Becoming Globally Relevant: Sourcing Dairy from Around the World

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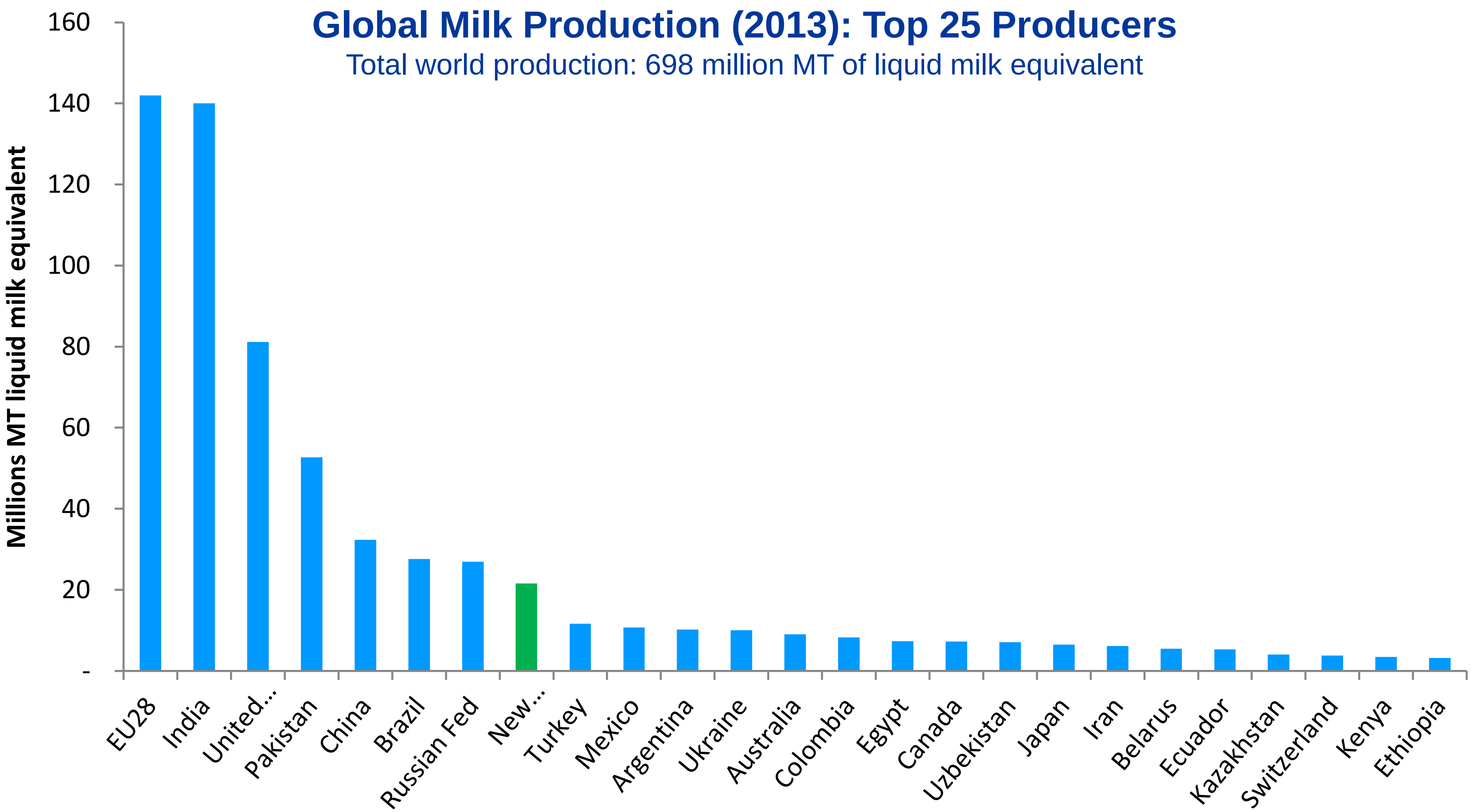
20 February 2015

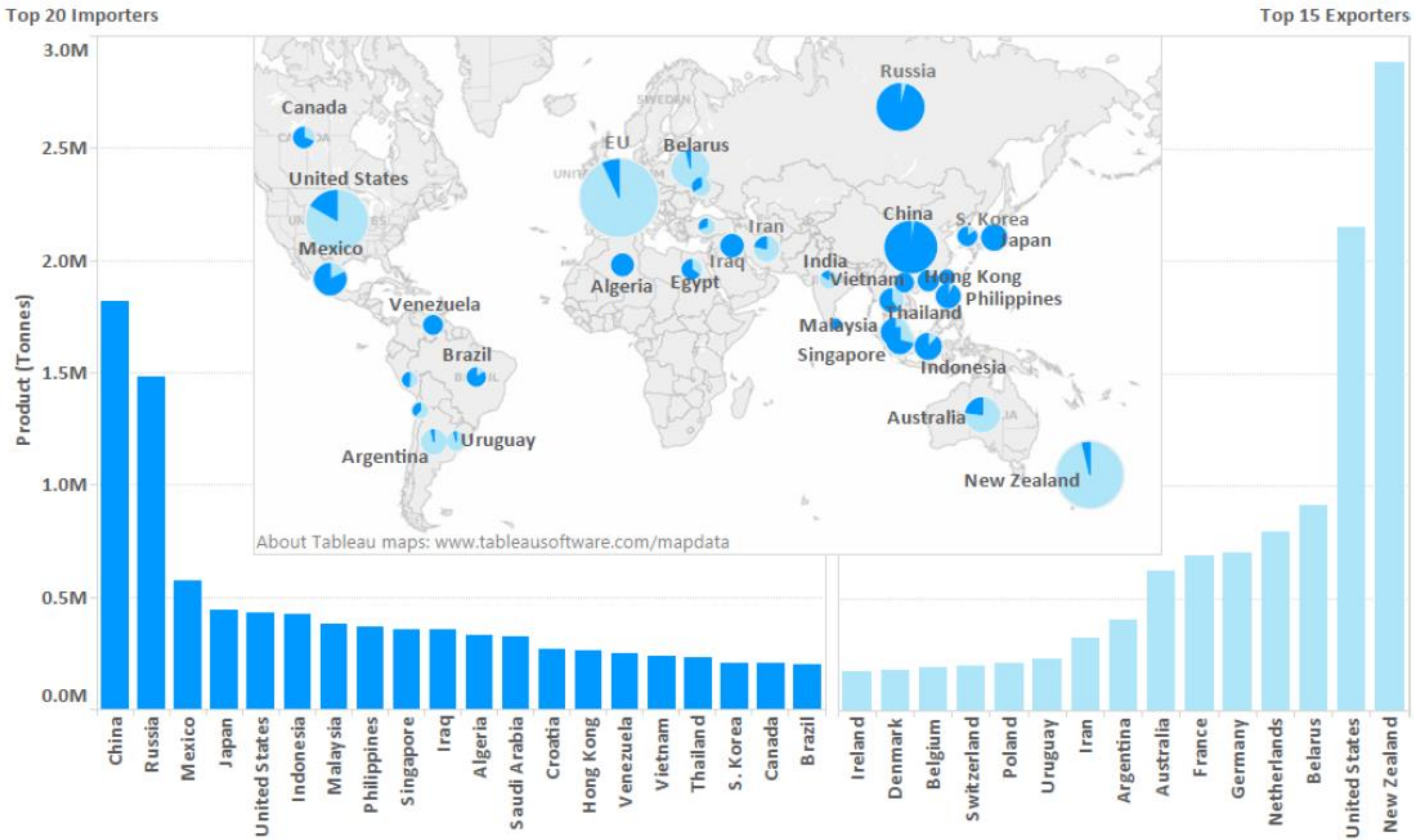
The global dairy industry

Global milk production is led by the EU, India and the US



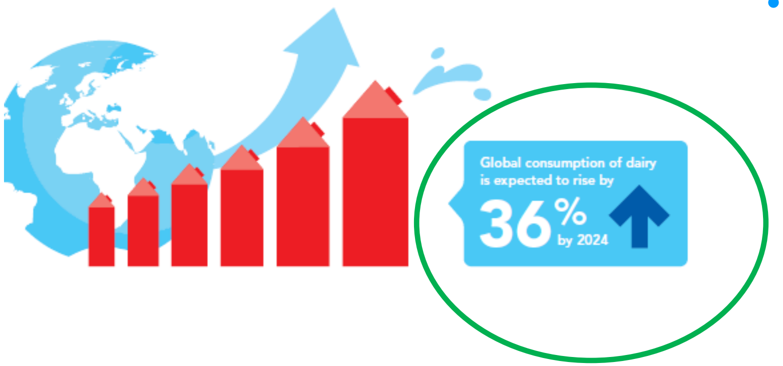
Source: Fonterra Internal

Less than 10% of global dairy production is traded across borders

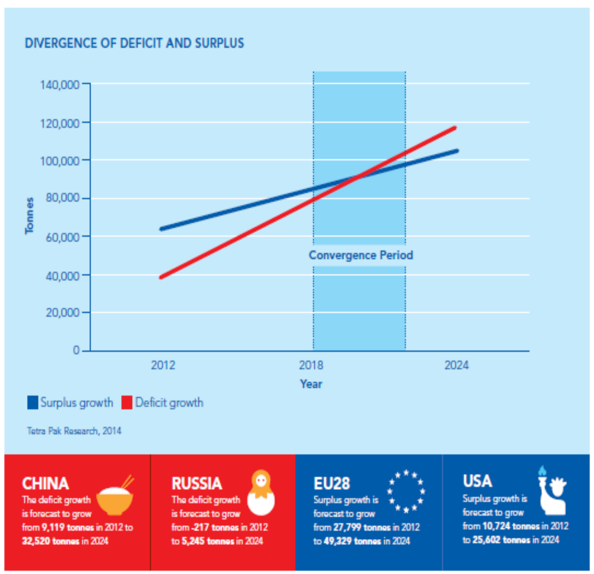


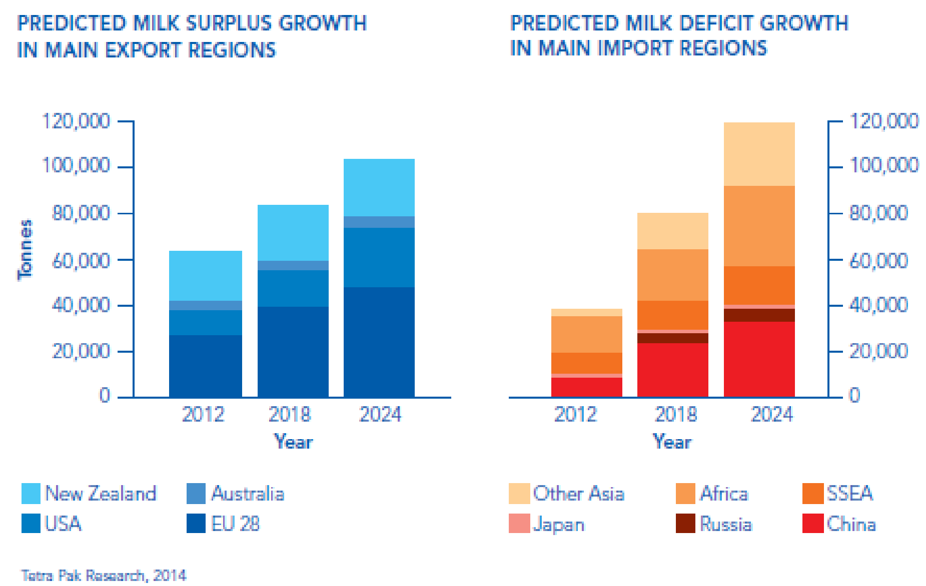
Source: Fonterra Internal

The long term demand outlook for dairy is positive



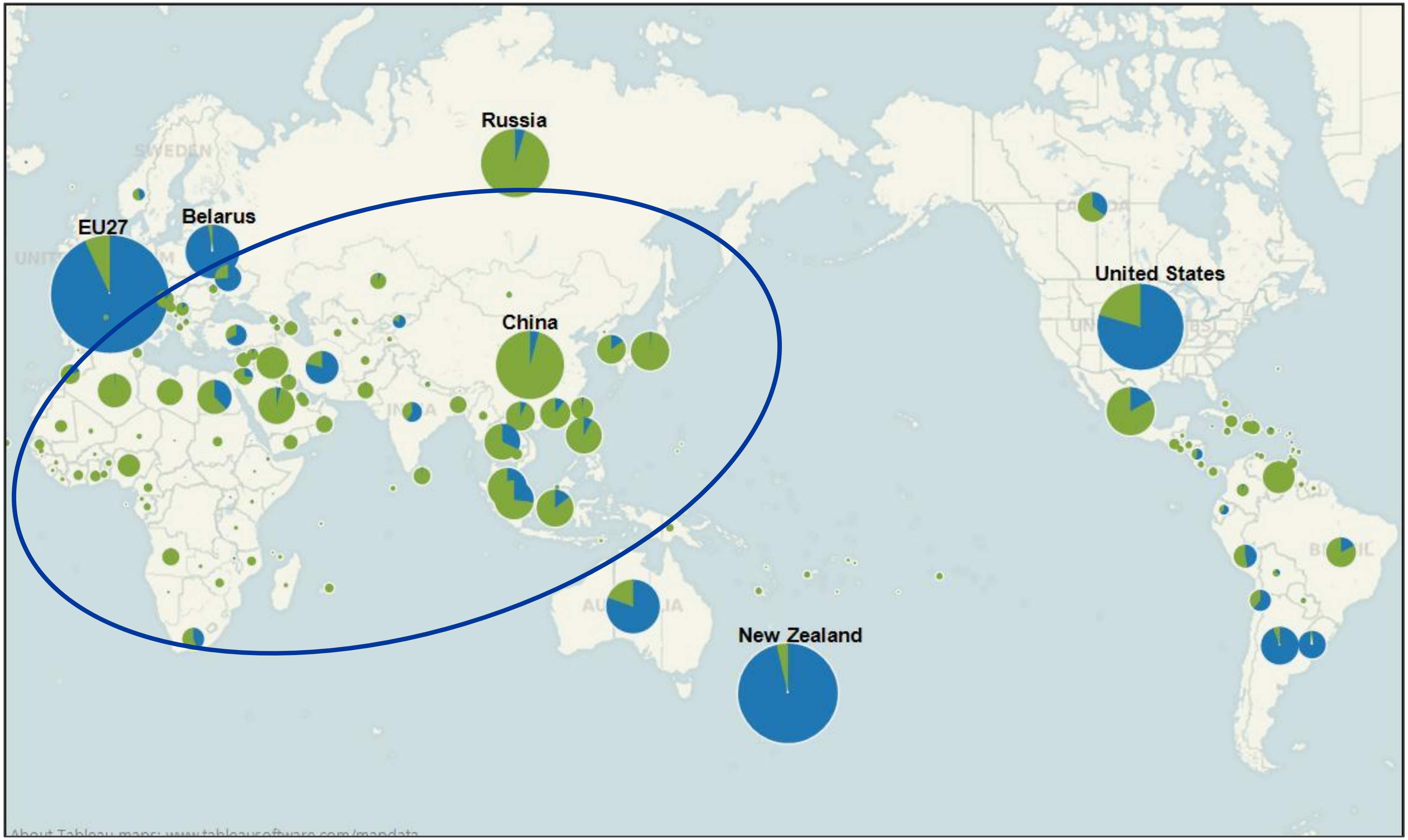
- Consumption of dairy products is expected to rise by **36% over the next decade to in excess of 710 million tonnes** on a liquid milk equivalent basis.
  - Population growth
  - Rising prosperity
  - Urbanization





Reference: TetraPak Dairy Index Issue 7 October 2014

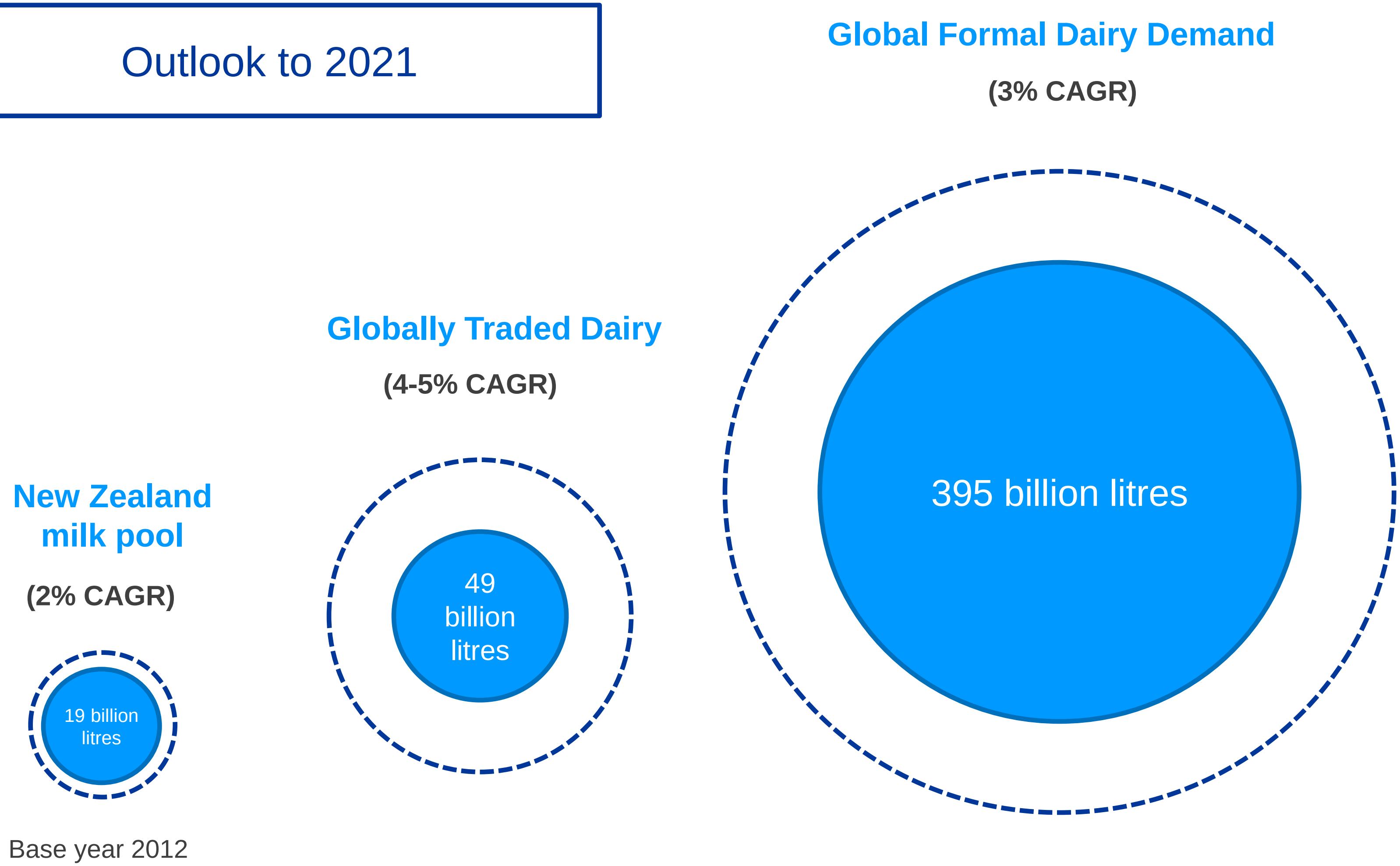
There is a clear split between dairy importing and exporting countries



Source: Fonterra Internal

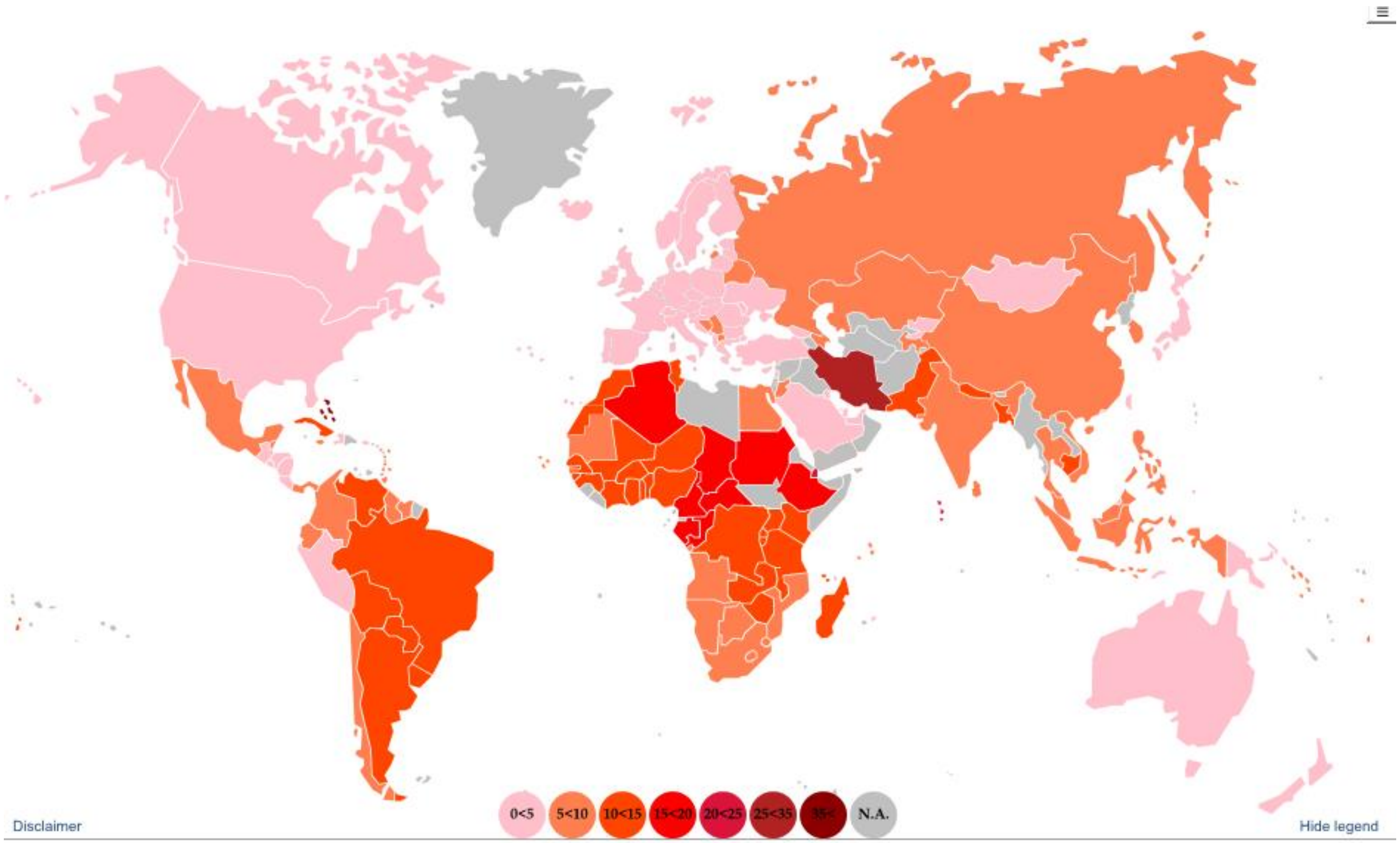
Global demand growth will far exceed NZ's ability to supply, creating opportunities in other milk pools

Outlook to 2021



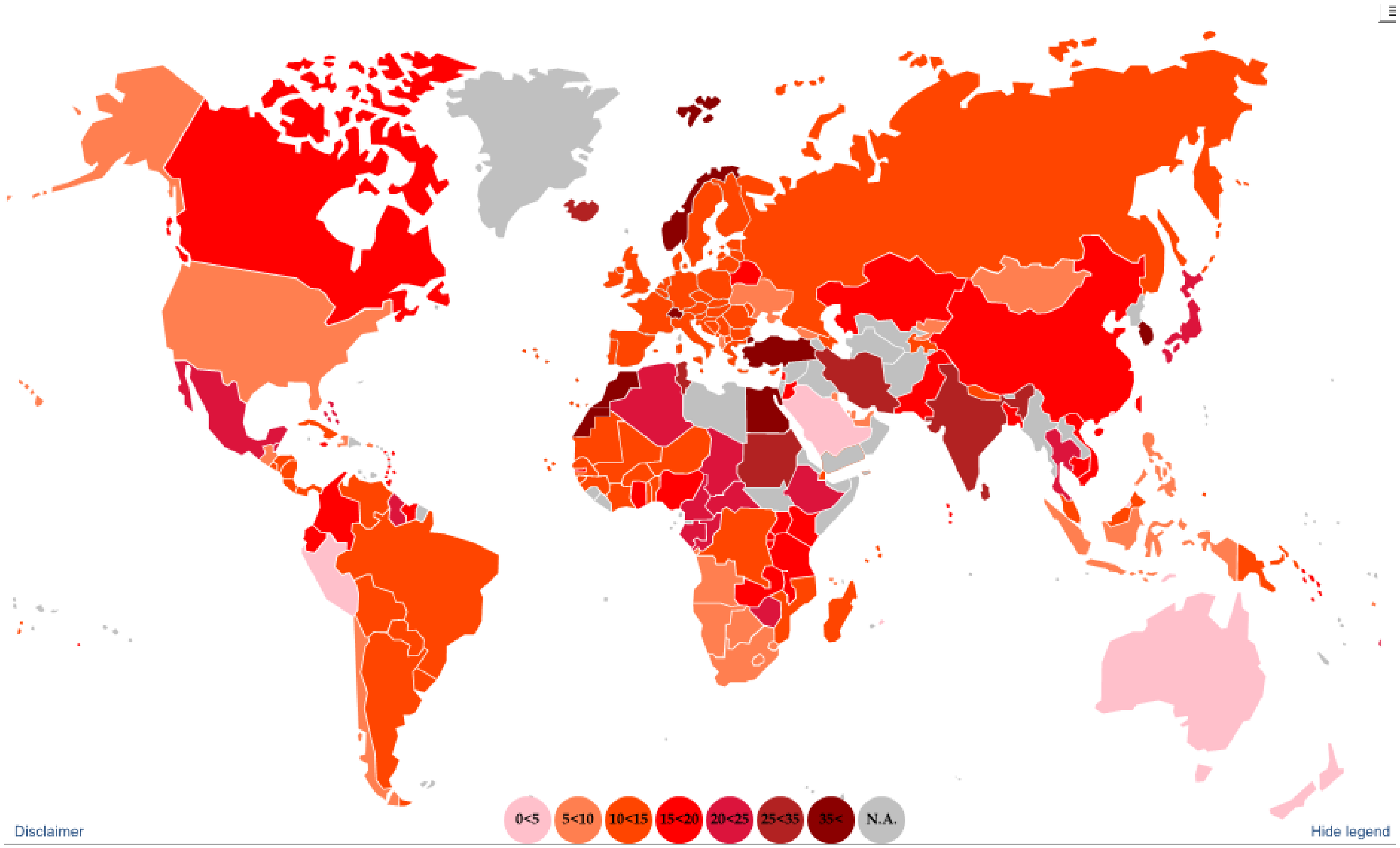
Paradoxically in a world concerned about "food security" the barriers to agricultural products moving across borders far exceed those for industrial products

WTO Simple Average of Applied MFN Tariffs for **All Non-Agricultural Products**, all Countries



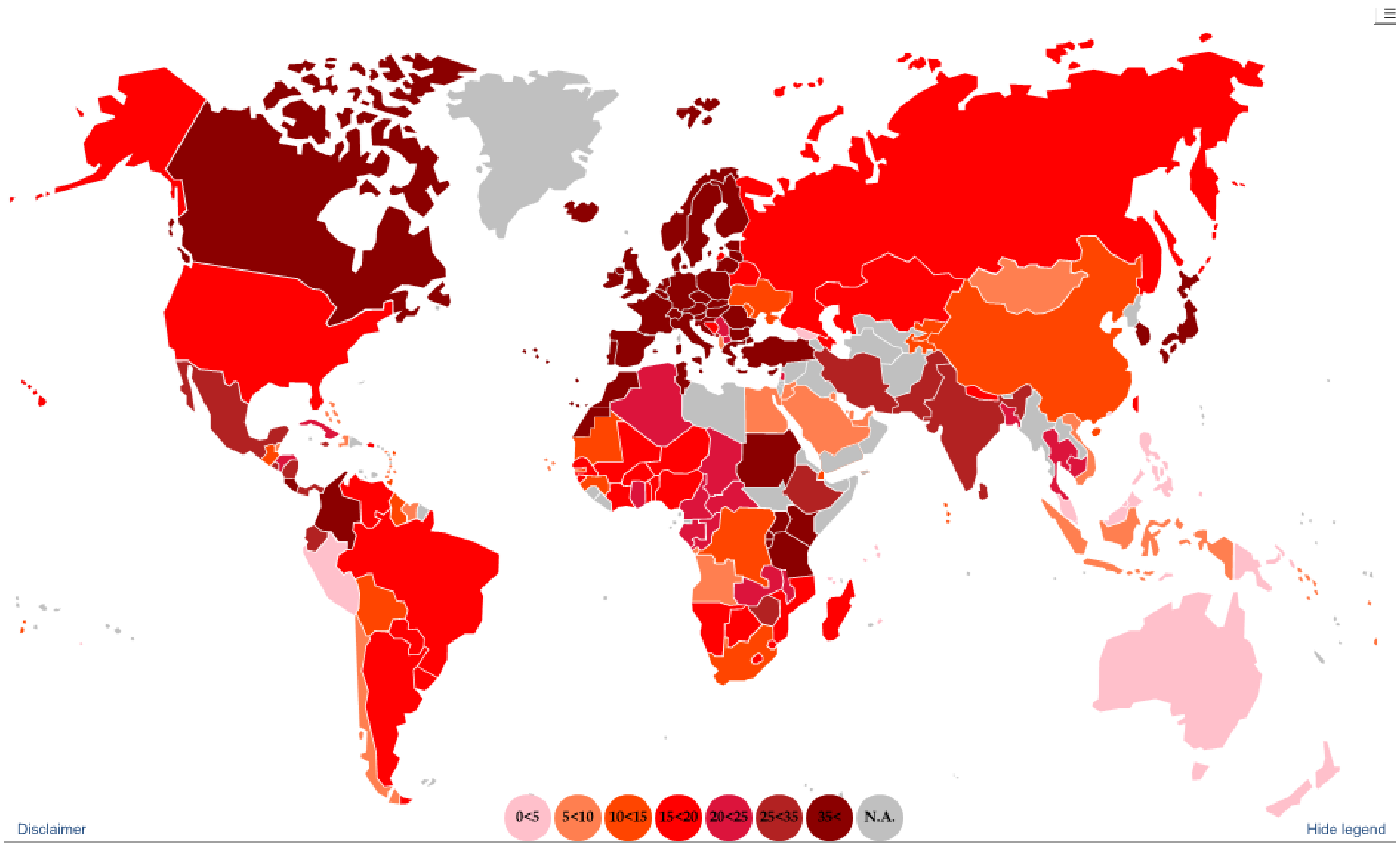
Agricultural products attract defensive policies as countries seek to protect domestic producers – but trade needs to flow to feed the world's population

WTO Simple Average of Applied MFN Tariffs for **All Agricultural Products**, all Countries

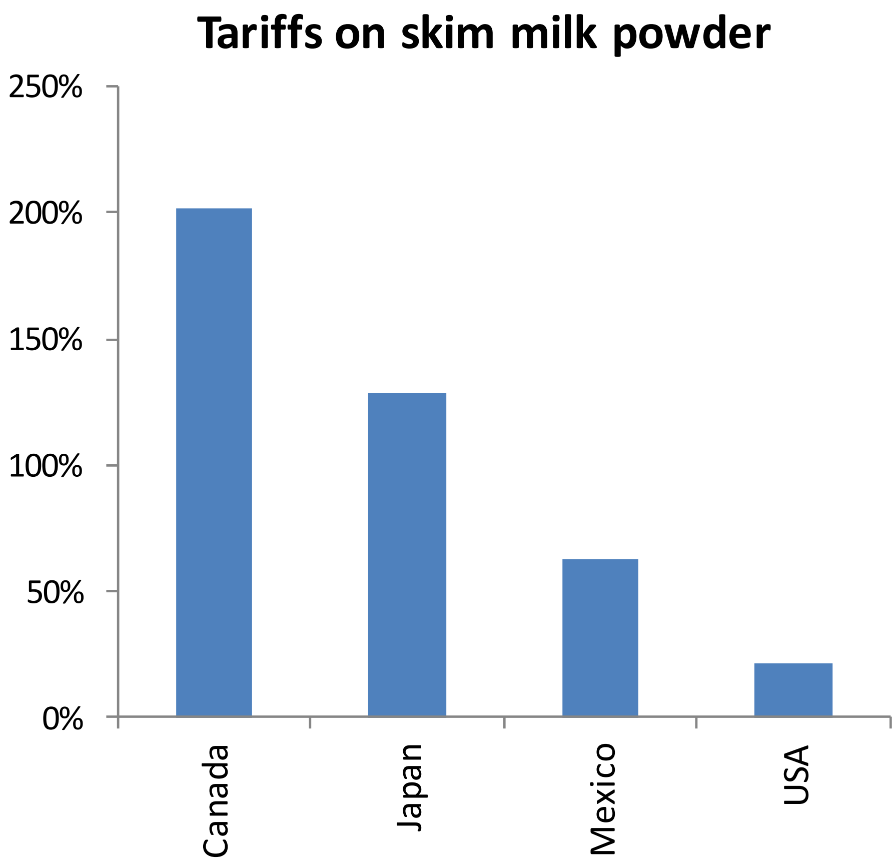


Dairy is one of the most protected sectors globally

WTO Simple Average of Applied MFN Tariffs for **All Dairy Products**, all Countries



However, high tariffs on agricultural products restrict trade and "non-tariff" barriers proliferate



Some examples of non-tariff barriers to trade:

- Protectionist policies implemented in the name of 'food security'
- Price controls
- Product registration requirements
- Factory registration requirements
- Marketing restrictions
- Non-standard product testing requirements

Fonterra

Fonterra at a glance

10,500 shareholders

Farmer owned cooperative

18 billion litres in NZ

3 billion litres outside NZ

~2.5 million metric tonnes ex NZ

76 processing plants

74,000+ delivered orders p/a

100+ countries

18,195 staff globally

Rabobank company ranking by dairy turnover (2014)

Rank	Company	Country of Headquarters	Dairy Turnover (EUR billion)
1	Nestlé	Switzerland	21.3
2	Danone	France	15.2
3	Lactalis	France	14.6
4	Fonterra	New Zealand	11.5
5	FrieslandCampina	Netherlands	11.2
6	Dairy Farmers of America	US	11.2
7	Arla Foods	Denmark/Sweden	9.4
8	Saputo	Canada	6.6
9	Dean Foods	US	6.5
10	Yili	China	5.7

Source: Rabobank Global Top 20 Dairy Companies 2014

IFCN top 20 milk processor list 2014 – ranked by milk intake

Rank	Company name	Orgin & main operation countries	Milk intake, in mill. t milk equivalants	Estimated turnover per kg milk, in US-$	Market share in % of world milk production
1	Dairy Farmers of America	USA	27.8	0.5	3.7%
2	Fonterra Co-operative Group	New Zealand/ others	22.0	0.7	2.9%
3	Groupe Lactalis (incl. Parmalat)	France/others	15.0	1.3	2.0%
4	Nestlé	Switzerland/others	14-15*	1.25*	2.0%
5	Arla Foods	Denmark/Sweden/others	12.7	1.1	1.7%
6	FrieslandCampina	Netherlands/others	10.3	1.1	1.4%
7	Dean Foods	USA	10.1	0.9	1.4%
8	Danone	France/others	8-9*	1.9*	1.1%
9	California Dairies	USA	8.1	0.7	1.1%
10	DMK Deutsches Milchkontor	Germany	6.8	1.0	0.8%
11	Saputo	Canada/USA/others	6.0	1.1	0.8%
12	Glanbia Group	Ireland/USA/others	6.0	0.7	0.8%
13	Land O' Lakes	USA	5.4*	0.7*	0.7%
14	Groupe Sodiaal	France	5.2	1.0	0.7%
15	Amul (GCMMF)	India	4.8	0.5	0.6%
16	Yili Group	China	4.5 - 5*	1.6*	0.6%
17	Unternehmensgruppe Theo Müller	Germany/UK, others	4.4	1.5	0.6%
18	Mengniu Dairy Company	China	4 - 4.5*	1.6*	0.6%
19	Bongrain	France/others	4.2	1.4	0.6%
20	Darigold (Northwest Dairy Association)	USA	3.6	0.6	0.5%
	Sum of Top 20		**184.2**	**1.0**	**25%**

Source: IFCN Top 20 milk processor list 2014 – ranked by milk intake

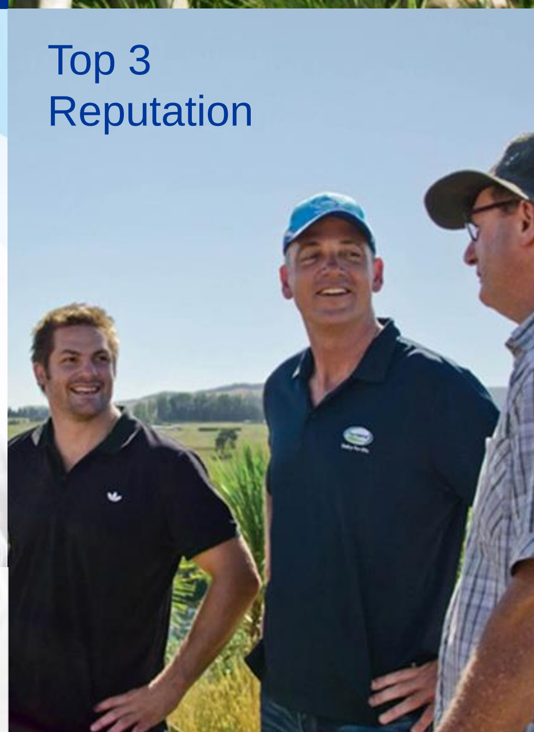
Ambition:
To build a globally relevant Co-op which makes a difference in the lives of 2 billion people by 2025

30 Billion Litres
5-6 Milk Pools

$35 Billion Turnover

No. 1 Ingredients

No. 1 or 2 Consumer Business
In Our 8 Strategic Markets

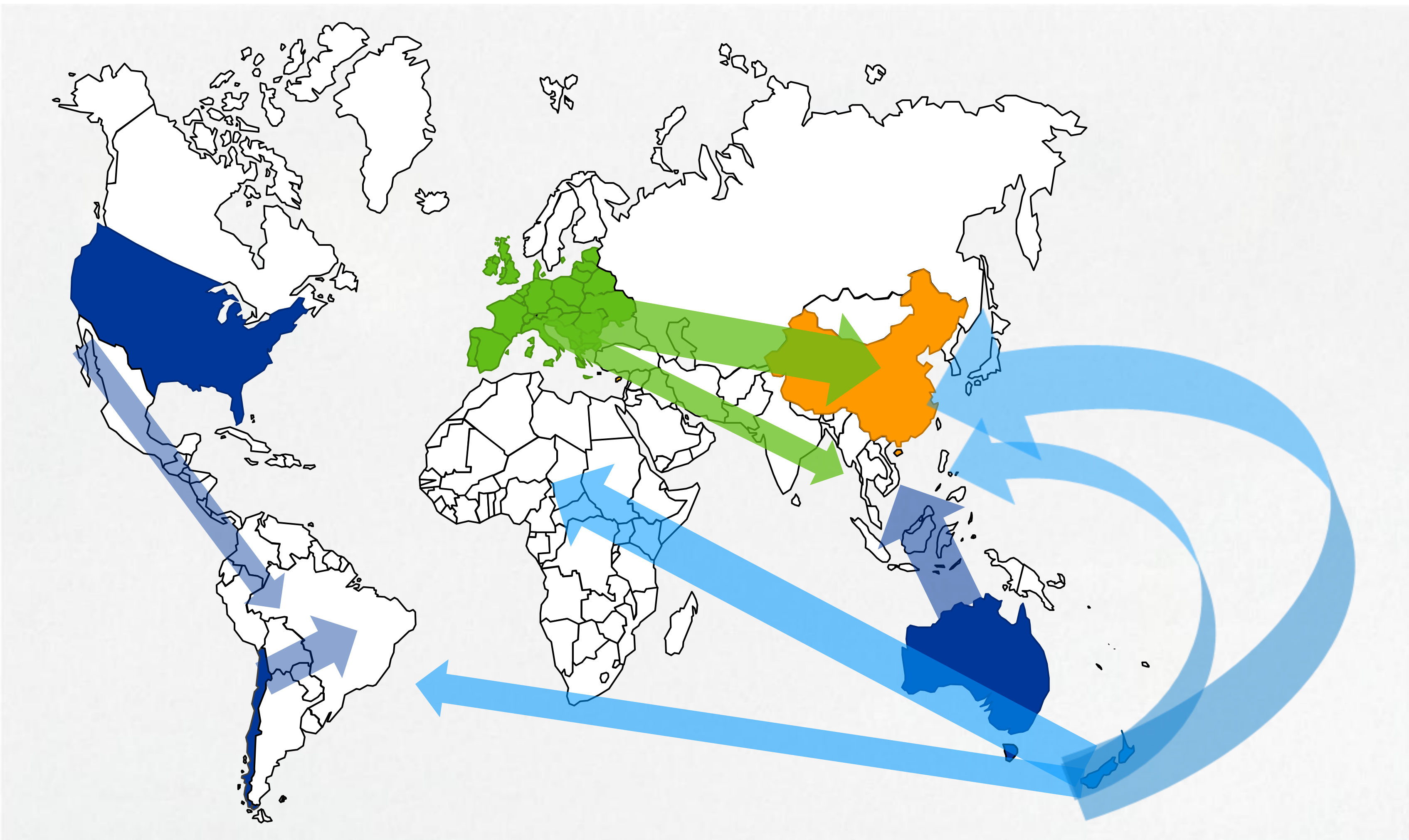


Top 3 Reputation

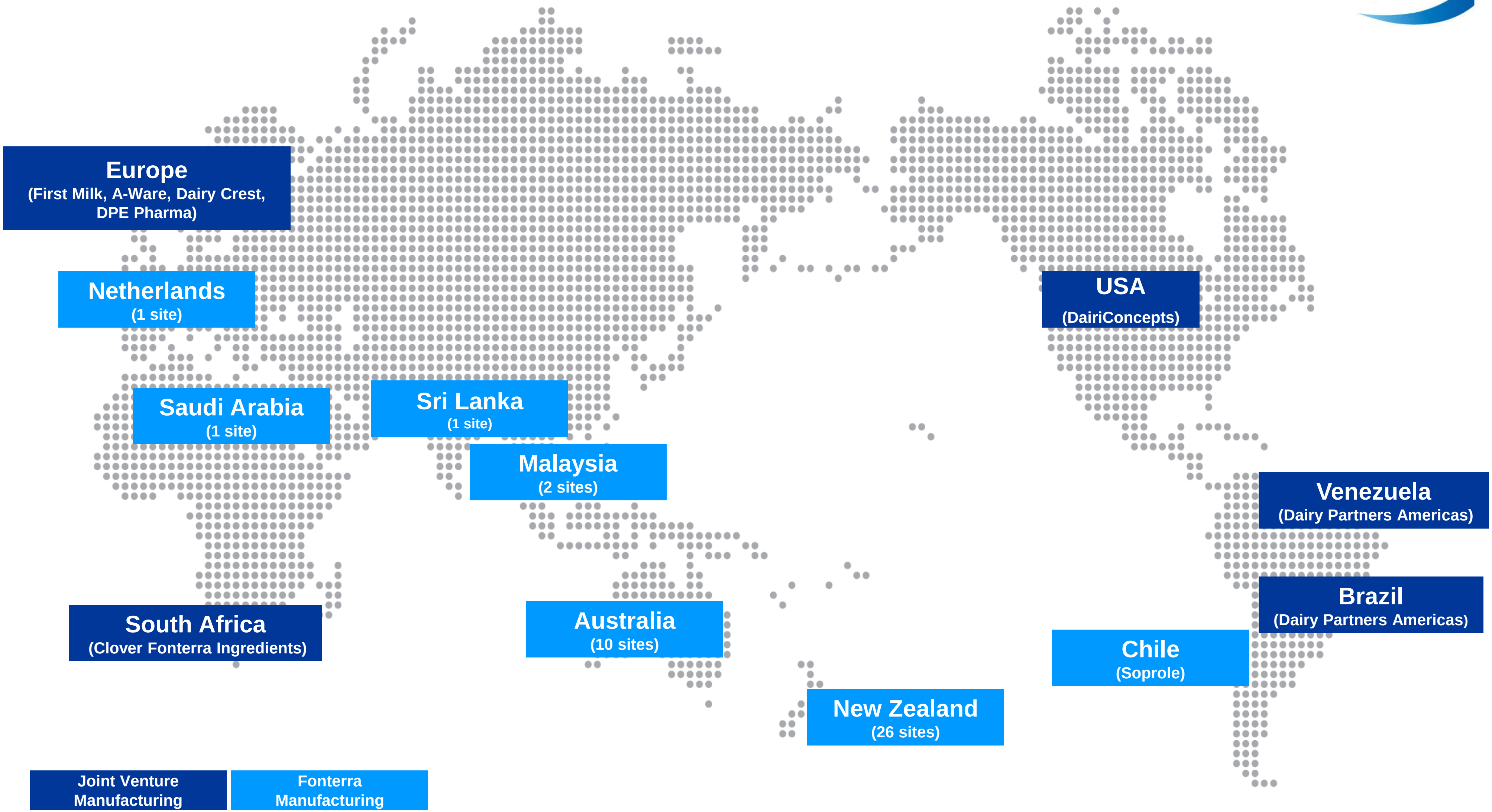
World Class Engagement

This is globally relevant

A multi-hub strategy will match demand growth to our best source of supply

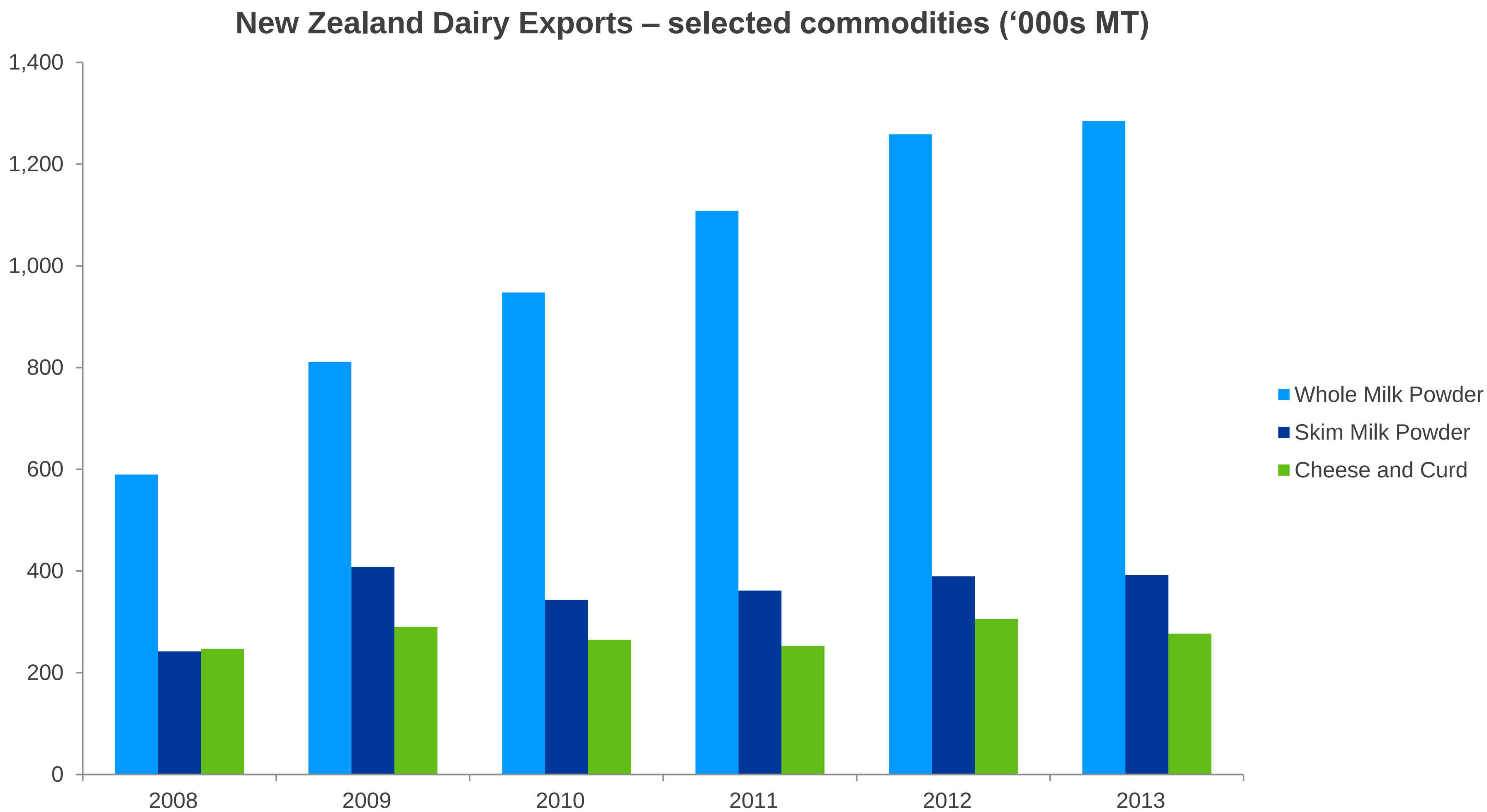


Developing a global manufacturing footprint



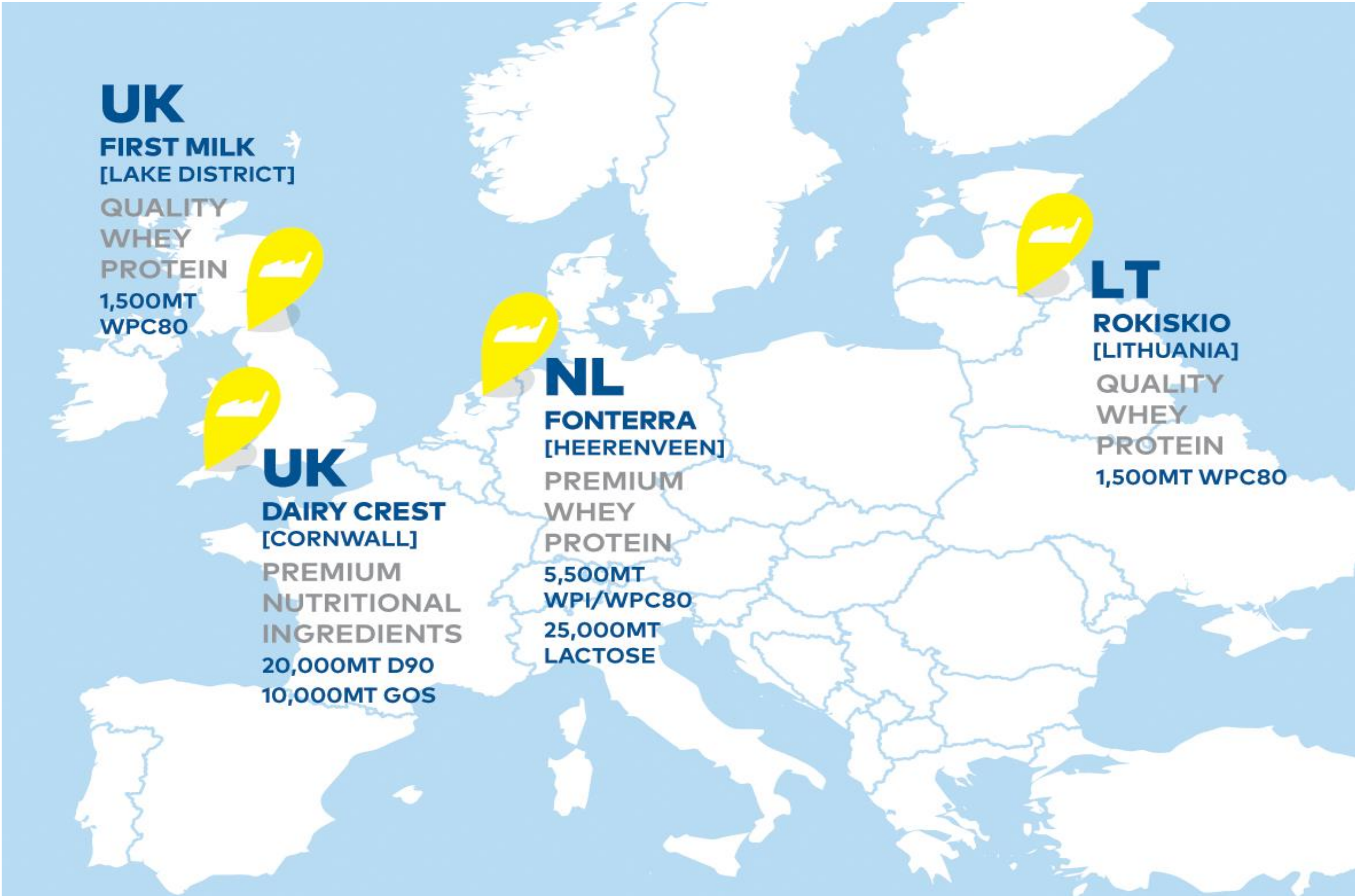
Fonterra’s Whey Manufacturing Footprint in Europe

New Zealand whey exports are constrained by limited cheese growth



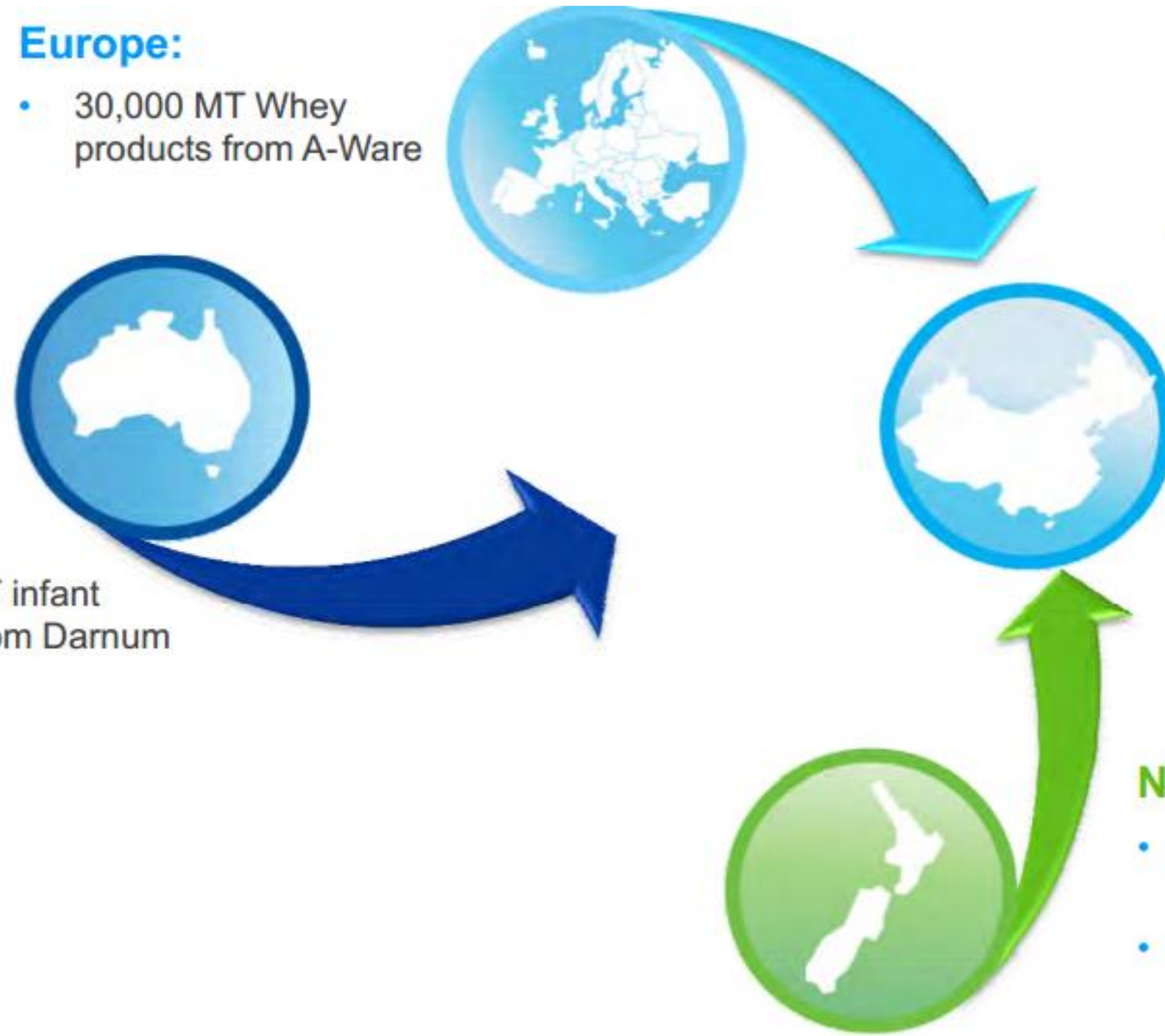
Source: Statistics New Zealand

Fonterra's developing whey manufacturing footprint in Europe



Example of Strategy in Action – Fonterra in China

Example of connecting via global multi-hubs



Europe:

- 30,000 MT Whey products from A-Ware

Australia:

- 50,000 MT infant formula from Darnum

China:

- Global Fonterra and Beingmate potential partnership
- Partial Tender Offer for 20% of Beingmate
- Anmum™ distribution agreement

New Zealand:

- Increased capacity of over 8m litres per day
- Higher Anmum™ infant formula volumes

Investing in China milk pool

- Investing in farms that will integrate with downstream positions
- Strong platform to launch from – pipeline of livestock, sites, capability
- Adopting a hub approach, starting with Yutian, supplying Beijing
  - Hub: 4-5 farms in one region
  - Allows flexibility in developing downstream partnerships
- Further expansion, pursued through partnership

Growing to one billion litres by 2020
Our focus is to roll out a new farming hub every 12-18 months

China – key strategic market

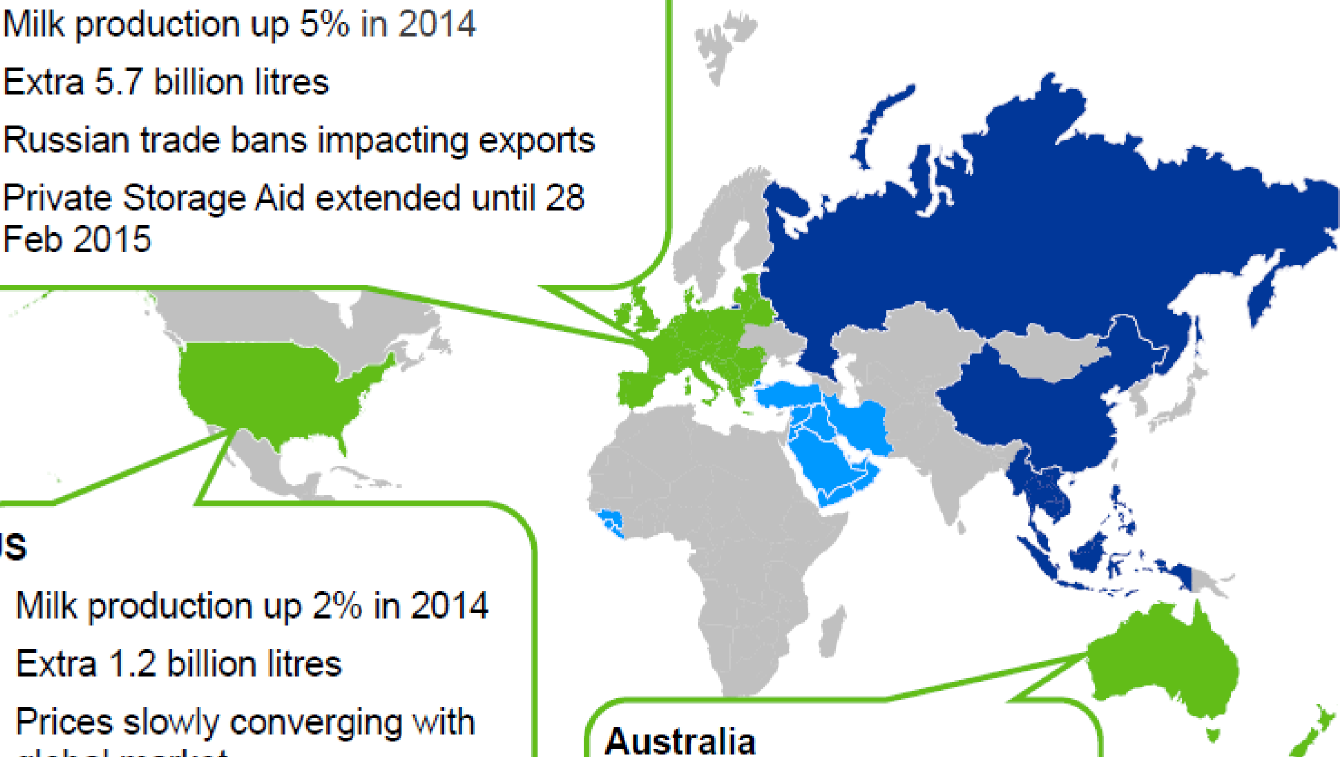
- One of the world's largest markets for dairy products
- Fonterra's business in China is already significant, with annual revenue of NZ$5.5 billion
- China's demand for infant formula is expected to double over the next five years:
  - NZ$ 18 billion today
  - NZ$33 billion by 2017
- China is a key market for Fonterra ingredients, foodservice and consumer products

Appendix

Global supply remains strong

European Union

- Milk production up 5% in 2014
- Extra 5.7 billion litres
- Russian trade bans impacting exports
- Private Storage Aid extended until 28 Feb 2015



US

- Milk production up 2% in 2014
- Extra 1.2 billion litres
- Prices slowly converging with global market

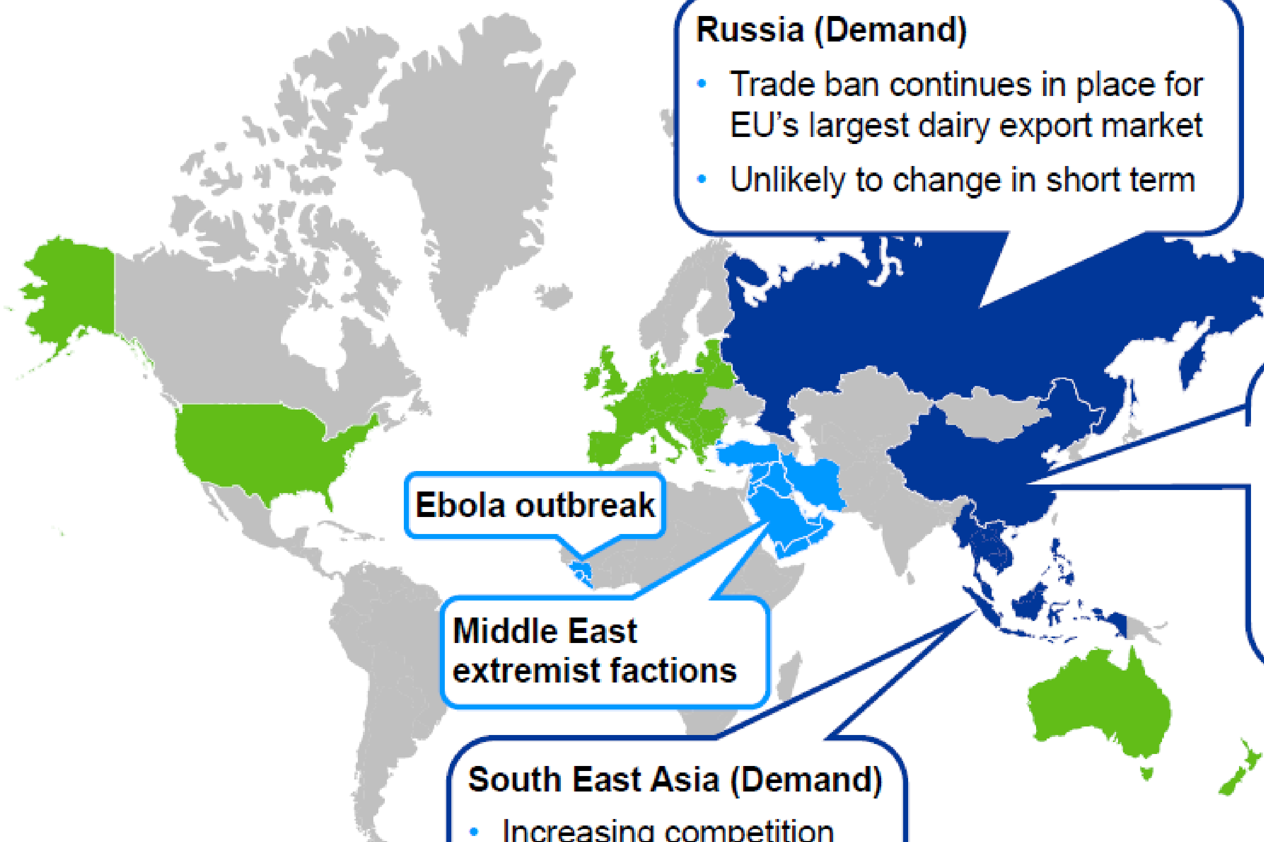
Australia

- Milk production up 5% in 2014
- Extra 343 million litres

Challenging global situation in key dairy regions

Fonterra

Dairy for life



Russia (Demand)

- Trade ban continues in place for EU's largest dairy export market
- Unlikely to change in short term

Oil price

- Large dairy importers like Venezuela, Algeria and Iran, likely to feel pressures if oil price stays low.

China (Demand)

- Import growth slowed
- Imported milk powder inventory levels falling but still above normal levels

Ebola outbreak

Middle East extremist factions

South East Asia (Demand)

- Increasing competition from EU / US
- Currency weakening and inflationary pressure

Fonterra overview

- New Zealand's largest dairy processor
- Consumer and Foodservice operations in China, Asia, Middle East, Latin America, Oceania
- International Farming Ventures – China
- Access to global milk pools
  - Collects ~87% of New Zealand's milk
  - Processes approximately 21 billion litres of milk per year

FY14 revenue (NZ$)	**22.3 billion**
FY14 normalised EBIT (NZ$)	**503 million**
Shareholders	**~10,500**
Market cap (NZ$)	**9.4 billion**
Credit rating: **Standard & Poor's** **Fitch**	 **A+ stable** **AA- stable**

Fonterra business platforms

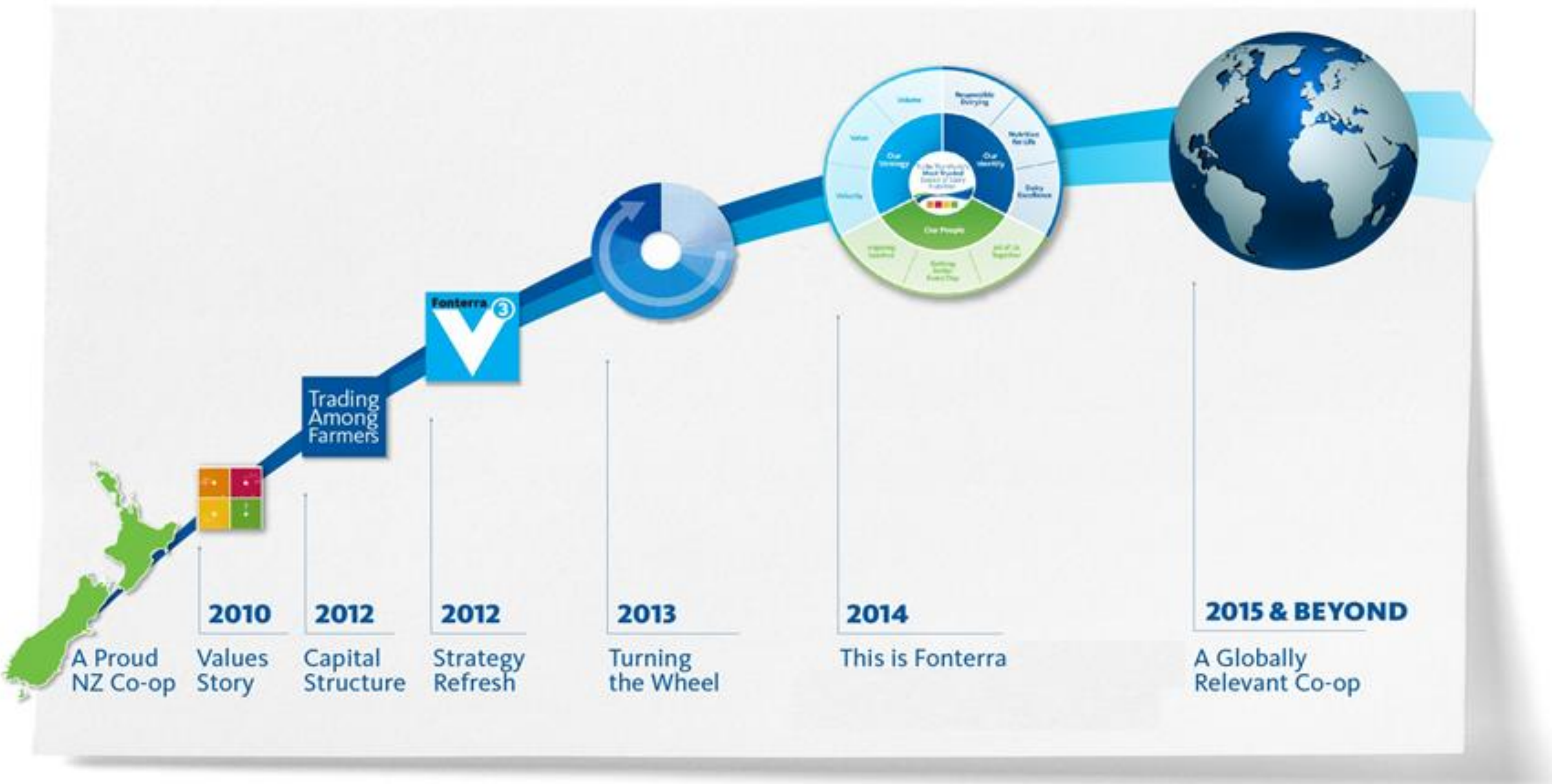
Milk Supply

Foodservices

Consumer Brands

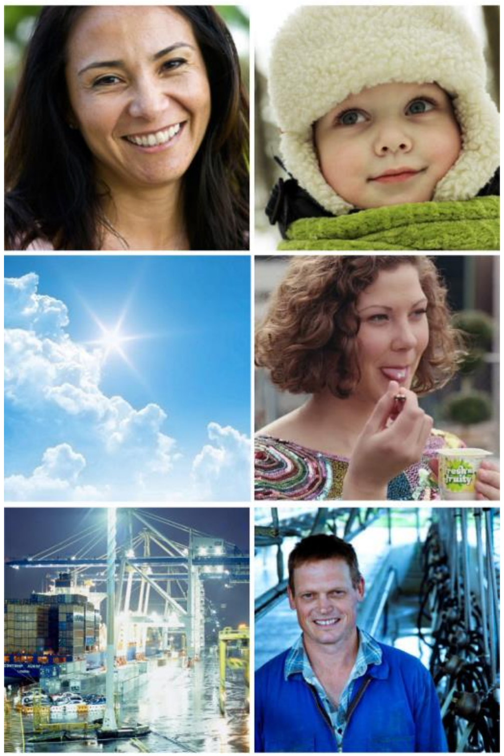
Ingredients

Our journey



Trading
Among
Farmers
Fonterra
2010
2012
2012
2013
2014
2015 & BEYOND
A Proud
NZ Co-op
Values
Story
Capital
Structure
Strategy
Refresh
Turning
the Wheel
This is Fonterra
A Globally
Relevant Co-op

Our V3 strategy



1. Optimise New Zealand milk

Anchor

2. Build and grow beyond our current consumer positions

3. Deliver on foodservice potential

4. Grow our Anlene business

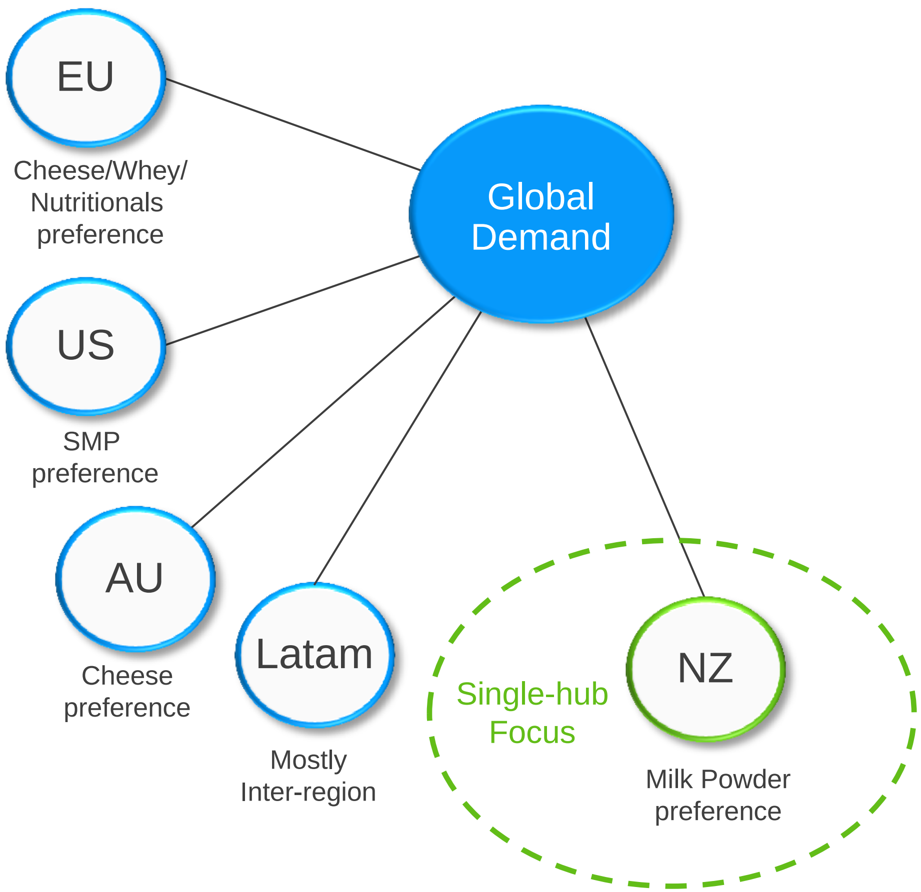
5. Develop leading positions in paediatrics and maternal

6. Selectively invest in milk pools

7. Alignment of business & organisation to enable strategy

Global multi-hubs to support global growth platforms

From Single Hub



To Multi-Hub