

GLOBAL DAIRY UPDATE



- Increased production in the US and some recovery in the EU and New Zealand.



- Continued growth in US exports with New Zealand steady, EU and Australia volumes remain soft.



- Volumes continue to strengthen in Asia and China while Middle East & Africa imports remain soft.



- Fonterra's New Zealand milk collection for the season ended 31 May 2017 was 1,526 million kgMS, down 3% on last season.
- Forecast Fonterra milk collection in New Zealand for the 2017/18 season is 1,575 million kgMS.

- Farmers set to benefit from new high-tech weather stations.
- Kiwis underestimate the power of protein in dairy products.
- Minimum shareholding requirement for farmer shareholders.



KEY DATES



31 July 2017
End of Financial Year 2017

Late September 2017
Annual Results Announced

Early November 2017
Fonterra Annual Meetings

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



INCREASED PRODUCTION IN THE US AND **SOME** **RECOVERY IN THE EU** **AND NEW ZEALAND**

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

NEW ZEALAND

1% ↓

Production change for the 12 months to April 2017

Total New Zealand milk production in April was up 6% compared to the same month last year.

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

The monthly volume change reflects better weather conditions in the latter part of the season.

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

AUSTRALIA

7% ↓

Production change for the 12 months to March 2017

Australia production in March decreased 5% compared to the same month last year.

Production for the 12 months to March was down 7% compared to the same period the previous year.

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

EUROPEAN UNION

2% ↓

Production change for the 12 months to March 2017

EU production in March was flat relative to the same month last year. Ireland and Poland were up 4% and 5% respectively, while the UK and Germany were down 2%.

For the 12 months to March, production was down 2% compared to the same period the previous year, but there are signs of a slow recovery.

USA

2% ↑

Production change for the 12 months to April 2017

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

Monthly volumes have been increasing at 2% for the past eleven months and this growth trend is expected to continue.

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



CONTINUED GROWTH IN US EXPORTS WITH NEW ZEALAND STEADY, EU AND AUSTRALIA VOLUMES REMAIN SOFT

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

NEW ZEALAND

4%↑

Export change for the 12 months to March 2017

Total New Zealand dairy exports in March increased 5%, or 13,000 MT, compared to the same month last year. New Zealand's largest export category, WMP, increased 15% or 14,000 MT, while fluid and fresh dairy increased 43%. Offsetting these large gains were cheese and SMP, down 8% and 9% respectively.

Exports for the 12 months to March were up 4%, or 117,000 MT, on the previous comparable period.

AUSTRALIA

1%↑

Export change for the 12 months to March 2017

Australia dairy exports in March decreased 10%, or 7,000 MT, compared to the same month last year. This is the fourth consecutive month of decreasing volumes.

Cheese volumes were up 19% after a brief period of decline, while fluid and fresh dairy, the largest export category, was down 1%.

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

Growth in fluid and fresh dairy and WMP, up 10% and 11% respectively, was offset by declines in key export categories SMP and cheese down a combined 12% or 44,000 MT.

EUROPEAN UNION

4%↑

Export change for the 12 months to February 2017

EU dairy exports in February were down 1%, relative to the same month the previous year.

Declines in fluid and fresh dairy and SMP, 5% and 3% respectively, were offset by growth in WMP, cheese and infant formula, up a combined 6% or 8,000 MT.

Export growth on a rolling 12-month basis has eased in recent months but remains up 4%, or 172,000 MT, on the previous comparable period.

The largest export category, fluid and fresh dairy, has declined the past four months but remains up 6% or 81,000 MT.

USA

8%↑

Export change for the 12 months to March 2017

US dairy exports increased 19%, or 29,000 MT, in March compared to the same month the previous year.

This was the tenth consecutive month of increasing exports and was led by whey powder, SMP and cheese, up a combined 75,000 MT or 6%.

Exports for the 12 months to March were up 8% or 157,000 MT, on the previous comparable period.



VOLUMES CONTINUE TO STRENGTHEN IN ASIA AND CHINA WHILE MIDDLE EAST & AFRICA IMPORTS REMAIN SOFT

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

LATIN AMERICA

11% ↑

Import change for 12 months to February 2017

Latin America¹ dairy import volumes were flat in January compared to the same month the previous year.

17% growth in the region's largest import category, SMP, was offset by declines in fluid and fresh dairy and infant formula, down a combined 11% or 3,400 MT.

Imports for the 12 months to February were up 11%, compared to the same period the previous year.

WMP, cheese and SMP, the three largest product categories, were up a combined 892,000 MT or 17%.

ASIA

7% ↑

Import change for 12 months to February 2017

Asia (excluding China)² dairy imports increased 9%, or 33,000 MT, in January compared to the same month the previous year.

Whey powder and cheese were up 14% and 17% respectively while WMP and SMP were relatively flat.

Imports for the 12 months to February were up 7%, or 296,000 MT, compared to the same period the previous year.

Increases in fluid and fresh dairy and whey powder, up 16% and 12% respectively, were offset by WMP, down 4% or 26,000 MT for the period.

MIDDLE EAST & AFRICA

3% ↓

Import change for 12 months to February 2017

Middle East and Africa dairy imports decreased 9%, or 29,000 MT, in February compared to the same month the previous year.

Growth in WMP, up 16% or 10,000 MT, was offset by declines in key import categories with fluid and fresh dairy, SMP and cheese down a combined 11% or 18,000 MT.

Imports for the 12 months to February were down 3%, or 127,000 MT, compared to the same period last year.

CHINA

10% ↑

Import change for 12 months to April 2017

China dairy imports increased 6%, or 10,000 MT, in April compared to the same month last year.

Gains in key categories whey powder and infant formula, up 24% and 34% respectively, were offset by a decline in fluid and fresh dairy, down 19% or 11,000 MT.

Imports for the 12 months to April were up 10%, or 203,000 MT, compared to the same period last year.

Fluid and fresh dairy, China's largest import category, was up 13%, or 78,000 MT, while WMP and whey powder were up 8% and 12% respectively.

¹ Excludes Venezuela and Nicaragua. Includes estimate for Honduras (January-February).

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

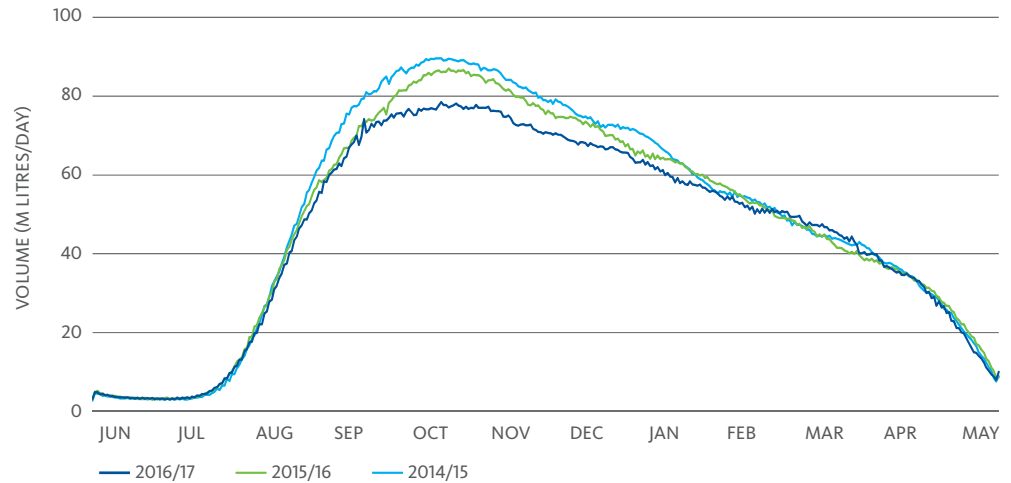
OUR MARKETS

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

Fonterra’s milk collection across New Zealand for the 2016/17 season reached 1,526 kgMS, 3% behind the 2015/16 season.

New Zealand collections for the 2016-17 season ended 3% behind last season.

Wet conditions through spring saw collections down 8% in October however favourable weather conditions through summer saw a lift in milk production.

May collections were 66 million kgMS, 1% down on the same month last season with cool conditions impacting the South Island.

NORTH ISLAND

4% ↓

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

North Island milk collection in May reached 32 million kgMS, 1% higher than May last season.

Despite heavy rain late in the season, many farmers were able to extend their season in May above last year’s levels. Overall North Island farmers ended the season 4% behind last year.

SOUTH ISLAND

0%

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

South Island milk collection in May reached 34 million kgMS, 2% lower than May last season.

Cool conditions in May saw collections fall below last season. South Island farmers experienced better growing conditions than those in the North but are now facing cooler winter conditions

AUSTRALIA

1% ↑

Increase for the season from 1 July to 31 May

Fonterra’s milk collection across Australia for the 11 months to 31 May reached 116 million kgMS, 1 million kgMS higher than last season.

Last year’s production was heavily impacted by lower Australian milk prices. Favourable autumn conditions combined with lower key input costs have aided the season recovery in milk collection.

Forecast Fonterra Milk Collection Across New Zealand

1,575m
KGMS

Increase of 3% for the 2017/18 season

While it is very early in the season to accurately forecast the total milk collection, we are required to provide a new season forecast under DIRA. At this stage, collections are estimated to increase by 3% in 2017/18 assuming a return to more usual climatic conditions.

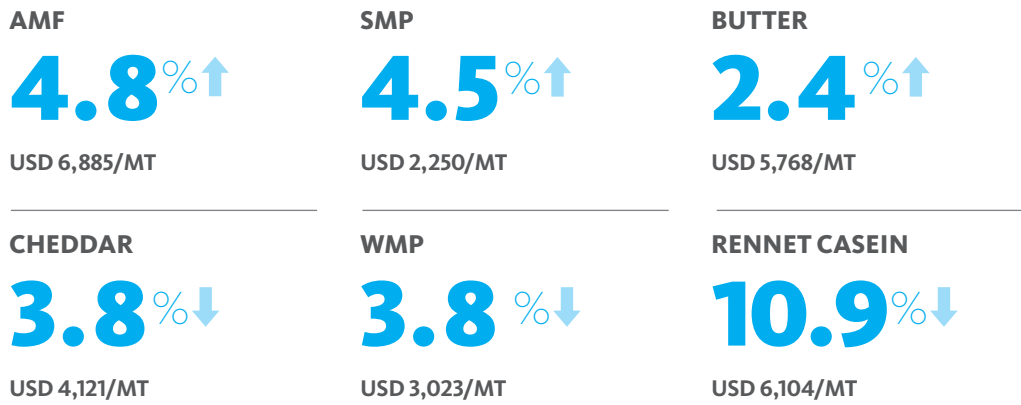
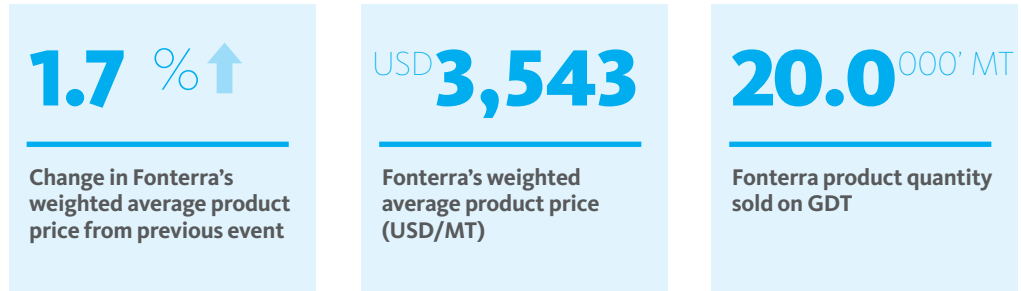
The improved milk price environment should provide support to farmers’ milk production plans. We will continue to provide updates as the season progresses.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS

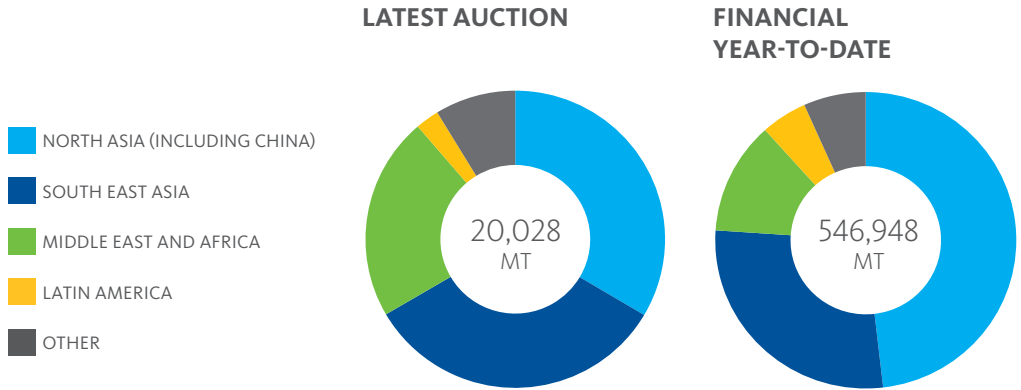


Fonterra GDT results at last trading event
20 June 2017:



Fonterra GDT sales by destination:

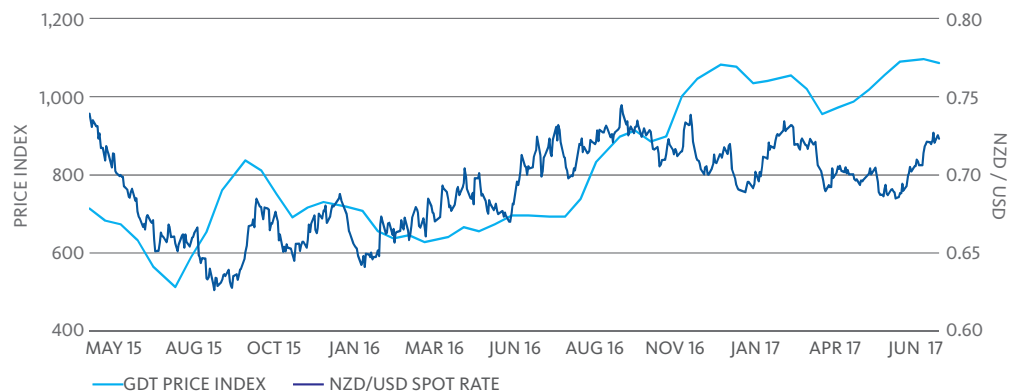
To view more information, including a snapshot of the rolling year-to-date results –



▶ The next trading event will be held on 4 July 2017. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In May, the New Zealand dollar steadily strengthened against the United States dollar.





Farmers set to benefit from new high-tech weather stations

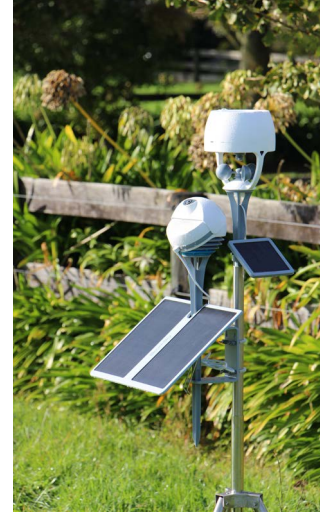
Fonterra farmers are trying out innovative weather technology designed to bring greater precision to New Zealand dairy farming.

The farmers are working with MetService and BloomSky to trial smart weather camera stations that deliver hyper-local weather information to any laptop, tablet or smart phone.

More than 70 of these stations will be installed on farms across the country. MetService will use the data to provide forecasting and seasonal insights to users of Agrigate.

Fonterra farmer Kevin Argyle is trialling the 'SKY2' device and has seen first-hand how the system measures temperature, humidity, rainfall, precipitation, wind speed, wind direction, UV and barometric pressure to give him a detailed view of his farm's climate.

"People often underestimate the variability within relatively small geographical areas. The other day we had 29 millimetres of rain and a few kilometres down the road they had five. That's a big difference when you're thinking about the best time to cultivate a paddock or move stock."



Kiwis underestimate the power of protein in dairy products

Kiwis know they need protein but are unsure about how much they need and the best way of including it in their diets, a new survey shows.

The survey of 1,055 New Zealanders asked people what they knew about protein.

74% of Kiwis believe protein is important for their health, but only 11% say they know how much they need in a day.

Fonterra's General Manager of Nutrition Angela Rowan says the amount of protein people need depends on their age, gender and physical activity levels.



"But as a guide, we should be aiming to get between 15-25% of our energy from protein, so for someone

consuming around 2,000 calories (8,360kJ) across the course of the day, they should be getting somewhere in the range of 75g-120g of protein per day."

While respondents had a good grasp of which food groups are rich in protein, they largely underestimated dairy.



Minimum Shareholding Requirements for Farmer Shareholders

At the commencement of each season (1 June), or shortly after, farmers are advised of their minimum shareholding requirements for that season. They need to be compliant by 1 December.

A farmer shareholder's minimum shareholding requirement is generally based on the average of their farm's prior three seasons' actual production, adjusted for any milk supplied under contract.

The opening aggregate minimum shareholding for the 2017/18 season based on this three-season average, across Fonterra, decreased to 1,419 million shares, 7 million lower than the opening 2016/17 aggregate minimum shareholding.

This decrease is largely a result of the 2013/14 season's production, which had very strong milk volumes and an extended peak, now being excluded from the three-season average calculation.

CURRENT AND FORECAST SHAREHOLDING REQUIREMENTS

FIGURES IN MILLIONS UNLESS OTHERWISE STATED	2016/17 SEASON OPENING BALANCE AT JUNE 2016	2017/18 SEASON OPENING BALANCE AT JUNE 2017
Minimum shareholding requirement	1,426	1,419
Vouchers that count towards the minimum shareholding	49	47
Dry shares held by farmer shareholders ¹	118	111
Units issued by the Fonterra Shareholders' Fund	108	124
Total shares on issue	1,603	1,607
Dry shares held by farmer shareholders (% of shares on issue)	7.3%	6.9%
Fonterra Shareholders' Fund size (% of shares on issue)	6.7%	7.7%

¹ Dry shares are calculated as shares on issue less minimum shareholding less units issued by the Fonterra Shareholders' Fund, plus vouchers.

SUPPLEMENTARY INFORMATION

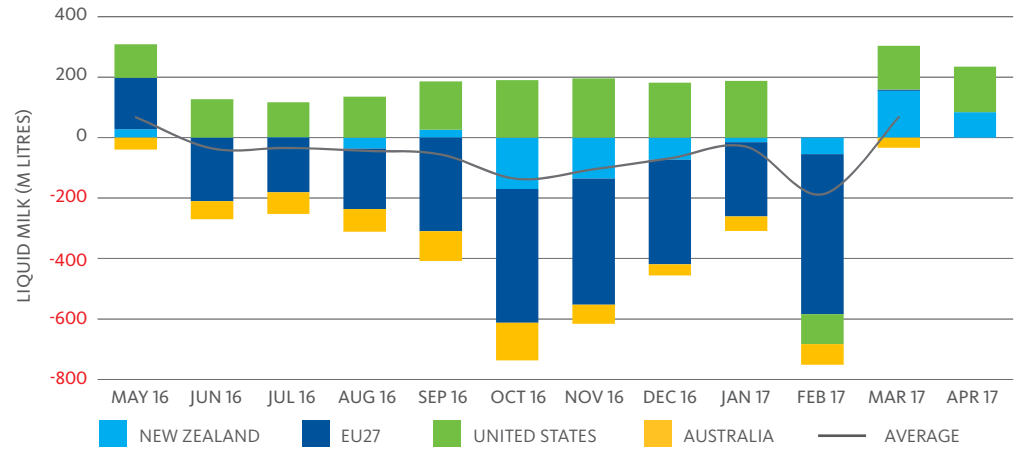
Global Dairy Market

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.

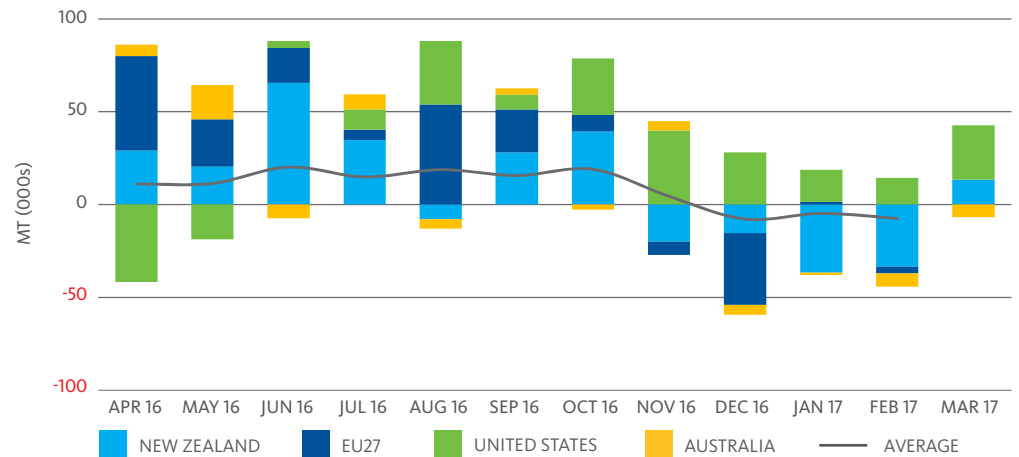
Averages are shown where data is complete for the regions presented.

PRODUCTION



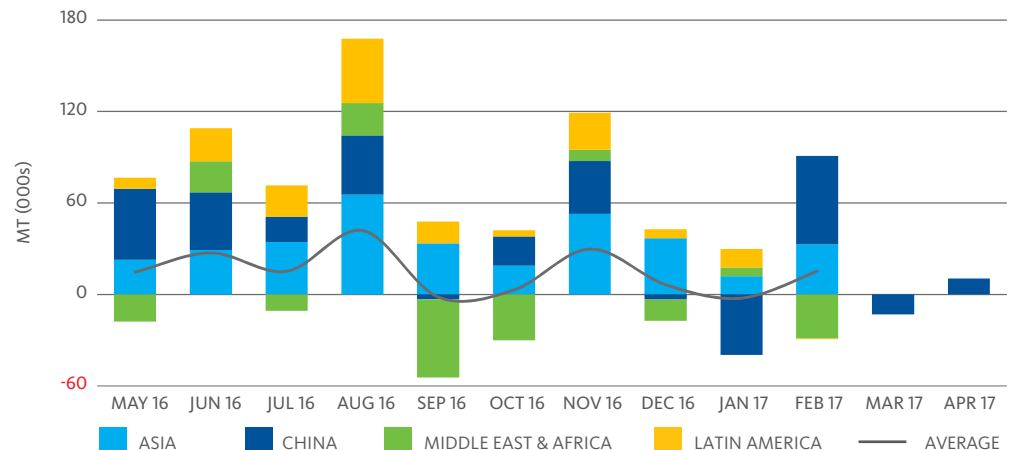
NOTE: Data for EU and Australia to March and New Zealand and US to April.

EXPORTS



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

IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to February, China to April.

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)	MAY 2017	MAY 2016	MONTHLY CHANGE	SEASON-TO-DATE 2016/17	SEASON-TO-DATE 2015/16	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	66.5	67.0	(0.8%)	1,525.7	1,566.4	(2.6%)
North Island	32.3	32.0	0.8%	915.7	953.8	(4.0%)
South Island	34.2	35.0	(2.4%)	610.0	612.6	(0.4%)
Fonterra Australia	10.3	7.7	33.4%	116.4	115.3	0.9%

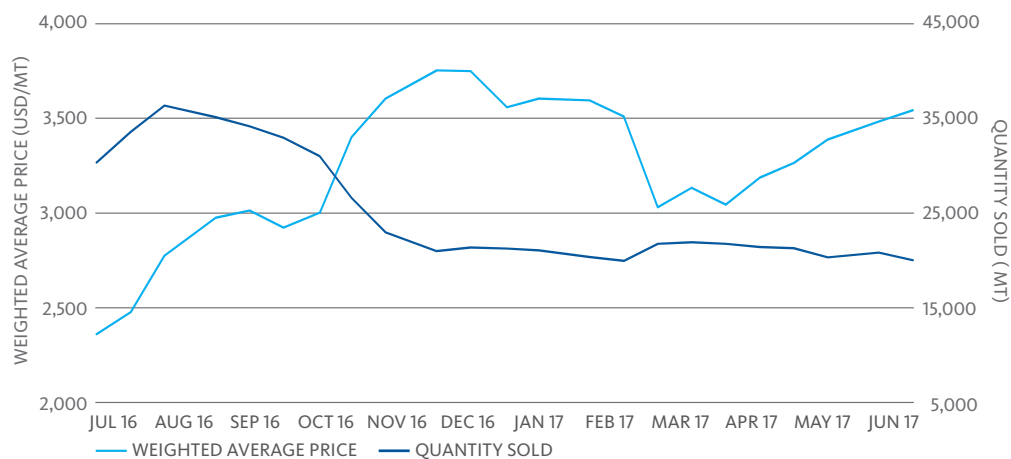
Fonterra GDT results

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

	LAST TRADING EVENT (20 JUNE 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	20,028	546,948
Change in Quantity Sold on GDT over same period last year	(6.4%)	(6.6%)
Weighted Average Product Price (USD/MT)	3,543	3,215
Change in Weighted Average Product Price over same period last year	47.8%	37.0%
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.