

GLOBAL DAIRY UPDATE



Dairy for life



- New Zealand production up 6% in May compared to previous year. Australia, Europe and the US also up low single-digit.



- US, New Zealand and Australian exports show double-digit growth for the month. European exports remain on the rise.



- Latin America, Asia and China show steady import growth. Growth in Middle East and Africa accelerates in February.



- Fonterra's New Zealand milk collection for the season ended 31 May 2018 was 1,505 million kgMS, down 1% on last season.
- Forecast Fonterra milk collection in New Zealand for the 2018/19 season is 1,525 million kgMS, up 1.3% on 2017/18.



- Fonterra is bringing its dairy goodness to online consumers in Southeast Asia for the first time through a new partnership with Lazada, the leading online shopping destination in the region.

- It's an oldie but a goodie – Tip Top's Boysenberry Ripple has taken out the supreme award at the New Zealand Ice Cream awards for the fourth time.

- Minimum shareholding requirement for farmer shareholders.
- Climate change ambassadors to show the way.

KEY DATES



Late September 2018
FY18 Annual Results
Announcement

12 November 2018
Fonterra Shareholders' Fund
Annual Meeting

1 December 2018
Compliance Date for Share
Standard 2018/19 Season

December 2018
FY19 Q1 Business Update



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

NEW ZEALAND PRODUCTION UP 6% IN MAY COMPARED TO PREVIOUS YEAR. AUSTRALIA, EUROPE AND THE US ALSO UP LOW SINGLE-DIGIT

NEW ZEALAND

0%

Production change for the 12 months to May 2018

Total New Zealand milk production increased 6% in May compared to the same period last year on the back of favourable autumn weather conditions in both the North and South Island.

For the 12 months to May, milk production was flat compared to the same period last year.

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

AUSTRALIA

3% ↑

Production change for the 12 months to April 2018

Australia milk production increased 4% in April compared to the same period last year, largely due to favourable conditions in the four key dairy regions.

Production for the 12 months to April was up 3% compared to the same period the previous year.

This increase was driven by south east Australian production, in particular Victoria and Tasmania .

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

EUROPEAN UNION

3% ↑

Production change for the 12 months to April 2018

EU milk production increased 1% in April compared to the same period last year, driven by continued strong European dairy prices.

This growth was primarily driven by Germany and Poland up 3%, facilitated by good weather conditions. This growth was partially dampened by a combined 3% decline in the United Kingdom and Ireland as a consequence of delayed grass growth and feed shortages.

Production for the 12 months to April was up 3% compared to the same period the previous year.

USA

2% ↑

Production change for the 12 months to March 2018

US milk production increased 1% in March compared to the same period last year.

The US continues to grow production per cow with March seeing an average 10kg per cow increase, above March 2017 levels in the 23 major dairy-producing states.

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



US, NEW ZEALAND AND AUSTRALIAN EXPORTS SHOW DOUBLE-DIGIT GROWTH FOR THE MONTH. **EUROPEAN EXPORTS REMAIN ON THE RISE**

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

NEW ZEALAND

1%↑

Export change for the 12 months to April 2018

Total New Zealand dairy exports increased 10%, or 25,000 MT, in April compared to the same period last year.

This growth continues to be driven by WMP, which was up 12,000 MT. In addition, AMF, infant formula and butter were up a combined 26%, or 11,000 MT, for the month.

Exports for the 12 months to April were up 1%, or 38,000 MT, on the previous comparable period.

This increase was primarily due to WMP and fluid and fresh dairy, up a combined 123,000 MT, partially offset by declines in AMF, MPC and MPI, and cheese down a combined 83,000 MT.

AUSTRALIA

5%↑

Export change for the 12 months to April 2018

Australia dairy exports increased 16%, or 9,000 MT, in April compared to the same period last year. This was led by increases in most export categories, in particular SMP and WMP, which were up a combined 7,000 MT.

Exports for the 12 months to April were up 5%, or 37,000 MT, on the previous comparable period.

Fluid and fresh dairy, SMP and infant formula made up the majority of the increase, adding a combined 64,000 MT. These gains were offset by declines in butter, whey powder and WMP which were down a combined 19%, or 23,000 MT, for the 12 months to April.

EUROPEAN UNION

7%↑

Export change for the 12 months to February 2018

EU dairy exports increased by 4%, or 14,000 MT, in February compared to the same period last year.

Growth was seen across the majority of export categories, in particular infant formula and SMP up a combined 19%, or 19,000 MT. However a decline of 11%, or 12,000 MT, was seen in the largest category, fluid and fresh dairy.

Exports for the 12 months to February were up 7%, or 341,000 MT, on the previous comparable period. SMP continues to be the primary driver, up 40%, or 225,000 MT. Growth continues to be seen across most of the export categories except for caseinate and butter, down a combined 53,000 MT, or 23%.

USA

8%↑

Export change for the 12 months to April 2018

US dairy exports increased by 31%, or 57,000 MT, in April compared to the same period last year on the back of high domestic production.

Exports were up for the sixth consecutive month led by the following categories: SMP, WPC and WPI, lactose and cheese.

Exports for the 12 months to April were up 8%, or 173,000 MT, on the previous comparable period.

Growth was seen across most categories apart from fluid and fresh dairy which was down 8,000 MT. Cheese, SMP and whey powder saw the biggest gains, adding 54,000 MT, 37,000 MT and 31,000 MT, respectively.



LATIN AMERICA, ASIA AND CHINA SHOW STEADY IMPORT GROWTH. **GROWTH IN MIDDLE EAST AND AFRICA ACCELERATES IN FEBRUARY**

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

LATIN AMERICA

0% ↑

Import change for the 12 months to February 2018

Latin America's dairy import volumes¹ increased 4%, or 5,000 MT, in February compared to the same period last year. This was driven by SMP, cheese and lactose up a combined 14%, or 10,000 MT. These gains were partially offset by combined declines in WMP and AMF of 6,000 MT.

Imports for the 12 months to February were up 3,000 MT compared to the same period the previous year. Increases in SMP, cheese and whey powder of a combined 98,000 MT for the 12 months to February, were dampened by a large decline in WMP of 93,000 MT.

ASIA

1% ↑

Import change for the 12 months to February 2018

Asia (excluding China) dairy import volumes¹ increased 1%, or 5,000 MT, in February compared to the same period last year. This was driven by continued growth in WMP and fluid and fresh dairy, up 9,000 MT and 4,000 MT, respectively.

Imports for the 12 months to February were up 1%, or 31,000 MT, compared to the same period the previous year. This was primarily driven by cheese and WMP, up a combined 89,000 MT, partially offset by a continuing decline in Asia's SMP category, which for the 12 months to February is down 42,000 MT.

MIDDLE EAST & AFRICA

2% ↑

Import change for the 12 months to February 2018

Middle East and Africa dairy import volumes¹ increased 8%, or 26,000 MT, in February compared to the same period last year. This was driven by significant increases in most categories, especially SMP, infant formula and cheese up 42%, 50% and 14%, respectively.

Imports for the 12 months to February were up 2%, or 70,000 MT, compared to the same period the previous year. SMP, cheese and fluid and fresh dairy categories gained 139,000 MT combined. This was partially offset by a large decline in WMP of 65,000 MT.

CHINA

17% ↑

Import change for the 12 months to March 2018

China dairy import volumes¹ increased 3%, or 7,000 MT, in March compared to the same period last year. This was driven by a combined 14,000 MT, or 22%, growth in fluid and fresh dairy, butter and lactose categories. Declines in WMP of 6,000 MT partially offset this growth.

Imports for the 12 months to March were up 394,000 MT compared to the same period last year. Strong demand out of China continues with imports across all key categories up for the period. Infant formula, WMP and SMP imports added a combined 220,000 MT of additional volumes.

¹ Estimates are included for those countries that have not reported data.

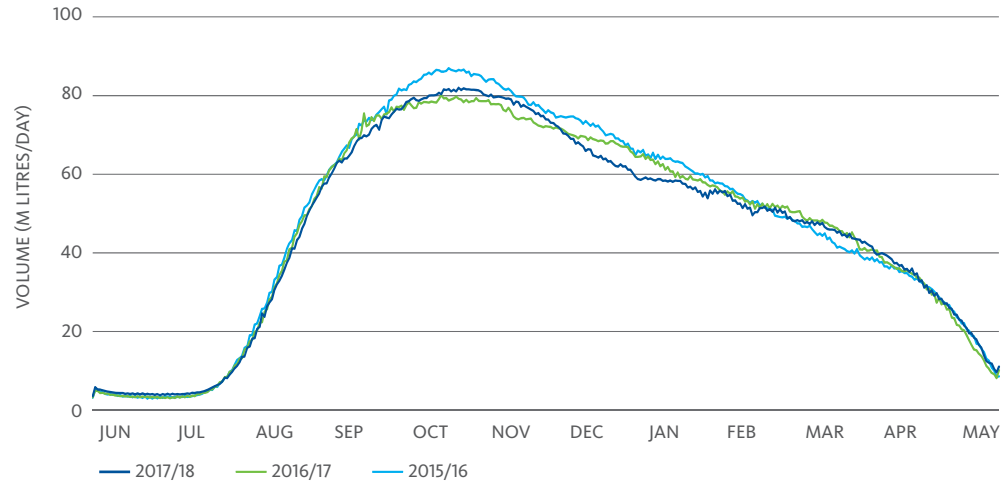
OUR MARKETS

FONTERRA MILK COLLECTION 2017/18 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

1% ↓

Decrease for the 2017/18 season compared to the previous season

Fonterra’s milk collection across New Zealand for the 2017/18 season reached 1,505 million kgMS, 1% behind the 2016/17 season.

Difficult weather conditions were the prevailing theme for this season. Extremely wet conditions in spring caused pasture damage, stunting both grass growth and supplementary feed production, followed by difficult dry conditions which kept pasture growth low across the season.

May collections were 71 million kgMS, 7% above the same month last season on the back of favourable autumn conditions in most regions.

NORTH ISLAND

3% ↓

Decrease for the 2017/18 season compared to the previous season

North Island milk collection for the 2017/18 season was down 3% compared to the previous season.

This decline was driven primarily by Taranaki down 10%, on the back of extremely poor weather conditions throughout the season.

May collections reached 35 million kgMS, 8% above the same month last season.

SOUTH ISLAND

1% ↑

Increase for the 2017/18 season compared to the previous season

South Island milk collection for the 2017/18 season was up 1% compared to the previous season.

Favourable conditions across Canterbury, Otago and Southland for most of the season drove the increase. Otago and Southland had their highest peak ever, as a result of good spring conditions, along with a strong autumn for Canterbury.

May collections reached 36 million kgMS, 6% above the same month last season.

AUSTRALIA

25% ↑

Increase for the season from 1 July to 31 May

Fonterra’s milk collection across Australia for the 11 months to 31 May reached 144 million kgMS, 29 million kgMS higher than last season

In May milk collection reached 12 million kgMS, 17% ahead of the same month last season.

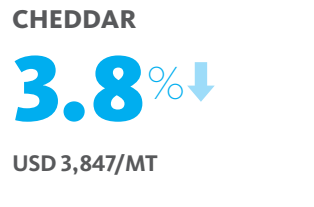
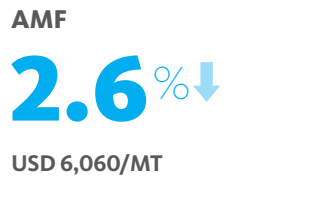
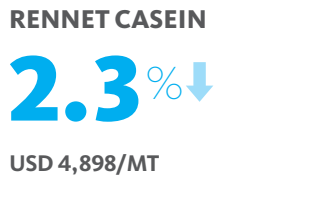
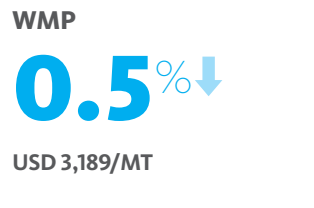
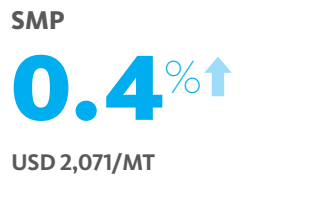
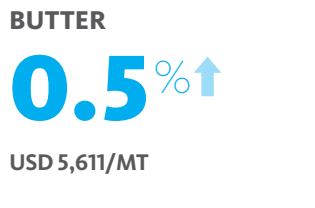
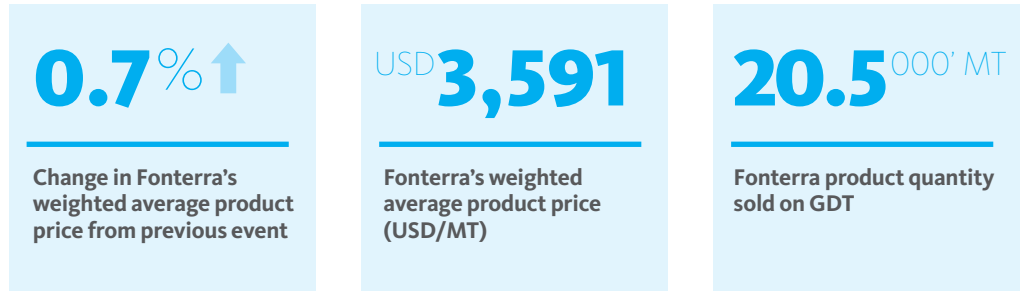
Although autumn conditions have been variable across key milk supply regions, conditions remain favourable for sustained milk growth for the balance of the season.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS



Fonterra GDT results at last trading event
19 June 2018:



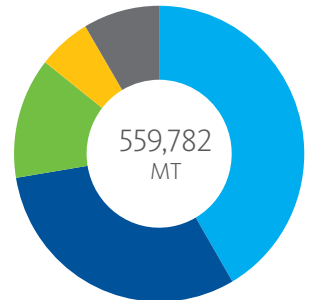
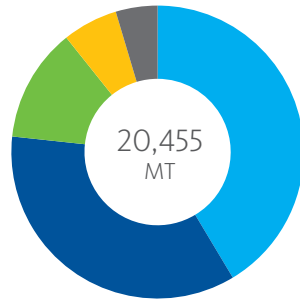
Fonterra GDT sales by destination:

LATEST AUCTION

FINANCIAL YEAR-TO-DATE

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

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



► The next trading event will be held on 3 July 2018. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar was volatile in May, falling for most of the month on renewed global uncertainty, before recovering late in the month.



OUR PERFORMANCE



Fonterra and Lazada join forces to bring dairy goodness online

This is Fonterra's first partnership with an e-commerce company in Southeast Asia and will see the dairy co-operative's well-loved products, such as Annum™, Fernleaf™ and Anchor™, made available through Lazada to 560 million consumers in six countries – Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

The collaboration includes an agreement for Lazada to be the exclusive online distributor of Anchor™ Full Cream Milk Powder in Indonesia, marking Anchor™ milk's debut in the market.

Anindya Dasgupta, Global Chief Marketing and Sales Officer, Fonterra, said, "Our relationship with Lazada is a key milestone in our journey to share the goodness of dairy with more people

around the world, and grow dairy consumption across Southeast Asia.

"Consumers in Southeast Asia are becoming more discerning as their incomes grow, demanding more nutritious and high-quality foods, and using technology more widely in their daily lives. This means more consumers are shopping online for essentials such as dairy.

"We are delighted to partner with Lazada to seize opportunities in shifting consumer behaviour and drive greater reach of our dairy nutrition."

The collaborative partnership involves leveraging analytics to better understand consumer insights, test out markets and products most suited for the online environment, and drive new innovations in marketing.

Lazada Group Chief Business Officer, Robin Mah said, "We are thrilled to be the first e-commerce partner in Southeast Asia to Fonterra, a global leader in dairy nutrition. It is a recognition of the consumers in Southeast Asia, the importance of understanding their unique needs and engaging them. It also reflects the trust that brands like Fonterra have in Lazada as the choice platform to build their brand reach, customer engagement, and e-commerce business in the region.

"We look forward to working closely together to make it simple and convenient for consumers to enjoy Fonterra's high-quality dairy products and help to meet families' evolving shopping needs."

A classic stands the test of time – Boysenberry Ripple scoops awards again

The Kiwi favourite first hit the freezers in the 1960s and since then has fast become a regular at ice cream scoop parlours and in dessert bowls. It has consistently been in one of the top selling tubs of ice cream since then.

It's jammed packed with fresh fruit, with over 90 metric tonnes of sun ripened boysenberries from Nelson used in Tip Top's Boysenberry Ripple and Boysenberry Trumpets, every year.

Tip Top Director Kim Ballinger says the combination of a great team and quality ingredients, including New Zealand fresh milk and cream, is a winning one.

"We're proud that Kiwis continue to love Boysenberry Ripple after more than 50 years. We reckon it brings together the best of New Zealand.

"Our ice cream contains great tasting fresh ingredients, and natural colours and flavours. It's



fantastic to see our efforts being recognised for award-winning taste!"

And while classic flavours like Boysenberry Ripple continue to stand the test of time, the team is working hard to come up with new flavours to tempt Kiwi taste buds.

"We're flat out testing a range of new varieties for next summer and we think New Zealanders will be as excited as we are about what's in store."

Tip Top also won the Best in Category and Gold for its Creamy Vanilla, and Goody Goody Gum Drops and Hokey Pokey were awarded gold medals.



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 minimum shareholding requirements for the 2018/19 season decreased to 1,391 million shares, 28 million lower than the opening 2017/18 minimum shareholding requirements.

SHAREHOLDING REQUIREMENTS FOR CURRENT AND PRIOR SEASON

FIGURES IN MILLIONS UNLESS OTHERWISE STATED	2017/18 SEASON OPENING BALANCE AT JUNE 2017	2018/19 SEASON OPENING BALANCE AT JUNE 2018
Minimum shareholding requirement	1,419	1,391
Vouchers that count towards the minimum shareholding	47	45
Dry shares held by farmer shareholders ¹	111	141
Units issued by the Fonterra Shareholders' Fund	124	125
Total shares on issue	1,607	1,612
Dry shares held by farmer shareholders (% of shares on issue)	6.9%	8.7%
Fonterra Shareholders' Fund size (% of shares on issue)	7.7%	7.8%

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

Climate change ambassadors to show the way

"We're selling world-leading food products and we need New Zealanders on board with us to have a social licence to operate. We need to do what's right by New Zealanders, what's right by the environment and what's right by our Co-op."

This is the view of Taranaki sharemilker, Trish Rankin, one of 15 Dairy New Zealand Climate Change ambassadors who will work with their rural communities to help farmers better understand the challenge of climate change.

"I want to break the concept that climate change is scary and turn it into positive action," says Trish.

"My role is to help my fellow farmers understand how they

can play a role in reducing the impact of climate change. We must acknowledge that each region is different and requires different actions but also recognise the good practices farmers already do to help mitigate climate change. Taranaki started riparian planting years ago so we are looking pretty plush and now able to focus on our next actions."

The 2017 Healthy Waterways report, published in October, recorded Taranaki's best healthy stream trends in 21 years, showing water quality improving in the

region. This was attributed to farmers robust Riparian Management Programme. "It's a step toward ensuring we have a (social) licence to operate," says Trish.

The 15 ambassadors – four women and 11 men – represent best environmental farming practices and will help farming communities future proof their business, according to DairyNZ Chief Executive Tim Mackle.

"They run their farms profitably and sustainably and are serious about reducing on farm greenhouse gas emissions," he says.

"Emission reduction is a challenge the entire global food sector is facing and New Zealand is well placed to showcase our sustainable dairying to the world.

"New Zealand is already one of the lowest emission producers of dairy in the world. But for New Zealand to achieve its 2030 target, we must look at ways to reduce all gases across all sectors," says Tim.

The Climate Change Ambassadors are located around New Zealand with 13 of the 15 positions held by Fonterra farmers.



SUPPLEMENTARY INFORMATION

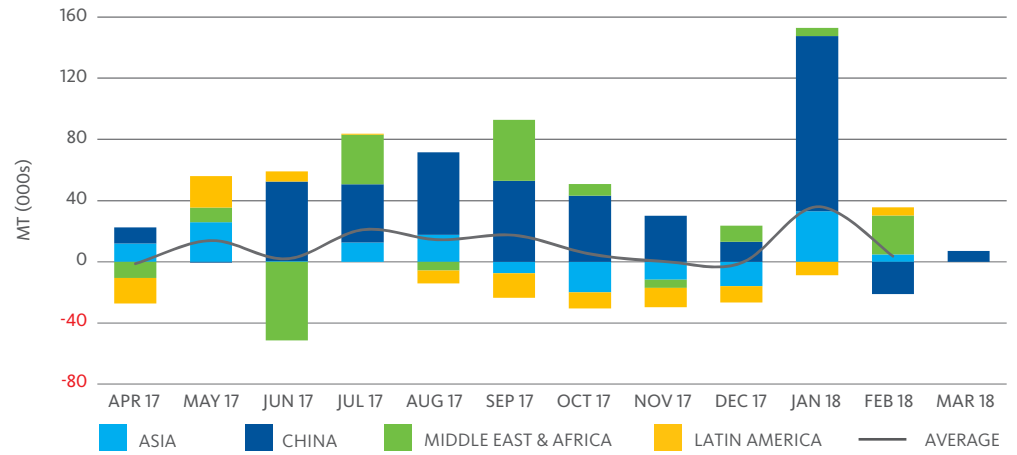
Global Dairy Market

The charts on the right illustrate the year-on-year changes in imports, exports and production for a range of countries that are important players in global dairy trade.

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

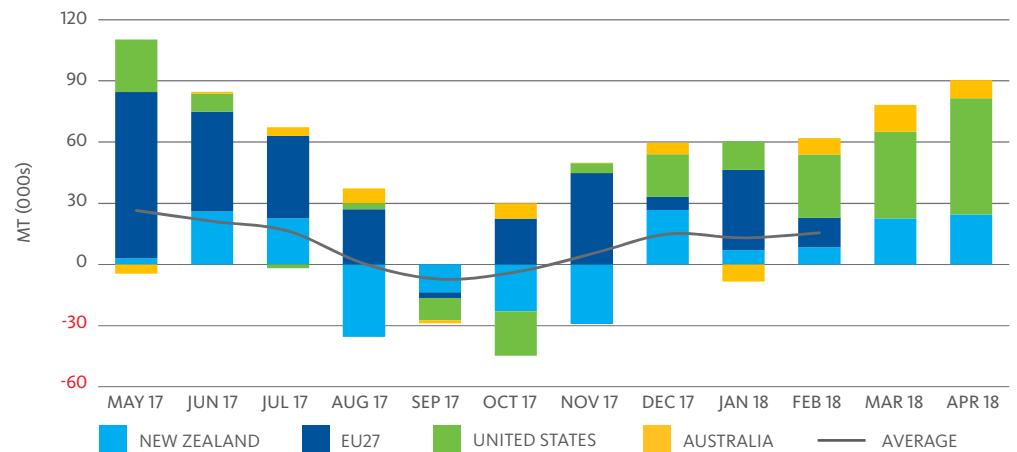
Averages are shown where data is complete for the regions presented.

IMPORTS



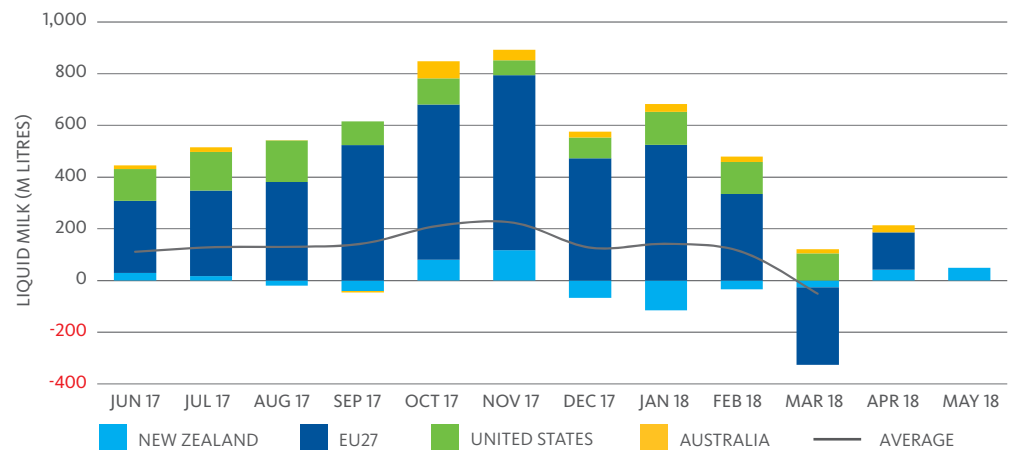
NOTE: Data for Asia, Middle East and Africa and Latin America to February; China to March.

EXPORTS



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

PRODUCTION



NOTE: Data for US to March; EU and Australia to April and New Zealand 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)	MAY 2018	MAY 2017	MONTHLY CHANGE	SEASON-TO-DATE 2017/18	SEASON-TO-DATE 2016/17	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	70.9	66.5	6.6%	1,505.1	1,525.7	(1.4%)
North Island	34.8	32.3	7.8%	892.0	915.7	(2.6%)
South Island	36.1	34.2	5.5%	613.1	610.0	0.5%
Fonterra Australia	11.8	10.0	17.0%	143.6	114.8	25.0%

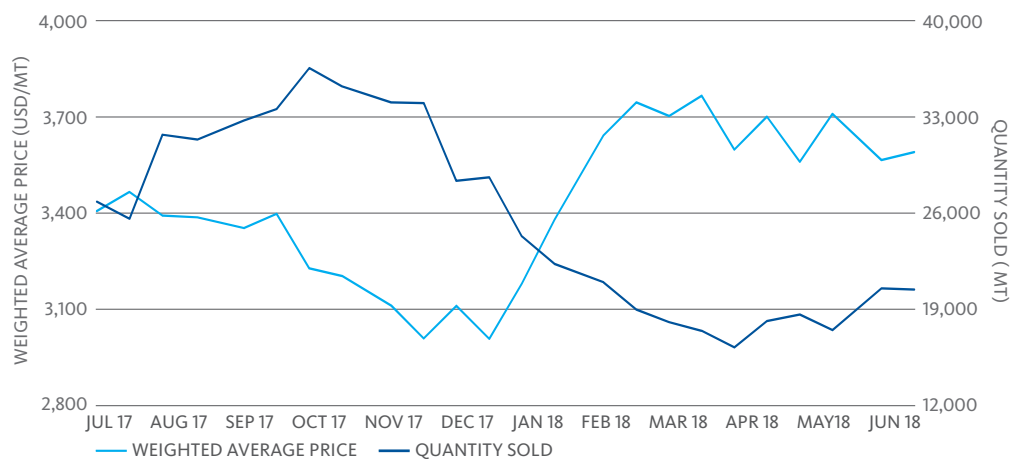
Fonterra GDT results

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

	LAST TRADING EVENT (19 JUNE 2018)	YEAR-TO-DATE (FROM 1 AUGUST 2017)
Quantity Sold on GDT (Winning MT)	20,455	559,782
Change in Quantity Sold on GDT over same period last year	2.1%	2.3%
Weighted Average Product Price (USD/MT)	3,591	3,372
Change in Weighted Average Product Price over same period last year	1.3%	4.9%
Change in Weighted Average Product Price from previous event	0.7%	-

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

Global Dairy Trade, 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.