



NOVEMBER 2020

Global Dairy UPDATE



- New Zealand production to end October slightly ahead for the season. Australia monthly production down. US and EU monthly production increases.



- EU and US exports up, while New Zealand and Australia exports decline.



- Strong growth in China imports and Middle East and Africa and Asia monthly imports increase. Latin America imports decline.



- Fonterra's season-to-date New Zealand milk collection reached 527 million kgMS at the end of October, flat on the prior season.
- Fonterra's Australia milk collection for October decreased 7.7% to 12.4 million kgMS, compared to last season.



- First quarter business update.

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

- Expanding our Foodservice reach in the US.



- Sustainability Report shows most encouraging progress to date.



- The next issue of the Global Dairy Update will be published on 29 January 2021.

Key Dates



December to February 2021
Application Period to Supply Fonterra

March 2021
FY21 Interim Results Announcement

20 April 2021
Share Standard Compliance Date for 2020/21 Season



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

New Zealand production to end October slightly ahead for the season. Australia monthly production down. US and EU monthly production increases

NEW ZEALAND

0.8%↑

Change for October 2020 compared to October 2019

0.6%↑

Change for the 12 months to October 2020

New Zealand milk production¹ increased 0.8% on a litres basis (up 0.3% on a milk solids basis) in October compared to October last year.

Milk production growth slowed in October as dry conditions affected soil moisture levels, especially in the North Island. Ongoing challenging conditions during November are having an impact on grass quality.

New Zealand milk production for the 12 months to October was 0.6% higher than last year.

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

AUSTRALIA

0.3%↓

Change for October 2020 compared to October 2019

2.5%↑

Change for the 12 months to October 2020

Australia milk production decreased 0.3% in October compared to October last year.

Milk production slowed in October as challenging wetter than usual spring conditions affected regions such as Victoria and Tasmania.

Dairy Australia has forecast a 1% to 3% increase in production for the 2020/21 season.

Australia milk production for the 12 months to October was 2.5% higher than last year.

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

EUROPEAN UNION/UK

1.2%↑

Change for September 2020 compared to September 2019

0.2%↑

Change for the 12 months to September 2020

EU (including UK) milk production increased by 1.2% in September compared to the same period last year, the strongest production growth since February this year.

The increase in production was observed across most countries and notably led by Poland (up 2.6%), Spain (2.2%), Italy and France (1.1% each).

EU milk production for the 12 months to September was up by 0.2% compared to the same period last year.

USA

2.3%↑

Change for October 2020 compared to October 2019

1.8%↑

Change for the 12 months to October 2020

US milk production increased by 2.3% in October compared to the same period last year.

Higher production volumes in October were the result of stronger milk yields and rapidly growing herd sizes combined with lower culling rates.

Milk production for the 12 months to October was 1.8% higher compared to the same period last year.

¹ New Zealand production is measured in litres.

Note: 2020 production numbers include one extra day of production in February as 2020 is a leap year.



EU and US exports up, while New Zealand and Australia exports decline

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

NEW ZEALAND

0.4%↓

Change for September 2020 compared to September 2019

2.0%↓

Change for the 12 months to September 2020

Total New Zealand dairy exports decreased by 0.4%, or 815 MT, in September compared to the same period last year.

Fluid milk products, WMP and SMP demand from China remained strong, increasing 5,587 MT year-on-year, however this was offset by decreases in infant formula and cheese, down a combined 6,953 MT.

Exports for the 12 months to September were down by 2.0%, or 68,493 MT, on the previous comparable period. This was primarily driven by SMP, fluid milk products, infant formula and cheese but offset by increases in WMP.

AUSTRALIA

13.5%↑

Change for September 2020 compared to September 2019

4.5%↓

Change for the 12 months to September 2020

Australia dairy exports increased by 13.5%, or 7,660 MT, in September compared to the same period last year.

This was primarily driven by increased demand for SMP and fluid milk products, up a combined 8,509 MT and partially offset by decreases in cheese and infant formula, down a combined 3,530 MT.

Exports for the 12 months to September were down 4.5%, or 34,884 MT, on the previous comparable period.

Declines were recorded across a broad range of products with infant formula, SMP, cheese, WMP, and whey, down 42,857 MT and partially offset by fluid milk products, up 8,691 MT.

EUROPEAN UNION/UK

3.7%↓

Change for August 2020 compared to August 2019

4.6%↑

Change for the 12 months to August 2020

EU (including UK) dairy exports decreased by 3.7%, or 17,724 MT, in August compared to the same period last year.

This was driven by decreases across most product categories and more specifically SMP and WMP to Algeria and Nigeria but partially offset by increases in fluid milk products to China and lactose to China and New Zealand.

Exports for the 12 months to August were up 4.6%, or 257,880 MT, on the previous comparable period. Butter, cheese, fluid milk products and whey were the main drivers of this growth, up a combined 293,913 MT, partially offset by a decline in SMP.

USA

4.4%↑

Change for September 2020 compared to September 2019

12.3%↑

Change for the 12 months to September 2020

US dairy exports increased 4.4%, or 8,322 MT, in September compared to the same period last year.

Year-on-year exports continued to grow for the 13th consecutive month, primarily driven by increased whey demand from China attributable to recovering hog herds, and cheese to the Asia Pacific region. Although SMP export volumes declined to Mexico, they increased to South East Asia.

Exports for the 12 months to September 2020 were up 12.3%, or 273,366 MT on the previous comparable period, driven by SMP, WPC, whey and lactose up a combined 258,474 MT.



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

Strong growth in China imports and Middle East and Africa and Asia monthly imports increase. Latin America imports decline

LATIN AMERICA

12.7% ↓

Change for August 2020 compared to August 2019

4.0% ↓

Change for the 12 months to August 2020

Latin America dairy import volumes¹ decreased 12.7%, or 18,901 MT, in August compared to the same period last year. This was driven by lower volumes of SMP to Mexico.

Imports for the 12 months to August 2020 were down 4.0% or 70,071 MT, compared to the same period the previous year.

Decreases were driven primarily by SMP infant formula, WMP, and butter down a combined 67,522 MT.

ASIA

2.1% ↑

Change for August 2020 compared to August 2019

3.5% ↓

Change for the 12 months to August 2020

Asia (excluding China) dairy import volumes¹ increased 2.1% or 8,041 MT, in August compared to the same period last year. Increases were recorded for whey and WMP to Vietnam and Thailand, infant formula and fluid milk products to Philippines and partially offset by declines in butter and SMP. Imports for the 12 months to August were down 3.5%, or 171,274 MT, compared to the same period the previous year. Decreases were recorded across WMP, SMP, fluid products, down a combined 207,018 MT and offset partially by increased volumes in lactose, up 39,633 MT.

MIDDLE EAST & AFRICA

15.6% ↑

Change for August 2020 compared to August 2019

5.6% ↓

Change for the 12 months to August 2020

Middle East and Africa dairy import volumes¹ increased 15.6% or 46,750 MT in August 2020 compared to the same period last year. Increases were driven principally by higher volumes of SMP to Ethiopia and WMP to Algeria, up a combined 42,613 MT, and partially offset by lower volumes of infant formula to Nigeria.

Imports for the 12 months to August 2020 were down 5.6%, or 222,447 MT, compared to August last year, driven by decreases in fluid milk products, infant formula and butter down a combined 356,235 MT and offset by increases in SMP.

CHINA

24.0% ↑

Change for September 2020 compared to September 2019

9.0% ↑

Change for the 12 months to September 2020

China dairy import volumes increased by 24% or 54,847 MT, in September compared to the same period last year.

Import volumes of fluid milk products continued to increase as milk drinks consumption rose during the pandemic (up 17,429 MT). Germany, New Zealand, Australia, Poland and France were the top suppliers.

Whey was also up 15,663 MT as China rebuilds its hog herd and uses whey as feed. SMP imports also increased 7,931 MT year-on-year.

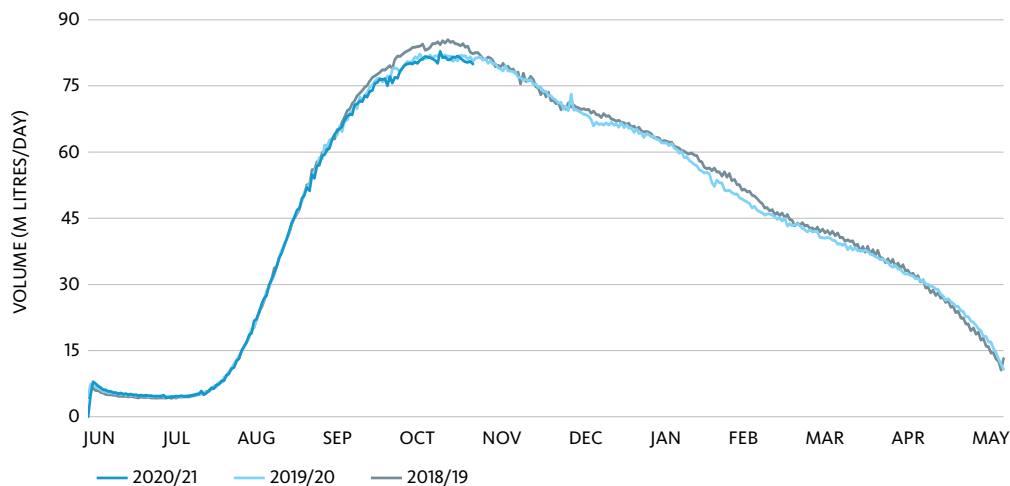
Imports for the 12 months to September were up 9.0% or 276,736 MT, driven by whey, fluid milk products and WMP.

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



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

1.0% ↓

Change for October 2020 compared to October 2019

0.5% ↑

Season to date 1 June to 31 October

Fonterra's New Zealand collection for October was 213.1 million kgMS, down 1.0% on October last season. Season-to-date collection to the end of October was 527.5 million kgMS, 0.5% ahead of last season. Poor grass condition from late October to early November impacted collections across much of the North Island and parts of the South Island. Farmer response has since seen production begin to recover, which has been assisted by recent rain.

NORTH ISLAND

0.1% ↓

Change for October 2020 compared to October 2019

1.2% ↑

Season to date 1 June to 31 October

North Island milk collection in October was 128.6 million kgMS, down 0.1% on October last season. Season-to-date collection was 343.7 million kgMS, 1.2% ahead of last season. Soil moisture levels in the northeast of the North Island, and Taranaki were well below normal for October, with above average temperatures for most of the North Island. Rainfall provided relief from low soil moisture levels in some areas, lessening the impact on collections.

SOUTH ISLAND

2.4% ↓

Change for October 2020 compared to October 2019

0.7% ↓

Season to date 1 June to 31 October

South Island milk collection in October was 84.5 million kgMS, down 2.4% on October last season. Season-to-date collection was 183.8 million kgMS, down 0.7% on last season. South Canterbury and coastal Otago also saw low soil moisture levels, with the impact lessened by availability of irrigation in some areas, and wetter conditions further south. Otago and Southland collections were impacted by colder conditions that accompanied the rain.

AUSTRALIA

7.7% ↓

Change for October 2020 compared to October 2019

2.5% ↓

Season to date 1 July to 31 October

Fonterra's Australia collection was 12.4 million kgMS, a 7.7% decrease on October last season. Widespread rainfall has laid the foundation for a very good season, but a La Niña weather system delivering wetter and cooler conditions, impacted pasture availability. This resulted in off-farm milk supply reducing across Victoria and Tasmania. Third-party volumes were also lower compared to October 2019 due to reduced availability and an active choice not to purchase, given the focus on higher-value products.

Outlook

NZD per kgMS 6.70–7.30

Forecast Farmgate Milk Price for the 2020/21 season

1,525M kgMS

Forecast milk collection for the 2020/21 season

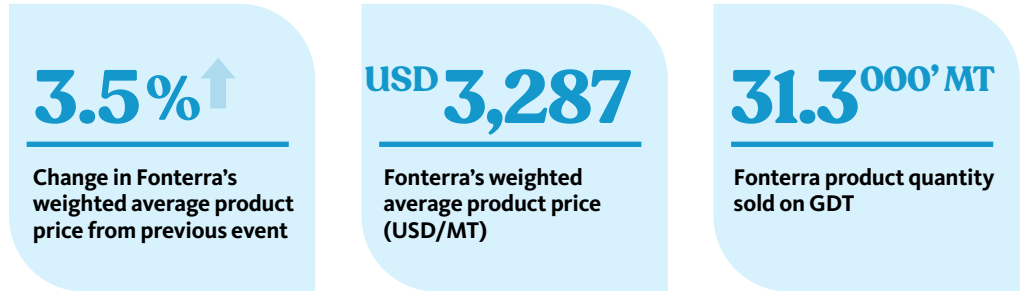
The inclusion of off-GDT sales contributed approximately four cents per kgMS to the Milk Price for the season to 31 October 2020.

OUR MARKETS

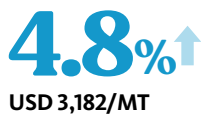
Fonterra Global Dairy Trade Results



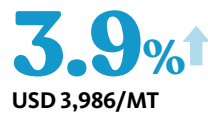
Fonterra GDT results at last trading event
1 December 2020:



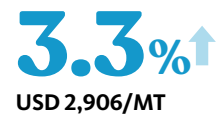
WMP



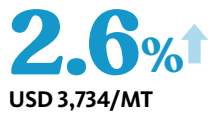
BUTTER



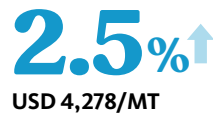
SMP



CHEDDAR

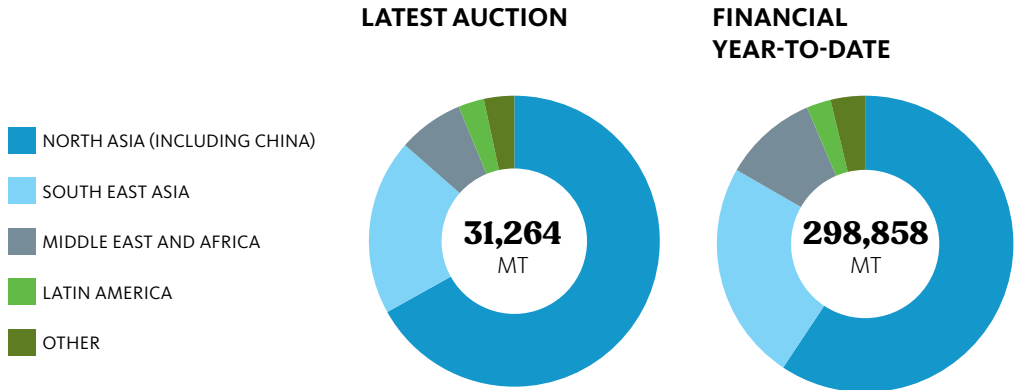


AMF



Fonterra GDT sales by destination:

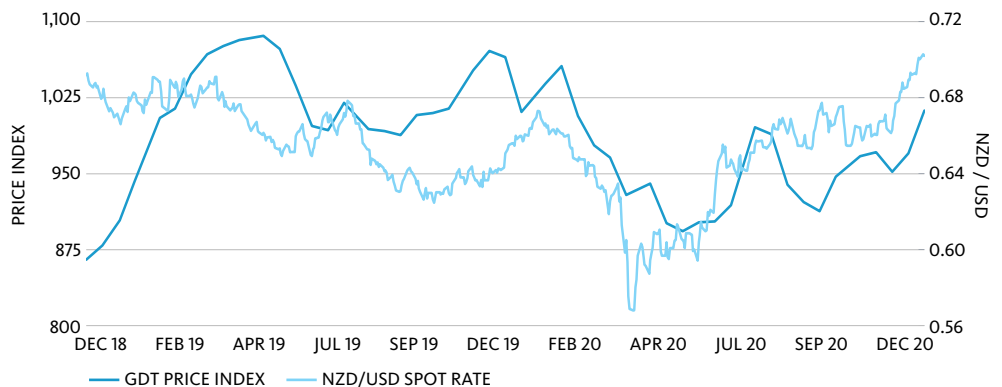
To view more information, including a snapshot of the rolling year-to-date results –



▶ The next trading event will be held on 15 December 2020. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar ranged between 65.5 and 67.5 US cents for most of October before climbing above 69 US cents in November as uncertainty regarding the US elections was all but removed, and positive announcements of COVID-19 vaccine developments were released.



Our Performance



Expanding our foodservice reach in the US

To accelerate demand for its foodservice products in the US, Fonterra has entered a sales and marketing agreement with one of America's leading dairy co-operatives, Land O'Lakes, Inc.

The arrangement will give the Co-op opportunities to expand the reach of Fonterra's foodservice products into other US foodservice outlets.

Fonterra's Global Director Foodservice, Paul Harvey, says the US is not only the largest dairy foodservice market in the world, it's also the most competitive.

"Land O'Lakes works with all major US national and top regional foodservice distributors and this will help enable potential national distribution of Fonterra products.

"While Fonterra has been in the US foodservice market for a number of years, breaking into it at any great scale requires a fresh approach. By working with Land O'Lakes, we will have access to a strong, well-established distribution network and their large customer base.

With 2019 annual sales of \$14 billion, Land O'Lakes is one of the nation's largest co-operatives and operates some of the most respected brands in agribusiness and food production including Land O'Lakes Dairy Foods, Purina Animal Nutrition, WinField United and Truterra. It also does business in all 50 states and more than 60 countries.

"A big part in securing the partnership was our reputation for developing a range of innovative dairy



products, along with our commitment to food safety and quality, which gives people confidence to choose our products.

"Land O'Lakes will help us distribute, promote and sell our cooking creams and cream cheese and, in the future, we will look to expand our relationship into other categories such as cheese products," Paul Harvey adds.

"We are excited to leverage the knowledge and expertise our two co-operatives have in dairy with a broader portfolio of products designed to help foodservice operators make the most of dairy in their kitchens," says Catherine Fox, Vice President, Marketing, Land O'Lakes Dairy Foods.

Greg Somerville, Vice-President, Sales, Land O'Lakes Dairy Foods, added, "As a result of COVID-19, performance products in foodservice will be of utmost importance to

operators. The Land O'Lakes foodservice sales team is looking forward to adding Fonterra's high-performance products to our portfolio, which will enable us to provide an expanded range of solutions to existing and new segments and operators."

Paul says that, when Fonterra launched its value-focused strategy last year, it was clear it would develop its foodservice markets.

"We want to do this by collaborating more with like-minded partners, leveraging our intellectual property and skills, rather than making significant capital investments of our own. This agreement with Land O'Lakes is a great example of this and one we could look to apply in other markets too."



Sustainability Report shows most encouraging progress to date

Fonterra achieved its most encouraging sustainability results since starting its annual reporting four years ago, but the Co-op is staying focused on what still needs to be done to reach its long-term targets.

“The progress we’ve made this year towards our three interconnected goals of healthy people, a healthy environment and a healthy business show that our strategy and customer-led operating model are delivering,” says CEO Miles Hurrell, following the release of Fonterra’s 2020 Sustainability Report.

“We’re proud of what our people have achieved, especially in the face of COVID-19, and want to thank farmers and employees for their support and hard work.”

The report shows that Fonterra improved all three of its core environmental metrics around greenhouse gas (GHG) emissions, water use and solid waste to landfill for the first time since launching its first stand-alone Sustainability Report in 2017, as well as lifting its financial performance and continuing to support communities.

Among other highlights in the report, Fonterra has become the first dairy company in New Zealand to have its emission reduction targets endorsed by the UN-backed Science Based

Target initiative. This means the Co-op’s 2030 target of 30% reduction in Scope 1 and 2 GHG emissions, which are the emissions it directly creates and those from the energy it uses, has been approved as being in line with what the latest climate science says is needed to limit global warming to well below 2°C.

“We take the best of what New Zealand has to offer to consumers around the world through the unique quality of our milk, so of course we want to play our part in helping the country meet its climate commitments,” says Mr Hurrell.

“Our farmer owners have a carbon footprint of about one third of the world average, and we’re continuing to support them to adapt to change. Setting science-based targets is important and so is the concrete action we’re taking today – like providing farmers with farm-specific emissions profiles, which will help them identify opportunities for improvements, and switching our Te Awamutu site to wood pellets, which will reduce our coal use by almost 10%.”

Increasing the energy efficiency of existing assets is also key. This year, the Co-op hit its longest running target of 20% reduction in energy intensity across its New Zealand manufacturing sites between 2003 and

2020, which is enough energy saved to power all the households in Aotearoa for 1.5 years. As part of the plan to reach a 30% reduction in emissions by 2030, and ultimately net zero emissions by 2050, Fonterra is developing site-specific ‘Greenprints’ that outline the roadmap to decarbonisation.

The report also highlights areas for improvement including the need to achieve better gender and ethnic diversity at leadership level and accelerate progress towards key 2025 targets such as having 100% reusable, recyclable or compostable packaging.

Global Sustainability Director Carolyn Mortland says the Sustainability Advisory Panel provides a valuable external lens as Fonterra works towards these goals.

“Our Co-op’s focus is on adopting regenerative principles across the business so that we’re restoring and replenishing rather than just protecting and conserving. This will take time, and we can’t do it alone, but we need to get it right to ensure a better future for our business, people, animals, natural resources and taonga.”

[Read the full 2020 Sustainability Report –](#)



2020 Sustainability by the numbers

Helping our communities

through fires, floods, droughts and a pandemic



2 million litres

of ethanol supplied for hand sanitiser during Covid-19



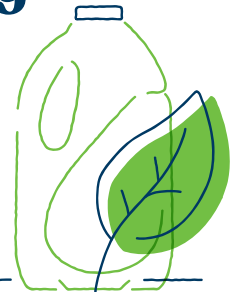
Helped farmers and small businesses



in New Zealand with cashflow by making payments earlier

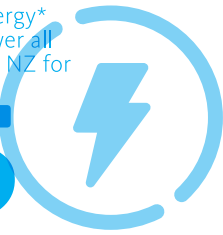
Launched Simply Milk

New Zealand's first carbonzero™ milk and also developed the Anchor plant based bottle



Saved enough energy* since 2003 to power all the households in NZ for

1.5 years



Switched to wood pellets at Te Awamutu. This will reduce our coal use by almost

↓ 10%

which is equivalent to taking 32,000 cars off the road each year



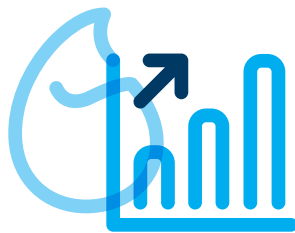
Gender pay gap

reduced in countries where we have significant operations

100%



of Fonterra farmers in NZ have access to farm-specific emissions profiles



\$11 billion

contributed to regional NZ for 2019/20 season (through the milk price)

Celebrating

10 years



of KickStart Breakfast

*At our NZ Manufacturing sites

Supplementary Information

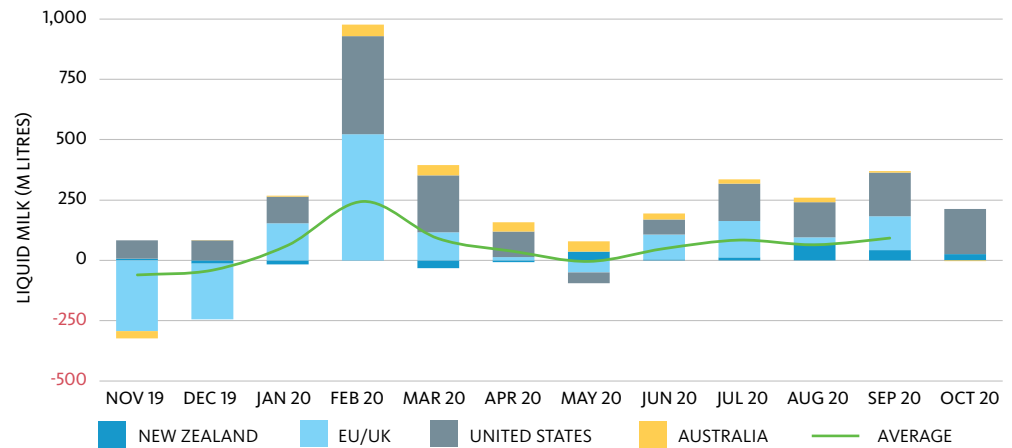
Global Dairy Market

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.

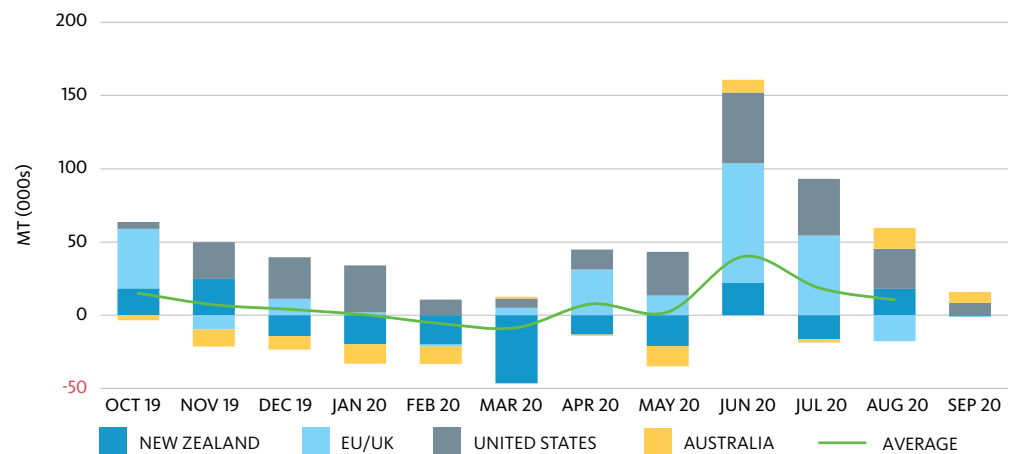
Averages are shown where data is complete for the regions presented.

PRODUCTION



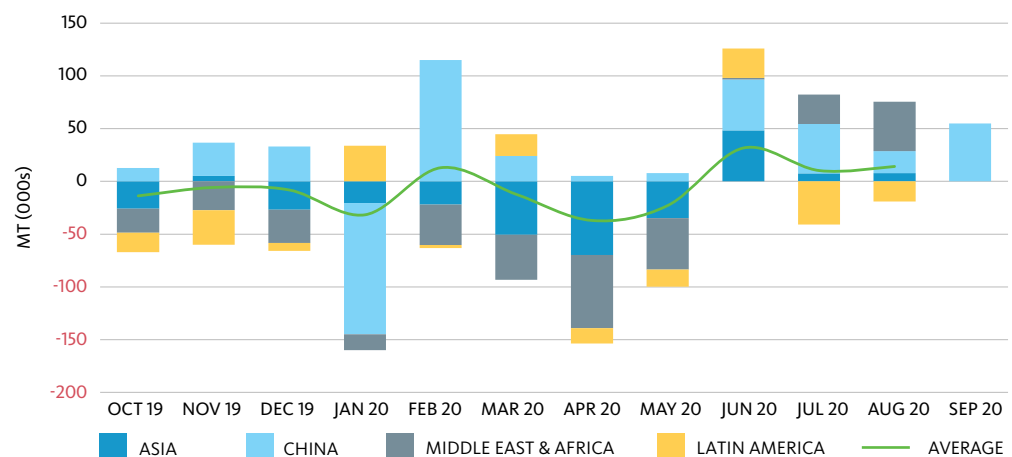
NOTE: Data for EU/UK to September; New Zealand, US and Australia to October.

EXPORTS



NOTE: Data for EU/UK to August; New Zealand, Australia and US to September.

IMPORTS



NOTE: Data for Asia, Middle East & Africa and Latin America to August; China to September.

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)	OCTOBER 2020	OCTOBER 2019	MONTHLY CHANGE	SEASON-TO-DATE 2020/21	SEASON-TO-DATE 2019/20	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	213.1	215.3	(1.0%)	527.5	524.7	0.5%
North Island	128.6	128.7	(0.1%)	343.7	339.6	1.2%
South Island	84.5	86.6	(2.4%)	183.8	185.1	(0.7%)
Australia	12.4	13.5	(7.7%)	35.7	36.6	(2.5%)

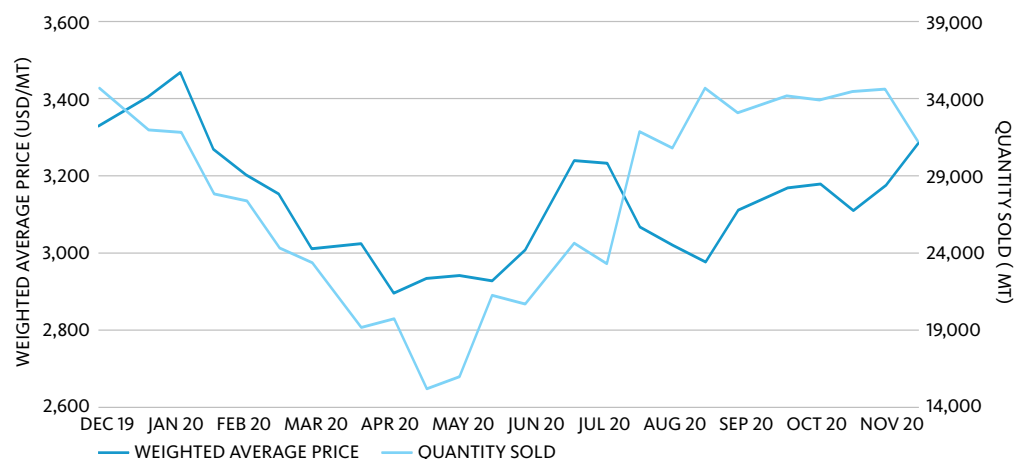
Fonterra GDT results

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

	LAST TRADING EVENT (1 DECEMBER 2020)	YEAR-TO-DATE (FROM 1 AUGUST 2020)
Quantity Sold on GDT (Winning MT)	31,264	298,858
Change in Quantity Sold on GDT over same period last year	(11.1%)	(8.6%)
Weighted Average Product Price (USD/MT)	3,287	3,121
Change in Weighted Average Product Price over same period last year	(6.0%)	(7.5%)
Change in Weighted Average Product Price from previous event	3.5%	-

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.

MENA

Middle East – North Africa.

MPC

Milk Protein Concentrate.

Non-Reference Products

All dairy products, except for Reference Products, produced by the NZ Ingredients business.

NZMP

New Zealand Milk Products.

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