

GLOBAL DAIRY UPDATE AUSTRALIA



• EU milk production remains soft but the rate of decline is easing. New Zealand production in February is relatively flat.



• New Zealand exports declined 36,000 MT – the third consecutive monthly decline, US export strength continues.
• China reported the largest monthly increase in import volumes in the past year. Steady import growth continues in Asia.



• Coolroom expansion supports Western Star™ growth.
• Incorporates latest technology.



• Benefits of Grass Roots fund comes to life in Myalla.
• Members of the Wynyard site help celebrate.

FARMGATE MILK PRICE UPDATE



Following our most recent price review we can confirm the current price of \$5.20 per kgMS will be maintained. This remains in line with our current full year forecast which also remains at \$5.20 per kgMS.

Given the 26% decline in SMP prices from January to April, any further increase to the end of year forecast remains unlikely. We will continue to monitor commodity prices and currency.

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Global production

AUSTRALIA

7% ↓

Production change for the 12 months to January 2017

Australia milk production in January decreased 6% compared to the same month last year.

Production for the 12 months to January is down 7% compared to the same period the previous year.

NEW ZEALAND

2% ↓

Production change for the 12 months to February 2017

For the 12 months to February, production is down 2% compared to the comparable period the previous year. This is a result of lower volumes at the peak due to the impact of weather with some improvement to growing conditions since the peak.

EUROPEAN UNION

0%

Production change for the 12 months to January 2017

EU production in January decreased 2% compared to January last year. While this is the eighth consecutive month of negative growth, the rate of decline has eased over the past quarter. French production was down 6% while Germany and the UK were both down 4%.

USA

2% ↑

Production change for the 12 months to February 2017

US production in February decreased 1% compared to the same month last year.

Excluding the impacts of the leap year in 2016, the monthly rate of increase is in line with previous months, up 2% on the prior year.

Global exports

AUSTRALIA

3% ↑

Export change for the 12 months to January 2017

Australia dairy exports in January increased 2%, or 1,000 MT, compared to January last year with key export categories SMP and liquid milk, flat and cheese up 15%. Exports for the 12 months to January are up 21,000 MT on the previous comparable period. Growth in liquid milk and WMP was offset by a decline in SMP, Australia's third largest export category.

NEW ZEALAND

3% ↑

Export change for the 12 months to January 2017

Dairy exports in January decreased 10% or 36,000 MT compared to the previous January and continued the recent run of monthly declines. Growth in liquid milk, up 50%, was offset by weakness in milk fats, with butter and AMF down 28% and 21% respectively and SMP and WMP down a combined 9%.

EUROPEAN UNION

6% ↑

Export change for the 12 months to December 2016

Dairy exports declined in December for the second consecutive month, down 9% compared to the previous December. Major dairy categories SMP, WMP, cheese and liquid milk were down a combined 11% or 30,000 MT. Growth for the rolling 12-months has eased but remains up 6%, driven by butter, up 20%, cheese up 11% and liquid milk up 10%.

USA

4% ↑

Export change for the 12 months to January 2017

US dairy exports increased 12% in January, or 17,000 MT, compared to January the previous year. This is the eighth consecutive month of increasing exports although the rate of growth has eased in the last quarter.

Global imports

China dairy imports increased 41%, or 58,000 MT, in February compared to February last year. This was the largest monthly increase since March 2016, led by whey powder, up 63%, WMP, up 52%, and liquid milk, up 46%. Liquid milk, China's largest import category, was up 31%, or 159,000 MT over this 12-month period.

CHINA

14% ↑

Import change for the 12 months to February 2017

ASIA

5% ↑

Import change for the 12 months to December 2016

MIDDLE EAST & AFRICA

5% ↓

Import change for the 12 months to December 2016

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 186, held 18 April, resulted in an increase of 3.1%.

SMP

9.5% ↓

Change vs. 12-month Rolling Average of USD 2,185/MT

USD **1,978**

April Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

5.4% ↑

Change vs. 12-month Rolling Average of USD 2,809/MT

USD **2,961**

April Average Price (USD/MT, FAS)

BUTTER

25.9% ↑

Change vs. 12-month Rolling Average of USD 3,892MT

USD **4,900**

March Average Price (USD/MT)

SOURCE: Dairy Australia, March Pricing

CHEDDAR

6.5% ↑

Change vs. 12-month Rolling Average of USD 3,521/MT

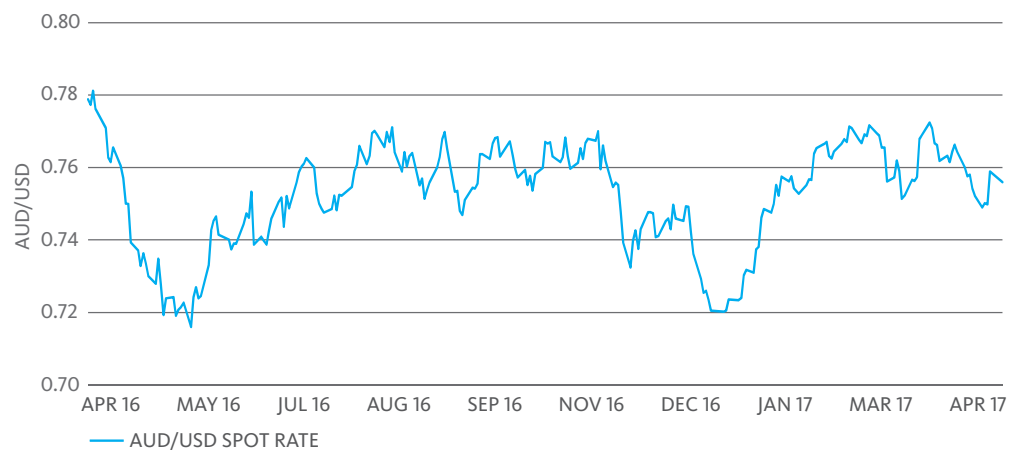
USD **3,750**

March Average Price (USD/MT)

Australian dollar trend

In early April the US dollar tumbled from three-week highs, as minutes of the Federal Reserve meeting suggested the outlook for interest rates had not changed from what the Fed indicated in March after its rate rise decision. The Australian dollar then rose from mid-April with uncertainty over US President Trump's planned fiscal reforms. This was offset as the dollar fell amid lower expectations for US interest rate hikes.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Low demand across the southern regions persists as most farmers reportedly have enough feed in sheds and grass in paddocks to sit out of the market. The increased production on farm this year is likely to create less hay-trading throughout 2017. Some growers are keen to sit out of the market until prices firm. Much of the vetch available in southern region is of a poor quality. Most hay sitting in paddocks has been badly damaged by rain. Silage produced in many southern regions has been testing particularly poorly.

SOURCE: Dairy Australia

Grain

The Australian wheat crop exceeded previous records, reaching 35.1 million MT. Looking forward, increasing concerns regarding a dry season in Europe and Russia, which could potentially affect production and drive prices higher. A significant drop in new season production is anticipated due to the lower wheat planting forecasts. Tropical cyclone Debbie brought lots of rainfall to Queensland and northern New South Wales, improving planting conditions for the winter crop.

SOURCE: Dairy Australia

Weather

The national mean temperature for March was the third-highest on record at 1.66 °C above average. For Tasmania and much of Victoria, March temperatures were warmer than those for February. Rainfall was also above average for southwestern Victoria and below average for most of Tasmania. Looking forward, daytime temperatures for April to June are likely to be above average for most of Australia, except parts of eastern and northern Australia and rainfall is likely to be below average over the southern two-thirds of mainland Australia.

SOURCE: Bureau of Meteorology,

OUR BUSINESS



Fonterra Cobden investing for the future

It's been a milestone year for Fonterra's Cobden site in more ways than one, as the home of Australia's favourite butter puts the finishing touches on the expansion of its cool room.

The cool room expansion, due to be completed in May, was necessary to accommodate growth in sales of Western Star™ butter, which has grown to a \$150 million brand as consumers shift away from margarines in favour of butter and spreads, preferring to eat more natural foods and use butter in their cooking.

The expansion caps off a big year for Cobden and the Western District, which is this year celebrating Western Star™ butter's 90th birthday, as well as Western Star™ Original Salted being crowned Champion Butter at the 2017

Dairy Industry Association of Australia awards in February.

Cobden Site Manager Bruce Manson says the \$6.2 million investment takes Cobden's current storage capacity of finished product from 280 pallet spaces to 855 pallet spaces, which when coupled with the new 600-pallet freezer capacity, will be able to accommodate 1,455 pallets of Western Star™.

"Over 38 million packs of Western Star are sold every year – that's more than one pack every second. The bigger cool room was necessary to ensure we could keep up with that demand."

The cool room features the latest technology, including automatic guided vehicles – essentially robot driven



forklifts – to pick and pack the pallets away in the cool room, reducing handling, which increases efficiency and creates a safer workplace.

"Cobden has grown so much in the last three years with the construction of the fresh milk plant, and it's now Fonterra's largest Australian operation,

employing more than 300 people to process quality milk from over 300 local farmers.

"The cool room expansion is another investment in Cobden's future, and ensures that generations of Australian families will be enjoying Western Star for many years to come."

OUR COMMUNITY



Grass Roots Fund supporting the heart of the Myalla community

The roll out of Fonterra Grass Roots Fund projects continues, with community groups across the regions getting a helping hand for projects that bring communities together, care for the environment, and promote healthy lifestyles.

The Grass Roots Fund has helped fund vital equipment for community groups that would otherwise go without, including a new defibrillator for the Myalla Community Centre in Tasmania.

Rod Taylor, Secretary of the Myalla Community Centre, said that the defibrillator would provide peace of mind to the Myalla community in an emergency situation.

"The Centre is home to a

number of clubs and groups and is widely used by our community, for fitness classes, social functions, church groups and sporting clubs.

"Because we're so remote, ambulance services can sometimes take time to reach Myalla, so having this vital lifesaving equipment on hand just in case is very reassuring"

The team from Fonterra Wynyard shared morning tea with the Centre Committee while Dennis Summers from the Wynyard Maintenance team fitted the new defibrillator, ready for use.

"We're the only significant public space west of Wynyard, and the Centre is responsible for maintaining the venue,



including power, building and public liability insurance, and general upkeep," says Rod.

"This leaves little in the kitty for extras, which is why Fonterra's Grass Roots Fund has been such a big help.

"We're so grateful to Fonterra Wynyard for their support."

The Grass Roots Fund provides support for a wide range of community projects with grants of between \$500 and \$5,000. Applications for the next round of grants will be announced later this year.