

GLOBAL DAIRY UPDATE



- Demand for dairy remains strong in China. Latin America and Asia imports decline for the month.



- Growth in dairy exports from New Zealand in January. Steady growth from the EU and the US.



- Increased production from the EU in January. New Zealand production down for the month.



- In February, Fonterra New Zealand milk collection was down 4% to 135 million kgMS, and Fonterra Australia collection was up 30% to 11 million kgMS compared to February last year.

- Fonterra has recently announced its FY18 interim results:
 - Forecast cash pay-out range for the 2017/18 season increased to \$6.80-\$6.90.
 - A strong Ingredients performance, generating normalised EBIT of \$558 million, up 9%.
 - Operating performance impacted by Danone arbitration decision and Beingmate impairment.

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

- Science meets art as Fonterra takes home top cheese honours.



- Advanced technology investment set to deliver 70% reduction in water use at Darfield.
- Fonterra launches cutting edge virtual reality technology, taking health and safety into a future state.

KEY DATES



Late May 2018
Q3 Business Update
Announcement

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

September 2018
FY18 Annual Results
Announcement

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



DEMAND FOR DAIRY REMAINS STRONG IN CHINA. LATIN AMERICA AND ASIA IMPORTS DECLINE FOR THE MONTH

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

LATIN AMERICA



Latin America's dairy import volumes¹

decreased 8% or 13,000 MT in November compared to the same month the previous year.

Growth in SMP was offset by declines in cheese and WMP down 25% and 28% respectively compared to the same month last year.

Imports for the 12 months to November were up 2% or 46,000 MT. This growth was driven by increases across all key import categories except for WMP, which was down 21% or 61,000 MT.

ASIA



Asia (excluding China) dairy import volumes¹

decreased 4% or 15,000 MT in November compared to the same month last year. SMP, the largest import category in Asia, declined 24,000 MT or 26%.

Imports for the 12 months to November were up 2%, or 99,000 MT, compared to the same period the previous year.

Imports of cheese and WMP were up a combined 87,000 MT or 8%, slightly offset by declines in whey powder, down 13,000 MT.

MIDDLE EAST & AFRICA



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



China dairy imports

were up 44% or 115,000 MT in January compared to the same month last year with substantial growth in Fluid and fresh dairy, WMP and whey powder, up 92%, 28% and 45% respectively.

Imports for the 12 months to January were up 20%, or 454,000 MT, compared to the same period last year. Growth was seen across all export categories except casein. Fluid and fresh dairy, WMP and infant formula had the most significant growth, up a combined 271,000 MT. SMP imports were also up 42% or 77,000 MT.

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



GROWTH IN DAIRY EXPORTS FROM NEW ZEALAND IN JANUARY.

STEADY GROWTH FROM THE EU AND THE US

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

NEW ZEALAND

1% ↓

Export change for the 12 months to January 2018

Total New Zealand dairy exports in January increased 3% or 10,000 MT compared to the same month last year.

Growth was driven by WMP and fluid and fresh dairy, up a combined 16% or 24,000 MT for the month, however this was slightly offset by declines in AMF, SMP and butter, down a combined 14,000 MT.

Exports for the 12 months to January declined 1% or 43,000 MT on the previous comparable period.

While exports of WMP and fluid and fresh dairy, two of New Zealand's largest export categories were up a combined 6% or 97,000 MT, most other categories declined over the period.

AUSTRALIA

2% ↓

Export change for the 12 months to January 2018

Australia dairy exports decreased 12% or 7,000 MT in January compared to the same month the previous year. This was largely driven by exports of SMP and cheese, down 29% compared to the same month last year.

Exports for the 12 months to January were down 2%, or 14,000 MT on the previous comparable period.

The decline in exports this year was driven by WMP, SMP and whey powder, three of the larger export categories, which were down a combined 41,000 MT. This decline was partially offset by a 34,000 MT increase in fluid and fresh dairy.

EUROPEAN UNION

6% ↑

Export change for the 12 months to December 2017

EU dairy exports in December increased by 2% or 6,000 MT compared to the same month last year.

Exports of fluid and fresh dairy, cheese and SMP grew a combined 9,000 MT, however this was offset by declines in caseinate, whey powder and lactose.

Exports for the 12 months to December were up 6% or 286,000 MT on the previous comparable period.

Total exports of SMP increased 205,000 MT or 36% as Europe continues to sell down its post-intervention SMP inventory.

USA

5% ↑

Export change for the 12 months to January 2018

US dairy exports in January increased by 8% or 14,000 MT compared to the same month last year.

Increases were seen across most export categories, in particular whey powder and cheese, which were up a combined 9,000 MT.

Exports for the 12 months to January were up 5% or 108,000 MT on the previous comparable period.

Cheese, whey powder and SMP exports experienced the largest growth, up a combined 9% or 115,000 MT, offset by declines in fluid and fresh dairy and WMP.



INCREASED PRODUCTION FROM THE EU IN JANUARY.

NEW ZEALAND PRODUCTION DOWN FOR THE MONTH

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

NEW ZEALAND



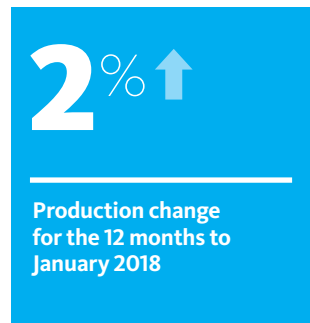
Total New Zealand milk production in February was down 2% compared to the same month last year, as the difficult weather conditions that have hampered production for most of the season continue to impact pasture quality. For the 12 months to February, milk production was up 1% compared to the same period the previous year. Fonterra collections have been reported for February, see page 5 for details.

AUSTRALIA



Australia milk production in February increased 2% compared to the same month last year, largely due to favourable weather conditions. Production for the 12 months to February was up 1% compared to the same period the previous year. Milk production growth continues to be steady, particularly in South East Australia, where improved seasonal conditions and cost efficiencies have increased production. Fonterra collections in Australia have been reported for February, see page 5 for details.

EUROPEAN UNION



EU milk production in January was up 4% compared to the same month last year, driven by continued strong dairy prices. While production growth was experienced across most of Europe, Germany and Italy had the highest growth, up a combined 7% in January. This was partially offset by decreases in both Hungary and Sweden. Production for the 12 months to January was up 2% compared to the same period the previous year.

USA



US milk production in January increased 2% compared to the same month last year. The increase in production is largely driven by larger herd numbers and improved production per cow. Milk production for the 12 months to January increased by 1% compared to the same period the previous year.

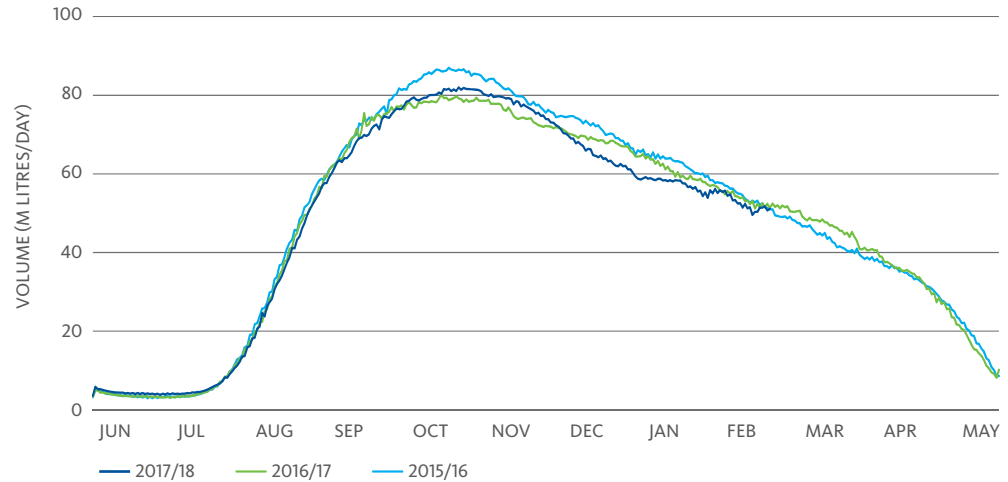
OUR MARKETS

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 28 February

Fonterra's milk collection across New Zealand in February reached 135 million kgMS, 4% behind February last season.

Collection volumes decreased in most regions in February, as the impact of difficult weather conditions continues to effect pasture quality and feed growth rate.

For the nine months to 28 February, milk collection was 1,171 million kgMS, 2% behind last season.

NORTH ISLAND

3% ↓

Decrease for the season from 1 June to 28 February

North Island milk collection in February reached 77 million kgMS, 3% down on February last season.

SOUTH ISLAND

1% ↓

Decrease for the season from 1 June to 28 February

South Island milk collection in February reached 59 million kgMS, 5% below February last season.

Milk collections dropped early in the month after a dry January, however rain later in the month has resulted in a recovery in production for Otago and Southland in February.

AUSTRALIA

28% ↑

Increase for the season from 1 July to 28 February

Fonterra's milk collection across Australia in February reached 11 million kgMS, 3 million kgMS higher than February last season.

February collections were up 30% due to Fonterra's increased market share and favourable seasonal conditions that continue to support production growth from both existing and new suppliers.

Forecast Fonterra Milk Collection Across New Zealand

1,480m
KGMS

Decrease of 3% on last season

In March, Fonterra confirmed its DIRA forecast milk collection at 1,480 million kgMS.

Despite more favourable weather conditions recently, the Co-operative still expects its New Zealand milk volumes to be down for the year.

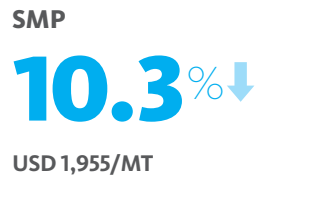
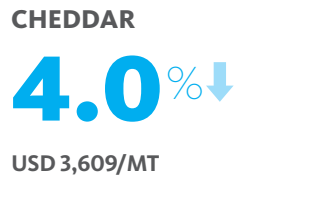
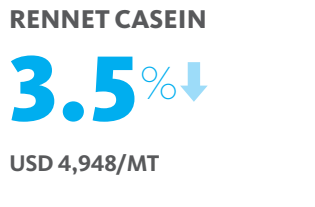
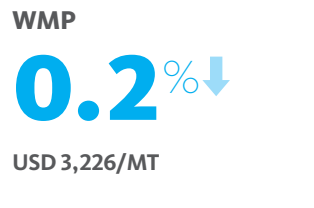
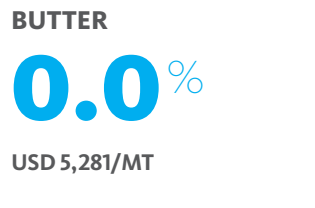
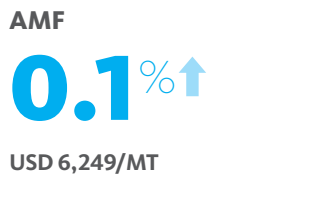
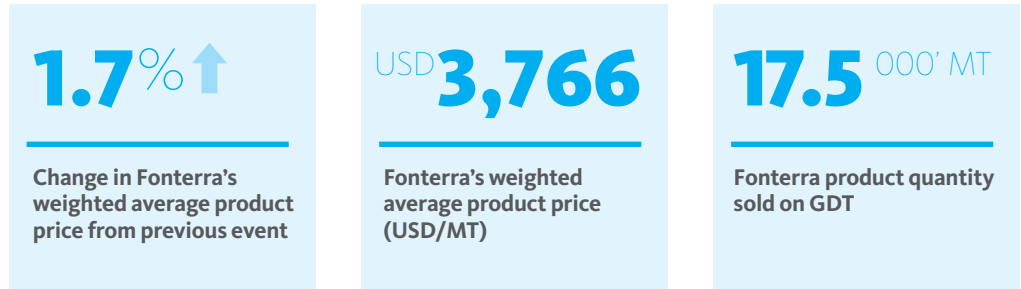
We will continue to provide updates as the season progresses.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS

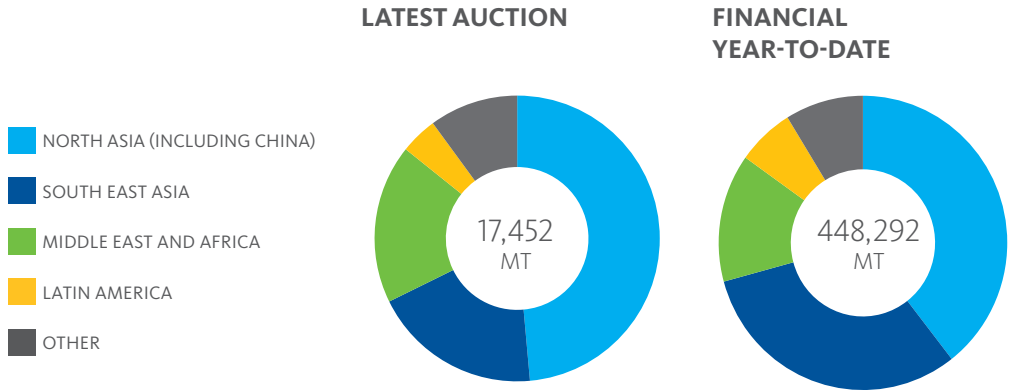


Fonterra GDT results at last trading event
20 March 2018:



Fonterra GDT sales by destination:

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



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

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar was volatile through February but ultimately depreciated on the back of a recovery in the US dollar.





SCIENCE MEETS ART AS FONTERRA TAKES HOME TOP CHEESE HONOURS



Fonterra's cheese makers were in the spotlight this month when Kāpiti and NZMP took home three of the country's top awards for cheese at the New Zealand Champion of Cheese Awards.

Kāpiti Kikorangi, one of New Zealand's most honoured blue cheeses was the Champion Export Cheese trophy winner, while NZMP's Strong Cheddar Cheese was the Champion Cheddar of the night. Kāpiti Kahurangi was the people's favourite, winning the Champion Cheese Lover's Choice Award for the fourth year running.

A team of 28 judges, led by Australian Master Judge Russell Smith, assessed

more than 2,000 kilograms of cheese on presentation, rind appearance, texture, aroma and flavour.

The team at Fonterra's Eltham site in Taranaki, where Kāpiti Kikorangi and Kāpiti Kahurangi are crafted, were anything but blue last night. Lead Cheese Maker, Cathy Lang said it was fantastic for Kāpiti to be honoured with these awards.

"We are really proud of our blues. People might not know that we have been growing our own strains of *penicillium roqueforti* (blue mould) to make our blue cheeses since 1951."

"It is both a science and an art, but what makes a great cheese is the milk that goes into it. Quality milk

from grass-fed cows means that we can produce award winning cheese."

Fonterra NZMP Strong Cheddar Cheese is crafted at Fonterra's Lichfield plant in Waikato. Fonterra Process Project Manager, Sam Pokaitara said the team was really happy with the judges' evaluation of the cheese.

"It really recognises the skill of our cheese makers and the work that goes into making the best cheese."



Advanced technology set to deliver 70% reduction in water use at Darfield

Good progress is being made on advanced technology that will reduce the amount of groundwater extracted for Fonterra's Darfield manufacturing site by around 70%.

Darfield is already a world-leading facility and the commitment to water processing technology will have a significant impact on its environmental footprint.

"This will save the equivalent of around 100 tanker loads of water, every day," says Robert Spurway, Head of Fonterra's Global Operations.

"As well as reducing water use, the new technology also decreases the amount of water the site discharges. It's a win-win situation."

The new technology involves a reverse osmosis technique to purify the water extracted from cow's milk during the manufacturing process. Water is passed through a membrane filtration system which makes it drinkable and suitable for use in a range of on-site activities such as cooling, heating and cleaning.

"We're prioritising our

commitment to reduce water consumption. Last year we announced our 2020 target to reduce the amount of water we use across our 26 New Zealand manufacturing sites by 20%.

"The new technology will go a significant way toward helping us achieve our target, creating a manufacturing site that's more self-sufficient."

The new technology is expected to be up and running by October this year, in time for the 2018/2019 milk season.

Fonterra launches cutting edge virtual reality technology, taking health and safety into a future state

Fonterra and Beca have partnered to develop a breakthrough virtual reality health and safety training technology. The cutting-edge solution lets employees navigate the Co-operative's manufacturing and distribution sites without the need to set foot on site and will help substantially reduce on-boarding times. The new technology will place Fonterra at the forefront of global health and safety innovation and is part of a business wide commitment to become a world leader in risk mitigation.

Fonterra Director of Health and Safety, Resilience and Risk Greg Lazzaro says VR has the potential to be a game changer at the Co-operative.

"The opportunities for VR are significant. With this solution, we can replicate the physical environment

of our sites, so staff can undertake virtual health and safety training in an extremely immersive and realistic way. That means our people can learn about and identify potential hazards more quickly than ever, encouraging more engaged employees and better workplace safety.

Following a successful pilot, the new VR technology will replace a significant portion of the hands-on health and safety training at Fonterra that is often costlier and less effective. Training can be tailored to each of Fonterra's

sites and tested through the completion of modules.

Andrew Cowie, Project Manager for Beca, says the technology is the future of health and safety training and can be easily replicated in other workplaces and training areas.

"Walmart now trains using VR, American footballers are using it and so is the military. Our clients are increasingly interested in the application of VR technologies and the value it can add to their businesses.



SUPPLEMENTARY INFORMATION

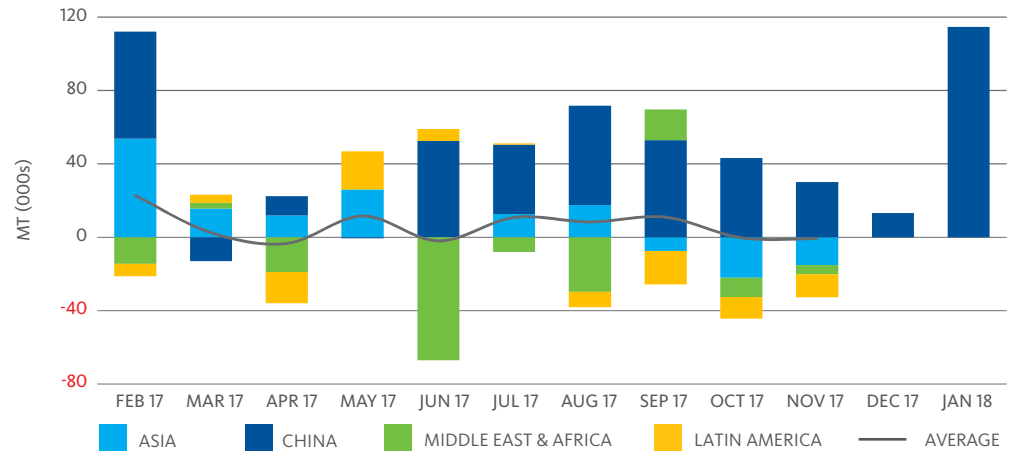
Global Dairy Market

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.

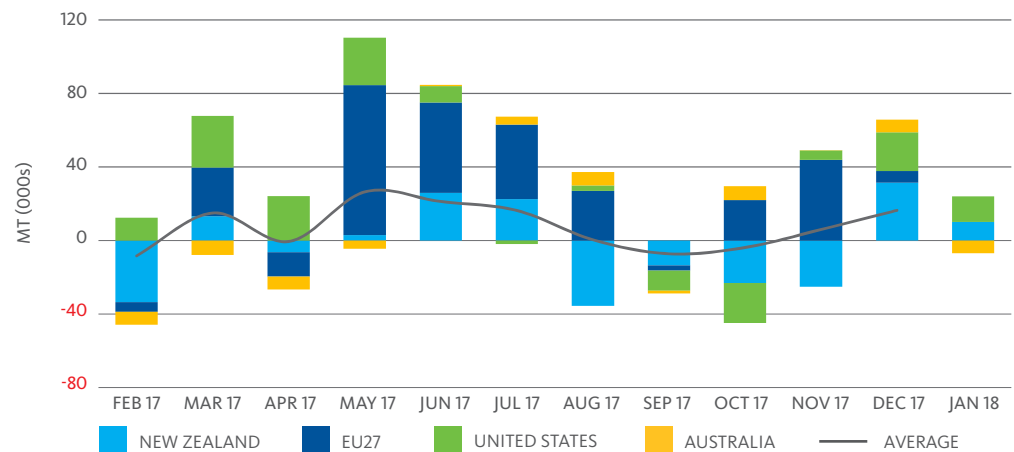
Averages are shown where data is complete for the regions presented.

IMPORTS



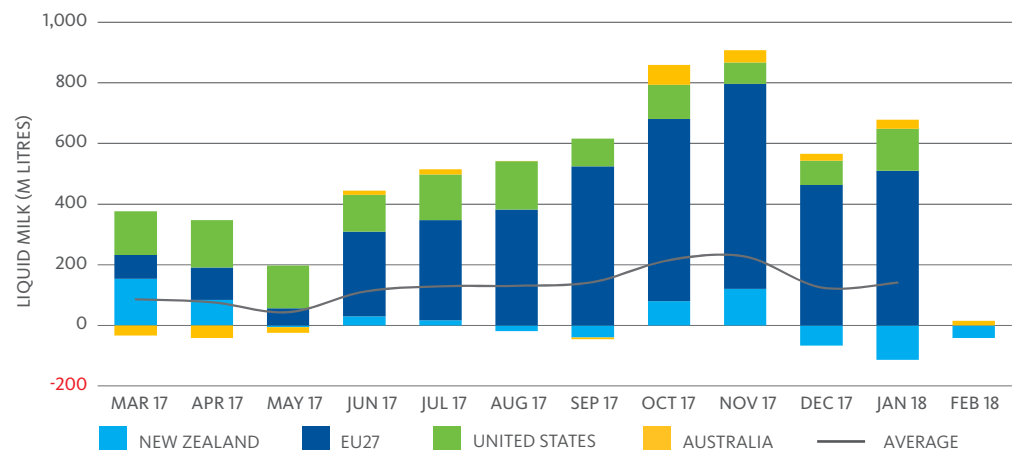
NOTE: Data for Middle East and Africa to October; Asia and Latin America to November; China to January.

EXPORTS



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

PRODUCTION



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

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)	FEBRUARY 2018	FEBRUARY 2017	MONTHLY CHANGE	SEASON-TO-DATE 2017/18	SEASON-TO-DATE 2016/17	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	135.3	140.9	(4.0%)	1,171.2	1,194.5	(2.0%)
North Island	76.7	78.9	(2.8%)	712.8	732.7	(2.7%)
South Island	58.6	62.0	(5.4%)	458.4	461.9	(0.8%)
Fonterra Australia	11.0	8.5	29.9%	111.0	87.0	27.6%

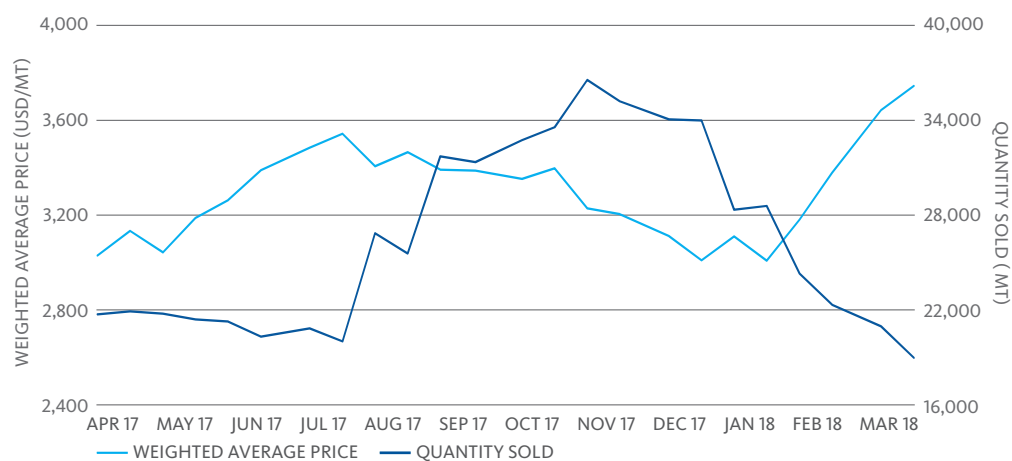
Fonterra GDT results

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

	LAST TRADING EVENT (20 MARCH 2018)	YEAR-TO-DATE (FROM 1 AUGUST 2017)
Quantity Sold on GDT (Winning MT)	17,452	448,292
Change in Quantity Sold on GDT over same period last year	(20.4%)	6.4%
Weighted Average Product Price (USD/MT)	3,766	3,311
Change in Weighted Average Product Price over same period last year	20.2%	3.9%
Change in Weighted Average Product Price from previous event	1.7%	-

Fonterra GDT Results

This chart shows Fonterra GDT prices and volumes over the past 12 months.



GLOSSARY

AMF

Anhydrous Milk Fat.

BMP

Butter Milk Powder.

DIRA

Dairy Industry Restructuring Act 2001 (New Zealand).

Farmgate Milk Price

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

Fluid and Fresh Dairy

The Fonterra grouping of fluid milk products (skim milk, whole milk and cream – pasteurised or UHT processed), concentrated milk products (evaporated milk and sweetened condensed milk) and yoghurt.

GDT

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.