

GLOBAL DAIRY UPDATE



- New Zealand, Australia and Europe continue to see decreased milk production while United States growth is maintained.

- Strong showing by Fonterra Greater China on Double 11.
- Ongoing progress in Australia consumer business.



- Solid growth in exports for the month across all the major exporting regions, but the US remains down for the last 12 months.



- China import growth rebounded, Asia and Latin America import growth continues but imports to the Middle East and Africa remain soft.



- Giving back to our communities.
- Floating wetlands producing promising results for cleaner waterways.



- In November the significant decrease in Fonterra New Zealand milk collections continued, with production down 7%.
- Fonterra forecast milk collection in New Zealand for the 2016/17 season maintained at 1,460 million kgMS, 7% down on last season.

KEY DATES



Late March 2017
Interim Results
Announcement

1 June 2017
Measurement Date for Share
Standard 2017/18 Season

Late September 2017
Annual Results
Announcement

1 December 2017
Compliance Date for Share
Standard 2017/18 Season



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

NEW ZEALAND, AUSTRALIA AND EUROPE CONTINUE TO SEE DECREASED MONTHLY MILK PRODUCTION WHILE UNITED STATES GROWTH IS MAINTAINED

NEW ZEALAND

1% ↓

Production change for the 12 months to October 2016

Total New Zealand milk production for October was down 5% compared to the same month last year.

New Zealand milk supply generally peaks in October and the recent challenging conditions have had a significant impact on peak milk volumes. These lower volumes are expected to flow through the remainder of this season.

For the 12 months to October, milk production is down 1% compared to the same period the previous year.

Fonterra collections have been reported for November, see page 5 for details.

AUSTRALIA

7% ↓

Production change for the 12 months to October 2016

Australia production in October decreased 11% compared to the same month last year, as milk supply continued to be impacted by unfavourable pasture conditions.

Collections have been impacted across all of the large producing states including Victoria, New South Wales and Tasmania.

Production for the 12 months to October is down 7% compared to the same period the previous year.

Fonterra collections in Australia have been reported for November, see page 5 for details.

EUROPEAN UNION

2% ↑

Production change for the 12 months to September 2016

EU production decreased for the fourth consecutive month with September down 3% compared to the same month last year. Many of the large EU producers continue to see decreasing production including the UK down 8%, France down 7% and Germany down 3% and Ireland posting the first decrease in some time, down 4%.

Production for the 12 months to September is up 2% compared to the same period the previous year.

EU Commission milk deliveries are forecast to increase 0.9% in 2016.¹

USA

2% ↑

Production change for the 12 months to October 2016

US production in October increased 3% compared to the same month last year, supported by increased cow numbers compared to October 2015.

Milk production for the 12 months to October increased 2% compared to the same period the previous year.

The United States Department of Agriculture recently reviewed their 2016 forecast milk collection down 0.2 billion pounds to 212.5 billion pounds.

¹ EU Commission Milk Market Observatory – September 2016.



SOLID GROWTH IN EXPORTS FOR THE MONTH ACROSS ALL THE MAJOR EXPORTING REGIONS, BUT THE US REMAINS DOWN FOR THE LAST 12 MONTHS

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

NEW ZEALAND

7%↑

Export change for the 12 months to September 2016

Total New Zealand dairy exports data is not yet available for October however September exports increased 16%, or 28,000 MT, compared to the same month last year reversing the decline seen in August.

Milk powders led the increase with WMP and SMP up a combined 20%, or 16,000 MT. Fluid and fresh dairy increased 58% but off a significantly lower base.

Exports for the 12 months to September are up 7%, or 228,000 MT. Products contributing to this increase include infant formula up 92%, fluid and fresh dairy up 44%, AMF up 14% and cheese and SMP up 12%.

AUSTRALIA

6%↑

Export change for the 12 months to September 2016

Australia dairy exports in September increased 10%, or 6,000 MT, compared to the same month last year.

This increase was largely due to fluid and fresh dairy up 43% and WMP up 33%.

Exports for the 12 months to September are up 6%, or 40,000 MT, compared to the same period the previous year. Infant formula and fluid and fresh dairy are the largest contributors to this growth, up 179% and 24% respectively. In addition whey is up 34% and cheese up 3%.

EUROPEAN UNION

10%↑

Export change for the 12 months to August 2016

EU dairy exports increased 14% in August, or 53,000 MT, compared to the same month the previous year, which reversed the slowing growth seen since April 2016.

This increase was due to infant formula up 26%, whey powder up 24%, cheese up 19% and fluid and fresh dairy up 18%.

Export growth for the 12 months to August remains up 10%, or 455,000 MT, compared to the same period last year.

Over this period, fluid and fresh dairy is up 18%, cheese up 15% and butter, whey powder and caseinate have all increased around 42,000 MT compared to the same period last year.

USA

3%↓

Export change for the 12 months to September 2016

US dairy exports increased 5% in September, or 8,000 MT, compared to the same month the previous year.

The change was a result of whey powder up 39%, fluid and fresh dairy up 20% and SMP up 6%, partially offset by lactose which led the product decreases at 11%.

Exports for the 12 months to September remain down 3% or 60,000 MT, compared to the same period last year.

This decrease is a result of MPC/MPI down 37%, whey powder down 11% and cheese down 13%, partially offset by milk powders with SMP and WMP up a combined 5%, and WPC/WPI up 19%.



CHINA IMPORT GROWTH REBOUNDED IN OCTOBER, ASIA AND LATIN AMERICA IMPORT GROWTH CONTINUES BUT IMPORTS TO THE MIDDLE EAST AND AFRICA REMAIN SOFT

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

LATIN AMERICA



Latin America¹ dairy import volumes increased 34%, or 43,000 MT, in August compared to the same month the previous year. Milk powders were the largest contributor to this increase with WMP up 114% and SMP up 53%.

Imports remain strong for the 12 months to August and are up 13%, or 218,000 MT, compared to the same period last year. Over this period WMP is up 35%, SMP up 22%, cheese up 10% and many other dairy products including infant formula, AMF and butter are also up but off a lower base.

ASIA



Asia (excluding China)² dairy import volumes increased 15%, or 46,000 MT, in August compared to the same month the previous year. This was a result of many of the major dairy categories seeing increased imports, most noticeably fluid and fresh dairy which increased 28%.

Imports for the 12 months to August are up 5%, or 189,000 MT, compared to the same period the previous year. Fluid and fresh dairy is up 14%, infant formula up 10% and cheese up 5%.

MIDDLE EAST & AFRICA

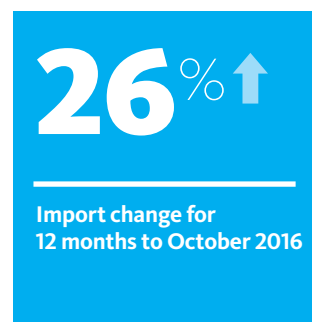


Middle East and Africa³ dairy imports decreased 11%, or 32,000 MT, in August compared to the same month the previous year. This decrease was led by cheese down 20%, WMP down 19% and fluid and fresh dairy down 12%.

For the 12 months to August, imports are down 6%, or 227,000 MT, compared to the same period last year.

This decline is largely due to powders, with SMP and WMP down a combined 15%, or a combined 204,000 MT.

CHINA



China dairy imports increased 15%, or 19,000 MT, in October compared to the same month last year, reversing the drop seen in the prior month. This increase is largely a result of infant formula up 31%, fluid and fresh dairy up 19% and whey powder up 9%.

Imports for the 12 months to October are up 26%, or 468,000 MT, compared to the same period last year.

Strength in China dairy imports numbers is driven by fluid and fresh dairy up 60%, infant formula up 37%, whey powder up 17% and WMP up 14%.

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

² Includes estimate for Indonesia (August).

³ Includes estimates for Algeria (since December 2015) and Egypt (August).

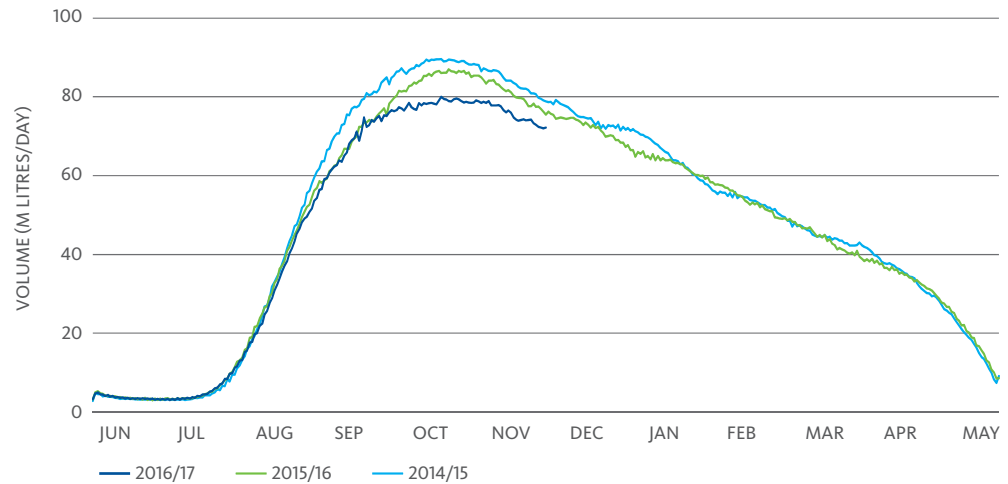
OUR MARKETS

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

6% ↓

Decrease for the season from 1 June to 30 November

Fonterra's milk collection across New Zealand for the six months to 30 November reached 695 million kgMS, 6% lower than the same period last season.

Fonterra New Zealand milk collection over the peak was impacted by unfavourable weather conditions across most dairying regions. This resulted in November collections reaching 194 million kgMS, 7% behind the same month last season.

NORTH ISLAND

8% ↓

Decrease for the season from 1 June to 30 November

North Island milk collection in November reached 116 million kgMS, 9% behind November last season.

SOUTH ISLAND

2% ↓

Decrease for the season from 1 June to 30 November

South Island milk collection in November reached 77 million kgMS, 5% behind November last season.

AUSTRALIA

9% ↓

Decrease for the season from 1 July to 30 November

Fonterra's milk collection across Australia for the five months to 30 November reached 53 million kgMS, 9% lower than last season.

In November milk collection reached 13 million kgMS, 1% behind the same month last season. Production peaked three weeks later than last season due to the wet spring conditions with most regions now in a good position with supplementary feed available if necessary.

Forecast Fonterra Milk Collection Across New Zealand

1,460M
KGMS

Decrease of 7% for the 2016/17 season

Forecast milk collection has been maintained at 1,460 million kgMS, reflecting very challenging conditions across most parts of the country. With season to date milk collection and peak milk volumes significantly impacted we expect these lower volumes

to flow through the balance of the 2016/17 season.

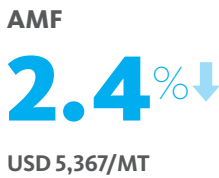
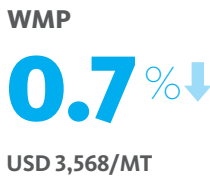
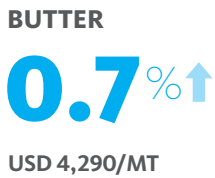
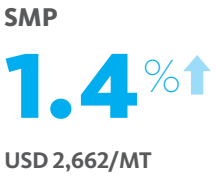
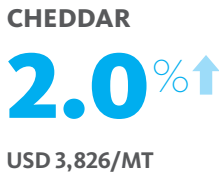
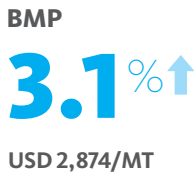
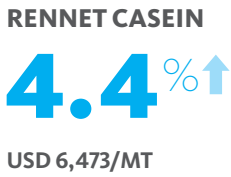
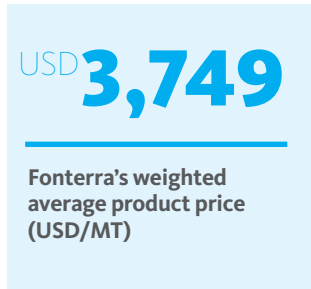
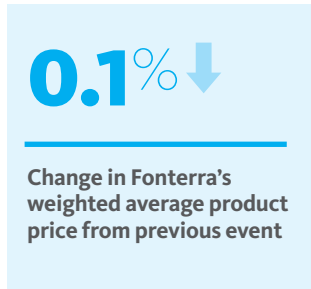
As the season progresses we will be able to more accurately forecast total milk collections and we will continue to provide market updates.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS



Fonterra GDT results at last trading event
20 December 2016:

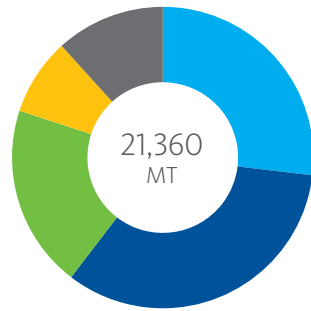


Fonterra GDT sales by destination:

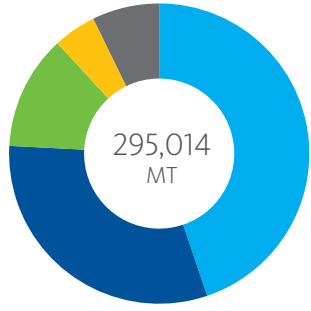
To view more information, including a snapshot of the rolling year-to-date results –

- NORTH ASIA (INCLUDING CHINA)
- SOUTH EAST ASIA
- MIDDLE EAST AND AFRICA
- LATIN AMERICA
- OTHER

LATEST AUCTION



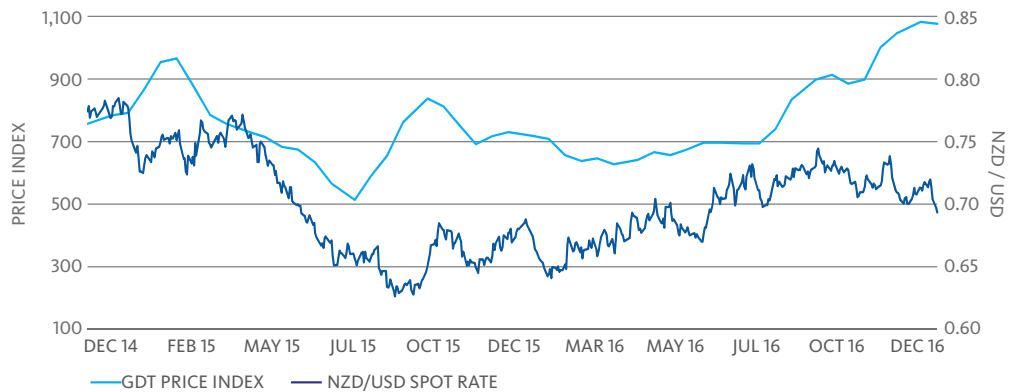
FINANCIAL YEAR-TO-DATE



▶ The next trading event will be held on 3 January 2017. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In early November the New Zealand dollar strengthened, reaching a two-month high, before weakening throughout the remainder of the month.





STRONG SHOWING BY FONTERRA GREATER CHINA ON DOUBLE 11

Double 11, the world's largest single-day shopping event, was a success for Fonterra with sales of RMB 60.6 million (\$12.5 million) – up 44 per cent on last year.

Double 11, timed to coincide with China's 'Single's Day' on November 11, launched in 2009 and has grown rapidly to become the biggest single sales day on the global retail calendar.

This year the total sales volume for China's 16 largest e-commerce merchants reached RMB 177 billion (\$36.3 billion) in 24 hours.

Alibaba contributed RMB 120.7 billion (\$24.6 billion) through its popular Tmall and Taobao platforms. At its peak, 175,000 orders were processed every second.

We cannot understate the scale and popularity of Double 11 in China and with more than 100,000 merchants participating this year it's highly competitive.

While the day is known for deep discounts our team put a lot of energy into a smart strategy that ensured we engaged consumers but maintained our margins.

Online sales of Anchor™

UHT were particularly successful, with two million litres sold and 270,000 milk powder pouches sold. The number of customers who purchased Fonterra products was up 56 per cent on last year.

Our China team ran a number of innovative warm-up campaigns, which included online live-stream

broadcasts and interactive online 'shopping towns'. This helped to build momentum as the shopping day approached.

Alibaba was the original mastermind behind Double 11 and other e-commerce giants such as JD.com have since joined the event, and it highlights the notable growth of e-commerce in China.

Fonterra began developing its Chinese e-commerce channels in 2012 when the Anlene™ Tmall flagship store was first launched. This is the fourth year that Fonterra has participated in the Double 11 event.





ONGOING PROGRESS IN AUSTRALIA CONSUMER BUSINESS

Western Star™ success continues to spread

Fonterra's Western Star™ salted butter has been selected as a finalist in the butter category of the 2017 Australian Grand Dairy Award, and is in the running to be named Champion Butter.

Western Star™ is Australia's number one selling butter and has won multiple industry awards over the years. The latest nomination comes on the back of recent honours at the 2016 Grand Dairy Awards where it was voted 'Best Original Butter'.

This award, one of Australia's most prestigious and highly regarded awards, emphasises the quality of our dairy foods made at the Cobden site, our largest operation in Australia.

As the success of Western Star™ continues to spread, the Cobden plant has invested \$6.2 million into expanding its cool room to keep up with its growing demand.

The expansion is well underway, with the concrete floor poured. The capital works will see over 25 contractors on site for the duration of the expansion project.



The longer we age Mainland™, the better it tastes

A successful Mainland™ TV campaign launched early October in Australia is helping deliver strong sales results for the brand.

In Woolworths, Mainland™ baseline sales have grown 25% in volume and 32% in value in the eight weeks since launch compared with the pre-campaign period (eight weeks prior).

We're seeing positive shifts in brand health and tracking indicates that 70% of Australians understand the main Mainland™ message 'aged for longer'.

The campaign is based around our cheese makers finding creative ways to delay handing over the Mainland™ cheddar to the impatient truck driver, because we all know the longer we age Mainland™, the better it tastes.

The follow-up Mainland™ cheese TV campaign is now on air in Australia, continuing to amuse audiences and boost our presence in shoppers' baskets.



To view the latest episode –



Giving back to our communities



Fonterra's social responsibility work has been recognised as top of the class in a new national ranking – with judges describing Fonterra Milk for Schools as 'providing

undeniable value to New Zealand communities'.

The Business and Community Shares (BACS) Social Index identifies the top 30 companies in Corporate Social Responsibility (CSR) in New Zealand – with Fonterra and retail company The Warehouse leading the pack.

This external recognition for Fonterra Milk For Schools and the quality

of the Co-operative's social responsibility is a special milestone.

The BACS judges awarded companies points out of 10. Fonterra was one of only two companies to score nine out of ten.

Floating wetlands producing promising results for cleaner waterways

A new approach adopted by Living Water, a partnership between Fonterra and the Department of Conservation, is proving successful in cleaning up waterways.

A Massey University trial that ties native wetland plants to buoyant mats or 'rafts' that sit on the water surface is producing promising results. These "floating wetlands" are capable of removing large amounts of nutrients from drains and runoff areas, resulting in cleaner downstream waterways.

They also attract bird and insect life and the grasses have the potential to be harvested as a supplement feed for stock.

The approach is shaping up as an innovative new tool for nutrient management, with potential to be very useful on farms.

Living Water will run the trial until the middle of 2017 and, if successful, the floating wetlands could be rolled out in waterways around the country.

Living Water is a 10-year partnership between Fonterra and the Department of Conservation that is focusing on five significant dairying regions. The vision of the partners is for a sustainable dairy industry operating within healthy, functioning ecosystems, that together enrich the lives of all New Zealanders.



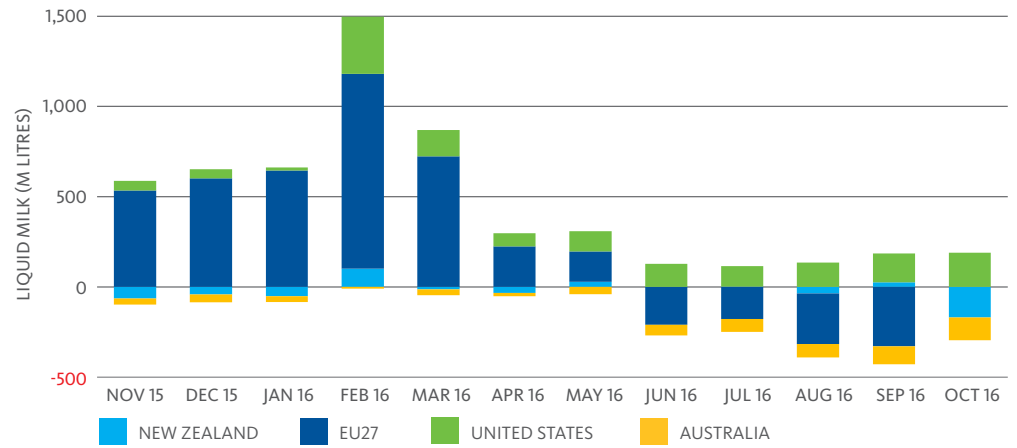
SUPPLEMENTARY INFORMATION

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.

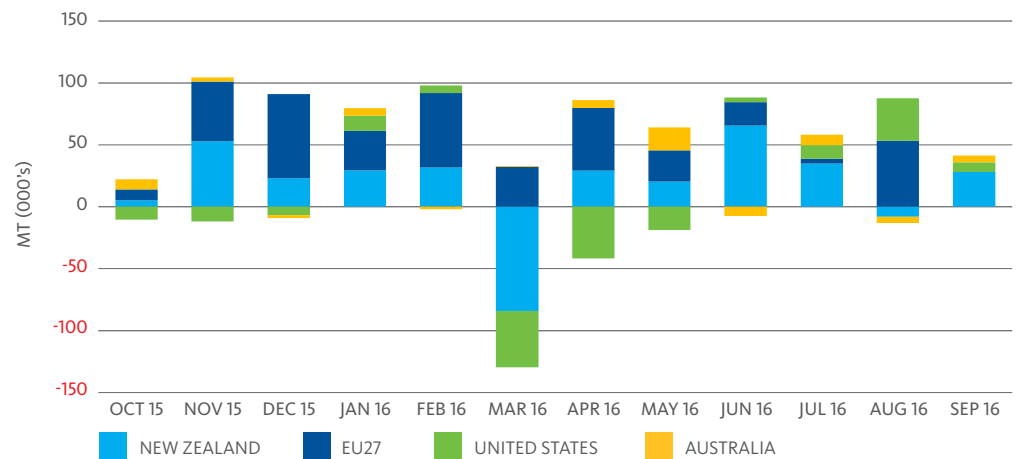
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

PRODUCTION



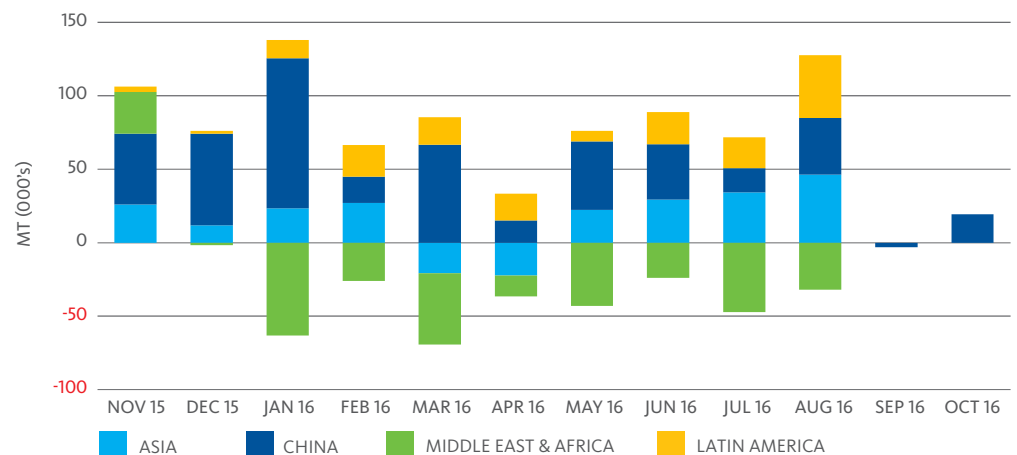
NOTE: Data for EU to September, New Zealand, US and Australia to October.

EXPORTS



NOTE: Data for EU to August; New Zealand, US and Australia to September.

IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to August, China to October.

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)	NOVEMBER 2016	NOVEMBER 2015	MONTHLY CHANGE	SEASON-TO-DATE 2016/17	SEASON-TO-DATE 2015/16	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	193.8	208.7	(7.1%)	694.7	736.8	(5.7%)
North Island	116.3	127.1	(8.5%)	442.0	479.5	(7.8%)
South Island	77.5	81.6	(5.0%)	252.7	257.4	(1.8%)
Fonterra Australia	13.3	13.5	(1.1%)	53.0	58.5	(9.4%)

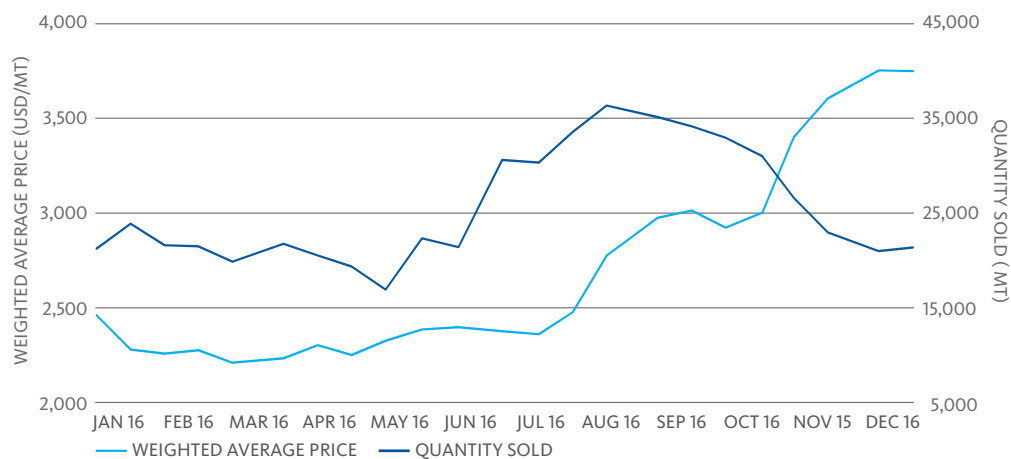
Fonterra GDT results

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

	LAST TRADING EVENT (20 DECEMBER 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	21,360	295,014
Change in Quantity Sold on GDT over same period last year	(10.1%)	(10.9%)
Weighted Average Product Price (USD/MT)	3,749	3,094
Change in Weighted Average Product Price over same period last year	49.5%	30.9%
Change in Weighted Average Product Price from previous event	(0.1%)	-

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.