

GLOBAL DAIRY UPDATE



Dairy for life



- European milk production decreased for the third consecutive month and volumes have been impacted by adverse weather in New Zealand and Australia.



- New Zealand and EU export growth continues and US exports increased for the third consecutive month but remain down for the last 12 months.



- Asia and Latin America import growth continues while China's strong import growth eased in September and the Middle East and Africa imports remained soft.



- In October, adverse weather conditions heavily impacted Fonterra's milk collection, down 8% in New Zealand and down 10% in Australia.

- Our forecast Farmgate Milk Price increased to \$6.00 per kgMS.

- Forecast earnings is maintained at 50-60 cents per share with emerging headwinds.

- Ingredient sales strong despite unprecedented decrease in milk collection.

- Strong performance and continued volume growth in consumer and foodservice.



- Fonterra Milk For Schools is changing milk drinking habits.



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



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

EUROPEAN MILK PRODUCTION DECREASED FOR THE THIRD CONSECUTIVE MONTH

AND VOLUMES HAVE BEEN IMPACTED BY ADVERSE WEATHER 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 recent challenging weather conditions 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.

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

AUSTRALIA

5% ↓

Production change for the 12 months to September 2016

Australia production in September decreased 10% compared to the same month last year, as milk supply continued to be impacted by unfavourable pasture conditions.

Milk collection in Australia generally peaks in October, however the seasonal production curve is not as pronounced as New Zealand.

Production for the 12 months to September is down 5% 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 2% compared to the same month last year. This was due to many EU producers having a decrease in production, with the UK down 7%, Denmark down 6%, Italy down 4%, France down 3% and Germany 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 increased 1% compared to the same period the previous year.

¹ EU Commission Milk Market Observatory – September 2016.



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

NEW ZEALAND AND EU EXPORT GROWTH CONTINUES AND US EXPORTS INCREASED FOR THE THIRD CONSECUTIVE MONTH BUT REMAIN DOWN FOR THE LAST 12 MONTHS

NEW ZEALAND

7%↑

Export change for the 12 months to September 2016

Total New Zealand dairy exports in September increased 16%, or 28,000 MT, compared to the same month last year and reversing the decline seen last month.

Strength in milk powders led this increase with WMP and SMP up a combined 20%, or 16,000 MT. In addition, 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, compared to the same period the previous year. The products contributing to this increase include infant formula up 92%, fluid and fresh dairy up 44%, AMF up 14% and both cheese and SMP up 12%.

AUSTRALIA

5%↑

Export change for the 12 months to August 2016

Australia dairy exports in August decreased 4%, or 2,000 MT, compared to the same month last year.

This decrease was driven by SMP down 39% and cheese down 23%, only partially offset by WMP up 98%.

Exports for the 12 months to August are up 5%, or 37,000 MT, compared to the same period the previous year. Infant formula growth remains very strong, up over 200%, however off a low base. In addition, whey powder is up 24%, fluid and fresh dairy up 19% and cheese up 5%, offsetting WMP and SMP down a combined 9%.

EUROPEAN UNION

10%↑

Export change for the 12 months to July 2016

EU dairy exports increased 1% in July, or 4,000 MT, compared to the same month the previous year, the slowest rate of growth seen since February 2015.

While whey powder was up 16% and cheese up 6%, much of this growth was offset by SMP down 28%.

Export growth for the 12 months to July continues to slow, but remains up 10%, or 469,000 MT, compared to the same period last year. This is driven by butter up 29%, fluid and fresh dairy up 20%, cheese up 15% and whey powder up 9%. In addition, caseinate is up 170% but off a low base.

USA

3%↓

Export change for the 12 months to August 2016

US dairy exports increased 22% in August, or 34,000 MT, compared to the same month the previous year. This represents the largest increase since March 2014.

The increase was driven by whey powder up 47%, WPC/WPI up 40% and the largest export category, SMP, up 23%.

Exports for the 12 months to August remain down 3% or 54,000 MT, compared to the same period last year. A combined increase of 9% across SMP and WPC/WPI is offset by decreases in other major export categories with whey powder and cheese both down 15%.



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

ASIA AND LATIN AMERICA IMPORT GROWTH CONTINUES WHILE CHINA'S STRONG IMPORT GROWTH EASED IN SEPTEMBER AND THE MIDDLE EAST AND AFRICA IMPORTS REMAINED SOFT

LATIN AMERICA

11% ↑

Import change for 12 months to July 2016

Latin America¹ dairy import volumes increased 15%, or 21,000 MT, in July compared to the same month the previous year. Significant increases were seen in milk powders including WMP up 71%, SMP up 22%, and AMF up 125%.

Imports remain strong for the 12 months to July up 11%, or 173,000 MT, compared to the same period last year. Milk powders remain the largest contributor to this growth with WMP up 30% (60,000 MT) and SMP up 19% (65,000 MT). In addition, AMF is up 21% and infant formula up 9%.

ASIA

4% ↑

Import change for 12 months to July 2016

Asia (excluding China)² dairy import volumes increased 19%, or 57,000 MT, in July compared to the same month the previous year. Solid increases were seen across all the major dairy categories, led by fluid and fresh dairy up 30% and cheese up 20%.

Imports for the 12 months to July are up 4%, or 153,000 MT, compared to the same period the previous year. Fluid and fresh dairy is up 11%, infant formula up 9% and cheese up 5%.

MIDDLE EAST & AFRICA

7% ↓

Import change for 12 months to July 2016

Middle East and Africa³ dairy imports decreased 16%, or 49,000 MT, in July compared to the same month the previous year. This decrease was led by WMP down 31% and fluid and fresh dairy down 21%.

For the 12 months to July, imports are down 7%, or 248,000 MT, compared to the same period last year. This decline is largely due to powders, with SMP and WMP both down 15%, or a combined 207,000 MT. In addition, AMF is down 15%, but off a lower base, butter down 6% and fluid and fresh dairy down 4%.

CHINA

26% ↑

Import change for 12 months to September 2016

China dairy imports decreased 2%, or 3,000 MT, in September compared to the same month last year, the first decrease since June 2015. This is largely a result of milk powders with SMP down 51% and WMP down 47%.

Imports for the 12 months to September are up 26%, or 463,000 MT, compared to the same period last year. Fluid and fresh dairy is up 64%, infant formula up 38%, whey powder up 17% and WMP up 13%. SMP is the only major dairy category to see a moderate decline, down 10%.

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

² Includes estimate for Indonesia (June-July).

³ Includes estimates for Algeria (December-July).

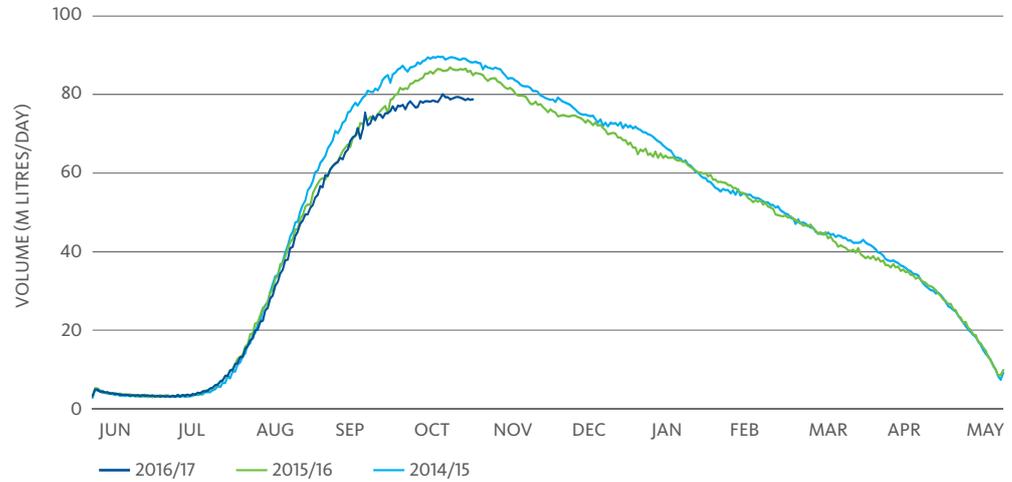
OUR MARKETS

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

5% ↓

Decrease for the season from 1 June to 31 October

Fonterra’s milk collection across New Zealand for the five months to 31 October reached 501 million kgMS, 5% lower than the same period last season.

Fonterra New Zealand milk collection continues to be impacted by unfavourable weather conditions across the North and South Islands and in October reached 204 million kgMS, 8% behind the same month last season.

Daily collections peaked on 19 October at 80 million litres, down on the previous two seasons. Production levels are not expected to recover and lower volumes will flow into the balance of the season.

NORTH ISLAND

8% ↓

Decrease for the season from 1 June to 31 October

North Island milk collection in October reached 122 million kgMS, 12% behind October last season.

SOUTH ISLAND

0%

Decrease for the season from 1 June to 31 October

South Island milk collection in October reached 82 million kgMS, 3% behind October last season.

AUSTRALIA

12% ↓

Decrease for the season from 1 July to 31 October

Fonterra’s milk collection across Australia for the four months to 31 October reached 40 million kgMS, 12% lower than last season.

In October milk collection reached 13 million kgMS, 10% behind the same month last season.

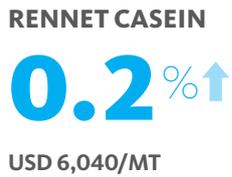
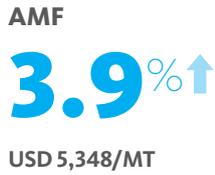
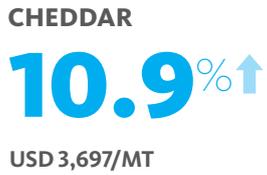
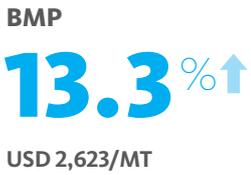
Milk collection continues to be adversely impacted by unfavourable weather conditions and while above average rainfall has slowed production, it is expected that the soil moisture conditions will favour early summer milk production.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS



Fonterra GDT results at last trading event
15 November 2016:

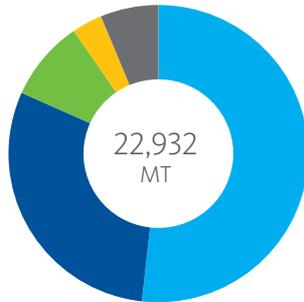


Fonterra GDT sales by destination:

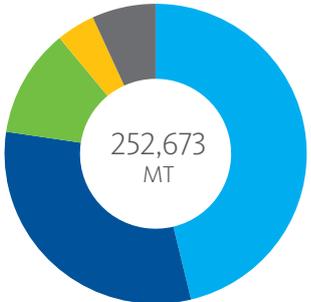
To view more information, including a snapshot of the rolling year-to-date results –

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

LATEST AUCTION



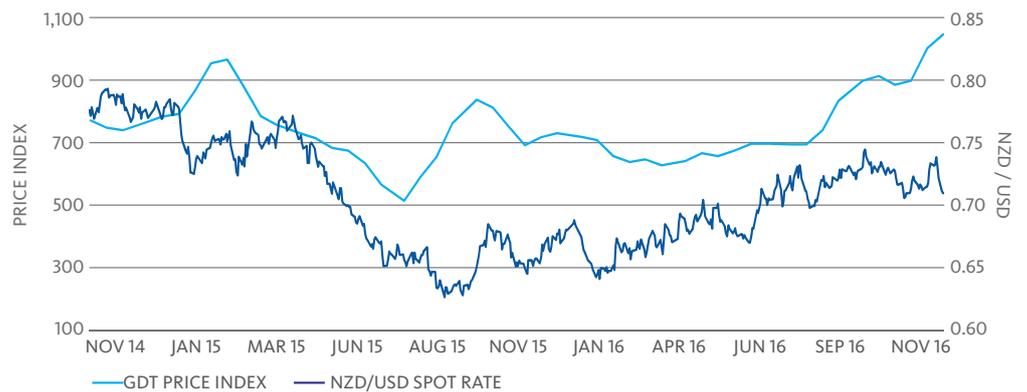
FINANCIAL YEAR-TO-DATE



▶ The next trading event will be held on 6 December 2016. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In early October the New Zealand dollar strengthened against the US dollar before weakening through the end of the month.





2017 THREE-MONTH BUSINESS UPDATE

VOLUME

4.9^B LME

↑ UP 2%

REVENUE

\$3.8^B

↑ UP 6%

GROSS MARGIN

21.9%

↓ DOWN FROM 22.6%

OPEX

\$621^M

↓ DOWN 2%

CAPEX

\$116^M

↓ DOWN 55%

During the 2016/17 season, the forecast Farmgate Milk Price has increased from \$4.25 to \$6.00 per kgMS. This is in response to global milk supply rebalancing, as production continues to soften from the major exporting regions of Europe, Australia and New Zealand.

In New Zealand we have seen reduced milk collection as a result of wetter than normal spring conditions across many dairying regions, particularly in the central and northern North Island. This led us to reduce our milk collection forecast to 1,460 million kgMS, down 7% on last season.

Fonterra has had a solid first quarter performance and has continued the strong results achieved in the 2016 financial year. For the three months to 31 October, sales volume increased 2% on a Liquid Milk Equivalent (LME) basis. Gross margin of 22% is broadly in line with the same period last year. Revenue improved 6%

to \$3.8 billion as a result of some strengthening in global dairy prices and our continued focus on cost control resulted in operating expenses being down 2% to \$621 million.

Our ingredients business sales volume increased to 4.5 billion LME despite lower milk collections. This growth was achieved by strong demand for direct to customer sales. Given a strong sales performance and lower production volumes, we continue to actively manage our inventory and contracted sales position. Gross margin decreased from 15% to 12% compared to the same period last year, due to the change to the Milk Price Manual and lower margins on bulk liquid milk sales.

We have continued to drive performance in the consumer and foodservice business with an improved gross margin of 31%, supported by more volume being moved into higher-

returning products with an incremental 128 million LME of sales compared to the same period last year.

China Farms continue to provide Fonterra with access to locally sourced high-quality milk in China. This year both the Yutian and Ying hubs are fully operational, with total volume up 62% to 86 million LME, together with a higher rate of contracted milk sales over the same period last year. We retain our focus on reducing on-farm costs and improving operating performance. Gross margin of -12% was impacted by a one-off sale of milk powder from inventory and the on-going low domestic milk price in China. Excluding this one-off sale, gross margin was 4%.

Capital expenditure of \$116 million is in line with our expectations. For the full 2017 financial year, we are forecasting capital expenditure of \$900 million.

THE OUTLOOK

Today we increased our forecast Farmgate Milk Price to \$6.00 per kgMS and the total payout available to farmers in the 2016/17 season is forecast to be \$6.50-\$6.60 before retentions.

This includes our forecast earnings per share which

has been maintained at 50-60 cents per share reflecting on-going solid business performance.

Management remain focussed on emerging headwinds which include decreased New Zealand milk collections impacting ingredients returns,

reference product prices improving faster than non-reference product prices, pass-through of rising milk costs to our consumer and foodservice business and the strong New Zealand dollar impacting translation of overseas earnings.

OUR PERFORMANCE INGREDIENTS



NEW ZEALAND

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.

Reference products include: whole milk powder, skim milk powder, butter, anhydrous milk fat, and butter milk powder.

In New Zealand milk collection for the season to date is down 5% over the same period last year, resulting in lower production volumes across both reference and non-reference products.

We continue to optimise our product mix to maximise revenue. Actions this quarter have been to adjust production away from non-reference products towards reference products, taking advantage of the improved WMP prices

relative to non-reference product prices, e.g. cheese.

Gross margin of 12% was impacted by lower margins on bulk liquid milk sales and by the previously announced change to the Farmgate Milk Price Manual. This change, to incorporate off-GDT sales of WMP, SMP and AMF, has contributed 5 cents per kgMS to the Farmgate Milk Price, for the year to date.

With full season milk collection forecast to be down 7% we are actively

managing product availability but expect sales volume to be down across the year. Lower production volumes will not impact the milk price model return on assets and we continue to improve operating performance relative to the model. However, lower volumes will put pressure on the absolute level of price achievement and stream returns will be impacted by WMP rising faster than non-reference product prices.

	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	CHANGE Q1 FY16 TO Q1 FY17
PRODUCTION VOLUME¹ (000 MT)						
Reference products	612	723	443	96	588	(4%)
Non-reference products	229	247	212	58	218	(5%)
SALES VOLUME^{1,2} (000 MT)						
Reference products	348	713	407	451	369	6%
Non-reference products	160	221	204	212	164	3%
REVENUE^{1,2} (\$ PER MT)						
Reference products	3,251	3,188	3,406	3,314	3,452	6%
Non-reference products	5,010	4,983	4,829	4,860	4,955	(1%)

1 Excludes bulk liquid milk (for the year ended 31 July 2016 was 77,000 MT).

2 Excludes China and Latin America foodservice sales and revenue which is included in the production volume.

AUSTRALIA

In Australia we increased the farmgate milk price from AUD5.00 to AUD5.10 per kgMS for the current season, reflecting the strengthening in global dairy prices since the beginning of the 2016/17 season. We also revised our

forecast closing milk price to AUD5.20 per kgMS.

We continue to deliver on our plan to return the Australian business to sustainable profitability and build on the progress we

made last year. We received final regulatory approval for our joint venture with Beingmate for our Darnum manufacturing site and in the near future will produce infant formula at Darnum for the joint venture.

Improved product mix, an increased sales margin and improved operating performance will enable the business to deliver on expectations this financial year.

OUR PERFORMANCE

CONSUMER AND FOODSERVICE



Our strategy is to convert as much milk as possible into higher-value products.

In line with this strategy, over the last three months we moved an additional 128 million LME into higher-value consumer and foodservice products compared to the same period last year.

Consumer and foodservice delivered to plan with a strong performance for the three months to 31 October 2016 and broad-based volume and margin growth across the business.

Sales volume increased 11% to 1.3 billion LME and gross margin increased

from 28% to 31%. Greater China continued to build on the solid result delivered last financial year and we saw particularly strong performances in Sri Lanka and Chile. This was partially offset by the on-going, challenging macroeconomic situation in Brazil and Venezuela.

This performance reflects the growing strength of our brands in key markets, our focus on chef-led solutions in foodservice, together with an optimised price management strategy in consumer brands aligned to the rising milk costs.

CONSUMER AND FOODSERVICE FIRST QUARTER PERFORMANCE

	ASIA	GREATER CHINA	LATIN AMERICA	OCEANIA	TOTAL
VOLUME (M LME)					
First quarter FY17	414	271	184	469	1,338
First quarter FY16	377	199	168	466	1,210
% Change	10%	36%	10%	1%	11%
GROSS MARGIN (%)					
First quarter FY17	33%	39%	33%	24%	31%
First quarter FY16	31%	32%	35%	19%	28%

GREATER CHINA

Greater China delivered strong volume growth up 36% to 271 million LME and increased gross margins to 39%. This was largely due to the strength of our foodservice business as well as increased on-line sales of Anchor™. We have continued to deliver brand leadership in Hong Kong and Taiwan.



OCEANIA

Our consumer and foodservice business across New Zealand and Australia delivered both volume and margin growth, building on last year's performance.

In New Zealand volume growth was driven by increased liquid milk, butter and cheese sales

and Australia continued to accelerate the turn-around delivering stable and sustainable growth across both the consumer and foodservice segment.

ASIA

Asia delivered another strong performance with LME volume growth of 10% and gross margin broadly in line with last year. In Sri Lanka there was a successful Anchor™ Goodness Feeds Greatness' re-launch which commenced in August.

In addition, foodservice volume growth was delivered across almost all our markets, but particularly Indonesia, Singapore and the Philippines.

LATIN AMERICA

In Latin America we managed to increase volume with a small decrease in gross margin compared to last year, despite the challenging geopolitical situation in Venezuela and the chilled dairy market contraction in Brazil.

These challenges impacted volumes and margin but were offset by a strong performance from Soprole where local food regulations, our refined business proposition and focused pricing management continue to deliver good results.



Fonterra Milk for Schools Changing Milk Drinking Habits

New research by the University of Auckland shows that 12% more Kiwi kids are meeting recommended daily dairy consumption guidelines since the introduction of the Fonterra Milk for Schools programme.

The findings of the research were announced by the study investigator Associate Professor Clare Wall, at an event last month attended by Deputy Labour Leader and Health Spokesperson Hon. Annette King, Olympian Eliza McCartney, and education and nutritional experts.

The national guideline for dairy consumption for primary school children is between two and three serves per day; one serve of dairy is 250mls of milk or 150 grams of yoghurt. Many children do not meet this guideline.

[Fonterra Milk for Schools is having a positive influence on children's choice of beverages.](#)

Traditionally kids drink less milk as they get older because they start drinking soft drinks and juice. It's great to see this hasn't happened in the study – in fact their milk consumption is increasing.

Through Fonterra Milk for Schools, children's taste for milk and understanding of the importance of dairy



FONTERRA FARMER GRAHAM MCCRACKEN AND OLYMPIAN ELIZA MCCARTNEY WITH WYMONDLEY ROAD SCHOOL CHILDREN (L-R) R.J. VEVE (9), HEAD STUDENT ISRAEL CHRISTY (11) AND SAIDE TUAA (8)

nutrition is resulting in positive choices around what they are drinking.

One of the most pleasing things we've seen is that along with the extra milk they get at school, they're choosing to drink milk on the weekends as well.

Since the programme began Fonterra Milk for Schools has delivered more than 70 million cartons of milk to primary schools throughout the country, including the Chatham, Stewart, Matakana and Great Barrier Islands.



[Check out our website for more details –](#)

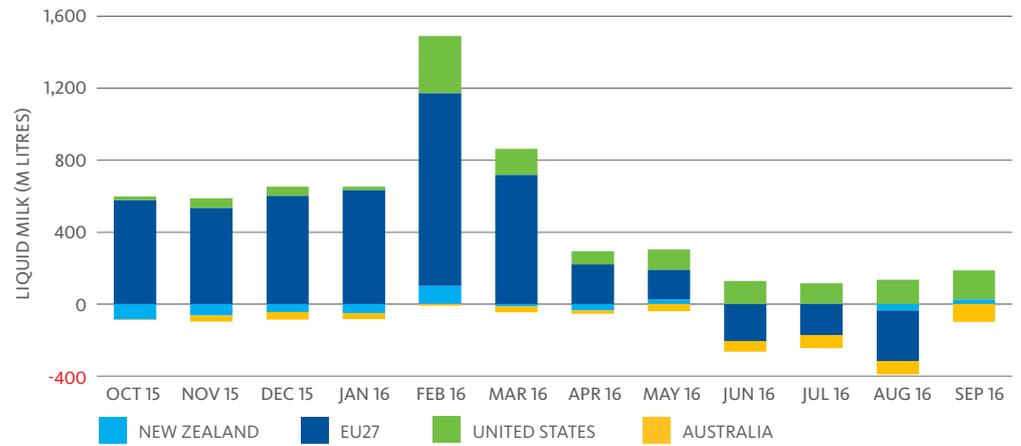
SUPPLEMENTARY INFORMATION

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.

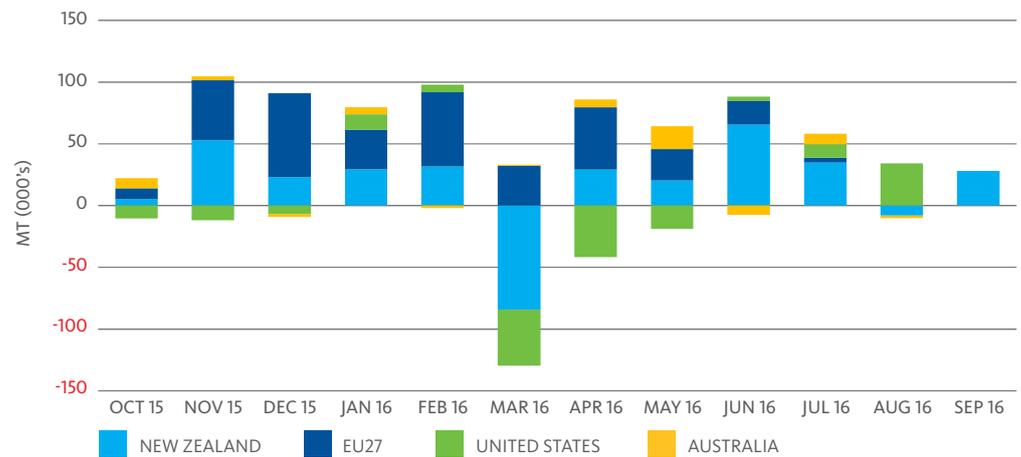
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

PRODUCTION



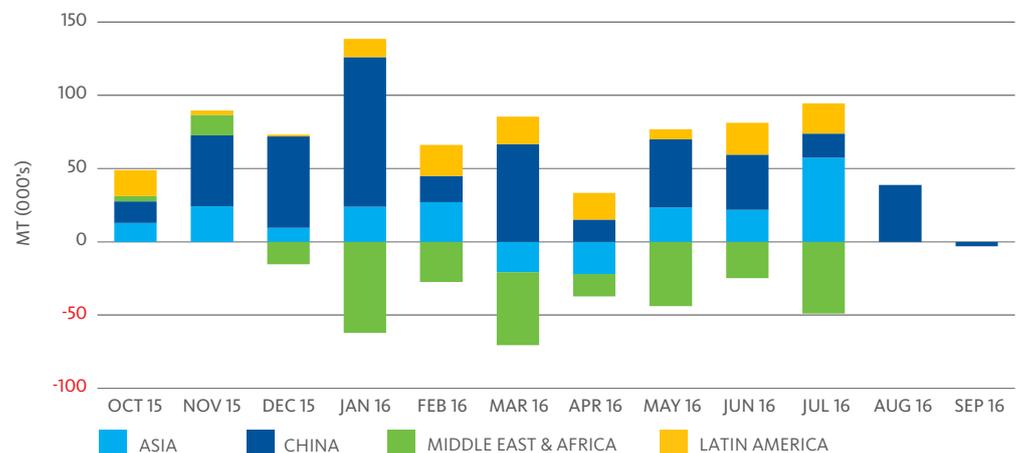
NOTE: Data for EU to August, Australia, US and New Zealand to September.

EXPORTS



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

IMPORTS



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

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)	OCTOBER 2016	OCTOBER 2015	MONTHLY CHANGE	SEASON-TO-DATE 2016/17	SEASON-TO-DATE 2015/16	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	204.2	222.6	(8.3%)	500.9	528.1	(5.2%)
North Island	121.7	137.8	(11.7%)	325.7	352.3	(7.5%)
South Island	82.5	84.8	(2.7%)	175.2	175.8	(0.3%)
Fonterra Australia	13.4	14.9	(10.0%)	39.6	45.0	(11.9%)

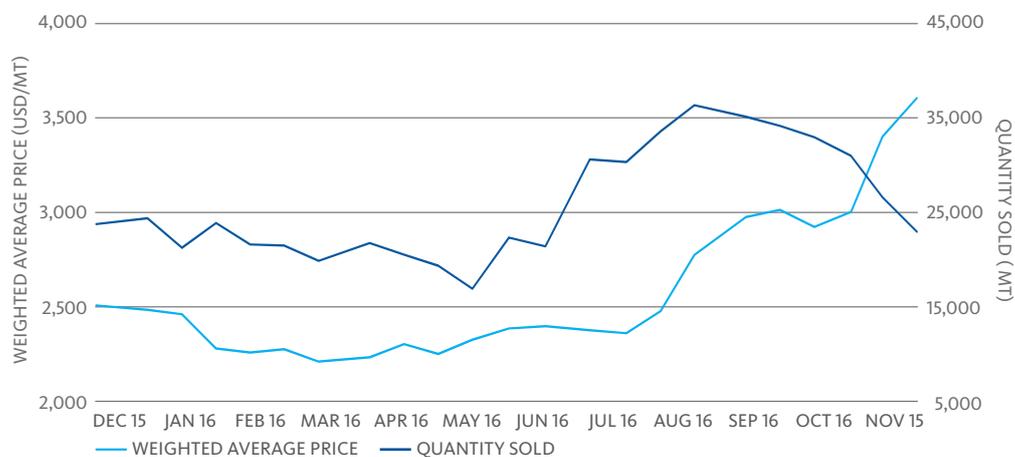
Fonterra GDT results

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

	LAST TRADING EVENT (15 NOVEMBER 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	22,932	252,673
Change in Quantity Sold on GDT over same period last year	(20.2%)	(9.7%)
Weighted Average Product Price (USD/MT)	3,605	2,984
Change in Weighted Average Product Price over same period last year	52.5%	27.3%
Change in Weighted Average Product Price from previous event	5.9%	-

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.