OCTOBER 2016

GLOBAL DAIRY UPDATE

Dairy for life

MILK VOLUME UPDATE

Milk production from the major exporting regions continues to soften including in Europe, Australia and New Zealand.

In September, Fonterra New Zealand milk collection decreased 2% and Fonterra Australia milk collection decreased 9%.

Since then the continuing impact of materially wetter than normal spring weather in most parts of the country has seen further reductions in Fonterra's milk volumes across New Zealand.

Daily milk volumes across the central and upper North Island were down significantly in the early part of October and this has continued, particularly in the key dairying region of Waikato where daily milk volumes are now down around 14% compared to last year.

These reductions in daily milk volumes are highly unusual and Fonterra is continually assessing the on-going impact on its contract book and future production plans given that milk collections at the peak of this season will not recover and will flow into the balance of the season.

These decreases have been made based on Fonterra's forecast milk volume for the 2016/17 season which was reduced further today from 1,523 million kgMS to 1,460 million kgMS.

OUR MARKETS

- European milk production decreased in August for the third consecutive month and volumes remain down in New Zealand and Australia.
- Asia, China and Latin America import growth continues, while Middle East and Africa imports remain soft.
- United States exports increased in June and July but remain down for the last 12 months while New Zealand and EU export growth for the last 12 months continues.
- In September, Fonterra New Zealand milk collection decreased 2% and Fonterra Australia milk collection decreased 9%.

KEY DATES

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

8 December 2016
Fonterra Co-operative Group Annual Meeting

12 December 2016
Fonterra Shareholders' Fund Annual Meeting

Late March 2017
Interim Results Announcement

OUR MARKETS

GLOBAL PRODUCTION

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

CLICK HERE ▸

EUROPEAN MILK PRODUCTION DECREASED IN AUGUST FOR THE THIRD CONSECUTIVE MONTH AND VOLUMES REMAIN DOWN IN NEW ZEALAND AND AUSTRALIA

NEW ZEALAND

1% ↓

Production change for the 12 months to September 2016

Total New Zealand milk production for September was in line with the same month last year.

New Zealand milk supply generally peaks around mid-October and the challenging weather conditions of late will have a significant impact on the peak milk volumes, and future production for this season.

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

AUSTRALIA

4% ↓

Production change for the 12 months to August 2016

Australia production in August, the second month in the 2016/17 production season, decreased 9% compared to the same month last year.

Milk production in the current season has been impacted by the reduction in Australian milk prices to align with global dairy prices, together with unfavourable pasture conditions.

Production for the 12 months to August is down 4% compared to the same period the previous year.

EUROPEAN UNION

3% ↑

Production change for the 12 months to August 2016

EU production decreased for the third consecutive month with August down 1% compared to the same month last year. This was due to many EU producers seeing a decrease in production, with the UK down 7%, Denmark down 6%, and Italy, Germany and France down 2%.

Production for the 12 months to August is up 3% compared to the same period the previous year.

EU Commission milk deliveries are forecast to increase 0.9% in 2016.[1]

USA

1% ↑

Production change for the 12 months to September 2016

US production in September increased 2% compared to the same month last year, with farmers responding to favourable weather conditions and grain prices.

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

The United States Department of Agriculture has issued its forecast milk production for 2016, which is up 1.7% on last year, as cow numbers have steadied as a result of expected improvements in returns.[2]

1 EU Commission Milk Market Observatory – September 2016.

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

UNITED STATES EXPORTS INCREASED IN JUNE AND JULY BUT REMAIN DOWN FOR THE LAST 12 MONTHS

WHILE NEW ZEALAND AND EU EXPORT GROWTH FOR THE LAST 12 MONTHS CONTINUES

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

CLICK HERE

NEW ZEALAND

6% ↑

Export change for the 12 months to August 2016

Total New Zealand dairy exports in August decreased 5%, or 8,000 MT, compared to the same month last year. Decreases were seen across AMF down 19%, WMP down 16% and butter down 9% fully offsetting gains in fluid and fresh dairy up 34%, SMP up 5% and cheese up 3%.

Exports for the 12 months to August are up 6%, or 192,000 MT, compared to the previous year. This increase is largely due to fluid and fresh dairy up 41%, AMF up 16% and cheese up 13%, offsetting WMP which is down 3%.

AUSTRALIA

6% ↑

Export change for the 12 months to July 2016

Australia dairy exports in July increased 17%, or 8,000 MT, compared to the same month last year.

This increase was due to a combination of WMP up 94%, fluid and fresh dairy up 17%, and infant formula up 175% but from a lower base.

Exports for the 12 months to July 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 8%, together with solid growth in infant formula, up 236%.

EUROPEAN UNION

11% ↑

Export change for the 12 months to June 2016

EU dairy exports increased in June, up 4% or 17,000 MT, compared to the same month the previous year.

Increases were seen across all of the major dairy categories with the largest contributors being infant formula up 21%, cheese up 13% and fluid and fresh dairy up 5%.

Exports are up 11%, or 488,000 MT, for the 12 months to June compared to the same period last year. Exports have been particularly strong for fluid and fresh dairy up 23%, cheese up 13% and whey powder up 8%, offsetting softer SMP exports which have decreased 7% over the same period.

USA

5% ↓

Export change for the 12 months to July 2016

US dairy exports in July increased 7%, or 11,000 MT, compared to the same month the previous year. This was driven by a significant increase in WMP up 324% (5,000 MT), WPC/WPI up 57% (5,000 MT) and SMP up 18% (7,000 MT).

Exports for the 12 months to July are down 5%, or 109,000 MT, compared to the same period last year. This was driven by butter down 43%, whey powder down 20%, cheese down 17%, and fluid and fresh dairy down 7%.

ASIA, CHINA AND LATIN AMERICA IMPORT GROWTH CONTINUES, WHILE MIDDLE EAST AND AFRICA IMPORTS REMAIN SOFT

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

CLICK HERE

LATIN AMERICA

10% ↑

Import change for 12 months to June 2016

Latin America[1] dairy import volumes increased 15%, or 21,000 MT, in June compared to the same month the previous year. WMP was the driver of this change, up 59% (11,000 MT) together with AMF up 75% and cheese up 10%.

Imports for the 12 months to June are up 10%, or 156,000 MT compared to the same period last year. Milk powders remain the largest contributor with WMP up 27% (52,000 MT) and SMP up 18% (61,000 MT), together with infant formula up 10% and cheese up 9%.

ASIA

3% ↑

Import change for 12 months to June 2016

Asia (excluding China)[2] dairy import volumes increased 11%, or 37,000 MT, in June compared to the same month the previous year. Increases were seen across all the major dairy categories excluding SMP which decreased 6%.

Imports for the 12 months to June are up 3%, or 104,000 MT, compared to the same period the previous year. Fluid and fresh dairy and infant formula are up 9%, and cheese up 4%, representing a combined increase of 86,000 MT.

MIDDLE EAST & AFRICA

7% ↓

Import change for 12 months to June 2016

Middle East and Africa[3] dairy imports decreased 13%, or 43,000 MT, in June compared to the same month the previous year.

Decreases were seen across all major import categories including SMP down 35%, cheese down 16%, fluid and fresh dairy down 14% and WMP down 10%.

For the 12 months to June, imports are down 7%, or 243,000 MT, compared to the same period last year. This decline is largely due to powders, with SMP and WMP down a combined 15% or 209,000 MT.

CHINA

28% ↑

Import change for 12 months to August 2016

China dairy imports increased 25%, or 39,000 MT, in August compared to the same month last year. Significant increases in fluid and fresh dairy, infant formula and whey powder up a combined 33% or 32,000 MT, were partially offset by SMP down 27%.

Imports for the 12 months to August are up 28%, or 498,000 MT, compared to the same period last year. The largest contributions to China's growth have come from fluid and fresh dairy up 68%, infant formula up 45%, WMP up 16% and whey powder up 15%.

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

2 Includes estimate for Philippines in June.

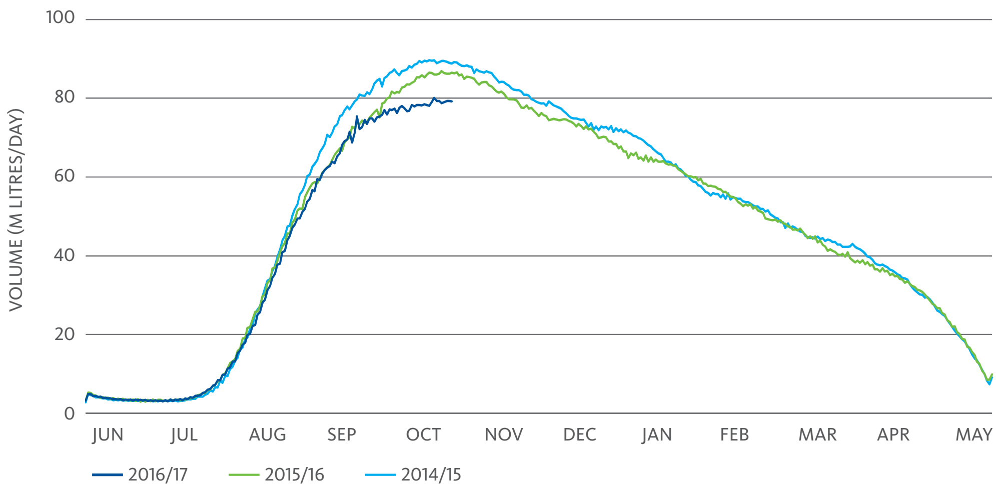
3 Includes estimates for Algeria (December-June).

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 –

CLICK HERE ▶

NEW ZEALAND MILK COLLECTION



NEW ZEALAND

3% ↓

Decrease for the season from 1 June to 30 September

Fonterra's milk collection across New Zealand for the four months to 30 September reached 297 million kgMS, 3% behind the same period last season.

September milk collection was 175 million kgMS, 2% lower than September last season.

As a result, the Co-operative's forecast offer volumes on GlobalDairyTrade over the next 12 months for New Zealand products has been decreased by 11,199 MT. Including this latest decrease, Fonterra has reduced GDT offer volumes since 1 August 2016 by 55,481 MT.

NORTH ISLAND

5% ↓

Decrease for the season from 1 June to 30 September

North Island milk collection in September reached 110 million kgMS, 5% behind September last season.

Unfavourable weather conditions continue to impact production across most dairying regions. High levels of rainfall in October have made conditions difficult across many regions, but most noticeably in the central region where daily production is down around 14% compared to last year.

SOUTH ISLAND

2% ↑

Increase for the season from 1 June to 30 September

South Island milk collection in September reached 64 million kgMS, 3% above September last season.

Initial October collections indicate milk volumes in the South Island have begun to decline and may fall below last season.

AUSTRALIA

13% ↓

Decrease for the season from 1 July to 30 September

Fonterra's milk collection across Australia in September, was 12 million kgMS, 1 million kgMS lower than September last season.

New season milk collection has been heavily impacted by unfavourable pasture conditions through winter and early spring.

While we have new farmer suppliers moving to Fonterra, this increase in supply has been offset by the challenging conditions, with record rainfall seen in some regions.

FONTERRA GLOBALDAIRYTRADE RESULTS

Fonterra GDT results at last trading event **18 October 2016:**

2.7% ↑	Change in Fonterra's weighted average product price from previous event
USD3,001	Fonterra's weighted average product price (USD/MT)
30.9 000' MT	Fonterra product quantity sold on GDT

Product	Change	Price
WMP	2.9% ↑	USD 2,760/MT
BUTTER	2.4% ↑	USD 3,984/MT
AMF	1.1% ↑	USD 5,007/MT
BMP	0.2% ↑	USD 2,583/MT
SMP	0.2% ↓	USD 2,204/MT
CHEDDAR	4.0% ↓	USD 3,292/MT
RENNET CASEIN	4.4% ↓	USD 6,286/MT

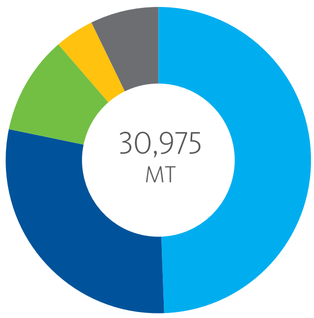
Fonterra GDT sales **by destination**:

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

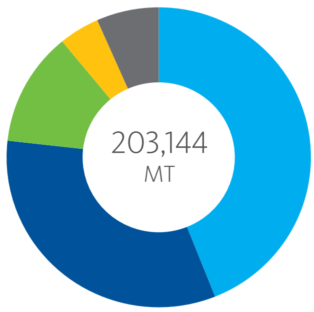
CLICK HERE ▸

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

LATEST AUCTION



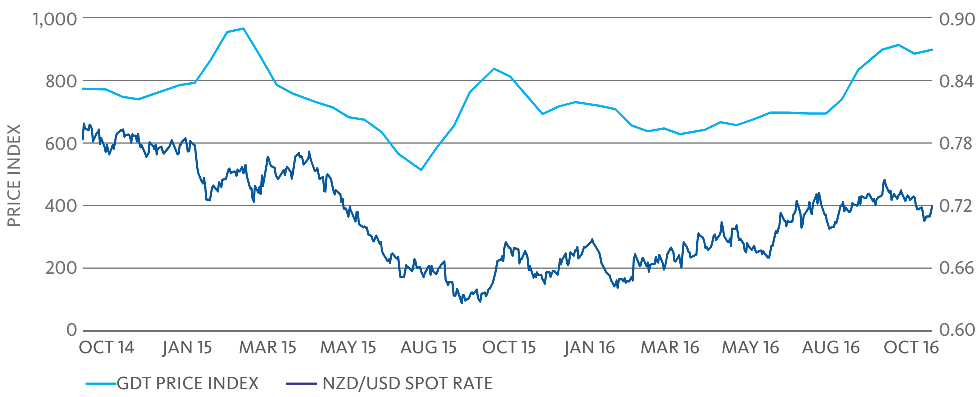
FINANCIAL YEAR-TO-DATE



▸ The next trading event will be held on 1 November 2016. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In early September the New Zealand dollar reached USD0.75, it's highest level since mid-2015, before weakening slightly throughout the month.



Fonterra receives social responsibility award in Indonesia

Fonterra has won a top social responsibility award in Indonesia for its dairy scholarships provided to local Indonesian farmers.

The programme was named Indonesia's Best Corporate Social Initiative for Social Responsible Business Practice in the 2016 MIX Marketing Communications Magazine Awards.

The 12 week scholarships are part of Fonterra's Dairy Development programme. The Co-operative works with Indonesian dairy farmers and government support workers to improve on-farm efficiencies and includes a four-week stay in New Zealand.

This award highlights the importance of Fonterra's commitment to supporting communities in its markets.

Our Dairy Development programme is one of the ways we build relationships with local dairy industries and governments to create strong local partnerships, which in turn grows market opportunities.

We've seen some fantastic results from this programme – last year close to 90 per cent of the farmers we worked with reported improved milk quality. Others were producing more milk as a result of new milk hygiene, animal care and farm management practices.

KickStart Breakfast Award winners announced

Five community volunteers have won the KickStart Breakfast "Unsung Hero" award for ensuring children at Takitumu school get a good start to their day.

Fonterra and Sanitarium, together with the Ministry for Social Development (MSD) recently held their annual KickStart Breakfast awards – recognising the Breakfast Club of the Year, Student Champion of the Year and the Unsung Hero.

Principal Fleur Wainohu at Te Kura Kaupapa Māori o Te Wānanga o Whare Tapere o Takitimu nominated the group for the award saying the volunteers work like a 'well-oiled machine'. She said their Breakfast Club often resembles a 'Broadway production' thanks to singing and laughter from the much loved volunteers.

"They don't do it for the glory, the pay is non-existent, they have families and day jobs but come together rain, hail or shine to make sure breakfast happens," said Ms Wainohu.

Brynn Boyes, from Motueka High School was recognised as Student Champion and Morrinsville School won the Breakfast Club of the Year.

Since it began in 2009, the KickStart Breakfast programme has delivered 14 million breakfasts in schools all over New Zealand. Fonterra and Sanitarium partnered to establish the programme after seeing the need for healthy breakfasts in New Zealand schools. MSD joined to help bolster the programme in 2013 which now operates across all deciles.

Find out more about KickStart Breakfast –

CLICK HERE ▶

SUPPLEMENTARY **INFORMATION**

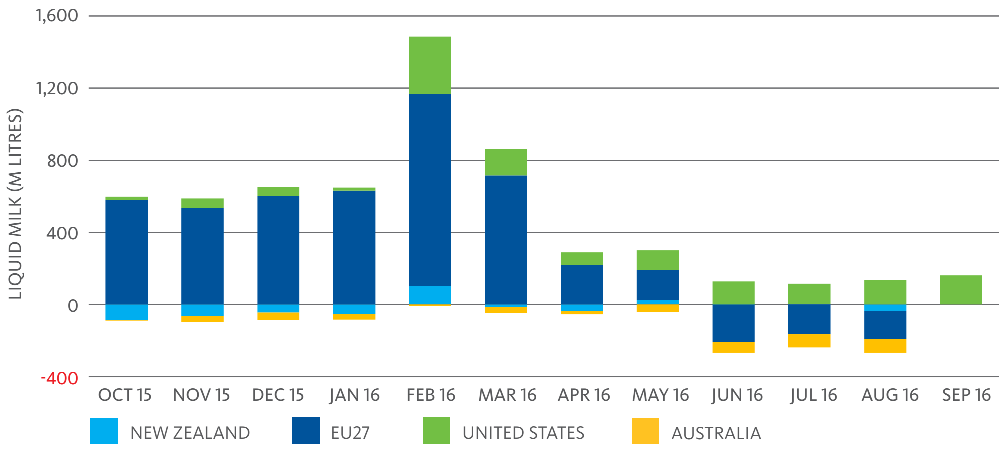
Global Dairy Market

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.

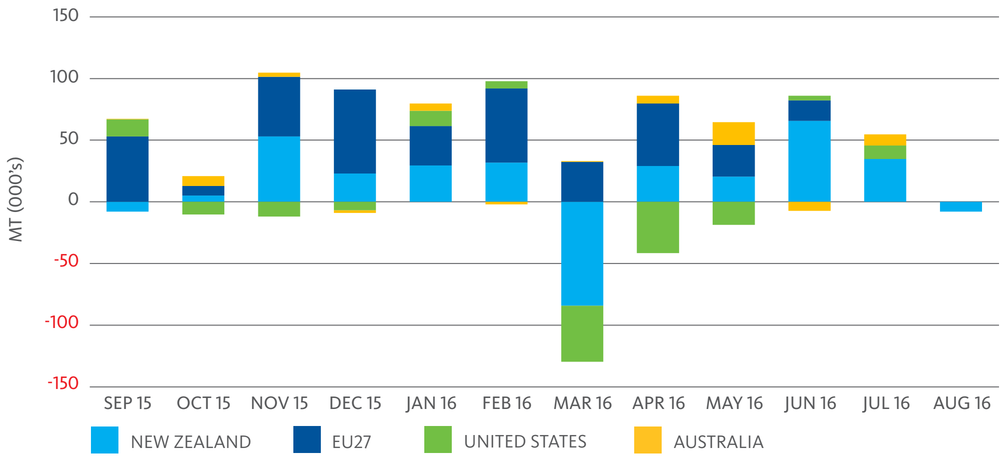
BACK TO SUMMARY

PRODUCTION



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

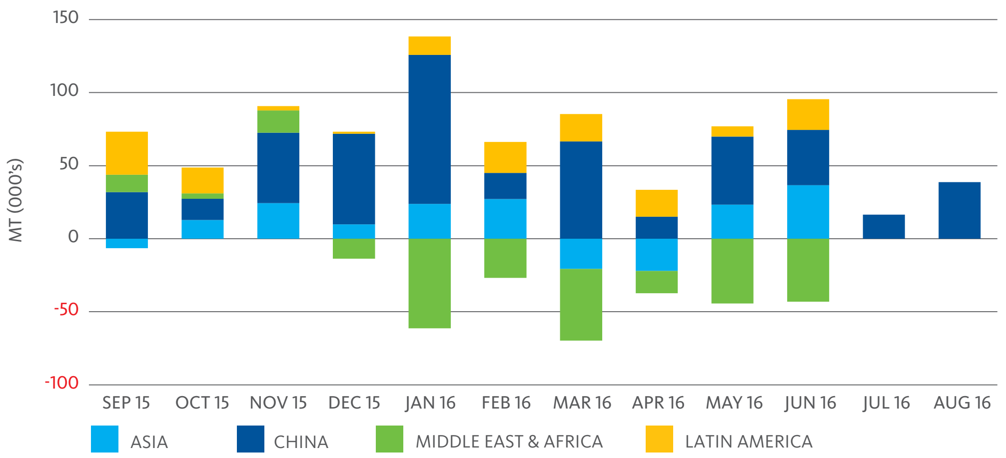
EXPORTS



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

BACK TO SUMMARY

IMPORTS



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

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

BACK TO SUMMARY

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.

BACK TO SUMMARY ▶

MILK COLLECTION (MILLION KGMS)	SEPTEMBER 2016	SEPTEMBER 2015	MONTHLY CHANGE	SEASON-TO-DATE 2016/17	SEASON-TO-DATE 2015/16	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	174.7	178.1	(1.9%)	296.7	305.5	(2.9%)
North Island	110.3	115.9	(4.8%)	204.0	214.5	(4.9%)
South Island	64.4	62.3	3.5%	92.7	91.0	1.9%
Fonterra Australia	11.7	12.8	(8.6%)	26.2	30.1	(12.8%)

Fonterra GDT results

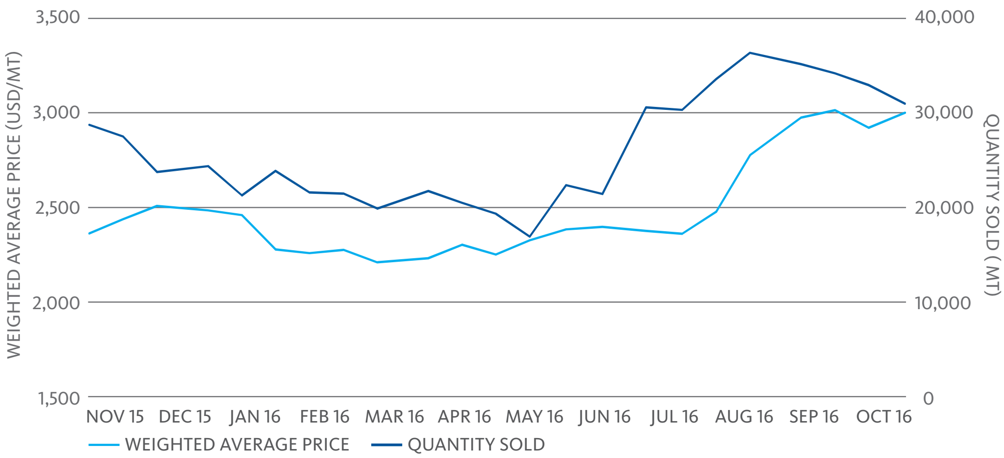
This table provides more information on the latest results, including a snapshot of the year-to-date results.

	LAST TRADING EVENT (4 OCTOBER 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	30,975	203,144
Change in Quantity Sold on GDT over same period last year	(5.1%)	(7.1%)
Weighted Average Product Price (USD/MT)	3,001	2,859
Change in Weighted Average Product Price over same period last year	8.2%	23.5%
Change in Weighted Average Product Price from previous event	2.7%	–

Fonterra GDT Results

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

BACK TO SUMMARY ▶



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.