

# GLOBAL DAIRY UPDATE



• Significant monthly production declines in New Zealand and Australia. Monthly production eased in the US and holding at current levels in EU.



• Exports from Australia, New Zealand and the EU continue to grow. US exports continue to ease.



• Imports into Asia and China show strong growth. Latin America and Middle East & Africa down.



• Fonterra's milk collections in March were 130 million kgMS, 9% down on last year.



• Fonterra to recognise high performing farms as part of new approach to sustainability.



• Fonterra is a finalist in the prestigious Corporate Register Reporting Awards 2019 for its Sustainability Report.  
• Pitching in to protect mudfish.

## KEY DATES



Late May 2019  
Q3 Business Update

1 June 2019  
Measurement Date for Share Standard  
2019/20 Season

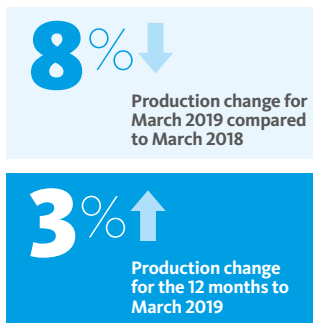
September 2019  
FY19 Annual Results Announcement



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

# SIGNIFICANT MONTHLY PRODUCTION DECLINES IN NEW ZEALAND AND AUSTRALIA. MONTHLY PRODUCTION EASED IN THE US AND HOLDING AT CURRENT LEVELS IN EU

## NEW ZEALAND



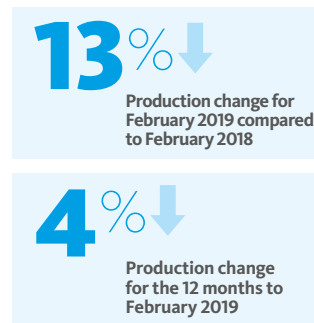
**New Zealand milk production** was down 8% in March compared to the same period last year.

New Zealand recorded its second warmest March on record. Dry conditions continued across most of the North Island and parts of the South Island. Soil moisture was below normal for most of the North Island and a large part of the South Island.

New Zealand milk production for the 12 months to March was 3% higher than last year, which was a weak production year.

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

## AUSTRALIA



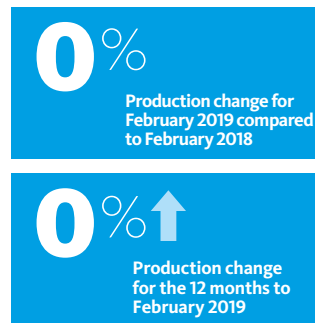
**Australia milk production** decreased 13% in February compared to the same period last year.

Production for the 12 months to February is down 4% on the previous 12 months.

Continued drought conditions and high input costs continue to put pressure on Australian milk production as a result of reduced supplemental feeding, increased cow cull rates and farm exits. Dairy Australia continue to forecast a milk production decline of between 7% and 9% for the season.

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

## EUROPEAN UNION



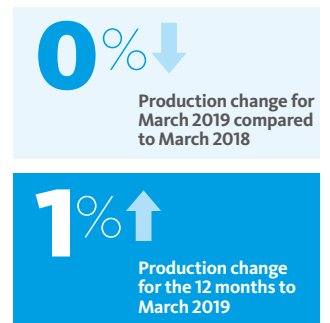
**EU milk production** in February remained unchanged from the same period last year.

Eighteen of the 28 member countries saw positive year-on-year growth including Romania, Estonia and Poland, at 7%, 5% and 4% respectively. The UK, Bulgaria, and Ireland increased 3% compared to the same period last year.

Key exporting countries where production declined were Austria, France and The Netherlands, at 6%, 3% and 2% respectively.

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

## USA



**US milk production** decreased 0.4% in March, compared to the same period last year. This is the first year-on-year decline since March 2013.

Tight margins, high cow cull rates, record farm closures and weather issues combined to push US production into negative territory for the month.

Milk production for the 12 months to March was just under 1% higher compared to the same period last year.



## EXPORTS FROM AUSTRALIA, NEW ZEALAND AND THE EU CONTINUE TO GROW. USA EXPORTS CONTINUE TO EASE

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

### NEW ZEALAND

4% ↑

Export change for the 12 months to February 2019

**Total New Zealand dairy exports** increased by 27%, or 71,000 MT, in February compared to the same period last year. This was primarily driven by WMP and butter, up 39,000 MT. Other than a slight decline in WPC and caseinate, all other products were up for the month.

Exports for the 12 months to February were up 4%, or 131,000 MT, on the previous comparable period. This was primarily driven by AMF, fluid milk products, and WMP, up a combined 135,000 MT.

### AUSTRALIA

7% ↑

Export change for the 12 months to February 2019

**Australia dairy exports** increased 7%, or 4,000 MT, in February compared to the same period last year. This growth was due to fluid milk products and infant formula up a combined 7,000 MT. This was offset by a decline in WMP and SMP of 4,000 MT.

Exports for the 12 months to February were up 7%, or 53,000 MT, on the previous comparable period.

Infant formula, fluid milk products, and whey powder make up most of the growth in Australian exports, up a combined 46,000 MT.

### EUROPEAN UNION

1% ↑

Export change for the 12 months to January 2019

**EU dairy exports** increased by 12%, or 53,000 MT, in January compared to the same period last year. This was primarily driven by SMP, and fluid milk products up a combined 47,000 MT. This was offset by declines in whey powder and WMP, of a combined 7,000 MT.

Exports for the 12 months to January were up 1%, or 65,000 MT, on the previous comparable period. SMP, lactose and infant formula were up a combined 149,000 MT. This was offset by a 110,000 MT decline in fluid milk products and WMP.

### USA

6% ↑

Export change for the 12 months to February 2019

**US dairy exports** declined 12%, or 23,000 MT, in February compared to the same period last year. This was primarily driven by SMP, whey powder, lactose and WPC, down a combined 31,000 MT. This was offset by increases in cheese and fluid milk products of 7,000 MT.

Exports for the 12 months to February 2019 were up 6%, or 127,000 MT, on the previous comparable period.

Most products remain ahead of the previous comparable period. SMP and WMP were up a combined 103,000 MT. This was offset by a decline in whey powder of 38,000 MT. Most of the decline is due to lower exports to China.



# IMPORTS INTO ASIA AND CHINA SHOW STRONG GROWTH. LATIN AMERICA AND MIDDLE EAST & AFRICA DOWN

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

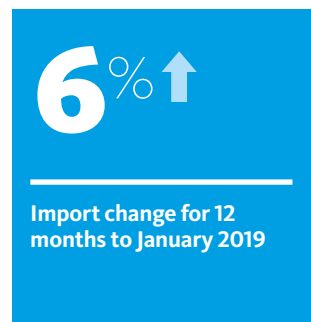
## LATIN AMERICA



**Latin America dairy import volumes<sup>1</sup>** decreased 27%, or 44,000 MT, in January compared to the same period last year. WMP was up 9,000 MT. Almost all other products were down, principally SMP, cheese, whey powder and lactose with an aggregate decline of 43,000 MT.

Imports for the 12 months to January 2019 were up 2%, or 40,000 MT, compared to the same period the previous year. SMP, fluid milk products, WMP, infant formula and MPC were up a combined 64,000 MT offset by declines in cheese, AMF, whey powder and other powders of 21,000 MT.

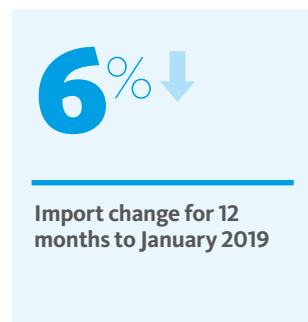
## ASIA



**Asia (excluding China) dairy import volumes<sup>1</sup>** increased 5%, or 21,000 MT, in January compared to the same period last year. SMP, WMP and fluid milk products were up but offset by declines in whey powder, ice cream and cheese.

Imports for the 12 months to January were up 6%, or 270,000 MT, compared to the same period the previous year. This growth continues to be driven by fluid products, WMP, SMP, lactose, cultured products and infant formula up a combined 253,000 MT. The import market remains in a solid growth phase.

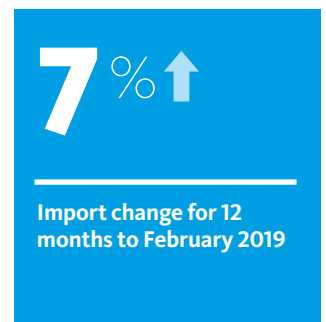
## MIDDLE EAST & AFRICA



**Middle East and Africa dairy import volumes<sup>1</sup>** decreased 7% or 24,000 MT in January 2019 compared to the same period last year. Small growth in infant formula, fluid milk products, cultured products and AMF was offset by declines in most other product, principally cheese, SMP butter, and other powders down a combined 27,000 MT.

Imports for the 12 months to January 2019 were down 6%, or 260,000 MT, compared to the same period the previous year. The reduction was driven by fluid and fresh dairy and cheese, down a combined 225,000 MT.

## CHINA



**China dairy import volumes** increased 11%, or 20,000 MT, in February compared to the same period last year. This was driven by increases across a broad range of products, particularly fluid milk products, SMP, WMP and lactose up a combined 26,000 MT but offset by whey powder which was down 7,000 MT.

Imports for the 12 months to February were up 7%, or 204,000 MT, compared to the same period last year. Strong demand out of China continued with imports across all key categories, in particular, WMP, SMP and infant formula and lactose, which are up a combined 176,000 MT.

<sup>1</sup> Estimates are included for those countries that have not reported data.

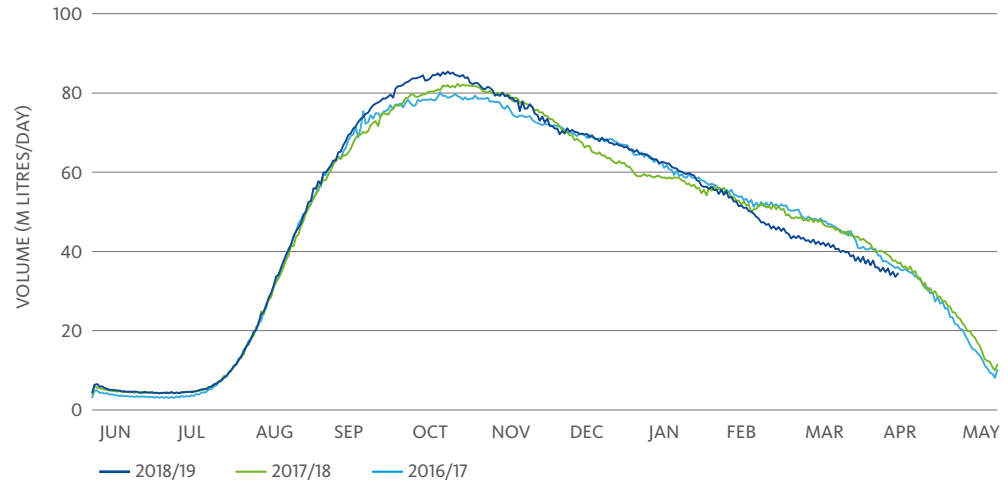
**OUR MARKETS**

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**

**9%↓**

Decrease for March 2019 compared to March 2018

**2%↑**

Season to date 1 June to 31 March

Fonterra's New Zealand milk collection in March was 130 million kgMS, down 9% on March last season.

Above-average temperatures and insufficient rainfall across many regions continued to adversely affect milk production in March.

Collection for the season to date reached 1,345 million kgMS, up 2%, due largely to favourable spring conditions which are now being offset with significant decreases in February and March.

Full season forecast remains at 1,510 million kgMS.

**NORTH ISLAND**

**14%↓**

Decrease for March 2019 compared to March 2018

**2%↑**

Season to date 1 June to 31 March

**North Island collection** in March was 68 million kgMS, down 14% on March last season.

Continuing warm and dry conditions for most of the month across many North Island regions adversely impacted production. Rainfall late in March improved conditions, but nearing the end of the season this may have only a limited impact on milk production.

Collection for the season to date reached 806 million kgMS, up 2% on the same period last season.

**SOUTH ISLAND**

**3%↓**

Decrease for March 2019 compared to March 2018

**3%↑**

Season to date 1 June to 31 March

**South Island collection** in March was 62 million kgMS, down 3% on March last season.

Central South Island production remained strong in March. The lower South Island was affected by warm and dry conditions through most of March, adversely impacting milk production.

Collection for the season to date reached 540 million kgMS, up 3% on the same period last season.

**AUSTRALIA**

**27%↓**

Decrease for March 2019 compared to March 2018

**18%↓**

Season to date 1 July to 31 March

Fonterra's collection across Australia for the nine months to 31 March reached 99 million kgMS, down 18% on the same period last season.

Fonterra collections in March were 8 million kgMS, down 27% on March last season.

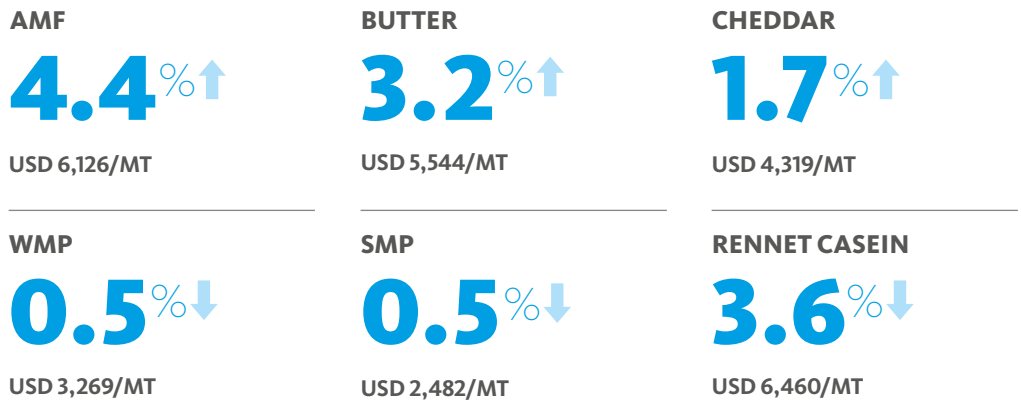
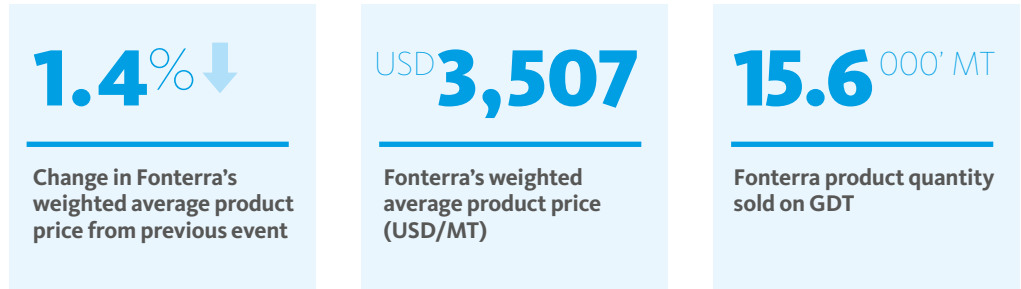
Fonterra's share of monthly collections continues to reduce due to adverse on-farm and weather conditions, increased cow cull rates, farm exits in key regions, cost of inputs and milk collection losses in a highly competitive market.

# OUR MARKETS

## FONTERRA GLOBAL DAIRY TRADE RESULTS

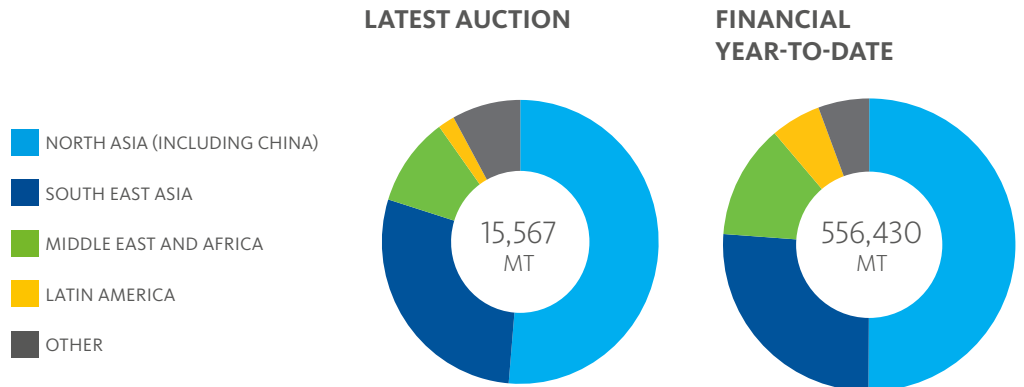


Fonterra GDT results at last trading event  
**16 April 2019:**



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 7 May 2019. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

### Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar adjusted lower in March following the Reserve Bank's shift closer to easing monetary policy settings.





## The Co-operative Difference

In line with key themes emerging from its new strategy, Fonterra has announced details of its new approach to sustainability on farm. The Co-operative Difference will make it easier for farmers to know what is expected today and in the future, as well as recognise those farmers who are taking steps to produce high quality milk in a more sustainable way.

The farmer-owned Co-operative signalled its new strategy will put sustainability at the heart of everything it does, empower the Co-op to maximise its New Zealand heritage and uniqueness, and help it to remain a globally competitive New Zealand co-operative.

Co-operative Affairs Managing Director Mike Cronin says, “Sustainability for our Co-op is about more than the environment. It’s about looking after our people, caring for animals, adapting to changing customer and consumer expectations, and respecting the communities and land where we live and work.

“We are proud of the global reputation Fonterra farmers have for producing high quality milk. Farmers have made tremendous progress on farm to date and The Co-operative Difference will help us take that good work to the next level so we can continue to create goodness for generations to come.”

The Co-operative Difference will support the Co-op’s emerging strategy direction by:

- recognising farmers who go beyond the minimum requirements to supply high-quality milk, care for their animals, protect the environment, support their people and community, and engage in their Co-operative;
- helping other farmers follow suit by making existing on-farm requirements easier to understand and by providing tailored, industry-leading support services to those who want to improve;
- providing more information and advance notice to farmers about our future aspirations so they can plan

and progress towards our shared ambitions;

- streamlining reporting and auditing to save farmers’ time and energy, and help the Co-op protect its market position, strengthen its sustainability claims, and drive demand for products that customers and consumers value most; and,

- supporting farms wanting to improve, while taking a firmer line with those that persistently fail to meet minimum standards, and exercising our rights to suspend collection.

“Consumers and customers increasingly want to know that their food choices support a sustainable future. How we farm and make our products needs to reflect these aspirations so we can remain a globally competitive New Zealand co-operative.

Our Co-operative’s strong dairy heritage and pasture-based system separates us from the pack but we must continue to earn our customers’ and consumers’ trust and loyalty. The Co-operative Difference will help us share the good work happening on farm through our Trusted Goodness™ commitment,” says Mr Cronin.

The Co-operative Difference was developed in consultation with farmers who wanted their Co-op to simplify and reduce complexity of requirements, provide direction on priority on-farm improvements, and increase pride in the Co-op by recognising high performing farms in a way that aligns with the Co-op’s values.





## GLOBAL RECOGNITION FOR FONTERRA SUSTAINABILITY REPORT



Fonterra is a finalist in the prestigious Corporate Register Reporting Awards 2019, which recognise the very best in corporate reporting worldwide.

As the only New Zealand company represented this year, the co-operative's Sustainability Report 2017 has been shortlisted in the top 10 for the 'Best Report' and 'Openness and Honesty' categories.

Fonterra's Director of Sustainability Carolyn Mortland says the team is delighted.

"Entering awards like this helps us to see where we're at and where we can get better in terms of sharing our social and environmental commitments.

To be named a finalist reassures us that we're on the right track, and all the credit goes to the team who worked on the report," says Mortland.

"We recognise the importance of being open with all stakeholders about our commitments and the progress we're making to help build a better future for our communities. Our annual Sustainability Report, which is independently assured, is one of the ways we do that."

Launched in 2007 to identify and acknowledge excellence in corporate responsibility reporting, the CR Reporting Awards are the only independent, global annual awards in this field.

The awards are organised by

CorporateRegister.com.

The more than 50,000 reporting stakeholders who are registered users of the website are entitled to vote for the best awards across the eight categories. Online voting is open from mid-March, with the winners due to be announced in May 2019.

The Best Report category looks at five essential elements – content, communication, credibility, commitment, and comparability – while the Openness and Honesty award is for the report that gives a balanced picture, telling both the good and bad news.

Further information about the Co-operative's progress is available at [www.fonterra.com/sustainability](http://www.fonterra.com/sustainability).

## PITCHING IN TO PROTECT MUDFISH



They may be tiny, slimy and reclusive, but the Canterbury mudfish are well worth protecting.

Kōwaro, as they're named in te reo Māori, are a treasured species for local iwi Ngāi Tahu and having more of them around helps protect other freshwater natives such as kōura (crayfish) and kākahi (mussels).

Unfortunately, they're also rare and endangered.

Fonterra is pitching in to help save the mudfish by supporting Environment Canterbury and other groups with a landmark project at Haldon Pasture Springs, located between the Waikirikiri/Selwyn River and the Hororata River. It's part of the co-operative's 50 catchments initiative, which involves working collaboratively with local stakeholders to help restore 50 freshwater catchments across New Zealand.

"As we increase our involvement with communities

around the country to improve the health of our waterways, it was really important for us to support the efforts to protect the Canterbury Mudfish," says Charles Fergusson, Fonterra's Head of Farm Source for Canterbury, Tasman and Marlborough.

Fonterra is providing funding to Environment Canterbury to help them implement innovative technology in what is the first project of its kind in the Southern Hemisphere. The installation of an electric trout barrier will allow mudfish to expand into the lower reaches of the site and stop the predation by trout, helping to create a safe nursery for future projects and replenishing drought-affected areas.

It will lead to a 10-fold increase in spring-fed stream habitat for the threatened mudfish – going from 880m<sup>2</sup> to 8,000m<sup>2</sup> – in the Waikirikiri/Selwyn River catchment.

Environment Canterbury believe the technology could revolutionise native

fish conservation at sites threatened by trout across the region.

"We are delighted to be partnering with Fonterra on this exciting and ground-breaking conservation project," says Johannes Welsch, Environment Canterbury's Selwyn Waihora Zone Delivery Lead.

"Working collaboratively in this way is a perfect example of how, by joining forces, we can make biodiversity and species protection not just a priority, but a practical reality."

The project is expected to be complete early May 2019, one year after its launch.

Fonterra's overall work to improve water quality in New Zealand is centred around [six commitments](#), which continue to drive action across the country. Ongoing guidance is provided by the co-operative's independent [Sustainability Advisory Panel](#), chaired by Sir Rob Fenwick.



# SUPPLEMENTARY INFORMATION

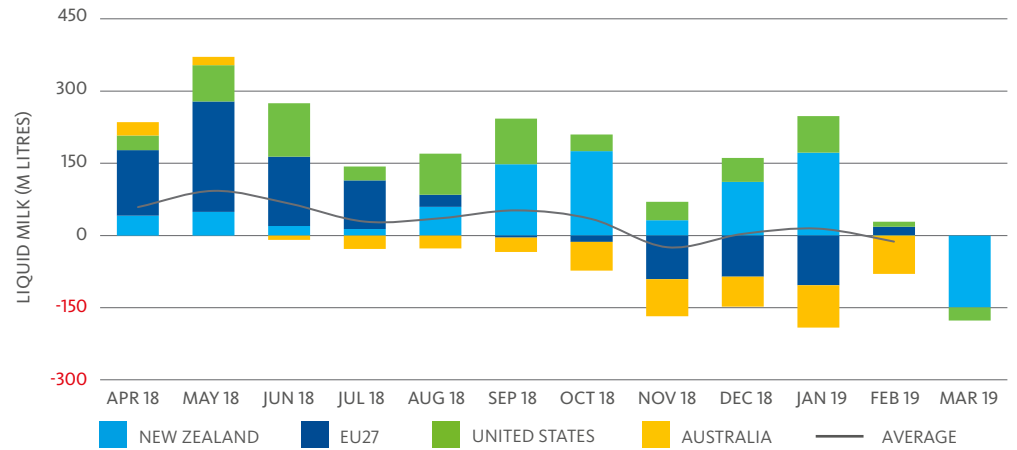
## Global Dairy Market

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.

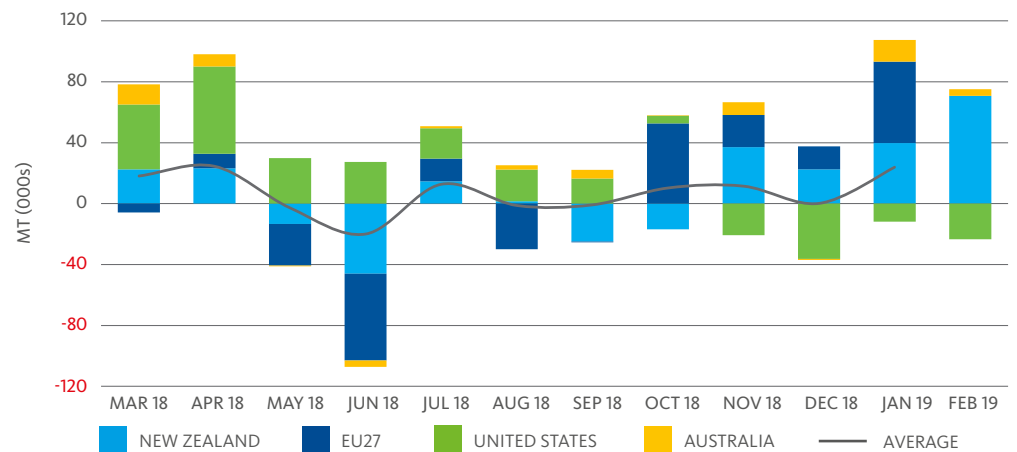
Averages are shown where data is complete for the regions presented.

### PRODUCTION



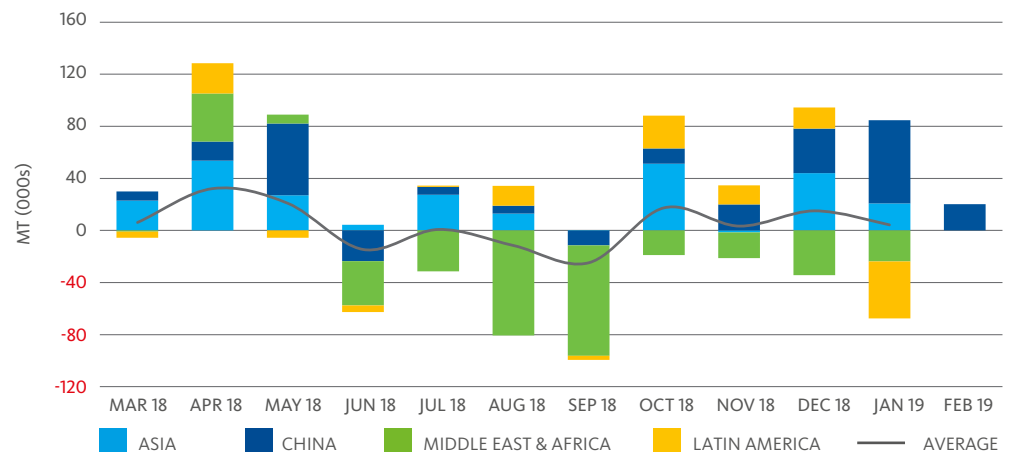
NOTE: Data for EU and Australia to February; New Zealand and US to March.

### EXPORTS



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

### IMPORTS



NOTE: Data for Latin America, Asia, Middle East & Africa to January; 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 2019	MARCH 2018	MONTHLY CHANGE	SEASON-TO-DATE 2018/19	SEASON-TO-DATE 2017/18	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	129.6	142.6	(9.2%)	1,345.2	1,313.8	2.4%
North Island	67.9	79.1	(14.1%)	805.5	791.9	1.7%
South Island	61.6	63.5	(3.0%)	539.7	521.9	3.4%
Fonterra Australia	8.3	11.3	(26.5%)	99.1	120.5	(17.8%)

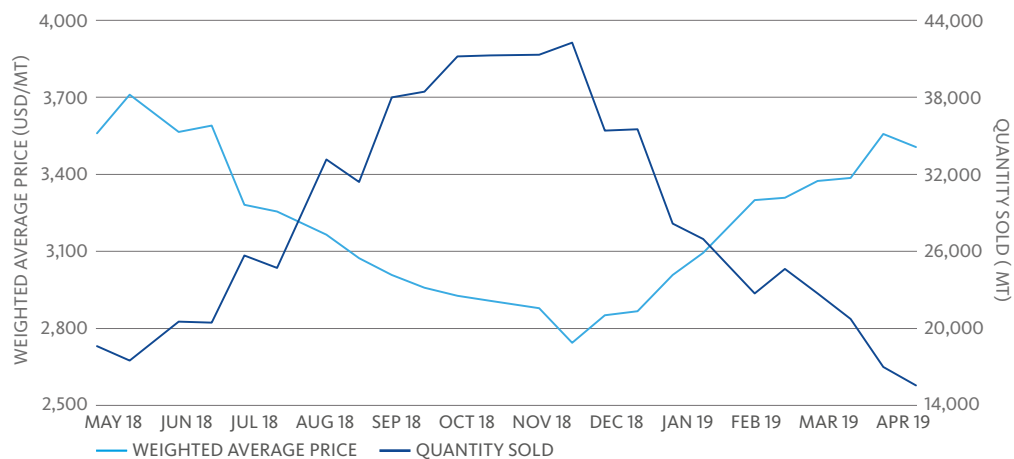
## Fonterra GDT results

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

	LAST TRADING EVENT (16 APRIL 2019)	YEAR-TO-DATE (FROM 1 AUGUST 2018)
Quantity Sold on GDT (Winning MT)	15,567	556,430
Change in Quantity Sold on GDT over same period last year	(14.2%)	15.3%
Weighted Average Product Price (USD/MT)	3,507	3,045
Change in Weighted Average Product Price over same period last year	(5.2%)	(8.7%)
Change in Weighted Average Product Price from previous event	(1.4%)	-

## 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 Products

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.