OCTOBER 2020

Global Dairy UPDATE

Our Markets

- New Zealand production in line with last season. Favourable start to Australia's new season. US monthly production increases, EU softens.
- US and EU exports continue to increase. Significant increase in New Zealand and Australia monthly exports.
- Latin America monthly imports decline. Middle East and Africa, China and Asia imports increase.
- Fonterra's New Zealand milk collection reached 314 million kgMS which accounts for around 20% of forecast total season production.
- Fonterra's Australia milk collection for September increased 1.3% compared to last season, to 10.9 million kgMS.

Our Performance

- Fonterra agrees to sell China farms.
- Measuring greenhouse gas emissions farm by farm.

Our Co-op

- New Zealand's first plant-based milk bottle.

Key Dates

5 November 2020
Fonterra Co-operative Group Annual Meeting

9 November 2020
Fonterra Shareholders' Fund Annual Meeting

4 December 2020
FY21 Q1 Business Update

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 ▶

New Zealand production in line with last season. Favourable start to Australia's new season. US monthly production increases, EU softens

NEW ZEALAND

1.6%↑ Change for September 2020 compared to September 2019

0.1%↑ Change for the 12 months to September 2020

New Zealand milk production[1] increased 1.6% on a litres basis in September compared to September last year.

Following a favourable start to the season, milk production growth has eased in September as a result of dry weather across most of the North Island and a cold snap in the South Island.

New Zealand milk production for the 12 months to September was 0.1% higher than last year.

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

AUSTRALIA

3.5%↑ Change for August 2020 compared to August 2019

1.4%↑ Change for the 12 months to August 2020

Australia milk production increased 3.5% in August compared to August last year.

Milk production is increasing as most regions have benefitted from rain, despite parts of Queensland starting to dry and more moisture is needed.

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

Australia milk production for the 12 months to August was 1.4% higher than last year.

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

EUROPEAN UNION/UK

0.1%↑ Change for August 2020 compared to August 2019

0.1%↓ Change for the 12 months to August 2020

EU (including UK) milk production increased by 0.1% in August compared to the same period last year.

The modest increase in production was led by Poland (up 2%) and Ireland (2.9%) but largely offset by declines from key producing countries such as the Netherlands (down 1.5%), Germany (0.8%), France (0.9%) and UK (0.9%) as a result of heatwaves impacting milk collections.

EU milk production for the 12 months to August was down by 0.1% compared to the same period last year.

USA

2.3%↑ Change for September 2020 compared to September 2019

1.7%↑ Change for the 12 months to September 2020

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

Stronger milk per cow and recovering herd sizes are driving the higher US milk production in September.

Milk production for the 12 months to September was 1.7% 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

US and EU exports continue to increase. Significant increase in New Zealand and Australia monthly exports

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

CLICK HERE ▶

NEW ZEALAND

13.8% ↑
Change for August 2020 compared to August 2019

1.2% ↓
Change for the 12 months to August 2020

Total New Zealand dairy exports increased by 13.8%, or 17,973 MT, in August compared to the same period last year.

Exports increased in August, driven mainly by higher WMP shipments to China, up 15,599 MT, and cheese to Japan and China, up 4,737 MT.

Exports for the 12 months to August were down by 1.2%, or 40,505 MT, on the previous comparable period. This was primarily driven by SMP, fluid milk products, infant formula and AMF but offset by increases in WMP.

AUSTRALIA

32.6% ↑
Change for August 2020 compared to August 2019

5.8% ↓
Change for the 12 months to August 2020

Australia dairy exports increased by 32.6%, or 16,720 MT, in August compared to the same period last year.

This was primarily driven by fluid milk products, SMP and cheese to China, up a combined 15,222 MT.

Exports for the 12 months to August were down 5.8%, or 45,323 MT, on the previous comparable period.

Declines were recorded across a broad range of products with infant formula, SMP, WMP, cheese, and whey down a combined 53,555 MT, and partially offset by fluid milk products, up 11,922 MT.

EUROPEAN UNION/UK

10.8% ↑
Change for July 2020 compared to July 2019

6.1% ↑
Change for the 12 months to July 2020

EU (including UK) dairy exports increased by 10.8%, or 54,391 MT, in July compared to the same period last year.

This was driven by increases across most product categories but more specifically, fluid milk products and whey to China, cheese to Japan, and WMP to Algeria.

Exports for the 12 months to July were up 6.1%, or 335,963 MT, on the previous comparable period. Butter, cheese, fluid milk products and whey were the main drivers of this growth, up a combined 323,682 MT. This was partially offset by a decline in SMP of 77,443 MT.

USA

14.7% ↑
Change for August 2020 compared to August 2019

12.2% ↑
Change for the 12 months to August 2020

US dairy exports increased 14.7%, or 21,372 MT, in August compared to the same period last year.

Exports continue to grow for the 12th consecutive month, with large volumes of SMP to South East Asia, cheese to Mexico, and whey to China as China rebuilds its inventory levels and hog herds following last year's African swine flu.

Exports for the 12 months to August 2020 were up 12.2%, or 271,027 MT, on the previous comparable period, driven by SMP, WPC and lactose, up a combined 240,622 MT.

Global Imports

Latin America monthly imports decline. Middle East and Africa, China and Asia imports increase

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

CLICK HERE ▶

LATIN AMERICA

26.4% ↓
Change for July 2020 compared to July 2019

4.2% ↓
Change for the 12 months to July 2020

Latin America dairy import volumes[1] decreased 26.4%, or 42,993 MT, in July compared to the same period last year. This was driven by lower volumes of SMP to Mexico.

Imports for the 12 months to July 2020 were down 4.2%, or 74,752 MT, compared to the same period the previous year.

Decreases were driven primarily by WMP, infant formula, SMP and butter, down a combined 66,863 MT.

ASIA

1.7% ↑
Change for July 2020 compared to July 2019

3.8% ↓
Change for the 12 months to July 2020

Asia (excluding China) dairy import volumes[1] increased 1.7%, or 7,139 MT, in July compared to the same period last year. Increases were recorded primarily in SMP to South East Asia, lactose to India and the Philippines, up a combined 24,873 MT, and partially offset by lower imports of WMP and whey.

Imports for the 12 months to July were down 3.8%, or 193,180 MT, compared to the same period the previous year.

Decreases were recorded across WMP, SMP, fluid products, down a combined 228,306 MT, and offset partially by increased volumes of lactose, up 46,394 MT.

MIDDLE EAST & AFRICA

10.1% ↑
Change for July 2020 compared to July 2019

7.5% ↓
Change for the 12 months to July 2020

Middle East and Africa dairy import volumes[1] increased 10.1%, or 28,764 MT in July 2020 compared to the same period last year. Increases were driven principally by higher volumes of WMP to Algeria and SMP to Ethiopia and Saudi Arabia, up a combined 39,653 MT, and partially offset by lower volumes of fluid milk products and infant formula.

Imports for the 12 months to July 2020 were down 7.5%, or 300,703 MT, compared to July last year, driven by decreases in fluid milk products, infant formula, butter and cheese, down a combined 424,952 MT, and offset by increases in SMP.

CHINA

7.8% ↑
Change for August 2020 compared to August 2019

8.3% ↑
Change for the 12 months to August 2020

China dairy import volumes increased by 7.8%, or 20,619 MT, in August compared to the same period last year.

The increase was the result of higher volumes of fluid milk products and whey, up a combined 32,226 MT. China is working towards rebuilding its hog herds and hence increasing its whey imports for feed consumption. WMP imports continued to decline, likely due to high levels of inventories.

Imports for the 12 months to August were up 8.3%, or 252,529 MT, driven by fluid milk products, whey and WMP.

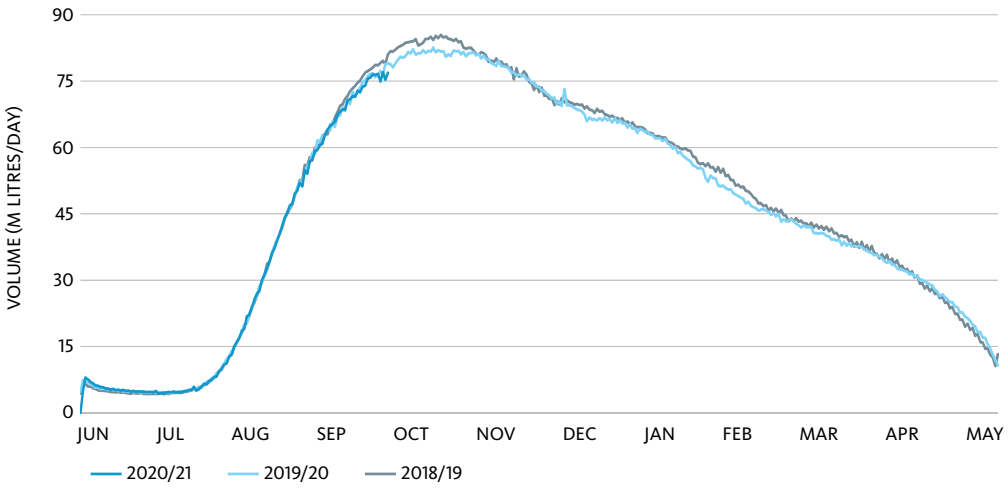
1 Estimates are included for those countries that have not reported data.

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

0.4%↑
Change for September 2020 compared to September 2019

1.6%↑
Season to date 1 June to 30 September

Fonterra's New Zealand collection for September was 179.8 million kgMS, up 0.4% on last September.

Season-to-date collection to the end of September was 314.4 million kgMS, up 1.6% on the same point last season.

September milk production is largely in line with the prior season, reflecting the good early season conditions this year, partially offset by the impact of late September snow in the lower South Island.

Conditions became increasingly dry across the month, particularly in the northern and eastern regions of both islands. Production has begun to flatten in October as a result of the continuation of these dry conditions.

NORTH ISLAND

1.2%↑
Change for September 2020 compared to September 2019

2.0%↑
Season to date 1 June to 30 September

North Island milk collection in September was 113.5 million kgMS, up 1.2% on last September.

Season-to-date collection was 215.1 million kgMS, up 2.0% on last season

Overall, North Island production for the month and season-to-date remained ahead of the prior season.

The upper North Island was classified as extremely dry with less than half of normal rainfall for September.

SOUTH ISLAND

1.0%↓
Change for September 2020 compared to September 2019

0.8%↑
Season to date 1 June to 30 September

South Island milk collection in September was 66.3 million kgMS, down 1.0% on September last season.

Season-to-date collection was 99.3 million kgMS, up 0.8% on last season.

Heavy snowfall in the last few days of September hampered collection across the Southland/Otago region and this is reflected in the decrease in September South Island collections.

AUSTRALIA

1.3%↑
Change for September 2020 compared to September 2019

0.3%↑
Season to date 1 July to 30 September

Fonterra's Australia collection was 10.9 million kgMS, a 1.3% increase on September last season.

Fonterra collections across Australia for the three months to 30 September reached 23.2 million kgMS, flat on the same period last season.

The La Niña weather system is delivering wetter and cooler conditions, and this is starting to hamper pasture production, silage and fodder harvest. However, the La Niña is also delivering a much needed recovery in soil moisture profiles and water storage.

Fonterra Global Dairy Trade Results

Fonterra GDT results at last trading event **20 October 2020:**

0.3%↑
Change in Fonterra's weighted average product price from previous event

USD 3,179
Fonterra's weighted average product price (USD/MT)

33.9 000' MT
Fonterra product quantity sold on GDT

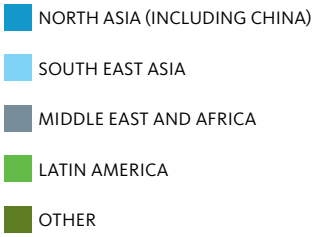
BUTTER	CHEDDAR	WMP
3.3%↑	2.9%↑	0.1%↓
USD 3,678/MT	USD 3,803/MT	USD 3,037/MT

SMP	AMF
0.5%↓	0.5%↓
USD 2,872/MT	USD 4,110/MT

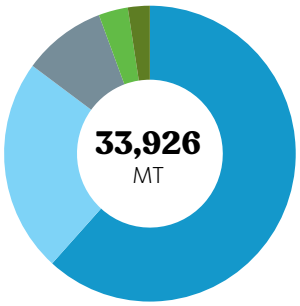
Fonterra GDT sales **by destination**:

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

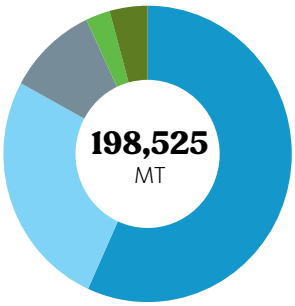
CLICK HERE ▶



LATEST AUCTION



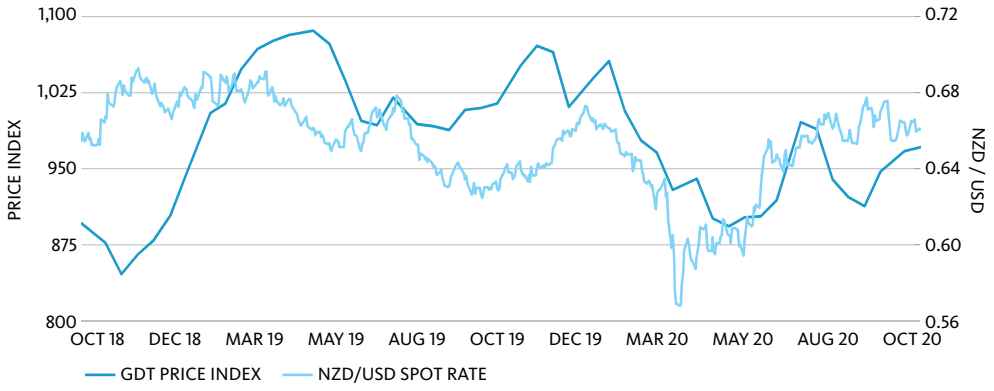
FINANCIAL YEAR-TO-DATE



▶ The next trading event will be held on 3 November 2020. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

Global economies, including New Zealand, continued to recover from the considerable collapse experienced as a result of COVID-19 and the implementation of associated lockdown measures. This return toward economic normality resulted in relative stability for the NZD and financial markets.



Our Performance

Fonterra agrees to sell China farms

Fonterra has agreed to sell its China farms for a total of $555 million (RMB 2.5 billion[1]), after successfully developing the farms alongside local partners.

Inner Mongolia Natural Dairy Co., Ltd, a subsidiary of China Youran Dairy Group Limited (Youran), has agreed to purchase Fonterra's two farming-hubs in Ying and Yutian for $513 million (RMB 2.31 billion[1]).

Separately, Fonterra has agreed to sell its 85% interest in its Hangu farm to Beijing Sanyuan Venture Capital Co., Ltd. (Sanyuan), for $42 million (RMB 190 million[1]). Sanyuan has a 15% minority shareholding in the farm and exercised their right of first refusal to purchase Fonterra's interest.

CEO Miles Hurrell says in building the farms, Fonterra has demonstrated its commitment to the development of the Chinese dairy industry.

"We've worked closely with local players, sharing our expertise in farming techniques and animal husbandry, and contributed to the growth of the industry.

"We don't shy away from the fact that establishing farms from scratch in China has been challenging, but our team has successfully developed productive model farms, supplying high quality fresh milk to the local consumer market. It's now time to pass the baton to Youran and Sanyuan to continue the development of these farms."

Mr Hurrell says the sale of the farms will allow the Co-op to prioritise the areas of its business where it has competitive advantages.

"For the last 18 months, we have been reviewing every part of the business to ensure our assets and investments meet the needs of the Co-op today. Selling the farms is in line with our decision to focus on our New Zealand farmers' milk.

"China remains one of Fonterra's most important strategic markets, receiving around a quarter of our production. Selling the farms will allow us to focus even more on strengthening our Foodservice, Consumer Brands and Ingredients businesses in China.

"We will do this by bringing the goodness of New Zealand milk to Chinese customers in innovative ways and continuing to partner with local Chinese companies to do so. Our investment in R&D and application centres in China will support this direction," says Mr Hurrell.

Completion of the sale, which is subject to anti-trust clearance and other regulatory approvals in China, is expected to occur within this financial year.

As previously announced, through the sale process and strategic review of our China Farms we gained additional information and further insights and, as a result, revised down the valuation of these assets.

The transaction value is subject to customary purchase price adjustments, and exchange rate movements. Any gains or losses on the sale would be normalised upon completion of the sale[2].

Fonterra expects to use the cash proceeds from the two transactions to pay down debt, as part of its previously announced overall debt reduction programme.

1 Based on an RMB to NZD conversion rate of 4.5.

2 The announced forecast earnings will continue to reflect only the underlying performance of the business.

Our Performance

Measuring greenhouse gas emissions, farm by farm

They're hot off the press and intended to help take the heat out of climate change.

Fonterra farmers are already among the world's most sustainable producers of milk and now have an additional tool in their sustainability toolbox.

Over the last few days, Fonterra farmers have been receiving unique Greenhouse Gas (GHG) emissions profiles for their farms – the first time such a tool has been introduced in New Zealand at scale. The profiles form part of a Farm Environmental Report – which combines a GHG Report and Nitrogen Risk Scorecard.

Fonterra Director On-Farm Excellence, Charlotte Rutherford, says the reports are designed to provide useful insights for farmers to help identify opportunities for improvements on farm – providing indicators such as the estimated level of biological methane and nitrous oxide emissions per hectare, and the amount of emissions per kilogram of milk solids.

"One of the most important steps in improving your emissions profile is understanding where your emissions come from, and that's what this report does.

"As well as being a very practical step toward helping New Zealand meet climate change commitments, the Environmental Report supports our strategy to meet growing global demand for food that's kind to the planet.

"New Zealand milk is already among the most sustainably produced in the world, but with increasing customer and consumer motivation linked to climate change, we need to ensure we're continuing to position ourselves for the future – from both a regulatory and market perspective.

"Today 81% of consumers feel strongly that companies should help improve the environment[1]. Our customers are responding to this by setting some bold goals to reduce their emissions profile over the coming years and there's an opportunity for farmers to support them. For example, Nestlé has a target for net zero emissions by 2050 and Starbucks aims to reduce carbon emissions by 50% by 2030," says Charlotte.

Once the reports are in farmers' hands, the focus will turn to implementing practical and sensible solutions to help reduce emissions.

South Wairarapa Farmer Aidan Bichan is one of around 100 farmers who took part in the original pilot in 2018. Aidan runs a 900-cow dairy farm near Featherston and says knowing his farm emissions profile prompted his team to make some practical changes, including halving the amount of nitrogen fertilizer applied on farm.

"It hasn't really impacted production because we're getting more efficient use of that nitrogen. We've changed the timing and the rate of application, and we're a lot more careful about how we use it."

1 https://www.nielsen.com/us/en/insights/report/2018/the-education-of-the-sustainable-mindset (Nielson).

Our Co-op

New Zealand's first plant-based milk bottle

Anchor™ has added to its Blue range, with a new plant-based 2L bottle. It's made from sugarcane, which is natural, renewable and sustainably-sourced and a great alternative to bottles made from non-renewable sources like fossil fuels.

The benefits continue – sugarcane captures CO_2 from the atmosphere as it grows, resulting in a bottle that also has a low carbon footprint – around 85% less climate change impact in terms of CO_2 than one made using fossil fuels.

The sugarcane is made into plant-based HDPE plastic in Brazil and the bottle itself is made in New Zealand. The plant-based milk bottle is 100% kerbside recyclable, which aligns with Fonterra's commitment to have all packaging reusable, recyclable or compostable by 2025.

According to research from the Sustainable Business Council, 71% of Kiwis are actively researching the sustainability practices of brands before making a product purchase. We know sustainability is important to New Zealanders and we want to give consumers an option to make change for good.

The plant-based bottle follows hot on the heels of Anchor™'s launch of Simply Milk in July, which is New Zealand's first carbonzero milk.

This plant-based milk bottle is also an important component in the Co-operative's wider sustainability strategy. We have committed to moving towards renewable energy in transport and manufacturing and finding ways to manage and reduce our emissions over the whole supply chain.

Research into the new bottle shows that people are looking for products that are sustainably produced and they liked the plant-based bottle concept versus traditional fossil fuel based plastic alternatives.

Anchor™ has been part of New Zealand communities for 134 years and during this time it has innovated with a range of different milks and new packaging that respond to changing consumer needs.

Initially the new plant-based milk bottle is available in supermarkets, dairies and convenience stores and cafes across New Zealand's North Island – with a view to expand distribution and product ranging based on consumer response.

An independent life cycle assessment of the bottle has also concluded this plant-based plastic HDPE also has a lower carbon footprint than conventional fossil fuel-based HDPE, which most plastic milk bottles in New Zealand are made from.

To verify our sustainability claims and help make this information more accessible and transparent to consumers, each Anchor™ plant-based bottle will have a unique QR code, that will take consumers to the Provenance.org platform, a market leader in supply chain transparency. Here, consumers can see the story and the facts behind our plant based bottle and broader sustainability initiatives.

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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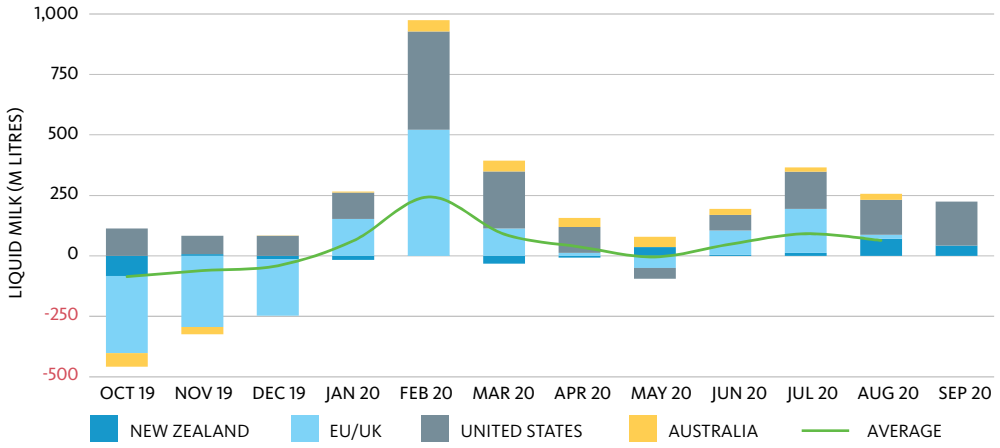
PRODUCTION



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

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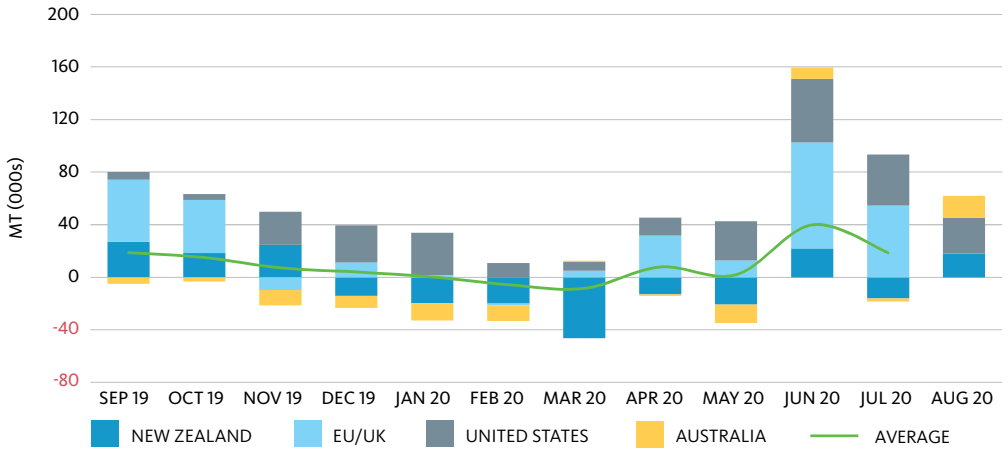
EXPORTS



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

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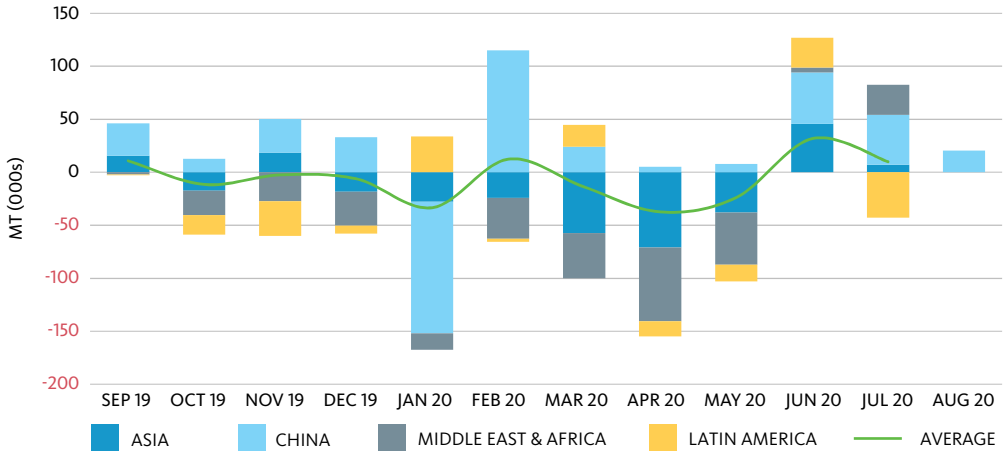
IMPORTS



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

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

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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)	SEPTEMBER 2020	SEPTEMBER 2019	MONTHLY CHANGE	SEASON-TO-DATE 2020/21	SEASON-TO-DATE 2019/20	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	179.8	179.1	0.4%	314.4	309.4	1.6%
North Island	113.5	112.1	1.2%	215.1	210.9	2.0%
South Island	66.3	66.9	(1.0%)	99.3	98.5	0.8%
Australia	10.9	10.8	1.3%	23.2	23.2	0.3%

Fonterra GDT results

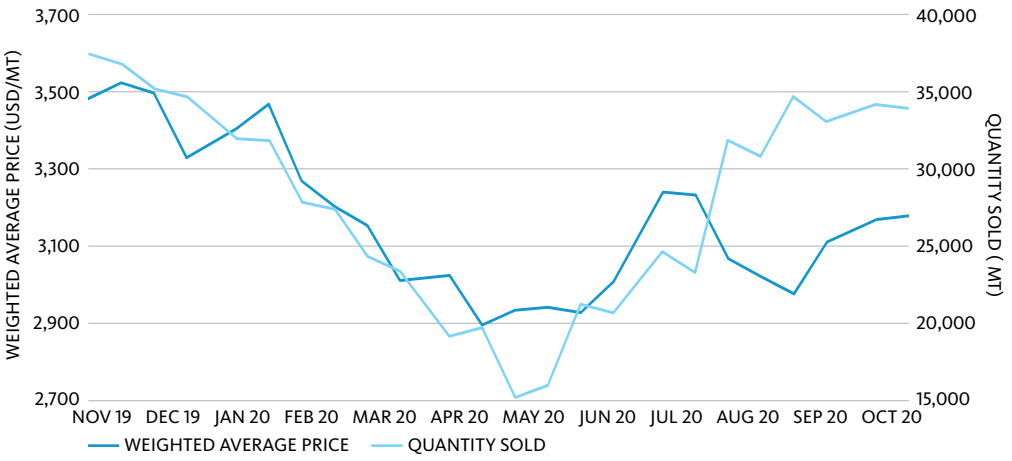
This table provides more information on the latest results, including a snapshot of the year-to-date results.

	LAST TRADING EVENT (20 OCTOBER 2020)	YEAR-TO-DATE (FROM 1 AUGUST 2020)
Quantity Sold on GDT (Winning MT)	33,926	198,525
Change in Quantity Sold on GDT over same period last year	(10.8%)	(8.7%)
Weighted Average Product Price (USD/MT)	3,179	3,088
Change in Weighted Average Product Price over same period last year	(5.2%)	(6.7%)
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.

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