APRIL 2019

GLOBAL DAIRY UPDATE AUSTRALIA

OUR MARKETS

- Significant monthly production declines in New Zealand and Australia. Monthly production eased in the US and holding at current levels in EU.

- Exports from Australia, New Zealand and the EU continue to grow. US exports continue to ease.

- Imports into Asia and China show strong growth. Latin America and Middle East & Africa down.

OUR BUSINESS

- It's no doubt been a challenging season due to drought and heightened competition for milk – but despite this, our consumer brands continue to be among the most popular in the market, holding the #1 positions in their categories.

OUR COMMUNITY

- The numbers for 2018 are now in – last year, Fonterra Australia donated dairy for around 74,200 meals and more than 800,000 serves of fresh milk to help support the more than four million Australians who experience uncertainty around where their next meal will come from.

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OUR **MARKETS**

Global production

AUSTRALIA

4% ↓

Production change for the 12 months to February 2019

Australia milk production declined 13% in February compared to last February. Continued drought conditions and high input costs continue pressure Australian milk production as a result of reduced supplemental feeding, increased cow cull rates and exits. Dairy Australia continue to forecast a production decline of between 7-9% for the season.

NEW ZEALAND

3% ↑

Production change for the 12 months to March 2019

New Zealand milk production was down 8% in March compared to March last year. New Zealand recorded its second warmest March on record. Dry conditions continued across most of the North Island and parts of the South Island. Soil moisture was below normal for most of the North Island and a large part of the South Island.

EUROPEAN UNION

0% ↑

Production change for the 12 months to February 2019

EU milk production in February was unchanged from February last year. Eighteen of the 28 member countries saw positive year-on-year growth including Romania, Estonia and Poland, at 7%, 5% and 4% respectively. The UK, Bulgaria, and Ireland increased 3% while Austria, France and The Netherlands declined 6%, 3% and 2% respectively.

USA

1% ↑

Production change for the 12 months to March 2019

US milk production decreased 0.4% in March, compared to March last year. This is the first year-on-year decline since March 2013.

Tight margins, high cow cull rates, record farm closures and weather issues combined to push US production into negative territory for the month.

Global exports

AUSTRALIA

7% ↑

Export change for the 12 months to February 2019

Australia dairy exports increased 7%, or 4,000 MT, in February compared to last February. Fluid milk products and infant formula were up a combined 7,000 MT. WMP and SMP declined 4,000 MT.

For the 12 months to February, infant formula, fluid milk products, and whey powder made up most of the growth, up a combined 46,000 MT.

NEW ZEALAND

4% ↑

Export change for the 12 months to February 2019

New Zealand dairy exports increased by 27%, or 71,000 MT, in February compared to February last year. WMP and butter were up 39,000 MT. Other than a slight decline in WPC and caseinate, all other products were up for the month. For the 12 months to February, AMF, fluid milk products, and WMP were up a combined 135,000 MT.

EUROPEAN UNION

1% ↑

Export change for the 12 months to January 2019

EU dairy exports increased by 12%, or 53,000 MT, in January compared to last January. SMP, and fluid milk products were up a combined 47,000 MT, offsetting declines in whey powder and WMP, of 7,000 MT combined. For the 12 months to January, SMP, lactose and infant formula were up 149,000 MT. Fluid milk products and WMP declined by 110,000 MT.

USA

6% ↑

Export change for the 12 months to February 2019

US dairy exports declined 12%, or 23,000 MT, in February compared to last February. SMP, whey powder, lactose and WPC were down 31,000 MT. Cheese and fluid milk products were up 7,000 MT. For the 12 months to February, SMP and WMP were up a combined 103,000 MT and whey powder declined 38,000 MT. Most of the decline is due to lower exports to China.

Global imports

China dairy imports for the 12 months to February were up 204,000 MT compared to the prior period. Strong demand continued across all key categories, in particular, WMP, SMP, infant formula and lactose, up a combined 176,000 MT.

CHINA

7% ↑

Import change for the 12 months to February 2019

ASIA

6% ↑

Import change for the 12 months to January 2019

MIDDLE EAST & AFRICA

6% ↓

Import change for the 12 months to January 2019

DAIRY COMMODITY PRICES

Global pricing

GDT Event 234, held 16 April resulted in an index increase of 0.5 per cent.

SMP

15.3%↑

Change vs. 12-month Rolling Average of USD 2,139/MT

USD**2,465**

April Average Price (USD/MT, FAS)

WMP

11.1%↑

Change vs. 12-month Rolling Average of USD 2,951/MT

USD**3,278**

April Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

BUTTER

0.9%↑

Change vs. 12-month Rolling Average of USD 5,354/MT

USD**5,400**

March Average Price (USD/MT)

CHEDDAR

2.1%↑

Change vs. 12-month Rolling Average of USD 4,017/MT

USD**4,100**

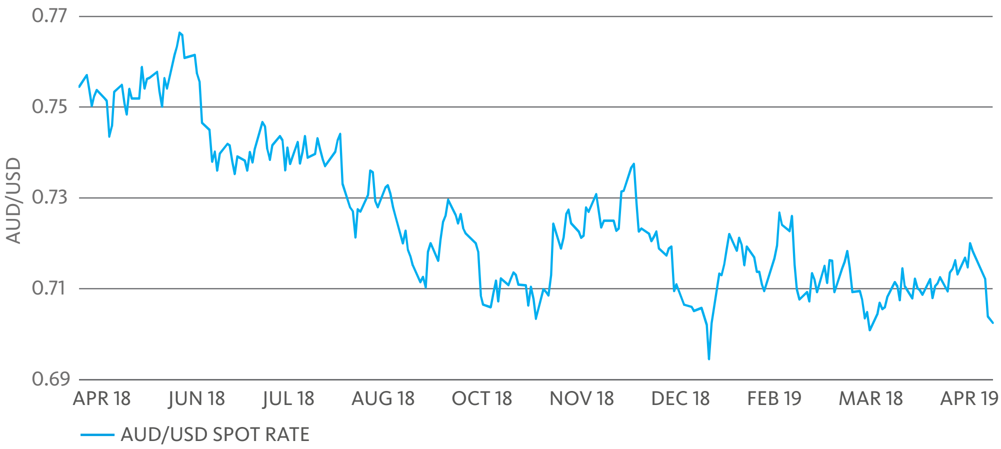
March Average Price (USD/MT)

SOURCE: Dairy Australia, March Pricing

Australian dollar trend

The Australian dollar remained range bound between $0.70 and $0.72 against the US dollar for March. After increasing in value against the US dollar through most of April, the Australian dollar gave up most of these gains after softer than expected Australian inflation data was released for Q1 2019.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions

Hay

After remaining relatively subdued over summer's end, demand is increasing due to lack of rainfall. Many farmers are calculating feed requirements to ensure sufficient cover for winter. Sourcing new season hay, excluding price considerations, is not currently an issue but, with little carryover stock, supply may not last too long. Demand remains firm in southern QLD, northern NSW and parts of Victoria and SA which still require decent autumn rainfall to establish pasture and fodder crops. Recent rain events in northern QLD will ease some supply pressure but looking forward, without an extensive autumn break fodder supply could be susceptible.

SOURCE: Dairy Australia

Grain

Domestic wheat prices decreased in all dairy regions in March. Reduced prices came on the back of strong global wheat stocks, confidence in the northern hemisphere planting season and weaker demand signals. However, this did little to improve overall domestic market liquidity as reports suggest many sellers have stepped out of the market to see where offshore and local markets land following recent price weakness. The focus now shifts toward this year's winter crop. Some good rainfall has been received in cropping areas although a lot more is needed to achieve substantial crops. There will be a strong focus on the BOM's rainfall forecast for May

SOURCE: Dairy Australia

Weather

March rainfall was average to above average for much of the country. QLD recorded very much above average rainfall as did the east coast of NSW. Although the rain was welcomed, rain deficiencies continue to affect many areas. Much of VIC, SA and eastern WA recorded below average rainfall, Tasmania received average rainfall. Prolonged rain events are needed in these regions to break the drought. On the back of a very hot February, average March temperatures were the highest in recorded history continuing the trend of above to very much above average temperatures. The likelihood of an El Niño for autumn has increased from 50 to 70 per cent.

SOURCE: Bureau of Meteorology

OUR **BUSINESS**

Australian consumers rate our brands #1

Our consumer brands continue to be among the most popular in the market, holding the #1 positions in their categories.

Mainland 'On the Go' Cheese and Crackers is the top-selling menu item on Australia's second largest airline, Virgin Australia. The airline sold over 300,000 – or 12 tonnes – of the snacking cheese last year, making it the most popular food at 30,000 feet. Virgin Australia guests say the $5 cheese and cracker pack is "the perfect versatile snack to have on the go" and the airline says it "isn't likely to disappear from the menu anytime soon — it has a long history with the airline".

Snacking is a key growth area for Fonterra Australia, representing 30 per cent of our total Mainland cheese sales.

Perfect Italiano is another brand that continues to win over consumers, with customer reviews on Australia's largest brand comparison site, Canstar Blue, scoring Perfect Italiano grated cheese a perfect 5-star rating. Rated by consumers on taste, packaging, variety and overall customer satisfaction, it was the only grated cheese to achieve five stars.

This customer satisfaction is translating into sales, with Perfect Italiano the leading branded player within the grated cheese segment with 24 per cent value market share.

More than 9.5 million units of Perfect Italiano's Grated Cheese Blends and Mozzarella products were sold in the last year – or one pack every four seconds.

Western Star has reaffirmed its position as Australia's favourite butter after the country's leading market research firm, Roy Morgan, reported that it's "Australia's top butter brand".

The researcher found that more than 3.1 million Australians buy Western Star in an average month – an increase of over 550,000 from four years ago – capturing "a far larger market size than their leading rivals".

Now achieving more than $200 million in retail sales over the past year, Western Star has cemented Fonterra's position as the market leader in the chilled spreads category – holding 25 per cent of the market share.

Kiril Simonovski, Fonterra Australia's Sales and Marketing Director, says there has been a lot of work done over the last few years to turn around the consumer business to profitable growth.

"We play in the categories where we know we can win – cheese, spreads and butter – which is why we see our brands holding the top position and continuing to grow year-on-year," says Kiril.

OUR **COMMUNITY**

Continuing our 10-year partnership with Foodbank

The numbers for 2018 are now in – last year, Fonterra Australia donated dairy for around 74,200 meals and more than 800,000 serves of fresh milk to help support the more than four million Australians who experience uncertainty around where their next meal will come from.

Dairy is an important food staple sought after by welfare agencies to help combat hunger in Australia and help Aussies in need.

As one of Australia's biggest food manufacturers, we have partnered with Foodbank for over 10 years as its sole supplier of fresh milk for its Milk Program in Victoria, as well as donating other dairy foods.

A lot of this food comes from our Bayswater site and is made up of edible but unsaleable food – for example, snacking products with damaged packaging or broken biscuits – that would otherwise go to waste. Instead, these items are donated to Foodbank which sees that they reach food insecure Aussies all over the country.

Foodbank works closely with farmers, retailers and food manufacturers like Fonterra to redirect food and groceries away from waste to a network of charities which distribute it into the kitchens and onto the tables of those who need it most.

In 2018, Foodbank sourced an incredible 77 million meals – or 211,000 meals a day – from Fonterra and other donors to Australians in need.

We look forward to continuing our partnership with Foodbank – and making sure all Australians have access to high quality dairy.