

GLOBAL DAIRY UPDATE



Dairy for life



- New Zealand production for the 2016/17 season (from 1 June 2016) is down 2% to the end of March.



- US exports rate of growth is declining. New Zealand and Australia exports up slightly for the year.



- Continued growth in Asia and Latin America, but some easing in China and Middle East & Africa this month.



- Fonterra milk collections improved again in April with better growing conditions across New Zealand and increased third-party milk in Australia.

- 2017 third quarter business update.
- Increased forecast farmgate milk price for the 2016/17 season of \$6.15 per kgMS.
- New season forecast farmgate milk price for 2017/18 announced at \$6.50 per kgMS.
- Forecast earnings per share maintained at 45-55 cents.
- Full year target dividend of 40 cents per share.



- Farmers signing up to new farm management tool.
- Fonterra uses artificial intelligence to develop innovative new recipe.

KEY DATES



1 June 2017
Measurement Date for Share
Standard 2017/18 Season

31 July 2017
End of Financial Year 2017

Late September 2017
Annual Results Announced

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



LAST 12 MONTHS NEW ZEALAND PRODUCTION DOWN 1% AFTER INCREASE IN MARCH. PRODUCTION IN THE US AND EU REMAINS STABLE

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

NEW ZEALAND

1% ↓

Production change for the 12 months to March 2017

Total New Zealand milk production in March was up 9% compared to the same month last year. For the 12 months to March, milk production was down 1% compared to the same period the previous year. The monthly volume change reflects improved growing conditions as a result of better than expected weather conditions in the latter part of the season. New Zealand production for the 2016/17 season (from 1 June 2016) is down 2% to the end of March. Fonterra collections have been reported for April, see page 5 for details.

AUSTRALIA

8% ↓

Production change for the 12 months to February 2017

Australia production in February decreased 10% compared to the same month last year. Production was down 7% for February, excluding the impact of the leap year in 2016. Production for the 12 months to February was down 8% compared to the same period the previous year. Fonterra collections in Australia have been reported for April, see page 5 for details.

EUROPEAN UNION

1% ↓

Production change for the 12 months to February 2017

EU production in February decreased 4% compared to the same month last year. Excluding the impacts of the leap year in 2016, production was flat, representing an easing in the rate of decline over the past four months. Production for the 12 months to February was down 1% compared to the same period the previous year. Across this period, Germany was down 2%, France down 4% and the UK down 5%.

USA

2% ↑

Production change for the 12 months to March 2017

US production in March increased 2% compared to the same month last year. Monthly increases in US production have remained around 2% for each of the last 10 months. Milk production for the 12 months to March increased 2% compared to the same period the previous year.



US EXPORTS RATE OF GROWTH IS DECLINING.

NEW ZEALAND AND AUSTRALIA EXPORTS UP SLIGHTLY FOR THE YEAR

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

NEW ZEALAND

1%↑

Export change for the 12 months to February 2017

Total New Zealand dairy exports in February decreased 12%, or 34,000 MT, compared to the same month last year and continued the recent run of monthly declines.

WMP and SMP exports were down 7% and 38% respectively in February. Fluid and fresh dairy growth continued, with the category up 9%.

Exports for the 12 months to February were up 1%, or 20,000 MT, on the previous comparable period. Growth was led by infant formula and fluid and fresh dairy, up a combined 40%. WMP, the largest export category, was down 4%.

AUSTRALIA

2%↑

Export change for the 12 months to February 2017

Australia dairy exports in February decreased 10%, or 6,000 MT, compared to the same month last year.

SMP, fluid and fresh dairy and cheese, which account for 80% of volumes, were down a combined 12% for the month.

Exports for the 12 months to February were up 2%, or 14,000 MT, on the previous comparable period.

Growth in fluid and fresh dairy and WMP, up 12% and 13% respectively, was offset by declines in key export categories SMP and cheese down a combined 11% or 43,000 MT.

EUROPEAN UNION

5%↑

Export change for the 12 months to January 2017

EU dairy exports in January were flat, relative to the same month the previous year.

6% declines in both fluid and fresh dairy and SMP were offset by growth in WMP, cheese and infant formula, up 20%, 12% and 11% respectively.

Export growth on a rolling 12-month basis has eased in recent months but remains up 5%, or 237,000 MT, on the previous comparable period.

The largest export category, fluid and fresh dairy, remains up 9%, while cheese and infant formula are up a combined 12% or 139,000 MT.

USA

4%↑

Export change for the 12 months to February 2017

US dairy exports increased 9% in February, or 14,000 MT, compared to the same month the previous year.

This was the ninth consecutive month of increasing exports although the rate of growth has eased in the last quarter.

The increase was driven by three of the larger product categories, SMP, whey powder and cheese, up a combined 20% or 18,000 MT.

Exports for the 12 months to February were up 4% or 82,000 MT, on the previous comparable period.



CONTINUED GROWTH IN ASIA AND LATIN AMERICA, BUT SOME EASING IN CHINA AND MIDDLE EAST & AFRICA THIS MONTH

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

LATIN AMERICA

12% ↑

Import change for 12 months to January 2017

Latin America¹ dairy import volumes increased 6%, or 9,000 MT, in January compared to the same month the previous year.

Growth in WMP, up 49% due to increases into Brazil and Colombia, was partially offset by SMP, down 10%. After five months of solid monthly growth, cheese was flat.

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

WMP, cheese and SMP, which account for 55% of total imports, were up a combined 18% or 158,000 MT.

ASIA

7% ↑

Import change for 12 months to January 2017

Asia (excluding China)² dairy imports increased 3%, or 11,000 MT, in January compared to the same month the previous year.

Whey powder and cheese were up 11% and 8% respectively, while WMP was down 7%.

Imports for the 12 months to January were up 7%, or 289,000 MT, compared to the same period the previous year, driven by the Philippines and Indonesia.

Increases in fluid and fresh dairy and whey powder, up 16% and 11% respectively, were offset by WMP, down 4% or 24,000 MT for the period.

MIDDLE EAST & AFRICA

3% ↓

Import change for 12 months to January 2017

Middle East and Africa³ dairy imports decreased 2%, or 6,000 MT, in January compared to the same month the previous year.

Growth in powders, with WMP and SMP up a combined 7%, was offset by fluid and fresh dairy and cheese, down 8% and 19% respectively.

Imports for the 12 months to January were down 3%, or 118,000 MT, compared to the same period last year.

Fluid and fresh dairy and WMP, the region's two largest import categories, were down 7% and 6% respectively.

CHINA

10% ↑

Import change for 12 months to March 2017

China dairy imports decreased 6%, or 13,000 MT, in March compared to the same month last year.

Whey powder and infant formula were up 13% and 32% respectively. WMP and fluid and fresh dairy were down a combined 24% or 27,000 MT.

Imports for the 12 months to March were up 10%, or 208,000 MT, compared to the same period last year.

Fluid and fresh dairy, China's largest import category, was up 21%, or 116,000 MT, while WMP was up 7%.

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

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

³ Includes estimates for Egypt (January).

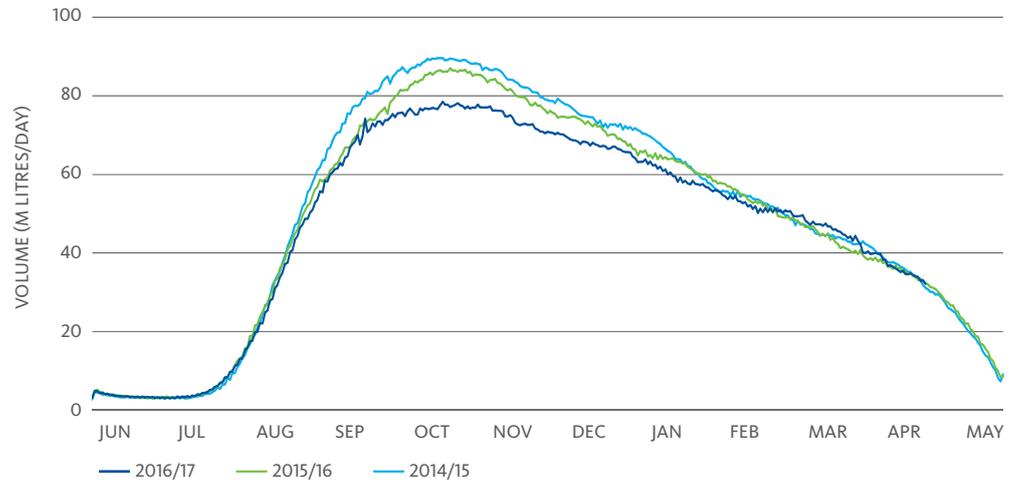
OUR MARKETS

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

3% ↓

Decrease for the season from 1 June to 30 April

Fonterra’s milk collection across New Zealand for the 11 months to 30 April reached 1,459 million kgMS, 3% lower than the same period last season.

April collections reached 118 million kgMS, 5% up on the same month last season.

Fonterra New Zealand milk collection improved in April due to favourable growing conditions in most parts of the country, but particularly in the North Island.

NORTH ISLAND

4% ↓

Decrease for the season from 1 June to 30 April

North Island milk collection in April reached 67 million kgMS, 9% up on April last season.

SOUTH ISLAND

0%

Change for the season from 1 June to 30 April

South Island milk collection in April reached 51 million kgMS, in line with April last season.

AUSTRALIA

1% ↓

Decrease for the season from 1 July to 30 April

Fonterra’s milk collection across Australia for the 10 months to 30 April reached 106 million kgMS, 2 million kgMS lower than last season.

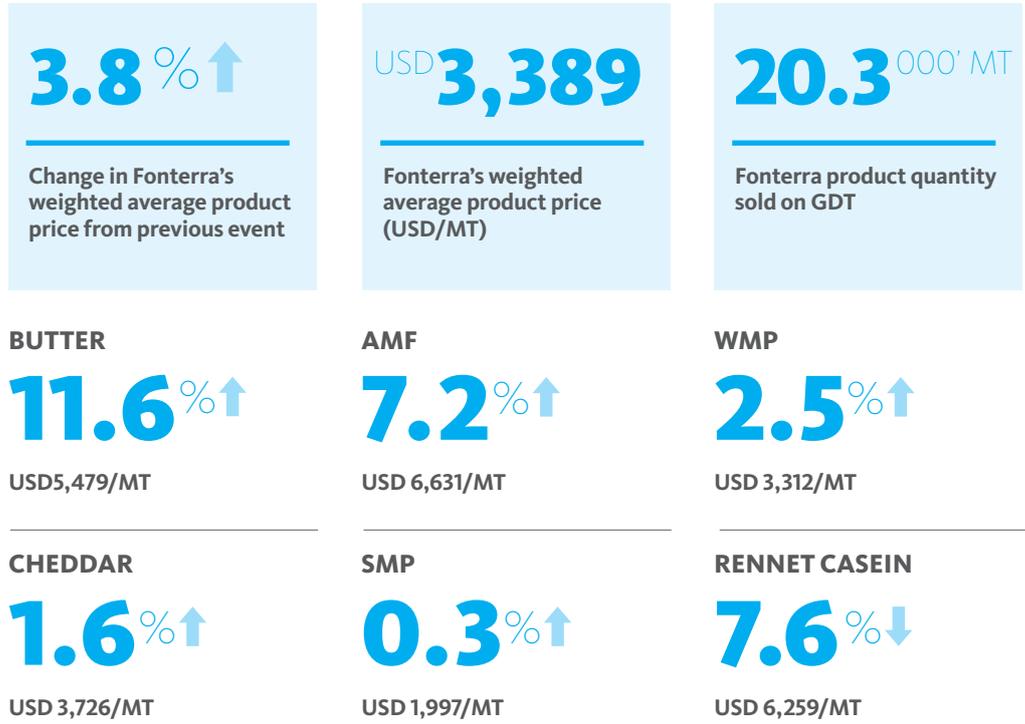
In April milk collection reached 9 million kgMS, 6% higher than the same month last season. This was due to the timing of increased supply from third-parties.

OUR MARKETS

FONTERRA GLOBALDAIRYTRADE RESULTS

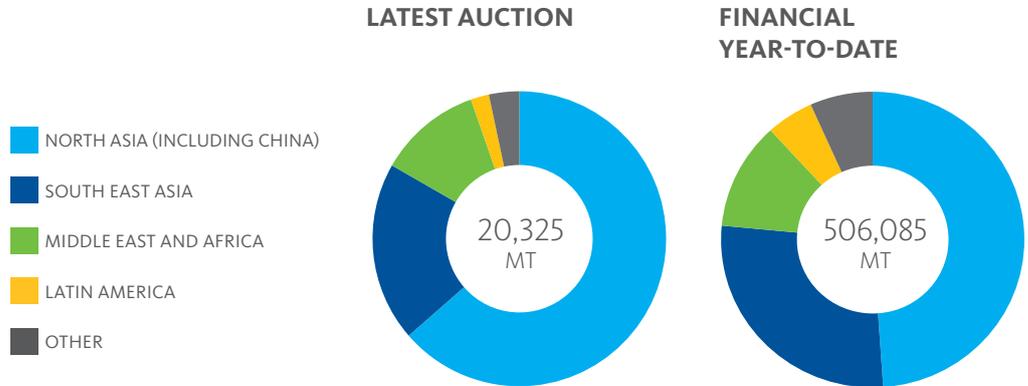


Fonterra GDT results at last trading event
16 May 2017:



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 6 June 2017. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

In April, the New Zealand dollar weakened against the United States dollar.





2017 NINE-MONTH BUSINESS UPDATE

VOLUME

16.7^B LME

↓ DOWN 6%

REVENUE

\$13.9^B

↑ UP 8%

GROSS MARGIN

17.8%

↓ DOWN FROM 22.0%

OPEX

\$1.8^B

↓ DOWN 4%

CAPEX

\$433^M

↓ DOWN 32%

The outlook for the season has improved with an increased forecast Farmgate Milk Price of \$6.15 per kgMS and our target dividend remaining at 40 cents per share.

The overall performance for the nine-months to 30 April was broadly in line with the comparable period last year. Sales volumes were down 6% reflecting the lower volumes in Ingredients. Revenue increased 8% to \$13.9 billion through the overall appreciation in dairy prices. Gross margin in per cent declined to 18% from 22% in the previous comparable period. This was primarily due to lower margin percentages in Ingredients.

New Zealand Ingredients had a challenging third quarter as a result of the increase in milk price reference products, particularly compared to prices for non-reference products. The increase in late season milk has increased inventory relative to expectations

going into the final quarter. However, higher sales in the last quarter are likely to result in lower closing inventory levels than last year.

The Consumer and Foodservice business increased year-to-date sales volumes by a further 350 million liquid milk equivalents (LME) and remains on track for an additional 400 million in the full year. During the third quarter, gross margins were compressed as the impact of higher milk prices hit production costs. The impact was in line with expectations and overall gross margin per cent for the nine months to 30 April of 28% is in line with last year. Greater China continues to be the greatest growth driver, and our leading business in Chile, Soprole, also had a good quarter.

Our China Farms business had a good operating period with volumes increasing 51% to 239 million LME for the year-to-date reflecting

both hubs being close to being fully stocked with animals. Performance has improved reflecting efforts to reduce operating costs, the benefits of increased volume and on-farm operational management. The gross margin was positive, at 1% for the nine months to 30 April versus minus 15% for the previous comparable period.

Capital spend year-to-date is \$433 million, 32% lower than in the first nine months of last year which included the tail-end of our capacity expansion programme. We expect total capex of \$900 million this financial year, and are planning to have lower spend in FY18.

The Co-operative has maintained a strong focus on working capital, particularly inventory. This continued financial discipline and strong operating cash flows will help to achieve our targeted gearing ratio of between 40 and 45% by year end.

THE OUTLOOK

We have confirmed our forecast earnings per share range of 45 to 55 cents on the basis of a solid outlook for overall earnings and an expectation of a strong fourth quarter particularly in Ingredients sales.

Our full year target dividend is 40 cents per

share, supported by the continued strength of the Co-operative's balance sheet.

The increased production from better than expected weather in autumn will support increased sales. However, previously stated headwinds of lower stream returns and overall margin

pressure could continue to impact. We remain committed to delivering on our full year targets.

OUR PERFORMANCE INGREDIENTS



NEW ZEALAND INGREDIENTS

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 are whole milk powder (WMP), skim milk powder (SMP), butter, anhydrous milk fat (AMF), and butter milk powder (BMP).

Milk collection for the season to date was 3% lower than the same time last year resulting in lower production volumes. This is largely a result of the poor weather in spring significantly reducing production during the peak, partially offset by good growing conditions in February and March. Our forecast decline of 3% for the season reflects a significant change from the forecast during the first quarter when a decline for the season of 7% was expected. This late season increase has resulted in higher volumes of product available for sale in the second half of the financial year.

Our year-to-date gross margin for Ingredients declined to 10% from 16% for the same period last year. This reflects overall higher prices, in a

business where margins are generally determined by dollar amounts rather than percentages, but also the impact of a relatively rapid increase in milk prices. Gross margins have also been impacted by the previously announced change to the Milk Price Manual (year-to-date impact of six cents per kgMS).

Prices of reference products rose significantly – up 16% on last quarter – after a similar increase in the second quarter. This contrasts with an increase in non-reference prices of only 8%. While the overall return from non-reference products is still attractive, the relative gross margin contribution versus reference products has decreased significantly over the year. This has led to overall negative stream returns and has

been a driver of the lower overall gross margin for the Ingredients business.

Through the period, our sales teams have continued to increase the rate of price achievement per MT. This reflects our investments to grow ingredient solutions and overall capability in people, process and systems to support more effective pricing tactics.

Closing inventory as at 30 April 2017 was 3% lower than the same period last year due to continued efforts to maintain appropriate levels of stock in our supply chain, partially offset by the strong production in recent months. We are targeting a similar end of year inventory position to last year.

	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	CHANGE Q3 FY16 TO Q3 FY17
PRODUCTION VOLUME¹ (000 MT)						
Reference products	443	96	588	704	461	4%
Non-reference products	212	58	218	239	221	4%
SALES VOLUME^{1,2} (000 MT)						
Reference products	407	451	369	604	386	(5%)
Non-reference products	204	212	164	211	185	(10%)
REVENUE^{1,2} (\$ PER MT)						
Reference products	3,406	3,314	3,452	4,130	4,798	41%
Non-reference products	4,829	4,860	4,955	5,370	5,781	20%

1 Excludes bulk liquid milk in non-reference products.

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

OUR PERFORMANCE

CONSUMER AND FOODSERVICE



We have moved an additional 350 million litres of milk on a LME basis into our consumer and foodservice products over the past nine months. This is in line with our strategy to convert as much milk as possible into higher-value products.

Consumer and Foodservice increased volumes to 4 billion LME for the nine months to 30 April 2017, an improvement of 10% compared to the same period last year. We are on track for our 400 million LME growth target for the full year.

Gross margins of 28% are in line with the same period last year reflecting solid

margins in the first half due to pricing increases ahead of higher milk costs coming through in the third quarter. In the third quarter these margins reduced as result of the higher input milk prices.

The performance reflects the success of our focused channel strategy in foodservice, our strong consumer brand positions in our leadership markets, and

a group-wide focus on price management and improved go-to-market models.

All regions except Oceania saw strong LME growth but tighter gross margins. Oceania's lower volume but higher margins are largely a result of businesses divested in the prior year in Australia as part of the turnaround of that market.

CONSUMER AND FOODSERVICE NINE-MONTH PERFORMANCE

	ASIA	GREATER CHINA	LATIN AMERICA	OCEANIA	TOTAL
VOLUME (M LME)					
Nine-month FY17	1,284	884	546	1,318	4,032
Nine-month FY16	1,175	633	447	1,426	3,682
% Change	9.3%	39.7%	22.1%	(7.6%)	9.5%
GROSS MARGIN (%)					
Nine-month FY17	29%	32%	31%	24%	28%
Nine-month FY16	31%	37%	31%	21%	28%

GREATER CHINA

Strong volume growth continued on the back of our successful Foodservice strategy. During the period we expanded our offering into new beverage products which has been very successful.

Our Consumer brands also continue to increase in volume, in the context of a very competitive market. Gross margin percentage was impacted by product mix shifts as well as higher input costs.

OCEANIA

In Oceania, overall volumes were down due to the previous comparable period including volumes from divested businesses. Underlying growth in our continuing operations was positive.

Gross margins in Oceania increased compared to the first nine-months of last year reflecting the successful turnaround of the Australian business.

ASIA

The Asia region delivered growth of 9% and held gross margins to a good level. This reflects the strength and diversity of our market positions across the region.

Our Foodservice business in the region continues to perform well and has delivered strong sales growth through the year.

LATIN AMERICA

Our Soprole business continued to perform well through good execution and continuous innovation. In particular, our products exceed government targets for healthy formulations.

The overall result was impacted by Brazil, where the dairy category has continued to decline, and Venezuela where maintaining regular operations and the sourcing of materials continued to be difficult.



Farmers signing up to new farm management tool



More than 1,100 farmers have signed up to Fonterra's new online farm management tool, Agrigate.

Developed by Fonterra Farm Source and LIC, Agrigate helps farmers improve their performance by combining all the key data they need to make decisions on one, easy-to-use online dashboard.

The tool has been evolving since its launch in February, with feedback from farmers who are using the platform determining the roadmap for development. New features are being released every two weeks and farmers are

checking back to see what has been added.

For example, the Agrigate team has recently added a Milk Curve panel that tracks a farm's milk production.

Agrigate is designed to help farmers plan ahead, using existing data to assess the interaction between different on-farm factors such as weather conditions, animal health, milk production, financials, pasture cover and fertiliser applications.

It allows farmers to benchmark these farm factors on a scale that they haven't been able to in the past, a feature that has

impressed Waikato dairy farmer Bill Aubrey.



"I can compare past and present, regional and national to see how I'm tracking and how I measure up compared to other same-system farms, even in my own area. Simply put, Agrigate takes the complexity of dairy analytics and turns it into a straightforward way to help me make smarter decisions and improve my bottom line" Bill says.

Fonterra uses artificial intelligence to develop innovative new recipe

Cheddar cheese is not something you would associate with the traditional kiwi pav.

Yet this is exactly what 'Chef Watson', the Artificial Intelligence chef came up with, providing the world with a glimpse into the future of food.

The Cheddarlova is part of collaboration between Fonterra and IBM. It features some unlikely flavour combinations: chilli, coconut, mango... and oddest of all, cheddar cheese. And much to the surprise of Fonterra Chef and Global Category and Innovation Manager Keith McDonald, the cheesy Pavlova has proven a hit with taste testers.

IBM's 'Chef Watson' is a kind of supercomputer programmed to create recipes and flavour

combinations beyond what humans can come up with. Keith played with the recipe it created, made a few tweaks... and baked the world's first Cheddarlova.

"I was truly amazed by the taste of the dish. It's opened my eyes to a whole new way of cooking," Keith said.

At first he was sceptical of the idea of a computer generated recipe, but

after experimenting with the initial 'Chef Watson' recipe Keith found the ingredients hummed.

"As chefs we're always creating new menus, looking for ideas to push the boundaries and find the next best thing in food. I can see now that with technology we can come up with even more challenging and trend setting flavours – like salted caramel for example," he said.



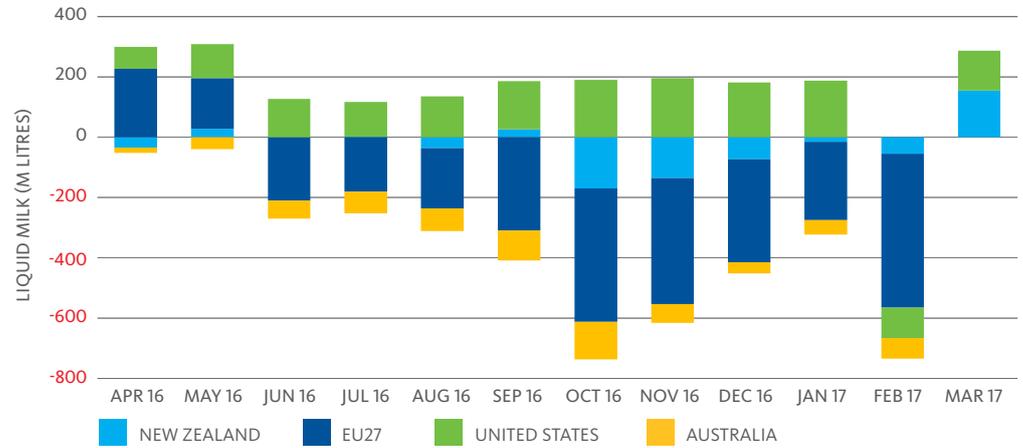
SUPPLEMENTARY INFORMATION

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.

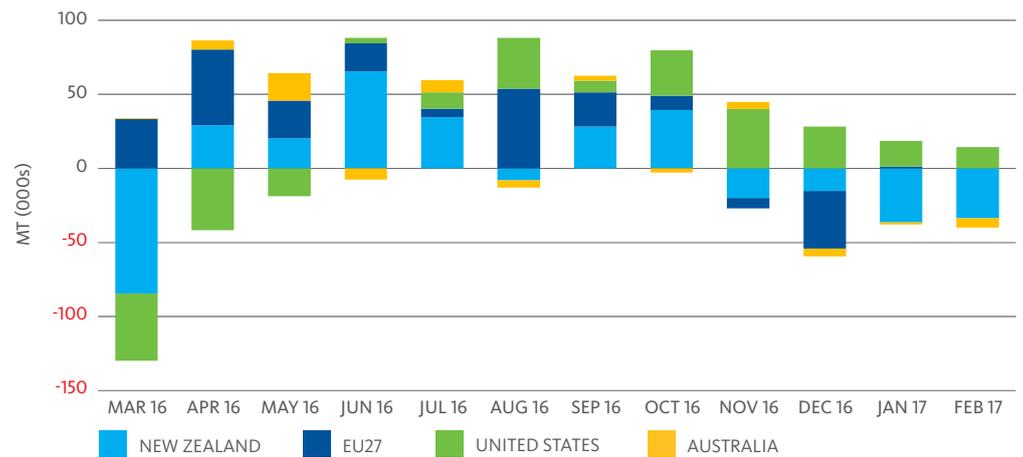
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

PRODUCTION



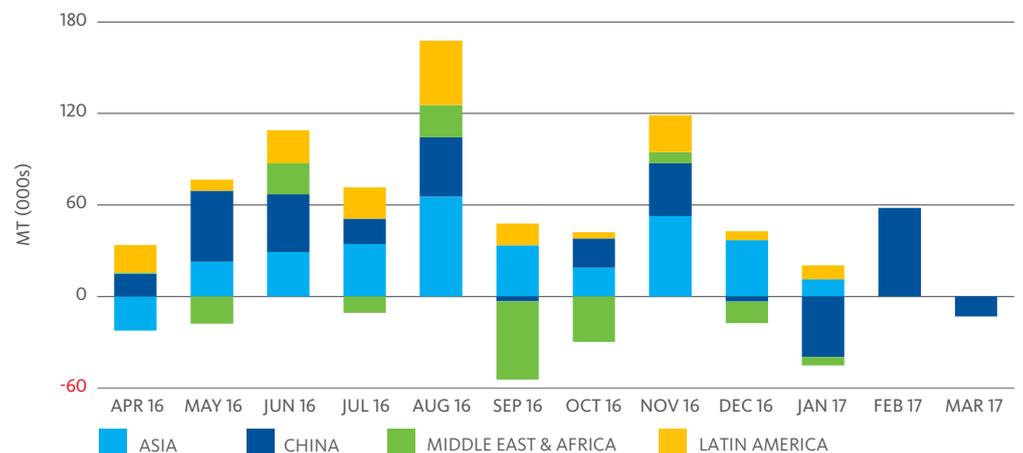
NOTE: Data for EU and Australia to February and New Zealand and US to March.

EXPORTS



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

IMPORTS



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

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)	APRIL 2017	APRIL 2016	MONTHLY CHANGE	SEASON-TO-DATE 2016/17	SEASON-TO-DATE 2015/16	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	117.7	111.8	5.3%	1,459	1,499	(2.7%)
North Island	66.7	61.0	9.3%	883.4	921.8	(4.2%)
South Island	50.9	50.7	0.4%	575.8	577.6	(0.3%)
Fonterra Australia	9.3	8.7	6.4%	106.1	107.6	(1.4%)

Fonterra GDT results

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

	LAST TRADING EVENT (16 MAY 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	20,325	506,085
Change in Quantity Sold on GDT over same period last year	20.2%	(6.6%)
Weighted Average Product Price (USD/MT)	3,389	3,191
Change in Weighted Average Product Price over same period last year	45.7%	36.2%
Change in Weighted Average Product Price from previous event	3.8%	-

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.

Gearing Ratio

Economic net interest bearing debt divided by economic net interest bearing debt plus equity excluding cash-flow hedge reserves.

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.

kgMS

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

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.

Fonterra Strategic Platforms

Ingredients

The Ingredients platform comprises bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia, Europe and Latin America, or sourced through our global network, and sold to food producers and distributors in over 140 countries.

It also includes Fonterra Farm Source™ retail stores.

Consumer

The Consumer platform comprises branded consumer products, such as powders, yoghurt, milk, butter, and cheese. Base products are sourced from the ingredients business and manufactured into higher-value consumer dairy products.

Foodservice

The Foodservice platform comprises a range of branded products and solutions for commercial kitchens, including bakery butter, culinary creams, and cheeses.

China Farms

The China Farms platform comprises the farming operations in China, which produce high quality fresh milk for the Chinese market.