

FEBRUARY 2020

Global Dairy UPDATE



- Monthly production in New Zealand down. EU and US in line with expectations.



- Monthly exports from the US show strong growth. New Zealand, Australia and EU monthly exports decline.



- December imports into China continued to grow. Latin America, Asia and Middle East & Africa monthly imports down in November.



- Fonterra's milk collection across New Zealand for the eight months to 31 January reached 1,079 million kgMS, down 0.3% on last season. Australian milk collection for the season to 31 January decreased 16.0% to 69.7 million kgMS.
- Fonterra has updated its forecast milk collection for the full season to 1,515 million kgMS.



- Fonterra completes the sale of DFE Pharma.



- Fonterra's Te Awamutu site moves to pellet.

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





Monthly production in New Zealand down. EU and US in line with expectations

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

NEW ZEALAND

0.7%↓

Change for January 2020 compared to January 2019

1.6%↓

Change for the 12 months to January 2020

New Zealand milk production¹ was down 0.7% on a litre basis in January (up 1.1% on a milk solids basis) compared to the same period in the prior year.

A combination of dry conditions across the North Island and heavy rain at the bottom of the South Island adversely affected milk production in January.

New Zealand milk production for the 12 months to January was 1.6% lower than last year.

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

AUSTRALIA

0.0%↑

Change for December 2019 compared to December 2018

6.3%↓

Change for the 12 months to December 2019

Australia milk production was stable in December compared to the same period in the prior year.

Production for the 12 months to December was down 6.3% on the previous 12 months.

Dairy Australia has reaffirmed its full season production forecast to decline by 3% to 5%.

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

EUROPEAN UNION

1.1%↑

Change for December 2019 compared to December 2018

0.4%↑

Change for the 12 months to December 2019

EU milk production increased by 1.1% in December compared to the same period last year.

Production growth can be seen from key milk producing countries such as Germany (1.1%), France (1.1%) the Netherlands (2.8%) and Poland (1.8%).

EU milk production for the 12 months to December was up by 0.4% compared to the same period last year.

USA

0.9%↑

Change for January 2020 compared to January 2019

0.4%↑

Change for the 12 months to January 2020

US milk production² increased by 0.9% in January, compared to the same period last year.

January milk production continued to grow, driven by a large increase in herd sizes and greater milk yield per cow.

Milk production for the 12 months to January was 0.4% higher compared to the same period last year.

¹ New Zealand production is measured in litres.

² US milk production is reviewed by USDA at the end of each month/quarter and annually in February and therefore is subject to change.



Monthly exports from the US show strong growth. New Zealand, Australia and EU monthly exports decline

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

NEW ZEALAND

1.9%↓

Change for December 2019 compared to December 2018

8.3%↑

Change for the 12 months to December 2019

Total New Zealand dairy exports decreased by 1.9%, or 8,235 MT, in December compared to the same period last year. This was primarily driven by WMP, SMP and infant formula, down a combined 14,314 MT, and partly offset by an increase in butter, up 10,590 MT.

Exports for the 12 months to December were up 8.3%, or 271,761 MT, on the previous comparable period. This was primarily driven by WMP, fluid milk products, infant formula and SMP, up a combined 256,551 MT.

AUSTRALIA

9.5%↓

Change for December 2019 compared to December 2018

2.2%↓

Change for the 12 months to December 2019

Australia dairy exports decreased 9.5%, or 6,873 MT, in December compared to the same period last year. This was primarily driven by SMP, infant formula and cheese, down a combined 6,505 MT.

Exports for the 12 months to December were down 2.2%, or 16,635 MT, on the previous comparable period.

Declines were recorded across a broad range of products with SMP, WMP, cheese and whey, down 60,282 MT but partially offset by sustained increases in fluid milk products, up 42,158 MT.

EUROPEAN UNION

2.5%↓

Change for November 2019 compared to November 2018

7.7%↑

Change for the 12 months to November 2019

EU dairy exports decreased 2.5%, or 11,345 MT, in November compared to the same period last year. This was mainly driven by decreases in fluid milk products and SMP, down a combined 17,687 MT and partially offset by an increase in butter exports of 7,661 MT.

Exports for the 12 months to November were up 7.7%, or 410,147 MT, on the previous comparable period. SMP, fluid milk products, butter, cheese and lactose were the main drivers of this growth, up a combined 425,887 MT.

USA

16.8%↑

Change for December 2019 compared to December 2018

5.1%↓

Change for the 12 months to December 2019

US dairy exports increased 16.8%, or 28,404 MT, in December compared to the same period last year, marking the third consecutive month of export growth. The increase was driven primarily by SMP, up 18,880 MT in addition to WPC and WMP, up a combined 9,991 MT. The decline in whey exports of prior months has stabilised. Exports for the 12 months to December 2019 were down 5.1%, or 123,882 MT, on the previous comparable period. The decrease was driven by whey, WPC, lactose and AMF, down a combined 126,474 MT.



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

December imports into China continued to grow. Latin America, Asia and Middle East & Africa monthly imports down in November

LATIN AMERICA

11.6%↓

Change for November 2019 compared to November 2018

0.3%↑

Change for the 12 months to November 2019

Latin America dairy import volumes¹

decreased 11.6%, or 19,336 MT, in November compared to the same period last year. This was driven by decreases in SMP, infant formula, WMP and AMF, down a combined 19,461 MT.

Imports for the 12 months to November 2019 were up 0.3%, or 5,863 MT, compared to the same period the previous year. Increases were driven primarily by fluid milk products, WPC and SMP, up by a combined 55,483 MT and largely offset by decreases in whey, infant formula and cultured products, down a combined 52,474 MT.

ASIA

0.7%↓

Change for November 2019 compared to November 2018

2.7%↑

Change for the 12 months to November 2019

Asia (excluding China) dairy import volumes¹

decreased 0.7%, or 2,860 MT, in November compared to the same period last year. Decreases were recorded in WMP and fluid products, down 15,685 MT, partially offset by an increase in SMP and ice cream imports, up a combined 7,948 MT.

Imports for the 12 months to November were up 2.7%, or 129,724 MT, compared to the same period the previous year. Growth was recorded across SMP, fluid milk products, cheese and butter, up a combined 131,279 MT.

MIDDLE EAST & AFRICA

3.6%↓

Change for November 2019 compared to November 2018

3.2%↓

Change for the 12 months to November 2019

Middle East and Africa dairy import volumes¹

decreased 3.6%, or 12,409 MT, in November compared to November 2018. Decreases were recorded principally in fluid milk products and WMP, down a combined 22,396 MT. This was partially offset by an increase in SMP, whey and infant formula, up a combined 10,624 MT.

Imports for the 12 months to November 2019 were down 3.2%, or 133,762 MT, compared to the same period last year. This was driven by cheese, WMP, butter and fluid milk products, down a combined 200,812 MT, and partly offset by a large increase in infant formula of 110,259 MT.

CHINA

13.8%↑

Change for December 2019 compared to December 2018

11.2%↑

Change for the 12 months to December 2019

China dairy import volumes

continued to increase, up 13.8%, or 33,326 MT, in December compared to the same period last year. This is driven primarily by increases in WMP from New Zealand and SMP, up a combined 32,220 MT.

Imports for the 12 months to December were up 11.2%, or 318,219 MT, compared to the same period last year.

Strong demand out of China continued across all key categories.

The outbreak of the COVID-19 coronavirus will potentially impact import numbers after December 2019.

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

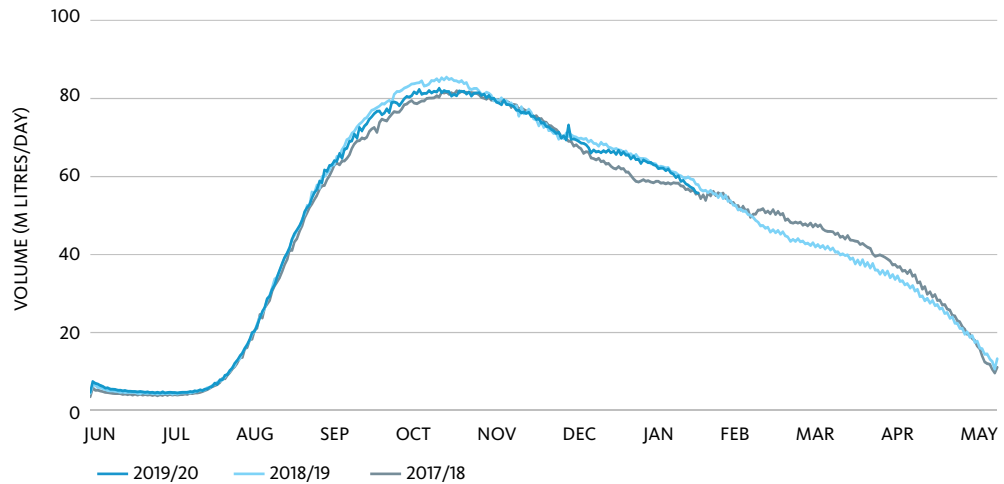
OUR MARKETS

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 –

New Zealand Milk Collection



NEW ZEALAND

0.5%↑

Change for January 2020 compared to January 2019

0.3%↓

Season to date 1 June to 31 January

Fonterra's New Zealand collection for January, was 169.8 million kgMS, 0.5% ahead of the same month last season.

Season-to-date collection was 1,079 million kgMS, down 0.3% on last season.

The impact of heavy rain and flooding across parts of the lower South Island in early February and the recent drought declaration in Northland is still being assessed.

NORTH ISLAND

2.3%↓

Change for January 2020 compared to January 2019

0.7%↓

Season to date 1 June to 31 January

North Island milk collection in January was 96 million kgMS, down 2.3% on last January.

Season to date collection was 660.2 million kgMS, down 0.7% on last season.

Continued dry weather throughout January has impacted pasture growth rates, however this is being partially offset by supplementary feed.

SOUTH ISLAND

4.3%↑

Change for January 2020 compared to January 2019

0.3%↑

Season to date 1 June to 31 January

South Island milk collection in January was 73.8 million kgMS, up 4.3% on last January.

Season to date collection was 418.8 million kgMS, up 0.3% on last season.

Favourable weather conditions across Canterbury have continued, resulting in good pasture growth and strong milk production.

AUSTRALIA

13.5%↓

Change for January 2020 compared to January 2019

16.0%↓

Season to date 1 July to 31 January

Fonterra's Australia collection in January was 9.2 million kgMS, down 13.5% on January last season.

Season-to-date collection reached 69.7 million kgMS, down 16.0% on last season.

Fonterra milk collections continue to be impacted by challenging on-farm conditions and a highly competitive milk supply market which has seen losses primarily to milk brokers.

Forecast Fonterra Milk Collection Across New Zealand

1,515_M
kgMS

Forecast milk collection for the 2019/20 season

Fonterra has updated its forecast milk collection to 1,515 million kgMS for the 2019/20 season.

Fonterra's New Zealand milk collection forecast is 1% lower than our previous forecast of 1,530 million kgMS due to ongoing challenging weather conditions across several parts of New Zealand.

OUR MARKETS

Fonterra Global Dairy Trade Results



Fonterra GDT results at
last trading event
18 February 2020:

2.0%↓

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

USD 3,203

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

27.4⁰⁰⁰' MT

Fonterra product quantity
sold on GDT

CHEDDAR

5.2%↑

USD 4,526/MT

RENNET CASEIN

0.8%↓

USD 9,873/MT

WMP

2.4%↓

USD 2,966/MT

SMP

2.4%↓

USD 2,854/MT

AMF

3.6%↓

USD 4,379/MT

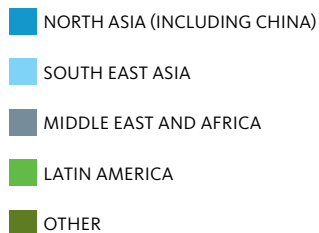
BUTTER

3.9%↓

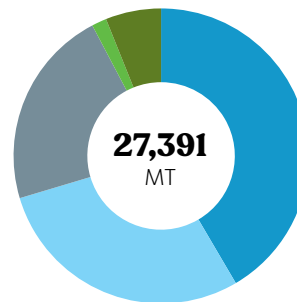
USD 4,090/MT

Fonterra GDT sales
by destination:

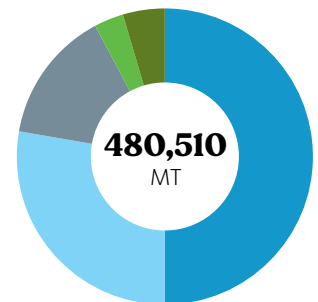
To view more information,
including a snapshot of the
rolling year-to-date results –



LATEST AUCTION



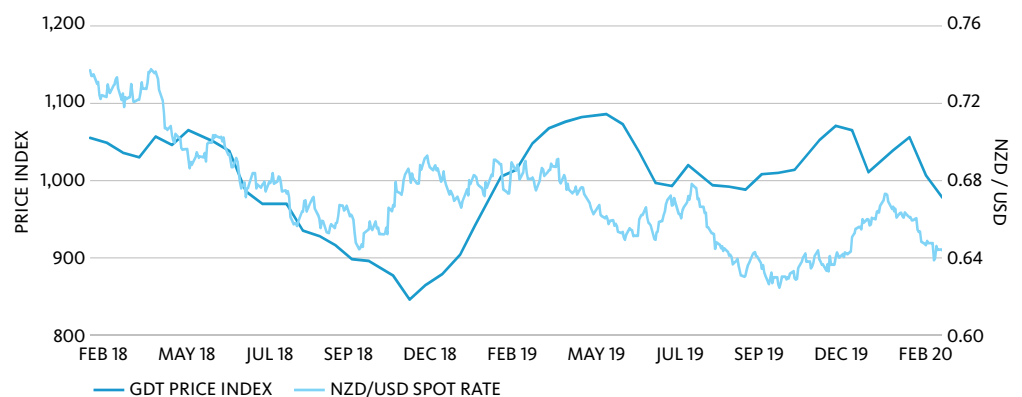
FINANCIAL YEAR-TO-DATE



► The next trading event will be held on 3 March 2020. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The dollar began 2020 with a period of inactivity however, as the month progressed geopolitical concerns surrounding US-Iran tensions, and the developing COVID-19 epidemic, pushed the dollar lower to end the month near 64.5 US cents.



Our Performance



Fonterra completes the sale of DFE Pharma

Fonterra has announced that it has completed the sale of its 50% share of DFE Pharma to CVC Strategic Opportunities II.

As previously announced in September 2019, this sale was subject to regulatory approvals from competition authorities and these have now all been received.

Fonterra CFO, Marc Rivers, says the completion of this sale is a key milestone in strengthening the Co-op's balance sheet, with cash proceeds of \$554 million, comprising of the original sale proceeds of \$537 million plus \$17 million in settlement adjustments."

Fonterra has also entered into a long-term supply agreement with DFE Pharma which will see it continue to supply lactose from its Kapuni site.

In March 2019, Fonterra advised it was reviewing its share of DFE Pharma, a 50 per cent joint venture with Royal Friesland Campina.

DFE Pharma was identified as part of a full portfolio review being undertaken by Fonterra to re-evaluate every investment, major asset and partnership, to ensure they were still right for the Co-op.

While DFE Pharma is performing well, it needed significant capital investment for future growth.

In addition, Fonterra believes DFE's future growth will be increasingly outside of lactose-based excipients and, as a result, over time DFE will become even less core to the Co-op's business





Fonterra's Te Awamutu site moves to pellet power

Fonterra is taking another step forward in its commitment to renewable energy as it announced that its Te Awamutu site will be coal free next season.

Until now the site has used a combination of fuels to process milk - including coal. This latest move, follows a trial last year and means it will switch from using coal at the end of this season, starting the 2020/21 season powering the boiler with wood pellets.

Fonterra's Sustainable Energy and Utility Manager Linda Thompson says it's an exciting step for the Co-operative and, in particular, the Te Awamutu team.

"It really demonstrates that sustainability, doing what's right for the long term good, is very much at the heart of how we're working and thinking about our future."

Last year, Fonterra announced a series of environmental targets relating to its coal use, manufacturing emissions and water efficiency, packaging and farm environment plans.

"The move to wood pellets at Te Awamutu will save the Co-operative about 84,000 tonnes of carbon emissions every year, that's the equivalent of taking around 32,000 cars off the road and will reduce Fonterra's national coal consumption by approximately 10 per cent.

"It's a positive step forward as we look to reduce emissions and work towards net zero carbon emissions by 2050."

The Te Awamutu site is one of three North Island sites that are currently using coal. Ms Thompson says the Co-operative knows it's got a big challenge ahead of it to get out of coal but it's one that it's up for.

"There is no one single solution for us to transition out of coal. We know we can't do it alone, that's why working with others like wood pellet supplier Nature's Flame and the Energy Efficiency and Conservation Authority (EECA) are so important."

Taupo-based Nature's Flame will be supplying the pellets made from sustainable wood fibre residues from the surrounding areas.

John Goodwin, Nature's Flame's Operations Manager says they're excited to be partnering with Fonterra.

"We're encouraged about the growth of the bioenergy (wood pellets) industry and we're proud to be part of something that's good for the environment and our local communities."

EECA's Chief Executive Andrew Caseley says "this project fully aligns with EECA's purpose to help decarbonise the New Zealand economy.

"This is the largest boiler conversion project to biofuels to date, and this is why it has received \$200,000 in funding from EECA's technology demonstration programme. It also has the added benefit of establishing a more viable and large scale wood pellet supply chain."

[For a full run-down of Fonterra's environmental commitments and targets –](#)

Supplementary Information

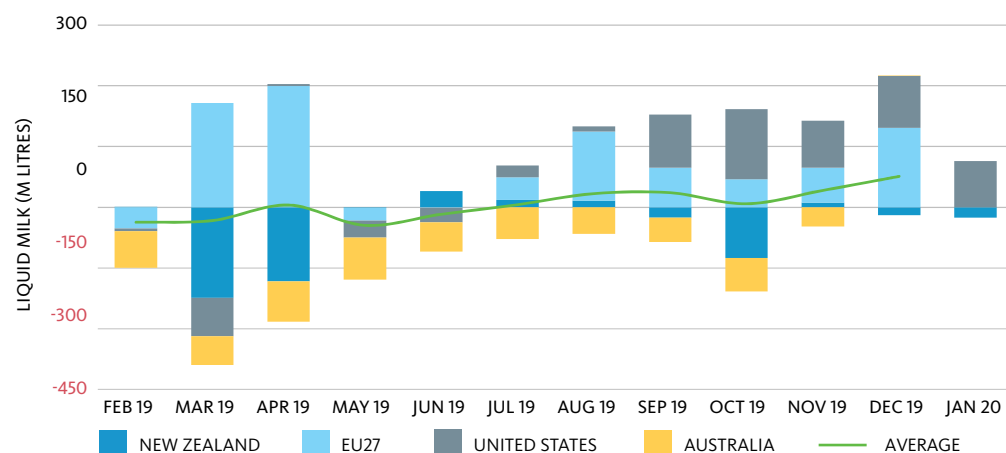
Global Dairy Market

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.

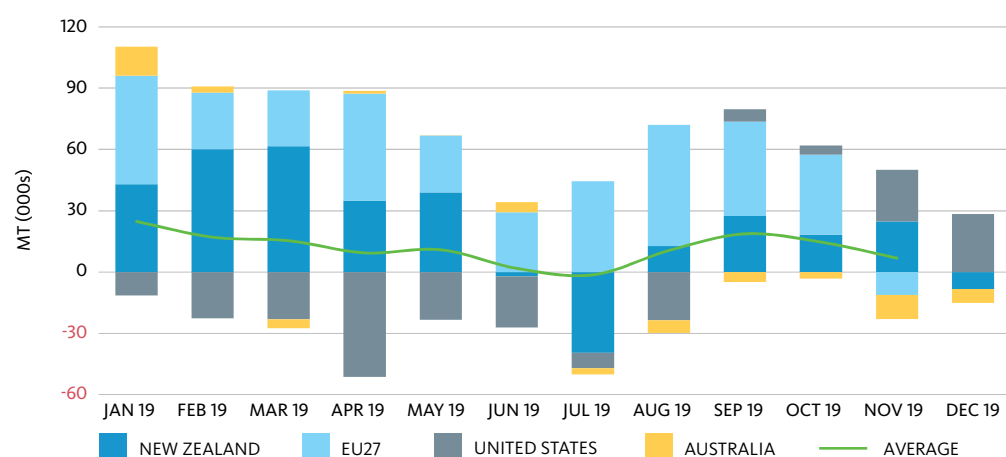
Averages are shown where data is complete for the regions presented.

PRODUCTION



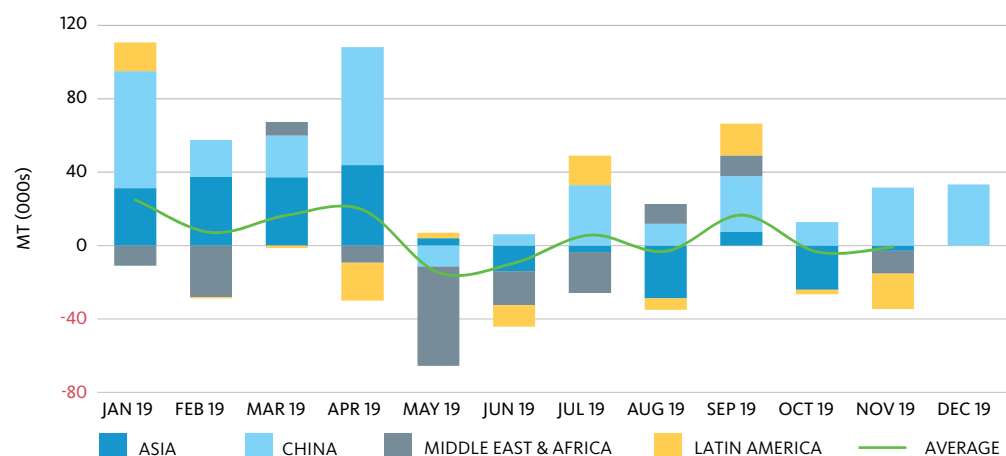
NOTE: Data for EU and Australia to December; New Zealand and US to January.

EXPORTS



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

IMPORTS



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

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)	JANUARY 2020	JANUARY 2019	MONTHLY CHANGE	SEASON- TO-DATE 2019/20	SEASON- TO-DATE 2018/19	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	169.8	169.0	0.5%	1,079.1	1,082.6	(0.3%)
North Island	96.0	98.3	(2.3%)	660.3	664.8	(0.7%)
South Island	73.8	70.8	4.3%	418.8	417.8	0.3%
Fonterra Australia	9.2	10.6	(13.5%)	69.7	83.0	(16.0%)

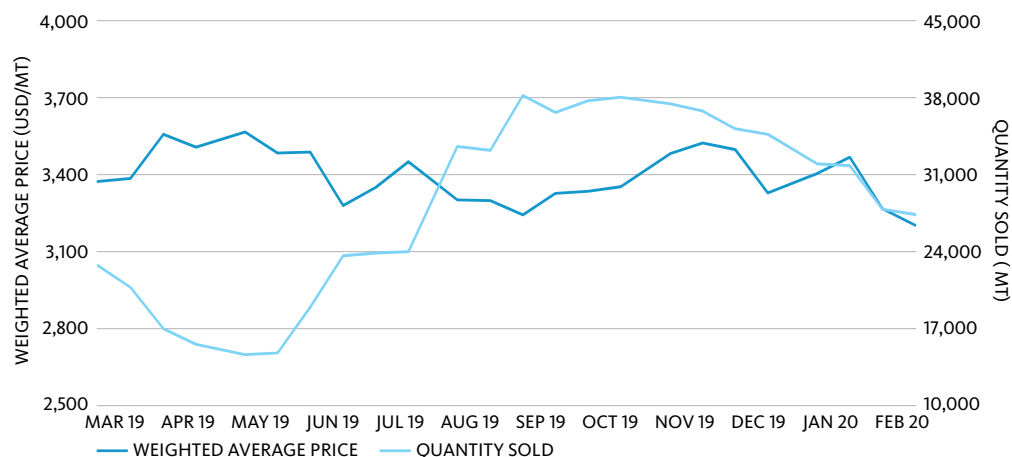
Fonterra GDT results

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

	LAST TRADING EVENT (18 FEBRUARY 2020)	YEAR-TO-DATE (FROM 1 AUGUST 2019)
Quantity Sold on GDT (Winning MT)	27,391	480,510
Change in Quantity Sold on GDT over same period last year	11.1%	0.0%
Weighted Average Product Price (USD/MT)	3,203	3,363
Change in Weighted Average Product Price over same period last year	(3.2%)	12.8%
Change in Weighted Average Product Price from previous event	(2.0%)	–

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.

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