

# GLOBAL DAIRY UPDATE



- European milk production decreased for the sixth consecutive month, volumes in New Zealand and Australia continued to be impacted by adverse weather conditions.



- US exports continue to grow with a sixth consecutive month of positive growth. Recent export strength out of NZ and the EU appears to be softening.



- Global import growth has softened but remains strong for the year.



- Milk collections have shown signs of recovery, particularly in the North Island. Season forecast revised to 5% decline from previous 7%.

- Fonterra hosts an Investor Day focussed on the Ingredients business unit.
- 30 investors and research analysts heard more about Fonterra's ability to create value across the Ingredients value chain.



- Young Chilean farmers to gain Kiwi experience.
- Milk for Schools now reaching 70% of Kiwi children.



## KEY DATES



22 March 2017  
Interim Results  
Announcement

1 June 2017  
Measurement Date for Share  
Standard 2017/18 Season

September 2017  
Annual Results  
Announcement

1 December 2017  
Compliance Date for Share  
Standard 2017/18 Season



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

## EUROPEAN MILK PRODUCTION DECREASED FOR THE SIXTH CONSECUTIVE MONTH, VOLUMES IN NEW ZEALAND AND AUSTRALIA CONTINUED TO BE IMPACTED BY ADVERSE WEATHER CONDITIONS

### NEW ZEALAND

2%↓

Production change for the 12 months to December 2016

**Total New Zealand milk production** for December was down 3% compared to the same month last year.

For the 12 months to December, milk production is down 2% compared to the same period the previous year.

Adverse weather, particularly through peak months placed downward pressure on volumes.

Fonterra collections have been reported for January, see page 5 for details.

### AUSTRALIA

7%↓

Production change for the 12 months to November 2016

**Australia production** in November decreased 6% compared to the same month last year, as milk supply continues to be impacted by unfavourable pasture conditions.

Production for the 12 months to November is down 7% compared to the same period the previous year.

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

### EUROPEAN UNION

1%↑

Production change for the 12 months to November 2016

**EU production** decreased for the sixth consecutive month with November down 4% compared to the same month last year.

Key milk producing countries contributing to this decline included the UK, down 11%, France, down 7%, and Germany, down 5%.

Production for the 12 months to November is up 1% compared to the same period the previous year.

EU Commission milk deliveries were forecast to increase 0.9% in 2016.<sup>1</sup>

### USA

2%↑

Production change for the 12 months to December 2016

**US production** in December increased 2% compared to the same month last year, with farmers responding to favourable weather conditions and grain prices.

This marks the fourth consecutive month of monthly production increases in excess of 2%.

Milk production for the 12 months to December is up 2% compared to the same period the previous year.

<sup>1</sup> EU Commission Milk Market Observatory – September 2016.



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

## US EXPORTS CONTINUE TO GROW WITH A SIXTH CONSECUTIVE MONTH OF POSITIVE GROWTH. RECENT EXPORT STRENGTH OUT OF NZ AND THE EU APPEARS TO BE SOFTENING

### NEW ZEALAND

**6%↑**

Export change for the 12 months to November 2016

**Total New Zealand dairy exports** in November decreased 5%, or 19,000 MT, compared to the same month last year.

This decline was led by powders, with WMP, SMP (which account for 60% of monthly exports) down a combined 7%.

Exports for the 12 months to November are up 6%, or 191,000 MT, compared to the same period the previous year. The products contributing to this increase include infant formula up 85%, fluid and fresh dairy up 44% and SMP up 10%. New Zealand's largest export category, WMP, is down 3%.

### AUSTRALIA

**4%↑**

Export change for the 12 months to November 2016

**Australia dairy exports** in November increased 10%, or 6,000 MT, compared to the same month last year.

This increase was driven by cheese up 11%, WMP up 51% (albeit off a low base) and fluid and fresh dairy up 2%.

Exports for the 12 months to November are up 4%, or 30,000 MT, compared to the same period the previous year. Fluid and fresh dairy, the largest export category, is performing well, up 20%, offsetting declines in other major product groups, cheese and SMP, down a combined 9%.

### EUROPEAN UNION

**9%↑**

Export change for the 12 months to October 2016

**EU dairy exports** increased 3% in October, or 10,000 MT, compared to the same month the previous year.

While there were gains in smaller product categories (proteins and lactose) the larger contributors to volume (fluid and fresh dairy, WMP and cheese) were collectively flat for the month.

Export growth for the 12 months to October continues to slow with this the third consecutive month with declining growth rates. Exports remain up 9%, or 427,000 MT, compared to the same period last year.

This movement is led by fluid and fresh dairy up 17%, cheese up 14% and infant formula up 11%.

### USA

**2%↑**

Export change for the 12 months to November 2016

**US dairy exports** increased 27% in November, or 40,000 MT, compared to the same month the previous year.

The increase was driven by whey powder up 45%, fluid and fresh dairy up 67% and the largest export category, SMP, up 28%.

Exports have rallied in the last quarter and are now up 2% or 33,000 MT in the 12 months to November, compared to the same period last year.

This growth is driven by WPC/WPI, up 23% and SMP, up 4%. Larger export categories (whey powder and lactose) are up a combined 1%.



## GLOBAL IMPORT GROWTH HAS SOFTENED BUT REMAINS STRONG FOR THE YEAR

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

### LATIN AMERICA

12%↑

Import change for 12 months to October 2016

**Latin America<sup>1</sup> dairy import** volumes increased 6%, or 9,000 MT, in October compared to the same month the previous year.

Cheese, AMF, Butter and Lactose all saw growth in excess of 30%. This was offset by SMP and WMP down a combined 1%.

Imports remain strong for the 12 months to October, up 12%, or 196,000 MT, compared to the same period last year. Cheese, SMP and WMP (which collectively account for 55% of total import volumes) lead this growth, up a combined 17% or 150,000 MT.

### ASIA

5%↑

Import change for 12 months to October 2016

**Asia (excluding China)<sup>2</sup> dairy import** volumes decreased 1% in October compared to the same month the previous year, marking the first monthly decline in six months.

This movement is led by powders, with SMP and WMP down a combined 8,200 MT, or 7%.

Imports for the 12 months to October are up 5%, or 192,000 MT, compared to the same period the previous year. Fluid and fresh dairy (largest product category) is up 15% while gains in smaller categories (caseinate, WPC/WPI) are in excess of 25%.

### MIDDLE EAST & AFRICA

3%↓

Import change for 12 months to October 2016

**Middle East and Africa dairy imports** decreased 11%, or 34,000 MT, in October compared to the same month the previous year. This decrease was led by SMP down 14% and fluid and fresh dairy down 16%.

For the 12 months to October, imports are down 3%, or 134,000 MT, compared to the same period last year.

Declines in fluid and fresh dairy and WMP, down 6% and 5% respectively are offset by gains in smaller product categories with cheese up 2%, MPC/MPI up 13% and infant formula up 2%.

### CHINA

20%↑

Import change for 12 months to December 2016

**China dairy imports** decreased 2%, or 3,000 MT, in December compared to the same month last year. This is largely a result of fluid and fresh dairy, down 15%, SMP, down 27%, and whey powder, down 7%. These declines are offset by WMP, the third largest import category, up 99%.

Imports for the 12 months to December are up 20%, or 389,000 MT, compared to the same period last year.

Fluid and fresh dairy is up 40%, WMP up 21% and whey powder up 14%. SMP is the only major dairy category to have declined, down 8%.

<sup>1</sup> Excludes Venezuela and includes estimates for Chile (August-October) and Nicaragua (January-October).

<sup>2</sup> Includes estimate for Indonesia (August-October) and Macao (October).

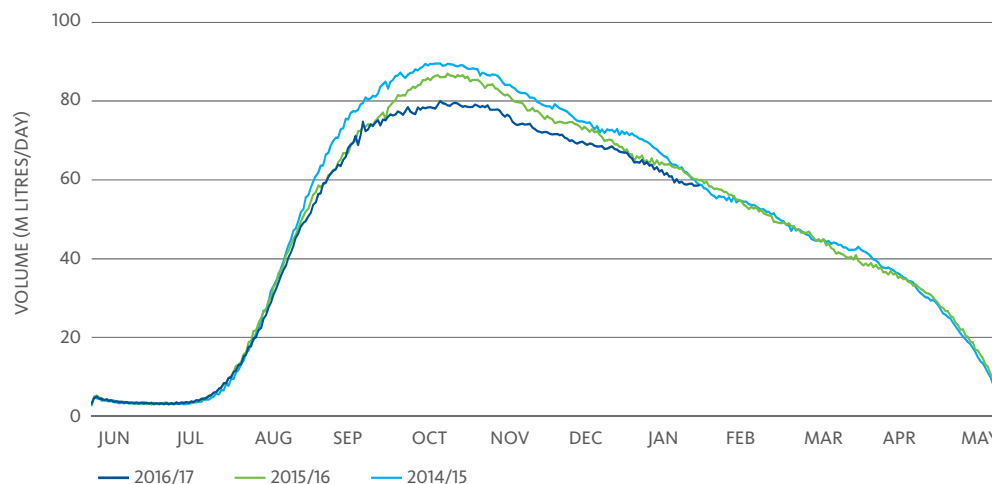
## OUR MARKETS

# FONTERRA MILK COLLECTION 2016/17 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

**5%** ↓

Decrease for the season from 1 June to 31 January

Fonterra's milk collection across New Zealand for the eight months to 31 January reached 1,053 million kgMS, 54 million kgMS lower than last season.

In January, collections reached 173 million kgMS, 1% behind the same month last season.

### NORTH ISLAND

**7%** ↓

Decrease for the season from 1 June to 31 January

**North Island milk collection** in January reached 101 million kgMS, 3% behind January last season.

### SOUTH ISLAND

**2%** ↓

Decrease for the season from 1 June to 31 January

**South Island milk collection** in January reached 72 million kgMS, 1% up on January last season.

### AUSTRALIA

**7%** ↓

Decrease for the season from 1 July to 31 January

Fonterra's milk collection across Australia for the seven months to 31 January reached 76 million kgMS, 5.6 million kgMS lower than last season.

In January milk collection reached 10 million kgMS, 2% behind the same month last season.

### Forecast Fonterra Milk Collection Across New Zealand

**5%** ↓

Forecast decrease for the 2016/17 season

Overall, Fonterra New Zealand milk collections have shown signs of improvement following unfavourable weather conditions throughout the peak months.

This has meant season-to-date volumes have remained 5% behind

last season. The revision factors in drought conditions in Northland.

We have therefore revised the forecast milk collection for the 2016/17 season to be down 5% on last season from the previous forecast decline of 7%.

## OUR MARKETS

# FONTERRA GLOBALDAIRYTRADE RESULTS



Fonterra GDT results at  
last trading event  
**7 February 2017:**

**0.3%** ↓

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

USD **3,595**

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

**20** 000' MT

Fonterra product quantity  
sold on GDT

### BUTTER

**4.8%** ↑

USD 4,593/MT

### AMF

**4.3%** ↑

USD 5,765/MT

### WMP

**1.0%** ↑

USD 3,314/MT

### RENNET CASEIN

**0.4%** ↓

USD 6,445/MT

### SMP

**0.9%** ↓

USD 2,621/MT

### CHEDDAR

**3.6%** ↓

USD 3,798/MT

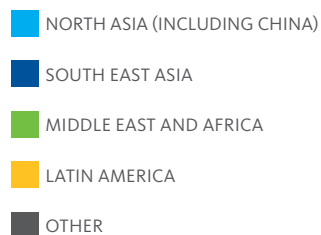
### BMP

**12.6%** ↓

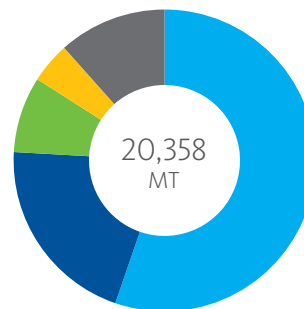
USD 2,432/MT

Fonterra GDT sales  
**by destination:**

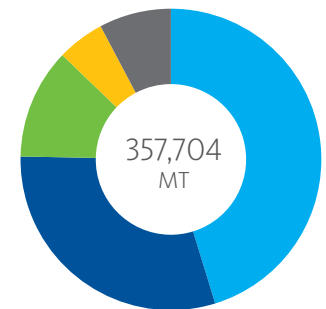
To view more information,  
including a snapshot of the  
rolling year-to-date results –



### LATEST AUCTION



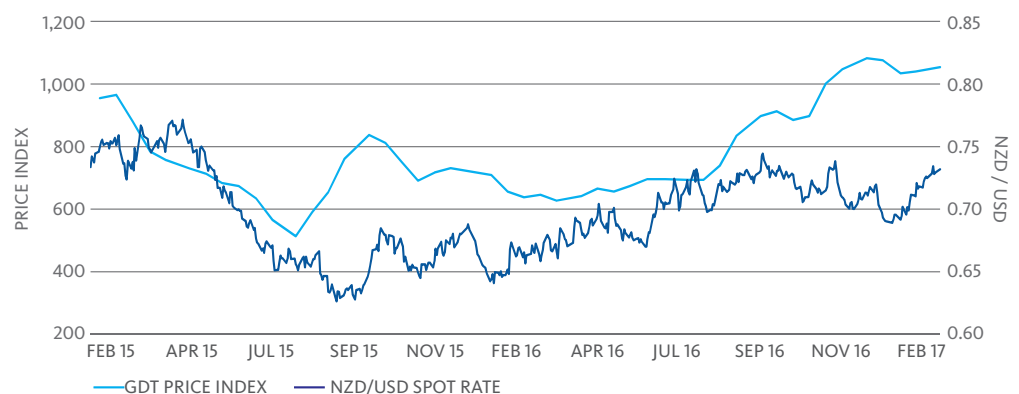
### FINANCIAL YEAR-TO-DATE



► The next trading event will be held on 21 February 2017. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

## Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar  
strengthened throughout the  
month of January, gaining  
over 5% against the USD.







## FONTERRA INGREDIENTS CREATING VALUE FROM INVESTMENTS IN OPTIONALITY

Volatility in world milk prices may be the new normal but this means opportunity for Fonterra.

At a day highlighting its ingredients business, the Co-operative offered investors and research analysts a detailed look at the ingredients operation with the aim of generating better understanding of its business.

Reaction was positive, with comments that Fonterra had done an admirable job in explaining the engine room of its business.

Investors in the Fonterra Shareholders' Fund are key to a well-functioning and fairly-valued Fonterra share price.

Ingredients – products such as milk powder, butter and cheese – account for two-thirds of the Co-operative's earnings.

However it is no simple commodities business. Fonterra creates significant

value in its ingredients operation in addition to the Farmgate Milk Price.

It achieves this by turning its milk into higher value products such as cheese, and by earning good prices out on the global market.

Fonterra has invested significantly in developing processing capacity in the last three years, and is the world's most efficient milk processor. It can optimise and switch production quickly to take advantage of price movements.

Whereas the Farmgate Milk Price is based on products such as whole and skim milk powder, Fonterra also makes higher value dairy ingredients including cheese and proteins.

These products accounted for two-thirds of the price achievement New Zealand

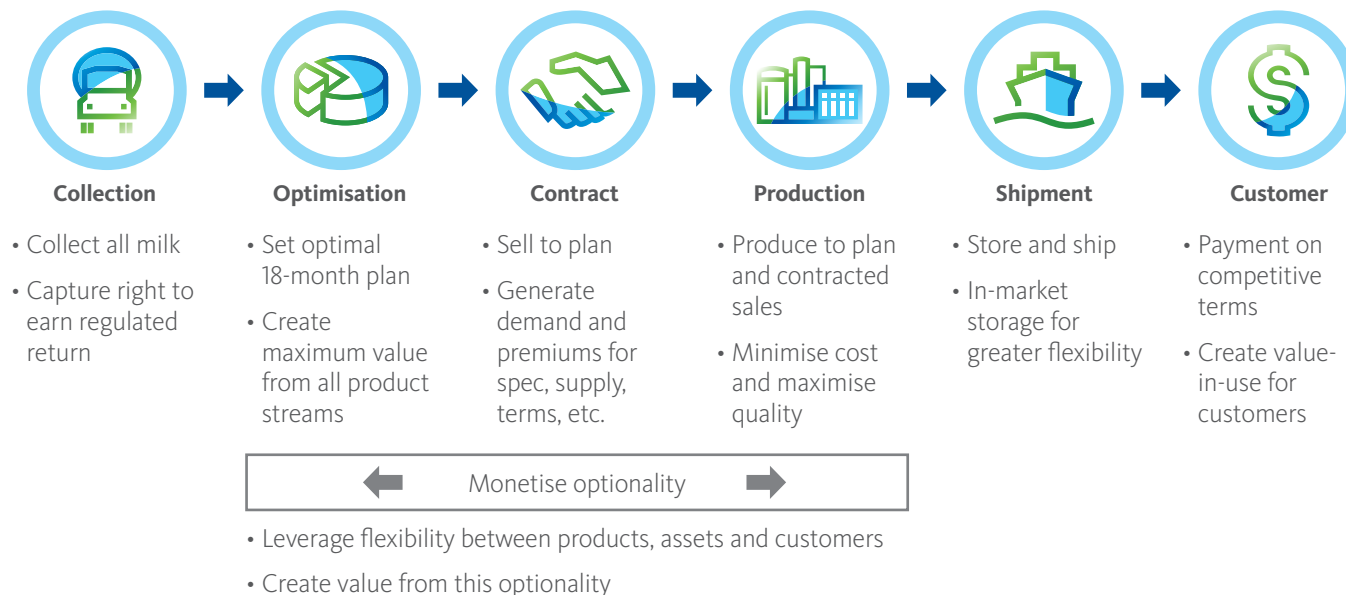
Ingredients achieved in 2016, and significantly boosted overall gross margins.

Over the longer term some product streams generate higher returns, and Fonterra is investing to adjust production mix accordingly, such as the \$240 million investment in a new mozzarella plant.

In addition the Co-operative has invested in product innovation and in developing its markets around the world. For example, cheese consumption in Japan.

A new ingredient Fonterra has developed for use in sports drinks and energy bars with 10 per cent more protein than other offerings is a good example.

### Value created at each stage





## Young Chilean farmers to gain Kiwi experience

Fonterra and its South American partner Prolesur have launched an exchange programme to bring young Chileans to New Zealand for a year.

The students and young farmers from the regions of Los Lagos and Los Rios will live and work on a Kiwi dairy farm for 12 months, starting in June.

The programme has attracted 120 applicants, and participants will be selected in March following personal and technical interviews.

"This initiative seeks to encourage the practice and the acquisition of knowledge, experiences and technologies related to the dairy industry in young people from 18 to 35 years old," Prolesur CEO Juan Carlos Petersen says.



On returning to Chile they will be able to contribute to the development of the dairy sector in the country's southern regions, he says.

Fonterra Chief Operating Officer Farm Source Miles Hurrell says Fonterra farmers are always willing to share their farming knowledge and expertise through the Co-operative's Dairy Development Programme.

"By working with local farmers we're helping to strengthen the local

dairy industry by helping to improve food safety and quality systems and by developing a safe, sustainable local milk supply that local consumers can have confidence in."

During their year in New Zealand the young farmers will be employed as paid farm workers, performing the full range of tasks including milking, caring for the herd and farm maintenance work.

## Milk for Schools now reaching 70% of Kiwi children



Waikato dairy farmers Dan and Abbie Hinton star in a new campaign celebrating Fonterra's Milk for Schools programme.

Since it was launched in 2014 the programme has grown rapidly. Farmers donate the milk for 2.5 million packs of Anchor™ UHT which are delivered to 1450 primary schools each month.

Fonterra Milk for Schools now reaches 70 per cent



of Kiwi primary school children, and it is producing results. Research released in October last year by the University of Auckland showed that 12 per cent more New Zealand children are meeting recommended daily dairy consumption guidelines than before the programme started.

Abbie Hinton says she's seen first-hand the benefits of the programme at their local Tauwhare School, where her daughter attends.

"Not only is it improving nutrition for our kids and building a future generation of milk drinkers, but there's other important life lessons around leadership and sustainability."

Tauwhare principal Fiona Bradley says giving the kids milk after lunch helps keep them focused for the rest of the school day.



"There's an instant feeling of energy when the children have their milk, they come back to the class to learn," she says.



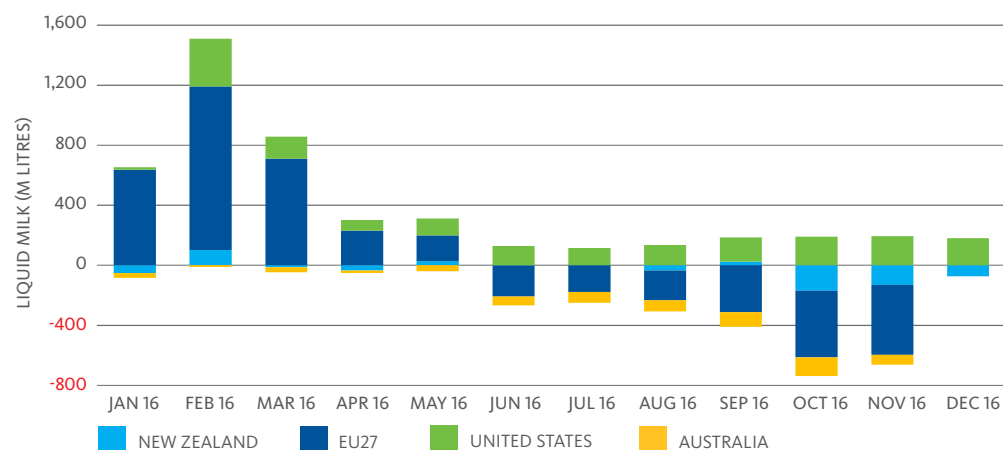
# SUPPLEMENTARY INFORMATION

## 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.

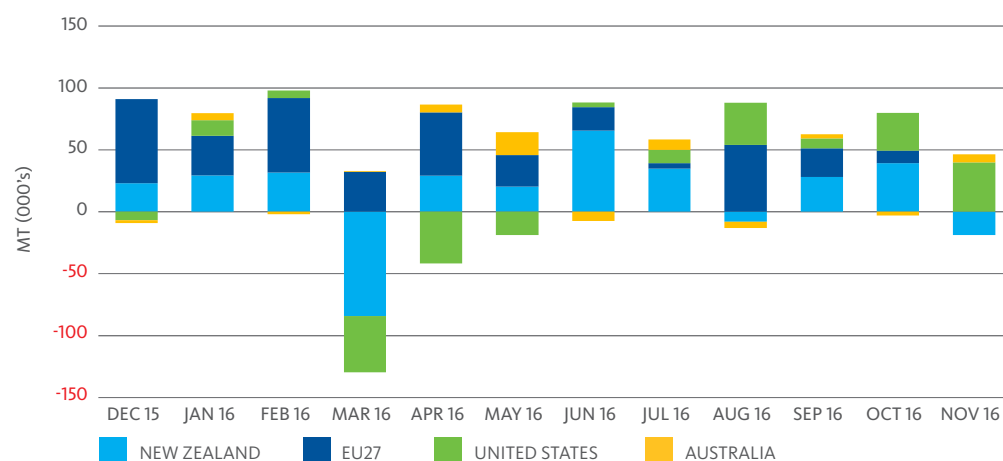
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

### PRODUCTION



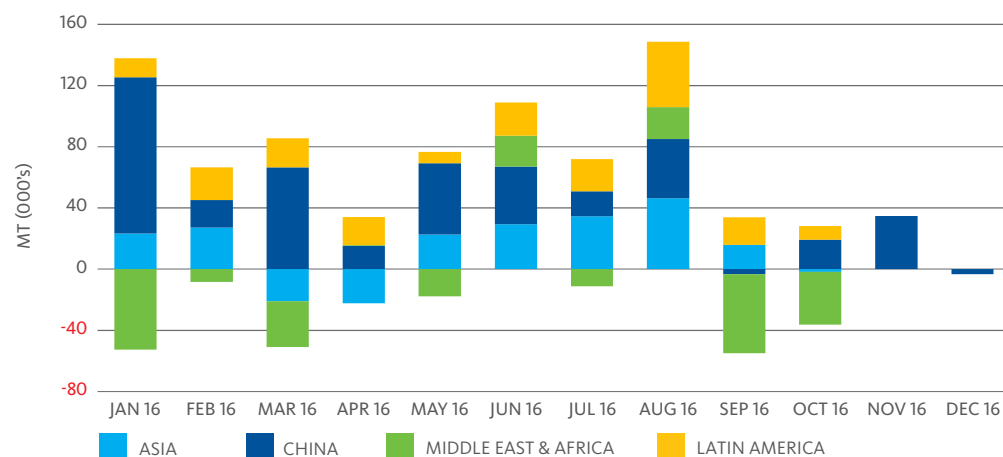
NOTE: Data for EU and Australia to November and New Zealand and US to December.

### EXPORTS



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

### IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to October, 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 2017	JANUARY 2016	MONTHLY CHANGE	SEASON- TO-DATE 2016/17	SEASON- TO-DATE 2015/16	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	172.5	175.0	(1.4%)	1,053.5	1,107.4	(4.9%)
North Island	100.6	103.6	(2.9%)	653.7	701.3	(6.8%)
South Island	71.9	71.4	0.7%	399.8	406.2	(1.6%)
Fonterra Australia	10.3	10.6	(2.2%)	75.7	81.2	(6.9%)

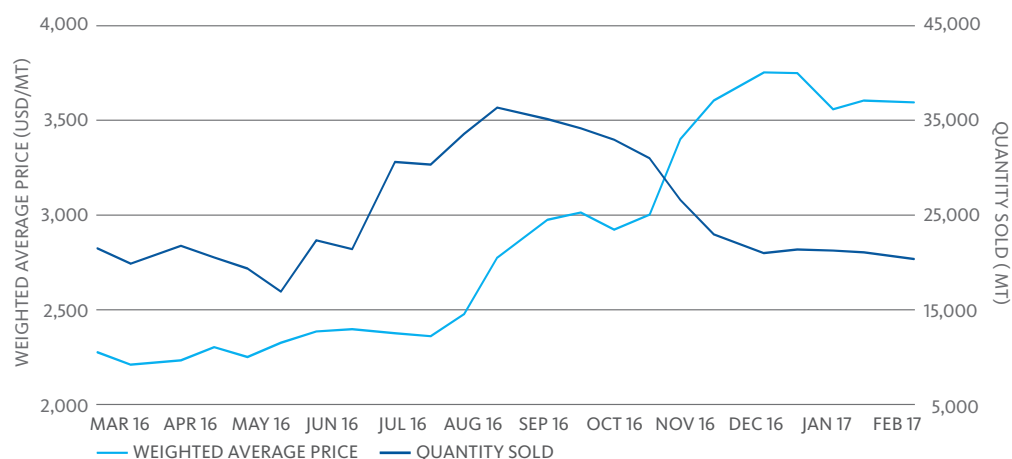
## Fonterra GDT results

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

	LAST TRADING EVENT (7 FEBRUARY 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	20,358	357,704
Change in Quantity Sold on GDT over same period last year	(14.7%)	(10.7%)
Weighted Average Product Price (USD/MT)	3,595	3,180
Change in Weighted Average Product Price over same period last year	57.8%	34.1%
Change in Weighted Average Product Price from previous event	(0.3%)	–

## Fonterra GDT Results

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



# GLOSSARY

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## 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 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.

## 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.