

# GLOBAL DAIRY UPDATE



- Wet conditions in New Zealand are impacting early season production.



- Double-digit export growth for New Zealand in June. US export growth continues and steady growth from the EU.



- Continued strong growth in China and Latin America imports, and steady overall growth in Asia.



- In August, Fonterra New Zealand milk collection was down 2%, and Fonterra Australia collection was up 20% compared to August last year.

- How we're changing the yoghurt game in Sri Lanka.
- Ground-breaking dairy research helps to heal.
- Fonterra has recently announced its annual results.
- Total cash pay-out for the 2016/17 season of \$6.52, up 52%.
- An additional 1b LME in to higher value Advanced Ingredients and Consumer and Foodservice products, despite lower milk collections.
- Revenue grew 12% to \$19.2b.

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

## OUR CO-OP



- Rare bird sighting at our Maungaturoto site.
- NZ Young Farmers gifted Auckland farm.



## KEY DATES



2 November 2017  
Fonterra Co-operative Group Annual Meeting

3 November 2017  
Fonterra Shareholders' Fund Annual Meeting

Late November 2017  
FY18 Q1 Business Update

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



# WET CONDITIONS IN NEW ZEALAND ARE IMPACTING EARLY SEASON PRODUCTION

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

## NEW ZEALAND

1% ↓

Production change for the 12 months to July 2017

**Total New Zealand milk production** in July was up 7% compared to the same month last year.

Due to the seasonal profile, volumes in New Zealand are lower at this time of year, but will build over the coming months as the peak collection period draws near.

For the 12 months to July, production was down 1% compared to the previous year. Wet weather in August is impacting production with the 2017/18 season-to-date down 2%.

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

## AUSTRALIA

7% ↓

Production change for the 12 months to June 2017

**Australia production** in June increased 2% compared to the same month last year.

Production for the 12 months to June was down 7% compared to the same period the previous year. This decrease for the year is largely a result of poor weather conditions in spring and the impact of soft farmgate milk prices earlier in the year.

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

## EUROPEAN UNION

2% ↓

Production change for the 12 months to June 2017

**EU production** in June was up 2% compared to the same month last year.

While the two biggest producers in Europe, Germany and France were down a combined 1% in June, this was offset by growth in other key export regions, particularly Poland, Ireland and Italy. The increase in June gives some support to the EU Commission forecast for overall production growth of 0.7% for 2017.<sup>1</sup>

Production for the 12 months to June was down 2% compared to the same period the previous year.

## USA

2% ↑

Production change for the 12 months to July 2017

**US production** in July increased 2% compared to the same month last year.

US volumes have been increasing at a rate of 2% per month for the last 13 months. The increase in production is largely driven by larger herd numbers and improved production per cow.<sup>2</sup>

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

<sup>1</sup> European Commission, Agriculture and Rural Development Short Term Outlook [https://ec.europa.eu/agriculture/market-observatory/milk\\_en](https://ec.europa.eu/agriculture/market-observatory/milk_en)

<sup>2</sup> <http://usda.mannlib.cornell.edu/usda/current/MilkProd/MilkProd-08-18-2017.pdf>



# DOUBLE-DIGIT EXPORT GROWTH FOR NEW ZEALAND IN JUNE. US EXPORT GROWTH CONTINUES, AND STEADY GROWTH FROM THE EU

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

## NEW ZEALAND

**1%↑**

Export change for the 12 months to June 2017

**Total New Zealand dairy exports** in June increased 10% or 26,000 MT compared to the same month last year.

Growth was driven by WMP and fluid and fresh dairy, up a combined 23% for the month.

Exports for the 12 months to June were up 1% or 25,000 MT on the previous comparable period.

Fluid and fresh dairy was up 33% or 69,000 MT, offset by a 49,000 MT combined decline in AMF and casein. WMP, SMP and cheese, the three largest export categories were relatively flat.

## AUSTRALIA

**3%↓**

Export change for the 12 months to June 2017

**Australia dairy exports** increased 3% in June compared to the same month the previous year.

In June, SMP, fluid and fresh dairy and WMP exports grew a combined 39%. This was offset by declines in cheese and whey powder, down a total of 33% for the month.

Exports for the 12 months to June were down 3%, or 23,000 MT on the previous comparable period.

This decline was driven by SMP, cheese and butter, three of the larger export categories, which were down a combined 40,000 MT, partially offset by a 16,000 MT increase in fluid and fresh dairy, the largest export category.

## EUROPEAN UNION

**3%↑**

Export change for the 12 months to May 2017

**EU dairy exports** in May increased by 19% or 82,000 MT compared to the same month last year.

Exports of SMP, one of the largest export categories, increased by 96% or 40,000 MT in May as the EU clears excess inventory. Fluid and fresh dairy, cheese and infant formula also grew a combined 37,000 MT.

Exports for the 12 months to May were up 3% or 160,000 MT on the previous comparable period.

Growth was seen in most export categories, in particular cheese and lactose, up a combined 165,000 MT.

## USA

**15%↑**

Export change for the 12 months to June 2017

**US dairy exports** increased 5% in June compared to the same month the previous year.

Increased exports of cheese and SMP, up a combined 17% for the month were offset by declines across a number of smaller export categories.

Exports for the 12 months to June were up 15% or 282,000 MT on the previous comparable period.

The US had significant growth in its largest export category, SMP, up 117,000 MT or 22%. Growth was also seen across most other major export products, in particular whey powder and cheese, up a combined 114,000 MT.



# CONTINUED STRONG GROWTH IN CHINA AND LATIN AMERICA IMPORTS, AND STEADY OVERALL GROWTH IN ASIA

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

## LATIN AMERICA



**Latin America<sup>1</sup> dairy import volumes** increased 13% or 21,000 MT in May compared to the same month the previous year.

Imports of SMP and cheese, which make up almost 50% of imports in May, increased 62% and 20% respectively compared to the same month last year.

Imports for the 12 months to May were up 11% or 187,000 MT. Growth for the year was largely driven by increased imports of cheese and SMP, up a combined 15% or 107,000 MT.

## ASIA



**Asia (excluding China)<sup>2</sup> dairy imports** increased 3% in May compared to the same month last year.

The increase was primarily driven by cheese, SMP and fluid and fresh dairy, up a combined 9%, offset by declines in WMP and whey powder, down 7% in total.

Imports for the 12 months to May were up 10%, or 391,000 MT, compared to the same period the previous year.

This growth was driven by the four largest categories SMP, fluid and fresh dairy, cheese and whey powder, up a combined 261,000 MT or 10% for the year.

## MIDDLE EAST & AFRICA



**Middle East and Africa<sup>3</sup> dairy imports** decreased 2% in May compared to the same month the previous year. The decrease in May was primarily caused by lower imports across all key categories except fluid and fresh dairy which was up 15% compared to May last year.

Imports for the 12 months to May were flat compared to the same period last year.

Declines in cheese, infant formula and butter were offset by increases in fluid and fresh dairy, WMP and SMP, leaving the overall year-on-year movement flat.

## CHINA



**China dairy imports** were up 20% or 38,000 MT in July compared to the same month last year. Growth was seen across almost all import categories in July, however WMP and SMP had the most significant growth, up 16,000 MT and 13,000 MT respectively.

Imports for the 12 months to July were up 9%, or 192,000 MT, compared to the same period last year.

Growth was seen across all key import categories, in particular whey powder, infant formula and WMP, which grew a combined 14% or 146,000 MT.

<sup>1</sup> Excludes Venezuela. Includes estimate for Belize (May).

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

<sup>3</sup> Includes estimate for Algeria and Egypt (May).

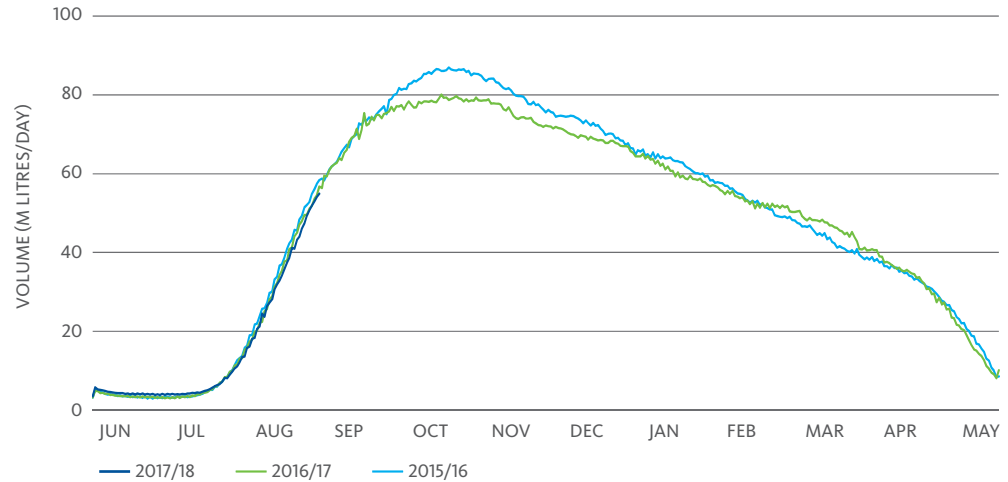
# OUR MARKETS

## 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

Fonterra's milk collection across New Zealand reached 93 million kgMS in August, 2% lower than August last season.

Continued wet weather throughout August has proved challenging for farmers and has impacted milk collection volumes.

For the three months to 31 August, milk collection was flat at 122 million kgMS. Monthly volumes of milk collected will start to build over the coming months as we head towards our peak collection period, which is expected in October.

### NORTH ISLAND



**North Island milk collection** in August reached 70 million kgMS, 1% behind August last season.

### SOUTH ISLAND



**South Island milk collection** in August reached 23 million kgMS, 5% behind August last season.

### AUSTRALIA



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

The increase in August was driven by new suppliers that have moved to Fonterra over the past few months. This combined with milder winter conditions and favourable feed and fertiliser costs has set our Australian supplier base up well for spring.

### Forecast Fonterra Milk Collection Across New Zealand



Fonterra has recently confirmed its DIRA forecast milk collection at 1,575 million kgMS.

It is still early in the season, and a close watch is being kept on recent challenging weather conditions.

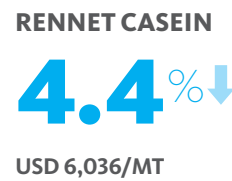
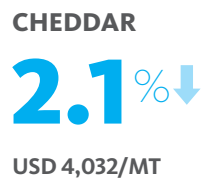
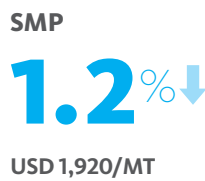
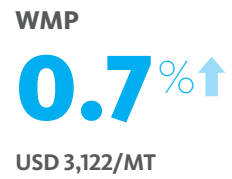
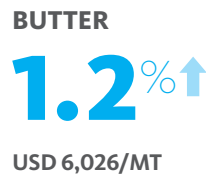
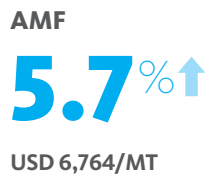
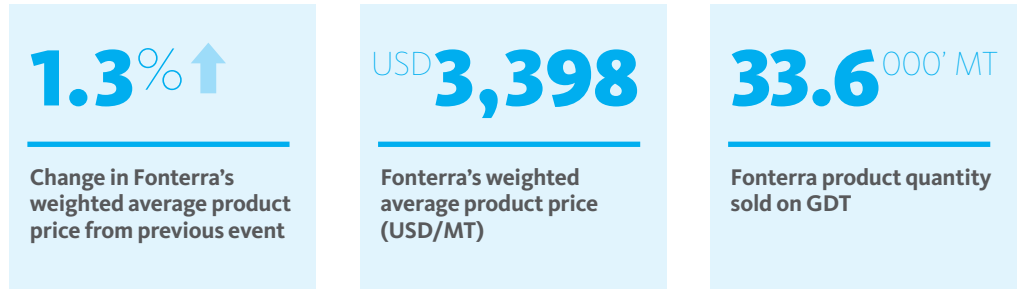
We will continue to provide updates as the season progresses.

# OUR MARKETS

## FONTERRA GLOBAL DAIRY TRADE RESULTS

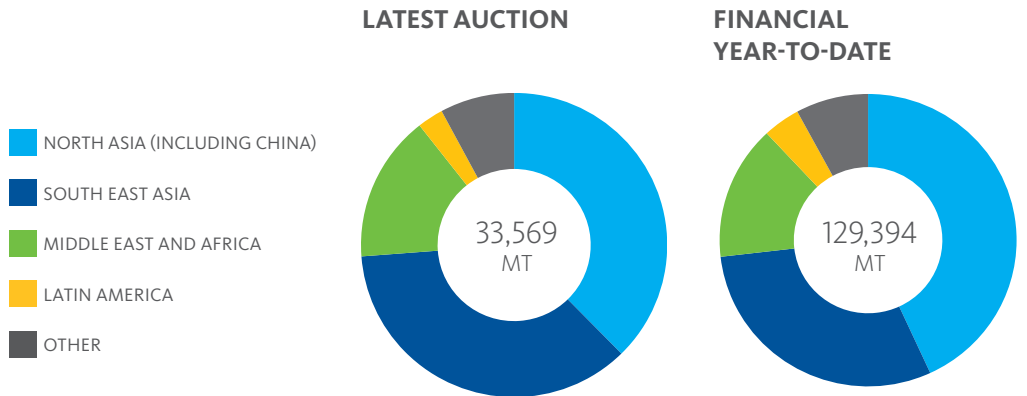


Fonterra GDT results at last trading event  
**19 September 2017:**



Fonterra GDT sales by destination:

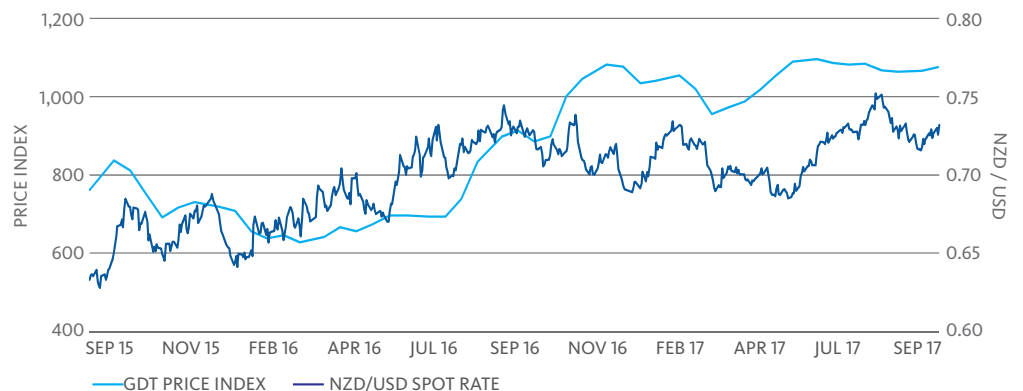
To view more information, including a snapshot of the rolling year-to-date results –



▶ The next trading event will be held on 3 October 2017. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

### Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar began strongly in August however was impacted by economic news out of the United States and by uncertainty around the New Zealand election build up.





# OUR PERFORMANCE



## How we're changing the yoghurt game in Sri Lanka

Our Sri Lankan team has taken some exciting steps in the local yoghurt scene.

Thanks to the addition of a new form-fill-seal (FFS) machine at our manufacturing site, we can now meet demand for an extra 10 million servings of locally-sourced Anchor™ Newdale yoghurt each month.



The high-tech machine will enable us to produce 125% more yoghurt, re-energising the appetite for fresh dairy nutrition and allowing us to grow our local milk supply as demand for yoghurt continues to grow.

Sri Lanka's Head of Manufacturing, Suneth Kotuthenne, said: "Fully automated, the new

equipment carries out the entire process of packing Anchor™ Newdale yoghurt – from forming the yoghurt cups, labelling the cups, filling with product and sealing the package. It also provides the capability to manufacture innovative product offerings which we plan to introduce in the near future."

The team also relaunched Anchor™ Newdale with new formulations, packing and communications.

Shanika Jayawardana, Marketing Manager – Newdale, said while Sri Lankans already love our Anchor™ Newdale range, the team saw an opportunity to boost the brand by tailoring its taste, packaging and nutritional value.

"We rigorously tested which formulas and packaging Sri Lankan consumers preferred and came away with what we expect will be a winning solution," she said.



"The new formula has a nutrient bundle that's a first in Sri Lanka, which includes protein, zinc, vitamins A and D3, probiotics and phoculipids," says Shanika.

Once the range was perfected, the team relaunched it through a campaign that encouraged kids to explore – a message that Shanika says is socially significant to both Sri Lankan parents and kids alike.

"This was a message that resonates well. We're highlighting all the amazing things kids learn when they explore, and how the new and improved nourishing Anchor™ Newdale range can support them on this journey."

## Ground-breaking dairy research helps to heal

Dylan Davidson was a passenger in a car when the driver lost control after a deer ran out in front of the vehicle. The car rolled and left Dylan with two broken vertebrae in his back and several other injuries.



Dylan was in a coma for three weeks and lost a lot of weight. His parents, Paul and Carol Davidson, said the Milk

Protein Concentrate (MPC) from Fonterra farmers' milk played a key part in their son's healing process.

MPC, made at our Clandeboye site, is used in advanced medical nutrition and helps nourish and rehabilitate patients.

Our MPC is the result of ground-breaking research from Fonterra scientist Dr Vijay Ganugapati, who found a way to make a milk protein concentrate that would dissolve into a cold liquid, without becoming thick or viscous.

Southland Fonterra farmers, Mark and Deborah Hamill



said "to think that milk from New Zealand is playing a large part in recovery and aiding millions of people around the world is really quite humbling for us."

"Patients recovering from surgery often can't physically take in food or large amounts of liquid. Our MPC can provide them with the goodness of dairy nutrition without the volume," said Vijay.



## Rare bird sighting at our Maungaturoto site



**The Australasian Bittern, or Matuku** as they are known, is a large, heron sized bird. They are rarely sighted because of their secretive behaviour and camouflage technique and are usually most active at dawn, dusk and through the night.

**Long serving utilities** operator at the

Maungaturoto site Gary Sosich said he had seen the rare bird while doing routine checks on the site's storm-water diversion system. He then realised that there was two of them, indicating that there may be a breeding pair living in the wetland.

### Maungaturoto Environmental Manager

Steve Gale says, "It's positive to see our storm-water treatment wetland is supporting biodiversity. It's a credit to the storm-water management system we

have in place."

**"The bittern population** in New Zealand used to be abundant, but there is now thought to be less than 1,000 left due to habitat loss. It's encouraging to see that our constructed wetland is a comfortable home for them and somewhere that they feel safe." The bird is an indicator of wetland health, due to their dependence on the presence of high quality and ecologically diverse habitats with a rich food supply.

## NZ Young Farmers gifted Auckland farm



**An act of generosity** from one of our farmers will mean more young people can get a look at what farming is all about in our biggest city.

**Having no family** of his own, before the late Donald Pearson passed away, he bequeathed his 74-hectare farm to New Zealand Young Farmers, giving them the opportunity to continue showcasing the agri-sector as a positive career pathway to New Zealand's younger generations. The farm is located near Whitford in Auckland.

**Area Manager for Regional Waikato** Bill Hanson said he knew and worked with Donald and gifting his farm lined up with his values in life.

**"Donald lived a simple life.** He didn't waste money

on embellishments, but he meticulously maintained his farm and kept it up to date. He lived by high ethical standards, had a strong connection to the land and embraced our co-operative spirit.

**"Donald wanted to see that spirit continue** into the next generation and he believed NZ Young Farmers would be able to help make that happen."

**NZ Young Farmers** said they intend to honour Donald's wishes, turning it into a place for young Aucklanders to learn the ins-and-outs of farming rather than the land being turned into residential housing.

**At present, 39% of all high school students** are living in Auckland, compared to only 29% living in rural areas.



Having this facility in the heart of Auckland provides value to the industry and will play a significant role in the Ministry of Primary Industries target of attracting an extra 50,000 employees to the sector by 2025.

**The details** of how the farm will run going forward are yet to be finalised, but it's expected that the farm will be a doorway to innovative technology and a master-class in the future of farming.



# SUPPLEMENTARY INFORMATION

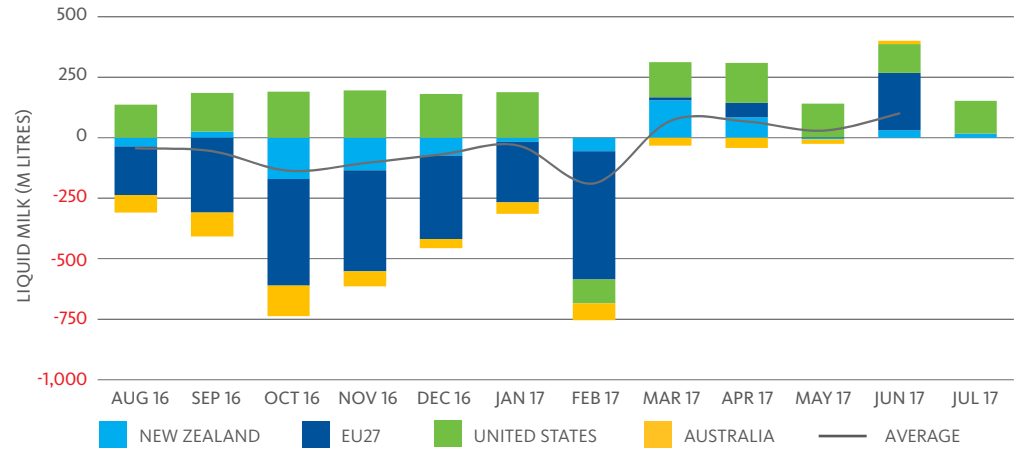
## Global Dairy Market

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.

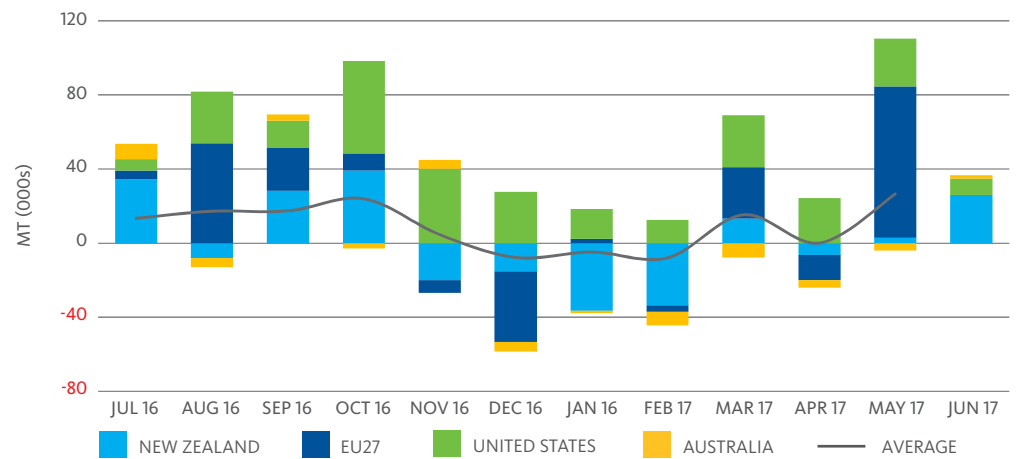
Averages are shown where data is complete for the regions presented.

### PRODUCTION



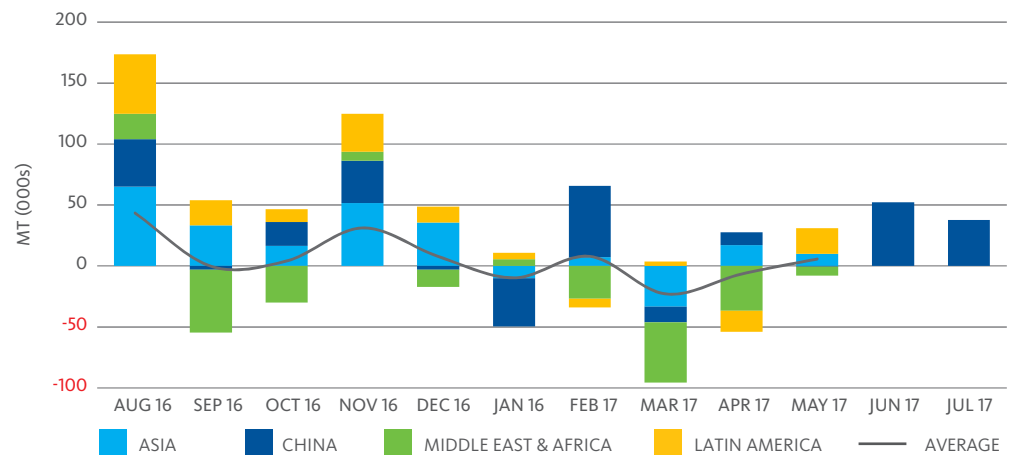
NOTE: Data for EU and Australia to June and New Zealand and US to July.

### EXPORTS



NOTE: Data for EU to May; New Zealand, US and Australia to June.

### IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to May, China 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)	AUGUST 2017	AUGUST 2016	MONTHLY CHANGE	SEASON-TO-DATE 2017/18	SEASON-TO-DATE 2016/17	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	93.4	95.8	(2.5%)	122.4	122.0	0.3%
North Island	70.1	71.1	(1.4%)	94.9	93.7	1.2%
South Island	23.3	24.7	(5.5%)	27.5	28.3	(2.7%)
Fonterra Australia	10.7	9.0	20.2%	19.1	15.5%	23.4%

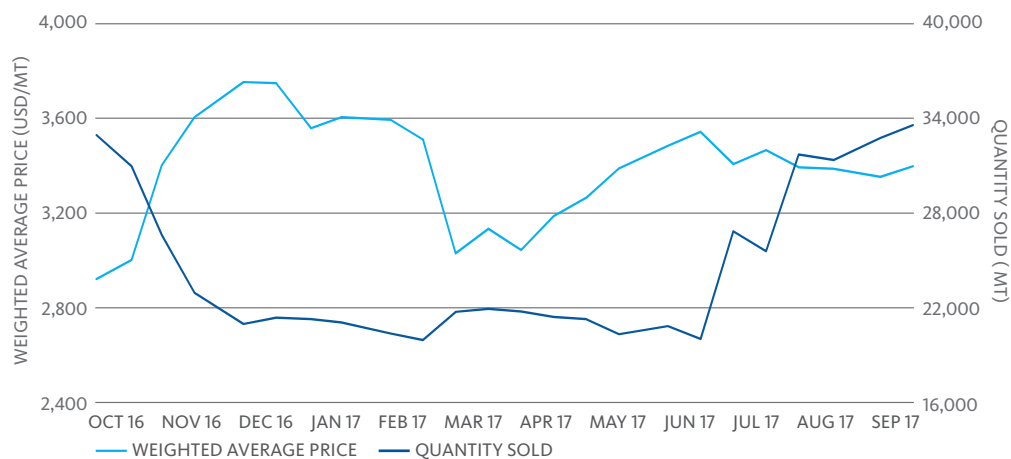
## Fonterra GDT results

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

	LAST TRADING EVENT (19 SEPTEMBER 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2017)
Quantity Sold on GDT (Winning MT)	33,569	129,394
Change in Quantity Sold on GDT over same period last year	(1.8%)	(7.1%)
Weighted Average Product Price (USD/MT)	3,398	3,383
Change in Weighted Average Product Price over same period last year	12.7%	20.3%
Change in Weighted Average Product Price from previous event	1.3%	-

## 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.

## 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 (expressed 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 other dairy 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.