

GLOBAL DAIRY UPDATE



Dairy for life



• Further decline in Australian production, EU production flat.

• Cream cheese innovation at the heart of significant new build.

• Australian mozzarella to take a bigger slice of China's pizza boom.



• New Zealand and EU exports up for the year, increase in US exports.



• Strong import growth in China, Latin America and Asia imports grew over the year.



• In July, Fonterra New Zealand milk collection reached 17 million kgMS and Fonterra Australia collection reached 8 million kgMS, up 5% and 28% respectively on last season.

KEY DATES



Late September 2017
Annual Results Announced

Early November 2017
Fonterra Co-operative Group
Annual Meeting

Early November 2017
Fonterra Shareholders' Fund
Annual Meeting

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



FURTHER DECLINE IN AUSTRALIAN PRODUCTION, EU PRODUCTION FLAT

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

NEW ZEALAND

1% ↓

Production change for the 12 months to June 2017

Total New Zealand milk production in June was up 21% compared to the same month last year.

In New Zealand, volumes are typically low at this time of year due to seasonality of supply. Volumes will start to build over the coming months.

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

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

AUSTRALIA

8% ↓

Production change for the 12 months to May 2017

Australia production in May decreased 3% compared to the same month last year.

Production for the 12 months to May was down 8% compared to the same period last year. Wet conditions in winter and spring heavily impacted volumes, though late seasonal recovery was seen in some regions.

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

EUROPEAN UNION

2% ↓

Production change for the 12 months to May 2017

EU production in May was flat compared to the same month last year.

Ireland, Spain and Poland were up 7%, 4% and 3% respectively, while the two biggest producers in Europe, Germany and France, were down 2% and 3% respectively. This is largely due to continued adverse weather conditions in Europe.

Production for the 12 months to May was down 2% compared to the same period last year.

USA

2% ↑

Production change for the 12 months to June 2017

US production in June increased 2% compared to the same month last year. Monthly volumes have been increasing at a rate of around 2% for each of the past 12 months.

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



NEW ZEALAND AND EU EXPORTS UP FOR THE YEAR, INCREASE IN US EXPORTS

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

NEW ZEALAND

2% ↑

Export change for the 12 months to May 2017

Total New Zealand dairy exports in May increased 1% compared to the same month last year. Combined growth of 14% in WMP and cheese was offset by declines in AMF and SMP, down 40% and 14% respectively.

For the 12 months to May, exports were up 2%, or 64,000 MT compared to the same period the previous year.

WMP and SMP, which make up 54% of New Zealand exports, were both flat. Fluid and fresh dairy and cheese were up 67,000 MT and 16,000 MT respectively, a combined increase of 16%. This was partially offset by declines in AMF and casein, down a combined 11%.

AUSTRALIA

4% ↓

Export change for the 12 months to May 2017

Australia dairy exports in May decreased 6% or 4,000 MT compared to the same month the previous year.

Increases were seen across the two largest export categories, fluid and fresh dairy and cheese, up a combined 7,300 MT. This was offset by declines in most other categories, particularly whey powder, WMP and SMP, down a combined 8,000 MT compared to the same month last year.

Exports for the 12 months to May were down 4%, or 31,000 MT, on the previous comparable period.

SMP exports continued to decline, down 25%. This was partially offset by increases in fluid and fresh dairy, up 8%.

EUROPEAN UNION

2% ↑

Export change for the 12 months to April 2017

EU dairy exports in April decreased 3% or 14,000 MT compared to the same month last year.

Fluid and fresh dairy, the largest export category, was down 19% or 26,000 MT. Growth in other key categories such as SMP and cheese reduced the overall impact of this decline.

Exports increased 2% or 104,000 MT for the 12 months to April compared to the same period the previous year. Growth continues to be driven by cheese and infant formula, up a combined 10% or 122,000 MT.

USA

14% ↑

Export change for the 12 months to May 2017

US dairy exports increased 15% or 26,000 MT in May, compared to the same month last year. Production volumes continue to increase at a rate of around 2% month-on-month. Growth was driven by SMP, cheese and whey powder, three of the largest US export categories, up 32%, 47% and 17% respectively.

For the 12 months to May, exports increased across all of the major exporting products except lactose which was flat.



STRONG IMPORT GROWTH IN CHINA, LATIN AMERICA AND ASIA IMPORTS GREW OVER THE YEAR

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

LATIN AMERICA

10% ↑

Import change for 12 months to April 2017

Latin America¹ dairy import volumes decreased 10%, or 17,000 MT, in April compared to the same month last year. WMP and fluid and fresh dairy, which were down a combined 29% or 17,000 MT, led this decline.

Imports for the 12 months to April were up 10% or 179,000 MT, compared to the same period the previous year. Growth was driven by increased imports of cheese and WMP, up a combined 21% or 116,000 MT.

ASIA

12% ↑

Import change for 12 months to April 2017

Asia (excluding China)² dairy imports increased 5%, or 17,000 MT, in April compared to the same month last year.

WMP, cheese and lactose were up 18%, 14% and 19% respectively, while SMP and infant formula were down a combined 10%.

For the 12 months to April, imports were up 12%, or 468,000 MT, compared to the same period last year. Increases were seen across all major import categories.

MIDDLE EAST & AFRICA

4% ↓

Import change for 12 months to April 2017

Middle East and Africa dairy imports decreased 11%, or 37,000 MT, in April compared to the same month the previous year. This is largely due to fluid and fresh dairy, butter and infant formula, down a combined 27,000 MT.

Imports for the 12 months to April were down 4%, or 145,000 MT, compared to the same period the previous year. Declines were seen across all major categories except SMP, which was up 4%.

CHINA

8% ↑

Import change for 12 months to June 2017

China dairy imports were up 27% or 52,000 MT in June compared to the same month last year. Growth was seen across all categories except for lactose.

Imports for the 12 months to June were up 8%, or 170,000 MT, compared to the same period last year. Whey powder, infant formula and cheese, three of the larger import categories were up a combined 19% or 140,000 MT.

¹ Excludes Nicaragua.

² Includes estimate for Indonesia (April) and Macao (October-April).

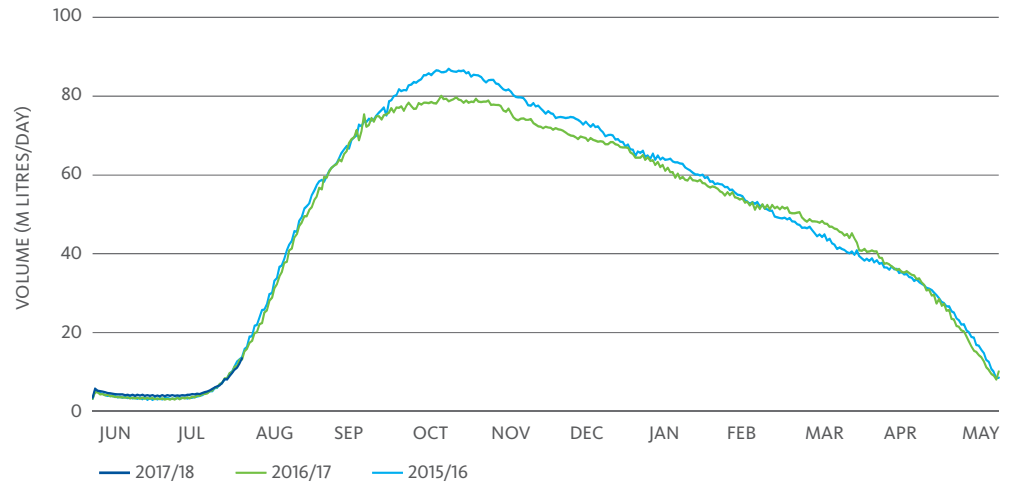
OUR MARKETS

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

10% ↑

Increase for the season from 1 June to 31 July

Fonterra’s milk collection across New Zealand for the two months to 31 July reached 29 million kgMS, 10% ahead of the same period last season but generally in line with more normal production levels.

New Zealand collections in July reached 17 million kgMS, 5% up on the same month last season. Although collections through early July were higher, they have now eased as incentives to boost winter production finish. Conditions are currently challenging on-farm after continued wet weather through July. Spring calving is now underway and farmers will be hoping for drier weather as the season progresses.

NORTH ISLAND

10% ↑

Increase for the season from 1 June to 31 July

North Island milk collection in July reached 16 million kgMS, 5% higher than July last season. Winter milk incentives finished in the North Island mid-month and daily collections are now in line with last season.

SOUTH ISLAND

16% ↑

Increase for the season from 1 June to 31 July

South Island milk collection in July reached 2 million kgMS, 16% higher than July last season. There has been a small number of farms flooded in the central and lower South Island after heavy rain hit in late July. Challenging conditions for farmers now beginning calving with significantly more rain than normal for this time of year.

AUSTRALIA

28% ↑

Increase for the season from 1 July to 31 July

Fonterra’s milk collection across Australia in July, the first month of the 2017/18 season, reached 8 million kgMS, 2 million kgMS higher than July last season.

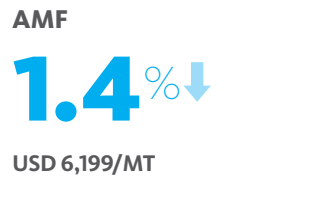
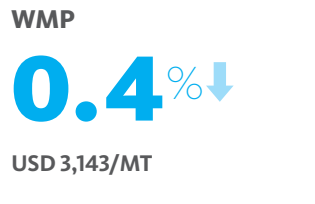
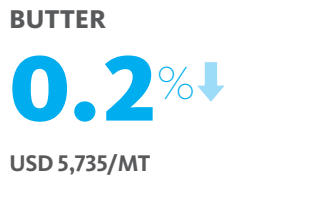
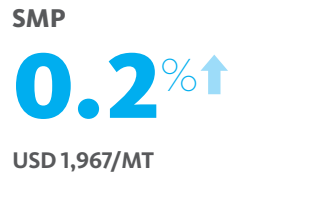
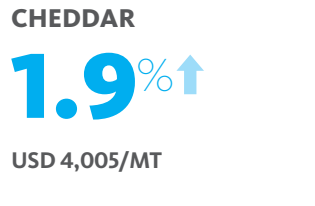
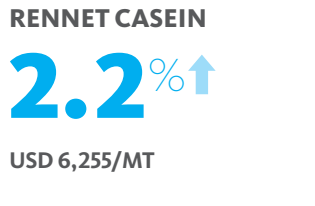
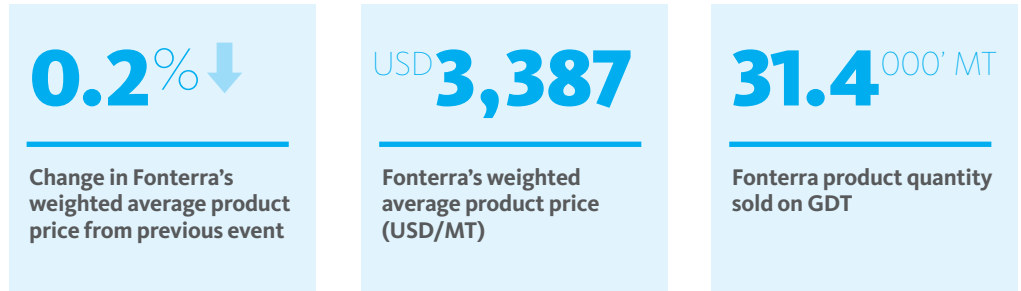
In July, more than 50 farmers moved supply to Fonterra from other milk processors. This combined with a milder winter than last year has resulted in a significant lift in milk volumes, although it is still early in the season.

OUR MARKETS

FONTERRA GLOBALDAIRYTRADE RESULTS

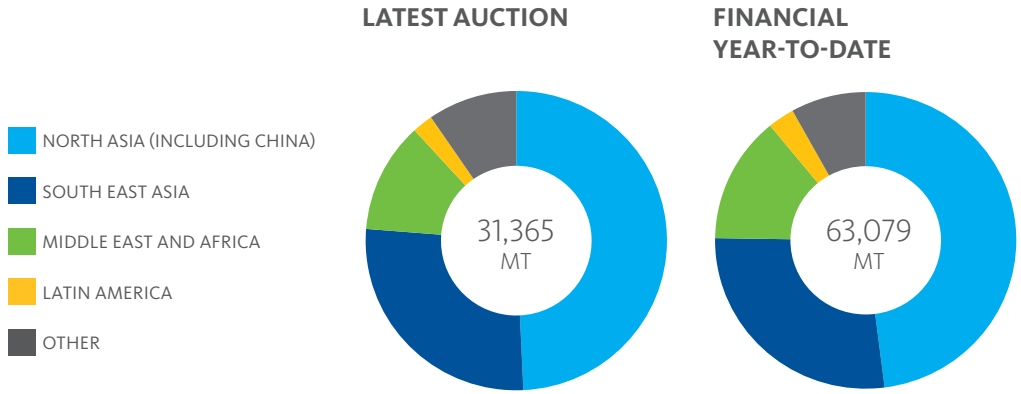


Fonterra GDT results at last trading event
15 August 2017:



Fonterra GDT sales by destination:

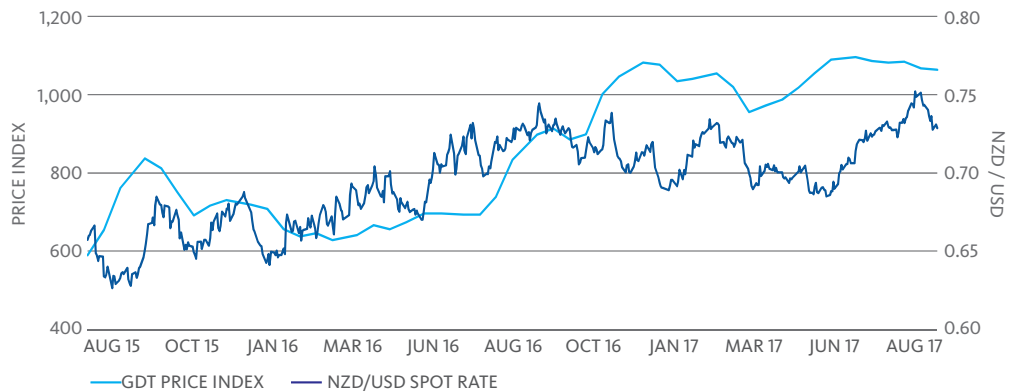
To view more information, including a snapshot of the rolling year-to-date results –



▶ The next trading event will be held on 5 September 2017. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In July the New Zealand dollar continued to strengthen against the United States dollar and reached the highest level since late 2015. In August the New Zealand dollar has come back down against most major currencies including the United States dollar.





Cream cheese innovation at the heart of significant new build



Dairy lovers across Asia will soon get their first taste of an innovative new cream cheese, as Fonterra announces plans for two new cream cheese plants at its Darfield site in Canterbury. With cream cheese undergoing a steady surge in popularity in Asia, the \$150 million two-stage project will see the first plant completed in 2018 and the second will follow in 2019 or 2020.

The new plants will incorporate technology that allows the firmness and consistency of the cream cheese to be dialled up or down to meet customer preference.

Fonterra's Director of Global Foodservice, Grant Watson, says the investment is a timely one as more and

more consumers across Asia develop a preference for milk-based products.

“What’s really promising are the trends we’re seeing in cheese, butter and UHT over the years – not just in the sale of dairy products, but how they are being consumed. Particularly as the major urban centres in China shift away from oils, people are actively seeking more dairy in their diet whether in their cooking, as a table spread or in a glass,” says Mr Watson.

“In markets like China – where dairy hasn’t traditionally been a staple – there are fewer pre-conceived notions around how it should be eaten, and with that we’re seeing remarkable versatility in their dairy applications.”

“Arguably some of the most innovative dairy product development anywhere in the world is happening right now in China and, through our Anchor™ Food Professionals team and their engagement with our customers, we’re playing an integral role,” he says.

Dairy beverages such as tea macchiato – which mixes tea with cream and cream cheese – are evidence of a willingness to be bolder with dairy applications, says Mr Watson.



Australian mozzarella to take a bigger slice of China’s pizza boom



Mozzarella made at Fonterra’s new cheese plant in Stanhope, northern Victoria, will soon be topping pizzas at restaurants in China.

The first mozzarella is rolling off the line as the plant prepares to start global production in the coming months, bringing Fonterra’s mozzarella production back to Australia for the first time since 2013.

Fonterra Australia’s Managing Director, René Dedoncker, says it’s a significant step for our

Australian business to resume making mozzarella for the domestic and export market, particularly China where there is strong demand for our cheese.

“New Zealand-made Fonterra cheese is already topping more than half the pizzas made in China, and now we will be sending our Australian-made mozzarella,” says René.

40% of people in urban China now eat at Western-style fast food outlets once a week, and the use of dairy in foodservice

has grown by over 30% in just five years according to a Nielsen survey.

“As disposable incomes rise in China, spending on dining-out is growing, and pizza is a very popular menu choice. They want the extra stretch, softness and flavour of our mozzarella made with high-quality Australian milk.

“This supports our strategy to be Fonterra’s global hub for cheese, whey and nutritional” says René.

SUPPLEMENTARY INFORMATION

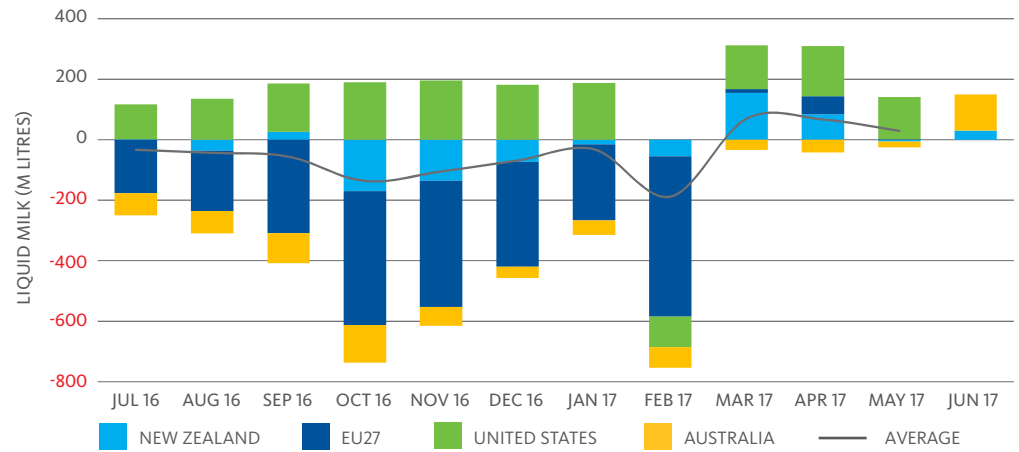
Global Dairy Market

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.

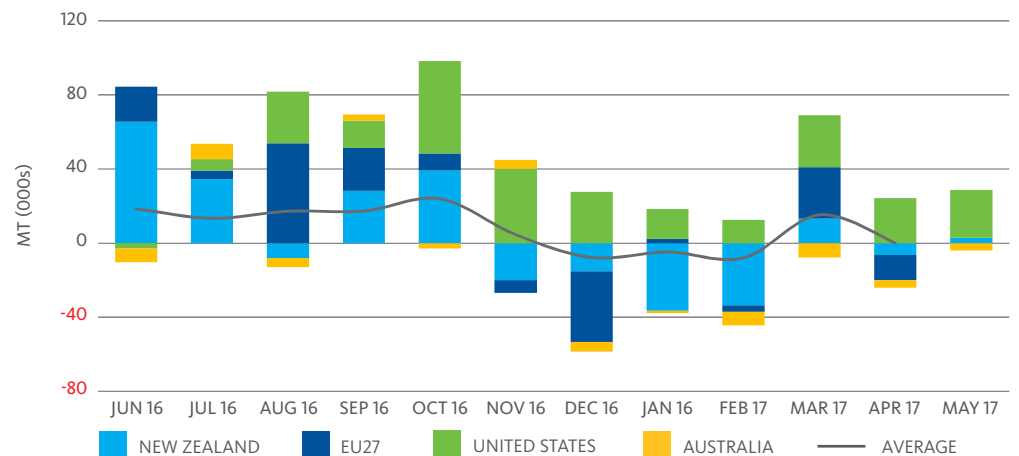
Averages are shown where data is complete for the regions presented.

PRODUCTION



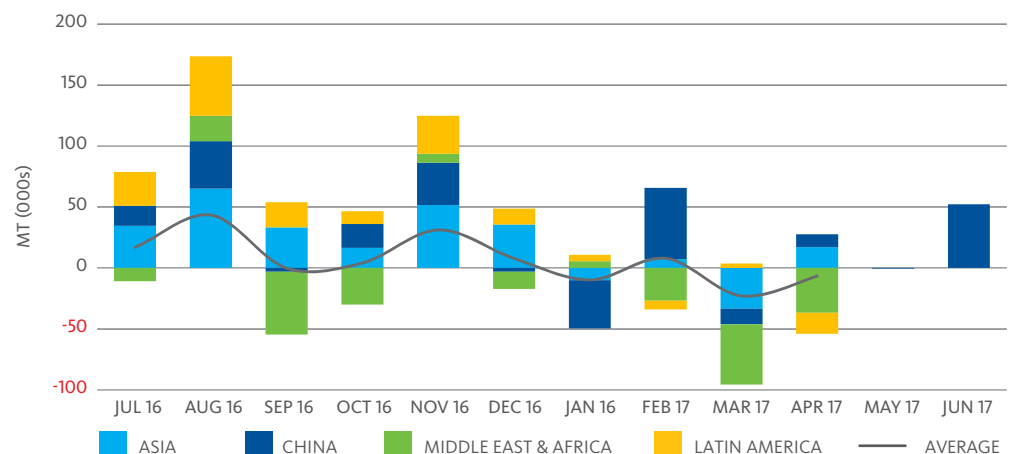
NOTE: Data for EU and Australia to May and New Zealand and US to June.

EXPORTS



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

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 2017	JULY 2016	MONTHLY CHANGE	SEASON-TO-DATE 2017/18	SEASON-TO-DATE 2016/17	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	17.2	16.3	5.4%	29.0	26.2	10.4%
North Island	15.7	15.0	4.5%	24.8	22.6	9.6%
South Island	1.6	1.4	16.2%	4.2	3.7	15.6%
Fonterra Australia	8.3	6.5	28.2%	8.3	6.5	28.2%

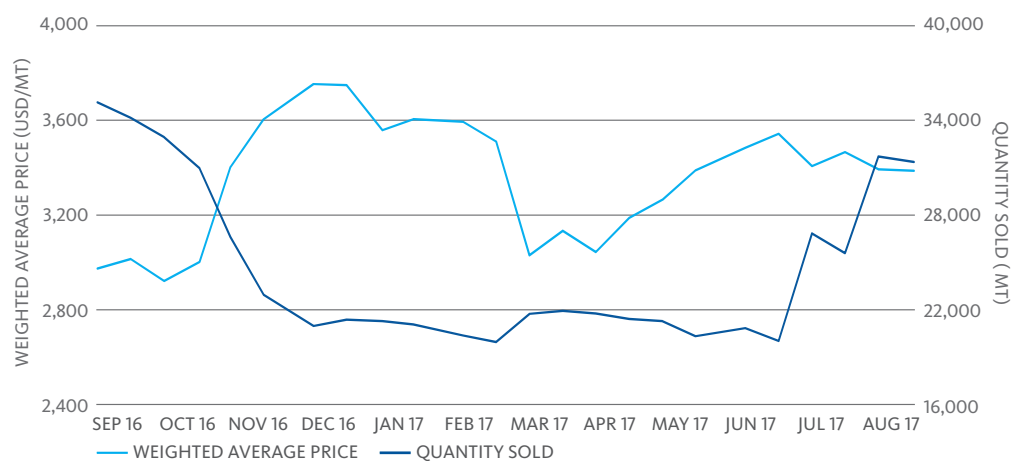
Fonterra GDT results

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

	LAST TRADING EVENT (15 AUGUST 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2017)
Quantity Sold on GDT (Winning MT)	31,365	63,079
Change in Quantity Sold on GDT over same period last year	(13.7%)	(9.8%)
Weighted Average Product Price (USD/MT)	3,387	3,390
Change in Weighted Average Product Price over same period last year	22.0%	28.8%
Change in Weighted Average Product Price from previous event	(0.2%)	-

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.

GDT

GlobalDairyTrade, the online provider of the twice monthly global auctions of dairy ingredients.

kgMS

Kilogram of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.

LME (Liquid Milk Equivalent)

A standard measure of the amount of milk (expressed in litres) allocated to each product based on the amount of fat and protein (“milk solids”) in the product relative to the amount of fat and protein in a standardised raw milk.

Non-Reference Products

All other dairy products produced by the NZ Ingredients business.

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.