

# GLOBAL DAIRY UPDATE



## OUR MARKETS



- Fonterra's New Zealand milk collection decreased 4% in November and Fonterra Australia's milk collection decreased 4%.
- Fonterra's New Zealand milk collection forecast for the 2015/16 season down 6%.



- The rate of milk production growth from the major exporting countries has eased, excluding the EU, as farmers respond to lower global dairy prices.



- Dairy exports remain strong for Australia and Europe but the United States is down, largely due to increased domestic demand.



- In October, China's recent import growth continued, and year to date imports into Latin America and Asia remain strong.

## OUR PERFORMANCE

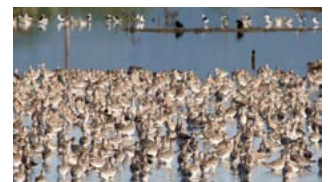


- Fonterra makes advances in Australia.
- Milk prices in our global milk pools.

## OUR CO-OP



- **Fonterra Milk for Schools** has hit the 50 million carton mark.
- **Living Water** helping to secure international flight path for bird of the year.





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

# THE RATE OF MILK PRODUCTION GROWTH FROM THE MAJOR EXPORTING COUNTRIES HAS EASED, EXCLUDING THE EU, AS **FARMERS RESPOND TO LOWER GLOBAL DAIRY PRICES**

### NEW ZEALAND

1% ↓

Production decrease from January to October 2015

**New Zealand total production** decreased 3% in October compared to the same month last year, a time when production is at a seasonal peak.

Milk production in the year to October is down 1% compared to the same period last year. This reflects a change in farming systems such as decreased stocking rates and less supplementary feeding as farmers respond to the low milk price environment.

### AUSTRALIA

3% ↑

Production increase from January to September 2015

**Australia production** in September increased 1% compared to the same month last year.

Production for the year to September is up 3% compared to the same period last year, due to generally favourable pasture growth conditions and milk prices.

### EUROPEAN UNION

1% ↑

Production increase from January to September 2015

**Production in the EU** in September increased 3% compared to the same month last year.

Production in the year to September increased 1% compared to the same period last year, with the major EU producers including Ireland up 10%, the Netherlands up 5%, Poland up 2%, and Germany, the largest EU producer, up 1%.

### USA

1% ↑

Production increase from January to October 2015

**US production** in October was in line with the same month last year.

The trend of a slowing rate of production growth continues with milk production in the year to October up 1% compared to the same period last year.



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

# DAIRY EXPORTS REMAIN STRONG FOR AUSTRALIA AND EUROPE BUT THE **UNITED STATES IS DOWN, LARGELY DUE TO INCREASED DOMESTIC DEMAND**

## NEW ZEALAND

**2%** ↑

Export increase from January to September 2015

**New Zealand exports** decreased 5% in September compared to the same month last year, with decreases in powders only partially offset by increases in cheese and AMF.

Exports in the year to September increased 2% compared to the same period last year. This is largely a result of cheese up 16% and SMP up 7%.

## AUSTRALIA

**8%** ↑

Export increase from January to September 2015

**Australia exports** increased 3% in September compared to the same month last year with a significant increase in SMP, up 41%. In addition, cheese increased 11%.

Exports in the year to September increased 8% compared to the same period last year. This is led by SMP up 30%, cheese up 12%, and fluid and fresh dairy up 8%.

## EUROPEAN UNION

**6%** ↑

Export increase from January to August 2015

**EU exports** increased significantly, up 22% in August compared to the same month last year.

Significant increases were seen from Poland up 53%, Italy up 36%, Germany up 32% and both Hungary and the Netherlands up 26%.

Exports increased 6% in the year to August with fluid and fresh dairy up 19%, both SMP and whey powder up 9%, and infant formula up 7%.

## USA

**9%** ↓

Export decrease from January to September 2015

**US exports** increased 9% in September compared to the same month last year with SMP up 48% and lactose up 15%.

Exports in the year to September decreased 9% compared to the same period last year, reflecting a drop across most of the major dairy categories, in particular cheese down 16%, whey powder down 15% and SMP down 4%.



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

## IN OCTOBER, CHINA'S RECENT IMPORT GROWTH CONTINUED AND YEAR TO DATE IMPORTS INTO LATIN AMERICA AND ASIA REMAIN STRONG

### LATIN AMERICA

**10%** ↑

Import increase from January to August 2015

**Latin America<sup>1</sup> import** volumes were in line with the same month last year, with increases in SMP and WMP offset by decreases in fluid and fresh dairy and infant formula.

Imports in the year to August increased 10% compared to the same period last year, with WMP up 47%, SMP up 22%, cheese up 12% and infant formula up 7%.

### ASIA

**10%** ↑

Import increase from January to August 2015

**Asia (excluding China)<sup>2</sup> import** volumes were in line with the same month last year with increases in fluid and fresh dairy and whey powder offset by decreases in WMP, SMP and cheese.

Imports in the year to August remain strong, increasing 10% compared to the same period last year. Increases have been seen across all the major dairy categories including SMP up 17%, cheese up 12%, WMP up 10%, and fluid and fresh dairy up 8%.

### MIDDLE EAST & AFRICA

**2%** ↑

Import increase from January to August 2015

**Imports into the Middle East and Africa<sup>3</sup>** increased 6% in August compared to the same month last year, the strongest month of growth since February 2015.

This was due to an increase across all major dairy categories, excluding SMP, which decreased 19%.

Imports in the year to July increased 2% compared to the same period last year with WMP and fluid and fresh dairy up 15% and 10% respectively.

### CHINA

**13%** ↓

Import decrease from January to October 2015

**China imports** increased 12% in October compared to the same month last year. This is the fourth consecutive positive movement, with increases in most of the major dairy categories excluding WMP and SMP.

Despite recent growth in imports for October, imports remain 13% lower when compared to the same period last year. This decrease is largely a result of powders, with WMP down 52% and SMP down 23%, which fully offset infant formula and fluid and fresh dairy up 36% and 30% respectively.

<sup>1</sup> Excluding Venezuela and estimates for Honduras and Costa Rica in July and August

<sup>2</sup> Includes estimate for Indonesia in May and June

<sup>3</sup> Includes estimate for Algeria in July and August, and Ghana in August

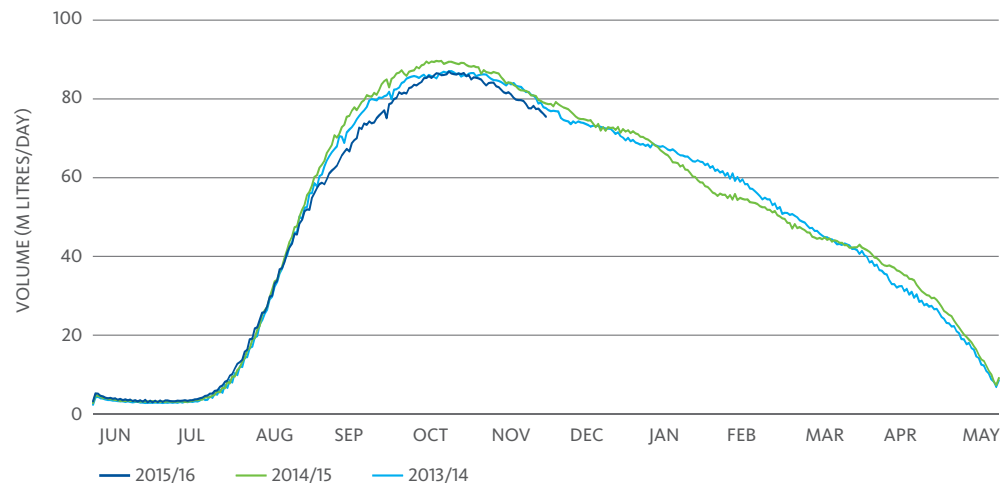
## OUR MARKETS

# FONTERRA MILK COLLECTION 2015/16 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

Fonterra's milk collection across New Zealand in November was 4% lower than the same month last year. For the season to 30 November (six months) it reached 737 million kgMS, 4% behind the same period last season.

### NORTH ISLAND

**6%** ↓

Decrease for the season to date from 1 June to 30 November compared to same period last season

**North Island milk collection** in November reached 127 million kgMS, 6% lower than November last season.

### SOUTH ISLAND

**2%** ↓

Decrease for the season to date from 1 June to 30 November compared to same period last season

**South Island milk collection** in November was 82 million kgMS, in line with November last season.

### AUSTRALIA

**0%**

Increase for the season to date from 1 July to 30 November compared to same period last season

**Australia milk collection** in November reached 13.3 million kgMS, 4% lower than November last season.

Milk collection across Australia for the five months to 30 November reached 58.3 million kgMS, in line with the same period last season.

### New Zealand Milk Supply forecast

**1,523M**  
KGMS

Decrease of 6% for the 2015/16 season

The decrease in forecast milk collection is a result of the low Farmgate Milk Price environment, where farmers are using more traditional practices to manage their business within the limits of a low payout.

Farmers have reduced stocking rates and supplementary feeding in order to help lower costs.

In New Zealand we have the advantage of a largely pasture-based system which

allows farmers to carry this out.

Historically we have seen that climatic conditions can cause a large amount of volatility in late season milk collection when the Farmgate Milk Price is at lower levels.

Farmers are likely to become heavily reliant on rainfall to support grass growth and milk production, with less reliance on supplementary feed.

Further updates will be given as the season progresses.

## OUR MARKETS

# DAIRY COMMODITY PRICES



Last trading event  
**1 December 2015:**

The **Fonterra volume sold was 27,514 MT**, with Fonterra's weighted average prices decreasing 3.2% compared to the last event.

**3.6%** ↑

GDT Price Index

USD **2,419**

GDT Average winning price  
(USD/MT, FAS)

Compared to the **last trading event:**

The **GDT price index increased** for the first time since early October.

**BUTTER**

**5.7%** ↑

USD 3,009/MT

**AMF**

**2.3%** ↑

USD 3,519/MT

**BMP**

**5.6%** ↓

USD 1,729/MT

**WMP**

**5.3%** ↑

USD 2,260/MT

**CHEDDAR**

**1.5%** ↓

USD 2,829/MT

**SMP**

**3.2%** ↑

USD 1,918/MT

**RENNET CASEIN**

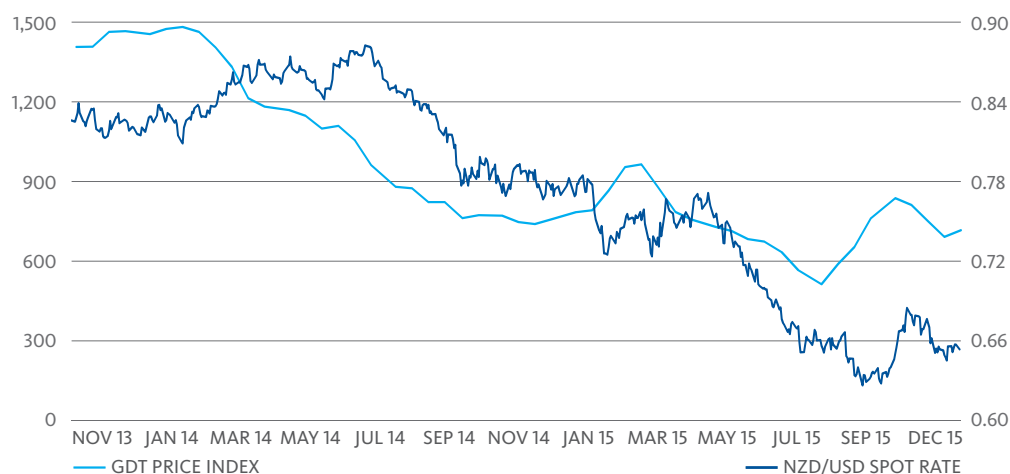
**4.3%** ↓

USD 5,046/MT

Dairy commodity prices and New Zealand dollar trend

To view a table that summarises the latest results and provides a snapshot of the rolling year-to-date results –

In November, the New Zealand dollar weakened after recent strengthening against the US dollar.



► The next trading event will be held on **15 December 2015**. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.



## FONTERRA MAKES ADVANCES IN AUSTRALIA

Fonterra is implementing a detailed plan to lift business performance and profitability in Australia, a key strategic market for the Co-op.

We are driving our strategic plan to transform the Australian business, which will deliver stronger returns. The plan focuses on where we can win in a highly competitive market by optimising our product mix and playing to our strengths which include cheese, whey and nutritionals, complemented by our consumer and foodservice businesses.

We have made a number of advancements over the past month. These include the Darnum joint venture partnership, the proposed agreement with Bellamy's, the sale of our Bega shares and Board approval to rebuild the Stanhope cheese plant.

**The joint venture** with Beingmate Baby and Child Food Company was formally approved by the Beingmate Board and shareholders to purchase Fonterra's Darnum plant. Beingmate will own 51% of the joint venture

that will manufacture nutritional powders, including infant formula and other nutritional powders, for Fonterra, Beingmate and other customers. This relationship with Beingmate is also strengthening our own Annum™ infant formula brand with China distribution through Beingmate underway.

**Plans to enter a five-year strategic agreement** with Bellamy's Australia Limited to manufacture a range of new baby nutritional powders will see the Darnum plant move towards full capacity. We are actively growing our nutritionals business through strategic partnerships and agreements.

**Releasing capital** through the sale of our 9% shareholding in Bega Cheese Limited, for AU\$74 million, is another step towards focusing on investing in higher value areas that will deliver the best returns. These funds

will be invested in a premier cheese-making facility at our Stanhope factory.

**Investing in the state-of-the-art cheese** plant at Stanhope will replace the hard cheese plant destroyed by fire in December 2014. This AU\$120 million investment will produce 45,000 MT of hard cheese per year, 15,000 MT more than the previous plant.

The new plant will supply our Australian consumer, foodservice and ingredient businesses, and export markets. It will provide whey to the Darnum and Dennington plants, which are at the core of our growing Australian nutritionals business.

Construction of the new plant will begin next year, and is expected to be completed in 2017.



**Bringing it all together** is Judith Swales, who has been appointed to the new role of Managing Director Oceania, reporting directly to CEO Theo Spierings and taking up a position on the Fonterra Management Team.

This role oversees Fonterra's Australian business and New Zealand's consumer

businesses, including iconic brands such as Anchor™, Mainland™, Perfect Italiano™, Western Star™ and Tip Top™.

Judith has been Managing Director of Australia since 2013, following leadership roles with Heinz Australasia and Goodyear Dunlop Australia.

## OUR PERFORMANCE

# MILK PRICES IN OUR GLOBAL MILK POOLS



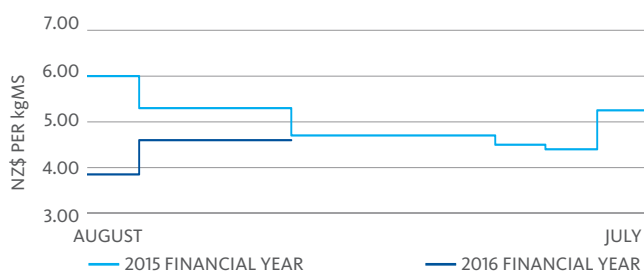
The milk prices in our global milk pools such as New Zealand, Australia, Chile and China can influence our business performance.

New Zealand, Asia and Greater China source their product from New Zealand so in these markets the New Zealand Farmgate Milk Price is a key driver of input costs.

Our Chilean and Australian businesses largely source product locally so the local milk price is more relevant to input costs in these markets.

In China, the local milk price gives an indication of the price we receive for milk produced and sold by our farming operations in China.

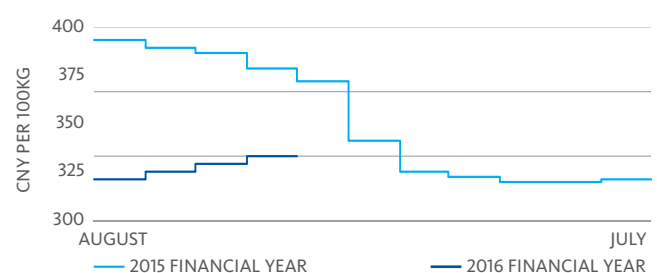
### NEW ZEALAND FONTERRA



The forecast annual Farmgate Milk Price in New Zealand has increased since the start of the 2016 financial year (FY16) following some recovery in global dairy

prices. This has brought the Milk Price in line with the same period last year. However, prices remain weak relative to historic averages.

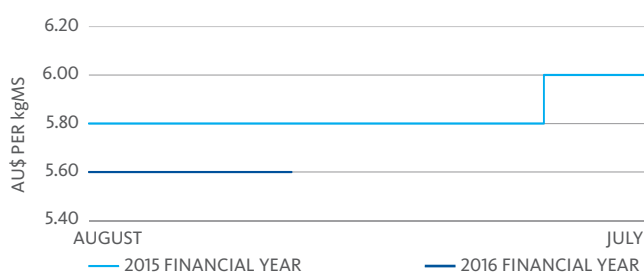
### CHINA (LOCAL AVERAGE)



Milk prices in China in FY16 are starting to see a slow recovery from the second half of last year where declining milk prices impacted our earnings.

Local prices are influenced by a combination of global dairy prices and local conditions.

### AUSTRALIA FONTERRA



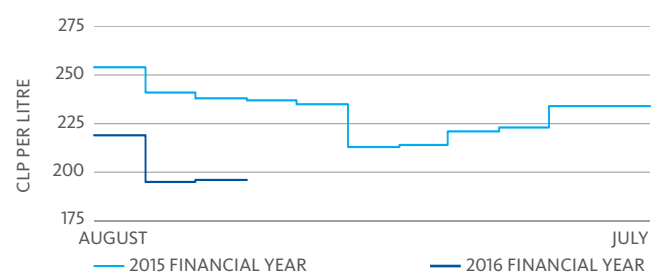
The milk price for Australia in FY16, while lower than financial year 2015 (FY15), remains at a level disproportionately higher than global dairy prices.

The milk price is set by the performance of cheese, butter and liquid milk volumes and sales sourced from Australian milk. The milk price has a greater skew towards domestic consumption and the price

of these products which have been less volatile than powders.

Fonterra Australia's product mix returns currently less than the benchmark due to a fire at the cheese factory in Stanhope. With the recently announced investment in Stanhope and new infant formula partnerships, we expect to move back to a superior product mix position in future years.

### CHILE FONTERRA



The Soprole milk price in Chile is significantly lower than last year. Local milk prices tend to lag those of the global dairy market and last year weak global dairy prices didn't pass through to lower milk prices. In addition, the south of Chile experienced drought conditions in the second half of last year which put upward pressure on pricing.

Prices in southern Chile often vary from central regions and during the spring when milk volumes increase materially, due to seasonality, this can bring the weighted average milk price down for the country.



Fonterra Milk for Schools has hit the 50 million carton mark



**More than 50 million milk packs** have now been served to students through the Fonterra Milk for Schools programme.

**1,480 primary schools** throughout New Zealand, including the Chatham, Great Barrier and Stewart Islands, are part of the programme that sees 170,000 Kiwi kids enjoying Anchor milk every school day.

This is a significant milestone and there's been a lot of work that has gone into helping build this next generation of milk drinkers.

**Our more than 10,700 farmers** must be acknowledged who provide this milk for our children.



[Check out our website for more information –](#)

While schools are away on a summer break Fonterra will be busy getting everything ready for next year and the introduction of new educational material that encourages students to learn more about dairy, nutrition and Fonterra.

Living Water helping to secure international flight path for bird of the year

**Living Water is a ten year partnership between Fonterra and DOC** that is working with farmers, iwi and conservation groups to improve the health of five catchments in significant dairying regions.



**The Living Water partnership is helping secure a safe flight path** for thousands of migratory birds, including New Zealand's bird of the year, the bar-tailed godwit.

Each year thousands of the birds travel from the Living Water catchment in Miranda Pūkoro, to breeding grounds in Siberia and Alaska.

After seven days flying they stop to refuel in the Chinese province of Heibei, but development is threatening the future of this land.

Recently, with the support of Living Water, representatives of the Miranda Pūkoro Naturalists' Trust, local iwi, Ngāti Paoa and Department of Conservation (DOC), travelled to China to meet with senior government officials to discuss working to protect this flight path.

This follows a recent visit to the Living Water catchment by the Chinese Ambassador to New Zealand Wang Lutong, and the New Zealand Minister of Conservation Maggie Barry, who both lend their support to the project.

**This area, and the birds that nest here, are of international significance** and we're doing what we can to protect and enhance their future. Any time we remove or change the size of one piece of the puzzle that makes up our ecosystem, we run the risk of changing the picture. Our farmers understand this and the importance of protecting our biodiversity for future generations.



DEPUTY CHAIR AND CONVENOR OF THE NZ WADER STUDIES GROUP ADRIAN RIEGEN, CHINESE AMBASSADOR WANG LUTONG, MINISTER OF CONSERVATION HON. MAGGIE BARRY, DEPARTMENT OF CONSERVATION DIRECTOR GENERAL LOU SANSON AND FONTERRA DIRECTOR OF SOCIAL RESPONSIBILITY CAROLYN MORTLAND AT THE MIRANDA PUKOROKORO LIVING WATER CATCHMENT

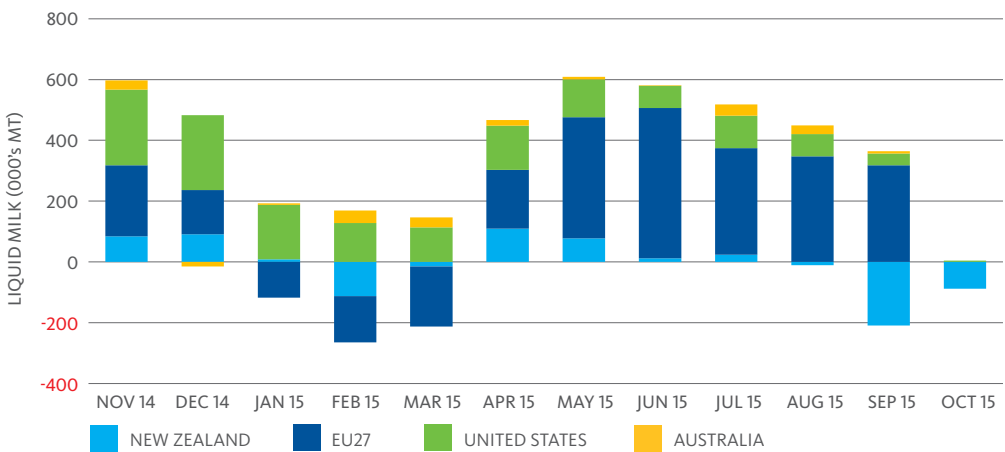
# SUPPLEMENTARY INFORMATION

## Global Dairy Market

The charts on the right illustrate the year-on-year changes in production, exports and imports for a range of countries that are important players in global dairy trade.

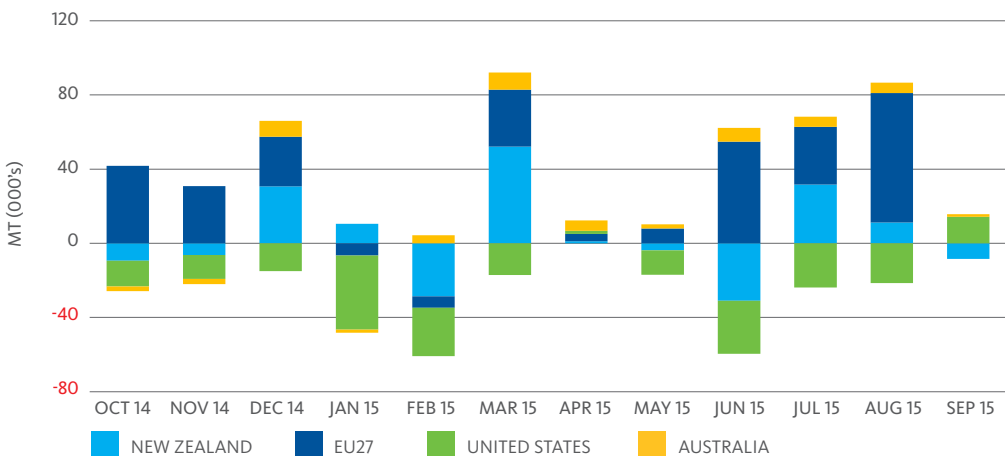
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

### PRODUCTION



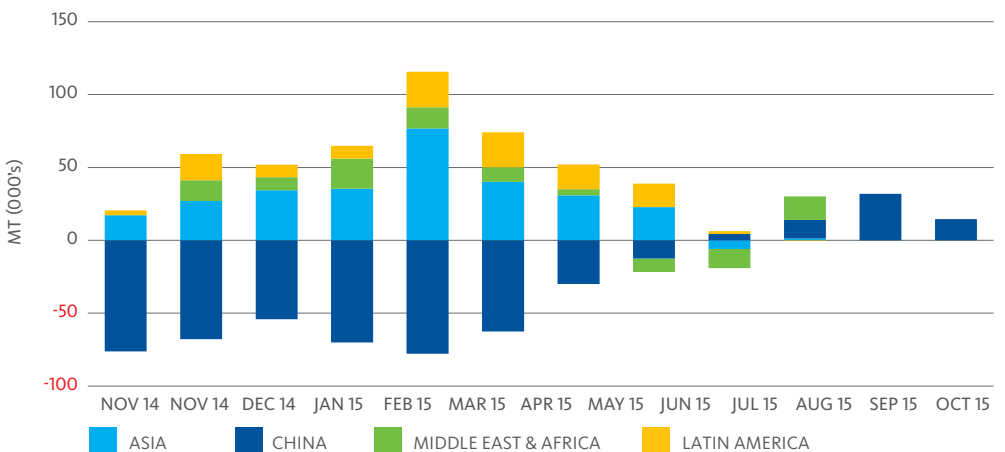
SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

### EXPORTS



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

### IMPORTS



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)	NOV 2015	NOV 2014	MONTHLY CHANGE	SEASON- TO-DATE 2015/16	SEASON- TO-DATE 2014/15	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	208.7	216.3	(3.5%)	736.6	770.8	(4.4%)
North Island	127.1	135.1	(5.9%)	479.3	508.9	(5.8%)
South Island	81.6	81.2	0.4%	257.3	261.9	(1.7%)
Fonterra Australia	13.3	13.8	(3.6%)	58.3	58.1	0.4%

## GDT results

This table summarises the latest GDT results and provides a snapshot of the rolling year-to-date results.

	LAST TRADING EVENT (1 DECEMBER 2015)	YEAR-TO-DATE (FROM 1 AUGUST 2015)
Fonterra Quantity Sold on GDT (Winning MT)	27,514	307,206
GDT Average Winning Price (USD/MT, FAS)	2,419	2,387
Change in GDT Price Index over same period last year	(3.1%)	(12.0%)
Change in GDT Price Index from previous event	3.6%	–

# GLOSSARY

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## AMF

Anhydrous Milk Fat.

## BMP

Butter Milk Powder.

## DIRA

Dairy Industry Restructuring Act 2001 (New Zealand).

## Dry shares

Any shares held by a farmer shareholder in excess of the number of shares required to be held by that farmer shareholder in accordance with the minimum shareholding requirement for a season.

## Farmgate Milk Price

The price for milk supplied in New Zealand to Fonterra by farmer shareholders.

## Fluid and Fresh Dairy

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 Price Index

All GDT price indices are chain-linked Fisher indices using winning quantities and winning prices. For the period prior to April 2010, the GDT Price Index and the AMF, SMP and WMP price indices use GDT prices and quantities where available, and USDA Dairy Market News prices and GTIS export volumes elsewhere. USDA Western Europe average price for butter oil is used for AMF prior to December 2009, USDA Oceania average price for SMP is used prior to April 2010 and USDA Oceania average price for WMP is used prior to August 2008.

## 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.

## Share Standard

The number of shares a farmer shareholder is required from time to time to hold as determined in accordance with the Constitution. The Fonterra Board may permit the Share Standard to be satisfied through the holding of both shares and vouchers.

## SMP

Skim Milk Powder.

## Voucher

A certificate that is provided to a farmer shareholder upon transfer of the Economic Rights of a wet share to the Fonterra Shareholders' Fund in accordance with the Trust Deed.

## Wet shares

Any shares held by a farmer shareholder that are required to be held in accordance with the minimum shareholding requirement for a season.

## WMP

Whole Milk Powder.