

GLOBAL DAIRY UPDATE



- European milk production has decreased for the first time since early 2015, with volumes in June down 2% compared to last year.



- New Zealand and EU export growth continues, and the United States exports remain down for the last 12 months, but increased in June.



- Asia returned to strong import growth in the last month, and in China and Latin America growth continues. Middle East and Africa imports have slowed.



- In August, Fonterra New Zealand milk collection reached 96 million kgMS and Fonterra Australia milk collection reached 8 million kgMS.
- Fonterra milk collection in New Zealand for the 2016/17 season forecast to be down 3%.



Last week we announced our annual results, giving a detailed update on our progress and performance.

[Visit our website for more details –](#)

KEY DATES



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 HAS DECREASED FOR THE FIRST TIME SINCE EARLY 2015, WITH VOLUMES IN JUNE DOWN 2% COMPARED TO LAST YEAR

NEW ZEALAND

2%↓

Production change for the 12 months to July 2016

Total New Zealand milk production for July was up 1% on the same month last year.

In New Zealand, milk volumes are coming off the low point of the season. Volumes will continue to build over the coming months.

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

AUSTRALIA

3%↓

Production change for the 12 months to July 2016

Australia production in July, the first month in the 2016/17 production season, decreased 10% compared to the same month last year.

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

Production for the 12 months to July is down 3% compared to the same period the previous year.

EUROPEAN UNION

4%↑

Production change for the 12 months to June 2016

EU production in June decreased 2% compared to the same month last year. Milk production continues to slow with June being the first month since March 2015 that production has decreased relative to the same period last year.

Increased culling, less supplementary feeding and poor weather are contributing to this decrease — the largest EU producers, the UK, France and Germany, are down 7%, 3% and 1% respectively.

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

USA

1%↑

Production change for the 12 months to July 2016

US production in July increased 1% compared to the same month last year.

Milk production for the 12 months to July 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 2015.¹

¹ World Agricultural Supply and Demand Estimates Report – June 2016.



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

NEW ZEALAND AND EU EXPORT GROWTH CONTINUES, AND THE UNITED STATES EXPORTS REMAIN DOWN FOR THE LAST 12 MONTHS, BUT INCREASED IN JUNE

NEW ZEALAND

7%↑

Export change for the 12 months to July 2016

Total New Zealand dairy exports in July increased 15%, or 35,000 MT, compared to the same month last year. With the exception of WMP, increases were seen across all major dairy categories, with SMP up 45%, butter up 46% and cheese up 20%. WMP was down 8%.

Exports for the 12 months to July are up 7%, or 211,000 MT, compared to the previous year. This increase is largely due to fluid and fresh dairy up 41%, AMF up 16% and cheese up 12%. In addition, infant formula has continued to see strong growth, up 83%, and increasing for the tenth consecutive month.

AUSTRALIA

6%↑

Export change for the 12 months to June 2016

Australia dairy exports in June decreased 8%, or 6,000 MT, compared to the same month last year.

This decrease was largely a result of SMP down 57% and WMP down 45%. Decreases in powders were offset by gains in Australia's two largest export categories, fluid and fresh dairy and cheese up 32% and 8% respectively.

Exports for the 12 months to June are up 6%, or 44,000 MT, compared to the same period the previous year. This increase was largely due to fluid and fresh dairy up 20%, cheese up 9%, together with solid growth in infant formula, up 260%, but off a low base.

EUROPEAN UNION

12%↑

Export change for the 12 months to May 2016

EU dairy exports increased 6% in May, or 22,000 MT, compared to the same month the previous year.

Increases were seen across all of the major dairy categories excluding SMP which decreased 27%. The EU's two largest export categories, fluid and fresh dairy and cheese, both increased 17%.

Exports are up 12%, or 551,000 MT, for the 12 months to May compared to the same period last year. Export increases continue to be driven by solid growth from fluid and fresh dairy up 27%, cheese up 12% and whey powder up 11%.

USA

7%↓

Export change for the 12 months to June 2016

US dairy exports in June increased 2%, or 4,000 MT, compared to the same month the previous year. A decrease in the major export categories of SMP, lactose and cheese, were offset by increases in whey powder, WMP and WPC/WPI, up a combined 16,000 MT.

Exports for the 12 months to June are down 7%, or 144,000 MT, compared to the same period last year. This is driven by whey powder down 20%, cheese down 18% and fluid and fresh dairy down 9%.



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

ASIA RETURNED TO STRONG IMPORT GROWTH IN THE LAST MONTH, AND IN CHINA AND LATIN AMERICA GROWTH CONTINUES. MIDDLE EAST AND AFRICA IMPORTS HAVE SLOWED

LATIN AMERICA

10% ↑

Import change for 12 months to May 2016

Latin America¹ dairy import volumes increased 5%, or 7,000 MT, in May compared to the same month the previous year. Increases in WMP and cheese, 32% and 4% respectively, were offset by small declines in SMP and fluid and fresh dairy.

Imports for the 12 months to May remain strong, up 10%, or 152,000 MT compared to the same period last year. Increases were seen across all major dairy categories, led by powders, with WMP up 25% and SMP up 18%. In addition, cheese increased 11% and infant formula 9%.

ASIA

2% ↑

Import change for 12 months to May 2016

Asia (excluding China)² dairy import volumes increased 7%, or 25,000 MT, in May compared to the same month the previous year. Significant increases in fluid and fresh dairy and whey powder, up 26%, and WMP up 20%, were partially offset by decreases in SMP, cheese and lactose.

Imports for the 12 months to May are up 2%, or 91,000 MT, compared to the same period the previous year. Fluid and fresh dairy and cheese were up 8% and 5% respectively, and represented a combined increase of 72,000 MT.

MIDDLE EAST & AFRICA

6% ↓

Import change for 12 months to May 2016

Middle East and Africa³ dairy imports decreased 15%, or 53,000 MT, in May compared to the same month the previous year.

Decreases were seen across all major import categories, with SMP, cheese, WMP and butter the key contributors, down a collective 24% or 46,000 MT.

For the 12 months to May, imports are down 6%, or 218,000 MT, compared to the same period last year. This decline is largely due to powders, with SMP and WMP down 15% and 13% respectively, or a combined 199,000 MT.

CHINA

27% ↑

Import change for 12 months to July 2016

China dairy imports increased 9%, or 16,000 MT, in July compared to the same month last year. Significant increases in fluid and fresh dairy and cheese, both up 37%, were partially offset by declines in SMP, whey powder and lactose.

Imports for the 12 months to July are up 27%, or 472,000 MT, compared to the same period last year. The largest contributions to China's growth have come from fluid and fresh dairy and infant formula, with increases of 69% and 45% respectively, or a combined 325,000 MT. In addition, WMP is up 11%, or 41,000 MT.

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

² Includes estimate for Philippines in May.

³ Includes estimates for Algeria (December-May).

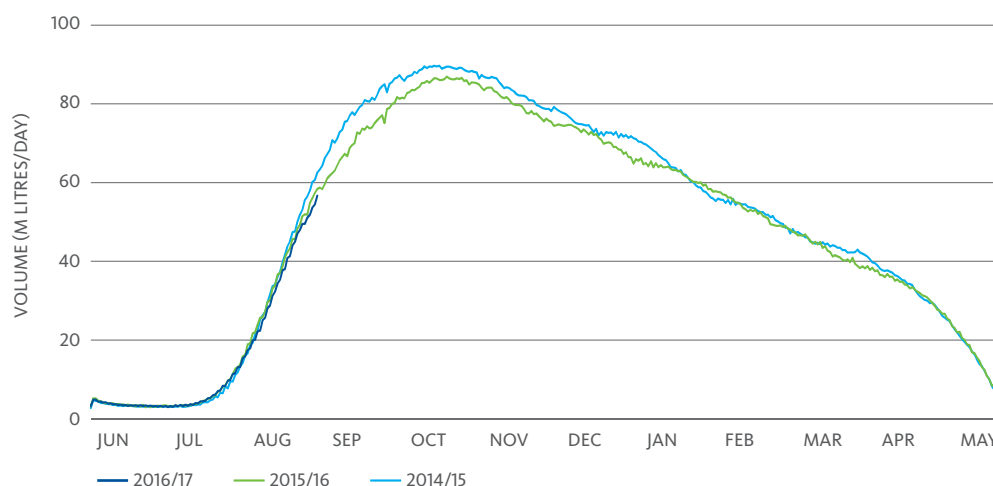
OUR MARKETS

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

Fonterra's milk collection across New Zealand reached 96 million kgMS in August, 5% lower than August last season.

For the three months to 31 August milk collection reached 122 million kgMS, 4% behind the same period last season.

The monthly volumes of milk collected will continue to build over the coming months and peak collection is forecast around mid-October.

NORTH ISLAND

5% ↓

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

North Island milk collection in August reached 71 million kgMS, 6% behind August last season.

SOUTH ISLAND

2% ↓

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

South Island milk collection in August reached 25 million kgMS, 1% behind August last season.

AUSTRALIA

16% ↓

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

Fonterra's milk collection across Australia in August, reached eight million kgMS, one million kgMS lower than August last season.

New season milk collection is recovering, following the drop late in the 2015/16 season, as farmers that dried off early have now started calving. In addition, we have new farmer suppliers moving to Fonterra, and promising early spring conditions.

Forecast Fonterra Milk Collection Across New Zealand

1,523M
KGMS

Decrease of 3%
for the 2016/17 season

We are maintaining forecast milk collection at 1,523 million kgMS, which reflects the likely impact of farmers using more traditional practices to manage their businesses within the limits of the current milk price. Over the past two seasons, farmers have reduced stocking rates and supplementary

feeding to help lower costs. While it is very early in the season to accurately forecast the total milk collection, we were required to provide a forecast under DIRA at the start of the current season. We will continue to provide updates as the season progresses.

OUR MARKETS

FONTERRA GLOBALDAIRYTRADE RESULTS



Fonterra GDT results at
last trading event
20 September 2016:

1.3% ↑

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

USD **3,014**

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

34.2 ^{000'} MT

Fonterra product quantity
sold on GDT

BMP

7.0% ↑

USD 2,276/MT

AMF

4.8% ↑

USD 4,998/MT

BUTTER

3.4% ↑

USD 3,892/MT

SMP

2.9% ↑

USD 2,294/MT

RENNET CASEIN

2.6% ↑

USD 6,893/MT

CHEDDAR

2.4% ↑

USD 3,518/MT

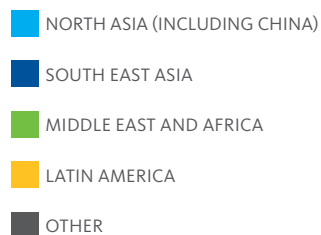
WMP

0.4% ↓

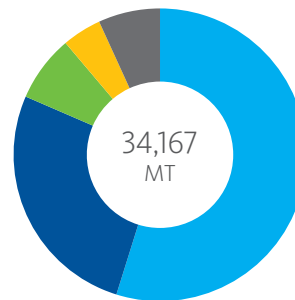
USD 2,782/MT

Fonterra GDT sales
by destination:

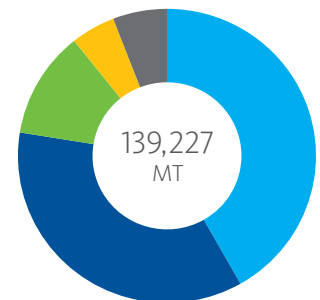
To view more information,
including a snapshot of the
rolling year-to-date results –



LATEST AUCTION



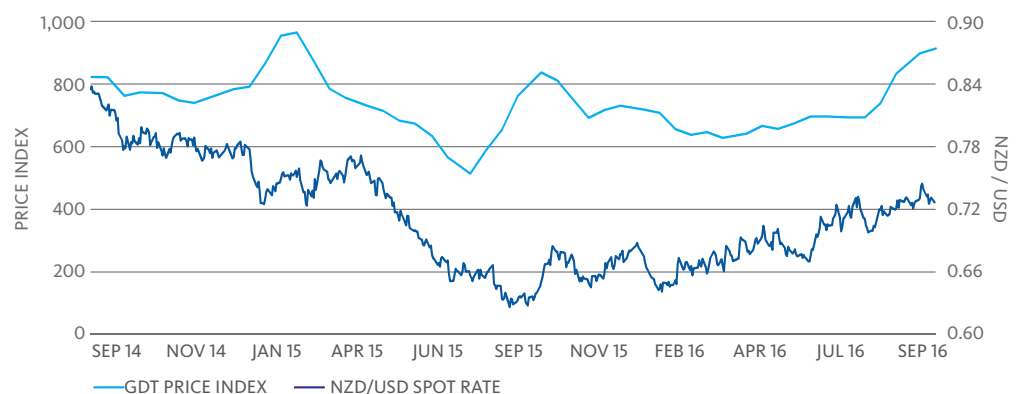
**FINANCIAL
YEAR-TO-DATE**



► The next trading event will be held on 4 October 2016. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In August, the New Zealand
dollar continued to
strengthen against the US
dollar and in early September
reached the highest level
since mid-2015.



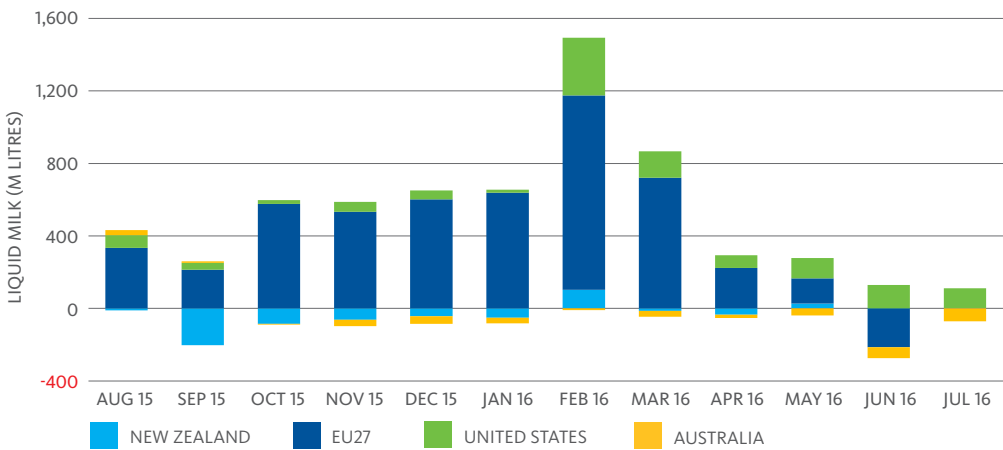
SUPPLEMENTARY INFORMATION

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.

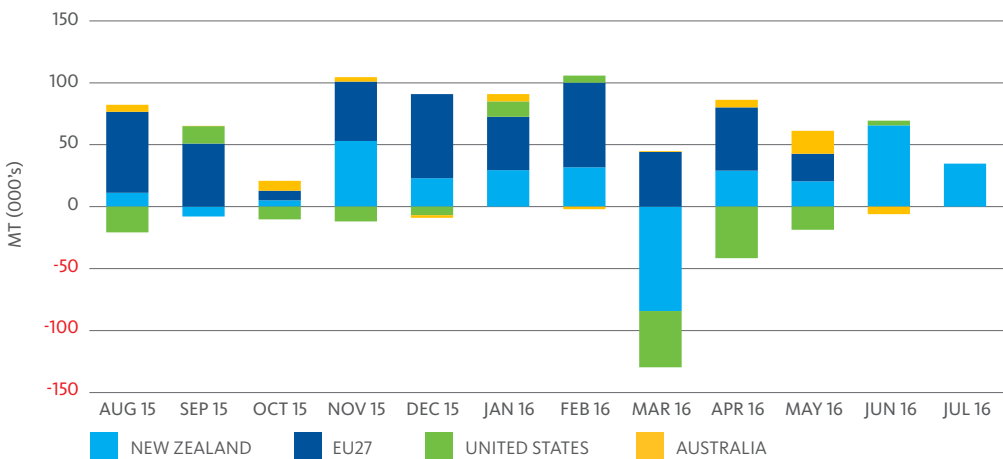
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

PRODUCTION



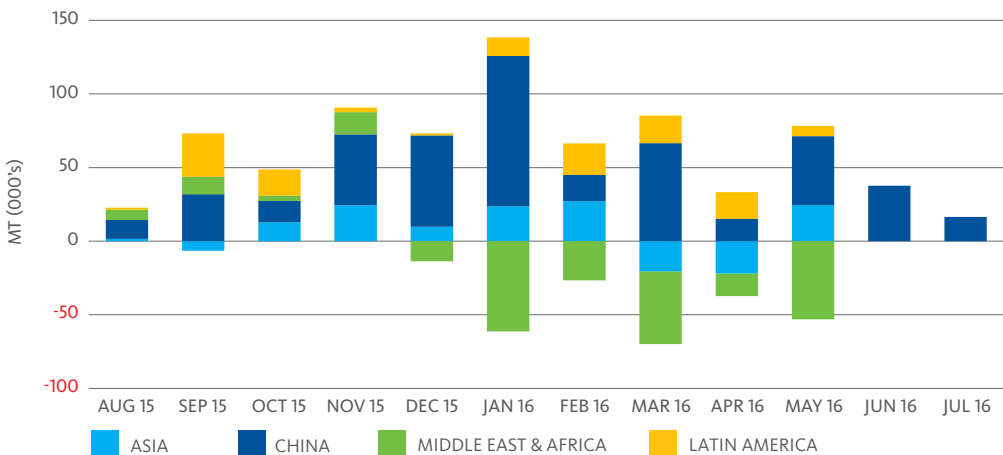
NOTE: Data for EU to June; New Zealand, US and Australia to July.

EXPORTS



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

IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to May; China to July.

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)	AUGUST 2016	AUGUST 2015	MONTHLY CHANGE	SEASON- TO-DATE 2016/17	SEASON- TO-DATE 2015/16	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	95.8	100.8	(5.0%)	122.0	127.4	(4.2%)
North Island	71.1	75.9	(6.4%)	93.7	98.6	(5.0%)
South Island	24.7	24.8	(0.7%)	28.3	28.8	(1.6%)
Fonterra Australia	8.4	9.5	(12.3%)	14.5	17.3	(16.3%)

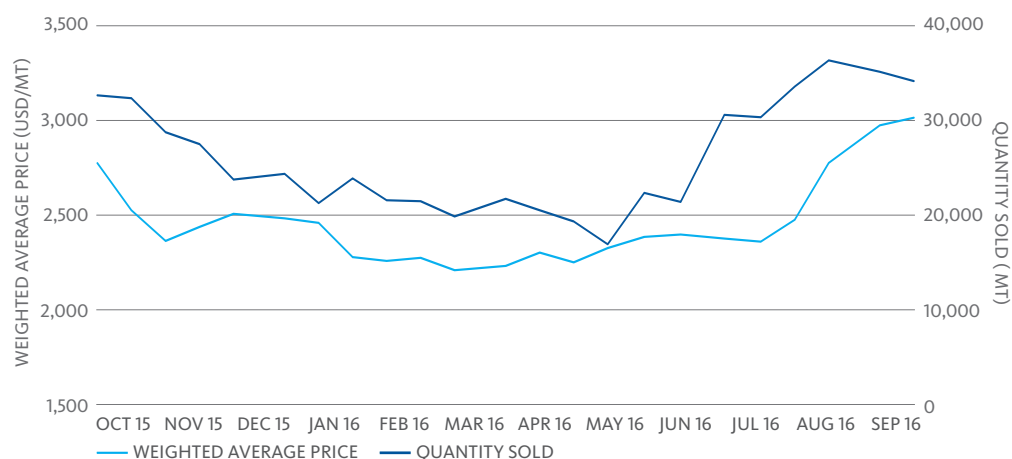
Fonterra GDT results

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

	LAST TRADING EVENT (20 SEPTEMBER 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	34,167	139,227
Change in Quantity Sold on GDT over same period last year	(1.9%)	(8.8%)
Weighted Average Product Price (USD/MT)	3,014	2,812
Change in Weighted Average Product Price over same period last year	15.9%	34.6%
Change in Weighted Average Product Price from previous event	1.3%	–

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.