



Dairy for life

GLOBAL DAIRY UPDATE

Welcome to our
May 2015 Global
Dairy Update

IN THIS EDITION

Fonterra milk collection

- New Zealand 8% higher in April 2015 and 2% higher for the season to date
- Australia 7% higher in April 2015 and 6% higher for the season to date

Business update

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Global dairy market overview

- End of European Union milk quotas
- Global milk production growth easing and volatility in exports and imports

Dairy commodity prices on 19 May 2015

- Fonterra volume sold on GDT of 24,840 MT
- GDT Price Index 2% lower than the previous event

2015
Financial Calendar

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

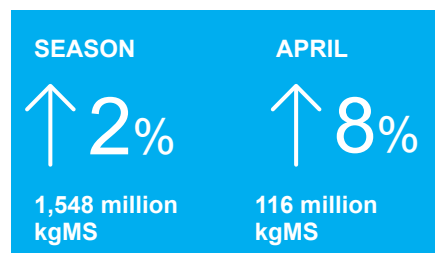
24 SEPTEMBER 2015
Annual results announcement

LATE NOVEMBER 2015
Fonterra Annual Meeting

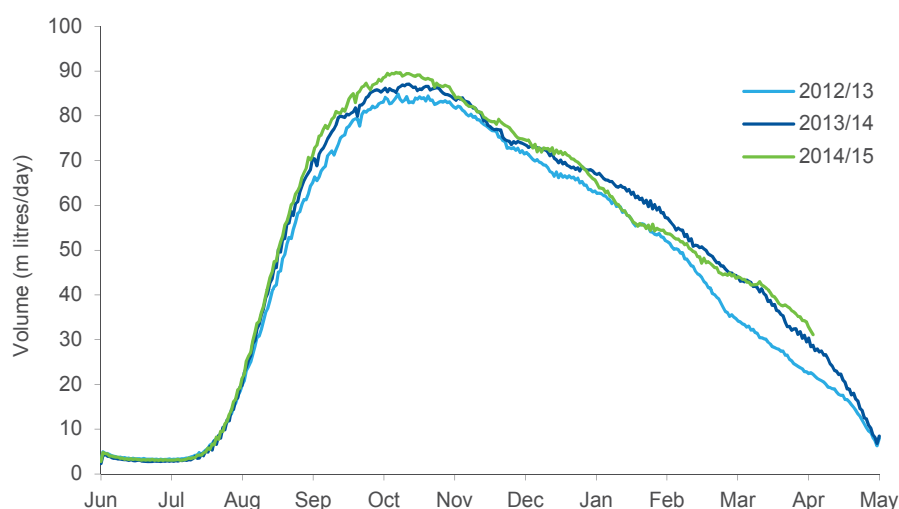
1 DECEMBER 2015
Compliance date for the Share
Standard 2015/16 season

FONTERRA MILK COLLECTION

NEW ZEALAND COLLECTION



Milk collection in New Zealand for the 11 months to 30 April reached 1,548 million kgMS, two per cent higher than the same period last season. Milk collection in April reached 116 million kgMS, eight per cent higher than April last season.



Source: Fonterra Co-operative Group, 4 May 2015

North Island collection in April reached 66 million kgMS, 22 per cent higher than April last season, where there was widespread drought. Widespread rain across most dairying regions, in excess of 100mm, has provided a boost to milk volumes.

South Island collection in April reached 50 million kgMS, six per cent lower than April last season. Production continues to track below last season as soil moisture remains low across most South

Island dairying regions.

The milk supply forecast for the 2014/15 season has been increased to 1,607 million kgMS, two per cent ahead of last season.

Milk collection in Australia for the 10 months to 30 April reached 109 million kgMS, six per cent higher than the same period last season.

Milk collection in April reached nine million kgMS, seven per cent ahead of April last season.

Favourable pasture growth conditions continue across Australia, with most dairying regions receiving some rain.

Western Victoria production growth relative to last season continues, but follow-up rain is needed to maintain current growth rates for the remainder of the season.

The table below shows Fonterra milk solids collected in New Zealand and Australia for the 2014/15 season compared to the 2013/14 season.

FONTERRA MILK COLLECTION

FONTERRA MILK COLLECTION (MILLION KGMS)	APRIL 2015	APRIL 2014	MONTHLY CHANGE ²	JUNE 2014 TO APRIL 2015 ³	JUNE 2013 TO APRIL 2014 ³	SEASON-TO-DATE CHANGE ²
Total Fonterra New Zealand ¹	116	108	7.7%	1,548	1,524	1.5%
North Island ¹	66	54	21.7%	973	943	3.3%
South Island ¹	50	54	(6.4)%	574	581	(1.2)%
				JULY 2014 TO APRIL 2015 ³	JULY 2013 TO APRIL 2014 ³	SEASON-TO-DATE CHANGE ²
Fonterra Australia	9.1	8.5	7.1%	109.4	103.2	6.1%

¹ Milk collection data includes DIRA milk, which is collected and sold to other New Zealand processors.

² Percentage change reflects the change in the underlying figures and may be different due to rounding in million kgMS.

³ Data includes the period from the first calendar day to the last calendar day of the quoted months.

BUSINESS UPDATE

Global Ingredients third quarter update

Fonterra manufactures five commodity products that inform the Farmgate Milk Price. These are referred to as reference commodity products or powder products. All other products are referred to as non-powder products. The relative difference between powder product prices and non-powder product prices can impact Fonterra's gross margins.

New Zealand Ingredients

Production volume of powder products decreased five per cent in the third quarter compared to the same time last year, while non-powder products including cheese and casein increased 12 per cent. This was mainly due to optimising our product mix to take advantage of higher product stream returns.

There is always a lag between when product is produced and when it is sold. Sales volume in the third quarter for powder products was three per cent lower than the same period last year due to lower WMP sales to China which were offset to some extent by higher powder product sales to Latin America, the Middle East and Africa.

Sales volume of non-powder products grew strongly, up 18 per cent compared to the third quarter last year as a result of higher volumes sold to North America and China.

Revenue per MT of powder products

was 41 per cent lower in the third quarter compared to the same time last year. This was mainly due to significantly lower WMP and SMP prices globally. Powder prices were at near record highs in the third quarter last year and they are significantly lower now following the increase in global supply milk and softening global demand for dairy commodity products. This has impacted on selling prices of our powder products.

Revenue per MT of non-powder products was 27 per cent lower in the third quarter compared to the same time last year. Non-milk powder commodity prices decreased impacting on selling prices for those products, although not to the same extent as those of the powder products.

Australia Ingredients

Milk collection across Australia for the 10 months to 30 April was 109 million kgMS, up six per cent on the same period last season. Growth in milk production has been driven by favourable conditions and economics as local milk prices remain high. The current Fonterra Australia forecast milk price is \$6.00 per kgMS.

Sales volume has increased seven per cent for the financial year to 30 April 2015 impacted by increased milk production and significantly higher ingredients exports, particularly SMP. This has been partially offset to some extent by lower cheese volumes as a result of the fire

at Stanhope.

Weak SMP prices have continued as exports have increased from Australia, Europe and NZ, and contracting of SMP and whey protein concentrate slowed as buyers forecast further weakness in pricing.

Revenue benefitted from volume growth, as well as the positive impact of the weaker Australian dollar relative to the US dollar, however this was offset by reduced cheese sales and lower commodity prices resulting in revenue being 14 per cent below the same period last year.

There has been no significant improvement in gross margin in the third quarter, following the challenges experienced in the first half financial year 2015.

Chile Milk Pool

Milk collection in Chile is currently down, due to both seasonality of production and the drought in the south. The average milk price has decreased four per cent in the third quarter compared to the second largely due to the continued weakening of international WMP prices, which largely drives the Chilean milk price. Market expectations were for the milk price to be lower, however the decrease has been tempered by reduced milk supply due to the drought.

NEW ZEALAND-SOURCED VOLUME

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

Powder Products ¹	543	103	639	742	518	(5%)
Non-powder Products	142	27	225	253	159	12%

SALES VOLUME²

Powder Products	508	441	373	655	491	(3%)
Non-powder Products	159	155	140	179	188	18%

¹ Manufacture of the powder products comprised around 77% of Fonterra's total New Zealand ingredients production in the 2014 financial year.

² Sales volume includes bulk liquid milk that is not included in the production volumes. The annual bulk liquid milk volume for 2014 financial year was 74,000 MT, including DIRA milk.

NEW ZEALAND-SOURCED REVENUE

REVENUE (\$ PER MT)	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	% CHANGE (Q3 FY15 TO Q3 FY14)
Powder Products	5,981	5,446	4,458	3,723	3,516	(41%)
Non-powder Products	7,499	7,127	6,696	5,838	5,440	(27%)



GLOBAL DAIRY MARKET OVERVIEW

European milk quotas, which limited the amount of milk farmers could produce, were lifted on 1 April 2015.

Farmers in the European Union's 28 member states (EU28) can now increase milk production without being required to pay a levy on any additional milk produced above the quota.

First introduced in 1984, the milk quota regime was a measure used by governments to overcome the problem of structural over-supply in Europe when EU production outstripped demand. It was initially intended to be in place until 1989, but was extended several times.

While the quotas have now been lifted, the policy debate continues, escalated by Russia's import ban and lower international commodity prices.

Removing the quota system has been helped by Common Agricultural Policy (CAP) reforms over the last 15 plus years. Intervention prices, where the European Commission buys in public stocks, have been lowered, and subsidies paid to

farmers have been largely 'decoupled' from production, reducing the incentive to increase production during periods of reduced demand. The final date to lift quotas was decided in 2003 and it was reconfirmed in 2008 with a range of transitional measures, including the decision to slowly increase the quota volume in the years leading up to its end date.

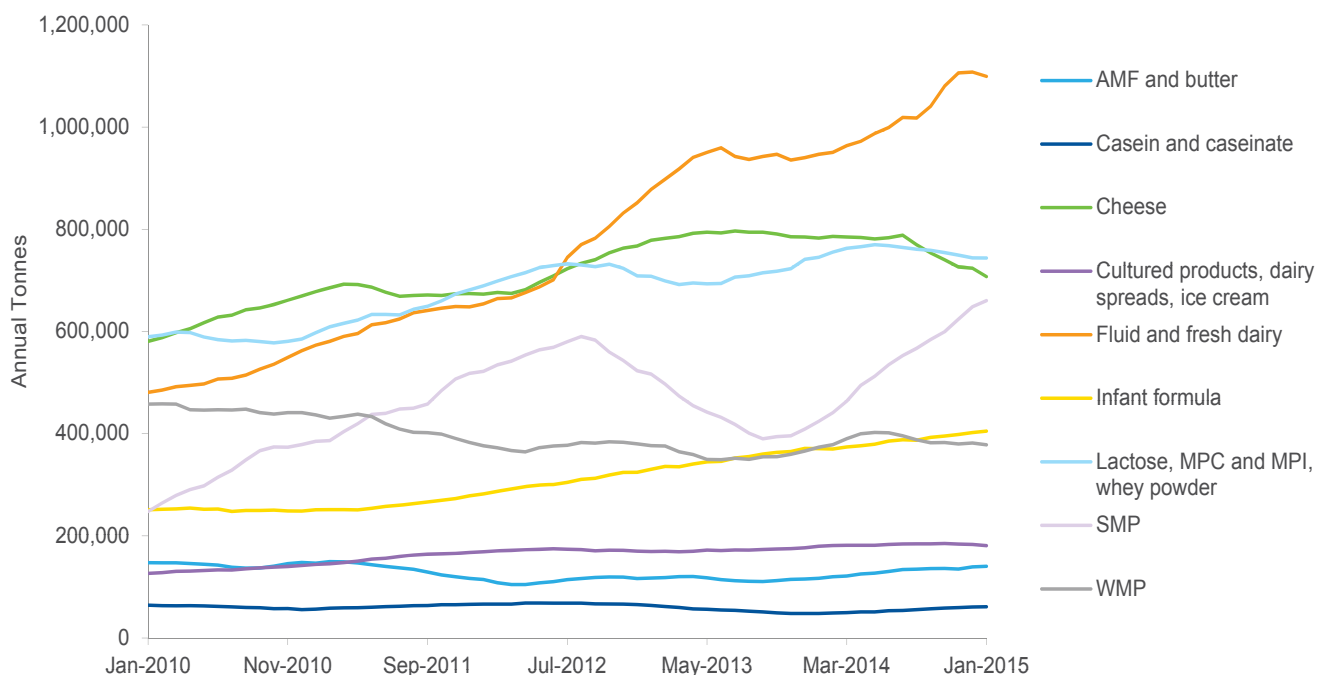
The quota was previously administered at a member state level, with each country allocated a volume to share among their farmers. In 2013/14 only eight member states exceeded their milk production quotas, and at an aggregate level the EU was 4.6% below total allowable quota volumes. Although as many as 13 countries may have been over quota in 2014/15, the majority of EU28 member states, including major milk producing countries such as France and the UK, have not been constrained by quotas in recent years. The removal of quotas only directly impacts those countries that have been constrained by them.

There is a range of views on how European farmers may respond to the end of quotas, but most commentators believe that European milk production will increase, with some growth exported outside the EU. In 2014, the EU produced 141 million tonnes of liquid milk and approximately 10 per cent was exported. The chart below illustrates a breakdown of the major dairy exports from the EU since 2010.

EU milk growth in 2014 was high at around 4.5 per cent. This equals the cumulative milk growth during the previous five years. In 2015, the European Commission is forecasting milk deliveries to increase by around one per cent.

The removal of quotas means EU farmers are now in the same position as US, New Zealand and Australian farmers, where they can increase supply to meet demand if it makes economic sense and they have the resources to do so.

EU EXPORTS BY PRODUCT



Source: Government milk production statistics / GTIS trade data / Fonterra analysis

PRODUCTION

EU production in February decreased one per cent compared to the same month last year. February was the first month since June 2013 where there has been negative growth in milk production. This decrease was widespread across all the major EU dairy producing countries including Germany, France, Netherlands, UK and Poland. These 'top five' countries account for over 60 per cent of total EU production and in February their production decreased two per cent when compared to the same month last year.

US production in February increased two per cent compared to the same month last year. The United States Department of Agriculture, World Agricultural Supply and Demand Report estimates that US milk production in 2015 will increase 2.5 per cent.

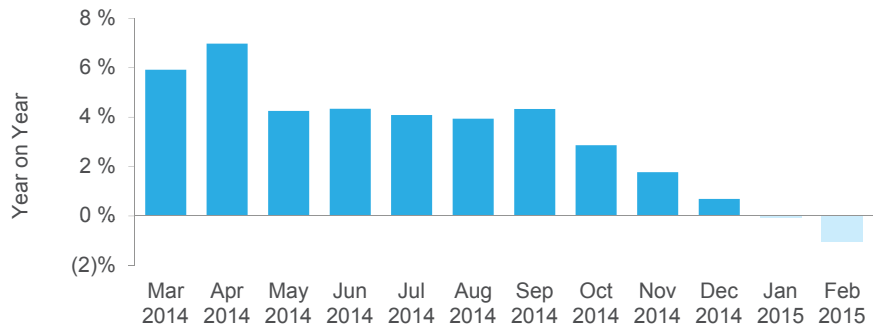
Production data for Argentina and Uruguay has not been consistently published since December 2014, making it difficult to assess production in 2015.

Australia production in February increased six per cent compared to the same month the previous year. Production increased more than 11 per cent in Tasmania and New South Wales, with Victoria production increasing six per cent.

For Fonterra's New Zealand production, refer to page one.

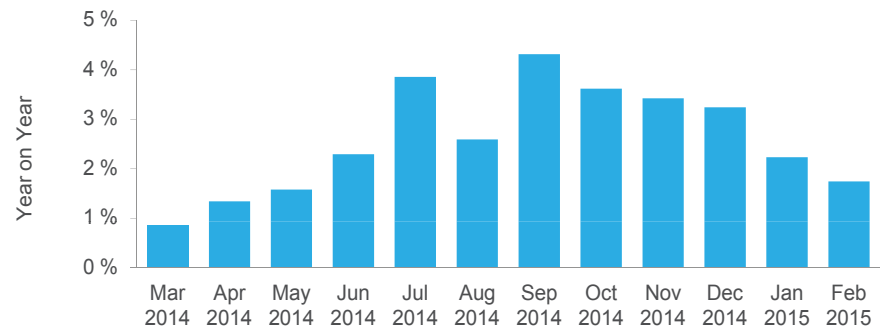
EU

Annual production ~146 million tonnes of liquid milk



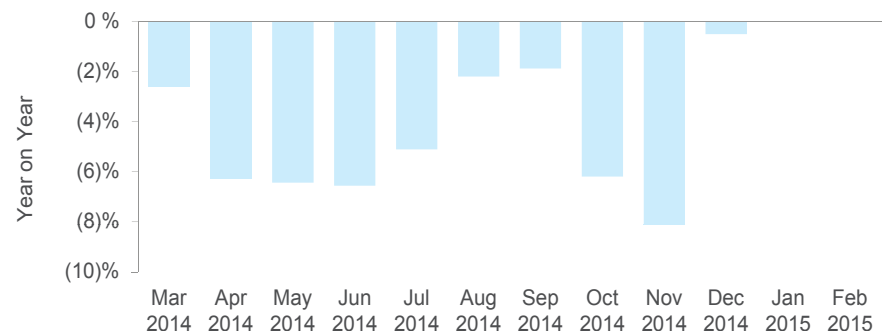
US

Annual production ~92 million tonnes of liquid milk (collected)



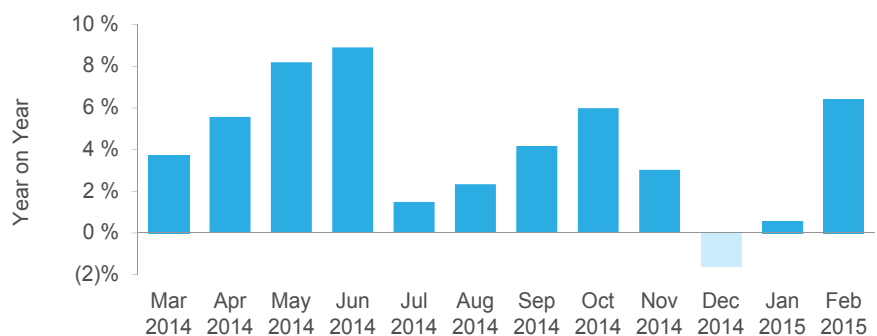
ARGENTINA AND URUGUAY

Annual production ~9 million tonnes of liquid milk



AUSTRALIA

Annual production ~10 million tonnes of liquid milk



Source: Government milk production statistics / GTIS trade data / Fonterra analysis

EXPORTS

New Zealand exports in February decreased 10 per cent compared to the same month last year. This was driven by a decrease across most of the major dairy categories, including butter, down 48 per cent, with AMF and WMP both down 15 per cent.

Australian exports in February increased eight per cent compared to the same month last year. Increases were seen across most of the major dairy categories, including SMP up 28 per cent, fluid and fresh dairy up 26 per cent, whey powder up six per cent and cheese up four per cent. However, WMP decreased 12 per cent over the same period.

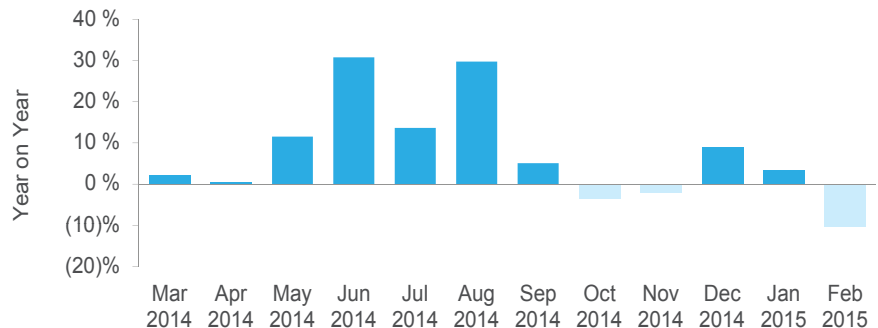
EU exports in January decreased four per cent compared to the same month last year. However, Italy has not reported for January. This is the first year-on-year decrease since August 2014. The decrease was driven primarily by cheese down 27 per cent and fluid and fresh milk down nine per cent. SMP, one of the major export dairy products for EU, increased 23 per cent in January compared to the same month last year.

US exports in February decreased 15 per cent compared to the same month last year. A decrease was seen across many dairy categories including whey powder down 18 per cent, SMP down 12 per cent, lactose down 10 per cent, fluid and fresh dairy down six per cent and cheese down five per cent.

Argentina and Uruguay exports in January decreased 29 per cent compared to the same month last year. Decreases were seen across all of the major dairy exporting categories, excluding fluid and fresh milk, in January increasing 15 per cent compared to the same month last year. The most significant decreases occurred in WMP down 54 per cent and cheese down 30 per cent.

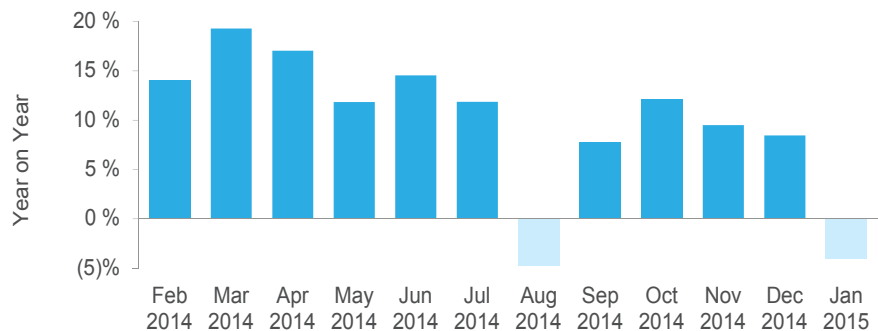
NEW ZEALAND

Annual exports ~3.0 million tonnes of product



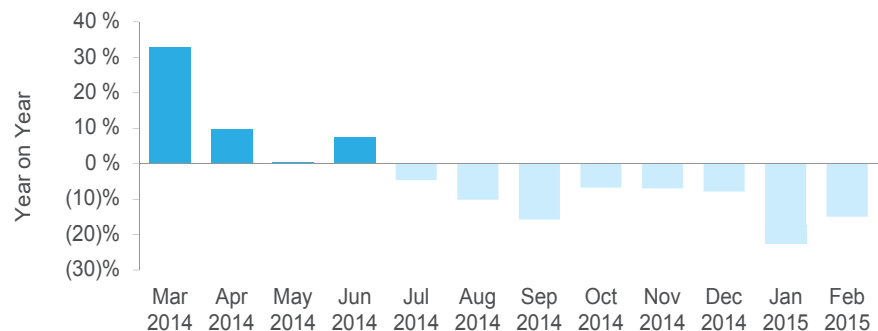
EU

Annual exports ~4.4 million tonnes of product



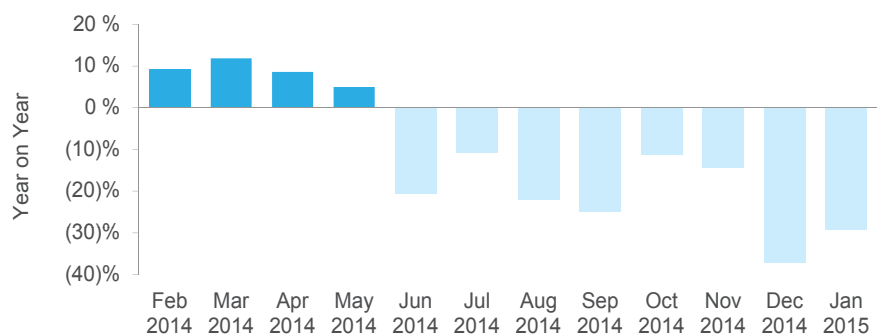
US

Annual exports ~2.2 million tonnes of product



ARGENTINA AND URUGUAY

Annual exports ~0.6 million tonnes of product



IMPORTS

China imports in March decreased 34 per cent compared to the same month last year. This decrease was driven by WMP down 67 per cent and SMP down 47 per cent. Imports in the year to March 2015 for WMP and SMP decreased 50 per cent and 42 per cent respectively. However, fluid and fresh dairy increased 30 per cent and infant formula increased one per cent over the same period.

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

Middle East and Africa import data for January is not complete.

Middle East and Africa imports for December increased two per cent compared to the same month the previous year. Imports in 2014 increased 11 per cent when compared to 2013. This increase was driven by fluid and fresh dairy up 22 per cent, SMP up 13 per cent and WMP up nine per cent.

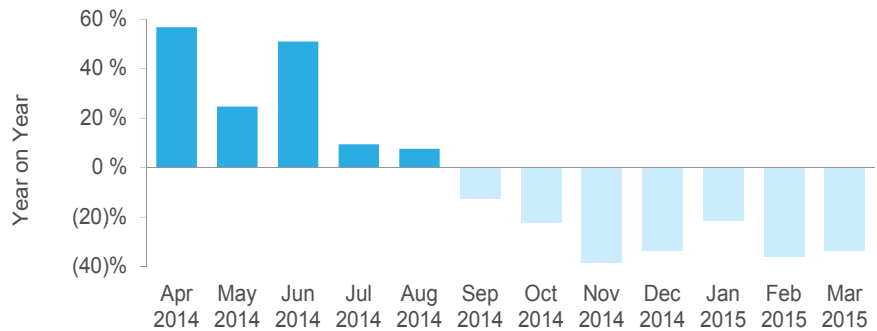
Asia (excluding China) is one of the largest markets for global dairy trade, importing more than three million tonnes of product annually.

Asia (excluding China) import data for January is not complete. However, even with the major market of Indonesia not reporting as yet, imports for January increased two per cent compared to the same month last year. This was driven by increases in SMP up 15 per cent, fluid and fresh dairy, and cheese up 11 per cent.

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

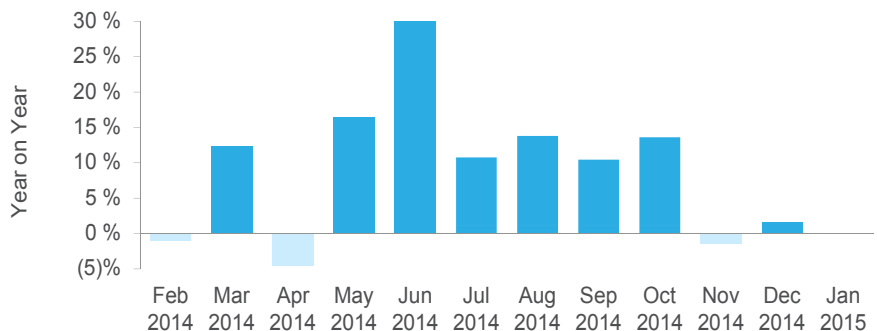
CHINA

Annual imports ~2.1 million tonnes of product



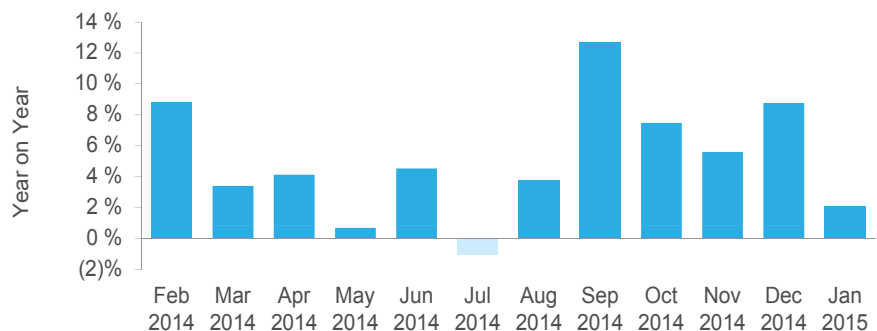
MIDDLE EAST AND AFRICA

Annual imports ~3.3 million tonnes of product



ASIA EXCLUDING CHINA

Annual imports ~3.6 million tonnes of product



Source: Government milk production statistics / GTIS trade data / Fonterra analysis

DAIRY COMMODITY PRICES

GDT PRICE INDEX
LAST TRADING EVENT:
19 MAY 2015

↓ 2.2%

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

GDT RESULTS

	LAST TRADING EVENT (19 MAY 2015)	YEAR TO DATE (1 AUG 2014 TO 19 MAY 2015)
Fonterra quantity sold on GDT (Winning MT)	24,840	699,488
GDT average winning price (US\$ MT/FAS)	\$2,472	\$2,796
Change in GDT Price Index over same period last year	(38%)	(41%)
Change in GDT Price Index from previous event	(2.2%)	n/a

Dairy commodity prices were on average 2.2 per cent lower than the last trading event, with an average winning price of US\$2,472 per MT.

The GDT Price Index for the financial year-to-date is down 41 per cent compared to the same period the previous year.

Compared to the last trading event the

commodity prices that increased were BMP up 3.2 per cent and lactose up 0.9 per cent.

The commodity prices that decreased included a significant movement in cheddar down 7.1 per cent. In addition AMF was down 4.8 per cent, SMP down 3.6 per cent, butter down 3.2 per cent, WMP down 0.5 per cent and rennet casein down 0.4 per cent. The Fonterra

volume sold was 24,840 MT, with prices decreasing 1.5 per cent compared to the last event.

China was the largest buyer by region followed by South East Asia, the Middle East and Africa. In recent trading events, China purchase volumes have been increasing, with South East Asia, the Middle East and Africa purchase volumes decreasing.

GDT PRICE INDEX



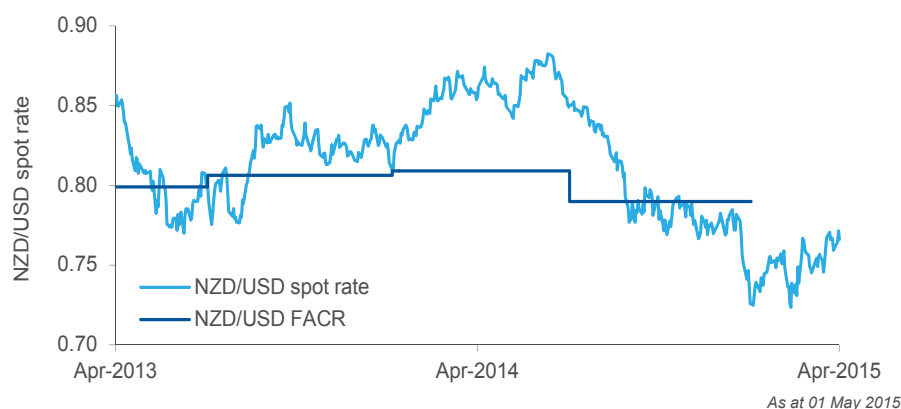
Source: GlobalDairyTrade, 20 May 2015

The next trading event will be held on 2 June 2015. Visit www.globaldairytrade.info for more information.

NEW ZEALAND DOLLAR TREND

The chart shows the spot price of the NZD/USD rate from April 2013. The dark blue line is the Fonterra average conversion rate (FACR). It shows Fonterra's foreign currency rate adjusted for the gains and losses arising from Fonterra's currency hedging.

NZD/USD 30 APRIL 2013 TO 30 APRIL 2015



GLOSSARY

AMF

Anhydrous Milk Fat.

BMP

Butter Milk Powder.

DIRA

Dairy Industry Restructuring Act 2001 (New Zealand).

Dry shares

Any shares held by a farmer shareholder in excess of the number of shares required to be held by that farmer shareholder in accordance with the minimum shareholding requirement for a season.

Farmgate Milk Price

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

GDT Price Index

All GDT price indices are chain-linked Fisher indices using winning quantities and winning prices. For the period prior to April 2010, the GDT Price Index and the anhydrous milk fat (AMF), SMP and WMP price indices use GDT prices and quantities where available, and USDA Dairy Market News prices and GTIS export volumes elsewhere. USDA Western Europe average price for butter oil is used for AMF prior to December 2009, USDA Oceania average price for SMP is used prior to April 2010 and USDA Oceania average price for WMP is used prior to August 2008.

Powder Products

Reference commodity products which

inform the Farmgate Milk Price, that 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.

Share Standard

The number of shares a farmer shareholder is required from time to time to hold as determined in accordance with the Constitution. The Fonterra Board may permit the Share Standard to be satisfied through the holding of both shares and vouchers.

SMP

Skim Milk Powder.

V3

Fonterra's growth strategy based on accelerating volume, value and velocity.

Voucher

A certificate that is provided to a farmer shareholder upon transfer of the Economic Rights of a wet share to the Fonterra Shareholders' Fund in accordance with the Trust Deed.

Wet shares

Any shares held by a farmer shareholder that are required to be held in accordance with the minimum shareholding requirement for a season.

WMP

Whole Milk Powder.