

GLOBAL DAIRY UPDATE



Dairy for life



• Early season production in New Zealand stronger than last year. Production down in Australia and slowing in Europe.

• A little piece of Clandeboye in half a billion pizzas
• Anchor Protein+ a new twist on flavoured milk
• Fonterra has recently announced its annual results



• Export growth from New Zealand and the US in July. European exports weaken in May.

• Total cash pay-out for 2017/2018 of \$6.79.

• An additional 465 million LME into higher-value Advanced Ingredients, Consumer and Foodservice products.

[Visit our website for more details –](#)



• Imports in Asia show continued strong demand. Middle East and Africa remain flat while Latin America declines.



• Fonterra's early season milk collection across New Zealand for the three months to 31 August reached 127 million kgMS, around 8% of total season production.

• Fonterra is pleased to welcome Brett Henshaw to the Co-operative as Managing Director, Fonterra Brands, New Zealand (FBNZ).

KEY DATES



8 November 2018
Fonterra Co-operative Group
Annual Meeting

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 –

EARLY SEASON PRODUCTION IN NEW ZEALAND STRONGER THAN LAST YEAR.

PRODUCTION DOWN IN AUSTRALIA AND SLOWING IN EUROPE

NEW ZEALAND

0%

Production change for the 12 months to August 2018

Total New Zealand milk production increased 5% in August compared to the same month last year although it is still early in the season. This was driven by favourable weather conditions in Taranaki, Central Districts, Canterbury and Southland/Otago. Some of this increase has been offset as a result of heavy rains in the Bay of Plenty.

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

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

AUSTRALIA

2% ↑

Production change for the 12 months to July 2018

Australian milk production decreased 4% in July compared to the same period last year. This is being driven by rising on-farm input prices, droughts across parts of the country and cow cull rates increasing (up 14% in July, year-on-year).

Production for the 12 months to July was up 2% compared to the same period the previous year.

The likelihood of an El Niño developing remains at 50% which will continue to pressure milk production throughout the season.

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

EUROPEAN UNION

3% ↑

Production change for the 12 months to July 2018

EU milk production increased by less than 1% in July compared to the same period last year as conditions became more favourable.

Growth for the month of July was predominantly driven by Germany, France and Spain up 3%, 2% and 4% respectively but weekly production figures for Germany and France in August are showing negative growth year on year.

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

USA

1% ↑

Production change for the 12 months to August 2018

US milk production was up 1% in August compared to the same period last year. Hot and humid weather conditions had the potential to slow growth but August milk production remained around last year's level. An increase in cow numbers regardless of heavy slaughter rates sets the US up to meet expected annual growth of 1%.

Milk production for the 12 months to August increased by 1% compared to the same period last year.



EXPORT GROWTH FROM NEW ZEALAND AND THE US IN JULY. EUROPEAN EXPORTS WEAKENED IN MAY

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

NEW ZEALAND

2% ↓

Export change for the 12 months to July 2018

Total New Zealand dairy exports increased 6%, or 17,000 MT, in July compared to the same period last year. This increase is driven by WMP and butter, up a combined 32,000 MT. However, declines in SMP of 16,000 MT dampened this increase.

Exports for the 12 months to July were down 2%, or 57,000 MT, on the previous comparable period. This continues to be driven by lower volumes across WMP, AMF, cheese and SMP, down a combined 116,000 MT. Fluid and fresh dairy and infant formula continued strong growth, up 76,000 MT.

AUSTRALIA

5% ↑

Export change for the 12 months to July 2018

Australian dairy exports increased 4%, or 2,000 MT, in July compared to the same period last year. This growth was due to upside in most categories, up 10,000 MT, offset by declines in butter, SMP, cultured products, other powders and caseinate of a combined 8,000 MT.

Exports for the 12 months to July were up 5%, or 33,000 MT, on the previous comparable period.

Fluid and fresh dairy, and infant formula continued to make up the majority of growth in Australian exports, up a combined 45,000 MT

EUROPEAN UNION

4% ↑

Export change for the 12 months to May 2018

EU dairy exports decreased by 6%, or 28,000 MT, in May compared to the same period last year. This was primarily driven by declines in fluid and fresh dairy and SMP, down a combined 30,000 MT. This was partially offset by gains in infant formula, up 6,000 MT.

Exports for the 12 months to May were up 4%, or 220,000 MT, on the previous comparable period. Continued upside in SMP and infant formula remain the primary drivers behind European dairy export growth, up a combined 222,000 MT.

USA

10% ↑

Export change for the 12 months to July 2018

US dairy exports increased by 12%, or 20,000 MT, in July compared to the same period last year. Growth in SMP and lactose of a combined 17,000 MT, was the primary driver behind this increase.

Exports for the 12 months to July were up 10%, or 218,000 MT, on the previous comparable period.

This increase was driven by growth across the five largest export categories, SMP, lactose, cheese, whey powder and WPC and WPI, up a combined 185,000 MT.



IMPORTS IN ASIA SHOW CONTINUED STRONG DEMAND. MIDDLE EAST AND AFRICA REMAIN FLAT WHILE LATIN AMERICA DECLINES

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

LATIN AMERICA

1% ↓

Import change for the 12 months to May 2018

Latin American dairy import volumes¹ decreased 5%, or 8,000 MT, in May compared to the same period last year. This decrease was driven by cheese, SMP and AMF down 13%, or 12,000 MT. This was partially offset by gains in WMP and lactose, up 3,000 MT.

Imports for the 12 months to May were down 1%, or 25,000 MT, compared to the same period the previous year. This decline was primarily driven by WMP and AMF, down a combined 88,000 MT. An increase in SMP and whey powder of 62,000 MT offset some of the decline.

ASIA

2% ↑

Import change for the 12 months to May 2018

Asia (excluding China) dairy import volumes¹ increased 3%, or 12,000 MT, in May compared to the same period last year. Growth in fluid and fresh dairy and SMP of 22,000 MT drove the increase. A decline in whey powder of 7,000 MT partially dampened gains.

Imports for the 12 months to May were up 2%, or 102,000 MT, compared to the same period the previous year. Continued growth in WMP and cheese of 96,000 MT were the primary drivers of this upside.

MIDDLE EAST & AFRICA

4% ↑

Import change for the 12 months to May 2018

Middle East and Africa dairy import volumes¹ were mostly flat in May compared to the same period last year. This was driven by strong growth in WMP of 10,000 MT, offset by declines in fluid and fresh dairy of 12,000 MT.

Imports for the 12 months to May were up 4%, or 148,000 MT, compared to the same period the previous year. The increase is driven by growth in SMP, cheese and fluid and fresh dairy, up a combined 125,000 MT.

CHINA

17% ↑

Import change for the 12 months to March 2018

China dairy import volumes² 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 17%, or 394,000 MT, compared to the same period last year. Strong demand out of China continued 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.

² China has suspended trade data, citing system technical issues. Based on exports to China, we estimate June volumes grew 15% compared to the previous comparable period.

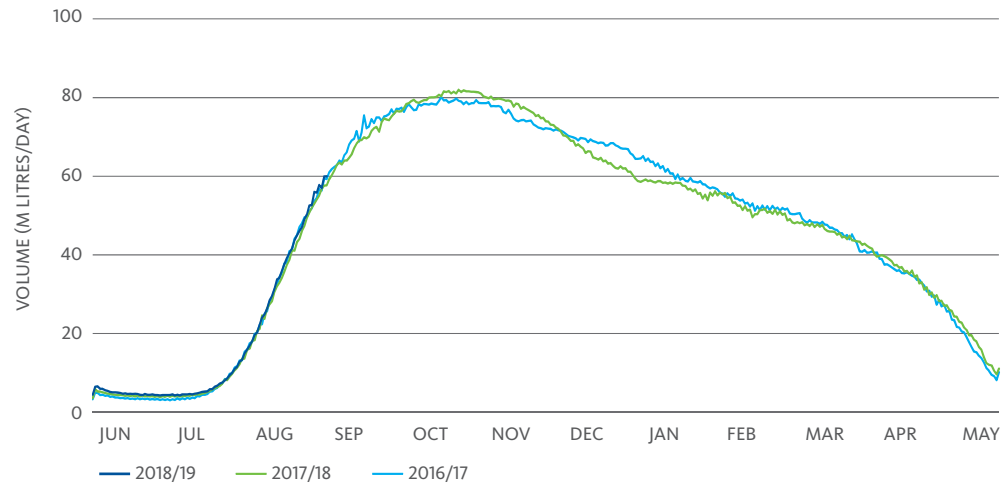
OUR MARKETS

FONTERRA MILK COLLECTION 2018/19 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

4% ↑

Increase for the season from 1 June to 31 August

Fonterra’s early season milk collection across New Zealand for the three months to 31 August reached 127 million kgMS, around 8% of total season production.

New Zealand collections in August reached 97 million kgMS, 3% up on the same month last season.

These volumes are small in the context of the full season, as is usual for this time of the year.

NORTH ISLAND

2% ↑

Increase for the season from 1 June to 31 August

North Island milk collection in August reached 70 million kgMS, in line with August last season.

This was due to good pasture growth rates in Northland following improved weather conditions. This led to more pasture feeding and reduced use of supplementary feeds.

North Island milk collection for the 2018/19 season to date reached 96 million kgMS, up 2%.

SOUTH ISLAND

13% ↑

Increase for the season from 1 June to 31 August

South Island milk collection in August reached 26 million kgMS, 13% higher than August last season.

This is due to favourable weather conditions, particularly in the upper South Island.

South Island milk collection for the 2018/19 season to date reached 31 million kgMS, up 13%.

AUSTRALIA

8% ↓

Decrease for the season from 1 July to 31 August

Fonterra’s milk collection across Australia for the two months to 31 August reached 17 million kgMS, down 8% on the same period last season.

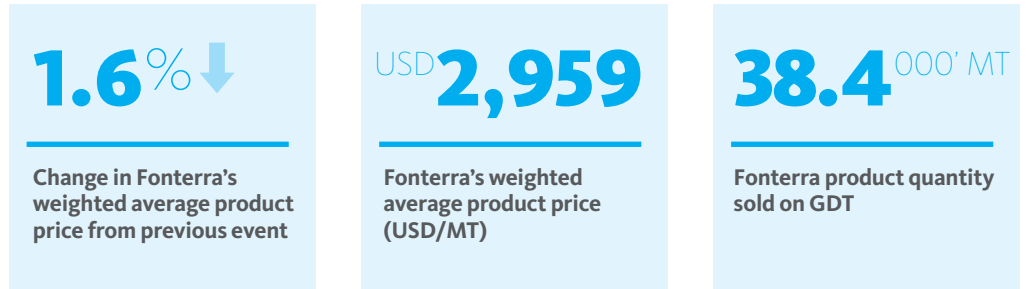
Poor seasonal conditions are driving up input costs resulting in increased cow cull rates. The poor seasonal outlook and a very competitive milk supply market will more than likely continue to impact milk supply during the 2019 financial year.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS



Fonterra GDT results at last trading event
18 September 2018:



RENNET CASEIN

1.8%↑

USD 5,421/MT

BUTTER

0.0%

USD 4,270/MT

AMF

0.4%↓

USD 5,294/MT

SMP

1.2%↓

USD 1,989/MT

WMP

1.9%↓

USD 2,768/MT

CHEDDAR

3.5%↓

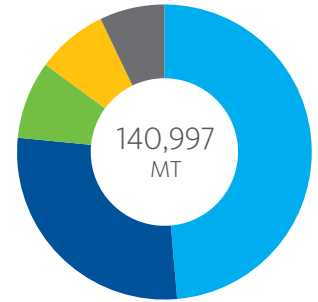
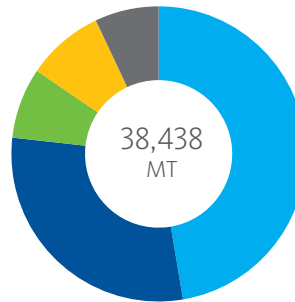
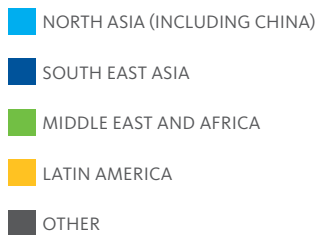
USD 3,503/MT

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 –



▶ The next trading event will be held on 2 October 2018. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar fell over the month of August after the Reserve Bank New Zealand signalled a lower-for-longer stance on interest rate policy. US-China trade war talk presents a key risk event during September.





A little piece of Clondeboye in half a billion pizzas

Some already call it the Riviera of the South and now Timaru could also be the pizza capital of New Zealand, as the region becomes the Southern Hemisphere's largest producer of natural mozzarella cheese.

Fonterra's Clondeboye site fired up its third new mozzarella line this month, meaning it now produces enough of the revolutionary cheese to top more than half a billion pizzas a year.



The cheese, which is made from one of the Co-operative's secret recipes, is made in hours rather than in months – the time traditional mozzarella takes. It's destined for pizzas all

over the world. Fonterra cheese already tops around 50% of the pizzas in China – one of the fastest growing pizza markets in the world.

Fonterra Chief Operating Officer Global Operations Robert Spurway said the new plant, which was built in under two years, is a great example of the Co-operative's ambition to move more milk into value add products.

"We're focussed on getting more value from every drop of our farmers' milk. With the opening of this new mozzarella plant and recent expansion of our Darfield site, we're able to produce even more higher returning products. That's good news for our farmers and the communities they live in," said Mr Spurway.

Fonterra GM Marketing Global Foodservice, Susan Cassidy, said "the new plant will double the site's production of mozzarella – the world's

most popular variety of cheese, topping more than 80% of pizzas in Australia, China, South East Asia and the Middle East. We're excited to have a slice of this market and are looking forward to that slice growing.

"Globally more and more people are eating meals out of home, in restaurants and on the go, and the global foodservice market is predicted to be worth US\$3 trillion by 2021. Our foodservice business, Anchor Food Professionals, is still experiencing strong growth – and this new expansion supports our growth."

According to global research company Euromonitor, demand for Western food in China has

helped pizza sales more than double from US\$1.5 billion in 2010 to US\$3.5 billion in 2015.

Timaru District Mayor Damon Odey says "it's fantastic to see this plan come to reality, as it underlines the importance of the Timaru District as a major food hub in New Zealand, and as an growing exporter to the rest of the world. We welcome this vote of confidence that Fonterra has made in our community.

"More and more people are seeing the appeal of provincial New Zealand, and investments like this underline that people can move to Timaru District and get unmatched job, housing and lifestyle options."



Anchor Protein+ a new twist on flavoured milk

Anchor Protein+ flavoured milk has hit New Zealand shelves, the first time Kiwis have been able to buy a product of its kind in local stores.

The new beverage features 20g of protein per serve and unlike



most flavoured milk drinks, contains no added sugar.

Darren Moffat, Fonterra's General Manager of Ready-to-Drink Beverages, said Fonterra's technologists spent two years developing a product that's highly nutritious, as well as great tasting.

"Anchor Protein+ flavoured milk is the perfect choice for people wanting a high protein, better-for-you beverage.

"People are increasingly seeking out nutritious on-the-go snack options, and there's a growing awareness of the importance of protein. As a result, demand for snacking options with good levels of

protein has sky-rocketed over recent years," said Mr Moffat.

Fonterra's Head of Nutrition Mindy Wigzell said the Anchor Protein+ range provides convenient ways for New Zealanders to consume protein throughout the day.

"Our bodies need protein every day and getting more than just the minimum requirement is good for optimal health. Research also shows spreading protein intake throughout the day can help our bodies use protein more efficiently," said Ms Wigzell.

As well as being high in protein, Anchor Protein+ flavoured milk has no added sugar.

It is the third in a string of beverages released by Fonterra recently with a focus on sugar reduction.

The new Primo and Mammoth flavoured milks both contain 40% less added sugar.

All three beverages are produced at Apollo's new plant in Hawke's Bay which has innovative beverage filling technology.

Anchor Protein+ flavoured milk comes in three flavours: vanilla, chocolate and mixed berry, all of which are made with real milk and no artificial colours, flavours or preservatives.



FONTERRA ANNOUNCES MANAGING DIRECTOR FONTERRA BRANDS NEW ZEALAND



Fonterra is pleased to welcome Brett Henshaw to the Co-operative as Managing Director, Fonterra Brands, New Zealand (FBNZ).

Brett is currently Managing Director of The Griffin's Food Company and he will take up his role with Fonterra in the first week of December.

Fonterra Chief Operating Officer, Global Consumer & Foodservice, Lukas Paravicini, says "we are excited about Brett joining the team. He has an extensive 30-year career in FMCG and we are pleased he is coming on board.

"Along with his time in New Zealand, Brett has also worked in Sydney, Singapore, New York and the UK, and he has a deep understanding of consumers, their needs and how to deliver on those needs."

"Brett has a strong commercial and strategic focus as well as end-to-end experience across the supply chain, including manufacturing and operations. He is also recognised for the emphasis

he places on people – a culture of mentoring, development, teamwork and open communication is important to him," says Mr. Paravicini.

Brett says "I'm really looking forward to taking up this key leadership role in Fonterra Brands and working with the broader Fonterra team, and our customers right across the country."

"As a Kiwi, who has worked overseas for many years prior to joining Griffin's, I am delighted to have the opportunity to work with the Fonterra Brands team on some of New Zealand's most loved brands."

Brett has previously held brand positions with Unilever, and a number of senior marketing roles with Colgate-Palmolive worldwide. This included Regional General Management roles in Australasia and in Asia, where he was responsible for eleven countries. He was appointed Chief Marketing Officer for The Griffin's Food Company in 2015, and became Managing Director in 2016.

SUPPLEMENTARY INFORMATION

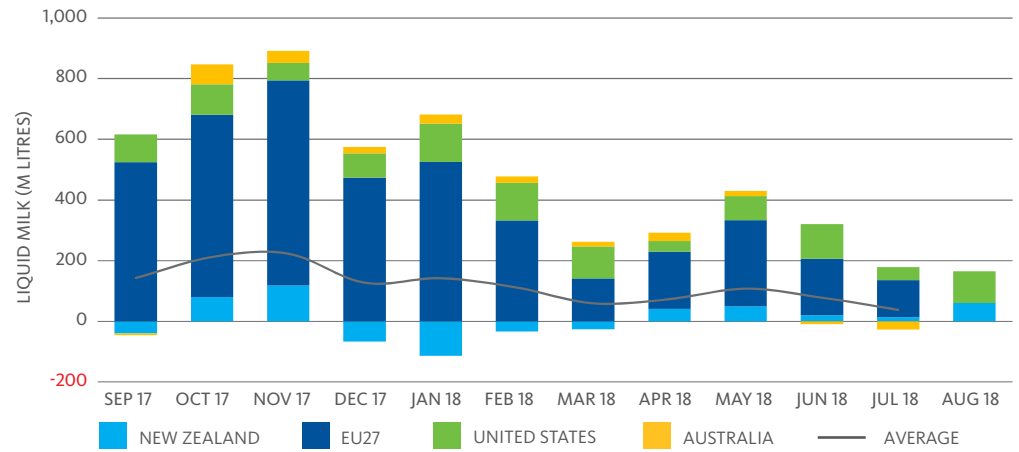
Global Dairy Market

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.

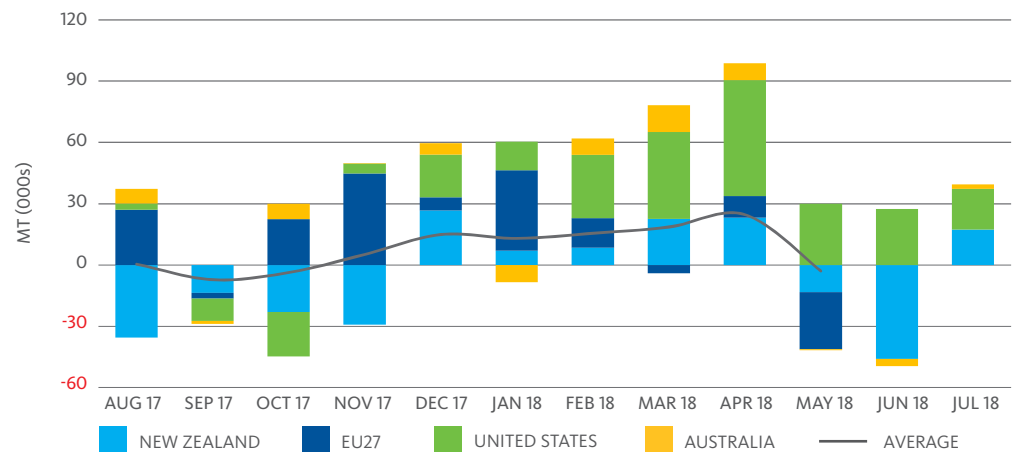
Averages are shown where data is complete for the regions presented.

PRODUCTION



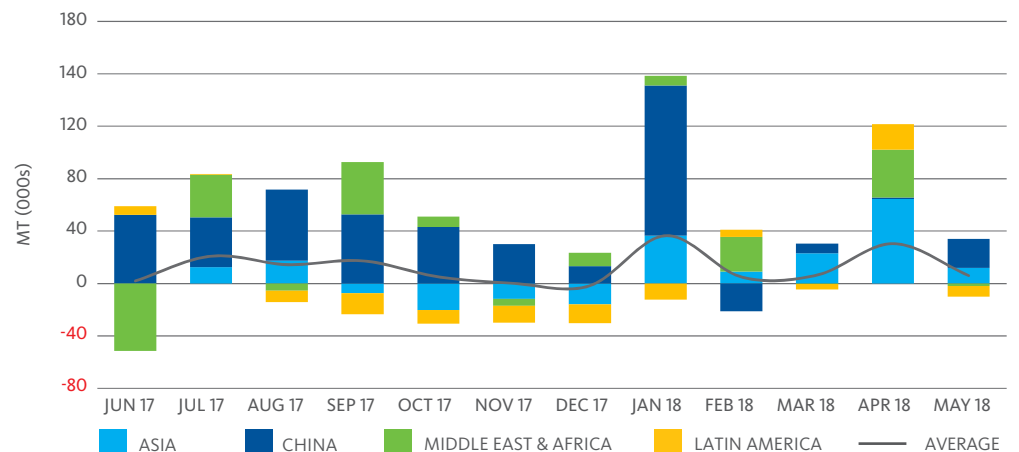
NOTE: Data for EU and Australia to July; New Zealand and US to August.

EXPORTS



NOTE: Data for EU to May; New Zealand, US and Australia to July.

IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to May; estimates for China for April and 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)	AUGUST 2018	AUGUST 2017	MONTHLY CHANGE	SEASON-TO-DATE 2018/19	SEASON-TO-DATE 2017/18	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	96.5	93.4	3.3%	127.7	122.4	4.4%
North Island	70.0	70.1	0.0%	96.5	94.8	1.8%
South Island	26.5	23.3	13.4%	31.3	27.6	13.3%
Fonterra Australia	9.4	10.5	(10.5%)	17.1	18.6	(8.4%)

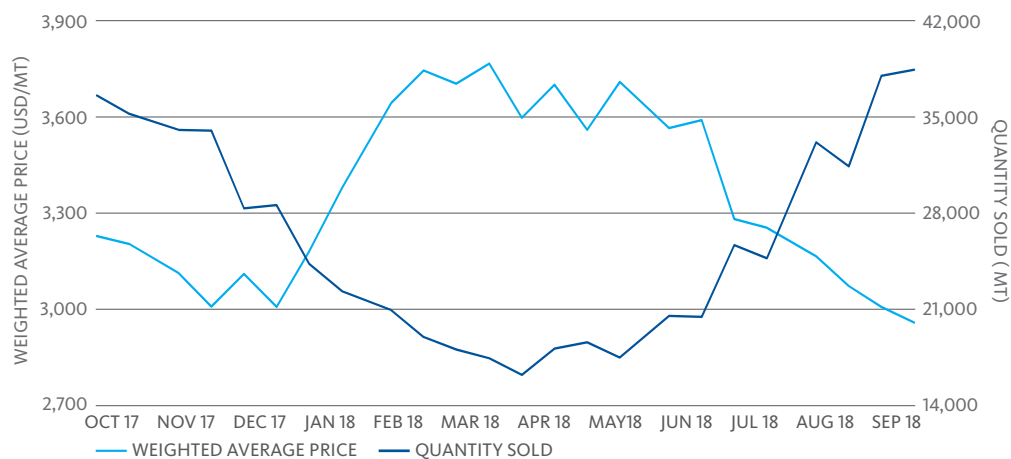
Fonterra GDT results

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

	LAST TRADING EVENT (18 SEPTEMBER 2018)	YEAR-TO-DATE (FROM 1 AUGUST 2018)
Quantity Sold on GDT (Winning MT)	38,438	140,997
Change in Quantity Sold on GDT over same period last year	14.5%	9.0%
Weighted Average Product Price (USD/MT)	2,959	3,046
Change in Weighted Average Product Price over same period last year	(12.9%)	(10.0%)
Change in Weighted Average Product Price from previous event	(1.6%)	-

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.