

# GLOBAL DAIRY UPDATE



Dairy for life



## OUR MARKETS



• In January, Fonterra New Zealand milk collection decreased 2% and Fonterra Australia milk collection decreased 5%.



• EU milk production growth continues, while the rate of growth has eased from the other major exporters.



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



• Despite economic volatility, China is returning to stronger monthly import growth, while solid demand continues in Asia and Latin America.

## OUR PERFORMANCE



- Foodservice initiatives deliver on strategy in China
- Fonterra factories – quick update
- Financial year 2016 interim results announced 23 March



## OUR CO-OP



**Dairy Development** – Farmers to volunteer at new Sri Lanka farm.



**Living Water and Fonterra** farmers protect rare plant.





# EU MILK PRODUCTION GROWTH CONTINUES, WHILE THE RATE OF GROWTH HAS EASED FROM THE OTHER MAJOR EXPORTERS

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

## NEW ZEALAND

1% ↓

Production decrease from January to December 2015

**Total New Zealand production** decreased 2% in December compared to the same month the previous year.

Milk production in the year to December reached 22 million tonnes of liquid milk, down 1% compared to the same period the previous year.

Milk production for the remainder of the season will continue to be influenced by changes in farming systems, such as decreased stocking rates and supplementary feeding, as farmers respond to the low milk price environment.

## AUSTRALIA

2% ↑

Production increase from January to November 2015

**Australia production** in November decreased 3% compared to the same month the previous year.

Production for the year to November was up 2% compared to the same period the previous year. However, the rate of growth has been slowing as pasture growth conditions have deteriorated due to dry conditions experienced across many dairying regions.

## EUROPEAN UNION

2% ↑

Production increase from January to November 2015

**Production in the EU** in November increased 5% compared to the same month the previous year.

The EU has seen growth in milk production in each of the eight months following the removal of quotas on 1 April.

Production in the year to November increased 2% compared to the same period the previous year, with Ireland up 13%, Netherlands up 6% and the UK, Poland and Germany each up 2%.

## USA

1% ↑

Production increase from January to December 2015

**US production** in December increased 1% compared to the same month the previous year.

While the rate of growth has slowed, milk production in the year to December reached 95 million tonnes of liquid milk, up 1% compared to the same period last year.

This growth is in line with market expectations of around 1% growth.



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

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

## NEW ZEALAND



**New Zealand exports** increased 17% in November compared to the same month the previous year, with increases seen across most major dairy categories.

Exports in the year to November have increased 4% compared to the same period the previous year. An increase of 18% for cheese and 9% for SMP was partially offset by butter down 6%, and WMP down 3%.

## AUSTRALIA



**Australia exports** increased 7% in November compared to the same month the previous year, largely driven by fluid and fresh dairy up 34% and cheese up 22%.

Exports in the year to November remain strong, up 8% compared to the same period the previous year. This is largely due to SMP up 27%, cheese up 13%, and fluid and fresh dairy up 10%.

## EUROPEAN UNION



**EU exports** increased 2% in October compared to the same month the previous year. This increase was driven by whey powder up 20%, cheese up 14% and infant formula up 3%.

Exports have increased 6% in the year to October largely as a result of fluid and fresh dairy up 16%, whey powder up 10%, SMP up 8% and infant formula up 6%. Cheese is one of the only major dairy export products to decrease, down 3% compared to the same period the previous year.

## USA



**US exports** decreased 8% in November compared to the same month the previous year, with whey powder down 32% and cheese down 7%.

Exports in the year to November decreased 9%, reflecting a drop across most of the major dairy categories, in particular butter down 71%, whey powder down 19% and cheese down 15%.

This decrease in exports is largely a result of higher domestic demand, particularly in cheese and butter.



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

# DESPITE ECONOMIC VOLATILITY, CHINA IS RETURNING TO STRONGER MONTHLY IMPORT GROWTH, WHILE SOLID DEMAND CONTINUES IN ASIA AND LATIN AMERICA

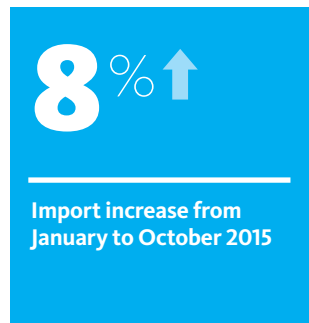
## LATIN AMERICA



**Latin America<sup>1</sup> import volumes** increased 12% in October compared to the same month the previous year, with all major dairy categories up excluding fluid and fresh dairy, which decreased 6%.

Imports in the year to October have increased 12% with WMP up 50%, SMP up 28%, cheese up 13% and infant formula up 8%.

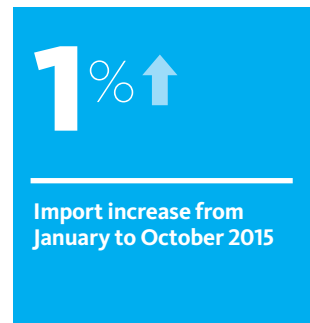
## ASIA



**Asia (excluding China)<sup>2</sup> import volumes** increased 3% in October compared to the same month the previous year. Increases were seen across cheese up 20%, SMP up 10% and WMP up 7%, partially offset by whey powder down 23%.

Imports in the year to October remain strong, increasing 8% compared to the same period the previous year. This is due to increases across most major dairy categories including SMP up 14%, cheese up 13%, WMP up 8% and fluid and fresh dairy up 7%.

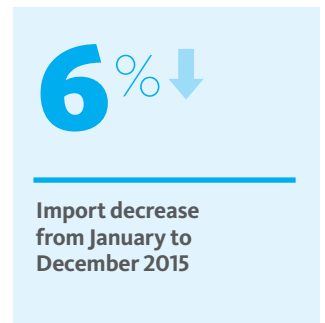
## MIDDLE EAST & AFRICA



**Imports into the Middle East and Africa** were in line with the same month the previous year. Cheese increased 13% but this was fully offset by fluid and fresh dairy down 10% and SMP down 2%.

Imports in the year to October have increased 1%, largely due to WMP up 10%, fluid and fresh dairy up 8% and butter up 2%, but this is partially offset by SMP down 10%.

## CHINA



**China imports** increased 46%, or around 62,000 tonnes, in December compared to the same month the previous year. Fluid and fresh dairy and infant formula were both up over 100%, and whey powder up 22%. This increase was partially offset by WMP down 31%.

While imports in the year to December are down 6%, significant increases have been seen in infant formula up 46%, fluid and fresh dairy up 43% and whey powder up 8%. However, these have been offset by powders with SMP down 21% and WMP down 49%.

<sup>1</sup> Excluding Venezuela

<sup>2</sup> Includes estimate for Indonesia in September and October and Philippines in October

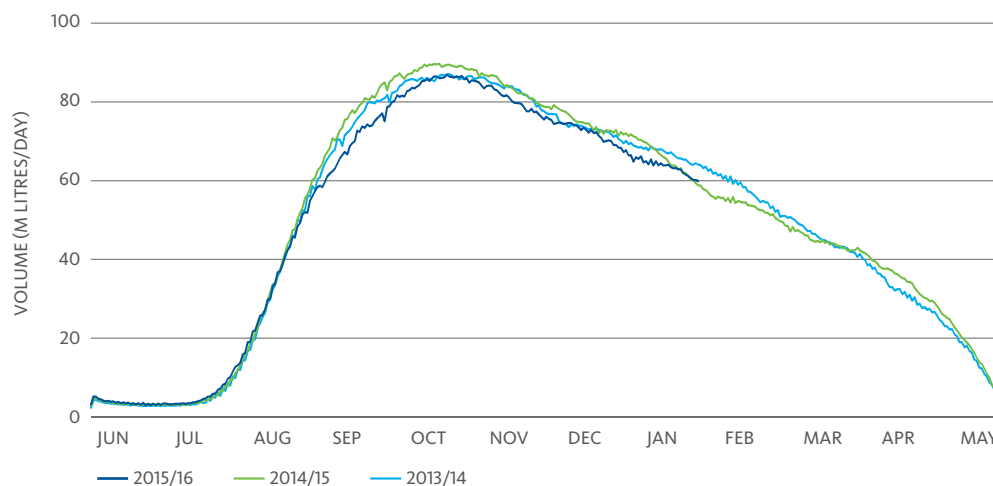
## OUR MARKETS

# 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

**4%** ↓

Decrease for the season to date from 1 June to 31 January compared to last season

Fonterra's milk collection across New Zealand in January was 2% lower than January last season.

For the eight months to 31 January milk collection reached 1,107 million kgMS, 4% behind the same period last season.

Lower milk collections for the 2015/16 season are largely a result of the low milk price environment, where farmers have reduced stocking rates and supplementary feeding in order to reduce costs.

### NORTH ISLAND

**6%** ↓

Decrease for the season to date from 1 June to 31 January compared to last season

**North Island milk collection** in January reached 104 million kgMS, 6% lower than January last season.

### SOUTH ISLAND

**0%**

No change for the season to date from 1 June to 31 January compared to last season

**South Island milk collection** in January reached 71 million kgMS, 4% above January last season.

### AUSTRALIA

**1%** ↓

Increase for the season to date from 1 July to 31 January compared to last season

Fonterra's milk collection across Australia in January reached 11 million kgMS, 5% lower than January last season.

For the seven months to 31 January milk collection reached 81 million kgMS, 1% behind the same period last season.

Production has now decreased below the same period last season as a result of unfavourable pasture growth conditions, due to low soil moisture across most dairying regions.

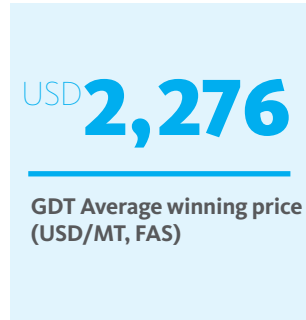
# OUR MARKETS

## DAIRY COMMODITY PRICES

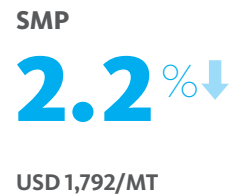
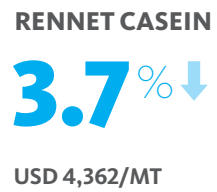
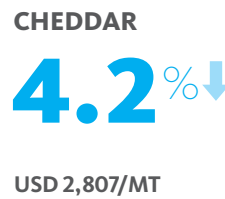
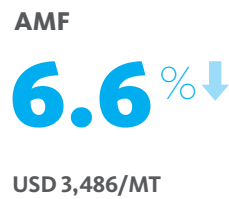
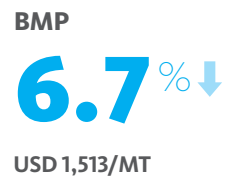
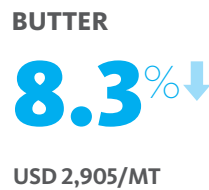
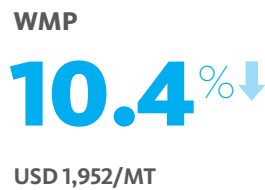


Last trading event  
**2 February 2016:**

The **Fonterra volume sold was 23,876 MT**, with Fonterra's weighted average prices decreasing 7.4% compared to the last event.



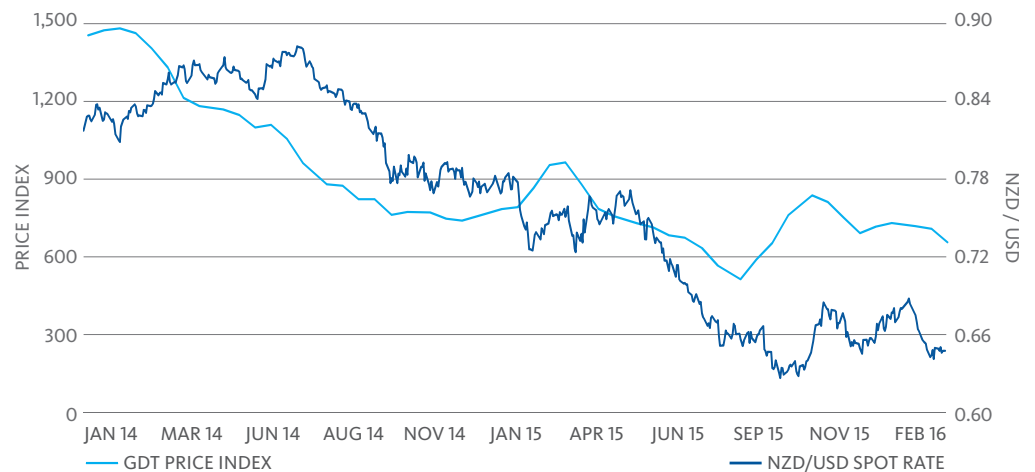
Compared to the **last trading event:**



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 January the New Zealand dollar weakened against the US dollar, reversing the appreciation in December.



► The next trading event will be held on **16 February 2016**. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.





## FOODSERVICE INITIATIVES DELIVER ON STRATEGY IN CHINA

### Digital campaign to drive cream sales



**China foodservice continues to deliver** on our strategy with innovative marketing campaigns delivering volume growth across our three channels – Italian kitchen, Asian bakery and Quick Service Restaurants.

**Going digital is key** to achieving future business success in China. Furthermore, encouraging conversion to dairy with more value-added solutions for customers is key to the strong growth in China's bakery channel.

Our China foodservice team is building a robust digital strategy and making full use of digital assets to increase Anchor™ brand awareness and drive increased product sales.

In a recent example, our China foodservice team partnered with China's biggest restaurant rating and coupon-buying website, Dianping.com, which has more than 180 million users, on a new marketing

campaign to find the best cake made with Anchor™ cream in China.

More than **5,200 outlets** from 158 bakery customers in 241 cities across China got on board attracting more than 10 million votes and more than 100 million impressions online nationwide.

Before the campaign started, only 54 per cent of the 405 participating recipes were topped with Anchor™ cream.

To qualify for the competition, all of them converted to using Anchor™ cream, supporting increased sales. Consumers also downloaded more than 339,000 cake coupons during the campaign, boosting Anchor™ cream sales.

Through this campaign, we introduced 178 new recipes using Anchor™ products to our bakery customers, supporting further volume growth of our Anchor™ cream and cream cheese consumption.

### Application Centre in Guangzhou



**A new foodservice application centre** has been opened in Guangzhou in Southern China, following the opening of our application centre in Shanghai in November 2014. These centres support our successful chef-led approach to foodservice.

The southern region is our second largest market in China, where there is rapid growth in the casual dining and bakery sector and strong demand for high-quality dairy ingredients to support this growth.

**This state-of-the-art centre** allows our local team to better engage with our customers by hosting demonstrations, bespoke professional training and marketing workshops.

**Professional chefs** are based at the centre and they collaborate with our research and development teams to bring creative recipes and the latest product innovations to local customers and consumers.

**The total solution selling approach is unique** and provides Fonterra with a competitive advantage in that market.

New facilities will also be opened in Beijing and Chengdu this year to build our network across the key regions in China.



## FONTERRA FACTORIES — QUICK UPDATE

### World first for Te Awamutu site

Our Te Awamutu team has become the first in the world to be awarded the newly created Food Safety System Certification 22000 – Quality, an extension of the FSSC 22000 all our Global Operations sites already hold.

Previously, food safety and food quality have been audited and assessed separately. This new certification gives Fonterra

the option of combining food safety and quality management systems into one certification.

Several other sites including Eltham, Kapuni and Pahiatua are on track to join Te Awamutu soon in achieving the gold standard FSSC22000-Q certification, with a goal to achieving the standard across all sites during 2016.

### Lichfield expansion shows progress

Progress is being made on the new powder plant at Lichfield, with the dryer building now up to 24 metres.

The new dryer is due to be complete in time for this year's peak in October and will bring extra capacity to accommodate future milk growth in the Waikato.

The new dryer will be capable of processing 4.4 million litres of milk per day, which will more than double the site's current processing capacity.

### Pahiatua's new plant officially opened

Pahiatua's new \$235 million high-efficiency plant was officially opened on 4 December 2015.

The plant came online in August last year and has already produced more than 30,000 metric tonnes of high-quality whole milk powder destined for key markets including Sri Lanka and Algeria.

It has been a valuable addition to our asset base ahead of this season's peak, providing more capacity which allows us to process milk in a way that delivers the most value to our shareholders.



FONTERRA DIRECTOR JOHN MONAGHAN, FONTERRA MANAGING DIRECTOR GLOBAL OPERATIONS ROBERT SPURWAY, FONTERRA PAHIATUA OPERATIONS MANAGER BILL BOAKES, FONTERRA PLANT MANAGER AT PAHIATUA POWDER 3 BRIAN HUTCHINS, MINISTER FOR PRIMARY INDUSTRIES HON NATHAN GUY, MP FOR WAIRARAPA ALASTAIR SCOTT AND FONTERRA CHAIRMAN JOHN WILSON

### Financial Year 2016 Interim Results Announced 23 March

On 23 March we will announce our 2016 interim results and provide an update on business performance.

There will be a range of communications on the

day, including a market announcement and results webcast, as well as more detailed information that will be available on our website, under Our Financials.

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





## Farmers to volunteer at new Sri Lanka farm

**Four Fonterra farmers** will travel to Sri Lanka this year as part of a new farmer volunteer scheme.

Murray Douglas from Northland, Troy Doherty from Bay of Plenty, Tim Phillips from Waikato and West Otago's Marloes Levelink will spend a month at Fonterra's new training and demonstration farm in Panalla near Colombo.

**The calibre and number** of applicants received is a good reflection of our farmer base and their willingness to help others.

**It was great to see** so many of our farmers jump at the chance to give up their time to share their knowledge and expertise with others. As well as working with local farmers they'll also have the opportunity to learn more about one of Fonterra's key markets.

**While in Sri Lanka they'll help local farmers** and Fonterra supplier relationship officers with animal nutrition, prevention and treatment of mastitis and how to run a farm as a business.



**The demonstration farm,** due to be opened at the end of this month, and scheme are both part of the Co-operative's Dairy Development programme. It supports the growth of sustainable dairy industries

in key markets where Fonterra operates, including Sri Lanka, Indonesia and China, by sharing expertise with local farmers, governments and industry players.

## Living Water and Fonterra farmers protect rare plant

**The Fonterra and Department of Conservation (DOC)** Living Water partnership is working with farmers to save a rare native plant on Northland's Hikurangi flood plain.

**The flood plain** is home to one third of the known population of the venerable heart-leaved kohuhu or *Pittosporum obcordatum*.



Around 2,000 plants exist nationwide.

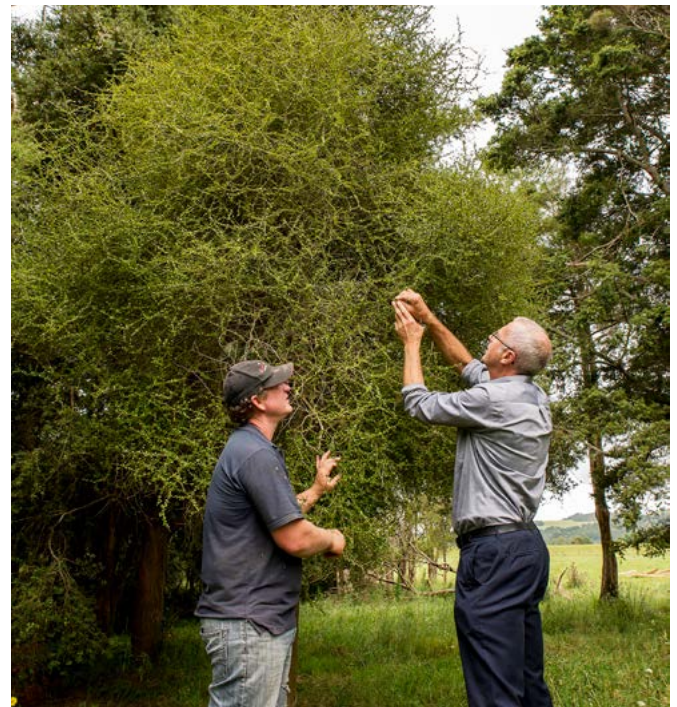
**Living Water is a 10-year partnership** between Fonterra and DOC that is working with farmers, iwi, conservation groups, schools and other agencies

to improve the health of five key catchments in significant dairying regions throughout the country.

It recently funded a study that identified 146 of the rare plants in the Hikurangi catchment. Ninety kohuhu plants were found on Fonterra farmers Steve and Amber Brown's property. They've protected the kohuhu by fencing off the area.

Steve Brown understands the importance of working to preserve land for future generations and support from Living Water helps him do this.

"When we discovered this plant on the farm, and learned there was so little of it left, we knew we had to do something to look after it," Steve says. "I'd already worked with the Living Water team to build a constructed wetland on my farm, so it was good to have their support for this as well."



STEVE BROWN AND TIM BRANDENBURG, FONTERRA PROJECT MANAGER FOR NORTH ISLAND CATCHMENT SITES.

**The Browns' efforts show the value** of the Living Water partnership. The work Steve and Amber have done on their farm highlights the small things people can do to make a big difference to the overall future of our

nation's environment.

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

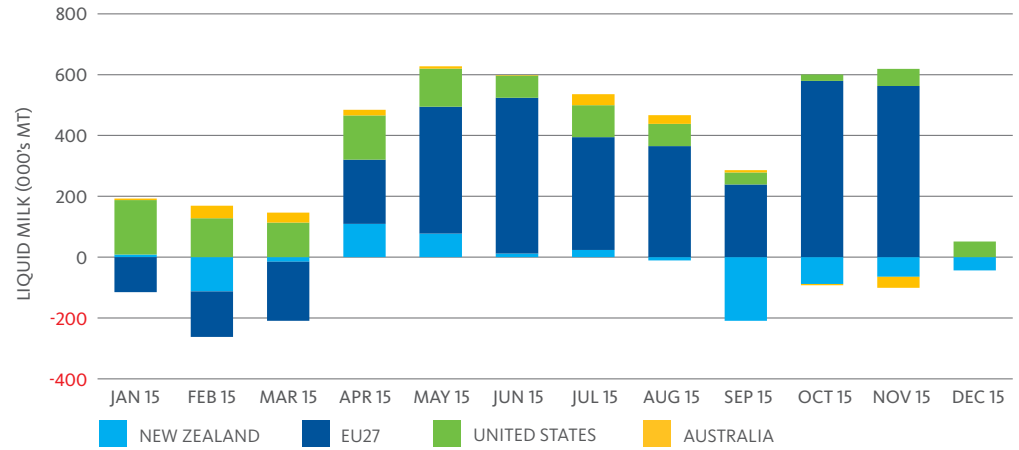
# SUPPLEMENTARY INFORMATION

## 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.

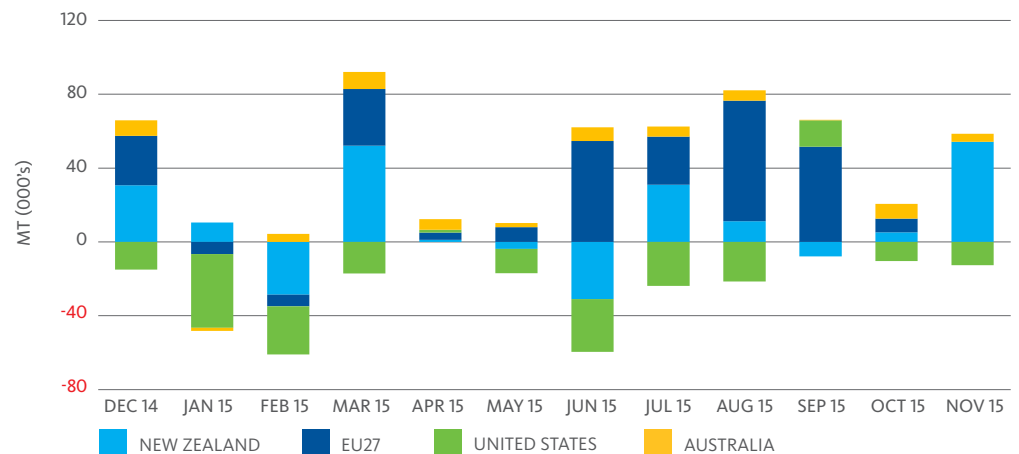
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

### PRODUCTION



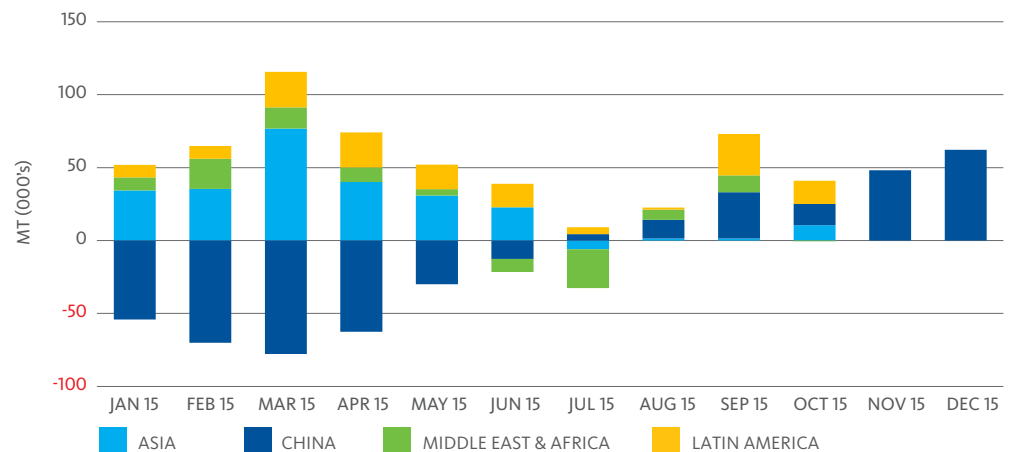
SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

### 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)	JAN 2016	JAN 2015	MONTHLY CHANGE	SEASON-TO-DATE 2015/16	SEASON-TO-DATE 2014/15	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	175.0	178.2	(1.8%)	1,107.3	1,150.2	(3.7%)
North Island	103.6	109.7	(5.5%)	701.2	743.9	(5.7%)
South Island	71.4	68.6	4.1%	406.2	406.3	0.0%
Fonterra Australia	10.5	11.1	(5.3%)	81.2	81.8	(0.8%)

## GDT results

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

	LAST TRADING EVENT (2 FEBRUARY 2016)	YEAR-TO-DATE (FROM 1 AUGUST 2015)
Fonterra Quantity Sold on GDT (Winning MT)	23,876	400,493
GDT Average Winning Price (USD/MT, FAS)	2,276	2,391
Change in GDT Price Index over same period last year	(24.3%)	(12.0%)
Change in GDT Price Index from previous event	(7.4%)	-

# 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.