OCTOBER 2017

GLOBAL DAIRY UPDATE

Dairy for life

OUR MARKETS

- Unfavourable weather conditions impacting New Zealand production. Production increasing in Australia and the EU in July.

- Further strong import growth in China. Middle East and Africa imports down in June.

- Global dairy exports increased other than from the United States, where exports declined for the first time since June 2016.

- In September, Fonterra New Zealand milk collection was 2% behind September last season. Fonterra Australia collection increased 23% on September last year.
- Fonterra's forecast milk collection in New Zealand for the 2017/18 season was lowered to 1,540 million kgMS.

OUR CO-OP

- Helping protect one of the North Island's best kept secrets.
- Supporting 1,549 community groups (and counting).

KEY DATES

2 November 2017
Fonterra Co-operative Group Annual Meeting

3 November 2017
Fonterra Shareholders' Fund Annual Meeting

Late November 2017
FY18 Q1 Business Update

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

OUR MARKETS

GLOBAL PRODUCTION

UNFAVOURABLE WEATHER CONDITIONS IMPACTING NEW ZEALAND PRODUCTION. PRODUCTION INCREASING IN AUSTRALIA AND THE EU IN JULY

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

CLICK HERE

NEW ZEALAND

1% ↓

Production change for the 12 months to August 2017

Total New Zealand milk production in August was down 2% compared to the same month last year.

The recent challenging weather conditions have impacted supply in August and are also expected to have an impact on peak milk volumes and future production for the season.

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

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

AUSTRALIA

6% ↓

Production change for the 12 months to July 2017

Australia production in July increased 3% compared to the same month last year.

Production for the 12 months to July was down 6% compared to the same period the previous year.

The impact of poor weather conditions in spring 2016 and soft farmgate milk prices earlier in the year continue to be reflected in this seasonal decline.

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

EUROPEAN UNION

1% ↓

Production change for the 12 months to July 2017

EU production in July was up 2% compared to the same month last year.[1]

The increase in July was driven by continued growth in production out of Italy, Ireland and Poland, up a combined 10%. Germany and France, the two largest producers in Europe, were down again in July.

Production for the 12 months to July was down 1% compared to the same period the previous year.

USA

2% ↑

Production change for the 12 months to August 2017

US production in August increased 2% compared to the same month last year as farmers continue to benefit from increased milk production per cow, reported to be the highest for the month of August since 2003.[2]

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

1 includes estimate for Denmark (July).

2 http://usda.mannlib.cornell.edu/usda/current/MilkProd/MilkProd-09-19-2017.pdf

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

CLICK HERE

GLOBAL DAIRY EXPORTS INCREASED OTHER THAN FROM THE UNITED STATES, WHERE EXPORTS DECLINED FOR THE FIRST TIME SINCE JUNE 2016

NEW ZEALAND

0%

Export change for the 12 months to July 2017

Total New Zealand dairy exports in July increased 8% or 23,000 MT compared to the same month last year.

The largest increases were seen in WMP and cheese exports, up 11,000 MT and 6,000 MT respectively compared to July last year.

Exports for the 12 months to July were flat on the previous comparable period.

Fluid and fresh dairy was up 31% or 66,000 MT, with WMP and cheese also up a combined 31,000 MT. These increases were offset by an 85,000 MT combined decline in AMF, SMP, butter and casein.

AUSTRALIA

4% ↓

Export change for the 12 months to July 2017

Australian dairy exports increased 9% in July compared to the same month the previous year.

This increase was driven by SMP, which was up 10,000 MT or 113%, partially offset by declines in WMP, down 3,000 MT compared to the same month last year.

Exports for the 12 months to July were down 4%, or 27,000 MT on the previous comparable period.

This decline was again driven by SMP, butter and cheese, down a combined 29,000 MT, partially offset by an increase in fluid and fresh dairy, up 12,000 MT for the period to July.

EUROPEAN UNION

4% ↑

Export change for the 12 months to June 2017

EU dairy exports[1] in June increased 11% or 49,000 MT compared to the same month last year.

Exports of SMP were up 96%, or 40,000 MT, as manufacturers cleared SMP inventories as the intervention programme draws to a close.

Exports for the 12 months to June were up 4% or 192,000 MT on the previous comparable period.

Cheese, infant formula, lactose and SMP were up a combined 11% or 213,000 MT. However, fluid and fresh dairy, the largest export category, continued to decline, down 31,000 MT.

USA

14% ↑

Export change for the 12 months to July 2017

US dairy exports decreased 1% in July compared to the same month the previous year. This was largely a result of declining SMP exports offset by slightly improved exports of cheese.

Exports for the 12 months to July were up 14% or 274,000 MT on the previous comparable period.

The US experienced significant growth across all key export categories, in particular SMP, whey powder and cheese, up a combined 223,000 MT or 20%.

1 Includes estimate for Andorra, Greenland, Montenegro and Uzbekistan (June).

FURTHER STRONG IMPORT GROWTH IN CHINA. MIDDLE EAST AND AFRICA IMPORTS DOWN IN JUNE

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

CLICK HERE ▸

LATIN AMERICA

9% ↑

Import change for 12 months to June 2017

Latin America's[1] dairy import volumes decreased 1% in June compared to the same month the previous year.

Increased imports of SMP, up 7,000 MT or 25%, were offset by declines in WMP and fluid and fresh dairy, down a combined 9,000 MT or 15% compared to the same month last year.

Imports for the 12 months to June were up 9% or 160,000 MT. Growth was largely a result of increased imports of cheese and SMP, up a combined 13% or 124,000 MT.

ASIA

9% ↑

Import change for 12 months to June 2017

Asia[2] (excluding China) dairy import volumes was flat in June compared to the same month last year, as increases in cheese and SMP were offset by declines in whey powder, butter and infant formula.

Imports for the 12 months to June were up 9%, or 378,000 MT, compared to the same period the previous year.

Growth for the year was seen across all import categories except WMP. The largest increases were in SMP, fluid and fresh dairy and cheese, up a combined 224,000 MT or 11%.

MIDDLE EAST & AFRICA

2% ↓

Import change for 12 months to June 2017

Middle East and Africa[3] dairy imports decreased 16% or 59,000 MT in June compared to the same month the previous year.

Decreases were seen across most key import categories except fluid and fresh dairy and SMP which were up a combined 9% or 13,000 MT.

Imports for the 12 months to June decreased 2% or 89,000 MT compared to the same period last year.

Although there were increased imports of fluid and fresh dairy and SMP, two of the largest categories, there were declines in imports of most other products this year.

CHINA

9% ↑

Import change for 12 months to August 2017

China dairy imports were up 28% or 54,000 MT in August compared to the same month last year.

Except for whey powder, imports of all key dairy categories increased. The largest growth was seen in WMP and fluid and fresh dairy, up 17,000 MT and 12,000 MT respectively.

Imports for the 12 months to August were up 9%, or 207,000 MT, compared to the same period last year.

Growth was seen across all key import categories, in particular infant formula, WMP and whey, which grew a combined 13% or 147,000 MT.

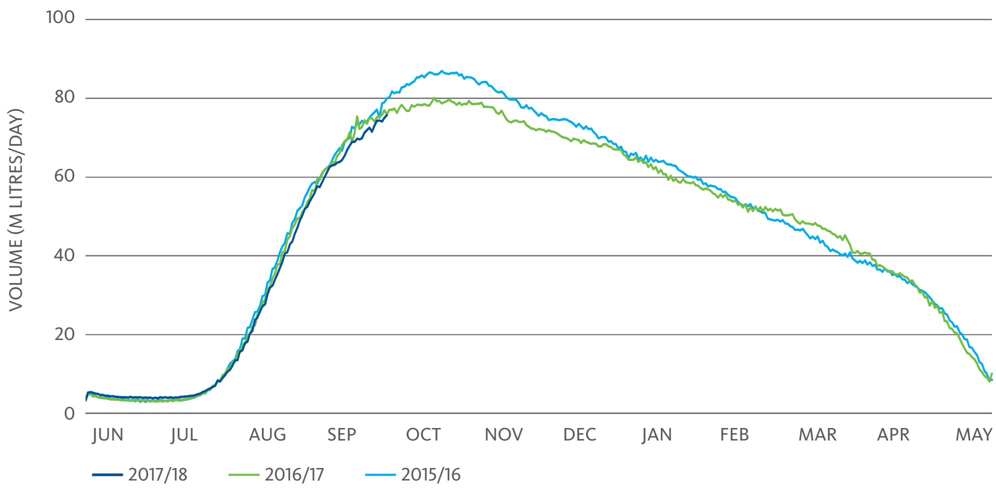
1 Excludes Nicaragua and Venezuela. Includes estimate for Belize (June).

2 Includes estimate for Macao (October-June).

3 Includes estimate for Egypt and Qatar (June).

FONTERRA MILK COLLECTION 2017/18 SEASON

NEW ZEALAND MILK COLLECTION



To view a table that shows our detailed milk collection in New Zealand and Australia compared to the previous season –

CLICK HERE ▸

NEW ZEALAND

1% ↓

Decrease for the season from 1 June to 30 September

Fonterra's milk collection across New Zealand reached 171 million kgMS in September, 2% lower than September last season.

Fonterra New Zealand milk collection continues to be impacted by unfavourable weather conditions, particularly in the North Island.

For the four months to 30 September, milk collection was down 1% at 294 million kgMS.

NORTH ISLAND

1% ↓

Decrease for the season from 1 June to 30 September

North Island milk collection in September reached 108 million kgMS, 2% behind September last season.

SOUTH ISLAND

2% ↓

Decrease for the season from 1 June to 30 September

South Island milk collection in September reached 63 million kgMS, 2% behind September last season.

AUSTRALIA

23% ↑

Increase for the season from 1 July to 30 September

Fonterra's milk collection across Australia in September reached 15 million kgMS, 3 million kgMS higher than September last season.

Continued growth in Fonterra's Australian milk pool has been driven by both existing and new suppliers that have joined Fonterra this season. As well, favourable seasonal conditions, strong pasture growth and reasonable feed input costs across all supply regions continue to support ongoing growth.

Forecast Fonterra Milk Collection Across New Zealand

1,540M
KGMS

An increase of 1% on last season

Fonterra has lowered its forecast milk collection from 1,575 million kgMS to 1,540 million kgMS. This is a 1% increase on last season's collection of 1,526 million kgMS.

Weather conditions in August and September have impacted milk production across most of the country.

The full season forecast is dependent on improved conditions through the rest of the season.

We will continue to provide updates as the season progresses.

FONTERRA GLOBALDAIRYTRADE RESULTS

Fonterra GDT results at last trading event
3 October 2017:

5.0% ↓
Change in Fonterra's weighted average product price from previous event

USD **3,229**
Fonterra's weighted average product price (USD/MT)

36.6 000' MT
Fonterra product quantity sold on GDT

CHEDDAR
1.9% ↑
USD 4,109/MT

RENNET CASEIN
1.4% ↑
USD 6,123/MT

SMP
1.3% ↓
USD 1,895/MT

WMP
2.7% ↓
USD 3,037/MT

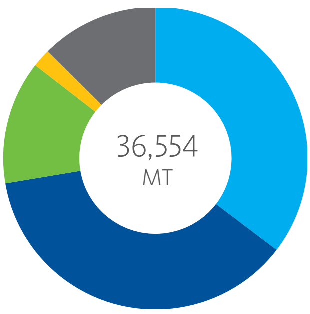
BUTTER
3.1% ↓
USD 5,837/MT

AMF
3.8% ↓
USD 6,504/MT

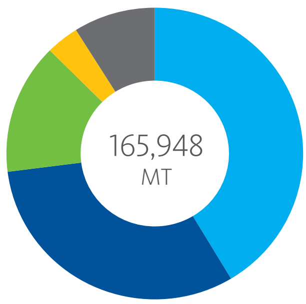
Fonterra GDT sales **by destination**:

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

LATEST AUCTION



FINANCIAL YEAR-TO-DATE



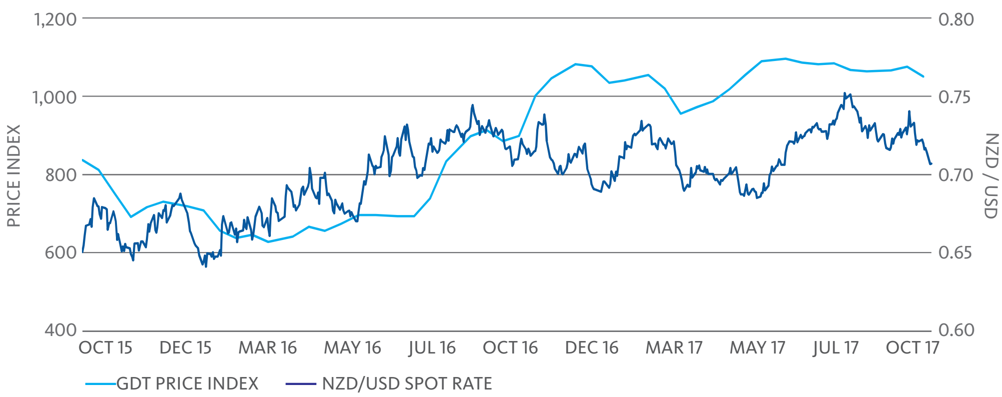
To view more information, including a snapshot of the rolling year-to-date results –

CLICK HERE ▶

▶ The next trading event will be held on 17 October 2017. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

Political uncertainty weighed on the New Zealand dollar for much of September, which was evident in the dovish trend throughout the month.



Helping protect one of the North Island's best kept secrets

The iconic Blue Spring in Putaruru is home to around a thousand more trees and bushes thanks to a combined planting effort by volunteers from Fonterra, Dairy NZ, Waikato Regional Council and local iwi.

Sixty to seventy volunteers braved the wet weather last month in an effort to help maintain the environment of the spring which is part of the Waihou River and known to be one of New Zealand's most pristine waterways.

The land on which the shrubs and trees were planted has been retired from grazing stock and the planting was part of an ongoing beautification process.

The day started with a history lesson from local iwi who told volunteers about the area and how the Waihou River was an important journeying place of King Te Wherowhero Tawhiao, the second Maori King of New Zealand.

The enthusiastic group then split into two teams with each team planting around 500 native shrubs and bushes as the rain poured down.

Fonterra Area Manager for the Waikato region, Peter O'Shea says Fonterra staff jumped at the chance to help out.

"Despite the wet weather the day was a real family affair with both kids and parents on hand to help out, it was great to be part of something that helps keep this area looking its best."

The blue spring water is so pure it supplies around seventy percent of New Zealand's bottled water.

Te Waihou walkway runs alongside the Waihou River and allows people to visit the Blue Spring, which is often described as one of the North Island's best kept secrets.

Supporting 1,549 community groups (and counting)

FONTERRA GRASS ROOTS FUND

Having just completed letting the latest 172 successful applicants know they will be receiving between $500 and $5,000, Fonterra's Global Sponsorship Manager Kane Silcock says we will start seeing another series of initiatives being brought to life across regional New Zealand.

"We support an incredibly wide range of community projects, and as a result help make so many people's lives and local communities that little bit better," says Kane.

Amongst the successful applicants from this round were:

- Hospice@Home who plan to purchase two new powerlift chairs to help with their work providing palliative care in people's own homes and support for those in residential care
- Hauraki Plains College who will use their money to help fund their 'Historical Restoration Project' which aims to restore their original Post Office and Jail House to provide the rural community with better local historical knowledge
- Inglewood Playcentre who are planning on improving their facilities in an effort to encourage more families to come along and have fun with their whanau
- Edendale Volunteer Fire Brigade who will be buying a thermal imaging camera which will allow them to check burning buildings and help the brigade respond to incidents more efficiently.

"Already we've received numerous emails thanking our farmers, staff and local community representatives that make up our various regional Fonterra Grass Roots Committees for the grants."

To see some of the results from the funding and how to apply visit the Fonterra Grass Roots Fund Facebook pages –

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.

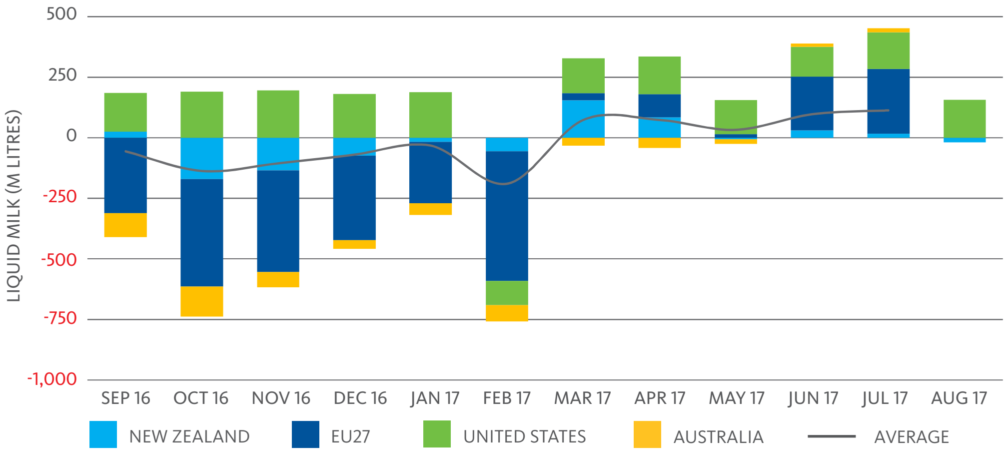
Averages are shown where data is complete for the regions presented.

BACK TO SUMMARY ▶

BACK TO SUMMARY ▶

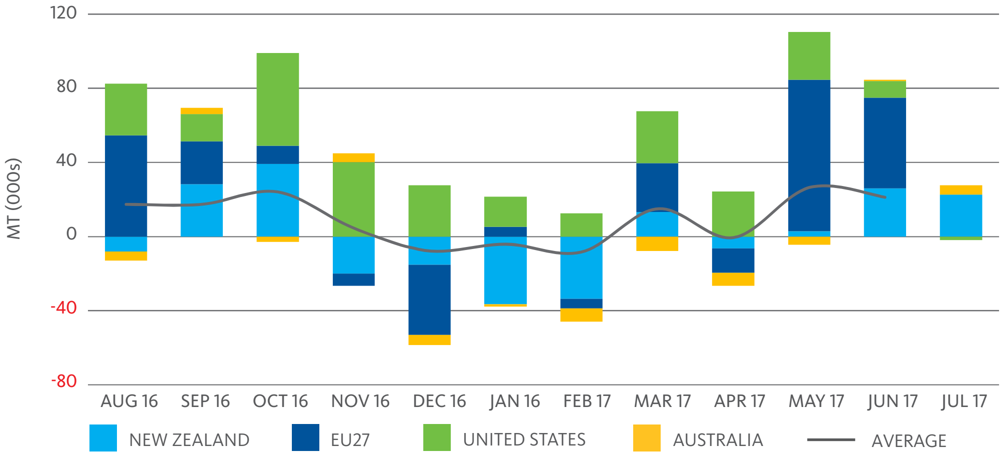
BACK TO SUMMARY ▶

PRODUCTION



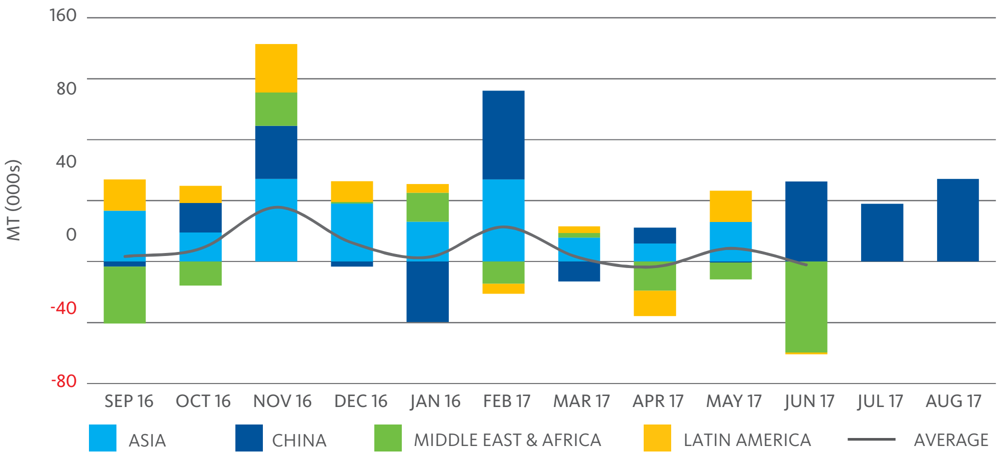
NOTE: Data for EU and Australia to July and New Zealand and US to August.

EXPORTS



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

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.

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 2017	SEPTEMBER 2016	MONTHLY CHANGE	SEASON-TO-DATE 2017/18	SEASON-TO-DATE 2016/17	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	171.1	174.7	(2.1%)	293.5	296.7	(1.1%)
North Island	107.8	110.3	(2.3%)	202.6	204.0	(0.7%)
South Island	63.4	64.4	(1.6%)	90.9	92.7	(1.9%)
Fonterra Australia	15.1	12.3	23.0%	34.2	27.7	23.3%

Fonterra GDT results

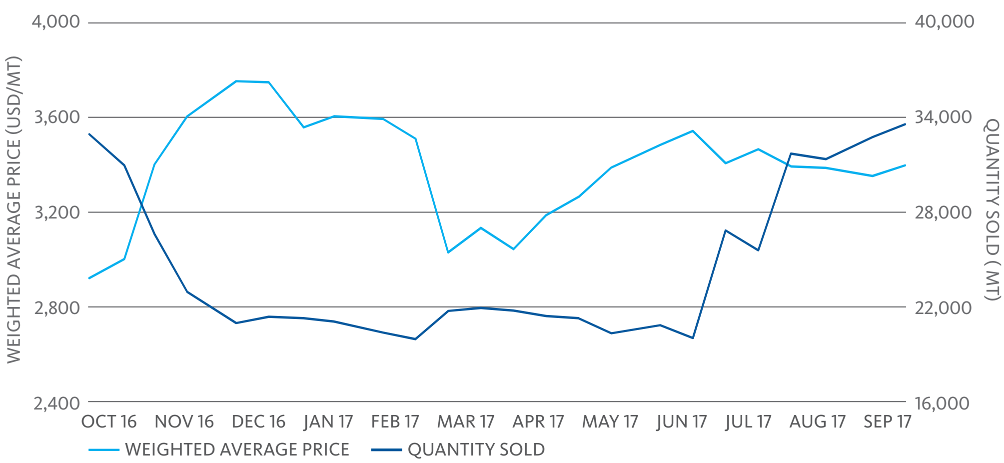
This table provides more information on the latest results, including a snapshot of the year-to-date results.

	LAST TRADING EVENT (3 OCTOBER 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2017)
Quantity Sold on GDT (Winning MT)	36,554	165,948
Change in Quantity Sold on GDT over same period last year	11.0%	(3.6%)
Weighted Average Product Price (USD/MT)	3,229	3,349
Change in Weighted Average Product Price over same period last year	10.5%	18.2%
Change in Weighted Average Product Price from previous event	(5.0%)	–

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.

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 (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 dairy products, except for Reference 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.