

Market Announcement

6 December 2018

FONTERRA REVISES FORECAST FARMGATE MILK PRICE AND PROVIDES Q1 UPDATE

- Forecast Farmgate Milk Price range: \$6.00 - \$6.30 per kgMS
- Forecast earnings per share range: 25-35 cents
- Forecast New Zealand milk collections: 1,550 million kgMS, up 3%
- Sales volumes: 3.6 billion LME, down 6%
- Revenue: \$3.8 billion, down 4%
- Gross margin: \$646 million, down \$14 million
- Gross margin percentage: 17%, up from 16.6%
- Operating expenses: \$656 million, up 3%
- Capital expenditure: \$188 million, up \$46 million

Fonterra Co-operative Group Limited today revised its 2018/19 forecast Farmgate Milk Price range from \$6.25-\$6.50 per kgMS to \$6.00-\$6.30 per kgMS and shared an update on its first quarter business performance.

Fonterra Chairman John Monaghan says the revision in the forecast Farmgate Milk Price range is due to the global milk supply remaining stronger relative to demand, which has driven a downward trend on the GlobalDairyTrade (GDT) index since May.

“Since our October milk price update, production from Europe has flattened off the back of dry weather and rising feed costs. US milk volumes are still forecast to be up one per cent for the year,” says Mr Monaghan.

“Here in New Zealand, we are maintaining our forecast collections at 1,550 million kgMS. NIWA is saying its likely we will see an abnormal El Nino weather pattern over summer and this could impact our farmers’ milk production.

“Demand from China and Asia remains strong. However, we are seeing geopolitical disruption impacting demand from countries that traditionally buy a lot of fat products from us.

“Today’s forecast range assumes dairy prices will firm across the balance of the season. This is consistent with the views of other market commentators.

“There are still a number of unknowns in the global demand and supply picture and we recommend farmers budget with ongoing caution. Fonterra’s Advance Rate has been set off a milk price of \$6.15 per kgMS.”

First quarter business update

Fonterra’s first quarter gross margin of \$646 million is down \$14 million compared to the same period last year and up slightly on a percentage basis from 16.6 per cent to 17 per cent. Revenue of \$3.8 billion, is down four per cent and sales volumes were down six per cent to 3.6 billion liquid milk equivalent (LME).

The Co-op's Ingredients business, despite lower sales volumes, performed solidly during Q1 with a gross margin of \$273 million, up \$28 million on last year. The Consumer business also performed well with a gross margin of \$310 million, up \$10 million on last year, and volumes were up five per cent.

Chief Executive Miles Hurrell says the Co-op generally makes a smaller proportion of its total annual sales in the first quarter due to the seasonal nature of our milk supply.

"This means the results from Q1 do not give much insight into the Co-op's expected earnings performance for the full year. It does, however, put the spotlight on where we have challenges that we need to address," says Mr Hurrell.

"In particular, we are seeing challenges in our Australian Ingredients, Greater China Foodservice and Asia Foodservice businesses. I want to be clear with our farmers and unit holders about how we are tackling these issues.

"In our Australian Ingredients business, we have lower milk collections as a result of drought conditions and increased competition for milk supply. We are responding by focusing on the performance levers in our control – the main one being reducing our operating expenses to reflect lower milk collections.

"The lower gross margins and sales volumes in Greater China Foodservice and Asia Foodservice in Q1 are mainly due to the high sales volumes of butter and cream cheese at the end of Q4 2018, a slightly slower start to sales of UHT culinary cream and more sales of UHT milk which has a lower margin relative to our other products. We are expecting our sales to lift as we are seeing strong sales from our distributors off the back of demand in China for New Zealand made products, particularly our UHT culinary creams. We are also prioritising value and moving away from lower margin contracts."

Portfolio review

Commenting on the Board led portfolio review Mr Monaghan says there is a lot of action and progress but it will take time to flow through into financial results.

"We have reached an agreement in principle with Beingmate that will see us return to full ownership of the Darnum plant by 31 December 2018 and enter into a multi-year agreement for Beingmate to purchase ingredients from us.

"We are also looking at our ongoing ownership of Tip Top and have appointed FNZC as our external advisor to work with us as we consider a range of options. We want to see Tip Top remain a New Zealand based business and this is being factored into our options.

"While performing well, Tip Top is our only ice cream business and has reached maturity as an investment for us. To take it to its next phase successfully will require a level of investment beyond what we are willing to make.

"We are still some months off from completing the full portfolio review of assets, investments and partnerships. We are moving quickly to meet our commitment to reducing our debt levels by \$800 million by the end of the financial year. This requires both improved performance from last year and the divestment of assets."

Lifting performance

In respect to the three-point plan to lift the Co-op's performance, Mr Hurrell says progress is being made on fixing the businesses that are not performing.

"Fonterra Brands New Zealand is one of the businesses that is starting to turn around. It's early days but overall our Consumer and Foodservice business in Oceania delivered higher sales

volumes and margins for Q1 compared the same period last year. A significant contributor of this is the improved operational performance in New Zealand.

“We have set our capital expenditure (CAPEX) limit at \$650 million. While we are ahead on the same time last year, this was planned as we completed the final stages of projects from last year. Once these assets are delivered, our focus will turn to ensuring they hit their Return on Capital targets.

“We remain committed to returning our operating expenses (OPEX) to FY17 levels – however, they were up three per cent for the first quarter compared to the same period last year. The majority of these costs were committed to before we agreed our new OPEX target. They relate to higher advertising and promotion and storage costs in our Consumer and Foodservice business, additional costs since taking the management of Anmum back from Beingmate and higher storage and distribution costs for Ingredients as we collected and moved more milk than we budgeted for.”

Outlook for 2019

Mr Hurrell says the Co-op is maintaining its forecast earnings per share range of 25-35 cents.

“Q1 gross margin percentage was up on last year and we have identified the challenges that need addressing. Our earnings forecast for the remainder of the year is based on a milk price within the \$6.00-\$6.30 per kgMS range and, on this basis, we are confident in our earnings guidance.”

ENDS

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About Fonterra

We're a global dairy nutrition company owned by 10,000 farmers and their families. We've built our expertise on the legacy of the thousands of farmers who've made New Zealand a world leader in dairy. With a can-do attitude and a collaborative spirit, we're a world leading dairy exporter. Our 22,000 people share the goodness of dairy nutrition with the world through our innovative consumer, foodservice and ingredient solutions brands, and our farming and processing operations across four continents.

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Dairy for life

Business Update

DECEMBER 2018

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Business update summary






- **Forecast Farmgate milk price range is \$6.00 - \$6.30 per kgMS and is based on firming global dairy prices over the balance of the season**
- **Maintaining earnings guidance**
 - Q1 margins in-line with last year
 - Solid New Zealand Ingredients performance and growth in Consumer
 - Challenges in Australia Ingredients, Asia Foodservice and China Foodservice
- **Making good progress on plan to lift performance**
- **Committed to financial discipline (opex, capex and debt reduction targets)**
- **Released our second Sustainability Report in November**










Forecast Farmgate Milk Price of \$6.00 - \$6.30

Forecast based on global dairy prices firming over the balance of the season

- Forecast Farmgate Milk Price has declined this season reflecting lower global dairy prices. Since June
 - GDT index has declined 20%
 - Butter prices have declined 33%
 - AMF is down 24%
 - WMP is down 17%
- Forecast Farmgate Milk Price range of \$6.00 - \$6.30 per kgMS assumes some firming in global dairy prices over the balance of the season
 - This is consistent with the direction of the dairy future prices according to NZX Futures and other market commentators
- The Farmgate Milk Price profile throughout the year is a key determinant of earnings
 - This global dairy price outlook supports our 25 – 35 cents earnings guidance for FY19

FY19 Q1 performance summary

Volume LME	Revenue	Gross Margin		Opex	Capex
3.6 billion	\$3.8 billion	\$646m	17.0%	\$656 million	\$188 million
 6%	 4%	 \$14m	 from 16.6%	 3%	 \$46 million

Ingredients	Consumer & Foodservice	China Farms
Volume LME ¹	Volume LME ¹	Volume LME ¹
3.5b  4%	1.2b  4%	56m  20%
Gross Margin ¹	Gross Margin ¹	Gross Margin ¹
\$273m  \$28m	\$390m  \$17m	-\$2m  \$7m
9.1%  from 8.0%	22.9%  from 24.0%	-4.2%  from 7.3%

Note: All changes are expressed relative to the first quarter of FY18. Gross margin from Q1 FY18 shown with direction of change denoted by arrow. 1) Includes inter-segment sales.

Outlook for 2019

Forecast Farmgate Milk Price



- Forecast Farmgate Milk Price has been lowered to \$6.00 - \$6.30 from \$6.25 - \$6.50 per kgMS, based on:
 - Stronger global milk supply
 - Lower global dairy prices to date but forecast to firm over the balance of the season
 - Stable global demand

Forecast Earnings



- Earnings per share range of 25-35 cents maintained
- Key drivers of earnings include:
 - New Zealand Ingredients timing of sales
 - Relative returns between Ingredient products (which are currently positive but can be volatile)
 - Milk price for the balance of the year

Plan to lift performance

Take stock, get back to basics, ensure more accurate forecasting

Commitments

- Reduce debt by \$800 million by year-end
- Bring gearing back within 40-45% range by year-end
- Reduce capex to \$650 million in FY19
- Reduce opex back to FY17 levels over the next two years

Q1 FY19 Update

- Processes underway for three assets:
 - Beingmate
 - Annum distribution returned to Fonterra
 - Full ownership of Darnum plant to return to Fonterra, agreed in principle
 - Tip Top: appointed adviser to review range of options
 - Third asset: progressing
- On track for the full-year
- On track for the full-year
- Comprehensive review underway



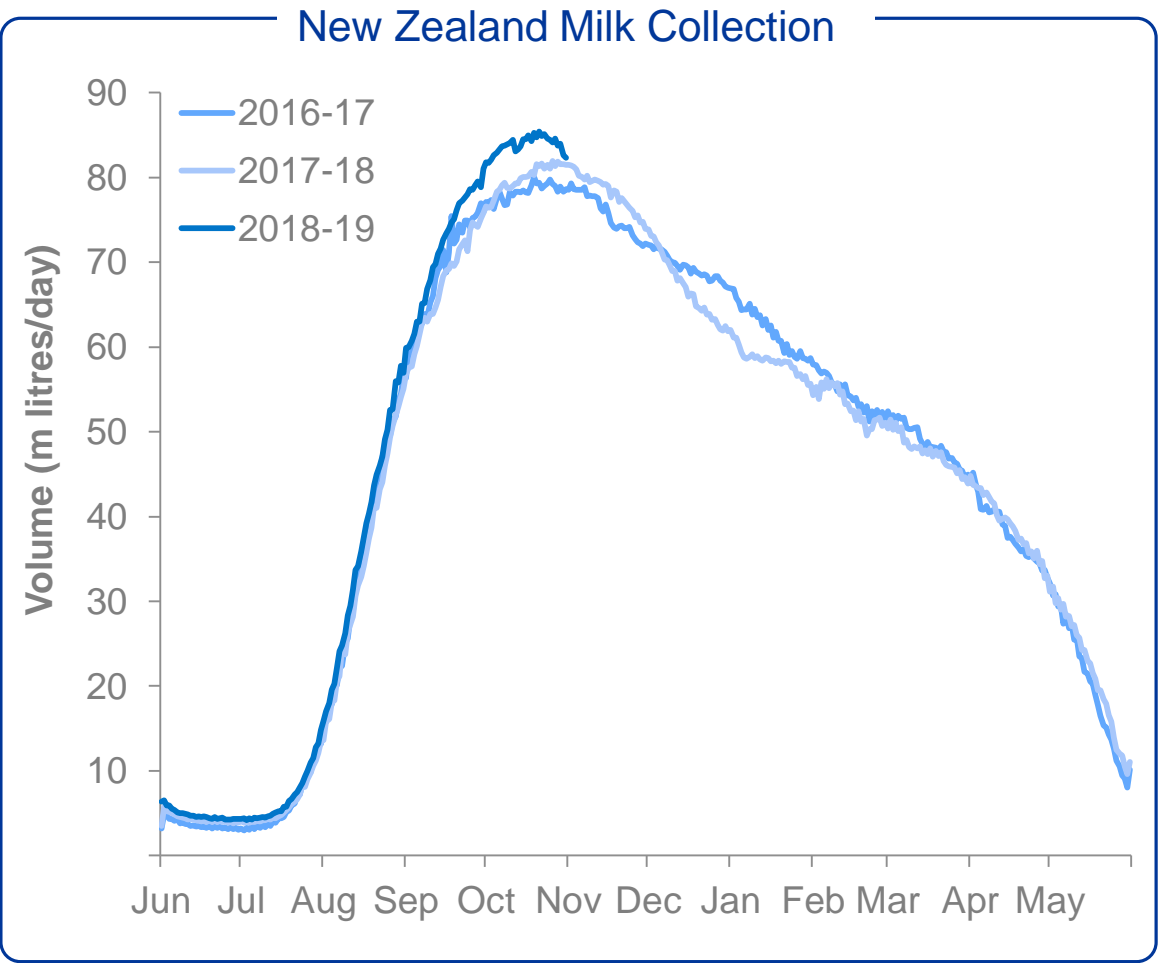
Dairy for life

APPENDIX



Milk collections forecast maintained for the season

Strong start to the season but risk of a hot, dry summer



- New Zealand milk collections forecast maintained at 1,550 million kgMS, up 3% compared to last season
- A strong start to the season in New Zealand due to favourable weather conditions
- NIWA forecasting an abnormal El Niño weather pattern over summer

Season	Total Milk Solids (kgMS)	Peak Day Milk
2016/17	1,526m (down 3%)	80m litres
2017/18	1,505m (down 1%)	82m litres
2018/19F	1,550m (up 3%)	85m litres

Global Dairy Market

Higher supply expected to moderate

Global Supply¹

Global Demand²

United States

+1%
12 months

Europe

+2%
12 months

+0.3%
July to September

Russia

EU's largest dairy export market

Trade embargo remains

Rest of Asia

+4%
12 months

China

+17%
12 months

New Zealand

+2%
12 months

+6%
August to October

Latin America

-2%
12 months

Middle East/Africa

-1%
12 months

Australia

+2%
12 months

-4%
July to September

1. Global Supply is represented by global milk production data

2. Global Demand is represented by global dairy import data

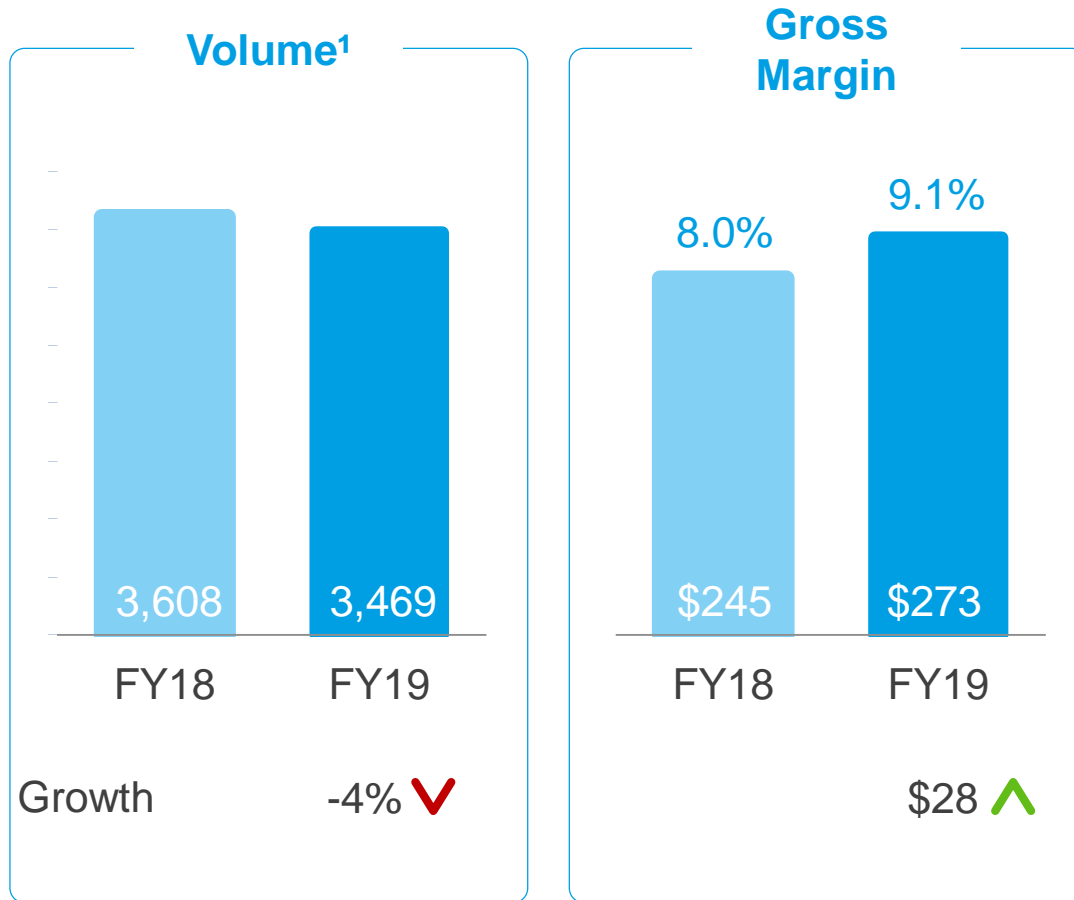
Note: All 12-month figures are rolling 12 months compared to previous comparable period: Australia (Sep), EU (Sep), United States (Oct), China (Mar), Asia (July), Middle East & Africa (July), Latin America (July).

Source: Government milk production statistics; GTIS trade data; Fonterra analysis.



Ingredients

Improved margins even with challenges in Australia



Performance

- Q1 volumes are down 4% on last year due to:
 - A slower start but has now picked up
 - Lower government tender volumes
- Q1 margins are up on last year:
 - Lower input costs
 - Improved mix
 - Positive stream returns
- Australia is a challenging market due to lower collections because of drought and increased competition for milk

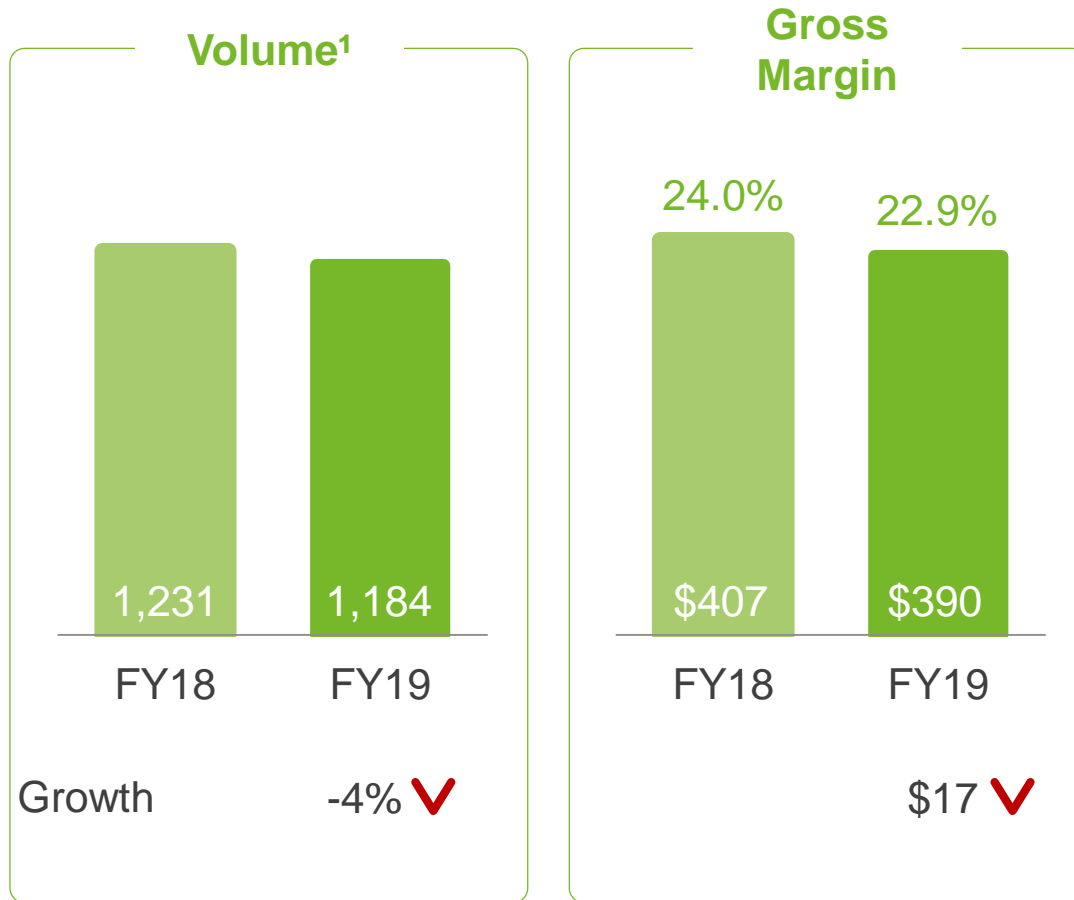
1. Includes sales to other strategic platforms

Note: Volume is in million LME. Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to the first quarter of FY18.



Consumer and Foodservice

Volumes and margins softening due to Foodservice



Performance

- Q1 volumes are down 4% on last year:
 - Consumer volumes are up 5%
 - Foodservice volumes are down 15%
- Q1 margins are down on last year with Consumer margins flat and Foodservice down
- Foodservice Asia and Greater China below expectations
- Oceania delivered higher margins across both consumer and foodservice portfolios:
 - Improved operational performance in New Zealand
 - Price increases in Australia

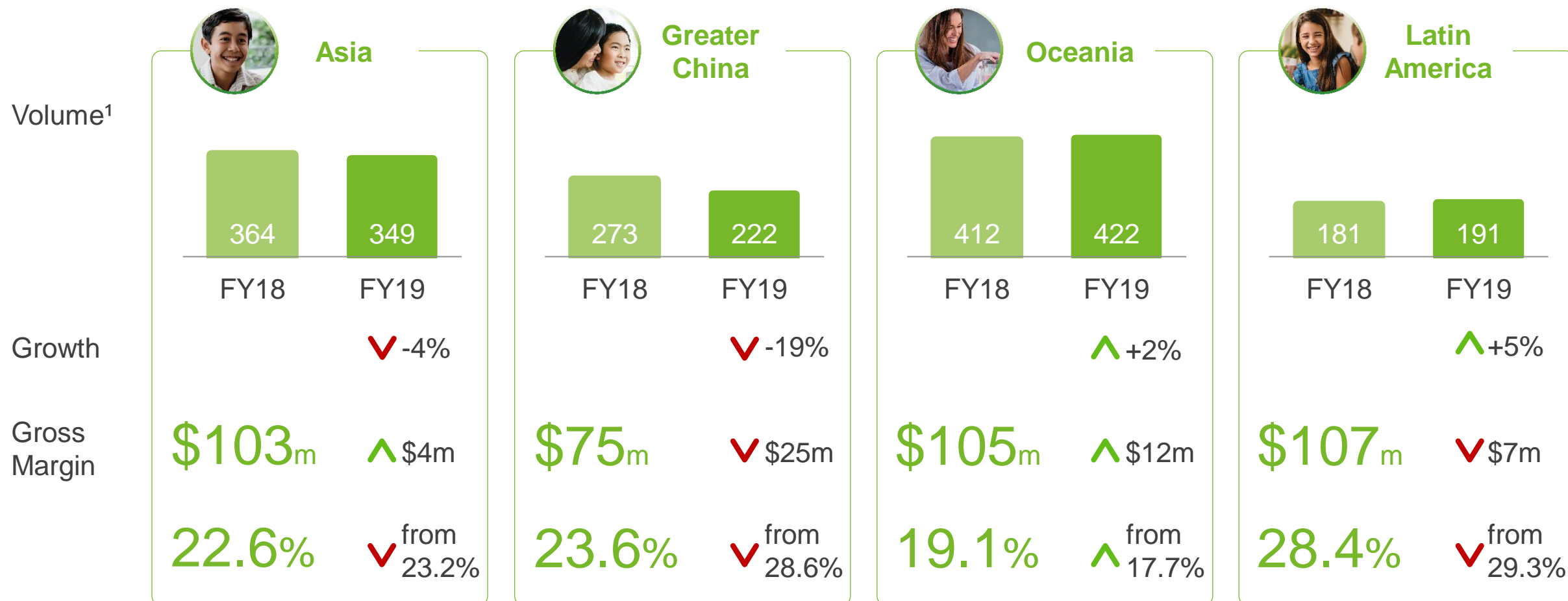
1. Includes sales to other strategic platforms.

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Consumer and Foodservice by region

Asia and Greater China Foodservice offset stronger Consumer performance



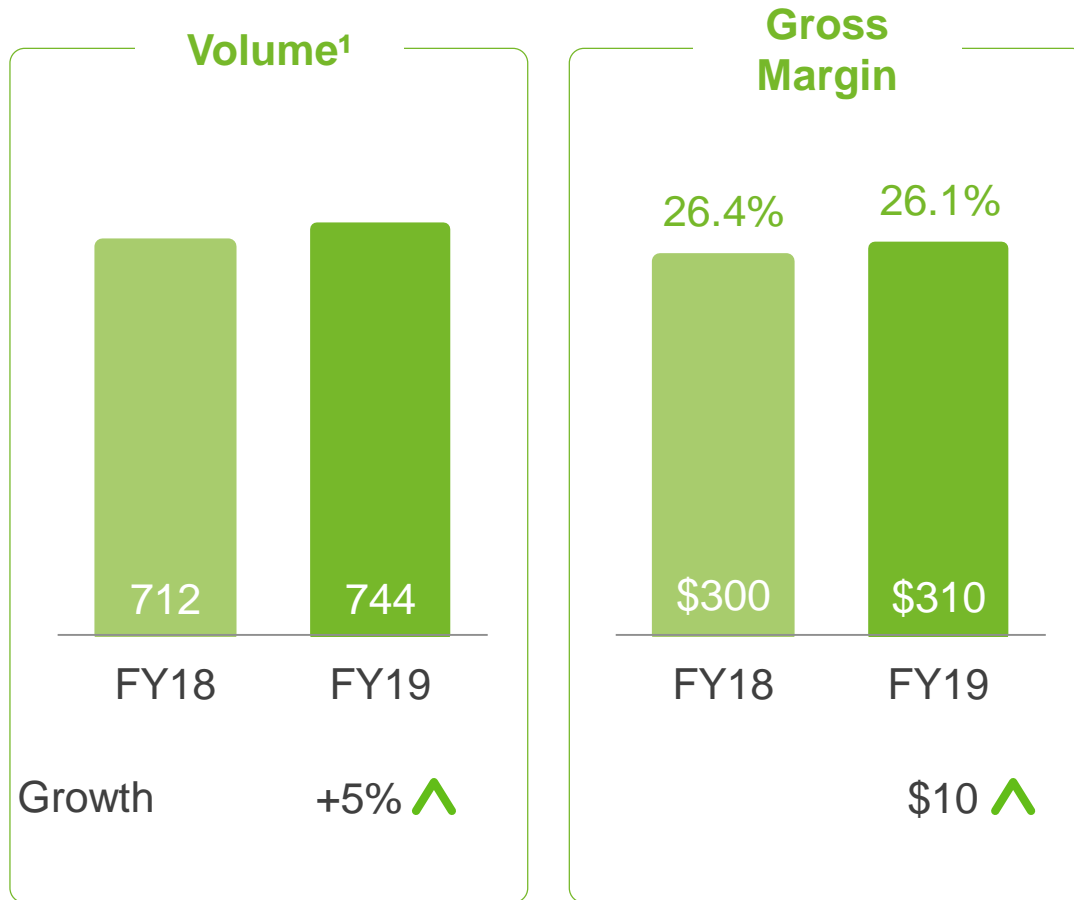
1. Includes sales to other strategic platforms.

Note: Volume is in million LME. All changes are expressed relative to the first quarter of FY18.



Consumer

Higher growth and stable margins underpin a strong Q1



Performance

- Q1 volumes are up 5% on last year with growth in all regions
- Q1 Consumer margins are largely flat on last year, with higher margins in Asia and Oceania offset by softer margins in Greater China
- Higher Q1 margins in Asia and Oceania are due to:
 - Benefits from improved product mix as we launched new products in Asia
 - Better operational performance in New Zealand
 - Strong performance in Australia
- Lower Q1 margins in Greater China are due to:
 - Delay in product launch
 - Increase in cross-border restrictions in Hong Kong

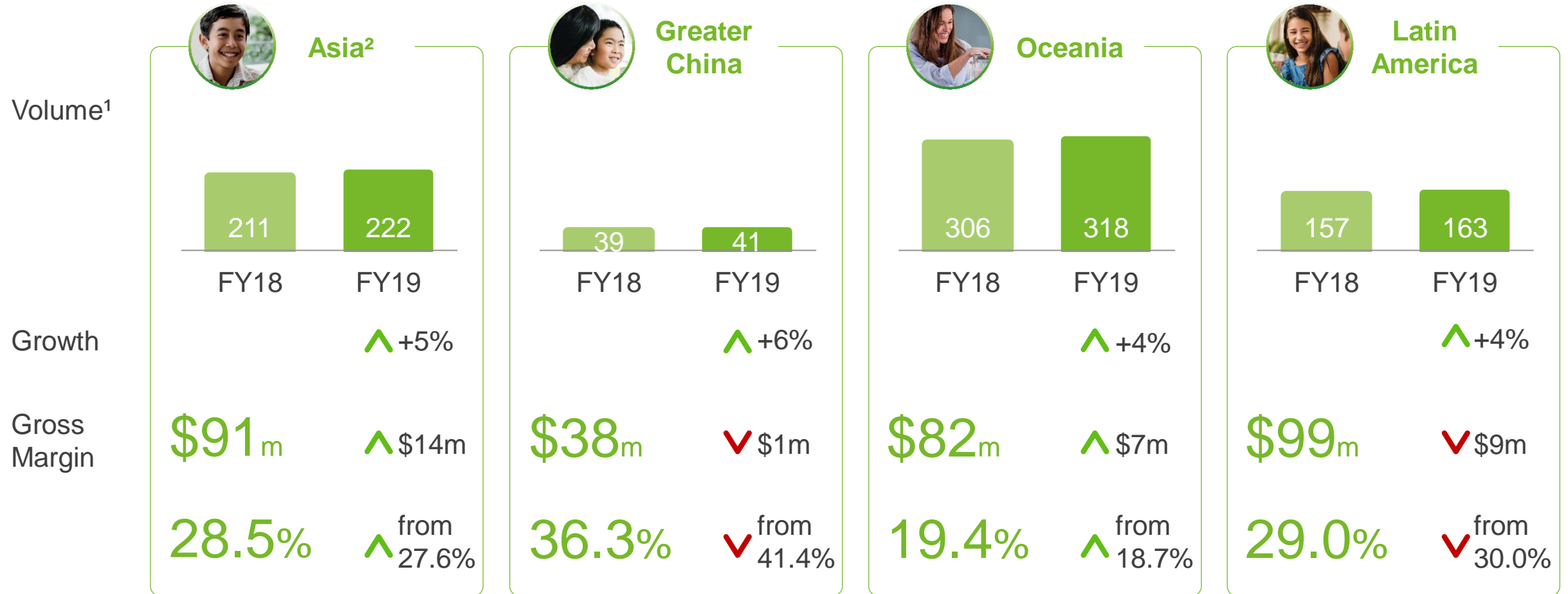
1. Includes sales to other strategic platforms.

Note: Volume is in million LME. Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to the first quarter of FY18



Consumer by region

Growth registered in every region, softer margins in Greater China



1. Includes sales to other strategic platforms.

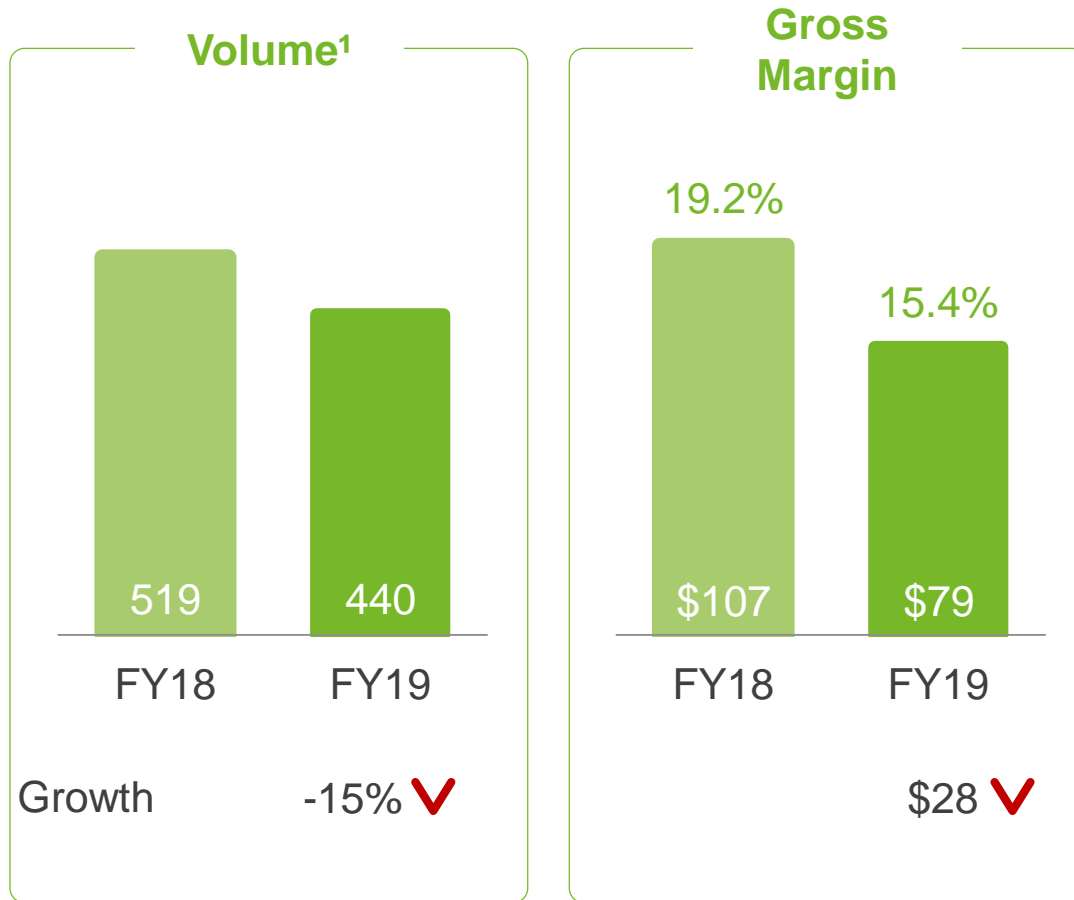
2. FY18 LME volume has been adjusted for the inclusion of eliminating entries to improve comparability.

Note: Volume is in million LME. All changes are expressed relative to the first quarter of FY18.



Foodservice

Asia and Greater China cause lower volumes and profits



Performance

- Q1 volumes are down 15% on last year due to Asia and Greater China performance
 - Follows strong Q4 volumes
- Q1 Foodservice margins are down on last year, with higher margins in Oceania and Latin America offset by lower margins in Asia and Greater China
- Lower Q1 margins in Asia and Greater China are due to:
 - Slower start to sales of butter, cream cheese and UHT cream
 - Narrowing of margins for butter and UHT cream
 - Solid growth of UHT milk sales (lower margin relative to other products)
 - A reduction of volume sold through the QSR channel

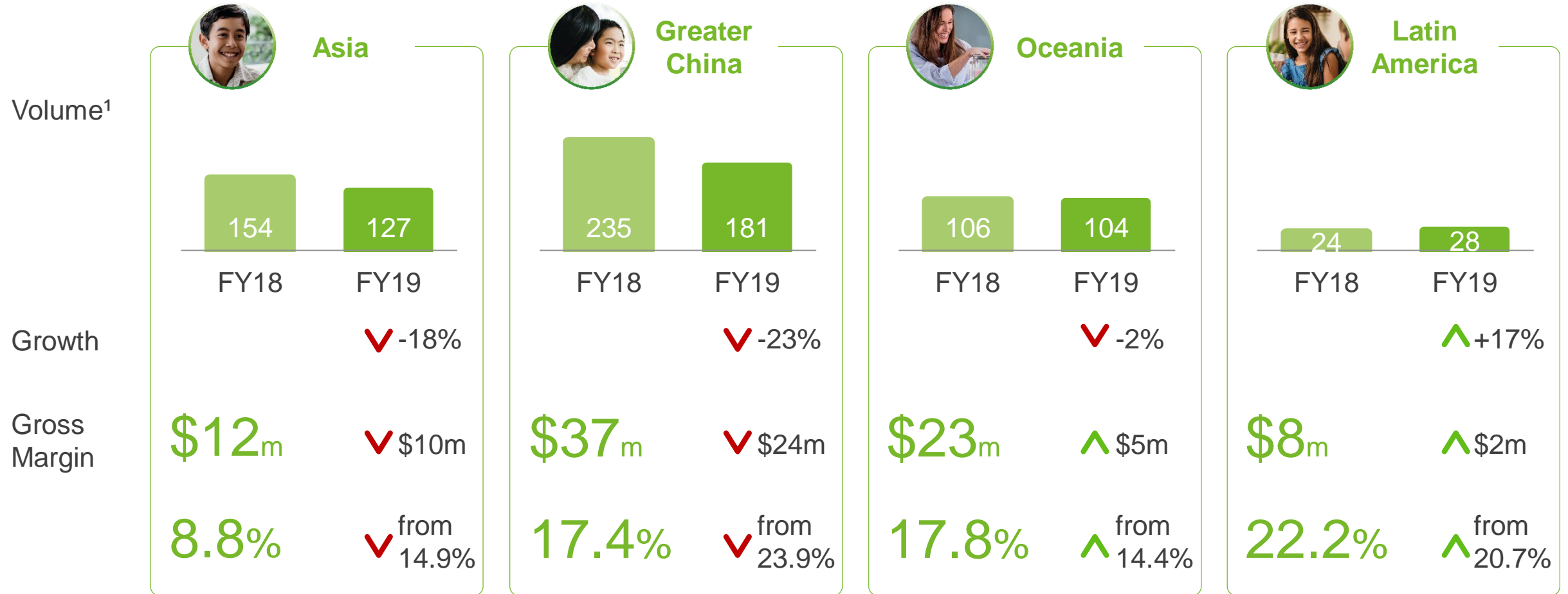
1. Includes sales to other strategic platforms.

Note: Volume is in million LME. Gross margin is in NZD millions unless otherwise stated. All changes are expressed relative to the first quarter of FY18.



Foodservice by region

Value over volume drive Asia and Greater China volumes down



1. Includes sales to other strategic platforms.

Note: Volume is in million LME. All changes are expressed relative to the first quarter of FY18.

Living within our means

Committed to strong financial discipline

Opex reducing to

**FY17
levels**
over next
two years

- Higher opex in Q1 versus last year was largely due to higher spend in Consumer and Foodservice. The increase was due to:
 - Higher pre-planned A&P
 - Storage expenses
 - Costs related to bringing Annum back in-house
- In Ingredients, storage and distribution spend was up in Q1 versus last year
- Savings made in Group Functions
- Target to return to FY17 levels within two years

Capex set at

\$650
million

- We are on track to reduce capex from \$861 million to \$650 million this year
- Higher capex in Q1 versus last year due to the timing of completion of projects carried over from last year
- Capex is not evenly spread out through the year



New Zealand Ingredients product mix

	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19 ²	Change Q1 FY18 to Q1 FY19
Production Volume (000 MT)						
Reference	583	683	481	103	633	9%
Non-Reference	237	246	208	70	227	(4)%
Sales Volume (000 MT)						
Reference	287	614	455	439	247	(14)%
Non-Reference ¹	130	180	168	210	159	22%
Revenue (\$ per MT)						
Reference	4,928	4,715	4,636	5,214	5,257	7%
Non-Reference ¹	5,777	5,958	5,555	5,764	5,405	(6)%

1) Includes bulk liquid milk. 2) Q1FY19 revenue and sales volume includes Foodservice volumes to China, Latin America and Quick Service Restaurant channels but these are not included in FY18. This volume in Q1FY19 is 34,000 metric tonnes. Prior years have not been restated.

Glossary

Acronyms and Definitions

AMF

Anhydrous Milk Fat

BMP

Butter Milk Powder

Base Price

Prices used by Fonterra's sales team as referenced against GDT prices and other relevant benchmarks

DIRA

Dairy Industry Restructuring Act 2001 (New Zealand)

GDT

Global Dairy Trade, 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

Farmgate Milk Price

The price for milk supplied in New Zealand to Fonterra by farmer shareholders

Fluid and Fresh Dairy

The Fonterra grouping of skim milk, whole milk and cream – pasteurised or UHT processed, concentrated milk products and yoghurt

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 in the product relative to the amount of fat and protein in standardised raw milk

Non-Reference Products

All dairy products, except for Reference, produced by the NZ Ingredients business

Price Achievement

Revenue achieved over the base price less incremental supply chain costs above those set out in the Milk Price model

Reference Products

The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF

Regulated Return

The earnings component of Milk Price generated from a WACC return on an assumed asset base

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

Stream Returns

The gross margin differential between Non-Reference Product streams and the WMP stream (based on base prices)

WACC

Weighted Average Cost of Capital

WMP

Whole Milk Powder

Glossary

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, yoghurts, 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.

GLOBAL DAIRY UPDATE



- US production growth remains steady, EU growth easing and Australia declining. Production in New Zealand up on last year.



- Exports from Australia and the US continue to grow. European and New Zealand exports down.



- Imports into Asia and China show continued growth. Middle East, Africa and Latin America are flat.



- In October Fonterra New Zealand milk collection increased 5% to 220 million kgMS and Fonterra Australia milk collection decreased 14% to 16 million kgMS. There is a growing risk of a hot dry summer in both countries.

- 2019 first quarter business update.
- Forecast Farmgate Milk Price range for the 2018/19 season is \$6.00-\$6.30 per kgMS.
- Forecast earnings per share unchanged.



- Anchor™ Light Proof™ milk bottle will soon be appearing on farms across New Zealand, but you won't find them in the fridge. Fonterra has teamed up with Kiwi-owned start up, Future Post™, to turn milk bottles into fence posts for kiwi farms.

COMING UP...



- The next issue of the Global Dairy Update will be published on 31 January 2019.

KEY DATES



End February 2019
Deadline for Applications to
Supply Fonterra

Late March 2019
FY19 Interim Results
Announcement

May 2019
Q3 Business Update
Announcement

1 June 2019
Measurement Date for Share
Standard 2019/20 Season



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

US PRODUCTION GROWTH REMAINS STEADY, EU GROWTH EASING AND AUSTRALIA DECLINING. PRODUCTION IN NEW ZEALAND UP ON LAST YEAR

NEW ZEALAND

2% ↑

Production change for the 12 months to October 2018

Total New Zealand milk production increased 6% in October compared to the same month last year. This has been driven by favourable weather early in the season. Production for the 12 months to October was 2% higher than last year driven by a record peak October 2018 production. However there is a risk of a hot, dry summer. The expectation is for non-traditional El Niño conditions to develop over the next three months. Fonterra collections are reported for October, see page 5 for details.

AUSTRALIA

2% ↑

Production change for the 12 months to September 2018

Australian milk production decreased 3% in September compared to the same period last year. Drought across Eastern Australia and input prices are impacting Victoria, NSW and Queensland. The downturn in these states was partly off-set by strong growth in South Australia and stable production in Tasmania. Production for the 12 months to September was up 2% compared to the same period the previous year. Fonterra collections in Australia are reported for October, see page 5 for details.

EUROPEAN UNION

2% ↑

Production change for the 12 months to September 2018

EU milk production saw no growth in September compared to the same period last year. The Netherlands experienced the largest monthly decline. The Netherlands' milk production, on an annualised basis, has remained flat since mid-2016. In the month, Ireland and Poland had higher production. Production for the 12 months to September was up 2% compared to the same period last year.

USA

1% ↑

Production change for the 12 months to October 2018

US milk production was up 1% in October compared to the same period last year. The US continues to see relatively steady production growth driven by yield per cow. Milk production for the 12 months to October increased by 1% compared to the same period last year, continuing a steady growth trend.



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

EXPORTS FROM AUSTRALIA AND THE US CONTINUE TO GROW. EUROPEAN AND NEW ZEALAND EXPORTS DOWN

NEW ZEALAND

1% ↓

Export change for the 12 months to September 2018

Total New Zealand dairy exports decreased by 10%, or 18,000 MT, in September compared to the same period last year. This was primarily driven by declines in WMP, SMP and cheese, down a combined 15,000 MT.

Exports for the 12 months to September were down 1%, or 26,000 MT, on the previous comparable period. This continues to be driven by lower volumes across WMP, AMF, cheese and SMP, down a combined 78,000 MT. Fluid and fresh dairy and infant formula continued strong growth, up 57,000 MT.

AUSTRALIA

4% ↑

Export change for the 12 months to August 2018

Australian dairy exports increased 3,700 MT in August compared to the same period last year. This growth was due to upside in most categories, offset by declines in fluid products, WMP, and other powders.

Exports for the 12 months to August were up 4%, or 29,000 MT, on the previous comparable period.

Fluid and fresh dairy, cheese, and infant formula continued to make up most of growth in Australian exports, up a combined 44,000 MT.

EUROPEAN UNION

1% ↑

Export change for the 12 months to August 2018

EU dairy exports decreased by 7%, or 31,000 MT, in August compared to the same period last year. This was primarily driven by declines in fluid and fresh dairy, WMP and SMP, down a combined 35,000 MT.

Exports for the 12 months to August were up 1%, or 26,000 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 95,000 MT.

USA

12% ↑

Export change for the 12 months to September 2018

US dairy exports increased by 10%, or 16,000 MT, in September compared to the same period last year. Growth in SMP and WMP of a combined 16,000 MT, was the primary driver behind this increase.

Exports for the 12 months to September were up 12%, or 264,000 MT, on the previous comparable period.

This increase was driven by growth across SMP, lactose, whey powder and WPC and WPI, up a combined 202,000 MT.



IMPORTS INTO ASIA AND CHINA SHOW CONTINUED GROWTH. MIDDLE EAST, AFRICA AND LATIN AMERICA ARE FLAT

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

LATIN AMERICA

2% ↓

Import change for the 12
months to July 2018

Latin American dairy import volumes¹ increased 1%, or 1,000 MT, in July compared to the same period last year. This increase was driven by fluid and fresh dairy, SMP and AMF, up a combined 7,000 MT. This was partially offset by reductions in WMP and whey powder, down 5,000 MT.

Imports for the 12 months to July were down 2%, or 41,000 MT, compared to the same period the previous year. This decline was primarily driven by WMP, AMF, and cheese down a combined 103,000 MT. An increase in SMP and whey powder of 49,000 MT offset some of the decline.

ASIA

4% ↑

Import change for the 12
months to July 2018

Asia (excluding China) dairy import volumes¹ increased 13%, or 47,000 MT, in July compared to the same period last year. Growth in fluid and fresh dairy, WMP, cheese and whey powder of 38,000 MT drove the increase. A decline in lactose and SMP of 26,000 MT offset gains.

Imports for the 12 months to July were up 4%, or 160,000 MT, compared to the same period the previous year. Growth in WMP and fluid and fresh dairy of 134,000 MT were the primary drivers.

MIDDLE EAST & AFRICA

1% ↓

Import change for the 12
months to July 2018

Middle East and Africa dairy import volumes¹ decreased 9% or 31,000 MT in July compared to the same period last year. Small growth in SMP and MPC products was offset by declines in fluid and fresh dairy, cheese, other powder and cultured products of 33,000 MT.

Imports for the 12 months to July were down 1%, or 42,000 MT, compared to the same period the previous year. The reduction was driven by fluid and fresh dairy and cheese, down 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.

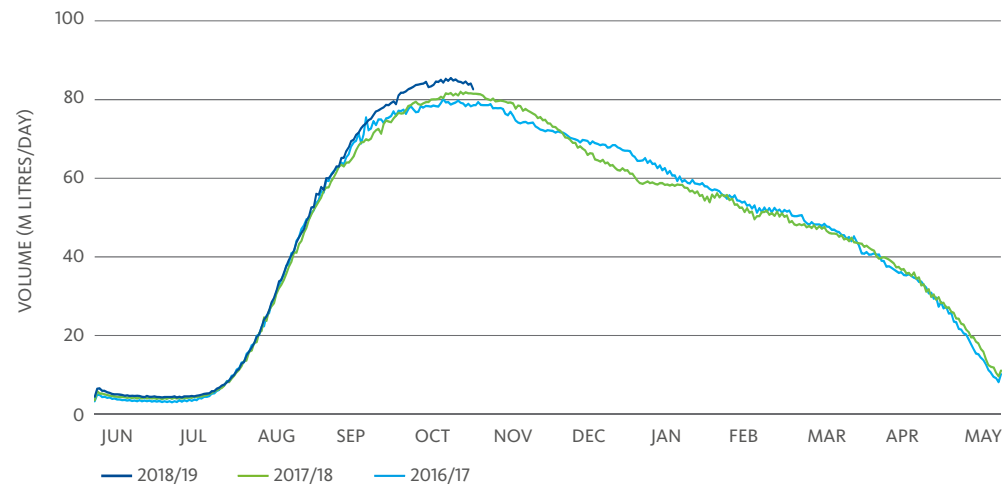
OUR MARKETS

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

5%↑

Increase for the season from 1 June to 31 October

Fonterra's milk collection across New Zealand for the five months to 31 October reached 527 million kgMS.

New Zealand collections in October reached 220 million kgMS, 5% up on the same month last season.

Favourable climatic conditions continued into October, leading to very good milk production for the month across most of the country.

NIWA is saying its likely we will see an abnormal El Niño weather pattern over summer and this could impact our farmers' milk production.

NORTH ISLAND

4%↑

Increase for the season from 1 June to 31 October

North Island milk collection in October reached 131 million kgMS, 6% higher than October last season.

Most North Island regions have benefited from favourable weather and good animal health, resulting in milk volumes ahead of last season. Northland has experienced slower pasture growth than other regions due to less favourable weather.

North Island milk collection for the 2018/19 season to date reached 339 million kgMS, up 4%.

SOUTH ISLAND

7%↑

Increase for the season from 1 June to 31 October

South Island milk collection in October reached 89 million kgMS, 5% higher than October last season.

Positive weather and on-farm conditions have continued, allowing for good grass growth across most regions.

South Island milk collection for the 2018/19 season to date reached 189 million kgMS, up 7%.

AUSTRALIA

12%↓

Decrease for the season from 1 July to 31 October

Fonterra's milk collection across Australia for the four months to 31 October reached 45 million kgMS, down 12% on the same period last season.

Australia collections in October reached 16 million kgMS, down 14% on the same month last season.

Rising costs and availability of key on-farm inputs continue to trend substantially above long-term averages resulting in increased cull cow rates. The poor seasonal outlook and a very competitive milk supply market will more than likely continue to impact F19 milk supply. The likelihood of an El Niño system developing is at 70% (Australian Bureau of Meteorology).

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS



Fonterra GDT results at
last trading event

4 December 2018:

3.9%↑

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

USD **2,851**

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

35.4 ^{000' MT}

Fonterra product quantity
sold on GDT

AMF

3.9%↑

USD 4,755/MT

BUTTER

3.0%↑

USD 3,745/MT

WMP

2.6%↑

USD 2,667/MT

RENNET CASEIN

2.0%↑

USD 5,167/MT

SMP

0.0%

USD 1,971/MT

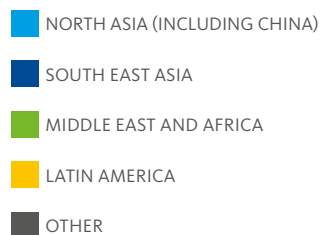
CHEDDAR

2.1%↓

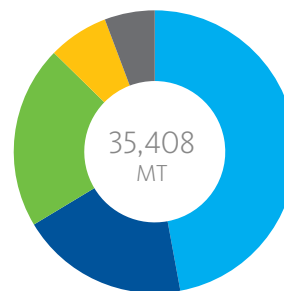
USD 3,184/MT

Fonterra GDT sales
by destination:

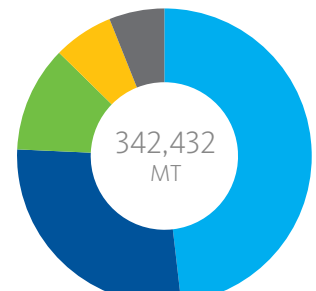
To view more information,
including a snapshot of the
rolling year-to-date results –



LATEST AUCTION



**FINANCIAL
YEAR-TO-DATE**



► The next trading event will be held on 18 December 2018. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar
strengthened through
the month of November
driven by strong local
economic indicators.





2019 THREE-MONTH BUSINESS UPDATE

VOLUME

3.6^B LME

↓ DOWN 6%

REVENUE

\$3.8^B

↓ DOWN 4%

GROSS MARGIN

\$646^M

↓ DOWN \$14 MILLION

17.0%

↑ UP FROM 16.6%

OPEX

\$656^M

↑ UP 3%

CAPEX

\$188^M

↑ UP \$46 MILLION

Fonterra's gross margin for the three months to 31 October was in line with last year. Overall volume was down 6% to 3.6 billion LME, reflecting lower volumes in both Ingredients and Consumer and Foodservice. In Ingredients, this was predominantly due to the timing of sales. In Consumer and Foodservice, higher consumer volumes (up 5% compared to the same period last year) were offset by lower foodservice volumes (down 15% compared to the same period last year). Group revenues were down 4% compared to the same period last year, as lower volumes were only partially offset by higher pricing.

The Ingredients business delivered a good first quarter despite lower volumes. First quarter volumes were down 4% compared to the same period last year because of a slower start to the year, which has now picked up, and lower government tender volumes. First quarter margins were up to 9.1% (from 8.0% last year). This was a result of lower

input costs, positive stream returns and an improved mix. Australia is a challenging market for Ingredients due to lower collections because of drought and increased competition for milk.

Consumer and Foodservice volumes were down 4% compared to the same period last year and the gross margin declined to 22.9%, from 24% last year. Consumer margins were largely flat on the same period last year (26.1%), Foodservice margins declined to 15.4%, from 19.2%. The decline in volumes and profitability in Foodservice Asia and Foodservice Greater China was due to a slower start in sales of butter, cream cheese and UHT cream. In contrast, Oceania performed better across both consumer and foodservice portfolios.

Our China Farms operations experienced a volume decline of 20% compared to the same period last year. This was due to unfavourable weather which adversely

affected yield. We also incurred higher effluent costs this quarter which pushed down gross margin to (4.2)%, from 7.3% last year.

Group operating expenditure (opex) was up 3% this quarter mainly due to higher expenditure in Consumer and Foodservice. In part this was due to pre-planned A&P, higher storage and costs related to bringing Annum back in-house. We also had higher storage and distribution costs in Ingredients from collecting and moving more milk this quarter. Our target is to reduce opex to FY17 levels over the next two years.

Higher capital expenditure (capex) in Q1 versus last year was due to timing of completion of projects carried over from last year. We are on track to reduce capex from \$861 million to \$650 million this year.

The inclusion of off-GDT sales has contributed 3 cents per kgMS for the season to date to 31 October 2018.

THE OUTLOOK

Forecast Farmgate Milk Price range for the 2018/19 season is \$6.00-\$6.30 per kgMS. Our forecast milk collection for the season is unchanged at 1,550 million kgMS.

There is still a lot of variability in our full year collections forecast. NIWA is saying its likely we will see

an abnormal El Niño weather pattern over summer and this could impact our farmers' milk production. Today's forecast range assumes dairy prices will firm across the remainder of the season.

Our forecast earnings per share is unchanged at

25-35 cents. The timing of delivery of earnings over the year will be driven by the timing of New Zealand Ingredient sales, the milk price for the balance of the year and relative returns between Ingredients products (which are currently positive but can be volatile).



From Plastic to Posts

Anchor™ Light Proof™ milk bottles will soon be appearing on farms across New Zealand, but you won't find them in the fridge.

Fonterra has teamed up with Kiwi-owned start up, Future Post™, to turn milk bottles and other soft plastics into fence posts for kiwi farms.



Fonterra Brands New Zealand's (FBNZ) Sustainability and Environment Manager, Larisa Thathiah, says the posts are an innovative new way for farmers to improve their on-farm sustainability.

"This partnership provides farmers with an environmentally-friendly fencing option, made from the packaging of our farmers' milk, which is pretty special," says Larisa.

"It's not enough to just recycle anymore, it's about creating less waste full stop, or at least turning it into something useful. That's why these fence posts are so exciting – they're made from 100% recycled material, and have a life expectancy of more than 50 years."

The Future Post™ partnership is the latest waste reduction initiative from Fonterra. Last year, the Co-op partnered with SKYCITY to turn Anchor™ Light Proof™ milk bottles into shampoo, conditioner and body lotion bottles for guests.

Managing Director of Future Post™, Jerome Wenzlick, says it's great to have support from Fonterra and he's looking forward to developing other sustainable products for farmers.

"What we're doing is re-purposing waste that could have gone to landfill and turning it in to a valuable product for consumers," says Jerome.

"Our partnership with Fonterra gives us access to a steady supply of raw material from the Co-op's own recycling initiatives. It also gives us access to a network of nationwide Farm Source stores that can sell the fence posts, and access to 10,000 farmers

who are actively engaged in environmental initiatives, like fencing to keep cows out of waterways and planting along river banks."

"Future Post™ is a start-up, but we have plans for some new products in 2019, including those for non-farming sectors."

Anchor™ Light Proof™ milk bottles are collected from the Fonterra Takanini site and transported to the Future Post™ Waiuku plant, where they are mixed with soft plastics and turned into fence posts.

The fence posts will be available in selected Fonterra Farm Source stores across the North Island in the New Year, with plans to launch in South Island stores mid-2019.

Fonterra CEO Miles Hurrell and Future Post Managing Director Jerome Wenzlick revealed a first peak at the posts at Fonterra's Open Gates event in Karaka.



FBNZ SUSTAINABILITY AND ENVIRONMENT MANAGER LARISA THATHIAH, FONTERRA CEO MILES HURRELL AND FUTURE POST MANAGING DIRECTOR JEROME WENZLICK

SUPPLEMENTARY INFORMATION

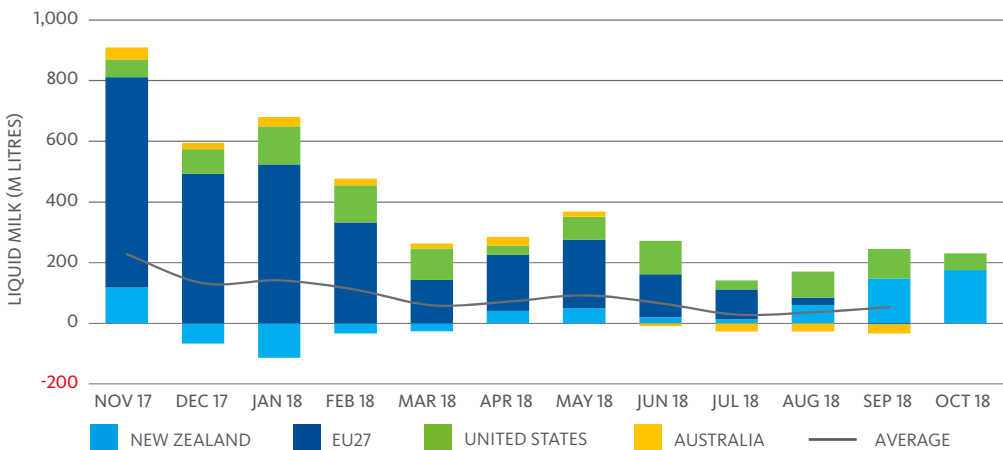
Global Dairy Market

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.

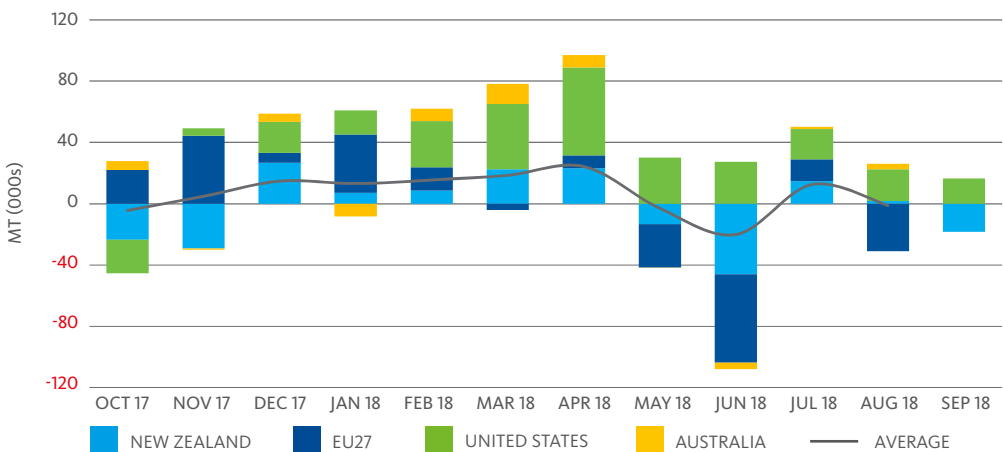
Averages are shown where data is complete for the regions presented.

PRODUCTION



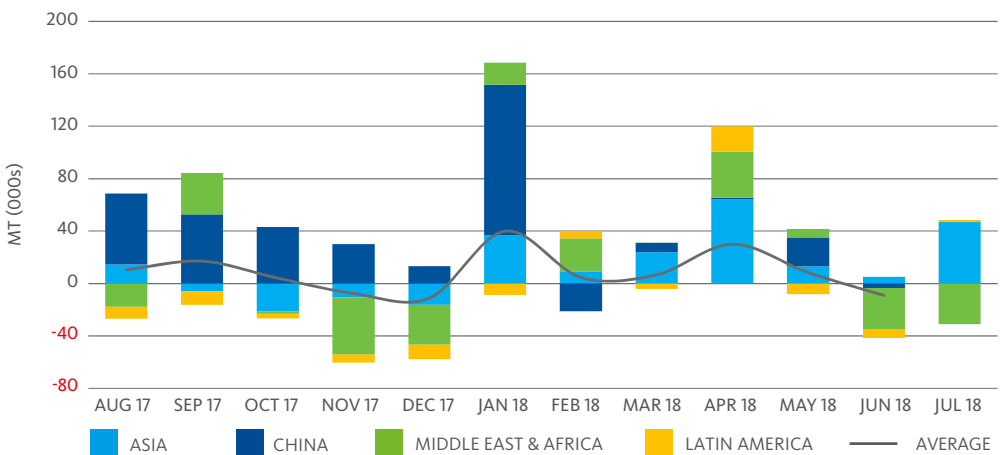
NOTE: Data for EU and Australia to September; New Zealand and US to October.

EXPORTS



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

IMPORTS



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

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)	OCTOBER 2018	OCTOBER 2017	MONTHLY CHANGE	SEASON- TO-DATE 2018/19	SEASON- TO-DATE 2017/18	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	220.2	208.8	5.4%	527.2	502.4	4.9%
North Island	131.3	124.3	5.7%	338.7	326.9	3.6%
South Island	88.9	84.6	5.1%	188.6	175.5	7.4%
Fonterra Australia	15.5	18.1	(14.4%)	45.3	51.5	(12.0%)

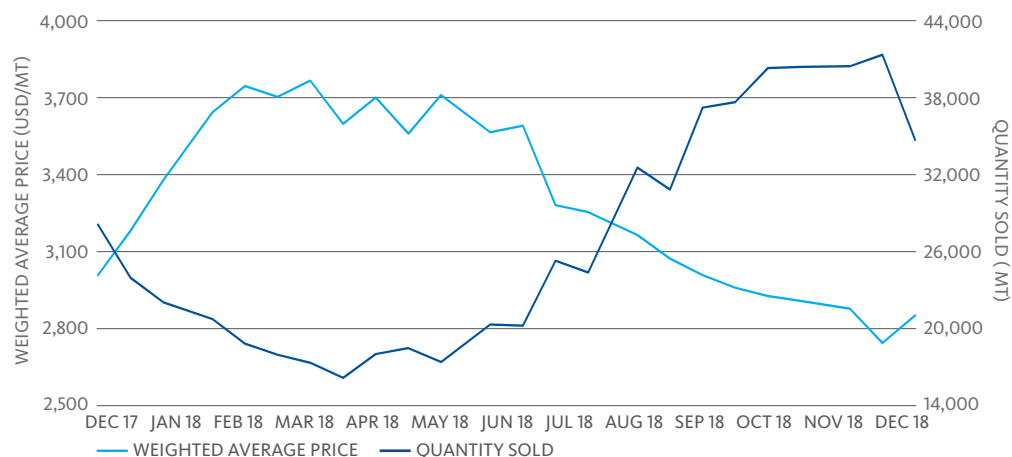
Fonterra GDT results

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

	LAST TRADING EVENT (4 DECEMBER 2018)	YEAR-TO-DATE (FROM 1 AUGUST 2018)
Quantity Sold on GDT (Winning MT)	35,408	342,432
Change in Quantity Sold on GDT over same period last year	24.9%	15.1%
Weighted Average Product Price (USD/MT)	2,851	2,937
Change in Weighted Average Product Price over same period last year	(8.4%)	(9.4%)
Change in Weighted Average Product Price from previous event	3.9%	–

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.

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.