JANUARY 2020

Global Dairy UPDATE

Our Markets

- Monthly production in New Zealand, EU and US relatively flat on last year. Australia continues to decline.

- Exports from New Zealand and the EU show strong growth and increase in monthly US exports. Australia monthly exports continue to decline.

- Imports into China continue to grow. Asia, Latin America and Middle East & Africa monthly imports down.

- Fonterra's season-to-date milk collection across New Zealand reached 909.3 million kgMS, down 0.5% on last season. Australia season-to-date milk collection decreased 16.4% to 60.5 million kgMS.

Our Performance

- Fonterra to streamline Chilean operations.
- Fonterra appoints interim CEO Greater China.

Our Co-op

- Fonterra announces MyMilk expansion.
- Working towards a sustainable dairy industry.

Key Dates

29 February 2020 Final Date for Applications to Supply Fonterra	18 March 2020 FY20 Interim Results Announcement	20 April 2020 Share Standard Compliance 2019/20 Season	May 2020 FY20 Q3 Business Update

Global Production

Monthly production in New Zealand, EU and US relatively flat on last year. Australia continues to decline

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

CLICK HERE

NEW ZEALAND

0.5% ↓
Change for December 2019 compared to December 2018

0.7% ↓
Change for the 12 months to December 2019

New Zealand milk production[1] was down 0.5% on a litre basis (up 0.2% on a milk solids basis) in December compared to the same period in the prior year.

Dry and warmer than usual weather in Waikato and Bay of Plenty and favourable rainfall in the South Island had an impact on December production figures.

New Zealand milk production for the 12 months to December was 0.7% lower than the prior comparable period.

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

AUSTRALIA

3.4% ↓
Change for November 2019 compared to November 2018

6.7% ↓
Change for the 12 months to November 2019

Australia milk production decreased 3.4% in November compared to the same period in the prior year.

Production for the 12 months to November was down 6.7% on the previous 12 months.

Challenging farm conditions continue to impact milk production this season with further reductions in the national herd predicted.

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

EUROPEAN UNION

0.5% ↑
Change for November 2019 compared to November 2018

0.3% ↑
Change for the 12 months to November 2019

EU milk production increased by 0.5% in November compared to the same period in the prior year.

Production growth can be seen from key milk producing countries such as Germany (0.4%), France (1.7%), the Netherlands (2.8%) and Poland (2.1%).

Winter weather has been mild so far and is resulting in continued production growth.

EU milk production for the 12 months to November was up 0.3% compared to the prior period.

USA

0.7% ↑
Change for December 2019 compared to December 2018

0.3% ↑
Change for the 12 months to December 2019

US milk production increased by 0.7% in December compared to the same period in the prior year.

December US milk production continued the strong growth of September and October but at a slower pace. The increase in herd size and in milk per cow seen in prior months stalled in November and December.

Milk production for the 12 months to December was 0.3% higher compared to the prior period.

1 New Zealand production is measured in litres.

Global Exports

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

CLICK HERE ▸

Exports from New Zealand and the EU show strong growth and increase in monthly US exports. Australia monthly exports continue to decline

NEW ZEALAND

7.8%↑
Change for November 2019 compared to November 2018

9.4%↑
Change for the 12 months to November 2019

Total New Zealand dairy exports increased by 7.8%, or 27,546 MT, in November compared to November 2018. This was primarily driven by WMP and butter, up a combined 38,052 MT, and partly offset by a decline in SMP and AMF, down a combined 10,152 MT.

Exports for the 12 months to November were up 9.4%, or 305,409 MT, on the previous comparable period. This was primarily driven by WMP, fluid milk products, infant formula and SMP, up a combined 298,597 MT.

AUSTRALIA

11.5%↓
Change for November 2019 compared to November 2018

1.0%↓
Change for the 12 months to November 2019

Australia dairy exports decreased by 11.5%, or 8,743 MT, in November compared to November 2018. This was primarily driven by SMP and infant formula, down a combined 7,665 MT.

Exports for the 12 months to November were down 1.0%, or 7,512MT, on the previous comparable period.

Declines were recorded across a broad range of products with SMP, WMP, cheese and whey down 55,857 MT but largely offset by sustained increases in fluid milk products and infant formula, up a combined 52,095 MT.

EUROPEAN UNION

8.1%↑
Change for October 2019 compared to October 2018

8.3%↑
Change for the 12 months to October 2019

EU dairy exports increased by 8.1%, or 39,086 MT, in October compared to October 2018. This was driven by increases across most products but primarily butter, cheese, SMP and whey, up 29,949 MT.

The increase was driven by butter exports to Morocco and Indonesia, and cheese exports to Korea and Japan.

Exports for the 12 months to October were up 8.3%, or 442,487 MT, on the previous comparable period. SMP fluid milk products, butter, cheese and lactose were the main drivers of this growth, up a combined 457,297 MT

USA

14.5%↑
Change for November 2019 compared to November 2018

7.7%↓
Change for the 12 months to November 2019

US dairy exports increased 14.5%, or 25,310 MT, in November compared to the November 2018 – a six-month high. The increase was driven primarily by SMP, up 21,083 MT. Whey exports continued to decline as a result of African Swine fever and trade tensions.

Exports for the 12 months to November 2019 were down 7.7%, or 188,293 MT on the previous comparable period. The decrease was driven by whey, SMP, WPC and lactose, down a combined 188,403 MT.

Exports to China remain below the prior year for the 17th consecutive month although the pace of the decline is slowing.

Global Imports

Imports into China continue to grow. Asia, Latin America and Middle East & Africa monthly imports down

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

CLICK HERE

LATIN AMERICA

1.4% ↓
Change for October 2019 compared to October 2018

2.1% ↑
Change for the 12 months to October 2019

Latin America dairy import volumes[1] decreased 1.4%, or 2,448 MT, in October compared to October 2018. Decreases in WMP and whey, down a combined 10,012 MT, were largely offset by increases in cheese and WPC, up a combined 7,956 MT. Brazil and Mexico were the main drivers behind WMP and whey declines.

Imports for the 12 months to October 2019 were up 39,849 MT compared to the previous comparable period. Increases in SMP and fluid milk products, up a combined 50,176 MT, were partly offset by decreases in whey and infant formula, down a combined 32,396 MT.

ASIA

7.9% ↓
Change for October 2019 compared to October 2018

2.5% ↑
Change for the 12 months to October 2019

Asia (excluding China) dairy import volumes[1] decreased 7.9% or 32,819 MT, in October compared to October 2018. Decreases were recorded across a broad range of products with fluid products, lactose, WMP and SMP down 27,550 MT.

Imports for the 12 months to October were up 2.5%, or 121,007 MT, compared to the previous comparable period. Growth continued across a broad range of products with SMP, fluid milk products and cheese up a combined 125,569 MT.

MIDDLE EAST & AFRICA

0.7% ↓
Change for October 2019 compared to October 2018

2.8% ↓
Change for the 12 months to October 2019

Middle East and Africa dairy import volumes[1] decreased 0.7% or 2,221 MT in October compared to October 2018. Decreases were recorded principally in fluid milk products and WMP, down a combined 17,115 MT, driven mainly by Qatar and Algeria respectively. This was partially offset by an increase in infant formula and SMP to Nigeria, up 16,864 MT.

Imports for the 12 months to October were down 2.8%, or 115,047 MT, compared to the previous comparable period. Cheese, WMP, butter and other powders were down a combined 195,931 MT, partly offset by a large increase in infant formula of 122,442 MT.

CHINA

12.4% ↑
Change for November 2019 compared to November 2018

11.4% ↑
Change for the 12 months to November 2019

China dairy import volumes continued to increase, up 31,556 MT in November compared to November 2018. This is driven primarily by increases in WMP from New Zealand, and fluid milk products, up a combined 29,210 MT.

Imports for the 12 months to November were up 11.4%, or 319,070 MT compared to the previous comparable period. Strong demand out of China continued across all key categories. Fluid milk products, WMP, SMP and infant formula were up a combined 469,153 MT. This was partially offset by a continuing decline in whey imports, down 105,554 MT.

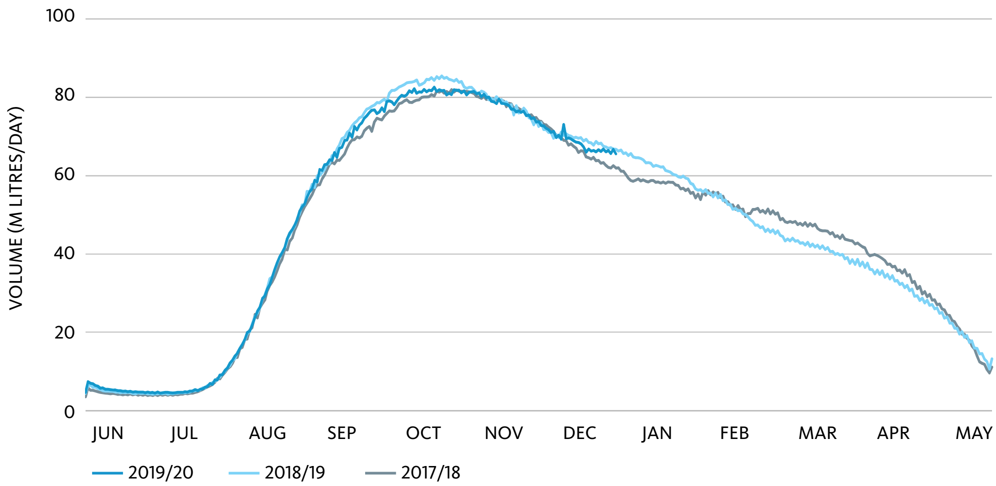
1 Estimates are included for those countries that have not reported data.

Fonterra Milk Collection 2019/20 Season

To view a table that shows our detailed milk collection in New Zealand and Australia compared to the previous season –

CLICK HERE

New Zealand Milk Collection



NEW ZEALAND

0.6% ↓
Change for December 2019 compared to December 2018

0.5% ↓
Season to date 1 June to 31 December

Fonterra's New Zealand collection for December, was 184 million kgMS, down 0.6% on the same month last season.

Season to date collection was 909.3 million kgMS, down 0.5% on last season.

Weather throughout December was varied, with warm and dry conditions in the North Island, and excellent conditions in the South Island. Season to date collections are marginally down on last season.

NORTH ISLAND

2.5% ↓
Change for December 2019 compared to December 2018

0.4% ↓
Season to date 1 June to 31 December

North Island milk collection in December was 106.4 million kgMS, down 2.5% on last December.

Season to date collection was 564.3 million kgMS, down 0.4% on last season.

December weather had some impact on pasture quality in some northern regions, however grazing crops are doing well, and cow condition remain very good.

SOUTH ISLAND

2.2% ↑
Change for December 2019 compared to December 2018

0.6% ↓
Season to date 1 June to 31 December

South Island milk collection in December was 77.6 million kgMS, up 2.2% on last December.

Season to date collection was 345 million kgMS, down 0.6% on last season.

Favorable weather conditions across Canterbury continued, allowing for excellent pasture growth rates.

AUSTRALIA

13.0% ↓
Change for December 2019 compared to December 2018

16.4% ↓
Season to date 1 July to 31 December

Fonterra's Australia collections in December were 11.3 million kgMS, down 13% on December last season.

Fonterra collections across Australia for the six months to 31 December reached 60.5 million kgMS, down 16.4% on the same period last season.

Fonterra milk collections continue to be impacted by challenging seasonal conditions, high on-farm input costs, decreased cow numbers and intense competition for milk.

Fonterra Global Dairy Trade Results

Fonterra GDT results at last trading event
21 January 2020:

1.9% ↑
Change in Fonterra's weighted average product price from previous event

USD 3,468
Fonterra's weighted average product price (USD/MT)

31.8 000' MT
Fonterra product quantity sold on GDT

BUTTER	RENNET CASEIN	WMP
5.5% ↑	4.5% ↑	2.6% ↑
USD 4,250/MT	USD 9,375/MT	USD 3,233/MT

CHEDDAR	SMP	AMF
0.8% ↑	0.0%	2.2% ↓
USD 4,048/MT	USD 3,051/MT	USD 4,821/MT

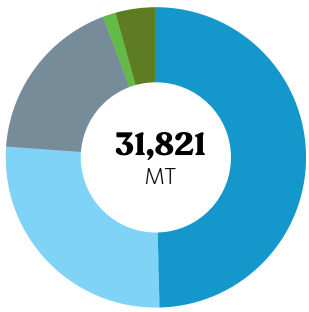
Fonterra GDT sales
by destination:

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

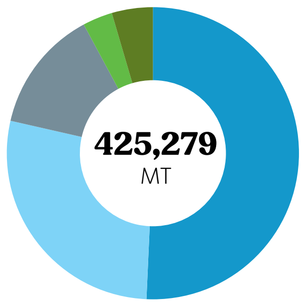
CLICK HERE ▶

- NORTH ASIA (INCLUDING CHINA)
- SOUTH EAST ASIA
- MIDDLE EAST AND AFRICA
- LATIN AMERICA
- OTHER

LATEST AUCTION



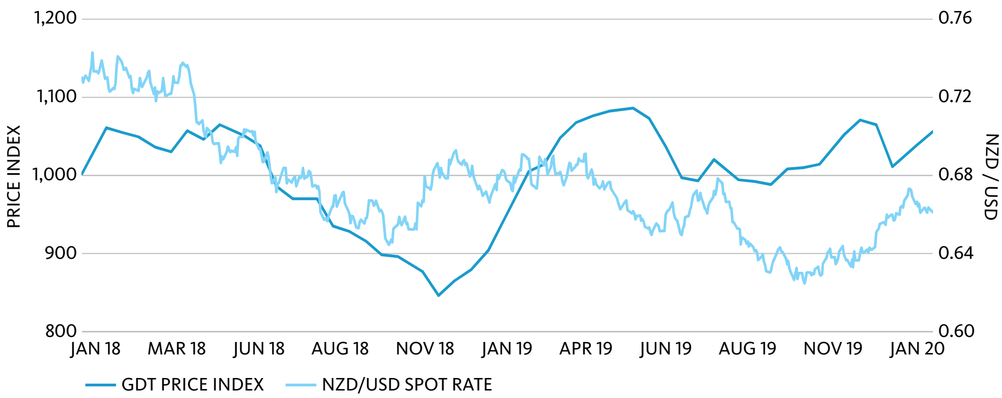
FINANCIAL YEAR-TO-DATE



▶ The next trading event will be held on 4 February 2020. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

Risks to the global economy reduced through December as the direction and timing of Brexit was finally resolved and a de-escalation in the US-China trade dispute achieved. This more positive outlook assisted the NZD to strengthen to above USD0.67 by year end.



Fonterra to streamline Chilean operations

Fonterra has purchased the minority interest in Prolesur, held by Fundación Isabel Aninat (the Fundación), as the Co-op looks to streamline its operations in Chile.

The Fundación has sold its 13.6% shareholding for $29.3 million, which takes Fonterra's ownership of Prolesur from 86.2% to 99.9%.

Prolesur is a milk processor in southern Chile which sells most of its production to Soprole. Soprole is a leading consumer branded dairy company in Chile and is 99.9% owned by Fonterra.

Fonterra CEO AMENA Kelvin Wickham says this move will allow Fonterra to simplify the interface between Prolesur and Soprole and take steps to better integrate the two businesses.

"Prolesur and Soprole are both strong businesses but their recent performance has been impacted by challenging market conditions.

"Having the two more closely integrated will generate operating efficiencies across the supply chain from milk collection, to processing and administration.

"It also allows us greater flexibility as we focus on realising the best value for the Co-op from our businesses in Chile in line with our new strategy," says Mr Wickham.

The remaining 0.1% of Prolesur's shares are held by minority shareholders, which Fonterra will offer to purchase at the same price per share being paid to the Fundación for its shareholding.

Fonterra appoints interim CEO Greater China

Fonterra is pleased to appoint Teh-Han Chow as its interim CEO Greater China .

Fonterra CEO Miles Hurrell said the creation of this new role on the Fonterra Management Team reflects the importance of the China market to the Co-op and it will sit alongside the other regional CEO roles for AMENA, Kelvin Wickham, and APAC, Judith Swales.

"Teh-Han, who is currently our President NZMP for Greater China and South East Asia, has agreed to take on this responsibility in an interim capacity while we work through the recruitment process for a permanent CEO Greater China.

"Teh-Han is a proven food sector executive, with extensive experience leading large organisations across Consumer and Ingredients businesses. During his time at Fonterra he's demonstrated his ability to grow a business by putting customers front and centre, which is exactly what our new operating model is about."

Before joining Fonterra in 2015, Teh-Han was the CEO of Louis Dreyfus in China, a leading merchant and processor of agricultural goods. He was also Managing Director Greater China for Simplot, a food and agribusiness company

Teh-Han Chow, interim Chief Executive Officer, Greater China

1 NZD1.00 = CLP496.887.

Fonterra announces MyMilk expansion

mymilk™

To discover more about MyMilk –

CLICK HERE

Fonterra plans to make it easier for more dairy farmers to get into their own farms, and to grow with the Co-op, by extending its MyMilk initiative to the North Island.

"Fonterra's been looking at ways to make it easier for farmers to join and grow in the Co-op, ensuring our Co-op is strong for generations to come," says Group Director of Farm Source, Richard Allen.

"One way has been through MyMilk, a Fonterra-backed company that's helping farmers establish a foothold in the industry and ultimately take a stake in Fonterra.

"After five successful years in the South Island, we're extending MyMilk across the North Island to allow more farmers to join the Co-op. We're also extending the initiative to help existing Fonterra farmers looking to grow through purchasing another Fonterra farm."

MyMilk provides farmers with a pathway into the Co-op, by allowing them to supply MyMilk for up to five years without buying shares. It's great for farmers who aren't currently Fonterra suppliers, but want to be a part of the New Zealand co-operative story.

For Southland farmers Don and Jess Moore, MyMilk has opened up an opportunity once beyond their reach.

"We've always wanted to be Fonterra suppliers. It's been awesome to have the opportunity that MyMilk gives us by providing a pathway through stepping from share-milking to farm ownership. MyMilk is an opportunity to keep growing and stay with the Co-op, and we're delighted more farming families will be given that chance," says Don Moore.

First launched in 2014 in the South Island, MyMilk has quickly gained traction, with more than 145 dairy farmers involved over that time across Southland, Otago and Canterbury.

Based on a strong belief that the co-operative model is the best fit for New Zealand farmers, MyMilk offers farmers the ability to supply milk for up to five seasons without a requirement to purchase shares in Fonterra. MyMilk farmers are required to meet the same supply terms and conditions as Fonterra shareholders with regards to milk quality, safety and sustainability, and have access to many of the tools and services the Co-operative offers.

"We know farmers have choices when they decide who they supply, and we want Fonterra to be the best choice with a strong sustainable Farmgate Milk Price, targeted on-farm support to help farmers meet new environmental and climate expectations, and flexible financial tools and ways to share-up," says Mr Allen.

MyMilk will be available in the North Island for supply commencing from 1 June 2020. Eligibility conditions apply and MyMilk volumes are limited to 5% of Fonterra's total milk collections.

Working towards a sustainable dairy industry

Whether it's tackling climate change, cleaning up our waterways or reducing the use of plastic packaging, the New Zealand dairy industry, and food producers in general, are grappling with huge challenges around sustainability.

Globally, food production systems are facing a transformational challenge. New Zealand dairy farmers feed around 40 million people globally today. But as the world grows, food producers around the world will need to find new ways to feed 10 billion people by 2050. And we need to meet these demands while protecting and restoring the environment.

This is being driven by consumers becoming increasingly discerning when it comes to the products they buy and the food they eat.

Recent market research has found that 75% of millennials – those aged 20-35 – are altering their buying habits with the environment in mind and 34% of baby boomers are willing to change what they buy if it means purchasing more sustainable products.

These present unique challenges for New Zealand food producers and Fonterra is no different.

There's no easy or quick fix.

As a Co-operative, we're deeply invested in New Zealand's success and take a long-term view. We're a business built from farms passed down from one generation to the next, and that means ensuring the land and natural bounty of our country are preserved for generations to come.

Agriculture depends upon a stable global climate and is particularly impacted by environmental effects. Our farmers are close to the land and will feel climate change hard.

That's why we've put sustainability at the heart of our Co-op's new strategy.

This means doing what's right and doing what's expected of us for the long-term.

It means producing dairy nutrition in a way that cares for people, animals and the land, and brings value to our communities.

This is not only the right thing to do but has become increasingly important as more consumers choose environmentally-friendly products.

As a country, New Zealand has got a head start.

We are already one of the best and most sustainable places in the world to produce milk. Our farmers can make a litre of milk for 60% fewer emissions than the global average.

We are known world over for producing some of the best food in the world, and balancing this production with our green, clean reputation.

We've got innovative people working to reduce our environmental impacts, from cutting water use through to researching world-leading science to reduce greenhouse gas emissions.

But no one can do this alone. Tackling complex issues like climate change, improving biodiversity and freshwater, and addressing plastic waste will take a collective effort by government, local and regional councils, the business community, scientists, iwi, community groups and consumers. But by working together and focusing on ambitious common goals, the power of collaboration can find solutions.

Carolyn Mortland, Fonterra Director of Sustainability

With New Zealand's natural environment and some of the world's most efficient farmers, we're well positioned to lead change.

We must find ways to achieve food and agriculture sustainability for New Zealand and our export markets.

Fonterra doesn't pretend to have all the answers and we've got a long way to go on our own sustainability journey but believe we can make positive change.

We've committed to doing our bit.

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.

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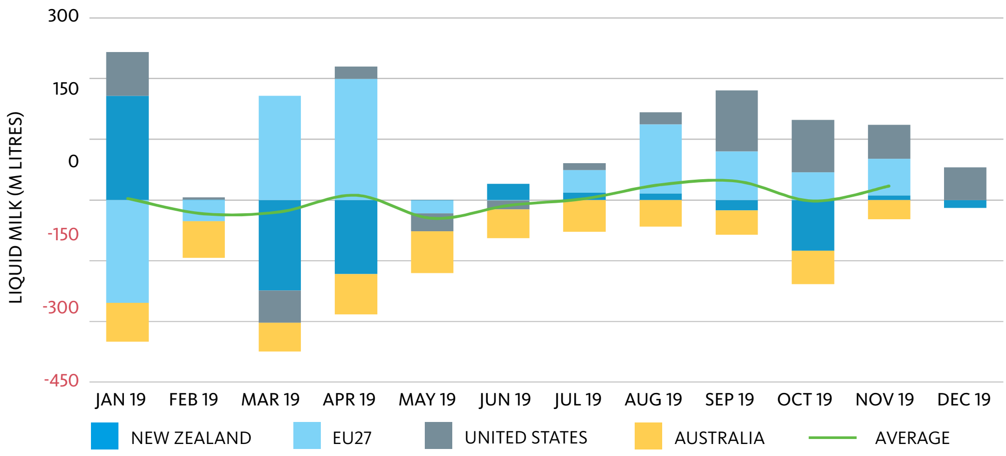
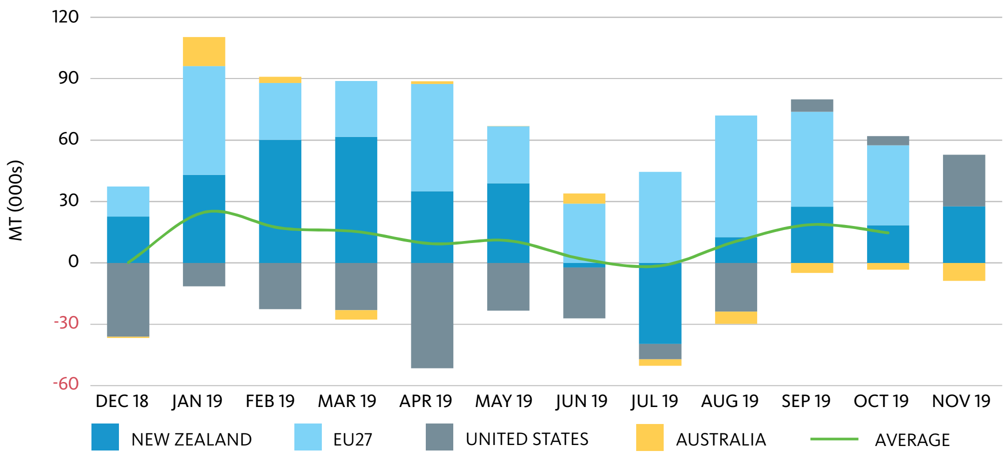
PRODUCTION



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

EXPORTS



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

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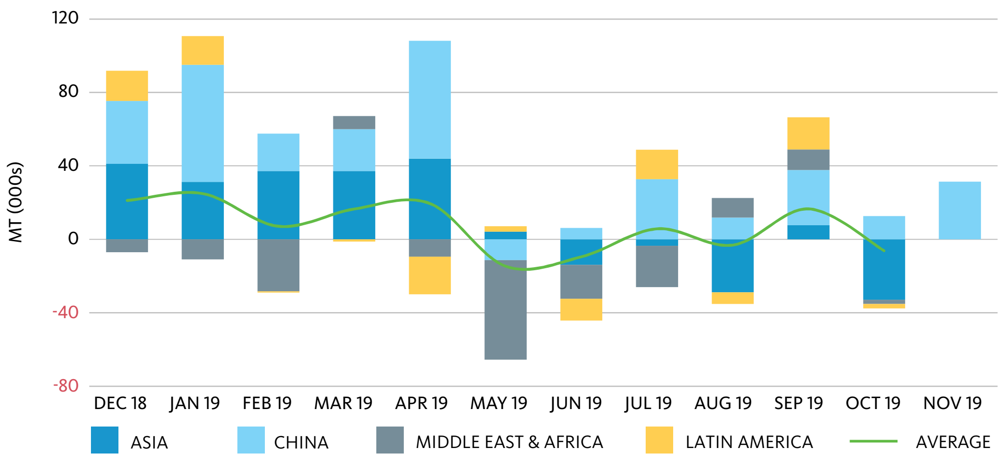
IMPORTS



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

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

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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.

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MILK COLLECTION (MILLION KGMS)	DECEMBER 2019	DECEMBER 2018	MONTHLY CHANGE	SEASON-TO-DATE 2019/20	SEASON-TO-DATE 2018/19	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	184.0	185.1	(0.6%)	909.3	913.6	(0.5%)
North Island	106.4	109.2	(2.5%)	564.3	566.6	(0.4%)
South Island	77.6	75.9	2.2%	345.0	347.0	(0.6%)
Fonterra Australia	11.3	13.0	(13.0%)	60.5	72.4	(16.4%)

Fonterra GDT results

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

	LAST TRADING EVENT (21 JANUARY 2020)	YEAR-TO-DATE (FROM 1 AUGUST 2019)
Quantity Sold on GDT (Winning MT)	31,821	425,279
Change in Quantity Sold on GDT over same period last year	18.1%	(1.8%)
Weighted Average Product Price (USD/MT)	3,468	3,380
Change in Weighted Average Product Price over same period last year	12.1%	14.7%
Change in Weighted Average Product Price from previous event	1.9%	–

Fonterra GDT results

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

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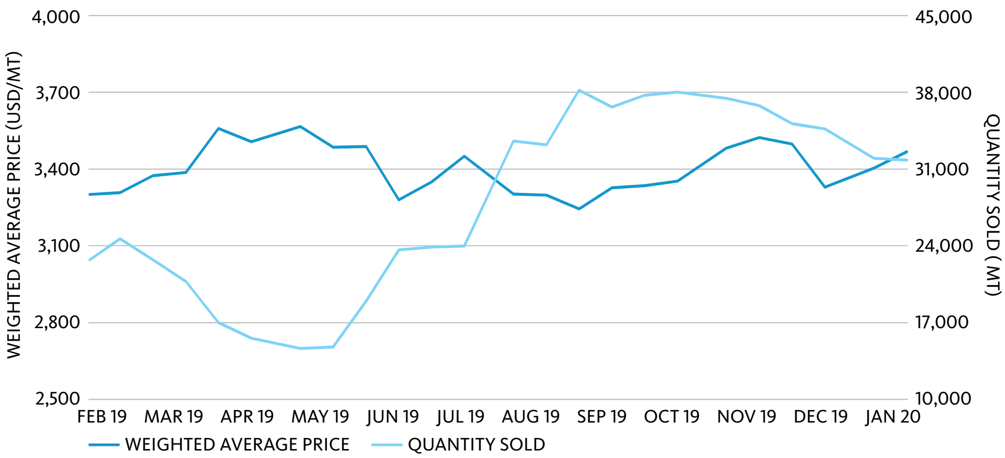

Glossary

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.

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