AUGUST 2020

Global Dairy UPDATE

Our Markets

- A good start to the 2020/21 season in New Zealand. Australia nears end of season on improved monthly production. EU and US production improves.
- New Zealand and Australia monthly exports bounce back while EU export growth softens. Strong increase in US exports.
- China monthly imports show strong increase. Latin America, Asia and Middle East and Africa imports continue to decline.
- Fonterra's New Zealand milk collection for the second month of the 2020/21 season was 19.1 million kgMS, up 4.1% on prior season.
- Fonterra's Australia milk collection for July, the first month of the 2020/21 season, was 5.1 million kgMS.

Our Performance

- Teh-han Chow appointed as CEO, Greater China.
- Our Annual Results will be released on 18 September 2020.

Our Co-op

- Kowbucha™ and seaweed: Fonterra's innovation to tackle methane.

Key Dates

18 September 2020
FY20 Annual Results Announcement

5 November 2020
Fonterra Co-operative Group Annual Meeting

20 April 2021
Compliance Date for 2020/21 Season

Global Production

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

CLICK HERE ▶

A good start to the 2020/21 season in New Zealand. Australia nears end of season on improved monthly production. EU and US production improves

NEW ZEALAND

4.6%↑ Change for July 2020 compared to July 2019

0.5%↓ Change for the 12 months to July 2020

New Zealand milk production[1] increased 4.6% on a litres basis in July compared to July last year.

Mild conditions have been favourable to the start of the season's production. Winter milk is also supporting production.

New Zealand milk production for the 12 months to July was 0.5% lower than last year.

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

AUSTRALIA

6.0%↑ Change for May 2020 compared to May 2019

1.1%↓ Change for the 12 months to May 2020

Australia milk production increased 6.0% in May compared to May last year.

Improving seasonal conditions stabilised production in the second half of the 2019/20 season and improved the outlook for the 2020/21 season.

Production for the 12 months to May was down 1.1% on the previous 12 months.

No data is available yet for June production.

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

EUROPEAN UNION/UK

0.9%↑ Change for June 2020 compared to June 2019

0.9%↑ Change for the 12 months to June 2020

EU (including UK) milk production increased by 0.9% in June compared to the same period last year.

The main regions showing an increase in production were Poland (up 4.6%), Ireland (2.9%) and Belgium (3.9%). These were partially offset by continuing declines from Italy, France and Spain.

EU milk production for the 12 months to June was up by 0.9% compared to the same period last year.

USA

1.5%↑ Change for July 2020 compared to July 2019

1.4%↑ Change for the 12 months to July 2020

US milk production increased by 1.5% in July, compared to the same period last year.

Following the relaxing of milk restrictions and cow number increases, US milk production improved year-on-year in July, reversing a three-month trend. Despite the production growth in July, uncertainty linked to the Covid-19 pandemic remains with the potential impact of a second wave.

Milk production for the 12 months to July was 1.4% 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.

Global Exports

New Zealand and Australia monthly exports bounce back while EU export growth softens. Strong increase in US exports

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

CLICK HERE ▶

NEW ZEALAND

9.0%↑
Change for June 2020 compared to June 2019

2.0%↓
Change for the 12 months to June 2020

Total New Zealand dairy exports increased by 9.0%, or 21,672 MT, in June compared to the same period last year.

This was primarily driven by higher volumes of WMP to the Middle East (up 19,442 MT) and partly attributable to timing as May exports were down 7,000 MT. SMP exports to South East Asia also increased in June (up 3,444 MT) and were partially offset by a decrease in cheese (down 3,120 MT).

Exports for the 12 months to June were down by 2.0%, or 70,887 MT, on the previous comparable period. This was primarily driven by butter, AMF, cheese and WMP.

AUSTRALIA

14.8%↑
Change for June 2020 compared to June 2019

8.4%↓
Change for the 12 months to June 2020

Australia dairy exports bounced back from the decline in May, increasing by 14.8%, or 10,099 MT, in June compared to the same period last year.

This was primarily driven by fluid milk products, cheese, whey and SMP, up a combined 10,099 MT.

Exports for the 12 months to June were down 8.4%, or 66,348 MT, on the previous comparable period.

Declines were recorded across a broad range of products with SMP, infant formula, whey, WMP, cheese and butter, down 77,362 MT and partially offset by fluid milk products, up 15,389 MT.

EUROPEAN UNION/UK

3.2%↑
Change for May 2020 compared to May 2019

5.2%↑
Change for the 12 months to May 2020

EU (including UK) dairy exports increased 3.2%, or 15,985 MT, in May compared to the same period last year.

This was mainly driven by increases in whey to China, butter to the US and China, lactose to China and Japan and WMP to Algeria, up a combined 30,737 MT and partially offset by a decrease in SMP and infant formula exports of 16,697 MT.

Exports for the 12 months to May were up 5.2%, or 289,693 MT, on the previous comparable period. Butter, cheese, fluid milk products and whey were the main drivers of this growth, up a combined 263,759 MT. It was partially offset by a decline in SMP of 42,141 MT.

USA

26.5%↑
Change for June 2020 compared to June 2019

7.7%↑
Change for the 12 months to June 2020

US dairy exports increased 26.5%, or 48,414 MT, in June compared to the same period last year.

Strong June export volumes were driven by record shipments of SMP to South East Asia, Egypt and China (up 33,018 MT), and cheese to Mexico (up 8,493 MT).

Exports for the 12 months to June 2020 were up 7.7%, or 173,986 MT on the previous comparable period, driven by SMP, lactose, and WPC up a combined 174,731 MT.

Global Imports

China monthly imports show strong increase. Latin America, Asia and Middle East and Africa imports continue to decline

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

CLICK HERE ▶

LATIN AMERICA

19.9% ↓
Change for May 2020 compared to May 2019

4.5% ↓
Change for the 12 months to May 2020

Latin America dairy import volumes[1] decreased 19.9%, or 35,677 MT, in May compared to the same period last year. This was driven by continued lower volumes of SMP and cheese to Mexico and Brazil, WMP to Brazil and fluid milk products to Haiti, down a combined 29,602 MT.

Imports for the 12 months to May 2020 were down 4.5%, or 88,928 MT, compared to the same period the previous year. Decreases were driven primarily by SMP, WMP, infant formula, and whey, down a combined 93,511 MT, partially offset by increases in WPC, up 15,392 MT.

ASIA

7.6% ↓
Change for May 2020 compared to May 2019

4.9% ↓
Change for the 12 months to May 2020

Asia (excluding China) dairy import volumes[1] decreased 7.6%, or 33,514 MT, in May compared to the same period last year. Decreases were recorded primarily in fluid milk products to Philippines, WMP and SMP to South East Asia, and infant formula to Malaysia, down a combined 37,908 MT.

Imports for the 12 months to May were down 4.9%, or 244,574 MT, compared to the same period the previous year. The main decreases were recorded across SMP, WMP, fluid products, down a combined 246,577 MT.

MIDDLE EAST & AFRICA

6.6% ↓
Change for May 2020 compared to May 2019

4.0% ↓
Change for the 12 months to May 2020

Middle East and Africa dairy import volumes[1] decreased 6.6% or 24,630 MT in May 2020 compared to the same period last year. The main decreases were in fluid milk product to Kenya and Libya, infant formula to Nigeria and butter to Iran and Turkey, down a combined 48,077 MT, and partially offset by increased volumes of SMP of 18,231 MT.

Imports for the 12 months to May 2020 were down 4.0%, or 164,103 MT, compared to May last year driven by decreased imports of fluid milk products, infant formula and butter, down a combined 236,435 MT, offset by increases in SMP.

CHINA

21.4% ↑
Change for June 2020 compared to June 2019

7.6% ↑
Change for the 12 months to June 2020

China dairy import volumes increased 21.4%, or 48,373 MT, in June compared to the same period last year.

The increase was the result of higher volumes in whey, fluid milk products and lactose, up a combined 48,452 MT. China's imports of whey last year were lower due to the impact of African Swine Flu.

Imports for the 12 months to June were up 7.6%, driven by fluid milk products, WMP and whey.

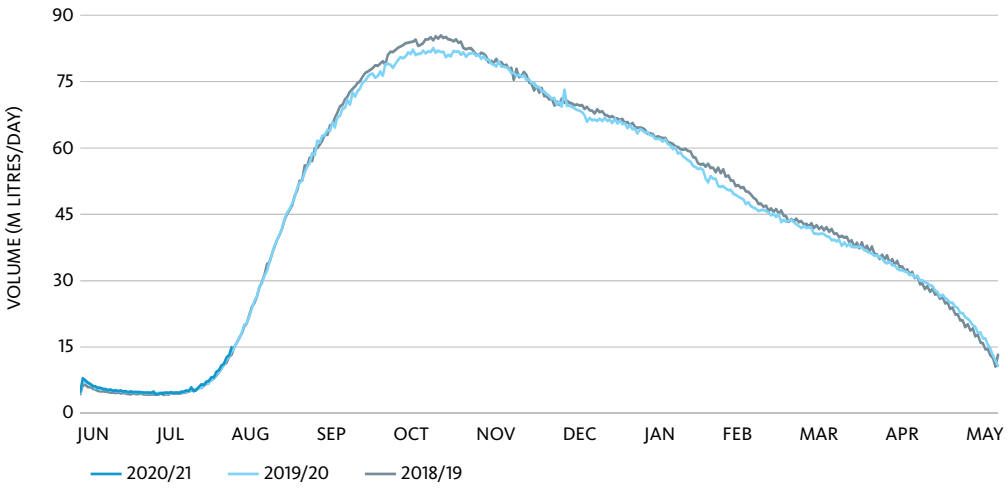
1 Estimates are included for those countries that have not reported data.

Fonterra Milk Collection

To view a table that shows our detailed milk collection in New Zealand and Australia compared to the previous season –

CLICK HERE ▶

New Zealand Milk Collection



NEW ZEALAND

4.1%↑
Change for July 2020 compared to July 2019

3.5%↑
Season to date 1 June to 31 July

Fonterra's New Zealand collection in July was 19.1 million kgMS, 4.1% ahead of the same month last season.

Season-to-date collection was 33.8 million kgMS, up 3.5% on last season.

This represents only around 2% of the full season forecast collection.

Mild weather across most regions led to soil conditions conducive to very good pasture cover. As a result, production is tracking higher than for the same time last season.

NORTH ISLAND

4.2%↑
Change for July 2020 compared to July 2019

2.0%↑
Season to date 1 June to 31 July

North Island milk collection in July was 17.1 million kgMS, 4.2% ahead of the same month last season.

Season-to-date collection was 28 million kgMS, up 2.0% on last season.

Pasture growth has been reported as higher than average, with the mild conditions also limiting pasture damage.

SOUTH ISLAND

3.5%↑
Change for July 2020 compared to July 2019

11.3%↑
Season to date 1 June to 31 July

South Island milk collection in July was 2.0 million kgMS, 3.5% ahead of the same month last season.

Season-to-date collection was 5.8 million kgMS, up 11.3% on last season.

Favourable weather has resulted in good grass growth contributing to animals' good condition.

AUSTRALIA

6.5%↓
Change for July 2020 compared to July 2019

6.5%↓
Season to date 1 July to 31 July

Fonterra's Australia collection in July, the first month of the 2020/21 season, was 5.1 million kgMS, a 6.5% decrease on July last year largely due to a conscious decision to reduce third-party milk intake and focus on value.

July's collection represents only a small percentage of the new season's forecast collection.

The new mandatory Dairy Code is active for the first time this season and is to ensure security over supply with all farmers having to sign a contract for the season.

Fonterra Global Dairy Trade Results

Fonterra GDT results at last trading event **18 August 2020:**

1.5% ↓
Change in Fonterra's weighted average product price from previous event

USD 3,020
Fonterra's weighted average product price (USD/MT)

30.8 000' MT
Fonterra product quantity sold on GDT

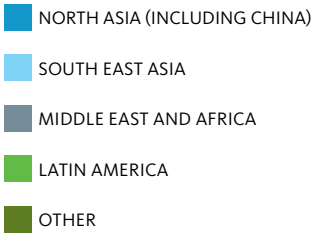
SMP	BUTTER	WMP
1.0% ↑	2.0% ↓	2.2% ↓
USD 2,614/MT	USD 3,370/MT	USD 2,936/MT

AMF	CHEDDAR
3.0% ↓	3.5% ↓
USD 3,873/MT	USD 3,442/MT

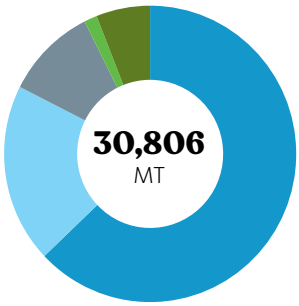
Fonterra GDT sales **by destination**:

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

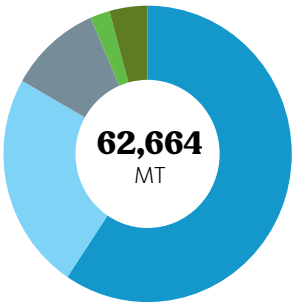
CLICK HERE ▶



LATEST AUCTION



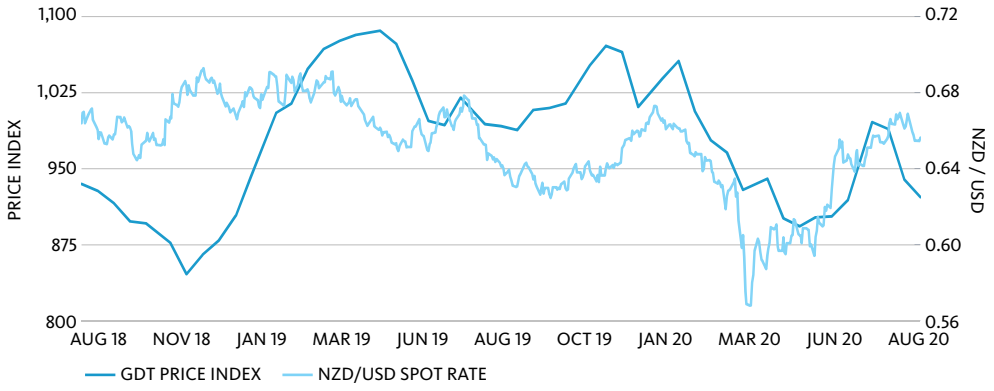
FINANCIAL YEAR-TO-DATE



▶ The next trading event will be held on 1 September 2020. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

General US dollar weakness saw the New Zealand dollar peak at above 67 US cents by the end of July. However, continued accommodative monetary policies from the RBNZ tempered support for the NZD and by late August the exchange rate had settled nearer 65 US cents.



Our Performance

Teh-han Chow appointed as CEO, Greater China

Fonterra has confirmed the appointment of Teh-han Chow to the role of Chief Executive Officer, Greater China.

Fonterra CEO Miles Hurrell says since December 2019, Teh-han has been at the helm in an acting capacity, overseeing the Co-op's overall Greater China business, including Ingredients, Foodservice, Consumer Brands and China Farms.

"He's made an impressive contribution. It's certainly not been a steady-state. Teh-han has been responsible for implementation of our new strategy across the Greater China business, and over the course of this calendar year, has shown outstanding resilience, resourcefulness and empathy in getting his team and our China business through the ongoing challenge of the COVID-19 global pandemic.

"Teh-han's leadership has helped keep us in good shape during a very challenging set of circumstances, and I'm delighted to welcome him formally to the Fonterra Management Team – it's well deserved".

Teh-han has extensive experience leading large organisations in the food sector, as well as proven ability in business growth through innovation and putting customers front and centre.

Previously, he headed up Fonterra's NZMP Ingredients business for Greater China, South & East Asia, where he embedded sustained improvements in business performance, strong customer relationships and empowering leadership.

Before joining Fonterra in 2015, Teh-han was the CEO of Louis Dreyfus in China,

Teh-han Chow, Chief Executive Officer, Greater China

a leading merchant and processor of agricultural goods. He was also Managing Director Greater China for Simplot, a food and agribusiness company.

Teh-han has a Bachelor's degree in Marketing from California State University Northridge and a Master's degree, with honors, in International Management from Thunderbird Graduate School of International Management.

Our Co-op

Kowbucha™ and seaweed: Fonterra's innovation to tackle methane

It's the million-dollar question for New Zealand's largest industry: how can we stop cows from burping?

Although cows in New Zealand produce only a tiny fraction of global Greenhouse Gas – at less than 0.04% – solving this problem could reduce New Zealand's carbon emissions by up to 20 per cent.

Scientists all around the world are working on ideas to reduce the methane produced by livestock, and Fonterra's at the forefront of that innovation in Aotearoa.

At Fonterra's Palmerston North Research and Development Centre (FRDC), we're looking at the potential of two exciting new solutions. The details of the research are kept very much under wraps, because we want New Zealand to lead the way on this, but without giving away too many secrets, we're looking at natural ways to stop the cow producing methane in the first place.

Obviously, there are sensitivities here in terms of ensuring that we don't change the cow's natural biology and the milk it produces. That's 100 per cent natural and we want to keep it that way. And that's where Fonterra's one-hundred years of dairy fermentation expertise comes in.

We have one of the world's largest dairy culture collections to call on. We're using some of these cultures to create new fermentations we're calling Kowbucha™, which could potentially switch off the bad bugs that create the methane in cows. It's early days but initial results with Kowbucha™ have been promising.

FRDC scientists are working with AgResearch and the Pastoral Greenhouse Gas Research Consortium to optimise Kowbucha™ to try to create a cost effective and practical solution to reduce methane.

Another innovation we're working on is in partnership with Australian environmental company Sea Forest, to see if using seaweed in cows' feed can reduce greenhouse gasses. The trial will use Asparagopsis, a seaweed grown naturally in Australia and New Zealand, as a supplement feed for Fonterra herds in Tasmania during the coming milk season.

In laboratory testing led by Australia's national science research agency, CSIRO, the seaweed has shown the potential to reduce the emissions from cows by more than 80 per cent, so we're keen to see if those test results can be replicated, safely, in dairy herds at scale.

As a Co-operative owned by 10,000 farmers, we recognise reducing methane gases is an important priority and it's exciting to see that innovations Fonterra's been quietly working on are now starting to bear fruit. And while it's still early in the testing phase (good science takes time), we're proud to be leading New Zealand's own solutions to the on-farm methane problem.

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.

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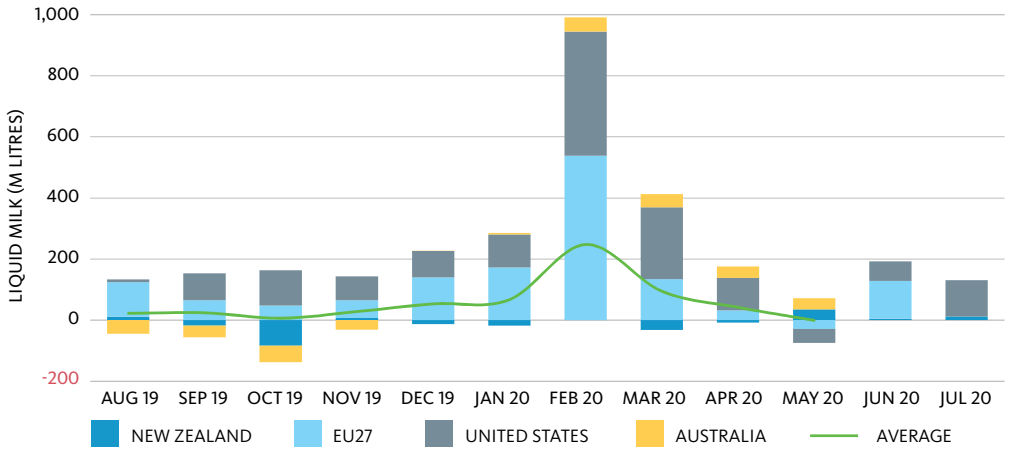
PRODUCTION



NOTE: Data for Australia to May; EU to June; New Zealand and US to July.

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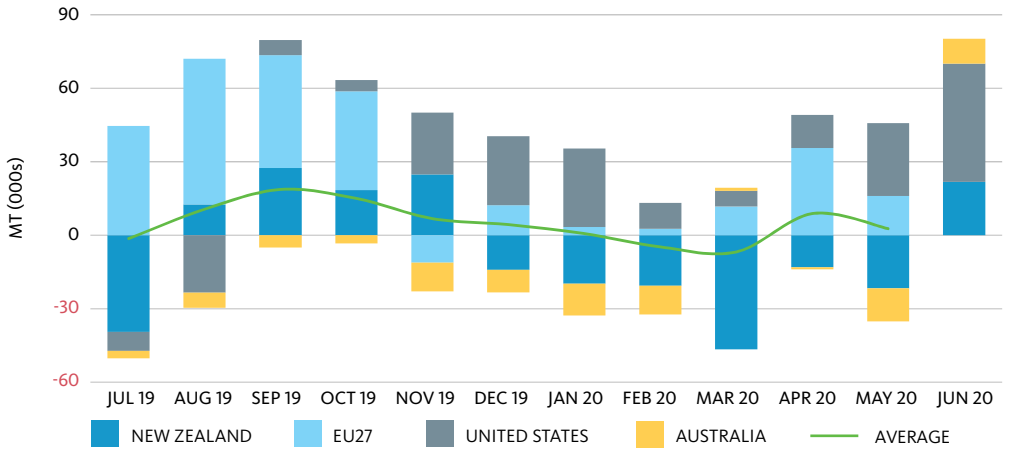
EXPORTS



NOTE: Data for EU to May; New Zealand, Australia and US to June.

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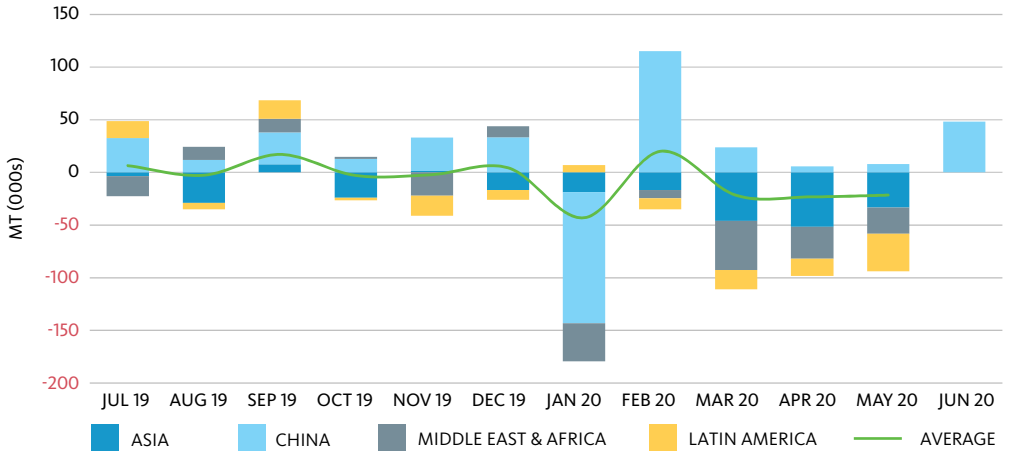
IMPORTS



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

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.

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MILK COLLECTION (MILLION KGMS)	JULY 2020	JULY 2019	MONTHLY CHANGE	SEASON-TO-DATE 2020/21	SEASON-TO-DATE 2019/20	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	19.1	18.3	4.1%	33.8	32.7	3.5%
North Island	17.1	16.4	4.2%	28.1	27.5	2.0%
South Island	2.0	1.9	3.5%	5.8	5.2	11.3%
Australia	5.1	5.4	(6.5%)	5.1	5.4	(6.5%)

Fonterra GDT results

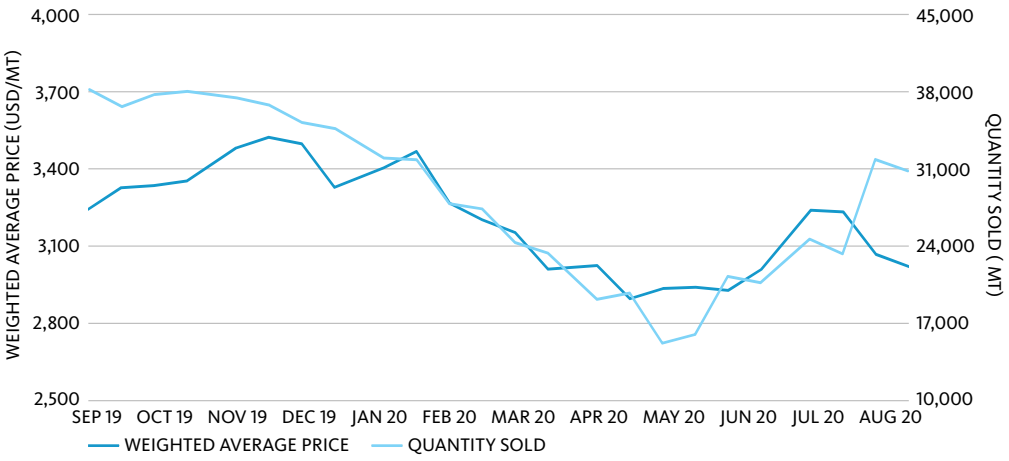
This table provides more information on the latest results, including a snapshot of the year-to-date results.

	LAST TRADING EVENT (18 AUGUST 2020)	YEAR-TO-DATE (FROM 1 AUGUST 2020)
Quantity Sold on GDT (Winning MT)	30,806	62,664
Change in Quantity Sold on GDT over same period last year	(7.2%)	(6.2%)
Weighted Average Product Price (USD/MT)	3,020	3,044
Change in Weighted Average Product Price over same period last year	(8.4%)	(7.8%)
Change in Weighted Average Product Price from previous event	(1.5%)	–

Fonterra GDT results

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

BACK TO SUMMARY ▶



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