

GLOBAL DAIRY UPDATE



• Still early in New Zealand season. EU and US production flat. Australia continues to decline.

• On 26 September Fonterra announced its Annual Results.

[For further details view our website –](#)



• Monthly exports from New Zealand, Australia and the US decline. EU exports continue to grow.



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

• Regenerating New Zealand's waterways.
• New targets to reduce water use.



• Fonterra's milk collection up 2% on last season but it is still early in the season with only 9% of forecast total season production collected.

KEY DATES



7 November 2019
Fonterra Annual Meeting
Invercargill

11 November 2019
Fonterra Shareholders' Fund
Annual Meeting

December 2019
FY20 Q1 Business Update

20 April 2020
Share Standard Compliance
2019/20 Season



STILL EARLY IN NEW ZEALAND SEASON.

EU AND US PRODUCTION FLAT. AUSTRALIA CONTINUES TO DECLINE

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

NEW ZEALAND

0.8%↑

Change for August 2019 compared to August 2018

2.0%↑

Change for the 12 months to August 2019

New Zealand milk production was up 0.8% in August compared to the same period last year although it is still early in the season. Season-to-date production represents less than 9% of seasonal production.

New Zealand milk production for the 12 months to August was 2% higher than the same period last year.

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

AUSTRALIA

8.4%↓

Change for July 2019 compared to July 2018

8.4%↓

Change for the 12 months to July 2019

Australia milk production decreased 8.4% in July compared to the same period last year.

Production for the 12 months to July was down 8.4% on the previous 12 months.

Dairy Australia is forecasting 2019/20 season production to decline by 3% to 5%.

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

EUROPEAN UNION

0.5%↑

Change for July 2019 compared to July 2018

0.1%↑

Change for the 12 months to July 2019

EU milk production increased 0.5% in July compared to the same period last year.

Growth continues in Ireland, up 10.4% in July 2019, driven by a return to more normal weather conditions following challenging conditions in 2018.

Key exporting countries where production declined were Germany (1.2%), France (1%) and The Netherlands (1.5%) as very dry conditions were reported for the month of July.

EU milk production for the 12 months to July was stable with a movement of 0.1% compared to the same period last year.

USA

0.2%↑

Change for August 2019 compared to August 2018

0.3%↑

Change for the 12 months to August 2019

US milk production increased slightly by 0.2% in August, compared to the same period last year.

Growth continues to be limited by record low cow numbers as poor on-farm profitability is leading to an increase in culling.

Milk production for the 12 months to August was 0.3% higher compared to the same period last year.



MONTHLY EXPORTS FROM NEW ZEALAND, AUSTRALIA AND THE US DECLINE. EU EXPORTS CONTINUE TO GROW

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

NEW ZEALAND

11.7% ↓

Change for July 2019 compared to July 2018

6.8% ↑

Change for the 12 months to July 2019

Total New Zealand dairy exports decreased by 11.7%, or 36,417 MT, in July compared to the same period last year. This was primarily driven by WMP and butter down a combined 43,137 MT. This was partially offset by an increase in SMP exports, up 8,985 MT.

Exports for the 12 months to July were up 6.8%, or 219,726 MT, on the previous comparable period. This was primarily driven by WMP and fluid milk products, up a combined 198,077 MT.

AUSTRALIA

1.9% ↓

Change for July 2019 compared to July 2018

4.6% ↑

Change for the 12 months to July 2019

Australia dairy exports decreased by 1.9%, or 1,140 MT, in July compared to the same period last year. This was primarily driven by SMP, whey, WMP and cheese, down 5,776 MT and largely offset by an increase in fluid milk products.

Exports for the 12 months to July were up 4.6%, or 34,798 MT, on the previous comparable period.

Fluid milk products, infant formula and butter were the main drivers of this 12-month growth, up a combined 59,325 MT, while WMP and cheese declined by 22,849 MT.

EUROPEAN UNION

6.7% ↑

Change for June 2019 compared to June 2018

5.4% ↑

Change for the 12 months to June 2019

EU dairy exports increased by 6.7%, or 29,128 MT, in June compared to the same period last year. This was primarily driven by SMP and fluid milk products, up 28,180 MT.

Exports for the 12 months to June were up, 5.4%, or 285,597 MT, on the previous comparable period. SMP fluid milk products and lactose were the main drivers of this growth, up a combined 325,347 MT. This was partially offset by a decline in WMP, down 69,048 MT.

USA

4.0% ↓

Change for July 2019 compared to July 2018

7.4% ↓

Change for the 12 months to July 2019

US dairy exports decreased 4.0%, or 7,539 MT, in July compared to the same period last year. SMP and whey were the main drivers of this decline, down a combined 8,550 MT. African Swine Fever continues to have a negative impact on whey exports to China.

Exports for the 12 months to July 2019 were down 7.4%, or 179,086 MT on the previous comparable period.

The decrease was driven by whey, SMP, WPC and lactose, down a combined 197,780 MT.



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

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

LATIN AMERICA

7.5% ↓

Change for June 2019 compared to June 2018

2.8% ↑

Change for the 12 months to June 2019

Latin America dairy import volumes¹ decreased 7.5%, or 12,132 MT, in June compared to the same period last year. This was driven by declines in cheese, WMP and whey, down a combined 14,164 MT. Mexico and Peru are the main countries behind these declines.

Imports for the 12 months to June 2019 were up 2.8%, or 52,824 MT, compared to the same period the previous year. Increases were recorded across a broad range of products with SMP, fluid milk products, and WMP up by a combined 63,439 MT.

ASIA

4.4% ↓

Change for June 2019 compared to June 2018

5.6% ↑

Change for the 12 months to June 2019

Asia (excluding China) dairy import volumes¹ decreased 4.4% or 16,969 MT, in June compared to the same period last year. Decreases were recorded across a broad range of products with WMP, infant formula, cultured products, SMP and whey down 15,566 MT.

Imports for the 12 months to June were up 5.6%, or 261,529 MT, compared to the same period the previous year. Growth continues across a broad range of products with fluid milk products, SMP, WMP and lactose up a combined 238,526 MT.

MIDDLE EAST & AFRICA

9.4% ↓

Change for June 2019 compared to June 2018

10.7% ↓

Change for the 12 months to June 2019

Middle East and Africa dairy import volumes¹ decreased 9.4% or 28,764 MT in June 2019 compared to the same period last year. Decreases were recorded principally in cheese, fluid products, butter and SMP, down a combined 19,858 MT. Algeria imports remain low as the country experiences economic uncertainty, driving weaker demand for powders. Imports for the 12 months to June 2019 were down 10.7%, or 446,460 MT, compared to the same period last year. The decrease has been driven largely by cheese, WMP, SMP fluid milk products and other powders, down a combined 393,905 MT.

CHINA

14.0% ↑

Change for July 2019 compared to July 2018

9.3% ↑

Change for the 12 months to July 2019

China dairy import volumes increased 14%, or 32,847 MT, in July compared to the same period last year. This was driven mainly by increases in fluid milk products, up 32,749 MT, and smaller increases in SMP, infant formula but partially offset by decreases in butter and whey, which were down by 12,574 MT.

Imports for the 12 months to July were up 9.3%, or 258,982 MT compared to the same period last year.

Strong demand out of China continued with imports across all key categories; WMP, fluid milk products and SMP were up a combined 328,473 MT.

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

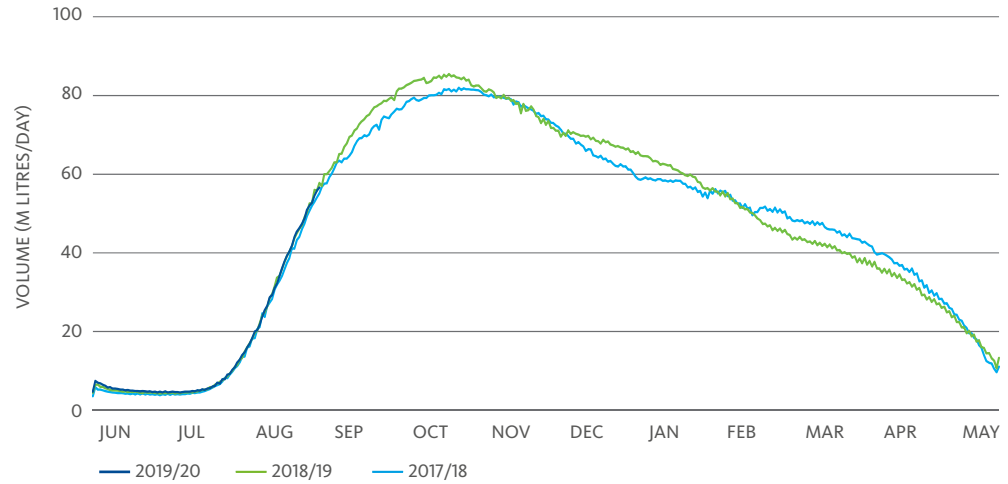
OUR MARKETS

FONTERRA MILK COLLECTION



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

1.1%↑
Change for August 2019 compared to August 2018

2.0%↑
Season to date 1 June to 31 August

Fonterra's total New Zealand collection for August, was 97.6 million kgMS, up 1.1% on the same month last season.

Season-to-date collection was 130.3 million kgMS, up 2% on last season. These volumes are still small in the context of the full season as is usual for this time of the year.

Overall, most regions have come through winter reasonably well. August saw a lot of days with rainfall recorded, although total rainfall was only marginally above August last season. Cow condition is good, and pasture cover also generally positive, resulting in milk volumes slightly above production for the same month last season.

NORTH ISLAND

1.7%↑
Change for August 2019 compared to August 2018

2.3%↑
Season to date 1 June to 31 August

North Island milk collection in August was 71.2 million kgMS, up 1.7% on August last season.

Season-to-date collection was 98.7 million kgMS, up 2.3% on last season.

Central North Island was the main contributor to the increase this month. Pasture conditions continue to be above average for the majority of farmers in the region.

SOUTH ISLAND

0.4%↓
Change for August 2019 compared to August 2018

1.0%↑
Season to date 1 June to 31 August

South Island milk collection in August was 26.3 million kgMS, down 0.4% on August last season.

Season-to-date collection was 31.6 million kgMS, up 1% on last season.

Pasture conditions remain strong across the South Island, and good animal health has been reported.

AUSTRALIA

25.5%↓
Change for August 2019 compared to August 2018

27.5%↓
Season to date 1 July to 31 August

Fonterra's milk collections in August were 7 million kgMS, down 25.5% on August last season.

Fonterra collections across Australia for the two months to 31 August reached 12.4 million kgMS, down 27.5% on the same period last season.

The combination of high on-farm input costs, challenging seasonal conditions and heightened competition for milk continues to impact Fonterra's milk supply.

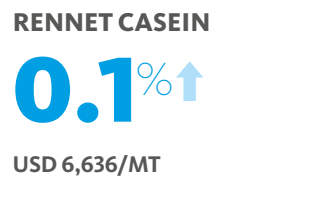
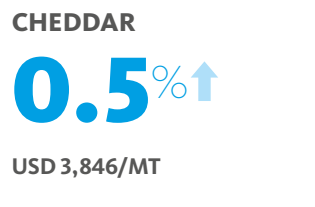
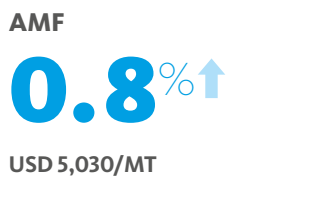
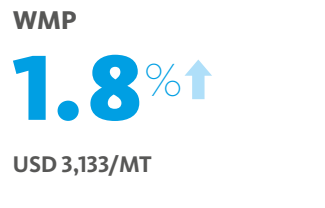
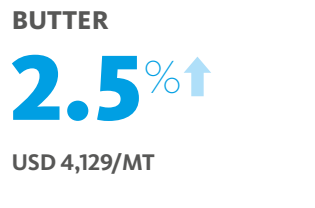
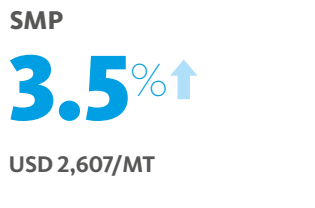
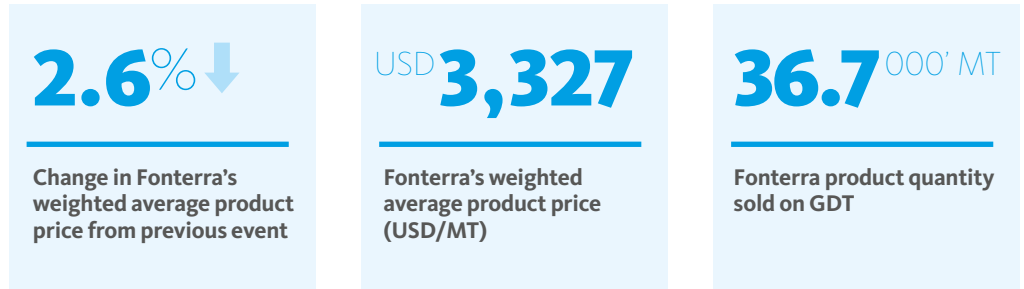
Dairy Australia is forecasting 2019/20 production to decline by 3% to 5% on prior season.

OUR MARKETS

FONTERRA GLOBAL DAIRY TRADE RESULTS

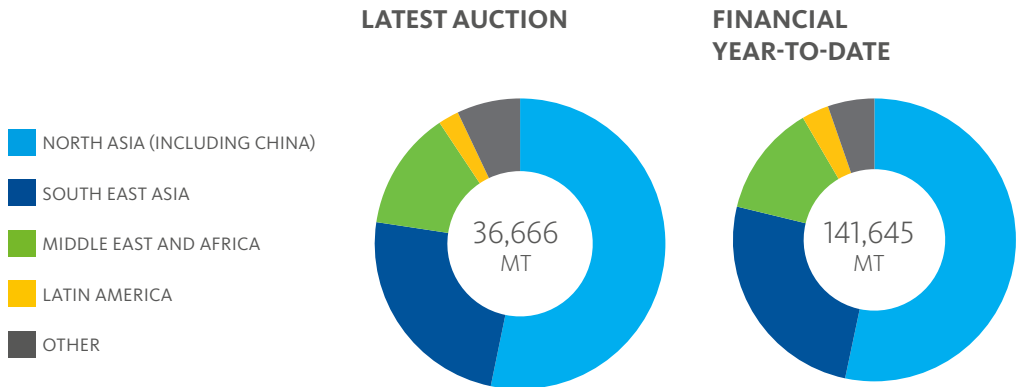


Fonterra GDT results at last trading event
17 September 2019:



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 1 October 2019. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

A reduction in the New Zealand Official Cash Rate coupled with global trade tensions stemming from ongoing concerns for US-China trade relations resulted in the New Zealand dollar weakening over the month of August.





Regenerating New Zealand's waterways

Last month, countries around the globe marked World Water Week, an annual focal point for global water issues. It's a time when thousands of decision-makers, scientists and experts from over 130 countries converge on Sweden to swap ideas and develop plans to preserve this precious natural resource.

A little closer to home, communities all over New Zealand are helping to restore waterways in their local areas. We want to do our bit too.

Our streams, lakes, wetlands and rivers have suffered over the last 150 years because of the effects of agriculture. Many of them aren't in the condition we all want them to be. We acknowledge we've been part of the problem and want to help regenerate our water waterways for all New Zealanders to enjoy and return them to places where nature, birds and fish can thrive.

Dairy farmers have spent around \$1 billion on on-farm initiatives to help restore our waterways. This includes upgrading effluent management systems, fencing streams and rivers, putting in bridges to keep stock out of waterways, and reducing run-off with riparian planting.

That's a big investment and has helped us make some progress. But there's more to be done, and it must be done fast, and together.

We've committed to building on this good work and making a meaningful difference.

There isn't a silver bullet or a quick fix to restore our waterways.

We know our efforts are only part of tackling the problem, and it may take longer than some of us would like, but we're committed to playing our part to make things right and are looking forward to working with others on the challenge.

[Here's some of the things we're doing across New Zealand to help our waterways –](#)

New targets to reduce water use

More than 3.4 billion litres of water (or about the same as 1,350 Olympic swimming pools) will be saved every year under new water targets launched by Fonterra this month.

The Co-operative has announced that six manufacturing sites in water-constrained regions will reduce their water use by 30% by 2030 as part of its move to accelerate sustainability to the heart of its strategy.

"Water is a precious resource and we can't take it for granted. For some parts of New Zealand, water isn't always in the right place at the right time, and our water use in these regions can put stress on local water sources and the communities that rely on them," says Fonterra Director NZ Manufacturing Alan van der Nagel.

"Reducing our water use at our manufacturing sites is the right thing to do for the environment and for the communities we operate in. That's why we've set this new target, which will save billions of litres of water."

The six sites are Maungatoroto, Lichfield, Brightwater, Darfield, Edendale and Clandeboye.

Mr van der Nagel says taking a targeted approach will ultimately result in better efficiency and outcomes.

"We've focused on the six sites where major water savings can have the greatest impact. This means we can target efforts and investment into those regions most in need."

All other sites across Fonterra's entire manufacturing footprint will take steps to keep water use to FY18 baselines.

"Some initiatives are underway with more in the pipeline. This target will require some clever ideas and creative thinking. But our site teams are already rising to the challenge."

This target is the latest in a series of commitments the Co-operative has set as it embeds sustainability at the heart of its strategy. These include:

- No more coal boilers or increasing capacity to burn coal
- Reducing emissions by 30% across all manufacturing operations by 2030, on the way to net zero by 2050
- Improving the energy intensity of our sites by 20% by 2020
- No solid waste to landfills by 2025
- 100% recyclable, reusable and compostable packaging by 2025
- A tailored farm environment plan for every Fonterra farmer by 2025
- Farm-specific emissions reports for every Fonterra farmer by the end of this season.

[Fonterra cares about water, whether it's on-farm or at our manufacturing sites. More information about our efforts to look after water can be found on our website –](#)

SUPPLEMENTARY INFORMATION

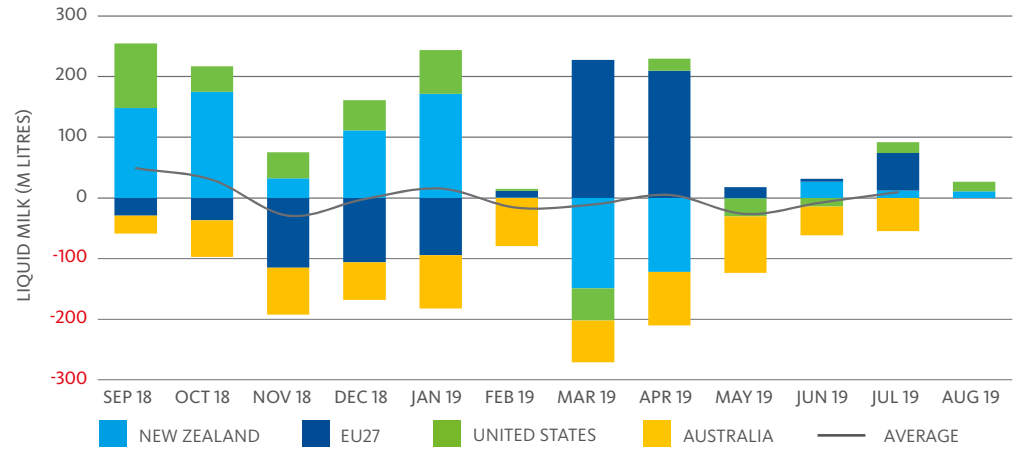
Global Dairy Market

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.

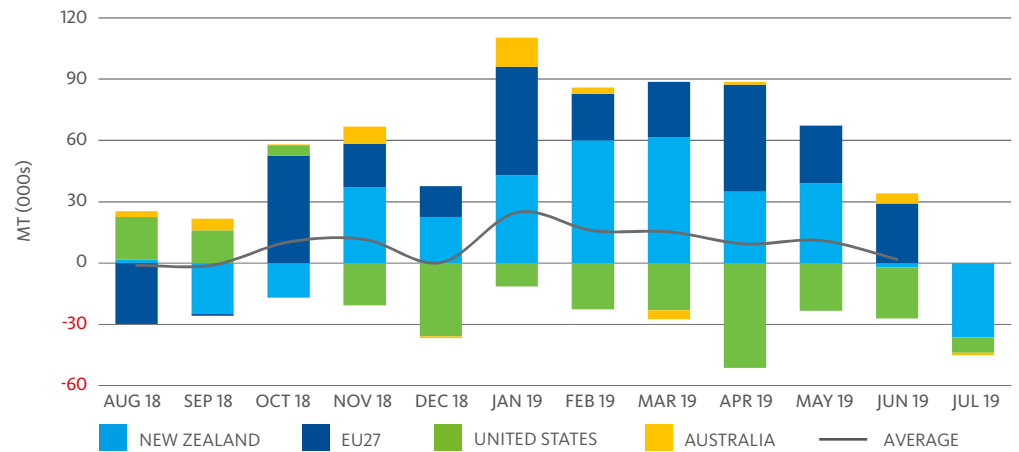
Averages are shown where data is complete for the regions presented.

PRODUCTION



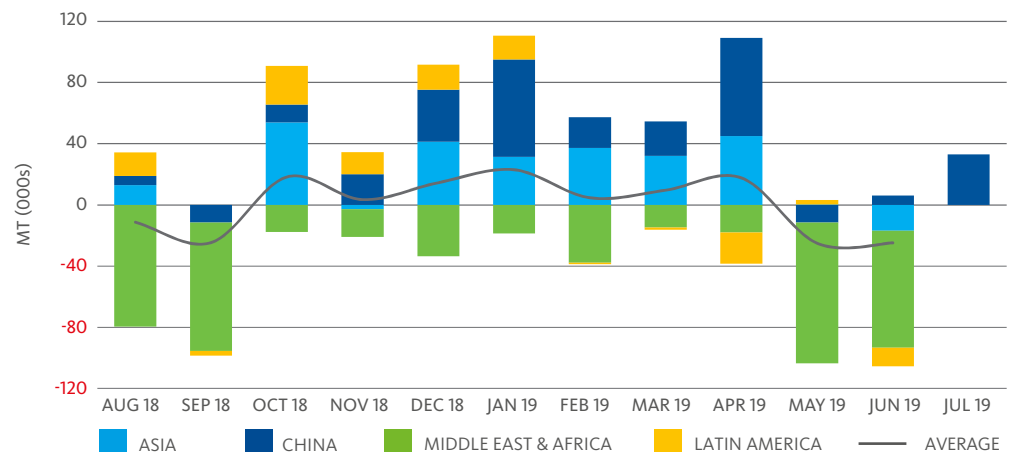
NOTE: Data for Australia and EU to July; New Zealand and US to August.

EXPORTS



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

IMPORTS



NOTE: Data for Latin America, Asia, Middle East & Africa to June; 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 2019	AUGUST 2018	MONTHLY CHANGE	SEASON-TO-DATE 2019/20	SEASON-TO-DATE 2018/19	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	97.6	96.5	1.1%	130.3	127.7	2.0%
North Island	71.2	70.0	1.7%	98.7	96.5	2.3%
South Island	26.4	26.5	(0.4%)	31.6	31.2	1.0%
Fonterra Australia	7.0	9.4	(25.5%)	12.4	17.1	(27.5%)

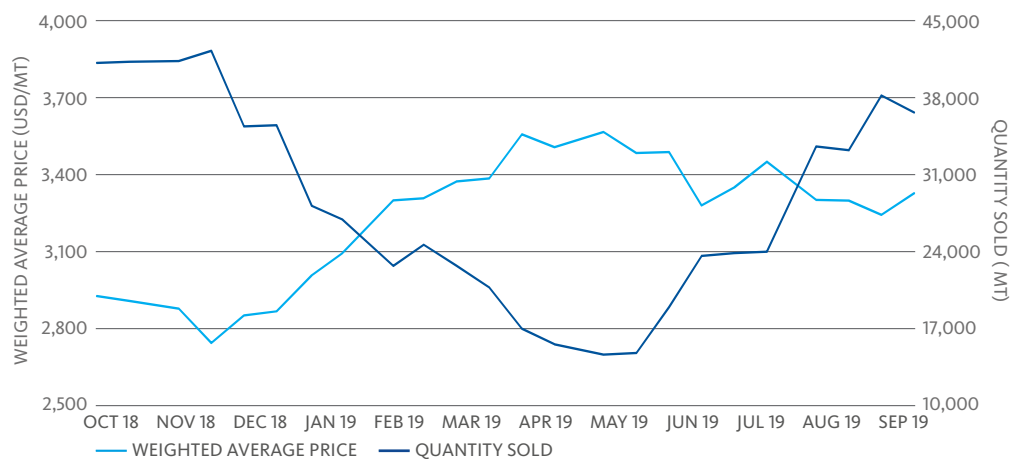
Fonterra GDT results

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

	LAST TRADING EVENT (17 SEPTEMBER 2019)	YEAR-TO-DATE (FROM 1 AUGUST 2019)
Quantity Sold on GDT (Winning MT)	36,666	141,645
Change in Quantity Sold on GDT over same period last year	(4.6%)	0.5%
Weighted Average Product Price (USD/MT)	3,327	3,292
Change in Weighted Average Product Price over same period last year	12.4%	8.1%
Change in Weighted Average Product Price from previous event	2.6%	-

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 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.

MPC

Milk Protein Concentrate.

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.

WPC

Whey Protein Concentrate