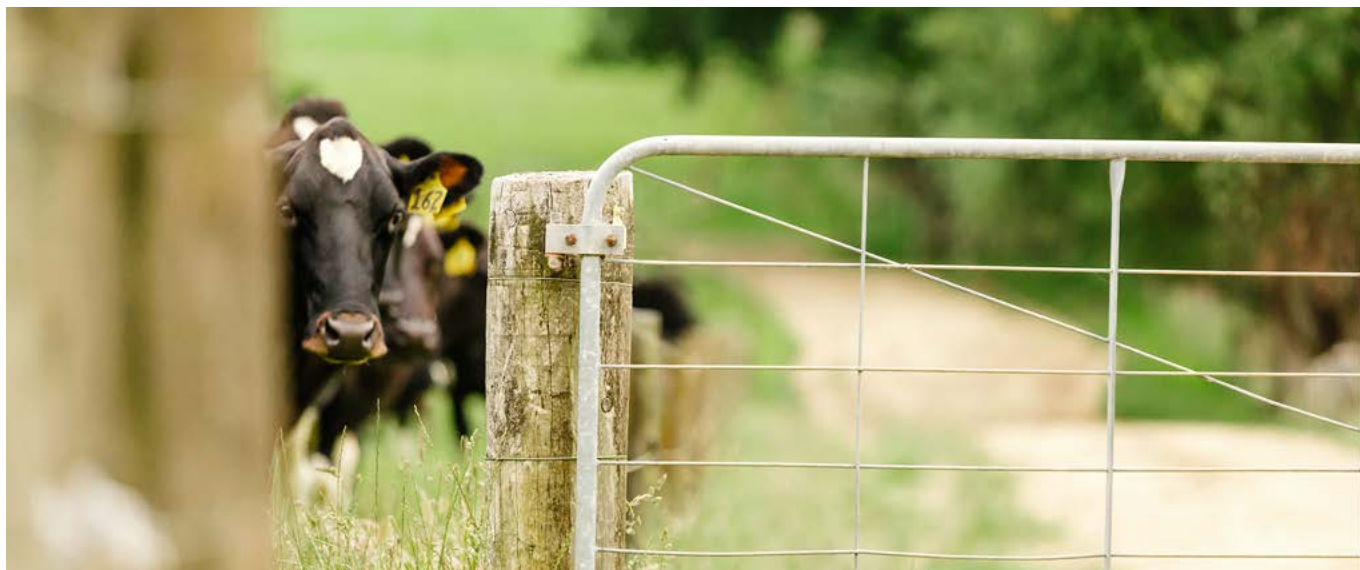


AUGUST 2016

GLOBAL DAIRY UPDATE



Dairy for life



- European milk production growth is at its lowest level since early 2015, increasing only 1% compared to May 2015.



- Global dairy exports remain strong, excluding the United States, which continues to see increased domestic demand and less competitive export prices.



- China continues its strong recovery from last year, Latin America continues to see solid import growth, while Asia, Middle East and Africa imports have softened.



- In July, Fonterra New Zealand milk collection reached 16 million kgMS and Fonterra Australia milk collection reached 6 million kgMS.



- Fonterra confirms further financial year 2016 dividend payment.
- Financial year 2017 earnings per share guidance
- Anchor™ Food Professionals develops quick smoothie option
- Fonterra Brands New Zealand launches Fresh 'n Fruity™ pouches



- Living Water helps Fonterra farmer create an on-farm sanctuary
- Indonesian farmers learn the Kiwi way



KEY DATES

22 September 2016
Annual Results Announced

Early December 2016
Fonterra Shareholders' Fund
Annual Meeting

Early December 2016
Fonterra Co-operative Group
Annual Meeting

1 December 2016
Shareholding Compliance
Date for the 2016/17 Season





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

EUROPEAN MILK PRODUCTION GROWTH IS AT ITS LOWEST LEVEL SINCE EARLY 2015, INCREASING ONLY 1% COMPARED TO MAY 2015

NEW ZEALAND

2%↓

Production change for the 12 months to June 2016

Total New Zealand milk production for June was in line with June last year.

In New Zealand, volumes are low due to the seasonality of supply at this time of year.

For the 12 months to June, milk production is down 2% compared to the same period the previous year.

AUSTRALIA

2%↓

Production change for the 12 months to June 2016

Australia production in June decreased 6% compared to the same month last year.

Late season milk production has been heavily impacted by the reduction in Australian milk prices to align with global dairy prices.

Production for the 12 months to June is down 2% compared to the same period the previous year.

EUROPEAN UNION

4%↑

Production change for the 12 months to May 2016

EU production in May increased 1% compared to the same month last year. This is the third consecutive month where the rate of production growth has decreased.

Production for the 12 months to May is up 4% compared to the same period the previous year.

This increase continues to be driven by Ireland up 15%, the Netherlands up 13%, Poland up 5% and Germany up 4%.

The EU Commission has updated its milk deliveries forecast to an increase of 1.5% in 2016¹.

USA

1%↑

Production change for the 12 months to June 2016

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

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

The United States Department of Agriculture has reviewed its forecast milk production for 2016 to be 1.9% up on 2015.²

1 EU Commission Short-Term Outlook – Summer 2016.

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



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

GLOBAL DAIRY EXPORTS REMAIN STRONG, EXCLUDING THE UNITED STATES, WHICH CONTINUES TO SEE INCREASED DOMESTIC DEMAND AND LESS COMPETITIVE EXPORT PRICES

NEW ZEALAND

7%↑

Export change for the 12 months to June 2016

Total New Zealand dairy exports in June increased 33%, or 65,000 MT, compared to the same month last year. Increases were seen across all of the major dairy categories, in particular SMP up 69% and WMP up 16%.

Exports for the 12 months to June are up 7%, or 207,000 MT, compared to the previous year. This increase is largely driven by fluid and fresh dairy up 37% and infant formula up 69%. In addition, AMF was up 18%, cheese up 13%, and SMP up 3%.

AUSTRALIA

8%↑

Export change for the 12 months to May 2016

Australia dairy exports in May increased 35%, or 19,000 MT, compared to the same month last year. This significant increase was largely a result of whey powder up 200%, SMP up 46%, fluid and fresh dairy up 37% and WMP up 12%.

Exports for the 12 months to May are up 8%, or 58,000 MT, compared to the same period the previous year. This increase was largely due to fluid and fresh dairy up 17%, cheese up 9% and SMP up 8%. The largest mover on a percentage basis for the 12 months to May is infant formula which has increased over 300%, although off a low base.

EUROPEAN UNION

12%↑

Export change for the 12 months to April 2016

EU dairy exports increased 12% in April, or 48,000 MT, compared to the same month the previous year. Increases were seen across all of the major dairy categories excluding SMP which decreased 27%.

Exports are up 12%, or 530,000 MT, for the 12 months to April compared to the same period last year. The largest movers were fluid and fresh dairy up 27%, or 306,000 MT, whey powder up 13%, or 53,000 MT, and cheese up 9%, or 63,000 MT.

USA

8%↓

Export change for the 12 months to May 2016

US dairy exports in May decreased 10%, or 19,000 MT, compared to the same month the previous year. Significant decreases were seen for SMP down 28%, whey powder down 22% and cheese down 19%. Partially offsetting this was lactose up 20%.

Exports for the 12 months to May are down 8%, or 176,000 MT, compared to the same period last year. This is driven by whey powder down 22%, cheese down 19% and SMP down 3%.



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

CHINA CONTINUES ITS STRONG RECOVERY FROM LAST YEAR, LATIN AMERICA CONTINUES TO SEE SOLID IMPORT GROWTH, WHILE ASIA, MIDDLE EAST AND AFRICA IMPORTS HAVE SOFTENED

LATIN AMERICA

10% ↑

Import change for 12 months to April 2016

Latin America¹ dairy import volumes increased 12%, or 17,000 MT, in April compared to the same month the previous year, with the most significant increase from WMP up 40%, or 9,000 MT, and SMP up 38%, or 10,000 MT.

Imports for the 12 months to April remain strong, up 10%, 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 27% and SMP up 19%. In addition, cheese increased 13% and infant formula 8%.

ASIA

3% ↑

Import change for 12 months to April 2016

Asia (excluding China)² dairy import volumes decreased 3%, or 9,000 MT, in April compared to the same month the previous year. This was due to whey powder down 16% and both WMP and SMP down 12%. This was partially offset by fluid and fresh dairy up 19%.

Imports for the 12 months to April are up 3%, or 111,000 MT, compared to the same period the previous year. This is a result of cheese and fluid and fresh dairy both up 7% and SMP up 2%.

MIDDLE EAST & AFRICA

5% ↓

Import change for 12 months to April 2016

Middle East and Africa³ dairy imports decreased 11%, or 32,000 MT, in April compared to the same month the previous year. Decreases were seen across most of the major dairy categories including SMP down 20%, cheese down 16% and WMP down 14%.

For the 12 months to April, imports are down 5%, or 178,000 MT, compared to the same period last year. Over this period SMP was down 17%, butter down 13% and WMP down 8%.

CHINA

26% ↑

Import change for 12 months to June 2016

China dairy imports increased 25%, or 38,000 MT, in June compared to the same month last year. Significant increases were seen across most of the major dairy categories, in particular WMP up 120%, fluid and fresh dairy up 45% and infant formula up 18%.

Imports for the 12 months to June are up 26%, or 460,000 MT, compared to the same period last year with fluid and fresh dairy up 69%, infant formula up 42%, whey powder up 17% and WMP up 6%. This growth is partially offset by SMP down 2%.

¹ Excludes Venezuela and includes estimates for Nicaragua (January-April).

² Includes estimate for Philippines in April.

³ Includes estimates for Algeria (December-April) and Egypt in April.

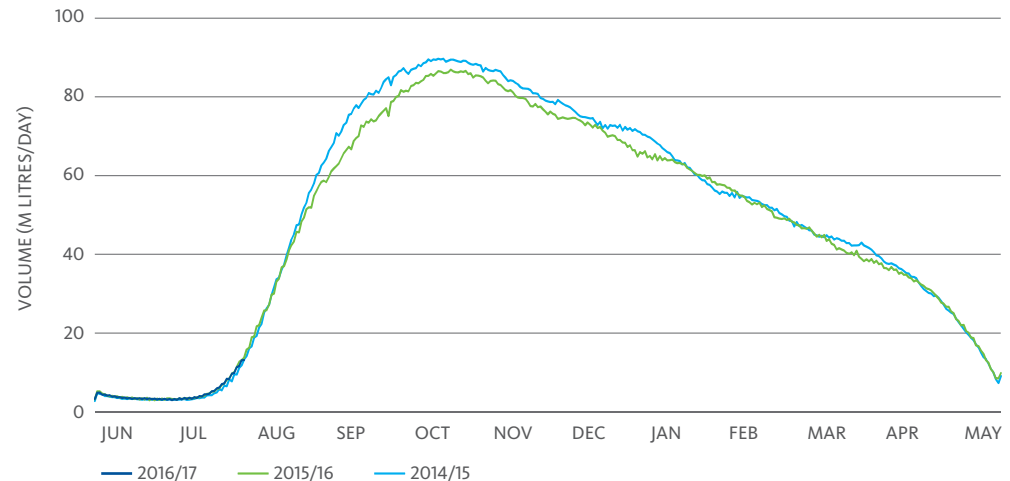
OUR MARKETS

FONTERRA MILK COLLECTION 2016/17 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

1% ↓

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

Fonterra's milk collection across New Zealand reached 16 million kgMS in July, 1% lower than July last season.

For the two months to 31 July milk collection reached 26 million kgMS, 1% behind the same period last season.

Milk collection will continue to build over the coming months and peak collection is forecast around mid-October.

NORTH ISLAND

1% ↓

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

North Island milk collection in July reached 15 million kgMS, 1% behind July last season.

Milk collection is higher in the North Island at this time of year largely due to earlier calving patterns.

SOUTH ISLAND

8% ↓

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

South Island milk collection in July reached 1 million kgMS, 8% above July last season.

The South Island continues to be at a season low with most farmers still dried off as they prepare for calving in the coming months.

AUSTRALIA

22% ↓

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

Fonterra's milk collection across Australia in July, the first month of the 2016/17 season, reached 6 million kgMS, 2 million kgMS behind July last season.

Following the milk price reduction in May, milk collection dropped due to many farmers choosing to dry off early as well as some competitor losses.

New season milk collection is expected to recover as those farmers that dried off early start calving, together with new farmer suppliers moving to Fonterra and favourable spring pasture growth conditions

OUR MARKETS

FONTERRA GLOBALDAIRYTRADE RESULTS



Fonterra GDT results at
last trading event
16 August 2016:

12.1% ↑

Change in Fonterra's
weighted average product
price from previous event

USD **2,776**

Fonterra's weighted
average product price
(USD/MT)

36.4 ⁰⁰⁰ MT

Fonterra product quantity
sold on GDT

WMP

19.0% ↑

USD 2,695/MT

BMP

18.1% ↑

USD 1,983/MT

BUTTER

14.0% ↑

USD 3,274/MT

CHEDDAR

9.3% ↑

USD 3,157/MT

AMF

9.2% ↑

USD 4,148/MT

SMP

3.1% ↑

USD 2,030/MT

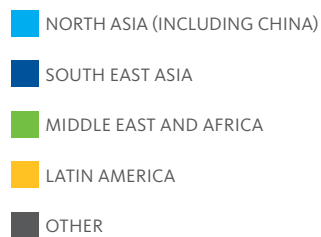
RENNET CASEIN

2.7% ↑

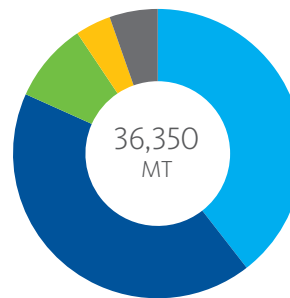
USD 6,326/MT

Fonterra GDT sales
by destination:

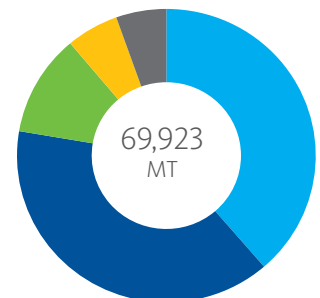
To view more information,
including a snapshot of the
rolling year-to-date results –



LATEST AUCTION



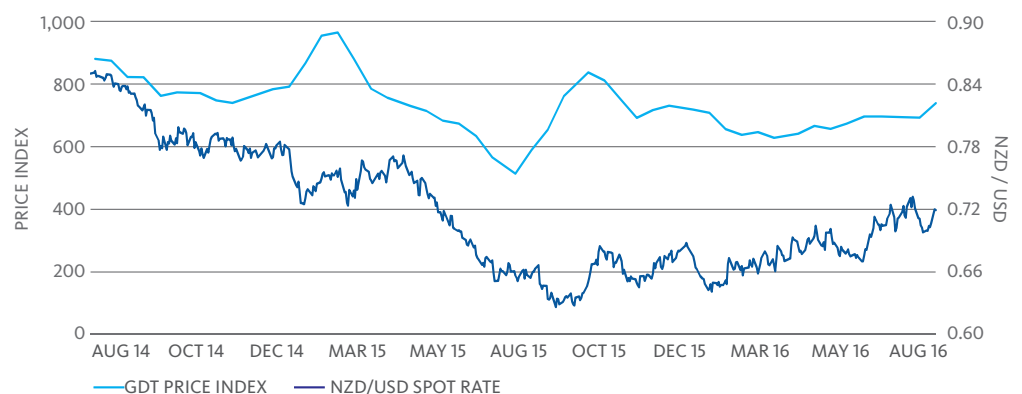
**FINANCIAL
YEAR-TO-DATE**



► The next trading event will be held on 16 August 2016. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In July the New Zealand
dollar remained strong
against the US dollar.





INNOVATION HELPS MEET CUSTOMER DEMAND

Anchor™ Food Professionals develops quick smoothie option

Smoothies are commonly renowned as being difficult to make for foodservice customers. Fonterra Brands New Zealand's Anchor™ Food Professionals have listened to customers across a range of smoothie bars, cafés, restaurants and bakeries and understand that making smoothies from scratch can be problematic. Despite these challenges, smoothies are an increasingly popular choice amongst consumers.



Anchor™ Food Professionals have developed a quick, great tasting, cost effective smoothie bar that removes the hassle for any foodservice provider.

A traditional smoothie can take three or four minutes to create. Anchor™ Food Professionals' smoothie option takes less than a minute to make, freeing up staff and enabling customers to be served more quickly.

Launched in July, the smoothie bar has had a great response from a mix of customers including cafés and restaurants.

Fonterra Brands New Zealand launches Fresh 'n Fruity™ pouches



Fresh 'n Fruity™ has listened to consumer demand and trends, launching new Fresh 'n Fruity™ pouches.

This acknowledges the growing demand for convenient food on the go as people's lifestyles become increasingly active. Children want snacks for school lunches and after school activities that they can eat quickly with limited mess.

Yoghurt pottles aren't always ideal as a quick snack while

you're out and about and the new Fresh 'n Fruity™ pouch will make it even easier for our consumers to enjoy yoghurt while they're on the go.

Anchor™ Uno launched its pouch last year, which has been hugely successful and contributed to over 60% of growth within the pouch segment. The Fresh 'n Fruity™ pouch is expected to follow this growth trend, as it taps into a different market.

Fresh 'n Fruity™ accounts for over 50 per cent of mainstream yoghurt volume sold in New Zealand and the pouch comes in three flavours; vanilla bean, dreamy lemon and boysenberry & cream.

Fonterra confirms further financial year 2016 dividend payment

On 18 August 2016 Fonterra confirmed it will pay the final 10 cents per share of its previously announced 2015/16 forecast dividend of 40 cents per share, as part of its goal to deliver as much cash as quickly as possible to shareholders.

The record date is 1 September and the payment date is 9 September 2016.

Financial year 2017 earnings per share guidance

We recently announced our forecast earnings per share range for the 2017 financial year at 50 to 60 cents.

The forecast earnings per share range reflects performance improvements across the business.

The returns from the ingredients, consumer and foodservice businesses

continue to grow in line with our strategy to convert more milk into higher returning products, particularly in important markets such as China, Malaysia, Indonesia, Sri Lanka, Oceania and Latin America.

We are seeing the benefits of our investments in manufacturing over recent years. We now have more flexibility to make the right products at the least cost, delivering better returns.

Constantly improving the performance of our business is a priority and puts us in a strong position to create more value. We are generating significant improvements and cash benefits through our business transformation that contribute to both our Farmgate Milk Price and our earnings.



Living Water helps Fonterra farmer create an on-farm sanctuary

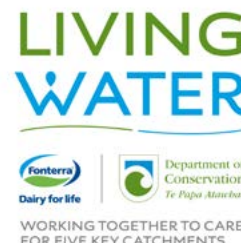
Fonterra's Living Water partnership with the Department of Conservation is helping create a sanctuary for an endangered native bird.

The Australasian Bittern, along with several other wildlife species have returned to Northland farmer Ian Lupton's property after he reduced the amount of nitrogen fertiliser and chemical sprays he used.

Mr Lupton said after seeing the return of the bittern he decided to create the sanctuary to demonstrate that a successful dairy farm and native wildlife can go hand in hand.

Living Water is helping fund the project with the first step being the purchase of monitoring equipment to establish how many of the endangered native birds are around.

The partnership is also buying native plants and grasses for the banks of the canal and drainage ditches on the farm. This riparian planting will create more bittern habitat, which will encourage more breeding by the birds.



[For more information on the Living Water partnership –](#)

Indonesian farmers learn the Kiwi way

A group of Indonesian dairy farmers has been in New Zealand for the past month as part of Fonterra's Dairy Development programme.

Dairy development teaches farmers in developing countries animal care best practice, and other key skills to improve on-farm efficiencies that produce higher volumes of better quality milk.

Joining the farmers in the programme are three Indonesian Government dairy extension officers and two Fonterra Sri Lanka supplier relationship officers.

Our Dairy Development programme is crucial to ensure the Co-operative continues building support in off-shore markets.



The Co-operative's dairy development work supports the growth of sustainable dairy farming in key markets where Fonterra operates such as Indonesia and Sri Lanka – sharing its expertise and working together with local farmers, governments and industry bodies.

As a global business, for Fonterra to continue growing in our most important markets, we need to have strong local partnerships. Supporting the sustainability of local dairy industries within these markets is a natural way to achieve this.

already seeing fantastic results. Last year, close to 90 per cent of the farmers we worked with reported improved milk quality or were producing more milk as a result of new milk hygiene, animal care and farm management practices.

This programme is now in its fourth year and we're



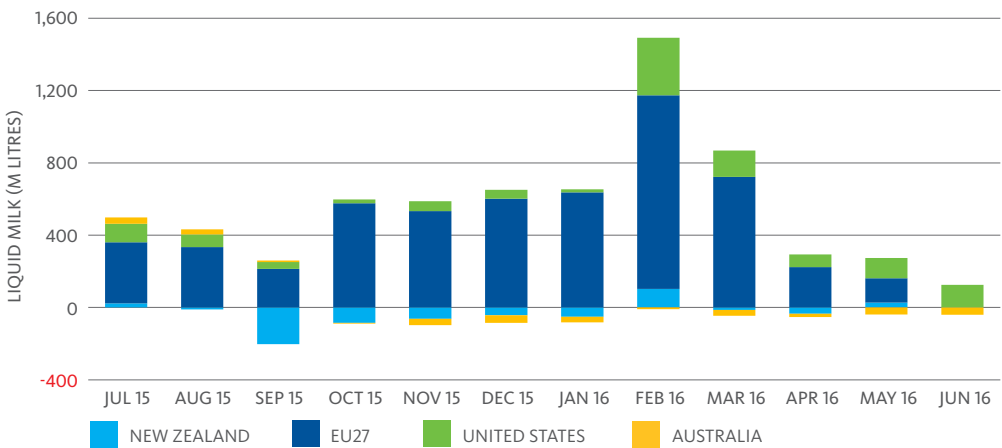
SUPPLEMENTARY INFORMATION

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.

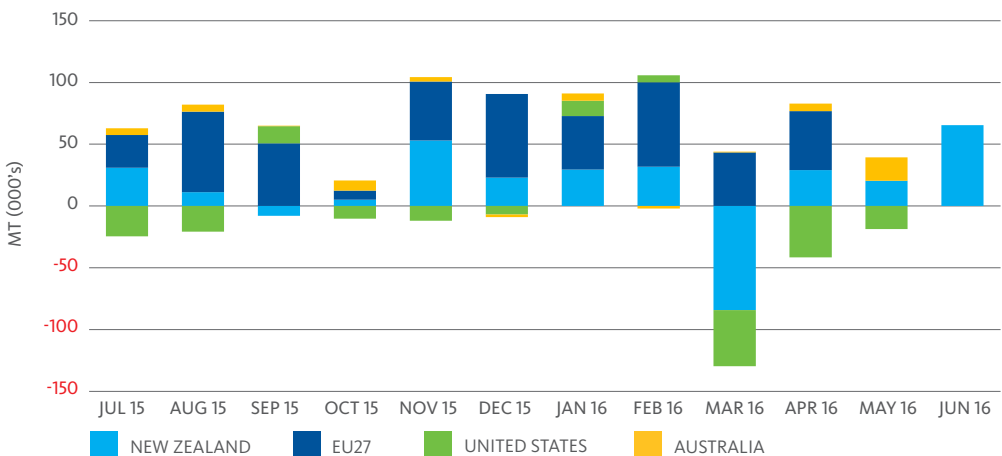
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

PRODUCTION



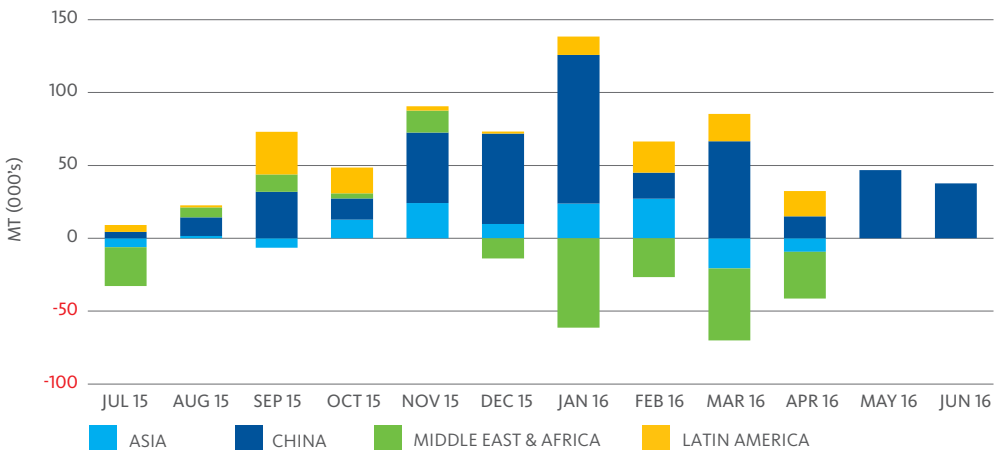
NOTE: Data for EU to May; New Zealand, US and Australia to June.

EXPORTS



NOTE: Data for EU to April; US and Australia to May and New Zealand to June.

IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to April, China to June.

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)	JULY 2016	JULY 2015	MONTHLY CHANGE	SEASON- TO-DATE 2016/17	SEASON- TO-DATE 2015/16	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	16.3	16.6	(1.4%)	26.3	26.6	(1.4%)
North Island	15.0	15.1	(0.8%)	22.6	22.7	(0.3%)
South Island	1.4	1.5	(7.7%)	3.7	3.9	(7.3%)
Fonterra Australia	6.1	7.8	(22%)	6.1	7.8	(22%)

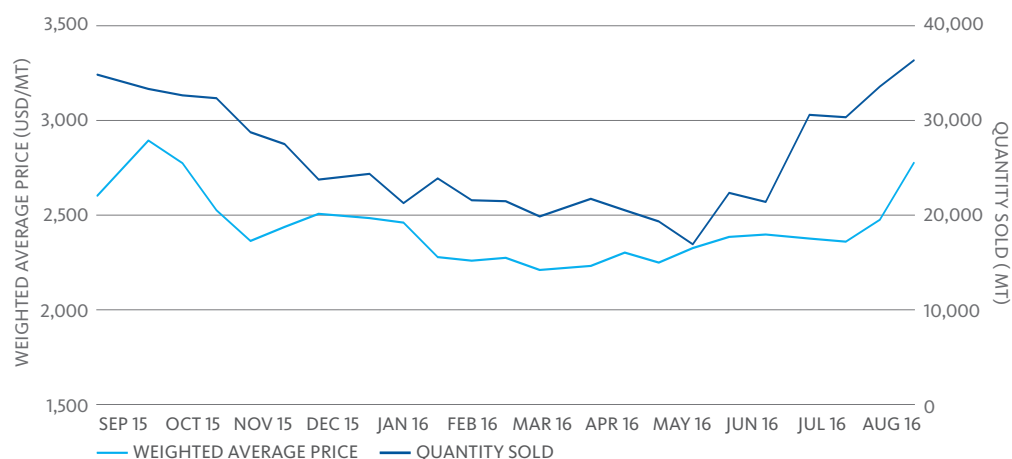
Fonterra GDT results

This table provides more information on the latest results, including a snapshot of the year-to-date results.

	LAST TRADING EVENT (16 AUGUST 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	36,350	69,923
Change in Quantity Sold on GDT over same period last year	0.9%	(15.0%)
Weighted Average Product Price (USD/MT)	2,776	2,632
Change in Weighted Average Product Price over same period last year	39.9%	45.6%
Change in Weighted Average Product Price from previous event	12.1%	–

Fonterra GDT Results

This chart shows Fonterra GDT prices and volumes over the past 12 months.



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.

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.