MAY 2016

GLOBAL DAIRY UPDATE

Fonterra

Dairy for life

OUR MARKETS

- In April, Fonterra New Zealand milk collection decreased 3% and Fonterra Australia milk collection decreased 5%.
- Forecast Fonterra milk collection in New Zealand for the 2015/16 season down 3%.

- Milk production has been strong in the EU and has eased in 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 have softened.

OUR PERFORMANCE

- 2016 nine-month business update.
- A strong New Zealand ingredients performance.
- Continued growth in consumer and foodservice.

OUR CO-OP

School plays host to All Black legend.

Giving back to the communities where we live and work.

MILK PRODUCTION HAS BEEN STRONG IN THE EU AND HAS EASED IN OTHER MAJOR EXPORTING COUNTRIES

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

CLICK HERE

NEW ZEALAND

1% ↓

Production change for the 12 months to March 2016

Total New Zealand milk production decreased 1% in March compared to the same month last year. Volumes are slowing as farmers start drying off before winter, however generally favourable conditions are supporting late season milk supply.

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

Milk production for the remainder of the New Zealand season will continue to be influenced by changes in farming systems as farmers respond to the low milk price.

AUSTRALIA

0%

Production change for the 12 months to February 2016

Australia production in February decreased 5% compared to the same month last year, adjusting for the additional day in February 2016. Not adjusting for this, production decreased 1%.

Production for the 12 months to February is in line with the same period the previous year. However, production continues to slow as pasture growth conditions have deteriorated due to dry conditions across many dairying regions, especially Victoria.

EUROPEAN UNION

4% ↑

Production change for the 12 months to February 2016

EU production in February increased 6% compared to the same month last year, adjusting for the additional day in February 2016. Not adjusting for this, production increased 9%.

Production for the 12 months to February increased 4% compared to the same period the previous year. Over this period, the major contributors to production growth were Ireland up 16%, Belgium up 11%, the Netherlands up 10%, Poland up 4%, and the UK and Germany up 3%.

Despite this growth, the EU Commission is forecasting milk deliveries to increase only 1.4% in 2016.[1]

USA

1% ↑

Production change for the 12 months to March 2016

US production in March increased 2% compared to the same month last year.

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

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.

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

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

CLICK HERE ▸

NEW ZEALAND

6% ↑

Export change for the 12 months to February 2016

Total New Zealand dairy exports continue to see solid growth in February, increasing 9% compared to the same month last year, adjusting for the additional day in February 2016. Not adjusting for this, exports increased 13%.

Increases were seen across most of the major dairy categories excluding WMP which decreased 7%.

Exports for the 12 months to February increased 6%, or 195,000 MT, compared to the same period the previous year. This increase is largely driven by cheese up 20%, SMP and AMF up 7%, and butter up 3%.

AUSTRALIA

7% ↑

Export change for the 12 months to February 2016

Australia dairy exports in February decreased 5% compared to the same month last year, adjusting for the additional day in February 2016. Not adjusting for this, exports decreased 1%.

This decrease was largely due to WMP down 49% and SMP down 30%.

Exports for the 12 months to February remain strong, increasing 7%, or 50,000 MT, compared to the same period the previous year. This was driven by SMP up 16%, cheese up 14%, and fluid and fresh dairy up 11%.

EUROPEAN UNION

9% ↑

Export change for the 12 months to January 2016

EU dairy exports increased 12% in January compared to the same month the previous year with solid increases seen in fluid and fresh dairy up 26% and cheese up 10%.

Exports increased 9%, or 401,000 MT, for the 12 months to January compared to the same period last year. The largest movers were fluid and fresh dairy up 21%, whey powder up 10%, infant formula up 5% and SMP up 4%.

USA

5% ↓

Export change for the 12 months to February 2016

US dairy exports in February were in line with the same month last year, adjusting for the additional day in February 2016. Not adjusting for this, exports increased 3%.

This change was due to increases across most of the major dairy categories, excluding cheese.

Exports for the 12 months to February decreased 5%, or 104,000 MT compared to the same period last year. This is a result of whey powder down 17% and cheese down 14%, partly offset by lactose up 11% and SMP up 6%.

This decrease in exports is 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 SOFTEN

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

CLICK HERE ▸

LATIN AMERICA

11% ↑

Import change for 12 months to January 2016

Latin America[1] dairy import volumes increased 10% in January compared to the same month the previous year, largely due to SMP up 33% and cheese up 17%.

Imports for the 12 months to January remain strong, increasing 11%, or 161,000 MT compared to the same period last year. Increases were seen across all major dairy categories, in particular milk powders, with WMP up 25% and SMP up 23%.

ASIA

7% ↑

Import change for 12 months to January 2016

Asia (excluding China)[2] dairy import volumes increased 6% in January compared to the same month the previous year. Increases were seen across all major dairy categories with WMP and cheese up 14% and 10% respectively.

Imports for the 12 months to January increased 7% compared to the same period the previous year, driven by increases across most major dairy categories. SMP and cheese continue to provide the largest increases: SMP up 12%, or 93,000 MT, and cheese up 10% or 47,000 MT.

MIDDLE EAST & AFRICA

1% ↓

Import change for 12 months to January 2016

Middle East and Africa[3] dairy imports decreased 21% in January compared to the same month the previous year. This result was due to SMP down 38%, or 19,000 MT, WMP down 27%, or 24,000 MT, and cheese down 26%, or 10,000 MT.

For the 12 months to January, imports have decreased 1% compared to the same period last year. This decrease of around 32,000 MT is largely a result of SMP down 16%, or 88,000 MT, and butter down 8%, or 19,000 MT.

CHINA

14% ↑

Import change for 12 months to March 2016

China dairy imports increased 43%, or 67,000 MT, in March 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 87% and milk powders including WMP, SMP and whey powder all increasing over 30%.

Imports for the 12 months to March have increased 14%, or 255,000 MT, compared to the same period last year with fluid and fresh dairy up 53%, infant formula up 50% and whey powder up 18%.

1 Excludes Venezuela and includes estimate for Costa Rica and Nicaragua in January.

2 Includes estimate for Thailand and Laos in January.

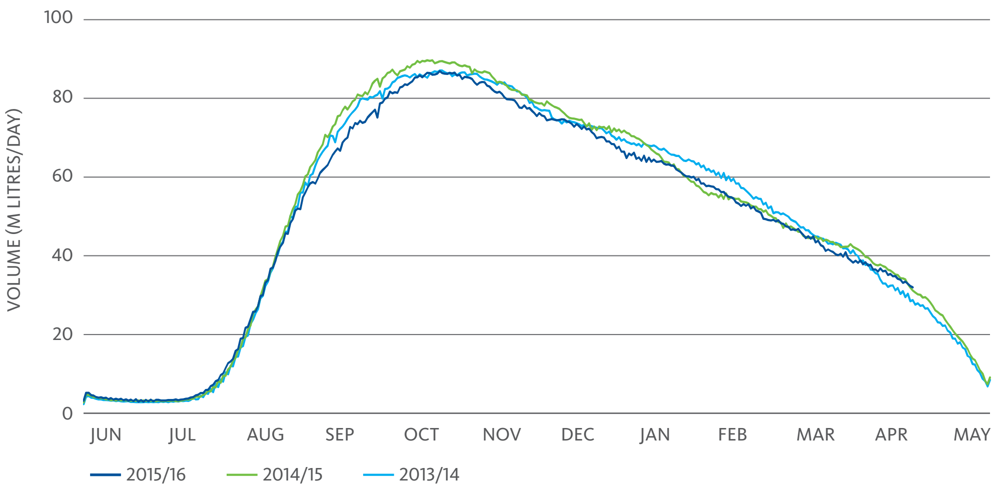
3 Includes estimate for Algeria in December and January, and Egypt and Morocco in January.

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 –

CLICK HERE ▶

NEW ZEALAND MILK COLLECTION



NEW ZEALAND

3% ↓

Decrease for the season to date from 1 June to 30 April compared to last season

Fonterra's milk collection across New Zealand in April was 3% lower than April last season.

For the 11 months to 30 April milk collection reached 1,499 million kgMS, 3% behind the same period last season.

Lower milk collections are largely a result of the low milk price environment, with farmers reducing stock rates and supplementary feeding to reduce costs.

We are currently seeing favourable weather conditions across many dairying regions, supporting late season milk production.

The 2015/16 season forecast has been revised to 1,558 million kgMS, down 3% on the previous season.

NORTH ISLAND

5% ↓

Decrease for the season to date from 1 June to 30 April compared to last season

North Island milk collection in April reached 61 million kgMS, 6% behind April last season.

SOUTH ISLAND

0%

No change for the season to date from 1 June to 30 April compared to last season

South Island milk collection in April reached 51 million kgMS, 1% above April last season.

Good weather conditions throughout the South Island continue to support milk production.

AUSTRALIA

2% ↓

Decrease for the season to date from 1 July to 30 April compared to last season

Australia milk collection in April reached 9 million kgMS, 5% lower than April last season.

Milk collection across Australia for the 10 months to 30 April reached 108 million kgMS, 2% behind the same period last season.

Milk collection continues to decrease 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.

DAIRY COMMODITY PRICES

Last trading event
3 May 2016:

The **Fonterra volume sold was 19,342 MT**, with Fonterra's weighted average prices decreasing 2.3% compared to the last event.

1.4% ↓
Change in GDT Price Index from previous event

USD**2,203**
GDT Average winning price (USD/MT, FAS)

Compared to the **last trading event:**

RENNET CASEIN
3.5% ↑
USD 5,024/MT

CHEDDAR
1.8% ↑
USD 2,727/MT

WMP
0.7% ↑
USD 2,176/MT

AMF
1.6% ↓
USD 3,195/MT

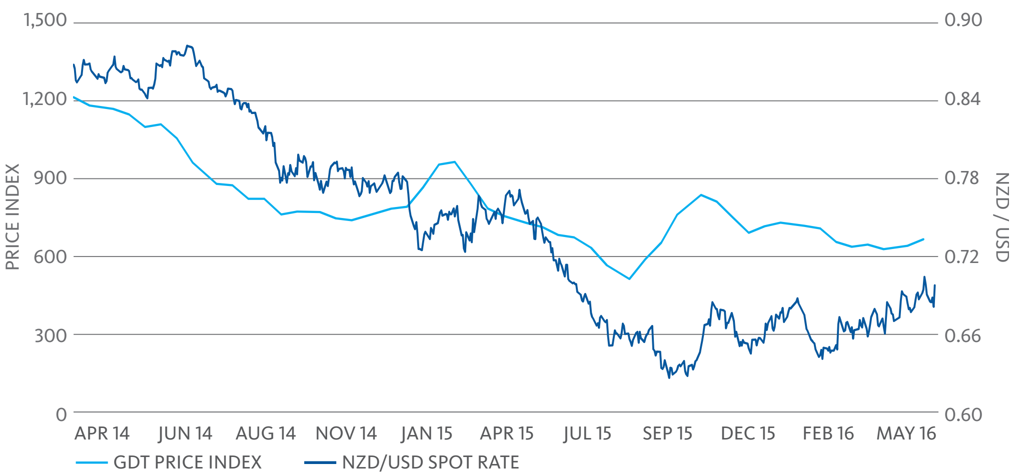
SMP
3.6% ↓
USD 1,676/MT

BUTTER
5.5% ↓
USD 2,601/MT

BMP
5.5% ↓
USD 1,366/MT

Dairy commodity prices and New Zealand dollar trend

In April the New Zealand dollar continued to strengthen against the US dollar.



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

CLICK HERE ▸

▸ The next trading event will be held on **17 May 2016.** Visit **www.globaldairytrade.info** for more information.

2016 NINE-MONTH BUSINESS UPDATE

VOLUME

17.8 BN LME

UP 2%

REVENUE

$**12.9** BN

DOWN 10%

GROSS MARGIN

22.0 %

UP FROM 16.6%

OPEX

$**1.9** BN

DOWN 3%

CAPEX

$**634** M

DOWN 37%

It continues to be a tough season for our farmers with ongoing pressure on the Farmgate Milk Price due to the supply and demand imbalance in the global dairy market. To help support farmers through this time of extremely tight cash flows, in March we announced that in addition to the interim dividend of 20 cents per share we intended to declare the final dividend of 20 cents per share in two dividend payments of 10 cents per share declared in each of May and August.

Delivering on our strategy has produced a solid result for the first nine months of the 2016 financial year and this has enabled us to confirm this early part payment of the final dividend of 10 cents per share. The record date for this will be 30 May and the payment date will be 7 June to accommodate the dividend reinvestment plan.

Fonterra's third quarter performance has built on the strong results in the 2015 financial year and the six months to 31 January 2016. For the nine months to 30 April, volumes were up 2% on a Liquid Milk Equivalent (LME) basis, and the gross margin was 22% compared to 17% for the same period last year. Revenue was lower as a result of commodity prices. Our continued focus on cost control resulted in operating expenses being down 3% to $1.9 billion.

This strong performance reflects New Zealand ingredients continuing to achieve improved product mix returns and efficiencies, and improved gross margins in consumer and foodservice, supported by volume growth and lower input costs.

The development of International Farming Ventures, which provides access to locally sourced high-quality milk, is progressing as planned. We retain our focus on reducing on-farm costs and good operating performance, however earnings continue to be impacted by the development phase of the business and by the low domestic milk price in China.

Total capital expenditure for the Co-operative of $634 million was down 37% and is in line with our target of $900 million for the 2016 financial year. In addition, a further $50 million will be invested this financial year in the rebuild of the Stanhope cheese factory in Australia.

Through ongoing financial discipline and improved performance, our strong cash flow has enabled us to strengthen the Co-operative and continue to reduce gearing. Operating cash flows were higher, reflecting improved earnings and the continued strong focus on working capital management. Improved investing cash flows reflected the lower level of capital expenditure and no major investments in the period. We are on target to achieve a gearing ratio of between 40 and 45% by year end.

THE OUTLOOK

We maintain our forecast earnings per share of 45–55 cents. This earnings guidance range reflects a range of possible impacts through to the end of the financial year.

These include the completion of announced business sales in Australia, our New Zealand ingredients sales and inventory profile, our ability to contract and ship late season milk in difficult global market conditions, and the deteriorating geopolitical situation in Brazil and Venezuela.

Our current intention is to declare another 10 cents per share in August 2016, subject to financial performance continuing to support the current forecast earnings per share range. Our total forecast dividend for the 2016 financial year continues to be 40 cents per share.

INGREDIENTS

NEW ZEALAND INGREDIENTS

Fonterra manufactures five commodity products that inform the Farmgate Milk Price.

These are referred to as reference products. All other products are referred to as non-reference products. The pricing relativities between reference product prices and non-reference product prices can impact Fonterra's gross margins.

Milk collection for the season to date was 3% lower than the same time last year resulting in lower production volumes. This is largely a result of the low milk price environment, where farmers are continuing to reduce stocking rates and supplementary feeding in order to decrease costs.

We continued to optimise our product mix by adjusting volumes away from reference products, such as WMP, towards non-reference products, such as cheese and casein, to take advantage of the relative pricing.

Relative pricing has led to non-reference product sales growing strongly for the third quarter compared to the same period last year while sales volume for reference products in the third quarter was lower.

Revenue per MT for both reference and non-reference products was lower in the third quarter compared to the same period last year mainly due to significantly lower dairy prices across both product categories compared to last year.

Closing inventory as at 30 April 2016 was 11% lower than the same period last year as a result of strong sales performance with contracted rates similar to the same time last year.

	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY16	CHANGE Q3 FY15 TO Q3 FY16
PRODUCTION VOLUME (000'S MT)						
Reference products	518	110	612	723	443	(15%)
Non-reference products	159	45	229	247	212	34%
SALES VOLUME[1] (000'S MT)						
Reference products	491	421	348	713	407	(17%)
Non-reference products	188	187	160	221	204	9%
REVENUE ($ PER MT)						
Reference products	3,516	3,789	3,251	3,188	3,406	(3%)
Non-reference products	5,440	5,408	5,010	4,983	4,829	(11%)

1 Sales volume includes bulk liquid milk, which is not included in the production volume. The annual bulk liquid milk volume for the 2015 financial year was 67,000 MT.

AUSTRALIA INGREDIENTS

In Australia we reduced the farmgate milk price from AUD5.60 to AUD5.00 per kgMS for the current season.

This reflects the reality of the supply and demand imbalance that is affecting global dairy commodity prices, compounded by the recent strength of the Australian dollar.

Fonterra Australia is offering its suppliers an interest-bearing support loan of up to 60 cents per kgMS that is linked to a supply commitment and is repayable from the 2018 financial year.

We expect that the revised milk price will reduce the input costs for our Australian ingredients business by around AUD48 million and will contribute to the reduction of operating losses in our Australian ingredients business this financial year.

OUR PERFORMANCE

CONSUMER AND FOODSERVICE

We have moved an additional 300 million litres of milk on an LME basis into our consumer and foodservice products over the past nine months compared to the same period last year. This is in line with our strategy to convert as much milk as possible into higher-value products.

Consumer and foodservice continued to deliver a strong performance with volume increasing by 9% to 3.7 billion LME for the nine months to 30 April 2016 compared to the same period last year and gross margin increasing to 28% compared to the same period last year.

The performance reflects the success of our focused channel strategy in foodservice, optimised price management in consumer brands and lower input costs.

All regions continued to deliver strong margins and volume growth but the challenging geopolitical situation in the Middle East, Brazil and Venezuela impacted this result.

CONSUMER AND FOODSERVICE NINE-MONTH PERFORMANCE

	ASIA	GREATER CHINA	LATIN AMERICA	OCEANIA	TOTAL
VOLUME (M LME)					
Nine-month FY16	1,175	633	447	1,426	3,682
Nine-month FY15	1,123	512	439	1,307	3,382
% Change	5%	24%	2%	9%	9%
GROSS MARGIN (%)					
Nine-month FY16	31%	37%	31%	21%	28%

School plays host to All Black legend

A local school in the heart of dairying country, Tawhiti Primary School in Taranaki, played host to Fonterra's Brand Ambassador Richie McCaw and the Fonterra Milk for Schools team recently.

The visit was first prize in the Fonterra Milk for Schools Back to School Recycling Competition where schools sent in videos about recycling their empty milk cartons.

Recycling is an important part of the programme that sees 70 per cent of Kiwi primary school kids enjoying milk from Fonterra every school day.

Richie also refereed a game as local farmers, teachers and members of the community cheered the kids on.

Click to check out Tawhiti School's winning video –

CLICK HERE

Giving back to the communities where we live and work

Fonterra's Grass Roots Fund has received a record number of applications in its latest funding round with 514 community groups applying – of these, 170 groups were successful.

Grants of up to $5,000 went to a variety of programmes including funds for defibrillators for rural communities, resources for agriculture programmes for school kids, tools and thermal imaging cameras for rural fire brigades, ribbons for calf club days and paper shredders to turn old school projects into food for worms.

The Fund supports initiatives that enrich people's lives and make a real impact in the community.

It's a way for Fonterra and our farmer shareholders to give back to the communities we live and work in.

The next funding round closes at the end of August.

To find out more about Fonterra's Grass Roots Fund visit our Facebook page –

CLICK HERE

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.

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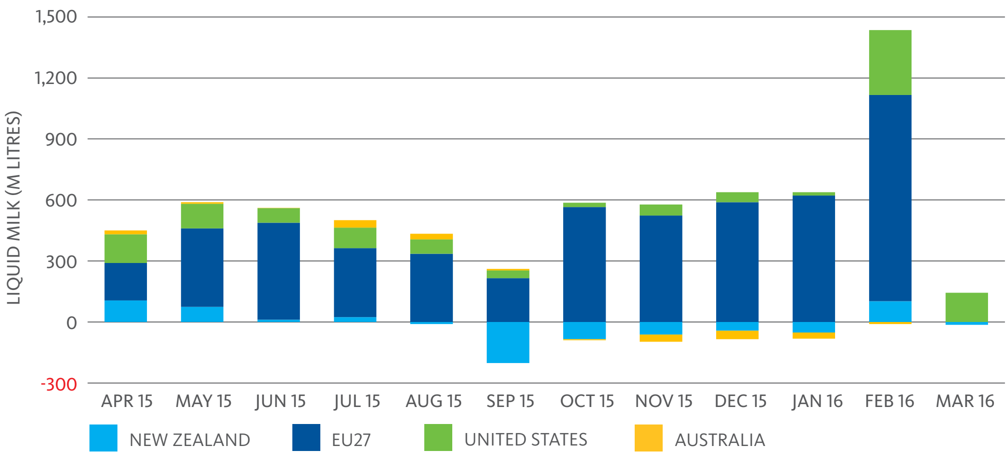
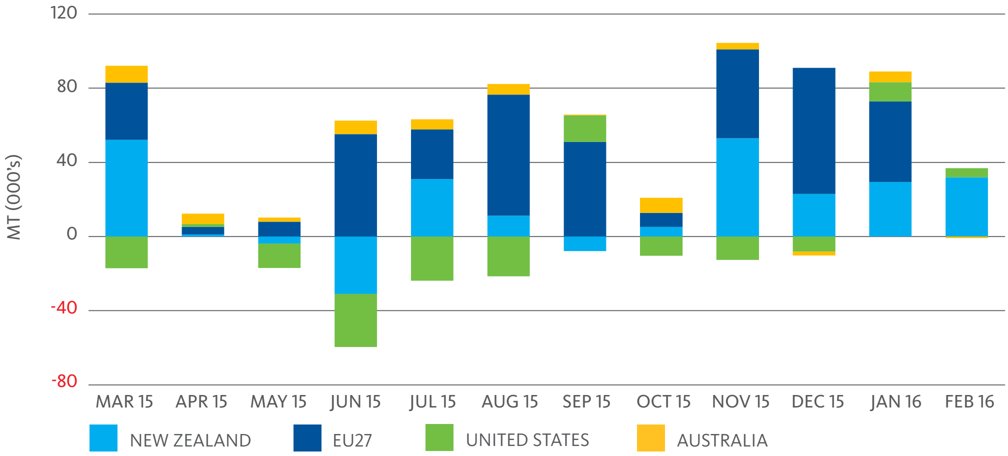
PRODUCTION



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

EXPORTS



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

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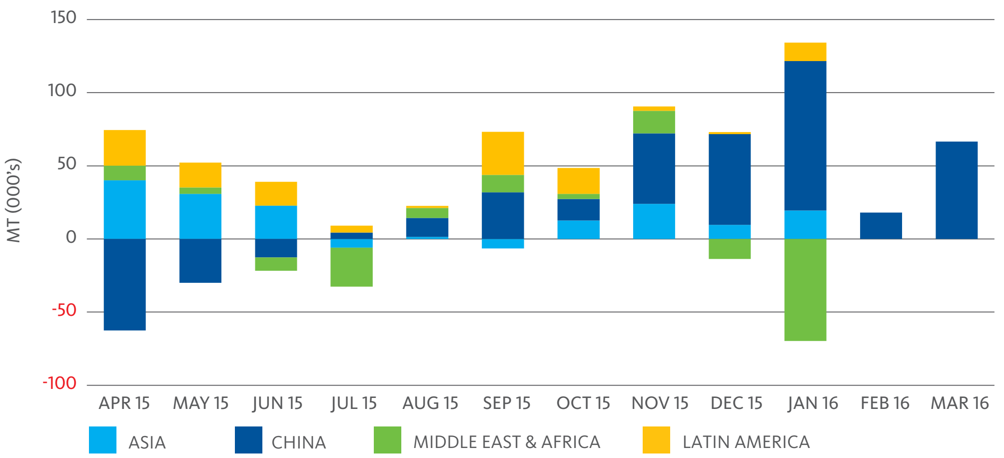
IMPORTS



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

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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.

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MILK COLLECTION (MILLION KGMS)	APR 2016	APR 2015	MONTHLY CHANGE	SEASON-TO-DATE 2015/16	SEASON-TO-DATE 2014/15	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	111.8	115.4	(3.2%)	1,499.3	1,550.9	(3.3%)
North Island	61.0	65.2	(6.4%)	921.7	975.1	(5.5%)
South Island	50.7	50.2	1.1%	577.6	575.7	0.3%
Fonterra Australia	8.7	9.2	(5.3%)	107.6	109.5	(1.7%)

GDT results

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

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	LAST TRADING EVENT (3 MAY 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2015)
Fonterra Quantity Sold on GDT (Winning MT)	19,342	525,016
GDT Average Winning Price (USD/MT, FAS)	2,203	2,338
Change in GDT Price Index over same period last year	(10.1%)	(15.8%)
Change in GDT Price Index from previous event	(1.4%)	–

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.