

GLOBAL DAIRY UPDATE



Dairy for life



- Production flat to declining in New Zealand, Australia and the EU, steady growth in the US.

- Fonterra builds additional capacity at Te Rapa to meet Chinese demand for cream cheese and butter.



- Dairy export growth from the US, some growth in EU exports.

- Our forecast Farmgate Milk Price for the new season has increased from \$6.50 to \$6.75 per kgMS.

- Earnings per share guidance for the 2018 financial year has been announced.



- Strong import growth in Latin America continues while some easing of imports into Asia.



- Fonterra Australia milk collection for the season ended 30 June 2017 was 125 million kgMS, 3% up on last season.

- Fonterra announces ambition to work with communities to improve the quality of 50 of New Zealand's freshwater catchments.



- In June, Fonterra New Zealand milk collection reached 12 million kgMS.

- Fonterra Milk for Schools improves kids health according to recent Massey University study.

KEY DATES



31 July 2017
End of Financial Year 2017

Late September 2017
Annual Results Announced

Early November 2017
Fonterra Annual Meeting

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



PRODUCTION FLAT TO DECLINING IN NEW ZEALAND, AUSTRALIA AND THE EU, STEADY GROWTH IN THE US

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

NEW ZEALAND

1% ↓

Production change for the 12 months to May 2017

Total New Zealand milk production in May was down 1% compared to the same month last year.

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

In New Zealand, volumes decrease at this time of year due to seasonality of supply.

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

AUSTRALIA

8% ↓

Production change for the 12 months to April 2017

Australia production in April decreased 6% compared to the same month last year.

Production for the 12 months to April was down 8% compared to the same period the previous year.

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

EUROPEAN UNION

2% ↓

Production change for the 12 months to April 2017

EU production in April was flat compared to the same month last year. Ireland and Poland were up 12% and 4% respectively, while Germany and France, the two biggest producers in Europe, were down 3% and 1% respectively.

Production for the 12 months to April was down 2% compared to the same period the previous year.

USA

2% ↑

Production change for the 12 months to May 2017

US production in May increased 2% compared to the same month last year.

Monthly volumes have been increasing at a rate of 2% for the past eleven months.

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



DAIRY EXPORT GROWTH FROM THE US, SOME GROWTH IN EU EXPORTS

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

NEW ZEALAND

3% ↑

Export change for the 12 months to April 2017

Total New Zealand dairy exports in April decreased 2% or 6,400 MT compared to the same month last year.

Decreases were seen in two of the largest export categories WMP and SMP, down a combined 11% or 16,000 MT. This was partially offset by an increase in cheese and fluid and fresh dairy, up a combined 21% or 9,500 MT.

Exports for the 12 months to April were up 3%, or 82,000 MT, on the previous comparable period.

Growth was led by fluid and fresh dairy and infant formula, up a combined 35% or 85,000 MT. WMP, the largest export category, was down 1%.

AUSTRALIA

1% ↓

Export change for the 12 months to April 2017

Australia dairy exports in April decreased 7% compared to the same month last year.

Fluid and fresh dairy and cheese were up a combined 12% or 4,000 MT for the month, offset by declines in SMP, WMP and whey powder, down 27% or 6,000 MT.

Exports for the 12 months to April were down 1%, or 6,000 MT, on the previous comparable period.

SMP, a key export category declined 22% or 41,000 MT. This was partially offset by growth in whey powder and fluid and fresh dairy, up a combined 13% or 30,000 MT.

EUROPEAN UNION

3% ↑

Export change for the 12 months to March 2017

EU dairy exports in March increased 6% or 28,000 MT compared to the same month the previous year.

A 15% decline in fluid and fresh dairy was offset by growth in SMP, WMP and cheese, up 31%, 28% and 10% respectively.

Export growth for the 12 months to March has eased in recent months but remains up 3%, or 168,000 MT, on the previous comparable period.

The largest export category, fluid and fresh dairy, was up 2%, while cheese and infant formula are up a combined 11% or 131,000 MT.

USA

11% ↑

Export change for the 12 months to April 2017

US dairy exports increased 15% in April, or 24,000 MT, compared to the same month the previous year. This was the tenth consecutive month of increasing exports.

Growth was largely driven by SMP, up 22% or 10,000 MT, and whey powder, up more than 30% for the second consecutive month.

Exports for the 12 months to April were up 11%, or 221,000 MT, on the previous comparable period. This was driven by SMP and whey powder, up a combined 17% or 141,000 MT.



STRONG IMPORT GROWTH IN LATIN AMERICA CONTINUES WHILE SOME EASING OF IMPORTS INTO ASIA

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

LATIN AMERICA

13% ↑

Import change for 12 months to March 2017

Latin America¹ dairy import volumes increased 2%, or 4,000 MT, in March compared to the same month the previous year.

The largest growth was in SMP, up 31% or 10,000 MT. This was offset by declines in WMP and fluid and fresh dairy, down a combined 17% or 9,600 MT.

Imports for the 12 months to March were up 13%, compared to the same period the previous year.

WMP, SMP and cheese, three of the largest import categories, increased a combined 19% or 172,000 MT.

ASIA

6% ↑

Import change for 12 months to March 2017

Asia (excluding China)² dairy imports decreased 4%, or 13,000 MT, in March compared to the same month last year.

This decrease was driven by SMP and whey powder, down a combined 22,000 MT.

Imports for the 12 months to March were up 6%, or 263,000 MT, compared to the same period the previous year.

Fluid and fresh dairy, whey powder and cheese which make up 40% of total imports were up a combined 10% or 170,000 MT.

MIDDLE EAST & AFRICA

3% ↓

Import change for 12 months to March 2017

Middle East and Africa³ dairy imports decreased 10%, or 35,000 MT, in March compared to the same month the previous year.

Cheese, fluid and fresh dairy and WMP were down 24%, 11% and 8% respectively, a total decrease of 28,000 MT.

Imports for the 12 months to March were down 3%, or 131,000 MT, compared to the same period last year.

Decreases were seen across most of the major import categories with fluid and fresh dairy, the region's largest import category, down 8% or 83,000 MT for the period.

CHINA

7% ↑

Import change for 12 months to May 2017

China dairy imports were flat in May compared to the same month last year.

Gains in infant formula and SMP, up 37% and 39% respectively, were offset by declines in WMP and fluid and fresh dairy, down a combined 20% or 20,000 MT.

Imports for the 12 months to May were up 7%, or 156,000 MT, compared to the same period last year.

Whey powder and fluid and fresh dairy were up a combined 76,000 MT, while infant formula was also up 25% or 49,000 MT.

¹ Excludes Nicaragua.

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

³ Includes estimate for Egypt (March).

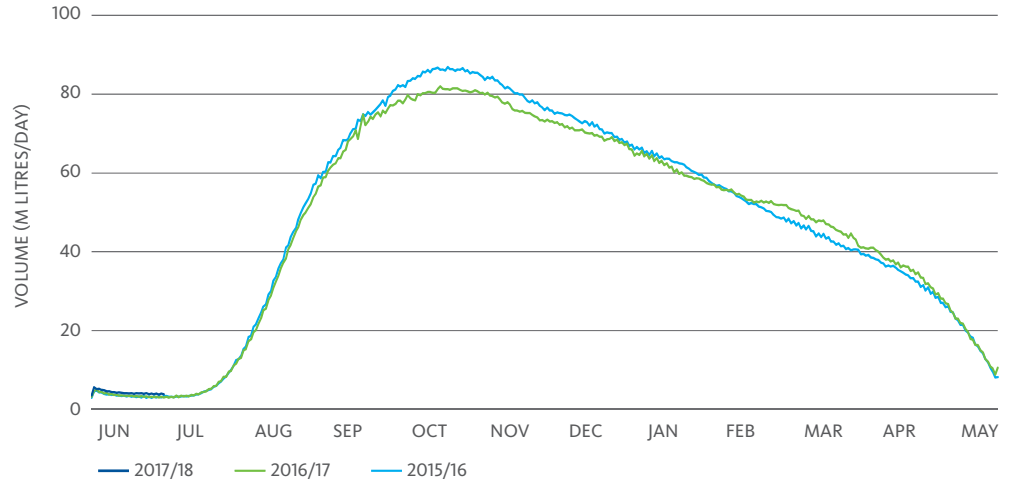
OUR MARKETS

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

19% ↑

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

Fonterra’s milk collection across New Zealand in June, the first month of the 2017/18 season reached 12 million kgMS.

New Zealand collections for the 2017/18 season have started off 19% ahead of last year.

These are small volumes compared to peak collections later in the season however, this season Fonterra has incentivised additional production of winter milk.

The additional milk collected in June will support production in our consumer and foodservice business over the winter months.

NORTH ISLAND

20% ↑

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

North Island milk collection in June reached 9 million kgMS, 20% higher than June last season.

SOUTH ISLAND

15% ↑

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

South Island milk collection in June reached 3 million kgMS, 15% higher than June last season.

AUSTRALIA

3% ↑

Increase for the 2016/17 season compared to the previous season

Fonterra’s milk collection across Australia in June, the last month of the 2016/17 season, reached 9 million kgMS, 3 million kgMS higher than June last season.

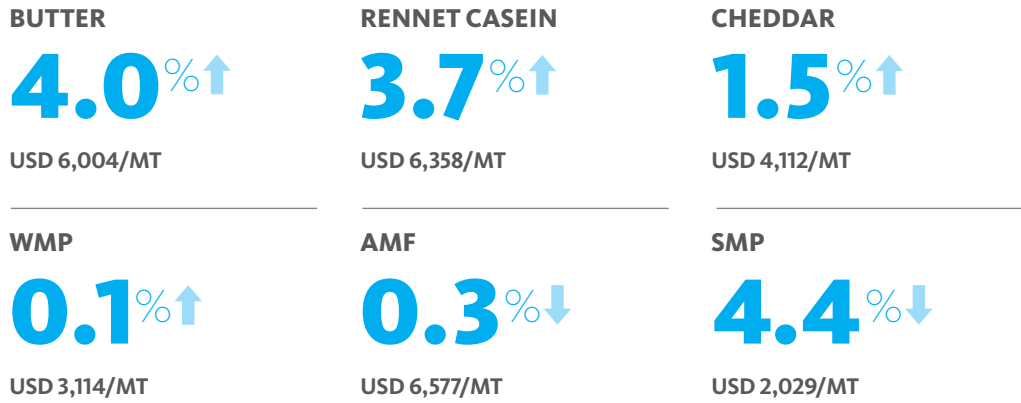
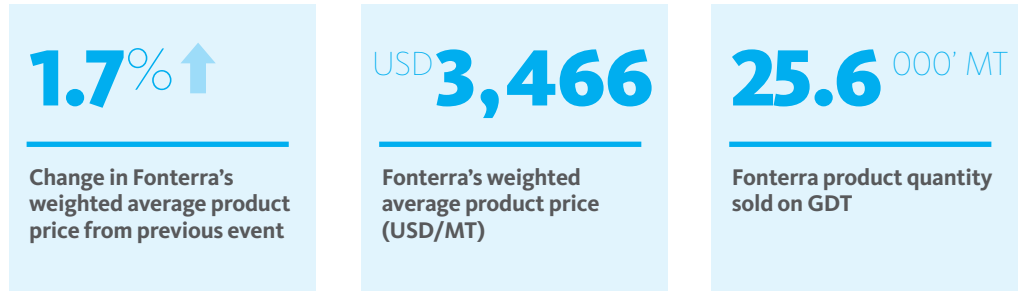
Milk collection across Australia for the 2016/17 season reached 125 million kgMS, 3% ahead of last season.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS

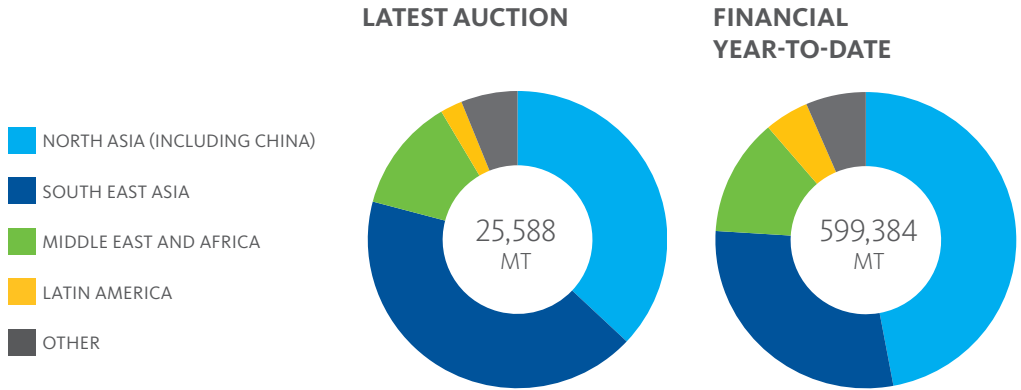


Fonterra GDT results at last trading event
18 July 2017:



Fonterra GDT sales by destination:

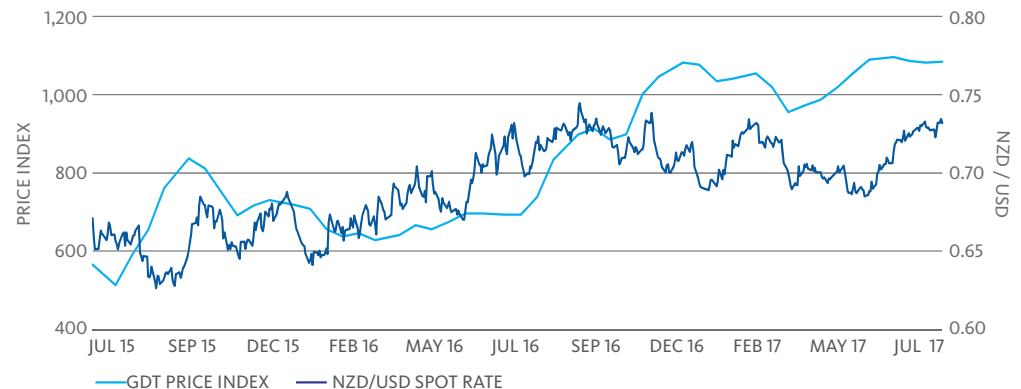
To view more information, including a snapshot of the rolling year-to-date results –



▶ The next trading event will be held on 1 August 2017. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In June, the New Zealand dollar strengthened against the United States dollar.



OUR PERFORMANCE



Fonterra builds additional capacity at Te Rapa to meet Chinese demand for cream cheese and butter

The Co-operative has taken another strong step forward on its commitment to drive more milk into higher-value products, announcing an investment of almost \$20 million at its Te Rapa site to meet growing demand for cream cheese and mini-dish butter.

Robert Spurway, Chief Operating Officer Global Operations, says the growth in demand is further demonstration of a shift in food preferences in China and across wider Asia.

“Much of the demand we’re seeing for products like the mini-dish butter is from hotels, restaurants and commercial kitchens in China – all out-of-home eating experiences where consumers are choosing dairy to complement their meal,” says Mr Spurway.

“Where in the past, many of these markets have trended towards non-dairy creams and spreads, we’re seeing a real desire for natural dairy in both food preparation and at the table. And while the foodservice aspects are important, it is the latter that is really exciting – consumers actively choosing to incorporate more dairy into their daily diets.”



Greater China is the greatest growth driver for Fonterra’s successful consumer and foodservice business with a 40% increase in volumes for the first nine months of FY17 compared to the same period last year.

A taste trend towards butter is evidenced by the increase of the country’s imports from 17,000 tonnes in 2009 to 63,000 tonnes in 2016, representing an annual growth of around 20%.

“Recently we’ve seen the demand, particularly out of China, exceed supply,” says Mr Spurway.

“So this expansion is all about responding to the market, investing in building capacity and delivering on our strategy by converting more milk into

higher-returning products. It will also give us more choices in the products we’re able to make so we can be more responsive to our customers.”

The expansions will see Te Rapa go from six cream product lines to eight, incorporating state-of-the-art technology to achieve highest possible output. The new butter line will see production more than double from 250 million to 650 million mini-dishes per year.

Meanwhile the additional cream cheese line will increase plant capacity from 30,000 tonnes to 33,500 tonnes per year, as well as add capability to manufacture 5kg blocks in addition to the 20kg ones currently produced.

Fonterra updates forecast Farmgate Milk Price and announces earnings per share guidance for the 2018 financial year

Today we increased our forecast Farmgate Milk Price to \$6.75 per kgMS, with the total available for payout to farmers in the 2017/18 season forecast to be \$7.20 to \$7.30 before retentions.

This includes our forecast earnings per share range, which has been announced at 45-55 cents, reflecting that the Co-operative is well positioned to take advantage of improving demand for

dairy nutrition across our ingredients, consumer and foodservice markets.



Fonterra announces ambition to work with communities to improve the quality of 50 of New Zealand's freshwater catchments

LIVING WATER



This month Fonterra has announced an ambition to work with communities to improve the quality of 50 freshwater catchments, signalling the Co-op's desire to take a leading role with New Zealand's waterways.

Fonterra launched its ten-year Living Water partnership with the Department of Conservation in 2013, with the aim of achieving sustainable dairying in healthy freshwater ecosystems. The programme focuses on five catchments and aims to improve natural habitats, and freshwater outcomes.

"Living Water has taught us a huge amount and we are

making a significant impact on the initial regions. Now we want to amplify those results with the launch of a new initiative that will target 50 catchments.

"Our immediate focus will be on working with communities, Government and key partners to identify the catchments and develop a strategic framework for the programme. This is a major undertaking and we need to get it right, but we are committed to making substantial progress," said Fonterra CEO Theo Spierings.

Spierings made the announcement at the annual meeting of the New Zealand Sustainable Business Council



held in Auckland earlier this month. The Council's Executive Director, Abbie Reynolds, said she was delighted Fonterra was making a significant commitment to improve water quality.

Fonterra Milk for Schools improves kids health according to recent Massey University study



A recent Massey University study shows children drinking milk at school have greater increases in the size and strength of their bones and that Fonterra Milk for Schools has improved the proportion of children achieving the recommended number of serves of dairy on weekdays.

The study, led by Professor Marlena Kruger from the School of Food and Nutrition, followed 118 children in Manawatū. The research was carried out over a year, and involved children aged 5-10 years old, comparing the difference between children who are involved in the Fonterra Milk for Schools programme and children who are not.

General Manager of Nutrition, Angela Rowan, says the positive influence Fonterra Milk for Schools is having on children is clear.

"Providing kids with a daily source of nutrition is not only the right thing to do, we can



now clearly see the positive impact it's having on their lives. Fonterra Milk for Schools helps kids get a taste for milk and an understanding of the importance of dairy nutrition, resulting in positive choices around what they are drinking.

"For me, it's great to know these children are growing up with better bone health and with a better understanding of the importance of good nutrition, than previous generations," she says.

The study, entitled "The possible role of milk in modulating body composition and bone health among

pre-pubertal children" found that while the children who regularly drink milk as part of the programme grew at the same rate as children not in the programme (i.e. the same increase in weight and height), they had significantly improved bone health when compared to a control group recruited from schools that do not participate in the programme.

Our Fonterra Milk for Schools programme operates in more than 70% of all New Zealand primary schools and provides dairy nutrition to more than 140,000 children every school day.

SUPPLEMENTARY INFORMATION

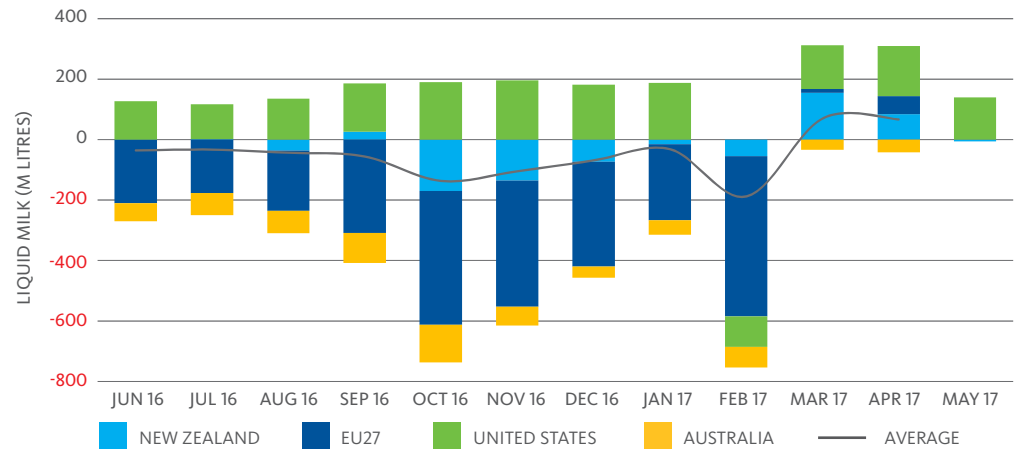
Global Dairy Market

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.

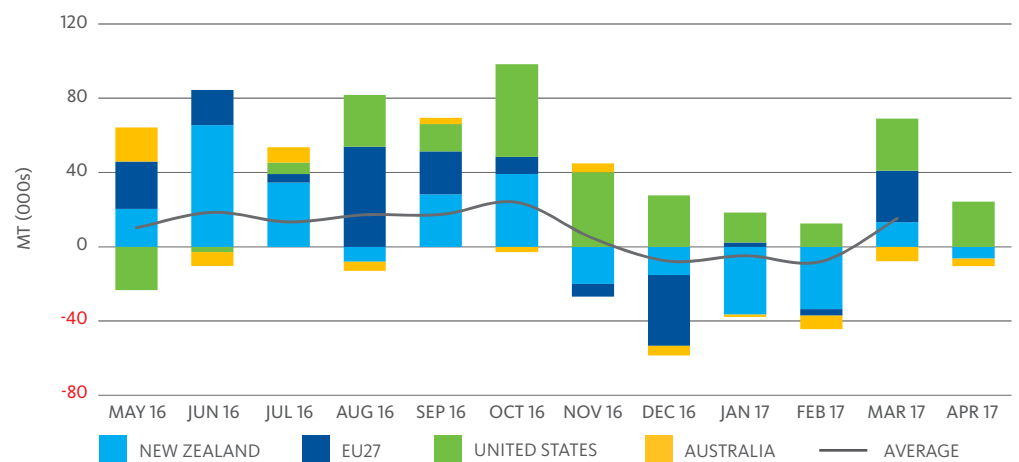
Averages are shown where data is complete for the regions presented.

PRODUCTION



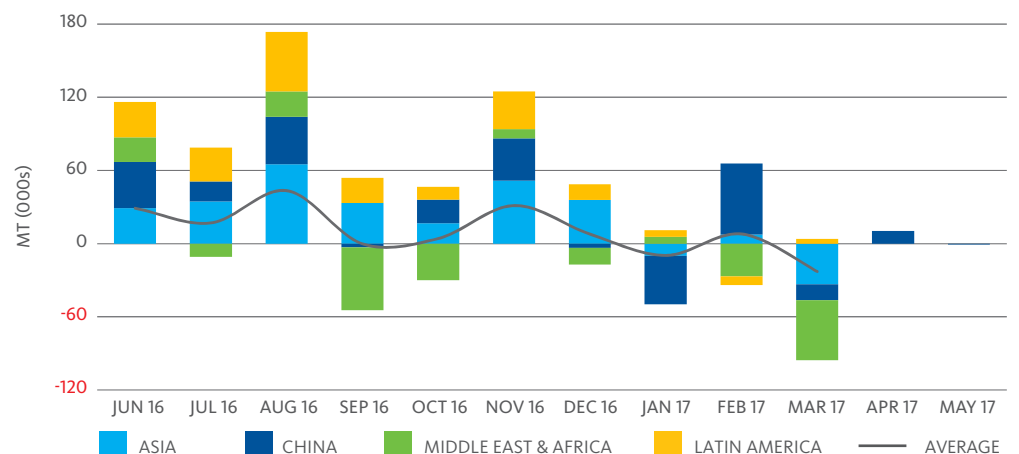
NOTE: Data for EU and Australia to April and New Zealand and US to May.

EXPORTS



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

IMPORTS



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

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)	JUNE 2017	JUNE 2016	MONTHLY CHANGE	SEASON-TO-DATE 2017/18	SEASON-TO-DATE 2016/17	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	11.8	9.9	18.6%	11.8	9.9	18.6%
North Island	9.1	7.6	19.6%	9.1	7.6	19.6%
South Island	2.6	2.3	15.2%	2.6	2.3	15.2%

MILK COLLECTION (MILLION KGMS)	JUNE 2017	JUNE 2016	MONTHLY CHANGE	SEASON-TO-DATE 2016/17	SEASON-TO-DATE 2015/16	SEASON-TO-DATE CHANGE
Fonterra Australia	8.9	6.0	46.4%	125.3	121.3	3.2%

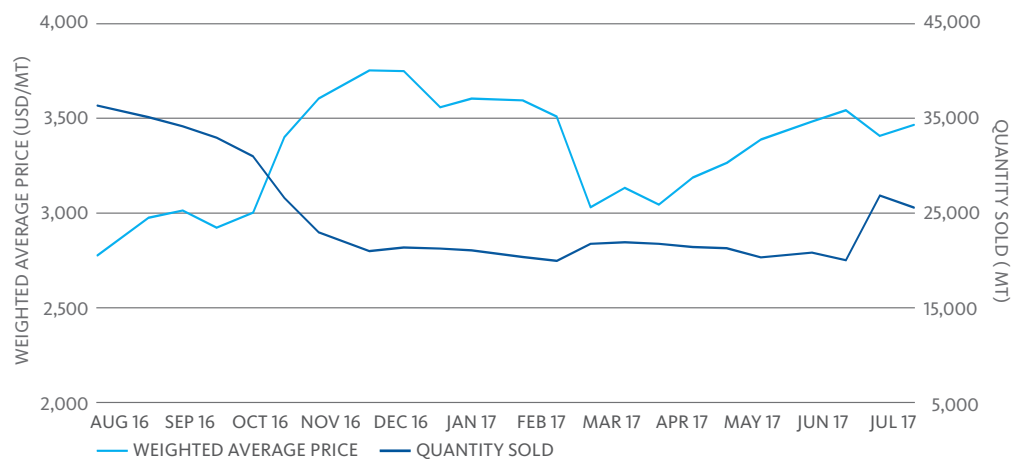
Fonterra GDT results

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

	LAST TRADING EVENT (18 JULY 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	25,588	599,384
Change in Quantity Sold on GDT over same period last year	(15.6%)	(7.3%)
Weighted Average Product Price (USD/MT)	3,466	3,234
Change in Weighted Average Product Price over same period last year	46.8%	37.7%
Change in Weighted Average Product Price from previous event	1.7%	-

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.