> import volumes** increased 1% in November compared to the same month the previous year, with all major dairy categories up excluding WMP, which decreased 20%.

Imports for the 12 months to November remain solid, increasing 12% with WMP up 40%, SMP up 26%, cheese up 11% and infant formula up 9%.

### ASIA

**8 %**

Import change for 12 months to November 2015

**Asia (excluding China)<sup>2</sup> import volumes** increased 8% in November compared to the same month the previous year. Increases were seen across whey powder up 23%, WMP up 19% and cheese up 7%.

Imports for the 12 months to November have increased 8% compared to the same period the previous year. This is due to increases across most major dairy categories including SMP up 14%, cheese up 10%, WMP up 8% and fluid and fresh dairy up 7%.

### MIDDLE EAST & AFRICA

**2 %**

Import change for 12 months to November 2015

**Middle East and Africa imports** increased 3% in November compared to the same month the previous year. WMP increased 20% and cheese 7% which was partially offset by fluid and fresh dairy and SMP both down 5%.

Imports for the 12 months to November have increased 2%, largely due to WMP up 14%, and fluid and fresh dairy up 6%. This is partially offset by SMP down 8% and butter down 2%.

### CHINA

**1 %**

Import change for 12 months to January 2016

**China imports** increased 51%, or around 102,000 tonnes, in January 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 68%, whey powder up 54% and WMP up 52%.

Imports for the 12 months to January have increased 1% compared to the same period last year with infant formula up 47%, fluid and fresh dairy up 45% and whey powder up 13%. These increases remain partially offset by powders, including WMP down 39% and SMP down 13%.

<sup>1</sup> Excluding Venezuela, includes estimate for Argentina and Chile in November.

<sup>2</sup> Includes estimate for Philippines in November

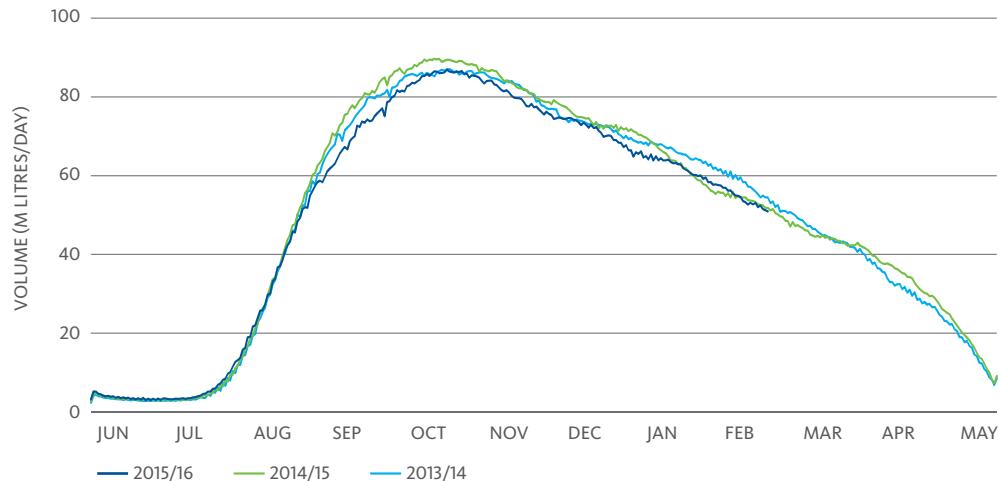
## OUR MARKETS

# 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

Fonterra's milk collection across New Zealand in February was 1% lower than February last season.

For the nine months to 29 February milk collection reached 1,251 million kgMS, 3% behind the same period last season.

### NORTH ISLAND

**6%** ↓

Decrease for the season to date from 1 June to 29 February compared to last season

**North Island milk collection** in February reached 83 million kgMS, 3% behind February last season.

### SOUTH ISLAND

**0%**

No change for the season to date from 1 June to 29 February compared to last season

**South Island milk collection** in February reached 61 million kgMS, 2% above February last season.

### AUSTRALIA

**1%** ↓

Decrease for the season to date from 1 July to 29 February compared to last season

Australia milk collection in February reached 9 million kgMS, 3% lower than February last season.

Milk collection across Australia for the eight months to 29 February reached 90 million kgMS, 1% behind the same period last season.

### New Zealand Milk Supply forecast<sup>1</sup>

**1,545M**  
KGMS

Decrease of 4% forecast for the 2015/16 season

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

As the season progresses, we can more accurately forecast total milk collection.

This updated forecast reflects this, together with more favourable summer pasture growth conditions experienced across many dairy regions.

<sup>1</sup> Includes forecast milk supply from both shareholding farmers and contract suppliers.

## OUR MARKETS

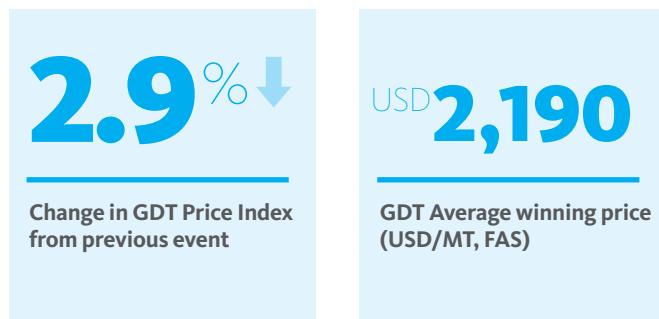
# DAIRY COMMODITY PRICES



Last trading event

**15 March 2016:**

The **Fonterra volume sold was 19,874 MT**, with Fonterra's weighted average prices decreasing 2.9% compared to the last event.



Compared to the **last trading event**:

BMP	WMP	SMP
<b>6.4%</b>	<b>0.8%</b>	<b>2.5%</b>
USD 1,545/MT	USD 1,971/MT	USD 1,731/MT
BUTTER	CHEEDEDAR	AMF
<b>2.8%</b>	<b>5.6%</b>	<b>6.5%</b>
USD 2,733/MT	USD 2,441/MT	USD 3,014/MT
RENNET CASEIN		
<b>7.0%</b>		
USD 4,083/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 February the New Zealand dollar held against the US dollar, despite the fall through January.



► The next trading event will be held on **5 April 2016**. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

## OUR PERFORMANCE

# MILK PRICES IN OUR GLOBAL MILK POOLS



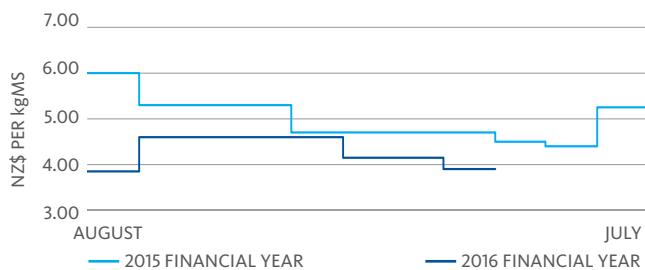
The milk prices in our global milk pools such as New Zealand, Australia, Chile and China can influence our business performance.

New Zealand, Asia and Greater China source their product from New Zealand so in these markets the New Zealand Farmgate Milk Price is a key driver of input costs.

Our Chilean and Australian businesses largely source product locally so the local milk price is more relevant to input costs in these markets.

In China, the local milk price gives an indication of the price we receive for milk produced and sold by our farming operations in China.

### NEW ZEALAND FONTERRA



The forecast Farmgate Milk Price in New Zealand increased at the start of the 2016 financial year (FY16) but has since decreased following the pressure on globally traded dairy prices.

This has brought the Milk Price below the same period last year.

Prices remain at unsustainable levels for many farmers.

### CHINA (LOCAL AVERAGE)



Milk prices in China in FY16 continue to see a slow recovery from the second half of last year.

The milk price is now in line with the same month last year but it remains at

a level that continues to challenge profitability across the market.

Local prices are influenced by a combination of global dairy prices and local conditions.

### AUSTRALIA FONTERRA



The milk price for Australia in FY16 remains lower than last year.

The milk price is set by the performance of cheese, butter and liquid milk volumes, and sales sourced from Australian milk.

The milk price has a greater skew towards domestic consumption and the prices of these products, which have been less volatile than powders.

### CHILE FONTERRA



The Soprole milk price in Chile remains lower than last year, however the gap has narrowed. Local milk prices tend to lag those of the global dairy market and last year weak global dairy prices didn't pass through to lower milk prices.

In addition, the south of Chile experienced drought conditions in the second half of last year, which put upward pressure on pricing.

This year prices more accurately reflect global dairy prices.



KickStart Breakfast  
serves up milestone  
breakfast



**The KickStart Breakfast programme** has now served more than six million breakfasts since the Ministry of Social Development joined the partnership between Fonterra and Sanitarium in 2013.

When the Ministry joined the programme it was made available to all schools in New Zealand every school day. Now more than 100,000 breakfasts are served at 845 schools throughout the country every week.

Since kids have been taking part, schools have reported an improvement in general health, concentration and behaviour.

[Find out more and meet the 2015 KickStart Breakfast champions –](#)

Fonterra Milk for Schools 'Good Business Egg' hatches

**A Kokako chick recently released into the wild has a special relationship with Fonterra Milk for Schools.**



Last year Fonterra Milk for Schools won the health section at the Business and Community Shares Good Business Egg awards. The prize included a Kokako egg, an endangered bird that's native to New Zealand.

**The Good Business Egg awards** recognise businesses that give back to the community in the areas of health, education and community involvement each year.

Fonterra Milk for Schools' contribution towards childhood nutrition, and the support of the Co-operative's farmers was recognised at the release of the chick named Wai Kikorangi or Blue Water.



[Check out our website for more details –](#)



FONTERA DIRECTOR SOCIAL RESPONSIBILITY CAROYN MORTLAND (THIRD FROM LEFT) WITH OTHER BACS GOOD EGG RECIPIENTS.

# SUPPLEMENTARY INFORMATION

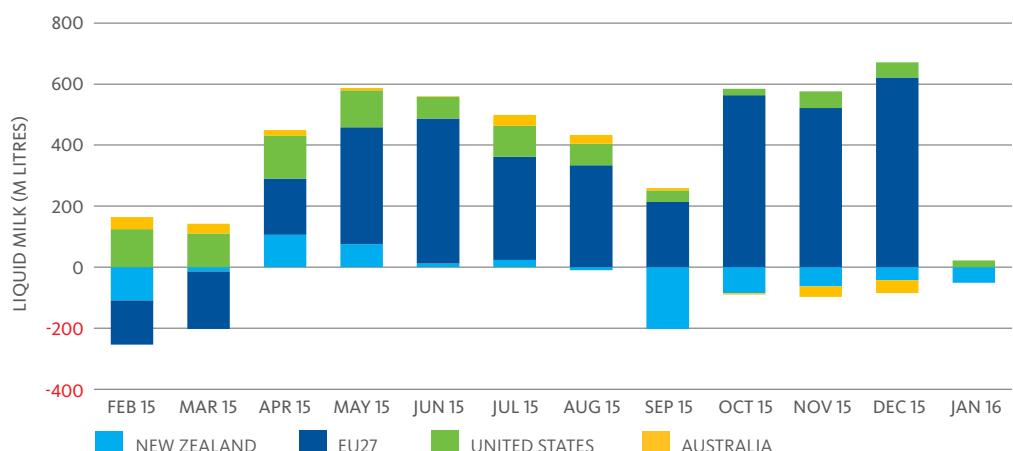
---

## 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.

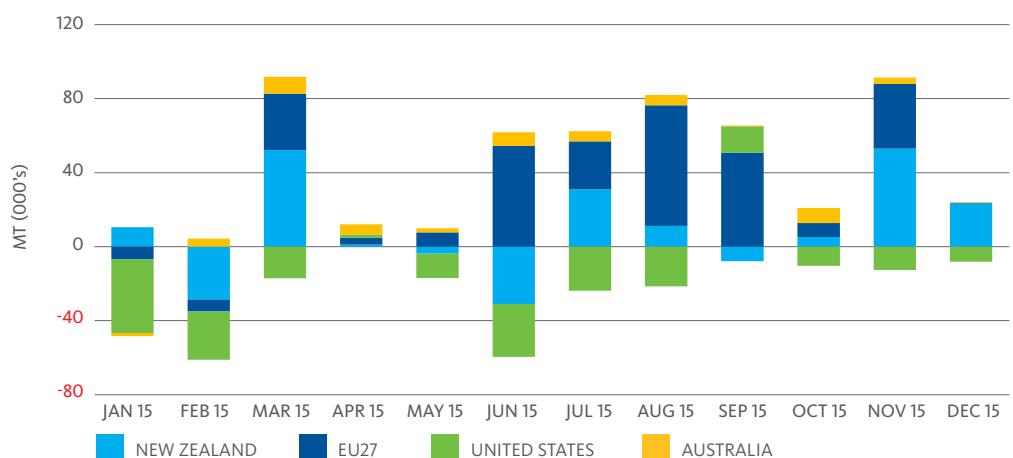
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

### PRODUCTION



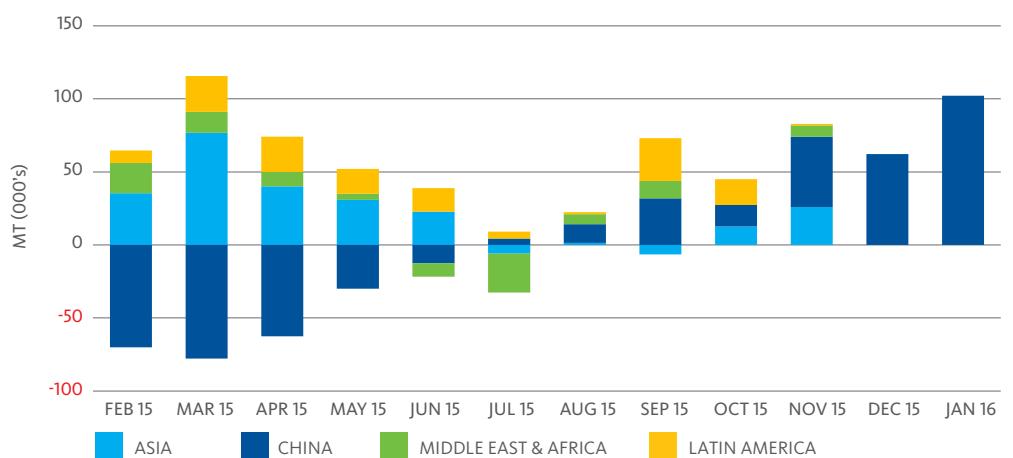
SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

### 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)	FEB 2016	FEB 2015	MONTHLY CHANGE	SEASON-TO-DATE 2015/16	SEASON-TO-DATE 2014/15	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	144.1	145.9	(1.2%)	1,251.4	1,296.1	(3.4%)
North Island	83.1	86.0	(3.5%)	784.2	829.9	(5.5%)
South Island	61.0	59.8	2.0%	467.2	466.1	0.2%
Fonterra Australia	8.7	9.0	(3.0%)	89.9	90.8	(1.0%)

## GDT results

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

	LAST TRADING EVENT (15 MARCH 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2015)
Fonterra Quantity Sold on GDT (Winning MT)	19,874	463,429
GDT Average Winning Price (USD/MT, FAS)	2,190	2,360
Change in GDT Price Index over same period last year	(28.7%)	(16.2%)
Change in GDT Price Index from previous event	(2.9%)	-

# 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.