

GLOBAL DAIRY UPDATE AUSTRALIA



- Fonterra Australia milk collection increased 27% for the season from 1 July to 31 January.



- New Zealand production impacted by difficult weather conditions. Production increases for Australia and the EU.



- Continued strong import demand for dairy in China. Latin America and Asia imports decrease.
- Exports from Australia, New Zealand, and the US up for the month. Further growth in dairy exports from the EU.



- Fonterra and The a2 Milk Company have entered into a comprehensive strategic relationship that links Fonterra's global milk pool and supply chain, manufacturing capability and in-market sales and distribution capacity with a2MC's brand strength.



- Thirty two future culinary leaders have gotten a taste of farm life, learning about dairy from the source as part of Fonterra's Proud to be a Chef programme.

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OUR MARKETS



Global production

AUSTRALIA

0% ↑

Production change
for the 12 months to
January 2018

Australia production in January increased 4% compared to January last year due to favourable seasonal conditions across milk collection regions. Production for the 12 months to January is equal to the same period the previous year on the back of improved conditions in Victoria and Tasmania.

NEW ZEALAND

1% ↑

Production change
for the 12 months to
January 2018

New Zealand production in January was down 5% compared to January last year. Although rain in late December and early January helped in some regions, other regions were heavily impacted by soil moisture and pasture growth challenges caused by difficult weather conditions.

EUROPEAN UNION

1% ↓

Production change
for the 12 months to
December 2017

EU production increased 1% in December compared to December last year, driven by strong global dairy prices. Germany, the UK and Austria had the largest increases in production, up 3%, 5% and 28% respectively.

USA

1% ↑

Production change
for the 12 months to
December 2017

US production in December increased 1% compared to December last year largely due to increased productivity. Milk production per cow across all 23 major states was the highest recorded for the month of December since 2003.

Global exports

AUSTRALIA

1% ↓

Export change for the 12
months to December 2017

Australia dairy exports increased 10%, in December compared to December last year. Key drivers were liquid milk and cheese, up a combined 11,000 MT. For the 12 months to December, liquid milk, infant formula and cheese remained strong, however declines in WMP, whey powder and butter led to an overall decline of 6,000 MT.

NEW ZEALAND

3% ↓

Export change for the 12
months to December 2017

New Zealand dairy exports increased 8% in December compared to December last year, driven by WMP, SMP and butter up a combined 33,000 MT. For the 12 months to December, there were declines across most categories except liquid milk and infant formula. SMP and AMF showed the largest decline, down a combined 103,000 MT.

EUROPEAN UNION

5% ↑

Export change for the 12
months to November 2017

EU dairy exports in November were up 11%, or 44,000 MT, relative to November last year with double-digit growth in most export categories. SMP and liquid milk increased a combined 20%, or 33,000 MT. For the 12 months to November cheese, SMP and infant formula increased while butter and liquid milk decreased

USA

5% ↑

Export change for the 12
months to December 2017

US dairy exports increased 11% in December compared to December last year, driven by SMP, lactose and whey powder, up a combined 20%. Exports for the 12 months to December were up 110,000 MT, on the previous comparable period driven by cheese and whey powder, up a combined 97,000 MT.

Global imports

China dairy imports for the 12 months to December were up 299,000 MT, compared to the same period last year. China continues their strong imports, with all key categories up for the period. Infant formula, SMP and liquid milk grew significantly, up 77,000 MT, 63,000 MT and 52,000 MT respectively.

CHINA

13% ↑

Import change for the 12
months to December 2017

ASIA

7% ↑

Import change for the 12
months to October 2017

MIDDLE EAST & AFRICA

1% ↓

Import change for the 12
months to October 2017

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 206, held 20 February resulted in a decrease of 0.5%.

SMP

2.3%↓

Change vs. 12-month Rolling Average of USD 1,926/MT

USD 1,882

February Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

6.9%↑

Change vs. 12-month Rolling Average of USD 3,027/MT

USD 3,236

February Average Price (USD/MT, FAS)

BUTTER

2.5%↓

Change vs. 12-month Rolling Average of USD 5,538MT

USD 5,400

January Average Price (USD/MT)

SOURCE: Dairy Australia, January Pricing

CHEESE

2.2%↓

Change vs. 12-month Rolling Average of USD 3,988MT

USD 3,900

January Average Price (USD/MT)

Australian dollar trend

The Australian dollar has weakened slightly against the US dollar since the January update. While recent equity market volatility translated into a short term rally in the USD, these gains have retraced in February. Looking forward, base commodity prices have strengthened in February and recent US economic data has led to the Federal Reserve maintaining its forecast interest rate rises.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

The market is on the verge of change as summer temperatures rose in February. Demand is slowly beginning to increase in north Australian regions and trading has picked up slightly. Northern region demand is expected to exceed supply this season and prices may increase as hay is freighted longer distances. In southern regions the market remains dormant with demand not expected to pick up any time soon. Southern regions are expected to produce surplus hay this season, providing a good source of supply for other regions. Due to above-average rain during the harvest it is recommended to obtain feed tests and mould and yeast tests to ensure value for money.

SOURCE: Dairy Australia

Grain

ABARES has revised its 2017-18 winter crop production estimate upward by 8% to 37.8 million tonnes from the December 2017 forecast. Production in 2017-18 is now estimated to be 6% above the 10-year average to 2015-16. Total summer crop production is forecast to increase by 12% to around 4.3 million tonnes, with grain sorghum increasing by 26% to 501,000 hectares. Domestic grain prices are generally stable to firming slightly driven by domestic and international market sentiment and current dry conditions which are encouraging growers to hold inventory, in turn supporting prices.

SOURCE: Dairy Australia

Weather

January was an exceptionally warm month with above-average rainfall across West Australia, eastern Victoria and northern Queensland. Tropical cyclone Joyce brought five times the monthly average rain to West Australia in just one day. However rainfall across large parts of Tasmania and western Victoria was well below average. BOM's autumn outlook is forecasting average to above-average rainfall whilst north-west and west Victoria are forecast to have average to below-average rainfall. Autumn is forecast to bring higher-than-average temperatures in Tasmania and average to higher-than-average temperatures for most of Victoria.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Fonterra and The a2 Milk Company form a comprehensive strategic relationship

Fonterra and The a2 Milk Company (a2MC) have entered into a comprehensive strategic relationship that links Fonterra's global milk pool and supply chain, manufacturing capability and in-market sales and distribution capacity with a2MC's brand strength.

Managing Director of Fonterra Australia, René Dedoncker, said it's a mutually-beneficial partnership linking Fonterra's global milk pool and supply chain, manufacturing capability and in-market sales and distribution expertise with a2MC's brand strength.

"The agreement is broad-reaching, but specifically for us in Australia it means we'll be the exclusive supplier of A2 nutritional milk powder products. We'll manufacture the nutritional powders at our Darnum plant, and then package them into consumer format in New Zealand.

"We'll then be leveraging our dairy know-how and global sales network to help a2MC market and sell these products into new priority markets across South East Asia and the Middle East," said René.

As part of the partnership, Fonterra will soon begin conversations with its farmers in Australia, and

New Zealand, to develop A2 milk pools for conversion into nutritional powders and other dairy products, growing these milk pools over time to help meet the increasing demand for A2 milk products.

"This will present opportunities for our farmers too, ensuring that everyone in our value chain will share in the benefits," said René.

a2MC is one of Australia's fastest-growing milk and nutritionals companies, and this partnership presents Fonterra with an opportunity to match its dairy expertise, reputation for excellence, and global reach with a2MC's brand strength to tap into new markets.

"Consumers like to have choices and the growth of a2MC-branded nutritional powders and fresh milk sales in Australia, for example, shows the potential. This partnership is all about finding ways to continue to delight our consumers and generate more value for our farmers," concluded René.

This announcement is an exciting one for Fonterra Australia – it aligns with the company's multi-hub strategy of cheese, whey and nutritionals and builds on the momentum of the \$165 million capital investments announced in January.

OUR COMMUNITY



The next generation of Australian chefs head out to the Rendells' farm

Thirty two future culinary leaders have gotten a taste of farm life, learning about dairy from the source as part of Fonterra's Proud to be a Chef programme.

The programme, which has been running for almost 20 years, recognises, develops and supports budding chefs to become the culinary leaders of tomorrow. It is one of the most esteemed apprentice chef mentoring initiatives in Australia's culinary industry.

Each year, 32 apprentice chefs participate in a four-day mentoring programme including field tours,

up-skilling workshops, and educational mentoring classes with industry leaders.

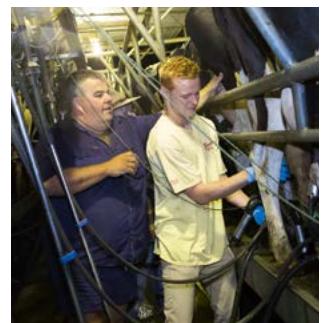
This year, the finalists toured Spencer and Rachael Rendell's farm in Girgarre in northern Victoria, to see first-hand where the milk used in Fonterra's dairy foods comes from. Heading out on farm at 5.00am, the group learned how to milk the cows and made butter by hand.

Fonterra's Director of Foodservice Jeff Dhu says that the programme is a great opportunity to introduce these aspiring chefs to different parts of the Fonterra business.

"Fonterra Foodservice is the number one provider of dairy in the Australian Foodservice industry, and is going from strength-to-strength.

"Programmes such as this not only nurture the next generation of talented chefs, but enable us to familiarise them with our industry-leading foodservice products and take them to where it all starts – on-farm."

"A big thanks to Spencer and Rachael for taking the time to host this year's finalists and showing them what it's like to be a farmer for a day," concluded Jeff.



SPENCER RENDELL WITH FINALIST GEORGE WINTLE



SPENCER RENDELL WITH FINALIST KRISTHEL BAJARO