

GLOBAL DAIRY UPDATE



Dairy for life



- Continued strong import demand for dairy in China. Latin America and Asia imports decrease.

- Fonterra and The a2 Milk Company form comprehensive strategic relationship.



- Exports from New Zealand, the US and Australia up for the month. Further growth in dairy exports from the EU.



- New Zealand production impacted by difficult weather conditions. Production increases for Australia and the EU.

- New operators on board to meet rising global demand for cream cheese.



- In January, Fonterra New Zealand milk collection decreased 8% to 158 million kgMS and Fonterra Australia milk collection increased 32% to 14 million kgMS.



KEY DATES



21 March 2018
FY18 Interim Results
Announcement

Late May 2018
Q3 Business Update
Announcement

1 June 2018
Measurement Date for Share
Standard 2018/19 Season

September 2018
FY18 Annual Results
Announcement



CONTINUED STRONG IMPORT DEMAND FOR DAIRY IN CHINA. LATIN AMERICA, AND ASIA IMPORTS DECREASE

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

LATIN AMERICA

5%↑

Import change for the 12
months to October 2017

Latin America's dairy import volumes¹ decreased 7%, or 12,000 MT, in October compared to the same month last year. This decline was due to WMP, cheese and AMF, down a combined 40%, or 22,000 MT, this month. This was offset by SMP and whey powder, up a combined 23%, or 9,000 MT. For the 12 months to October, imports were up 5%, or 90,000 MT, compared to the same period the previous year. This was driven by growth in all major categories except from WMP and infant formula which were down a combined 55,000 MT.

ASIA

4%↑

Import change for the 12
months to October 2017

Asia (excluding China) dairy import volumes¹ decreased 6%, or 22,000 MT, in October compared to the same month the previous year. This was driven by imports of SMP and fluid and fresh dairy down a combined 15%, slightly offset by WMP, up 7,000 MT. For the 12 months to October, imports were up 4%, or 177,000 MT, compared to the same period last year. Cheese, SMP and ice cream grew by 130,000 MT, accounting for around 70% of the growth compared to the same period last year.

MIDDLE EAST & AFRICA

1%↓

Import change for the 12
months to October 2017

Middle East and Africa dairy imports¹ in October decreased 3%, or 11,000 MT, compared to the same month the previous year. This was mainly due to a decline across the top three import categories, WMP, SMP and fluid and fresh dairy, down a combined 13,000 MT, partially offset by a 7% increase in cheese imports. Imports for the 12 months to October were down 1%, or 47,000 MT. Combined declines in butter and WMP of 10%, or 106,000 MT, dampened large gains in fluid and fresh dairy and SMP of 80,000 MT and 36,000 MT respectively.

CHINA

13%↑

Import change for the 12
months to December 2017

China dairy imports increased 7%, or 13,000 MT, in December compared to the same month last year. Large gains were seen in fluid and fresh dairy, whey powder and infant formula up 28%, 19% and 21% respectively. Imports for the 12 months to December were up 299,000 MT, compared to the same period last year. China continues their strong imports, with all key categories up for the period. Infant formula, SMP and fluid and fresh dairy imports all grew significantly, up 77,000 MT, 63,000 MT and 52,000 MT respectively.

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



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

EXPORTS FROM NEW ZEALAND, THE US AND AUSTRALIA UP FOR THE MONTH. FURTHER GROWTH IN DAIRY EXPORTS FROM THE EU

NEW ZEALAND

3%↓

Export change for the 12 months to December 2017

Total New Zealand dairy exports in December increased 8%, or 31,000 MT, compared to the same month last year. This growth was driven by WMP, SMP and butter, up a combined 33,000 MT.

Exports for the 12 months to December were down 3%, or 83,000 MT, on the previous comparable period. Exports declined across the majority of categories except fluid and fresh dairy and infant formula, which were up a combined 81,000 MT. SMP and AMF showed the largest decline, down a combined 103,000 MT on the previous comparable period.

AUSTRALIA

1%↓

Export change for the 12 months to December 2017

Australia dairy exports increased 10%, or 7,000 MT, in December compared to the same month last year. Predominantly driven by fluid and fresh dairy and cheese which were up a combined 11,000 MT. These gains were partially offset by SMP and whey powder down a combined 4,000 MT.

Exports for the 12 months to December were down 1%, or 6,000 MT, on the previous comparable period. Momentum in fluid and fresh dairy, infant formula and cheese exports remained strong, up 44,000 MT. This was partially offset by declines in WMP, whey powder and butter down a combined 35,000 MT.

EUROPEAN UNION

5%↑

Export change for the 12 months to November 2017

EU dairy exports in November were up 11%, or 44,000 MT, relative to the same month the previous year. This was due to double-digit growth in most export categories, especially SMP and fluid and fresh dairy, which increased by a combined 20%, or 33,000 MT.

Exports for the 12 months to November were up 5%, or 242,000 MT, on the previous comparable period.

Cheese, SMP and infant formula made up 292,000 MT of the increase, offset by a combined decline of 61,000 MT in butter and fluid and fresh dairy.

USA

5%↑

Export change for the 12 months to December 2017

US dairy exports increased 11% in December, or 21,000 MT, compared to the same month the previous year. This was driven by SMP, lactose and whey powder up a combined 20% or 22,000 MT.

Exports for the 12 months to December were up 5%, or 110,000 MT, on the previous comparable period. The increase in exports continues to be driven by cheese and whey powder up a combined 97,000 MT. The largest export category in the US, SMP, grew 15,000 MT or 3%, compared to the previous comparable period.



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

NEW ZEALAND PRODUCTION IMPACTED BY DIFFICULT WEATHER CONDITIONS. PRODUCTION INCREASES FOR AUSTRALIA AND THE EU

NEW ZEALAND

1% ↑

Production change for the 12 months to January 2018

Total New Zealand milk production in January was down 5% compared to the same month last year. Although rain in late December and early January helped in some regions, other regions were heavily impacted by soil moisture and pasture growth challenges caused by difficult weather conditions. This has impacted overall collection volumes throughout New Zealand. Fonterra collections have been reported for January, see page 5 for details.

AUSTRALIA

0% ↑

Production change for the 12 months to January 2018

Australia milk production in January increased 4% compared to the same month last year due to favourable seasonal conditions across milk collection regions. Production for the 12 months to January was flat compared to the same period the previous year due to better conditions. Fonterra collections in Australia have been reported for January, see page 5 for details.

EUROPEAN UNION

1% ↓

Production change for the 12 months to December 2017

EU milk production increased 1% in December compared to the same month last year, driven by strong global dairy prices. Germany, the UK and Austria had the largest increases in production, up 3%, 5% and 28% respectively in December. Production for the 12 months to December declined 1%, on the back of a decrease across four of the top five EU producers, down 3%. This was partially offset by Ireland increasing production by 10%.

USA

1% ↑

Production change for the 12 months to December 2017

US milk production in December increased 1% compared to the same month last year largely due to increased productivity. Milk production per cow across all 23 major states was the highest recorded for the month of December since 2003¹. Milk production for the 12 months to December increased 1% compared to the same period the previous year.

¹ https://www.nass.usda.gov/Publications/Todays_Reports/reports/mkpr0118.pdf

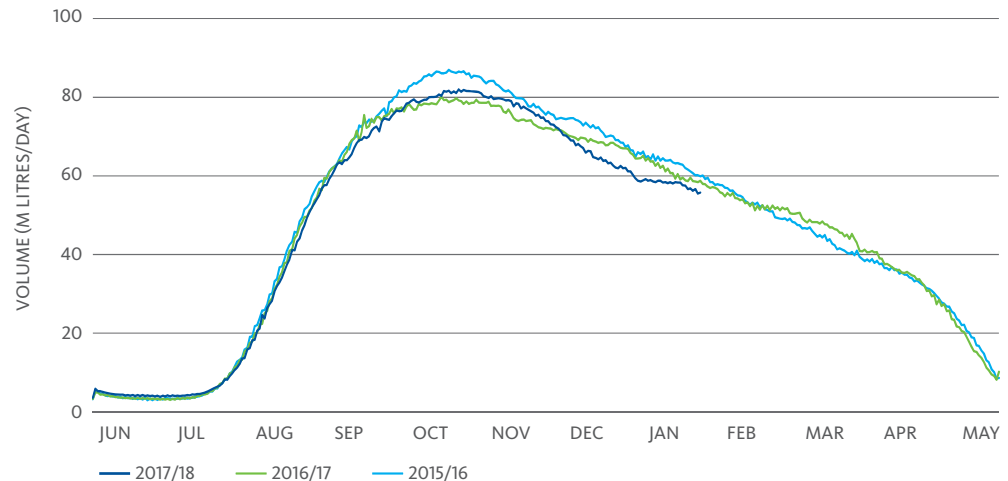
OUR MARKETS

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

2% ↓

Decrease for the season
from 1 June to 31 January

Fonterra's milk collection across New Zealand for the eight months to 31 January reached 1,036 million kgMS, 2% below the same period last season.

January collections reached 158 million kgMS, down 8% compared to the same period last year. This is largely due to the difficult weather conditions which impacted soil moisture and pasture quality.

NORTH ISLAND

3% ↓

Decrease for the season
from 1 June to 31 January

North Island milk collection in January reached 90 million kgMS, 11% down on January last season.

After a dry, hot period through December and early January, milk collections were very low at the start of January. While collections recovered part way through the month due to heavy rain, the recovery was not enough to bring the volumes back to last season's levels.

SOUTH ISLAND

0% ↑

Increase for the season from
1 June to 31 January

South Island milk collection in January reached 69 million kgMS, 5% down on January last season.

AUSTRALIA

27% ↑

Increase for the season from
1 July to 31 January

Fonterra's milk collection across Australia for the seven months to 31 January reached 100 million kgMS, 21 million kgMS higher than last season.

Collections in January totalled 14 million kgMS, a 32% increase on the same month last year. This has been driven by increased market share and favourable seasonal conditions across milk collection regions.

OUR MARKETS

FONTERRA GLOBALDAIRYTRADE RESULTS



Fonterra GDT results at
last trading event

6 March 2018:

1.1% ↓

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

USD **3,704**

Fonterra's weighted
average product price
(USD/MT)

18.0 000' MT

Fonterra product quantity
sold on GDT

SMP

12.8% ↑

USD 2,181/MT

RENNET CASEIN

3.0% ↑

USD 5,128/MT

CHEDDAR

2.0% ↑

USD 3,759/MT

WMP

0.4% ↓

USD 3,232/MT

BUTTER

1.0% ↓

USD 5,280/MT

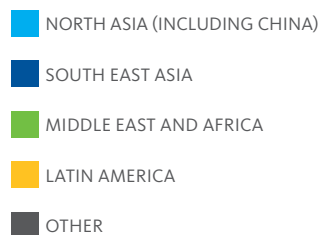
AMF

3.3% ↓

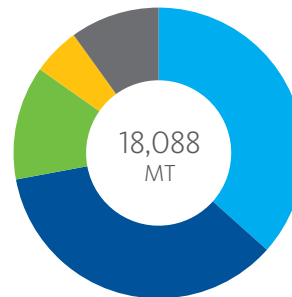
USD 6,245/MT

Fonterra GDT sales
by destination:

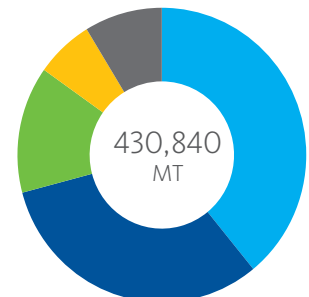
To view more information,
including a snapshot of the
rolling year-to-date results –



LATEST AUCTION



**FINANCIAL
YEAR-TO-DATE**



► The next trading event will be held on 20 March 2018. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar
appreciated through January
on the back of broad-based
weakness in the US dollar.





FONTERRA AND THE A2 MILK COMPANY FORM COMPREHENSIVE STRATEGIC RELATIONSHIP



Fonterra Co-operative Group Limited (Fonterra) and The a2 Milk Company (a2MC) entered into a comprehensive strategic relationship.

As part of the partnership, Fonterra will now begin conversations with its farmers to source an A2 milk pool for a2MC products in New Zealand, which is intended to significantly expand over time to help meet the growing demand for a2MC products. A similar milk pool in Australia will also be developed.

Announcing the deal, Fonterra CEO Theo Spierings and a2MC Managing Director and CEO Geoffrey Babidge said the

partnership is designed to generate returns for both companies by growing demand in both local and international markets for products using a2MC's brand strength and capabilities.

"The partnership is intended to fast-track market growth and this creates opportunity for our farmers to create additional value from their milk," said Mr Spierings. "Fonterra's high-quality milk pools, our global supply chain, our manufacturing capabilities and knowledge, and our in-market sales and distribution expertise is being combined with a2MC's brand strength to unlock new opportunities in a wide range of international markets.

"We continue to see a strong future for dairy based on our existing range of products, including recent additions such as organic, low-lactose and high protein milk choices that consumers seek out for a premium. The a2MC products promoted by this partnership sit well within our overall portfolio of products.

"Consumers like to have choices and the growth of a2MC-branded nutritional powders and fresh milk sales in Australia, for example, shows the potential. This partnership is all about finding ways to continue to delight our consumers and generate more value for our farmers."



New operators on board to meet rising global demand for cream cheese

With our global cream cheese sales up 24% on last year and demand still increasing, Fonterra's Darfield site has welcomed 16 new employees who will operate the first of its two new cream cheese plants.

The site is bringing on employees as part of a capability and development programme that will build the team at Darfield to ensure good performance when the new plant goes into operation in August.

tea with cream and cream cheese – demonstrate the remarkable versatility of dairy in markets like China.”

Acting Site Operations Manager, Shane Taylor says that the first Darfield plant is on track to be completed in the next six months with the second to follow within two-to-three years.

“When both lines are in place, we will be able to produce up to 48,000 MT of cream cheese each year, making our site one of the

“There is so much learning going on. Nine of us have been working in the dairy industry; the rest are new to the industry, and that includes me. We are going to spend a day on a dairy farm, and go out with a milk tanker.”

“We have a little village next to the plant, so we see the construction as it goes on day-by-day, it makes us feel involved.”

Selwyn District Mayor, Sam Broughton says that



The employees have been brought on early to receive extensive training due to the new plant incorporating one of the most advanced lines in the world.

Director of Global Foodservice, Grant Watson says that Fonterra-first technology will allow for the firmness and consistency of the cream cheese they produce to be dialled up or down to meet both the needs of chefs and deliver against consumer preferences.

“This will mean that the Co-operative is well placed to meet consumer demand, particularly in Asia where cream cheese is undergoing a surge in popularity,” says Mr Watson.

“Dairy beverages such as tea macchiato – which mixes

largest producers of cream cheese in New Zealand,” says Mr Taylor.

“We are building and training our teams who will prepare the first plant for commissioning and transition to normal operations. These teams will be instrumental in setting the plant up for the future.”

One of our new employees, John Cordon, was running a printing press in Christchurch prior to joining.

“There is a lot of cross-over on the manufacturing and machine operating side of things.”

“However the new job is head and shoulders more high-tech. The machinery is world-leading spanking new machinery and the opportunity to work in a brand new plant is exciting.”

people are optimistic about the growing population of the district.

“The Darfield site has continued to provide employment throughout the construction phase, and now there are these long-term jobs at the plant.”

“It's great that there are training opportunities for people in new areas and career paths. It enables them to bring up their families here amongst the fresh air and lakes, and enjoy the lifestyle that Selwyn has to offer.”

Business Relationship Manager, Justin Tipa gave a Mihi Whakatau to welcome the new starters to the site, followed by a blessing of the capability and development programme.

SUPPLEMENTARY INFORMATION

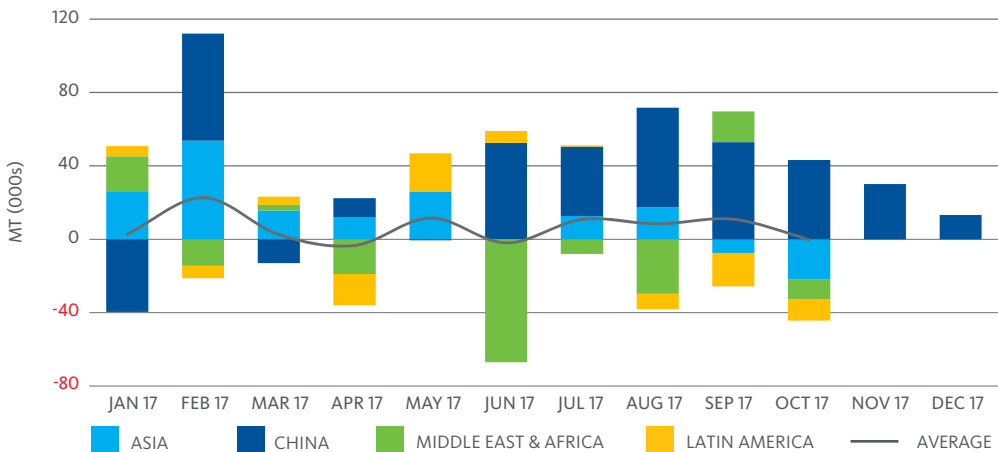
Global Dairy Market

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.

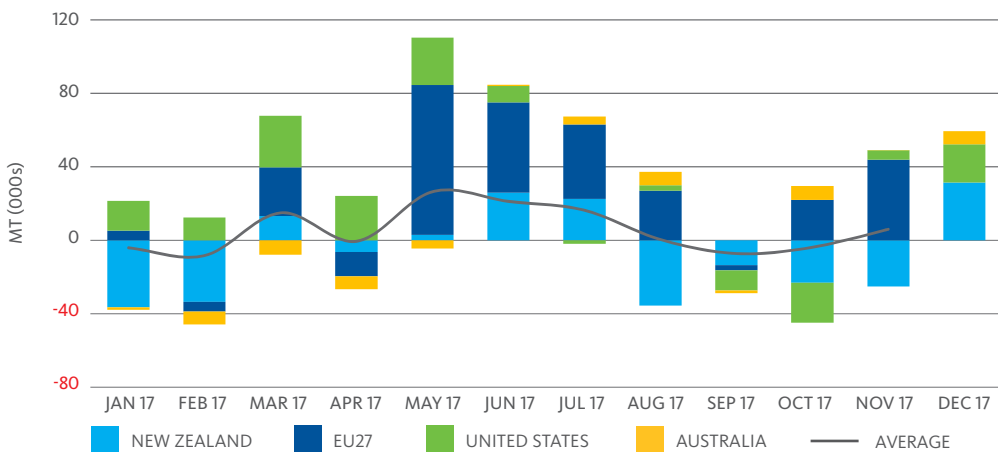
Averages are shown where data is complete for the regions presented.

IMPORTS



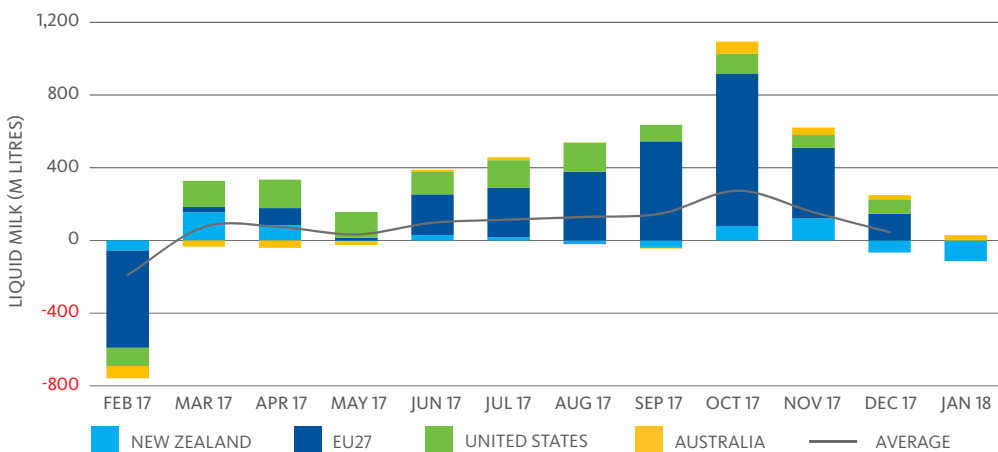
NOTE: Data for Asia, Middle East and Africa and Latin America to October, China to December.

EXPORTS



NOTE: Data for EU to November; New Zealand, US and Australia to December.

PRODUCTION



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

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)	JANUARY 2018	JANUARY 2017	MONTHLY CHANGE	SEASON- TO-DATE 2017/18	SEASON- TO-DATE 2016/17	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	158.3	172.5	(8.3%)	1,035.8	1,053.6	(1.7%)
North Island	89.7	100.6	(10.9%)	636.1	653.7	(2.7%)
South Island	68.6	71.9	(4.6%)	399.8	399.9	0.0%
Fonterra Australia	13.9	10.5	32.4%	100.0	78.5	27.4%

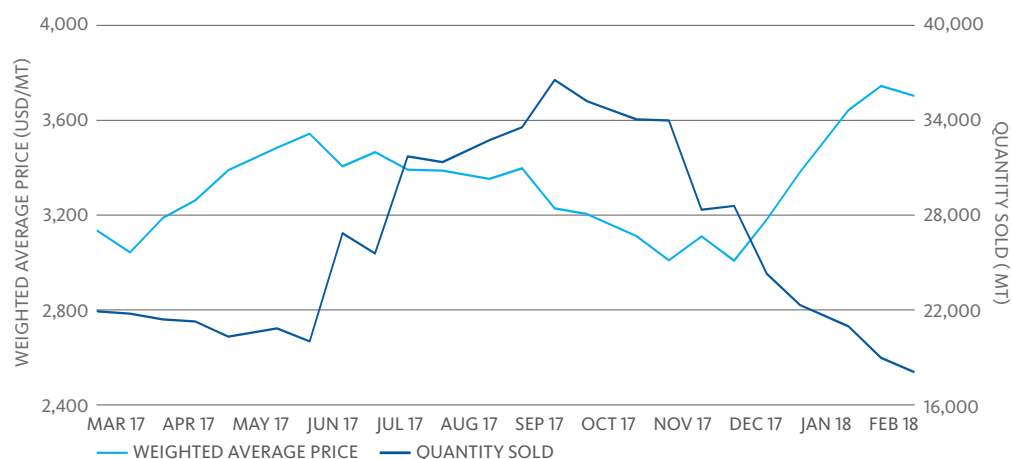
Fonterra GDT results

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

	LAST TRADING EVENT (6 MARCH 2018)	YEAR-TO-DATE (FROM 1 AUGUST 2017)
Quantity Sold on GDT (Winning MT)	18,088	430,840
Change in Quantity Sold on GDT over same period last year	(16.8%)	7.9%
Weighted Average Product Price (USD/MT)	3,704	3,292
Change in Weighted Average Product Price over same period last year	22.2%	3.2%
Change in Weighted Average Product Price from previous event	(1.1%)	–

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 (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.