

APRIL 2017

# GLOBAL DAIRY UPDATE



Dairy for life



- EU milk production remains soft but the rate of decline is easing. New Zealand production in February is relatively flat.



- New Zealand exports declined 36,000 MT – the third consecutive monthly decline, while US export strength continues.



- China reported the largest monthly increase in import volumes in the past year. Steady import growth continues in Asia and Latin America.



- Milk collections improved in March with better growing conditions across New Zealand and market share gains in Australia.



- Fonterra demonstrates its innovative Foodservice creams at Las Vegas pizza expo.
- Fonterra provides update on performance with half year result.



- The Fonterra Grass Roots Fund receives a record number of applications.
- Prime Minister Bill English joined primary school kids for their KickStart breakfast.



## KEY DATES



1 June 2017  
Measurement Date for Share  
Standard 2017/18 Season

31 July 2017  
End of Financial Year 2017

September 2017  
Annual Results Announced

1 December 2017  
Compliance Date for Share  
Standard 2017/18 Season



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

## EU MILK PRODUCTION REMAINS SOFT BUT THE RATE OF DECLINE IS EASING. NEW ZEALAND PRODUCTION IN FEBRUARY IS RELATIVELY FLAT

### NEW ZEALAND

2%↓

Production change  
for the 12 months to  
February 2017

**Total New Zealand milk production** in February was down 3% compared to the same month last year. After adjusting for the 2016 leap year, production was up 1% for the month.

For the 12 months to February, milk production was down 2% compared to the same period the previous year.

This is a result of lower volumes at the peak due to the impact of weather, with some improvement to growing conditions since the peak.

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

### AUSTRALIA

7%↓

Production change  
for the 12 months to  
January 2017

**Australia production** in January decreased 6% compared to the same month last year.

Production for the 12 months to January was down 7% compared to the same period the previous year.

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

### EUROPEAN UNION

0%

Production change  
for the 12 months to  
January 2017

**EU production** in January decreased 2% compared to the same month last year. While this represents the eighth consecutive month with volumes lower than last year, the rate of decline has eased over the past quarter.

French production was down 6% while Germany and the UK were both down 4%.

Production for the 12 months to January is in line with the comparable period the previous year.

### USA

2%↑

Production change  
for the 12 months to  
February 2017

**US production** in February decreased 1% compared to the same month last year.

Excluding the impacts of the leap year in 2016, the monthly rate of increase was in line with previous months, up 2% on the prior year.

Milk production for the 12 months to February increased 2% compared to the same period the previous year.



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

## NEW ZEALAND EXPORTS DECLINED 36,000 MT – THE THIRD CONSECUTIVE MONTHLY DECLINE, WHILE US EXPORT STRENGTH CONTINUES

### NEW ZEALAND

**3%↑**

Export change for the 12 months to January 2017

**Total New Zealand dairy exports** in January decreased 10%, or 36,000 MT, compared to the same month last year and continued the recent run of monthly declines.

Growth in fluid and fresh dairy, up 50%, was offset by decreases in milk fats, with butter and AMF down 28% and 21% respectively, and SMP and WMP down a combined 9%.

Exports for the 12 months to January were up 3%, or 85,000 MT, on the previous comparable period. Growth was led by infant formula and fluid and fresh dairy, up a combined 46%.

### AUSTRALIA

**3%↑**

Export change for the 12 months to January 2017

**Australia dairy exports** in January increased 2%, or 1,000 MT, compared to the same month last year.

In key export categories, SMP and fluid and fresh dairy were flat while cheese was up 15%.

Exports for the 12 months to January were up 3%, or 21,000 MT, on the previous comparable period.

Growth in fluid and fresh dairy and WMP, up 17% and 7% respectively, was offset by a 20% decline in SMP, Australia's third largest export category.

### EUROPEAN UNION

**6%↑**

Export change for the 12 months to December 2016

**EU dairy exports** decreased 9% in December, or 39,000 MT, compared to the same month the previous year, the second consecutive month of declining exports.

With the exception of infant formula, up 14%, all major dairy categories were down. SMP, WMP, cheese and fluid and fresh dairy were down a combined 11% or 30,000 MT.

Export growth on a rolling 12 month basis has eased in recent months but remains up 6%, or 267,000 MT, on the previous comparable period.

Increases in butter, up 20%, cheese, up 11% and fluid and fresh dairy up 10%, were offset to some extent by SMP, down 17%.

### USA

**4%↑**

Export change for the 12 months to January 2017

**US dairy exports** increased 12% in January, or 17,000 MT, compared to the same month the previous year.

This was the eighth consecutive month of increasing exports although the rate of growth has eased in the last quarter.

The increase was driven by whey powder up 17%, WPC/WPI up 39% and the largest export category, SMP, up 11%.

Exports for the 12 months to January are up 4% or 73,000 MT, on the previous comparable period.



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

# CHINA REPORTED THE LARGEST MONTHLY INCREASE IN IMPORT VOLUMES IN THE PAST YEAR. STEADY IMPORT GROWTH CONTINUES IN ASIA AND LATIN AMERICA

## LATIN AMERICA

**13%↑**

Import change for 12 months to December 2016

**Latin America<sup>1</sup> dairy import volumes** increased 4%, or 6,000 MT, in December compared to the same month the previous year.

WMP and cheese, two of the largest import categories, increased 23% and 25% respectively, for a combined increase of 10,000 MT.

Imports for the 12 months to December were up 13%, compared to the same period the previous year. Core categories have led this growth with SMP, WMP and cheese up a combined 19%, or 164,000 MT.

## ASIA

**5%↑**

Import change for 12 months to December 2016

**Asia (excluding China)<sup>2</sup> dairy imports** increased 2%, or 8,000 MT, in December compared to the same month the previous year. Fluid and fresh dairy increased 19%, or 9,000 MT, while SMP and WMP were down a combined 7% or 10,000 MT.

Imports for the 12 months to December were up 5%, or 187,000 MT, compared to the same period the previous year.

Increases in fluid and fresh dairy, whey powder and cheese, up a combined 9%, were offset by small declines in powders, with SMP and WMP down 2% and 3% respectively.

## MIDDLE EAST & AFRICA

**5%↓**

Import change for 12 months to December 2016

**Middle East and Africa<sup>3</sup> dairy imports** decreased 10%, or 30,000 MT, in December compared to the same month the previous year. This represents the fourth consecutive month of declining import volumes, and was led by declines in WMP, cheese and butter, down a combined 23%, or 32,000 MT.

Imports for the 12 months to December were down 5%, or 198,000 MT, compared to the same period last year.

Fluid and fresh dairy and WMP, the regions two largest import categories, were down 8% and 9% respectively.

## CHINA

**14%↑**

Import change for 12 months to February 2017

**China dairy imports** increased 41%, or 58,000 MT, in February compared to the same month last year.

This monthly growth, the largest increase since March 2016, was led by whey powder, up 63%, WMP, up 52%, and fluid and fresh dairy, up 46%.

Imports for the 12 months to February were up 14%, or 287,000 MT, compared to the same period last year.

Fluid and fresh dairy, China's largest import category, was up 31%, or 159,000 MT over this 12 month period.

<sup>1</sup> Excludes Venezuela and Nicaragua.

<sup>2</sup> Includes estimate for Indonesia (August-December) and Macao (October-December).

<sup>3</sup> Includes estimates for Algeria (November-December) and Egypt (December).

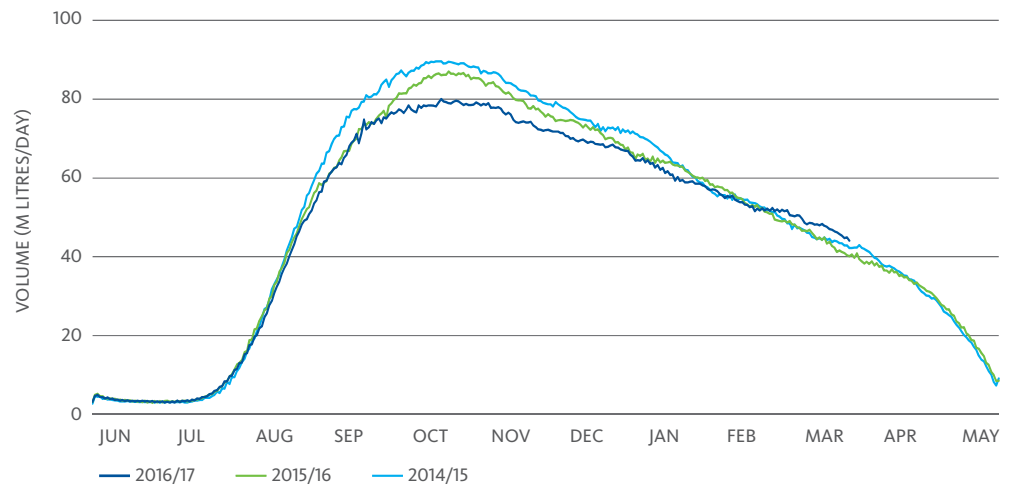
## OUR MARKETS

# FONTERRA MILK COLLECTION 2016/17 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

**3%↓**

Decrease for the season from  
1 June to 31 March

Fonterra's milk collection across New Zealand for the 10 months to 31 March reached 1,342 million kgMS, 46 million kgMS lower than last season.

March collections reached 147 million kgMS, 8% up on the same month last season.

Fonterra New Zealand milk collection improved in March due to favourable growing conditions, particularly in the North Island.

### NORTH ISLAND

**5%↓**

Decrease for the season from  
1 June to 31 March

**North Island milk collection** in March reached 84 million kgMS, 10% up on March last season.

### SOUTH ISLAND

**0%**

Decrease for the season from  
1 June to 31 March

**South Island milk collection** in March reached 63 million kgMS, 6% up on March last season.

### AUSTRALIA

**2%↓**

Decrease for the season from  
1 July to 31 March

Fonterra's milk collection across Australia for the nine months to 31 March reached 97 million kgMS, 2.1 million kgMS lower than last season.

In March milk collection reached 8.8 million kgMS, 0.4% higher than the same month last season.

## OUR MARKETS

# FONTERRA GLOBALDAIRYTRADE RESULTS



Fonterra GDT results at  
last trading event  
**18 April 2017:**

**4.7% ↑**

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

USD **3,188**

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

**21.4** <sup>000</sup> MT

Fonterra product quantity  
sold on GDT

**SMP**

**6.8% ↑**

USD 2,044/MT

**CHEDDAR**

**5.3% ↑**

USD 3,462/MT

**BUTTER**

**3.0% ↑**

USD 4,892/MT

**WMP**

**2.5% ↑**

USD 2,998/MT

**AMF**

**0.1% ↓**

USD 5,930/MT

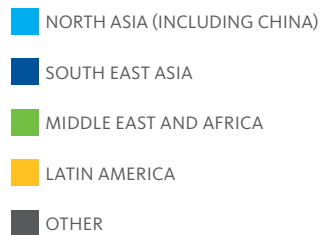
**RENNET CASEIN**

**3.8% ↓**

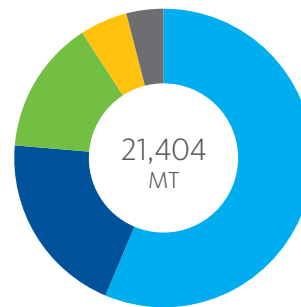
USD 6,020/MT

Fonterra GDT sales  
**by destination:**

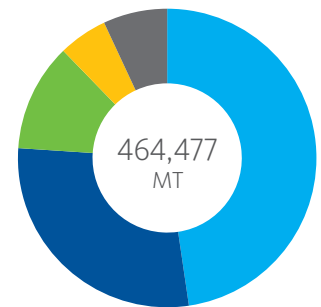
To view more information,  
including a snapshot of the  
rolling year-to-date results –



**LATEST AUCTION**



**FINANCIAL  
YEAR-TO-DATE**



► The next trading event will be held on 2 May 2017. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

## Dairy commodity prices and New Zealand dollar trend

In March, the New Zealand  
dollar weakened initially,  
before recovering towards  
the end of the month.





# OUR PERFORMANCE



## Fonterra demonstrates its innovative Foodservice creams at Las Vegas pizza expo



Waiting for cream to reduce is not something the Fonterra Foodservice team and customers ever have to worry about – and that's a good thing when doing rapid fire cooking demonstrations at an expo attended by around 7,000 industry people.

Chef Scott Knue and the Anchor™ Food Professionals team showcased the virtues of Anchor's revolutionary Chef's Cooking Cream at the International Pizza Expo, the world's largest industry event for pizza, pasta and Italian desserts held in Las Vegas last month.

The team served bowls of pasta alfredo delivered up in 15 seconds as opposed to the standard 10-15 minutes that conventional cream takes to reduce down into a creamy sauce.

The secret is in a process perfected by the Fonterra Research and Development Centre in Palmerston

North. It discovered how to reduce cooking cream into a state where it's simply ready to be heated, so has up to a 40% better yield than conventional cream. That means little wastage compared with conventional cream which loses much of its volume during the cooking process.

The Italian Kitchen restaurant segment is a key target for Fonterra's Foodservice business, with its range of innovative cooking creams, extra stretch mozzarella and dessert whipping cream.

As well as the Chef's Cooking Cream, the team also demonstrated Anchor™ Food Professionals' Extra Whip Whipping Cream at the expo, which gives chefs and bakers up to 25% more yield when whipped, as well as a light and creamy flavour. It will be launched later this year.

"We are working to break into the Italian Kitchen



market in the US. We've had some success and this is the opportunity for real brand exposure," says Fonterra's Global Director Foodservice Grant Watson. "You've got everyone from your big brand names down to your mom and pop restaurants so it's our opportunity to get our name out there and get on people's radars."

## Fonterra provides update on performance with half year result

Fonterra Co-operative Group ended the first half of its 2017 financial year with revenue up 5% on the same period last year, and net profit after tax up 2%.

Revenue was higher at \$9.2 billion and normalised EBIT was again over \$600 million with net profit after tax of \$418 million.

"Our half year dividend of 20 cents per share, payable on 20 April 2017, reflects these strong results," Chairman John Wilson said.

Chief Executive Theo Spierings said this demonstrates Fonterra's strategy of moving

more volume into higher value products.

"Our Ingredients business maintained good margins. We made the most of our manufacturing capacity, and the flexibility it provides to match production to demand and secure the best returns for our farmers' milk.

"By the end of the first half, we shifted an additional 227 million LME (liquid milk equivalents) of milk into higher value products in our Consumer and Foodservice business, contributing to a 30% increase in normalised EBIT. We are well on track

to achieve our target of an additional 400 million LME to higher value products by year end.

"This shows us doing what we said we would and how we continue to deliver value even in a higher milk price environment," Mr Spierings said.



The Fonterra Grass Roots Fund receives a record number of applications



To find out more about Fonterra's Grass Roots Fund visit our Facebook page –



**Community groups and organisations** across New Zealand are about to get a helping hand from the country's largest dairy company.

The **Fonterra Grass Roots Fund** has received a record 914 applications for its latest round of grants, with successful applicants to be notified this month. Fonterra Global Sponsorship Manager Kane Silcock says there has been a pleasing increase in applications from rural safety

groups such as Volunteer Fire, Surf Life Saving, Search and Rescue, Coastguard, and all the Rescue Helicopter services.

"This is our way of giving back to the heart of the communities we live and work in," he says.

"Every year, the fund supports more than 300 initiatives that help maintain vibrant, healthy and safe local communities and enrich people's lives," Mr Silcock says.

Last year for example, the

Fonterra Grass Roots Fund got right behind our national bird by supporting the conservation efforts of Whakatane Kiwi Trust. Whakatane is known as the Kiwi capital of the world, and the trust plays a vital role in protecting and growing the district's kiwi population.

By funding special track surveillance cameras Fonterra Grass Roots Fund has allowed the trust to help keep watch of their feathered friends 24/7. It also helped the trust to buy a fresh batch of traps used in keeping down the numbers of stoats, ferrets, wild cats and other harmful kiwi predators.

Grants range from \$500 to \$5,000 for projects that fit into one of three categories: 'Bringing communities together', 'caring for our environment' and 'making our communities safer'.

The Grass Roots Fund also operates in Australia, where regional communities across Victoria and Tasmania have received support.

Prime Minister Bill English joined primary school kids for their KickStart Breakfast



**Children at Holy Family School in Porirua** got more than Weet-Bix™ and Anchor™ milk at their usual KickStart Breakfast Club recently.

The Prime Minister Rt. Hon. Bill English and Minister of Social Development Hon. Anne Tolley dropped in for a special celebration of the programme which now reaches more than

900 schools.

**KickStart Breakfast** is a partnership between Fonterra, Sanitarium and the government, serving 125,000 nutritious breakfasts each week across the country

Around 60 kids from Holy Family School start their day the KickStart way, and as he enjoyed his breakfast the PM was asked the hard questions

– including whether he uses maths in his job, and what does he actually do?

Of course he uses maths, especially to count votes, and what does his job involve? Well, sometimes it's the most straightforward questions that are the most difficult to answer, he told the children.

Fonterra In-School Programmes Manager Katalin Csengo says the children were very excited, and as always the volunteers did a great job of putting on the breakfast.

"This isn't just a partnership between Fonterra farmers, Sanitarium and The Ministry of Social Development, it's also a partnership with the school and the community," she says.



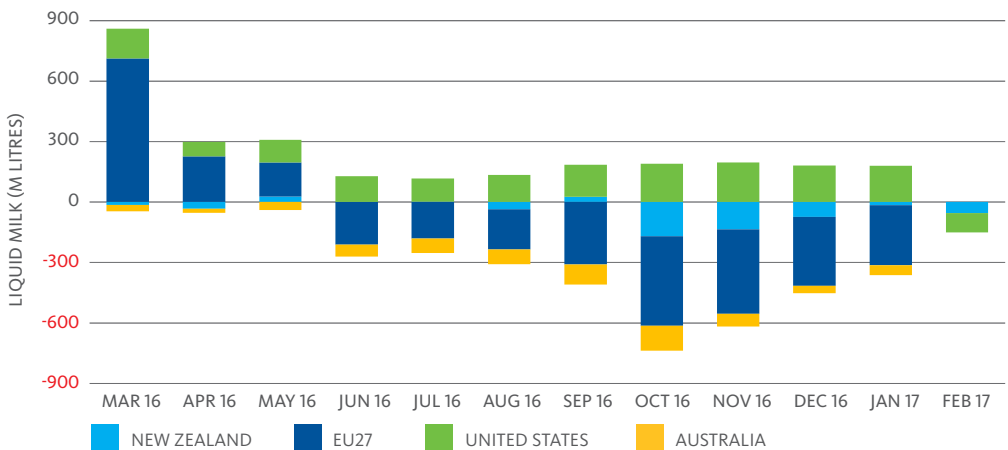
# SUPPLEMENTARY INFORMATION

## Global Dairy Market

The charts on the right illustrate the year-on-year changes in production, exports and imports for a range of countries that are important players in global dairy trade.

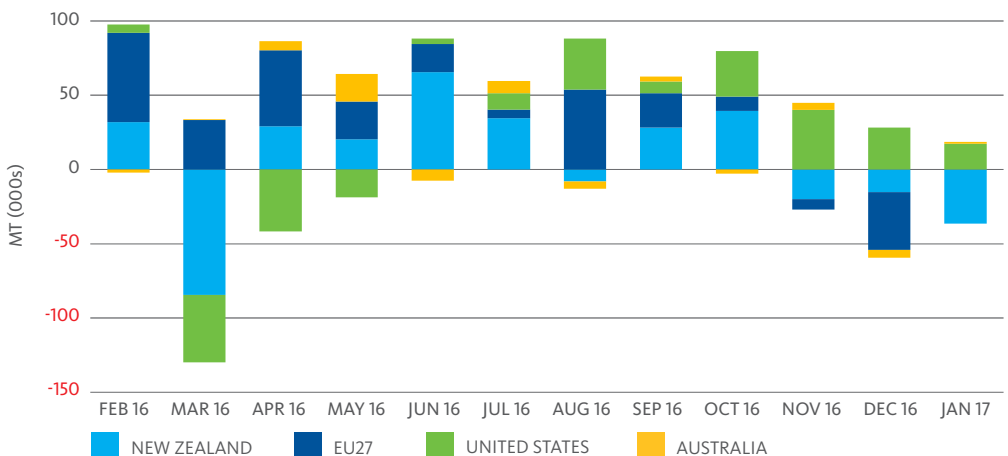
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

### PRODUCTION



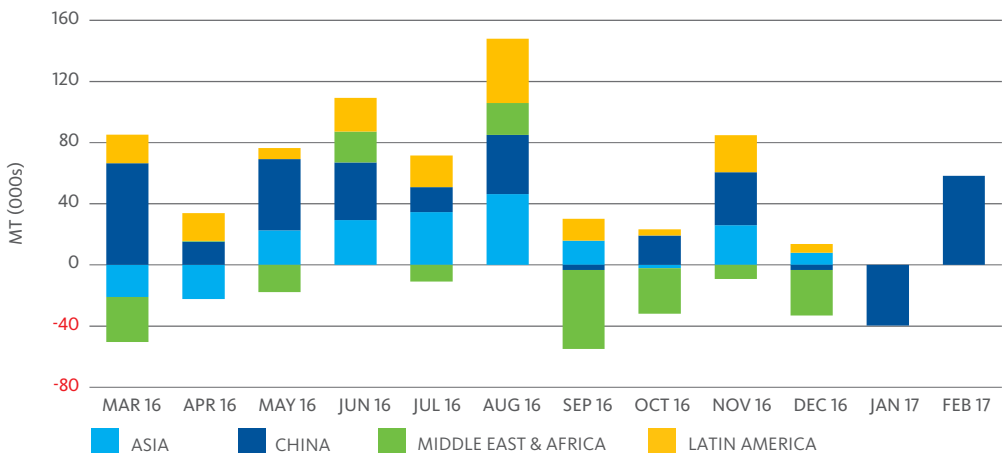
NOTE: Data for EU and Australia to January and New Zealand and US to February.

### EXPORTS



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

### IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to December; China 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)	MARCH 2017	MARCH 2016	MONTHLY CHANGE	SEASON- TO-DATE 2016/17	SEASON- TO-DATE 2015/16	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	147.1	136.1	8.1%	1,342	1,388	(3.3%)
North Island	84.0	76.4	9.9%	816.6	860.8	(5.1%)
South Island	63.1	59.6	5.8%	524.9	526.8	(0.4%)
Fonterra Australia	8.8	8.8	0.4%	96.8	98.9	(2.1%)

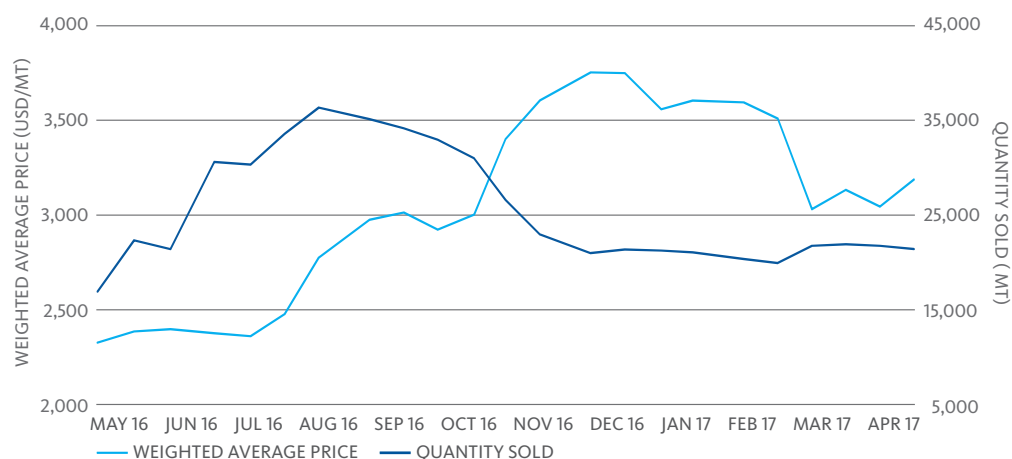
## Fonterra GDT results

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

	LAST TRADING EVENT (18 APRIL 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	21,404	464,477
Change in Quantity Sold on GDT over same period last year	4.4%	(8.1%)
Weighted Average Product Price (USD/MT)	3,188	3,179
Change in Weighted Average Product Price over same period last year	38.5%	35.4%
Change in Weighted Average Product Price from previous event	4.7%	–

## Fonterra GDT Results

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



# GLOSSARY

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## 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.

## LME

Liquid milk equivalents, a standard measure of the amount of milk solids in a product to provide comparison between products.

## 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.