

JANUARY 2019

GLOBAL DAIRY UPDATE



Dairy for life



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



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



- Imports into Asia and China showed strong growth. Latin America increased but Middle East and Africa down.



- Fonterra's milk collection across New Zealand for the seven months to 31 December reached 914 million kgMS, up 4% on the same period last season.

- Fonterra Farm Source™ to sell livestock division to Carrfields Livestock.

- Fonterra has increased supply from over 300 to over 500 McDonald's restaurants across China for the chain's iconic soft serve ice creams.

KEY DATES



28 February 2019

Final date for Applications to Supply Fonterra

May 2019

Q3 Business Update

20 March 2019

FY19 Interim Results Announcement

1 June 2019

Measurement Date for Share Standard 2019/20 Season



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

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

NEW ZEALAND

2% ↑

Production change for the 12 months to December 2018

Total New Zealand milk production increased 4% in December compared to the same month last year.

Favourable weather conditions supported peak collection with production returning to more usual production levels following two previous seasons that were impacted by weather.

New Zealand milk production for the 12 months to December was 2% higher than last year.

Fonterra collections are reported for December, see page 5 for details.

AUSTRALIA

0% ↑

Production change for the 12 months to October 2018

Australian milk production decreased 6% in October compared to the same period last year.

Production for the 12 months to October is marginally ahead of the previous 12 months.

Drought, high input costs and increased cow cull rates, continue to severely impact milk production. Dairy Australia has forecast a milk production decline of 5% to 7% for the season.

Fonterra collections in Australia are reported for December, see page 5 for details.

EUROPEAN UNION

1% ↑

Production change for the 12 months to November 2018

EU milk production decreased 1% in November compared to the same period last year.

In November The Netherlands experienced the largest monthly decline and France and Germany also continued to decline. Stronger milk production continues in Ireland.

Production for the 12 months to November was up 1% compared to the same period last year. Growth has slowed but has remained steady since August.

USA

1% ↑

Production change for the 12 months to November 2018

US milk production was up 1% in November compared to the same period last year. The US continues to see relatively steady production growth driven by increased yield per cow.

Margins continue to be squeezed with Class III milk below USD15.00 per hundredweight. The new Dairy Margin coverage programme may assist production on smaller farms but overall US growth is expected to continue at current levels which are below those observed over the past several years.

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



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

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

NEW ZEALAND

1% ↑

Export change for the 12 months to November 2018

Total New Zealand dairy exports increased by 13%, or 40,000 MT, in November compared to the same period last year. This was primarily driven by WMP, up 27,000 MT. Fluid products, AMF, SMP, MPC and infant formula were up a combined 22,000 MT. Butter declined 9,000 MT.

Exports for the 12 months to November were up 1%, or 43,000 MT, on the previous comparable period. This was driven by fluid products, WMP, infant formula, AMF and butter, up a combined 114,000 MT. This was off-set by declines in SMP, cheese and cultured products down a combined 61,000 MT.

AUSTRALIA

6% ↑

Export change for the 12 months to November 2018

Australian dairy exports increased 13%, or 9,000 MT, in November compared to the same period last year. This growth was due to infant formula, fluid products, SMP and butter up a combined 10,000 MT. This was off-set by a decline in cheese of 1,500 MT.

Exports for the 12 months to November were up 6%, or 41,000 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 35,000 MT.

EUROPEAN UNION

1% ↑

Export change for the 12 months to October 2018

EU dairy exports increased by 12%, or 53,000 MT, in October compared to the same period last year. This was primarily driven by SMP, fluid products, cheese, lactose and WPC, up a combined 53,000 MT.

Exports for the 12 months to October were up 1%, or 73,000 MT, on the previous comparable period.

There was continued growth in a broad range of products, led by infant formula and SMP, offset by declines in fluid milk products and WMP.

USA

13% ↑

Export change for the 12 months to October 2018

US dairy exports increased by 3%, or 5,000 MT, in October compared to the same period last year. Growth in SMP, WMP and AMF of a combined 15,000 MT, was the primary driver behind this increase.

Exports for the 12 months to October were up 13%, or 291,000 MT, on the previous comparable period.

The increase was across a broad range of products notably SMP, lactose, WPC and WMP, up a combined 231,000 MT.



IMPORTS INTO ASIA AND CHINA SHOWED STRONG GROWTH. LATIN AMERICA INCREASED BUT MIDDLE EAST AND AFRICA DOWN

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

LATIN AMERICA

1%↑

Import change for the 12 months to October 2018

Latin American dairy import volumes¹ increased 16%, or 24,000 MT, in October compared to the same period last year. This increase was primarily driven by WMP, SMP, cheese and fluid products up a combined 20,000 MT. All other product categories were also up.

Imports for the 12 months to October were up 1%, or 19,000 MT, compared to the same period the previous year.

ASIA

5%↑

Import change for the 12 months to October 2018

Asia (excluding China) dairy import volumes¹ increased 14%, or 51,000 MT, in October compared to the same period last year. Growth was across a broad range of products off-set by small declines in butter, whey and other powders.

Imports for the 12 months to October were up 5%, or 208,000 MT, compared to the same period the previous year. This growth was driven by fluid products, WMP and cheese of 180,000 MT.

MIDDLE EAST & AFRICA

6%↓

Import change for the 12 months to October 2018

Middle East and Africa dairy import volumes¹ decreased 6% or 19,000 MT in October compared to the same period last year. Small growth in SMP and WMP products was offset by declines in most other product categories totalling 25,000 MT.

Imports for the 12 months to October were down 6%, or 237,000 MT, compared to the same period the previous year. The reduction was driven by fluid and fresh dairy and cheese, down a combined 239,000 MT. This was off-set by a small increase in SMP.

CHINA

7%↑

Import change for the 12 months to November 2018

China dairy import volumes increased 8%, or 20,000 MT, in November compared to the same period last year. This was driven by increases across a broad range of products, off-set by small declines in infant formula and whey powder.

Imports for the 12 months to November were up 7%, or 255,000 MT, compared to the same period last year. Strong demand out of China continued with imports across all key categories, except cheese, up for the period.

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

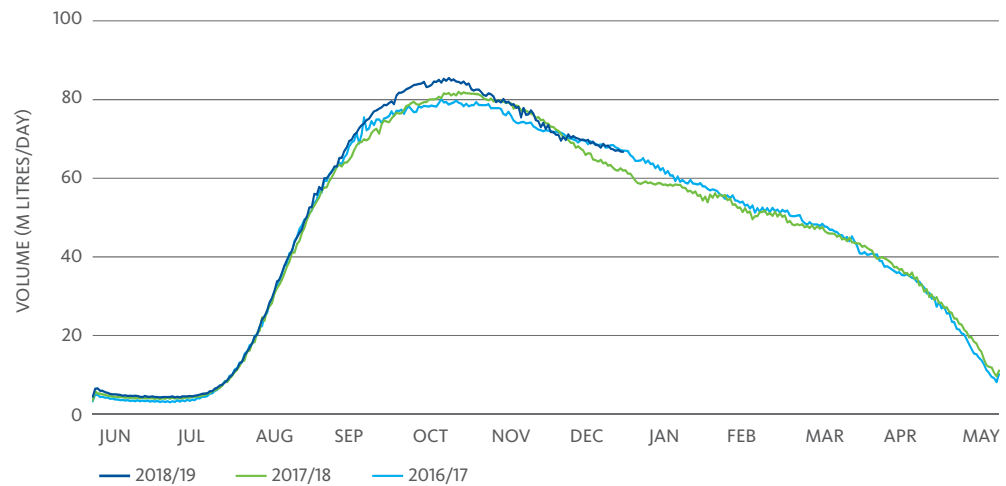
OUR MARKETS

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 December

Fonterra's milk collection across New Zealand for the seven months to 31 December reached 914 million kgMS, up 4% on the same period last season.

New Zealand collections in December were 185 million kgMS, 5% up on the same month last season.

The mix of fine weather and rain in December saw soil moisture and pasture levels recover across most of the country.

Overall good animal health and favourable weather resulted in milk volumes ahead of last season, which was a three-year low where weather conditions and other factors had an adverse impact.

NORTH ISLAND

4% ↑

Increase for the season from 1 June to 31 December

North Island milk collection in December was 109 million kgMS, 7% higher than December last season.

Milk production in Central Districts and Waikato continues to track above last season due to good spring and on-farm conditions.

North Island milk collection for the 2018/19 season to date reached 567 million kgMS, up 4%.

SOUTH ISLAND

5% ↑

Increase for the season from 1 June to 31 December

South Island milk collection in December was 76 million kgMS, 2% higher than December last season.

Warm and dry weather in December has improved pasture growth in Otago/Southland where flooding had occurred during November. Favourable conditions are expected to continue, with grass growth looking secure throughout early summer.

Good grass growth and pasture cover in Canterbury.

South Island milk collection for the 2018/19 season to date reached 347 million kgMS, up 5%.

AUSTRALIA

14% ↓

Decrease for the season from 1 July to 31 December

Fonterra's milk collection across Australia for the six months to 31 December reached 72 million kgMS, down 14% on the same period last season.

Australia collections in December reached 13 million kgMS, down 18% on the same month last season.

High input costs and poor seasonal conditions continue, resulting in increased cow cull rates, decreasing the season's milk production.

As national volumes decline, the milk supply market continues to be highly competitive.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS



Fonterra GDT results at
last trading event
15 January 2019:

2.9% ↑

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

USD **3,094**

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

27.0 '000' MT

Fonterra product quantity
sold on GDT

SMP

10.7% ↑

USD 2,441/MT

BUTTER

4.6% ↑

USD 4,262/MT

CHEDDAR

4.0% ↑

USD 3,504/MT

AMF

3.1% ↑

USD 5,294/MT

WMP

2.7% ↑

USD 2,777/MT

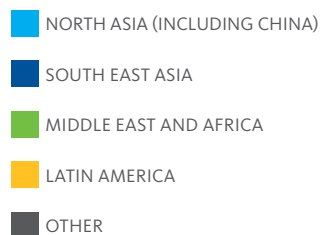
RENNET CASEIN

1.5% ↓

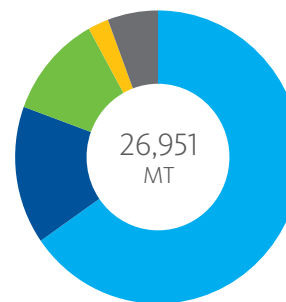
USD 5,047/MT

Fonterra GDT sales
by destination:

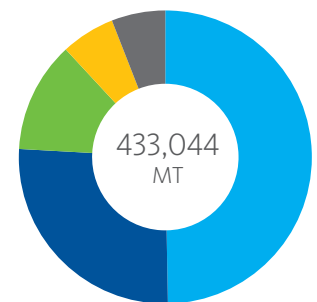
To view more information,
including a snapshot of the
rolling year-to-date results –



LATEST AUCTION



**FINANCIAL
YEAR-TO-DATE**



► The next trading event will be held on 5 February 2019. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar
declined in December as a
weakening global outlook
and soft domestic growth
data impacted the currency,
but has subsequently
increased in January.



OUR PERFORMANCE



Fonterra Farm Source™ to sell livestock division to Carrfields Livestock



Fonterra has announced that it will sell the Farm Source™ livestock division to Carrfields Livestock – an established livestock agency provider.

Richard Allen, Farm Source™ Stores Director, says the decision to sell was made in the context of a larger review underway within the Co-op.

“In the context of the review of the Co-op’s assets and investments, we have made the decision to sell the livestock division to Carrfields Livestock. This will better serve the livestock team and the farms they service.

While Farm Source’s livestock division has contributed positive returns since inception, we believe the investment required

to maintain and grow this division can be more effectively targeted towards improving core areas of the Farm Source™ business,” says Mr. Allen.

Farm Source™ is working with Carrfields to develop a range of partnership offerings to ensure a positive connection and competitive offer remains for Fonterra farmers.

Craig Carr, Carrfields Group Managing Director, says this acquisition is both exciting and a strategic opportunity for Carrfields Livestock to fill gaps in their current national network.

“This acquisition will take the Carrfields Livestock team to over 150 livestock agents spread right across the country. This strategic

partnership will offer Farm Source™ clients and Fonterra farmer owners access to a nationwide agent and sale yard network provided by a New Zealand family-owned business,” says Mr. Carr.

Farm Source™ and Carrfields Livestock are committed to ensuring a smooth transfer of employees and clients, minimising any disruption to the business with Carrfields Livestock’s ownership commencing 1 March 2019. For a small number of employees who will not have the option to transition to Carrfields Livestock, Farm Source™ will support them in identifying new opportunities within the Co-op.

McDonald’s China serving up 37.5 million Fonterra soft serves



Over 500 McDonald’s restaurants across China are serving up a taste of New Zealand, with Fonterra now supplying product for the restaurant chain’s iconic soft serve ice creams.

Around 37.5 million soft serve ice creams are being made with Fonterra’s dairy – roughly one every second.

The product, sourced from New Zealand farms, has been served in more than 300 restaurants across China since September last year and increased to more than 500 stores on 1 January 2019.

To put that in context, there are 167 McDonald’s restaurants across New Zealand.

President of Fonterra Greater China Christina Zhu says the deal is part of Fonterra growing its foodservice business in China.

“We’re delighted to be expanding our partnership with McDonald’s China, who we already supply slice-on-slice cheese and UHT milk.”

“McDonald’s China chose to source milk powder from Fonterra to make their vanilla ice cream after our product received the highest sensory score (flavour, colour, stability) in their pilot. It also speaks to our innovation and food safety and quality standards.”

China is the world’s biggest ice cream market, scooping up around 4.3 billion litres in 2016.

“Ice cream sales in China are rising steadily and Fonterra is primed to meet the demand,” says Ms. Zhu.

“Our Foodservice business is a leader in China’s foodservice market, with customers valuing our trusted brand, product innovation, and premium quality.”

SUPPLEMENTARY INFORMATION

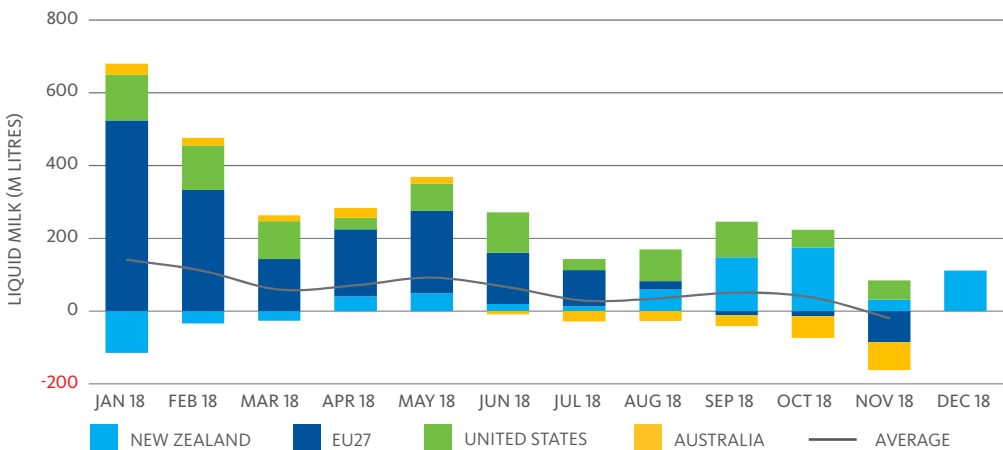
Global Dairy Market

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.

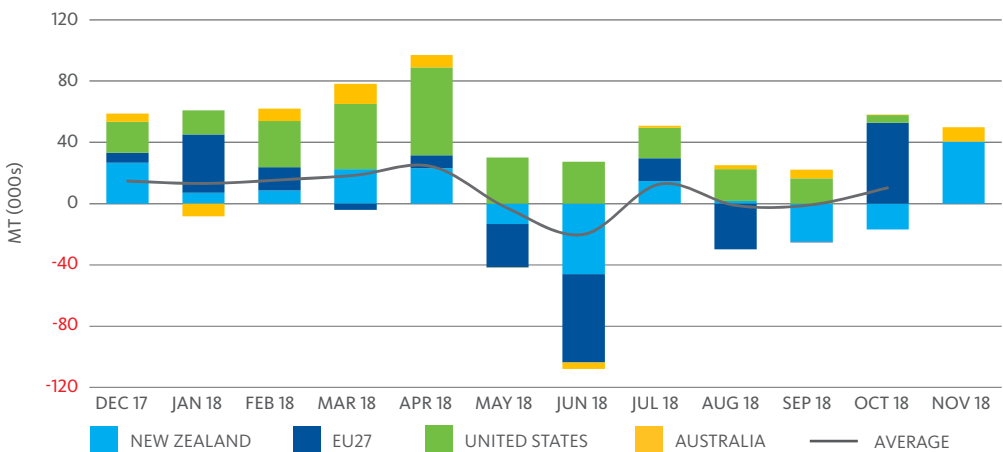
Averages are shown where data is complete for the regions presented.

PRODUCTION



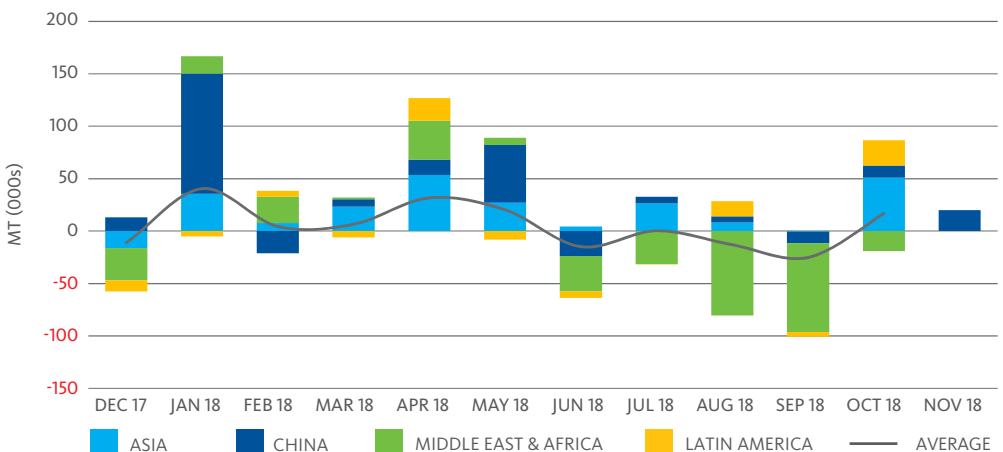
NOTE: Data for EU, US and Australia to November; New Zealand to December.

EXPORTS



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

IMPORTS



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

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)	DECEMBER 2018	DECEMBER 2017	MONTHLY CHANGE	SEASON- TO-DATE 2018/19	SEASON- TO-DATE 2017/18	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	185.1	176.1	5.1%	913.6	877.6	4.1%
North Island	109.2	101.7	7.3%	566.6	546.4	3.7%
South Island	75.9	74.4	2.1%	347.0	331.2	4.8%
Fonterra Australia	13.0	15.9	(18.2%)	72.4	84.5	(14.3%)

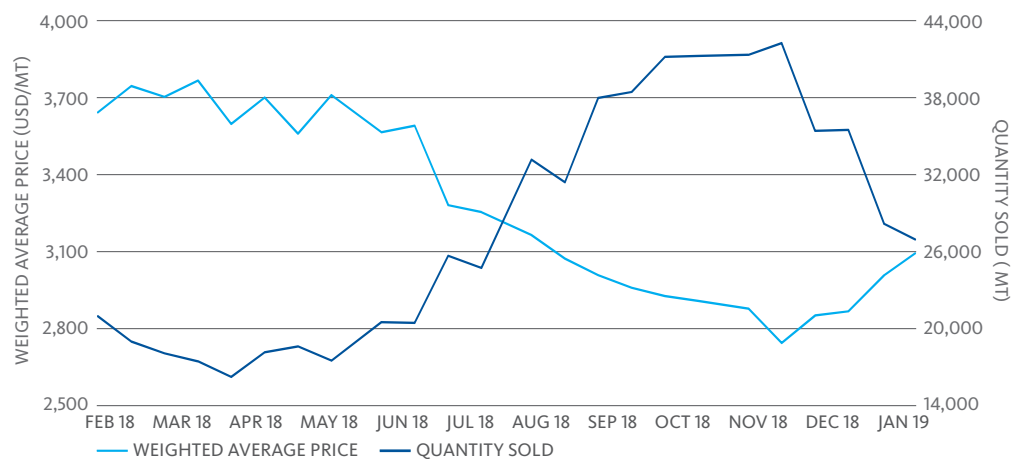
Fonterra GDT results

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

	LAST TRADING EVENT (15 JANUARY 2019)	YEAR-TO-DATE (FROM 1 AUGUST 2018)
Quantity Sold on GDT (Winning MT)	26,951	433,044
Change in Quantity Sold on GDT over same period last year	20.7%	16.2%
Weighted Average Product Price (USD/MT)	3,094	2,946
Change in Weighted Average Product Price over same period last year	(8.4%)	(8.8%)
Change in Weighted Average Product Price from previous event	2.9%	–

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.