

JANUARY 2021

Global Dairy UPDATE



- December production in New Zealand flat on last year. Australia monthly production flat. US and EU monthly production increased relative to last year.

- Darfield site adds new shift to meet cream cheese demand.



- New Zealand and Australia exports increased in November. EU and US monthly exports down.



- China imports continue to increase and Latin America monthly imports also up. Decline in Middle East and Africa and Asia imports.

- Promising plantain trial looking good for the planet.



- Fonterra's season-to-date New Zealand milk collection reached 902.8 million kgMS at the end of December, down 0.7% on last season.
- Fonterra's Australia milk collection for December increased 1.3% to 11.4 million kgMS, but was down 2.2% for the season to date relative to last season.

Key Dates



28 February 2021

Final Date for Application to Supply Fonterra

17 March 2021

FY21 Interim Results Announcement

20 April 2021

Share Standard Compliance Date for 2020/21 Season

May 2021

FY21 Q3 Business Update



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

December production in New Zealand flat on last year. Australia monthly production flat. US and EU monthly production increased relative to last year

NEW ZEALAND

0.7%↑

Change for December 2020 compared to December 2019

0.4%↑

Change for the 12 months to December 2020

New Zealand milk production¹ was relatively flat in December compared to December last year increasing 0.7% on a litres basis (up 1.0% on a milk solids basis). Following a 2.5% drop year-on-year in November driven by challenging weather conditions, milk production growth has improved in December as milder and drier weather settled in. New Zealand milk production for the 12 months to December was also relatively flat on last year at 0.4% higher. Fonterra collections are reported for December, see page 5 for details.

AUSTRALIA

0.0%↓

Change for November 2020 compared to November 2019

3.0%↑

Change for the 12 months to November 2020

Australia milk production was flat in November compared to November 2019. Warm and wet weather continued to improve pasture growth through spring though smaller herds, a drop in farm numbers and labour challenges impacted milk production growth. Dairy Australia expects milk production to track towards the lower end of the current 2020/21 growth range of 1-3%. Australia milk production for the 12 months to November was 3.0% higher than last year. Fonterra collections in Australia are reported for December, see page 5 for details.

EUROPEAN UNION/UK

1.1%↑

Change for November 2020 compared to November 2019

0.8%↑

Change for the 12 months to November 2020

EU (including UK) milk production increased by 1.1% in November compared to the same period last year.

The increase in production was observed across key producing countries such as Ireland (up 8.6%), Italy (2.0%), UK (1.9%) and Poland (1.5%). This increase was partially offset by a continuing decline in France and Germany.

EU milk production for the 12 months to November was up by 0.8% compared to the same period last year.

USA

3.1%↑

Change for December 2020 compared to December 2019

2.1%↑

Change for the 12 months to December 2020

US milk production increased by 3.1% in December compared to the same period last year.

December saw continued strong production volumes as farmers drive higher milk per cow yields and herd sizes. There is some concern that this sustained growth rate will lead to pressure on processing capacity during spring peak.

Milk production for the 12 months to December was 2.1% 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 was a leap year.



New Zealand and Australia exports increase in November. EU and US monthly exports down

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

NEW ZEALAND

8.7%↑

Change for November 2020 compared to November 2019

2.3%↓

Change for the 12 months to November 2020

Total New Zealand dairy exports increased by 8.7%, or 32,823 MT, in November compared to the same period last year.

Record volumes of WMP to China and South East Asia of 31,421 MT led this increase. This was offset by decreases in butter and fluid milk products, down a combined 6,852 MT.

Exports for the 12 months to November were down by 2.3%, or 81,486 MT, on the previous comparable period. This was primarily driven by butter, infant formula, SMP, and cheese.

AUSTRALIA

6.9%↑

Change for November 2020 compared to November 2019

2.2%↓

Change for the 12 months to November 2020

Australia dairy exports increased by 6.9%, or 4,415 MT, in November compared to the same period last year.

This was primarily driven by increased demand for fluid milk products and WMP, up a combined 6,329 MT, and partially offset by decreases in infant formula, down 2,306 MT.

Exports for the 12 months to November were down 2.2%, or 16,430 MT, on the previous comparable period.

Declines were recorded across a broad range of products with infant formula, cheese, WMP, SMP, down a combined 35,353 MT, partially offset by fluid milk products, up 11,099 MT.

EUROPEAN UNION/UK

9.5%↓

Change for October 2020 compared to October 2019

2.7%↑

Change for the 12 months to October 2020

EU (including UK) dairy exports decreased by 9.5%, or 49,277 MT, in October compared to the same period last year.

This was driven by decreases in SMP to Saudi Arabia, infant formula to Hong Kong and Russia and butter to the United Arab Emirates and Morocco.

Exports for the 12 months to October were up 2.7%, or 152,175 MT, on the previous comparable period. Fluid milk products, cheese, butter, whey and WMP were the main drivers of this growth, up a combined 299,504 MT. It was partially offset by a large decline in SMP down 163,387 MT.

USA

3.1%↓

Change for November 2020 compared to November 2019

11.7%↑

Change for the 12 months to November 2020

US dairy exports decreased 3.1%, or 6,189 MT, in November compared to the same period last year.

Exports volumes decreased for the first time in over a year. This was led by lower demand for SMP from South East Asia and for cheese by Mexico. Demand for whey from China continued to increase, attributable to recovering hog herds.

Exports for the 12 months to November 2020 were up 11.7%, or 262,870 MT, on the previous comparable period driven by SMP, whey and WPC, up a combined 248,998 MT.



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

China imports continue to increase and Latin America monthly imports also up. Decline in Middle East and Africa and Asia imports

LATIN AMERICA

2.6%↑

Change for October 2020 compared to October 2019

2.2%↓

Change for the 12 months to October 2020

Latin America dairy import volumes¹ increased 2.6%, or 3,941 MT, in October compared to the same period last year.

This was driven by higher volumes of WMP to Brazil but partly offset by lower shipments of SMP to Mexico.

Imports for the 12 months to October were down 2.2%, or 38,998 MT, compared to the same period the previous year.

Decreases were driven primarily by SMP, infant formula and butter, down a combined 58,702 MT and partly offset by increased volumes of cheese and WMP.

ASIA

4.0%↓

Change for October 2020 compared to October 2019

3.0%↓

Change for the 12 months to October 2020

Asia (excluding China) dairy import volumes¹ decreased 4.0%, or 15,381 MT, in October compared to the same period last year.

Decreases were recorded for WMP to Vietnam, Hong Kong and Singapore, and whey to Indonesia. This was partially offset by an increase in cheese to Japan.

Imports for the 12 months to October were down 3.0%, or 147,838 MT, compared to the same period the previous year.

Decreases were recorded across WMP, SMP and fluid milk products, down a combined 187,680 MT, and offset partially by increased volumes of lactose, up 48,282 MT.

MIDDLE EAST & AFRICA

12.0%↓

Change for October 2020 compared to October 2019

3.8%↓

Change for the 12 months to October 2020

Middle East and Africa dairy import volumes¹ decreased 12.0%, or 31,383 MT in October 2020 compared to the same period last year.

Decreases were driven principally by lower volumes of infant formula and SMP to Nigeria and fluid milk products to Kenya.

Imports for the 12 months to October 2020 were down 3.8%, or 149,867 MT, compared to October last year driven by decreases in fluid milk products, infant formula and cheese, down a combined 331,774 MT, and partially offset by increases in SMP.

CHINA

10.0%↑

Change for November 2020 compared to November 2019

10.4%↑

Change for the 12 months to November 2020

China dairy import volumes increased by 10%, or 28,565 MT, in November compared to the same period last year.

Import volumes of fluid milk products, up 23,401 MT, from Germany and New Zealand continued to increase as dairy consumption is widely promoted to boost immunity.

Whey imports were also up 19,739 MT, primarily from the US as China continues to rebuild its hog herds using whey as feed.

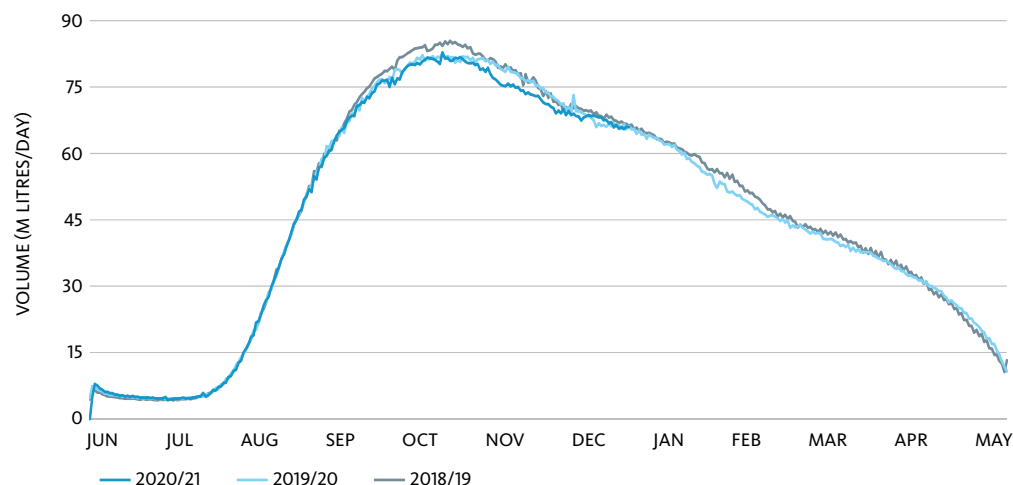
Imports for the 12 months to November were up 10.4%, or 325,647 MT, driven by whey, fluid milk products, butter and lactose.

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



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

0.7%↓

Change for December 2020 compared to December 2019

0.7%↓

Season to date
1 June to 31 December

Fonterra's New Zealand collection for December was 183.1 million kgMS, down 0.7% on December last season.

Season-to-date collection to the end of December was 902.8 million kgMS, down 0.7% on last season.

The poor pasture conditions experienced in some areas in early November turned around with production at near normal levels by later in the month. December saw a wide range of weather conditions across the country but indications of good levels of supplementary feed production across most parts of the country.

NORTH ISLAND

0.6%↓

Change for December 2020 compared to December 2019

0.6%↓

Season to date
1 June to 31 December

North Island milk collection in December was 105.8 million kgMS, down 0.6% on December last season.

Season-to-date collection was 560.9 million kgMS, down 0.6% on last season.

Weather was mixed in December, with areas in the top half of the Island starting with above average temperatures and dry conditions, whereas southern parts were much wetter than average.

SOUTH ISLAND

0.7%↓

Change for December 2020 compared to December 2019

1.0%↓

Season to date
1 June to 31 December

South Island milk collection in December was 77.3 million kgMS, down 0.7% on December last season.

Season-to-date collection was 342.0 million kgMS, down 1.0% on last season. At the end of November, season-to-date collection was 264.6 million kgMS, 1.1% behind last season.

Snow fell in some regions mid-month, followed by a cold and wet spell for eastern parts. The upper South Island also saw some heavy rain, before more settled conditions prevailed for most areas as the month ended.

AUSTRALIA

1.3%↑

Change for December 2020 compared to December 2019

2.2%↓

Season to date
1 July to 31 December

Fonterra's Australia collection in December was 111.4 million kgMS, a 1.3% increase on December last season.

Above average rainfall and cooler conditions, driven by a La Niña weather pattern have assisted milk production moving into summer.

Season-to-date collections are down 2.2% on last year due to an unseasonably wet spring and lower herd numbers which hampered milk volumes across peak months.

OUR MARKETS

Fonterra Global Dairy Trade Results



Fonterra GDT results at
last trading event
19 January 2021:

5.1%↑

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

USD 3,629

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

28.6⁰⁰⁰' MT

Fonterra product quantity
sold on GDT

AMF

17.3%↑

USD 5,398/MT

SMP

7.3%↑

USD 3,295/MT

BUTTER

4.6%↑

USD 4,735/MT

WMP

2.2%↑

USD 3,380/MT

CHEDDAR

0.1%↑

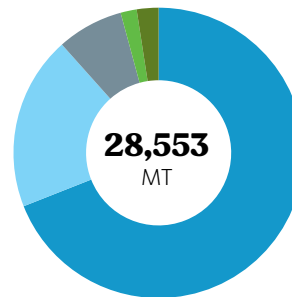
USD 4,082/MT

Fonterra GDT sales
by destination:

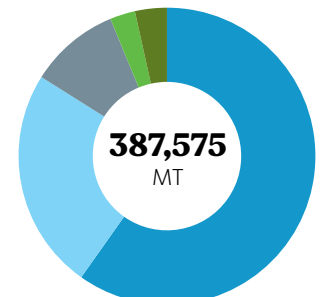
To view more information,
including a snapshot of the
rolling year-to-date results –



LATEST AUCTION



**FINANCIAL
YEAR-TO-DATE**



► The next trading event will be held on 2 February 2021. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar appreciated during November and December driven by broad-based US dollar weakness and supported by robust commodity prices. By early January the NZD peaked above 73 US cents before settling just below 72 US cents.



Our Performance



Darfield site adds new shift to meet cream cheese demand

Strong global demand for our cream cheese has seen Fonterra's Darfield site in Canterbury hire a full shift of new recruits as the team ramps up production.

Cream Cheese Plant Manager, Blake Aston says, "We have employed five new employees for the shift, and they'll work alongside the three other shifts at the plant.

"The team is seeing record monthly sales for cream cheese. Demand is predominately coming from China as we continue to see increased interest in pasture-fed milk from New Zealand."

The cream cheese is going into a range of different products, from cheese lollipops to traditional Chinese pastry like moon cakes.

"We have great flexibility here at the plant that enables us to dial up or down the firmness and consistency of cream cheese to meet customer preference and the great job our farmers are doing in delivering top quality milk," Mr Blake said.

Mr Blake said that with COVID-19 bringing uncertainty to the job market, it's great to see that Fonterra is able to offer new opportunities for people looking for work. One of those new employees is Liam Fitzgerald, who spent eight years working as an international pilot at Air New Zealand until COVID-19 hit the aviation industry.

"About 15 years ago I worked for Fonterra at Edgecumbe. Recently, when my flying career came to a halt unexpectedly, I spoke to my wife about returning to the dairy industry.

"I grew up rural in Whakatane and knew the culture and lifestyle of the industry would work for us as we have a young family.

"The opportunity came up in the cream cheese plant and having spoken to a few people I was really excited to join the team. It's a small team but a modern plant and a cool product that I'm looking forward to working with."

Fonterra's Darfield site was established in 2012 and employs more than 280 people.



New employee, Liam Fitzgerald and Cream Cheese Plant Manager, Blake Aston



Promising plantain trial looking good for the planet



Fonterra and Nestlé are teaming up with DairyNZ to expand a promising plantain trial to help improve waterways and reduce on-farm greenhouse gas (GHG) emissions.

Incorporating certain varieties of plantain into a cow's diet has been shown to reduce the nitrogen concentration in their urine, which can leach through soil into groundwater. To test the benefits in local pastures, DairyNZ has been leading the Tararua Plantain Project in the lower North Island, where farmers have been growing the leafy herb for their cows. The Ministry for Primary Industries is also involved as a key contributor.

Now, Fonterra and Nestlé are helping expand the project further through additional funding and by sharing expertise.

"We're all about finding ways to ensure Aotearoa New Zealand has a thriving environment and a thriving farming economy," says Fonterra's Director of On-Farm Excellence Charlotte Rutherford.

"We can achieve more by partnering with others, so it's great to join forces with DairyNZ and Nestlé. This is helping to speed up the adoption of plantain by farmers. Ultimately it could be a real game-changer to reduce nitrogen from cows and help mitigate nitrous oxide emissions."

The new collaboration is helping to accelerate uptake of Ecotain – a blend of environmentally functional plantain cultivars developed by seed company Agricom. Currently, 50 Tararua farms have started to use plantain, through DairyNZ's Tararua Plantain Project. With the funding boost from Fonterra and Nestlé, it's expected these farms and more will increase the amount they grow, therefore maximising the benefits.

Ecotain has been used in studies by DairyNZ, Agricom, Lincoln University, Massey University and AgResearch, with results showing it can significantly reduce nitrogen leaching. Preliminary studies also show it has the potential to lower on-farm greenhouse gas emissions through the reduction of nitrous oxide, which is promising news for farmers.

Nestlé, the world's largest food company and a customer of Fonterra's, was keen to be involved in the Tararua project given the commitments it has made around sustainability.

"Working with our suppliers and others is critical for achieving Nestlé's target of net zero carbon emissions by 2050. Reducing on-farm greenhouse gas emissions and protecting waterways will help us get there and we're pleased to partner with Fonterra and DairyNZ on this initiative," says Nestlé's Robert Erhard.

The project also focuses on improving understanding of how farmers can implement Ecotain successfully and engaging farmers through workshops, events and a national farmer network to extend knowledge.

As the industry good body representing dairy farmers, DairyNZ invests significantly in sustainability research. DairyNZ's General Manager for New Systems and Competitiveness, David McCall, says the dairy sector has a wide range of work underway to reduce nitrates entering waterways and reduce on-farm emissions.

"The seven-year Tararua Plantain Project is a flagship project for the dairy sector. It is delivering real, tangible results valued by farmers. The project has community at its heart as it seeks water quality improvements, while ensuring the dairy sector continues as an economic pillar within the local community.

"It is excellent to have extra support from Fonterra and Nestlé within the Tararua catchment," says Dr McCall.

[To view more information about the Tararua Plantain Project –](#)

Supplementary Information

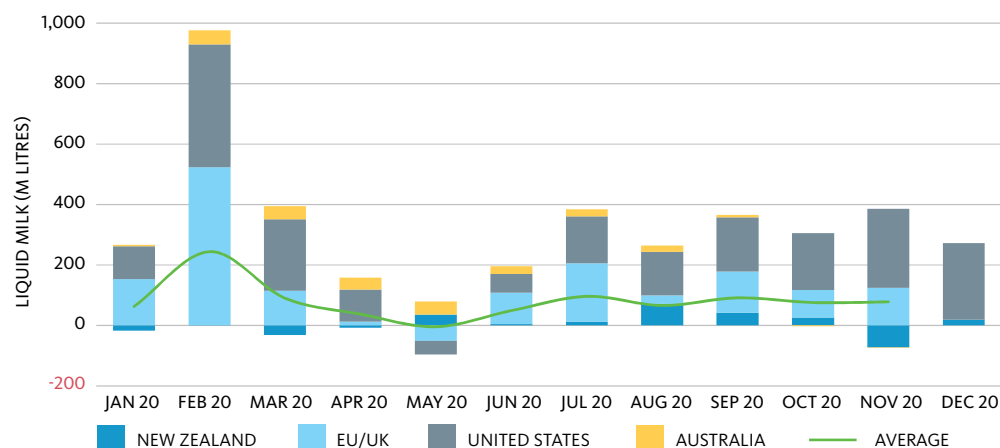
Global Dairy Market

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.

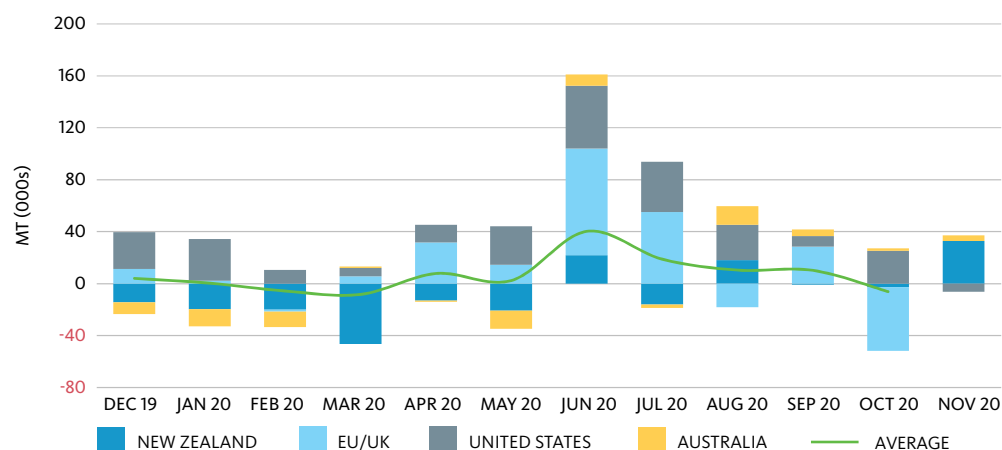
Averages are shown where data is complete for the regions presented.

PRODUCTION



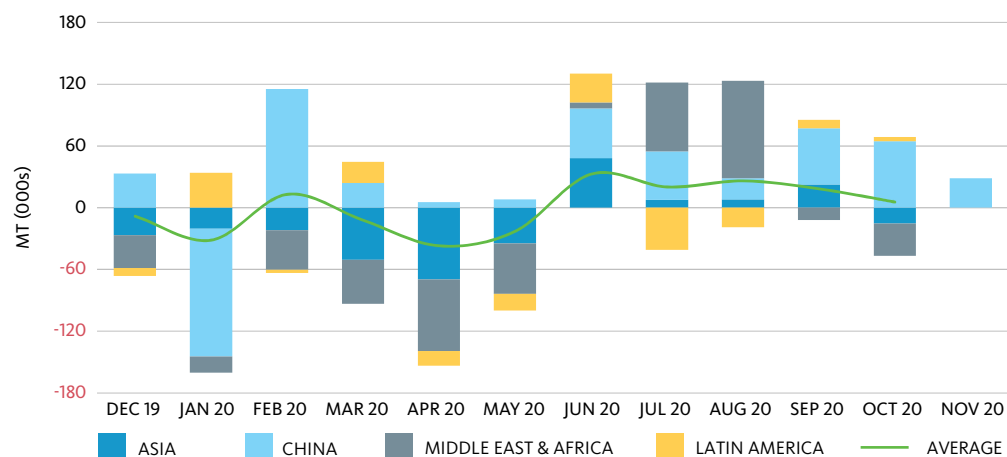
NOTE: Data for EU/UK and Australia to November; New Zealand and US to December.

EXPORTS



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

IMPORTS



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

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)	DECEMBER 2020	DECEMBER 2019	MONTHLY CHANGE	SEASON- TO-DATE 2020/21	SEASON- TO-DATE 2019/20	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	183.1	184.3	(0.7%)	902.8	909.7	(0.7%)
North Island	105.8	106.4	(0.6%)	560.9	564.3	(0.6%)
South Island	77.3	77.9	(0.7%)	342.0	345.4	(1.0%)
Australia	11.4	11.3	1.3%	59.0	60.3	(2.2%)

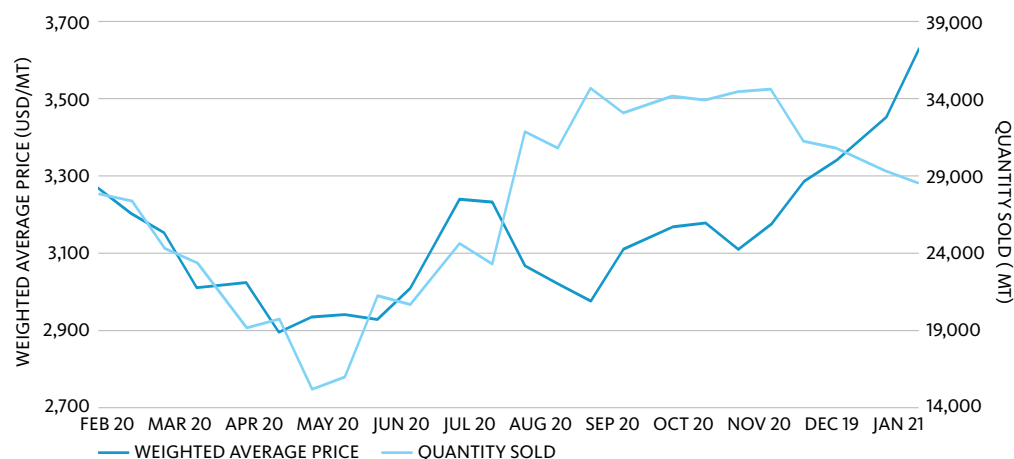
Fonterra GDT results

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

	LAST TRADING EVENT (19 JANUARY 2021)	YEAR-TO-DATE (FROM 1 AUGUST 2020)
Quantity Sold on GDT (Winning MT)	28,553	387,575
Change in Quantity Sold on GDT over same period last year	(10.3%)	(8.9%)
Weighted Average Product Price (USD/MT)	3,629	3,201
Change in Weighted Average Product Price over same period last year	4.7%	(5.3%)
Change in Weighted Average Product Price from previous event	5.1%	–

Fonterra GDT results

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



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