

GLOBAL DAIRY UPDATE



Dairy for life



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



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



- Imports into Asia and China continue to grow. Latin America increased but the Middle East and Africa region is declining.



- Fonterra's milk collection across New Zealand for the eight months to 31 January was 1,083 million kgMS, up 5% on the same period last season.
- Fonterra has updated its forecast milk collection for the full season, to 1,530 million kgMS, up 2% on last season, and down 1% from the previous forecast of 1,550 million kgMS.



- Anchor Chef's Cream has been chosen by the world's largest foodservice distributor, Sysco, as one of their top ten innovative products for 2019 – the first time a New Zealand product has ever been chosen.
- Fonterra is signing up farms to supply milk for The a2 Milk Company in the 2019/2020 season.
- From regional New Zealand all the way to China — Robert Spurway, Fonterra's Chief Operating Officer Global Operations, reflects on the value of our trade relationship with China for regional New Zealand.

KEY DATES



28 February 2019
Final date for Applications to
Supply Fonterra

20 March 2019
FY19 Interim Results
Announcement

May 2019
Q3 Business Update

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 TO JANUARY UP ON LAST YEAR. US PRODUCTION REMAINS STEADY, EU GROWTH IS EASING AND AUSTRALIA IS DECLINING

NEW ZEALAND

4% ↑

Production change for the 12 months to January 2018

Total New Zealand milk production increased 8% in January compared to the same month last year.

Weather and pasture conditions throughout January supported production which returned to a more usual pattern following the previous season that was adversely impacted by poor on-farm conditions. Subsequently the weather risk has increased with an extended period of dryness in the first two weeks of February.

New Zealand milk production for the 12 months to January 2019 was 4% higher than last year.

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

AUSTRALIA

2% ↓

Production change for the 12 months to December 2018

Australian milk production decreased 7% in December compared to the same period last year.

Production for the 12 months to December is down 2% on the previous 12 months.

High input costs, increased cow cull rates, and farm exits 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 January, see page 5 for details.

EUROPEAN UNION

1% ↑

Production change for the 12 months to December 2018

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

The Netherlands, France and Germany continued to see year-on-year decline in production with The Netherlands experiencing the largest decline. This was offset by continuing strong growth in Ireland, as well as solid growth in Poland and Denmark.

Production for the 12 months to December was up 1% compared to the same period last year.

USA

1% ↑

Production change for the 12 months to December 2018

US milk production was up less than 1% in December compared to the same period last year. Cow numbers have continued to decline with the small year-on-year growth driven by increased yield per cow.

Margins continue to be squeezed and in many cases have been negative for the last quarter of 2018. Growth is likely to remain constrained until some improvement in margin is achieved.

Milk production for the 12 months to December is continuing to hold at 1% compared to the same period last year driven by the relatively stronger monthly production growth at the start of 2018.



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

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

NEW ZEALAND

2%↑

Export change for the 12 months to December 2018

Total New Zealand dairy exports increased by 10%, or 40,000 MT, in December compared to the same period last year. Exports hit a record level of 449,000 MT, the highest volume recorded. This was primarily driven by WMP, up 26,000 MT. Fluid products, AMF, and infant formula were up a combined 18,000 MT. Butter declined 8,000 MT.

Exports for the 12 months to December were up 2%, or 54,000 MT, on the previous comparable period. This was driven by fluid products, WMP, infant formula, and AMF up a combined 120,000 MT. This was offset by declines in SMP, cheese and cultured products down a combined 67,000 MT.

AUSTRALIA

5%↑

Export change for the 12 months to December 2018

Australian dairy exports increased 3%, or 2,000 MT, in December compared to the same period last year. Infant formula and whey powder were up a combined 5,000 MT. This was offset by a decline in WMP of 2,000 MT.

Exports for the 12 months to December were up 5%, or 37,000 MT, on the previous comparable period.

Infant formula, fluid milk and whey powder make up most of the growth in Australian exports, up a combined 34,000 MT.

EUROPEAN UNION

1%↑

Export change for the 12 months to November 2018

EU dairy exports increased by 5%, or 21,000 MT, in November compared to the same period last year. This was primarily driven by lactose, SMP, whey powder, and butter up a combined 27,000 MT.

Exports for the 12 months to November were up 1%, or 49,000 MT, on the previous comparable period with continued growth in a broad range of products, led by infant formula, SMP, and lactose but offset by declines in fluid milk products and WMP.

USA

12%↑

Export change for the 12 months to November 2018

US dairy exports declined by 11%, or 21,000 MT, in November compared to the same period last year. There was a decline in most products including SMP, whey powder, lactose, cheese, and WPC.

Exports for the 12 months to November were up 12%, or 265,000 MT, on the previous comparable period.

The increase was notably in SMP, lactose, WPC and WMP, up a combined 217,000 MT.



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

IMPORTS INTO ASIA AND CHINA CONTINUE TO GROW. LATIN AMERICA INCREASED BUT THE MIDDLE EAST AND AFRICA REGION IS DECLINING

LATIN AMERICA

2%↑

Import change for the 12 months to November 2018

Latin American dairy import volumes¹ increased 9%, or 14,000 MT, in November compared to the same period last year. The increase was across most product categories, principally SMP, cheese, MPC and WMP.

Imports for the 12 months to November were up 2%, or 39,000 MT, compared to the same period the previous year. SMP, lactose, fluid products and MPC were up a combined 64,000 MT offset by declines in AMF and WMP of 22,000 MT.

ASIA

5%↑

Import change for the 12 months to November 2018

Asia (excluding China) dairy import volumes¹ were down marginally at 2,000 MT, in November compared to the same period last year. SMP and fluid products were up but offset by declines in MPC and WMP.

Although down marginally for the month, imports for the 12 months to October were still up 5%, or 223,000 MT, compared to the same period the previous year. This growth was driven by fluid products and WMP of 156,000 MT.

MIDDLE EAST & AFRICA

5%↓

Import change for the 12 months to November 2018

Middle East and Africa dairy import volumes¹ decreased 6% or 20,000 MT in November compared to the same period last year. Small growth in infant formula and cultured products was offset by declines in most other product categories, totalling 25,000 MT.

Imports for the 12 months to November were down 5%, or 212,000 MT, compared to the same period the previous year. The reduction was driven by fluid and fresh dairy and cheese, down a combined 229,000 MT. This was offset by a small increase in SMP.

CHINA

8%↑

Import change for the 12 months to December 2018

China dairy import volumes¹ increased 17%, or 34,000 MT in December compared to the same period last year. This was driven by increases across a broad range of products, particularly WMP, SMP, and fluid products but offset by small declines in whey powder, butter and infant formula. December WMP exports from New Zealand to China hit a record level of 150,000 MT. Imports for the 12 months to December were up 8%, or 213,000 MT, compared to the same period last year. Strong demand out of China continued across all key categories in particular, WMP and SMP which are up a combined 82,000 MT.

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

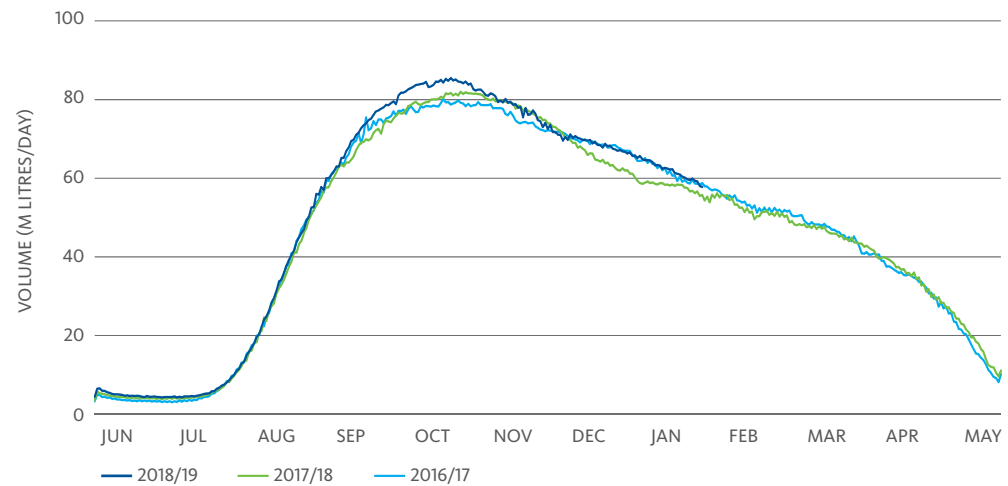
OUR MARKETS

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

5%↑

Increase for the season from 1 June to 31 January

Fonterra's milk collection across New Zealand for the eight months to 31 January was 1,083 million kgMS, up 5% on the same period last season.

Despite the hot and dry conditions continuing to impact most regions, production remains ahead of this time last season, which was the lowest in three years due to adverse weather conditions.

Fonterra collections in January were 169 million kgMS, 7% up on January last season.

NORTH ISLAND

5%↑

Increase for the season from 1 June to 31 January

North Island milk collection in January was 98 million kgMS, 10% higher than January last season reflecting the poor on-farm conditions last season.

Northland has experienced prolonged hot and dry conditions. Pasture quality in Waikato and Taranaki has also recently declined due to hot weather.

Milk collection for the 2018/19 season to date reached 665 million kgMS, up 5%.

SOUTH ISLAND

5%↑

Increase for the season from 1 June to 31 January

South Island milk collection in January was 71 million kgMS, 3% higher than January last season.

Hot weather and low rainfall have led to pasture growth rates slowing and use of conserved supplementary feed in some regions however, Canterbury has seen little impact from the hot and dry conditions, having maintained good grass growth and pasture cover to date.

Milk collection for the 2018/19 season to date reached 418 million kgMS, up 5%.

AUSTRALIA

16%↓

Decrease for the season from 1 July to 31 January

Fonterra's milk collection across Australia for the seven months to 31 January reached 83 million kgMS, down 16% on the same period last season.

Fonterra collections in January reached 11 million kgMS, down 23% on January last season. January's average temperature was the highest on record. Fonterra's share of monthly collections continues to reduce due to high on-farm prices, severe weather, substantial increase in culled cows, farm retirements and intense competition for milk supply.

Forecast Fonterra Milk Collection Across New Zealand

1,530M
KGMS

Fonterra has updated its forecast milk collection to 1,530 million kgMS for the 2018/19 season.

Fonterra's New Zealand milk collections forecast is 2% higher than last season, which was negatively impacted by

poor on-farm conditions.

Fonterra has reduced its full season forecast by 1% to reflect the impact of ongoing hot and dry on-farm conditions, and the corresponding downwards pressure on milk flows.

On-farm conditions will continue to be an important factor on the milk supply for the remainder of the season.

We will continue to provide updates as the season progresses.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS



Fonterra GDT results at
last trading event
19 February 2019:

0.2% ↑

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

USD **3,308**

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

24.6 ^{000'} MT

Fonterra product quantity
sold on GDT

CHEDDAR

2.9% ↑

USD 3,667/MT

RENNET CASEIN

2.6% ↑

USD 5,740/MT

SMP

2.2% ↑

USD 2,612/MT

BUTTER

1.1% ↑

USD 4,495/MT

AMF

0.7% ↑

USD 5,620/MT

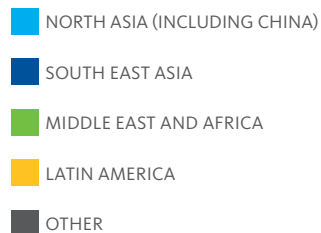
WMP

0.2% ↓

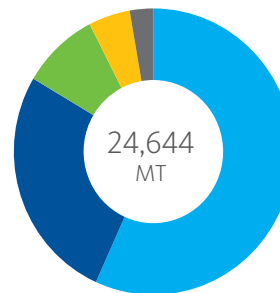
USD 3,022/MT

Fonterra GDT sales
by destination:

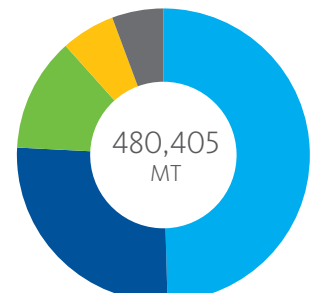
To view more information,
including a snapshot of the
rolling year-to-date results –



LATEST AUCTION



FINANCIAL YEAR-TO-DATE



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

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar
stabilised in the new year
following moves by the US
Federal Reserve to moderate
their rhetoric around further
removal of monetary stimuli.



OUR PERFORMANCE



Anchor Chef's Cream the real Cream of the Crop



Anchor Chef's Cream has been chosen by the world's largest foodservice distributor, Sysco, as one of their top ten innovative products for 2019 – the first time a New Zealand product has ever been chosen.

Each year, Sysco selects ten products to showcase to their restaurant partners, where they hold the

significant distribution share of the 1.2 million outlets across the USA.

Director of Global Foodservice Grant Watson says Anchor Chef's Cream is one of a kind and the recipe is a closely guarded secret.

"Our culinary cream was first developed by our Research and Development team more than ten years ago. It's specially formulated to perform well in professional kitchens, while keeping a great taste and appearance. And it's already reduced saving chefs valuable preparation time."

Before selecting our Anchor Chef's Cream as one of their top ten products, Sysco put the cream through its paces.

"We're pleased to say that when tested by Sysco and their partner restaurants, our

cream achieved one of the highest innovation scores and purchase intent in the history of Sysco's innovation platform," says Mr Watson.

Through their 6,000-person sales team and their 200 chefs, Sysco will spend 2019 promoting Anchor Chef's Cream to chefs and restaurants across the US.

"This is an excellent way for us to expand our reach across America. The US foodservice market uses an estimated 4.6 million metric tonnes of dairy per year, and with cream-based menu items being very popular across the US, we believe there is a significant opportunity to bring new value to our farmers, customer partners and their consumers, with our unique cream innovation."

Fonterra is signing up farms to supply milk for The a2 Milk Company in the 2019/2020 season.



Mike Cronin, Fonterra Managing Director of Co-operative Affairs, says "Signing up New Zealand farms to significantly increase supply of high quality milk to The a2 Milk Company is a positive step forward. It clearly shows the strength of our strategic relationship, and our shared commitment to fast-track market growth and enable farmers to create additional value from their milk."

The Co-op's initial milk pool will be based in the Waikato around its Hautapu site and will support the production of ingredients.

It is anticipated around 100 farms will be needed for next season.

Jayne Hrdlicka, The a2 Milk Company Managing Director and CEO, says "The a2 Milk Company is pleased to be making progress on our relationship with Fonterra. These farms will help support new growth areas for our company across existing and new markets. This is the next step in what we believe will be a fruitful long-term relationship with tremendous potential."

The location of the milk pool was determined by several factors. Most importantly, the site needed the ability to manufacture the specific product in demand, produce relatively small batches and adapt easily to any product

demand changes.

"While other regions were thoroughly considered, ultimately the decision must be demand-led. The ability to efficiently manufacture a range of products to meet that demand was the over-riding factor in choosing a site. As demand and product lines grow, we'll look to expand the milk pool to enable more farmers to participate," said Mr Cronin.

Most of the value from the relationship with The a2 Milk Company will be returned to all Co-op farmers through the dividend. Participating farms will also receive a premium for their milk.

This development follows the national launch of the a2 Milk™ brand by Anchor from late September 2018.



FROM REGIONAL NEW ZEALAND ALL THE WAY TO CHINA

Robert Spurway, Fonterra's Chief Operating Officer Global Operations, reflects on the value of our trade relationship with China for regional New Zealand.

Earlier this month, families across China celebrated the lunar new year. Alongside them, around 170,000 Chinese New Zealanders and their families also celebrated the Year of the Pig. It's great to see opportunities for other Kiwis to join in at various Lantern Festivals and community events across the country too.

While most of the new year festivities are being held in the main urban centres, it's regional New Zealand that's quietly punching above its weight when it comes to the relationship with our biggest trading partner.

Last year New Zealand exports to China were worth more than \$16.6 billion, and \$3.8 billion of that was generated by Fonterra in rural and regional New Zealand. In total, around a quarter of Fonterra's exports went to China where they were consumed by around 150 million people.

An increasing Chinese appetite for New Zealand

dairy is helping drive our regional economies and now 11 percent of all dairy in China comes from Fonterra farmers. We're not just talking about milk powder either.

Fonterra mozzarella tops more than half a billion pizzas and our cream goes into 500 million tea macchiatos every year. A little bit of New Zealand is ending up on shelves and tables across China and in return that product is helping put food on Kiwi tables.

Our China export earnings help generate income for forklift drivers in Darfield, Maungaturoto tanker operators, cheese-makers in Stirling and processors at our plant in Te Awamutu.

The benefits of our relationship with China flow into communities as our employees and farmers support businesses, schools and other local organisations across the country.

Waikato was one of Fonterra's biggest regions

for China exports, totalling around \$1.2 billion in products, like cream, cheese and milk powder. This works out to around \$2,500 per person in the region.

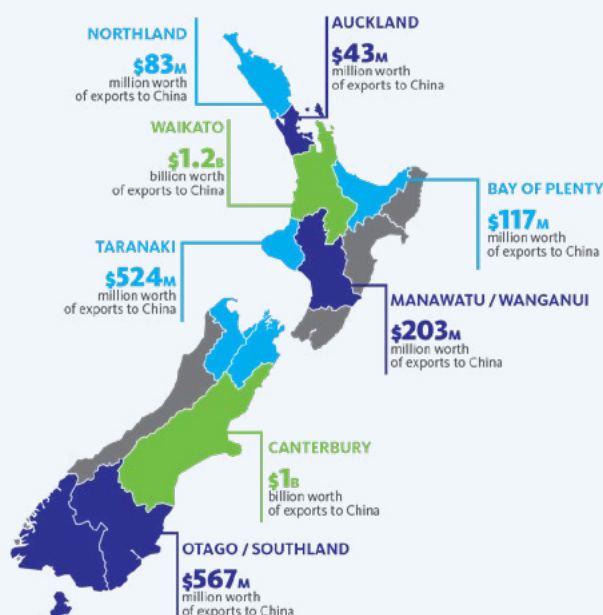
Of our 30 New Zealand sites, Clandebye in Canterbury was the top producer, exporting around \$566 million in products to China. Southland's Edendale came a close second exporting nearly \$560 million and in Taranaki Whareroa exported \$437 million.

The positive influence of Chinese consumer demand is having a positive impact throughout the year.

I'm fortunate my job has taken me to China a fair number of times and my sense of pride is as strong as ever when I see our products on shelves, in bakeries and in beverages. There's something special about knowing that a little bit of regional and rural New Zealand has found its way into the lives of people in places like Shanghai, Beijing and Dongguan.

FONTERRA EXPORTS TO CHINA

Fonterra produced and exported \$3.8 billion in dairy products to China in 2017/18.



SUPPLEMENTARY INFORMATION

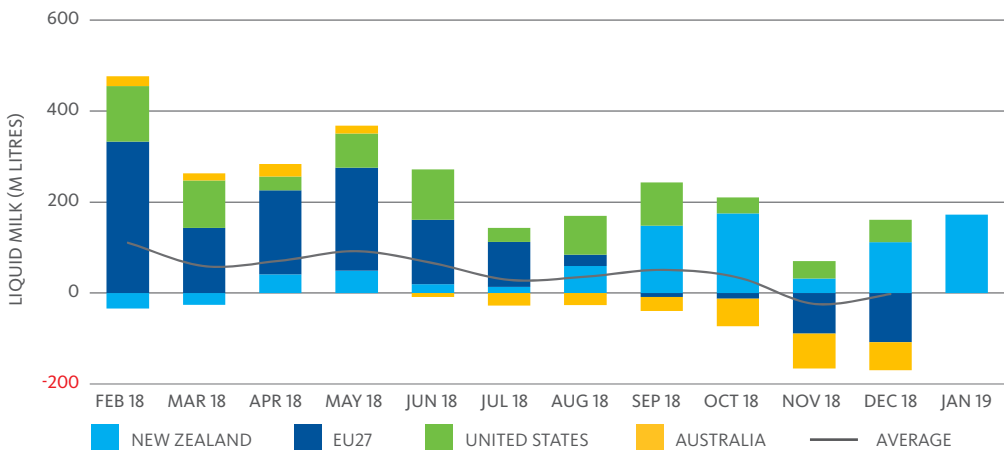
Global Dairy Market

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.

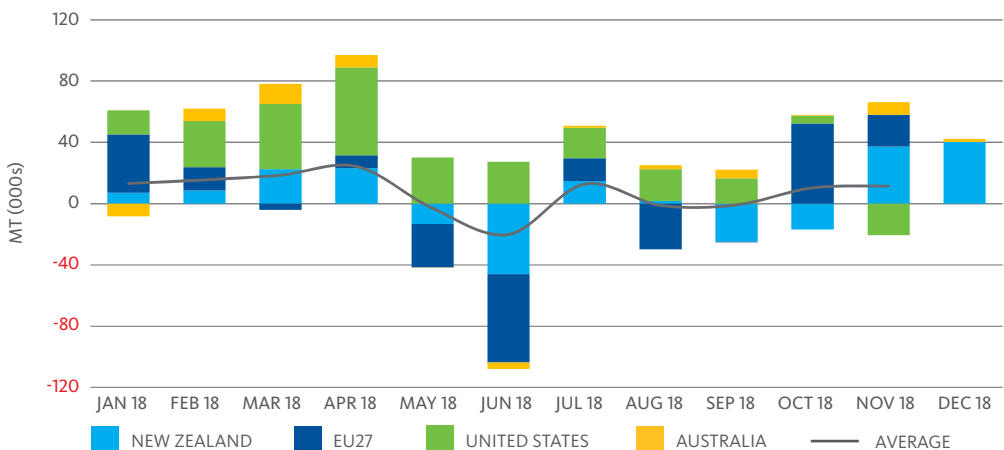
Averages are shown where data is complete for the regions presented.

PRODUCTION



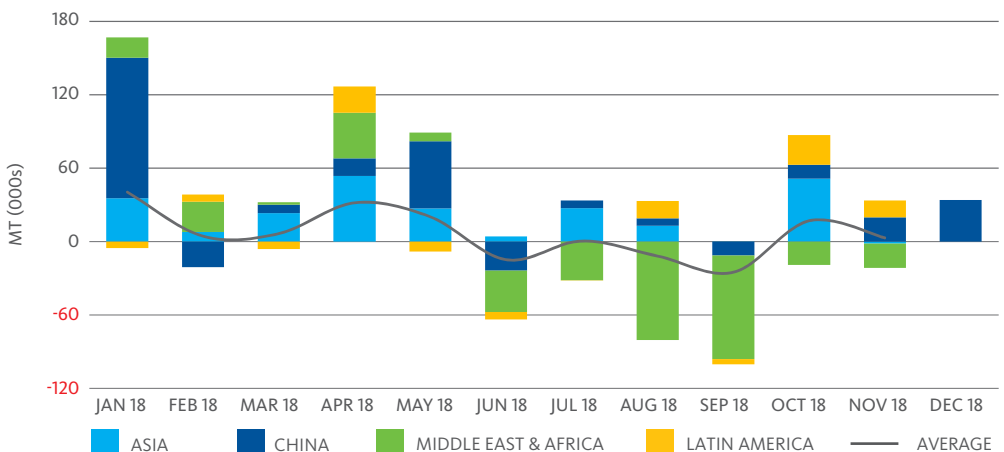
NOTE: Data for EU, US and Australia to December; New Zealand to January.

EXPORTS



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

IMPORTS



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

SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

SUPPLEMENTARY INFORMATION

Fonterra milk production

The table on the right shows Fonterra milk solids collected in New Zealand and Australia compared to the previous season.

MILK COLLECTION (MILLION KGMS)	JANUARY 2019	JANUARY 2018	MONTHLY CHANGE	SEASON- TO-DATE 2018/19	SEASON- TO-DATE 2017/18	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	169.0	158.3	6.8%	1,082.6	1,035.8	4.5%
North Island	98.3	89.7	9.6%	664.8	636.1	4.5%
South Island	70.8	68.6	3.2%	417.8	399.8	4.5%
Fonterra Australia	10.6	13.7	(22.6%)	83.0	98.3	(15.5%)

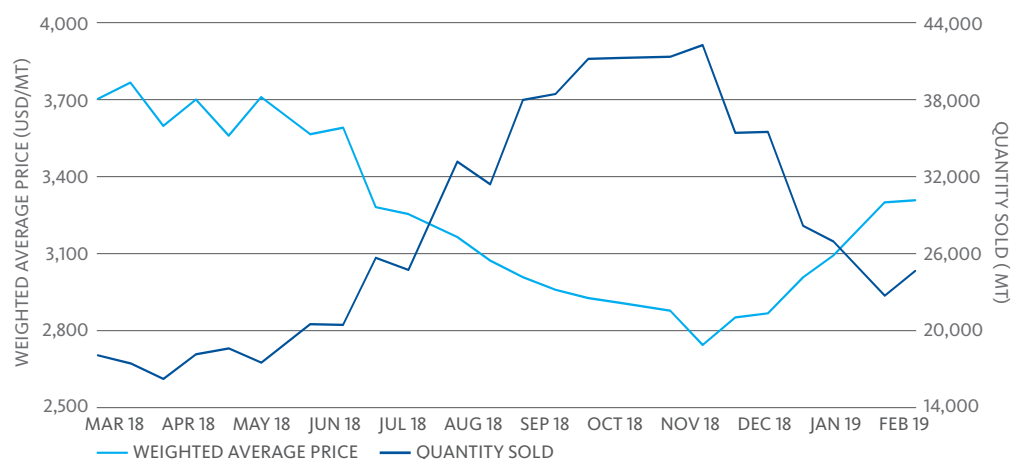
Fonterra GDT results

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)	24,644	480,405
Change in Quantity Sold on GDT over same period last year	29.8%	16.4%
Weighted Average Product Price (USD/MT)	3,308	2,981
Change in Weighted Average Product Price over same period last year	(11.7%)	(8.9%)
Change in Weighted Average Product Price from previous event	0.2%	–

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.