



# FONTERRA **UP-CLOSE IN CHINA**

Fonterra China Site Visit

November 2014





# FONTERRA **UP-CLOSE IN CHINA**

Fonterra Overview

Lukas Paravicini, Chief Financial Officer

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**Fonterra Global**

2

**Fonterra in Asia**

3

**Fonterra in Greater China**



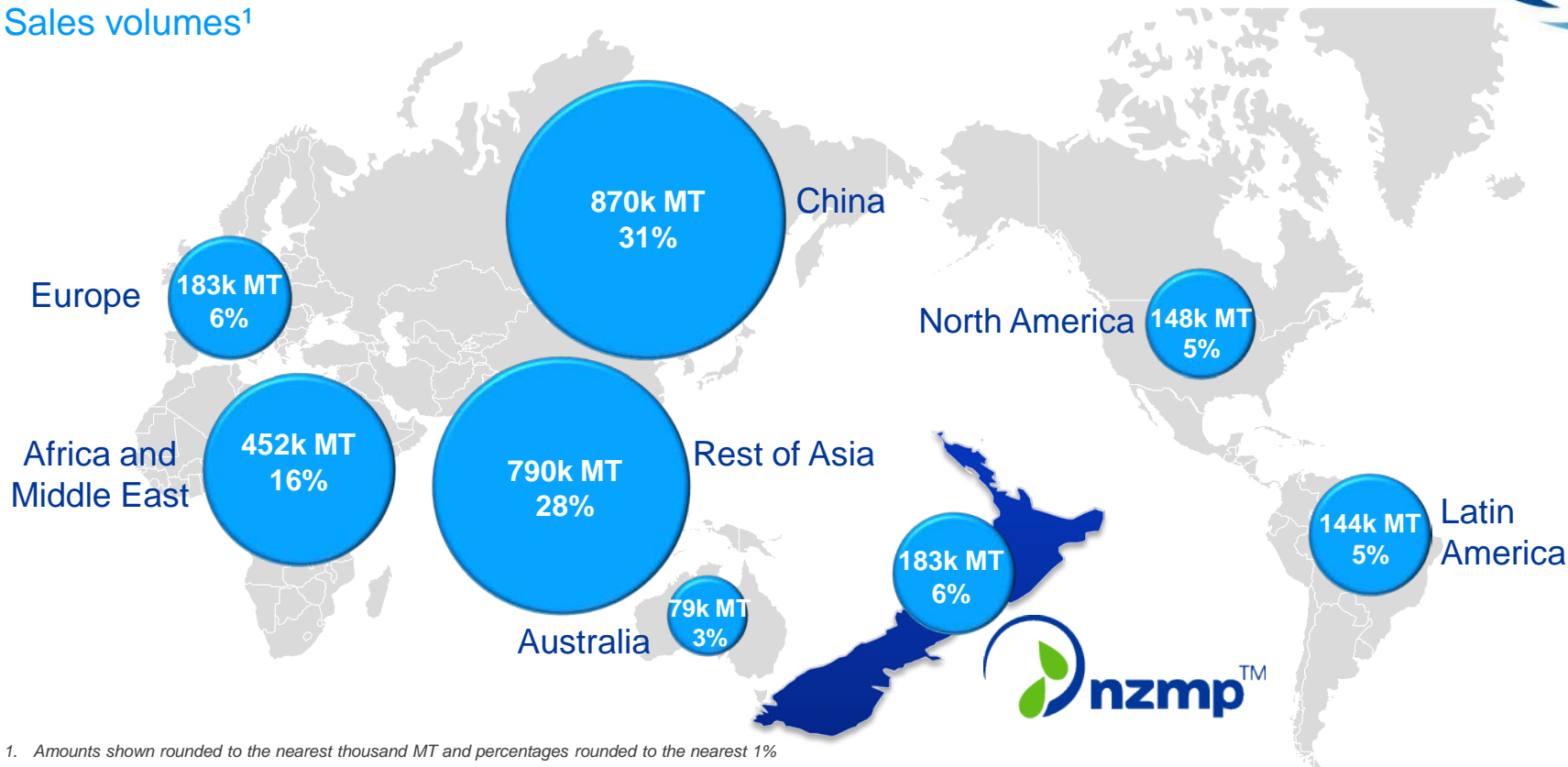
# Fonterra overview

- Leading processor of dairy products
- Fully integrated dairy business (grass to glass)
- 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



# Leading Global Ingredients and Operations business with total volume of 2.8 million MT

Sales volumes<sup>1</sup>



1. Amounts shown rounded to the nearest thousand MT and percentages rounded to the nearest 1%

# Growing branded consumer and foodservice businesses with total revenue of \$6.8 billion

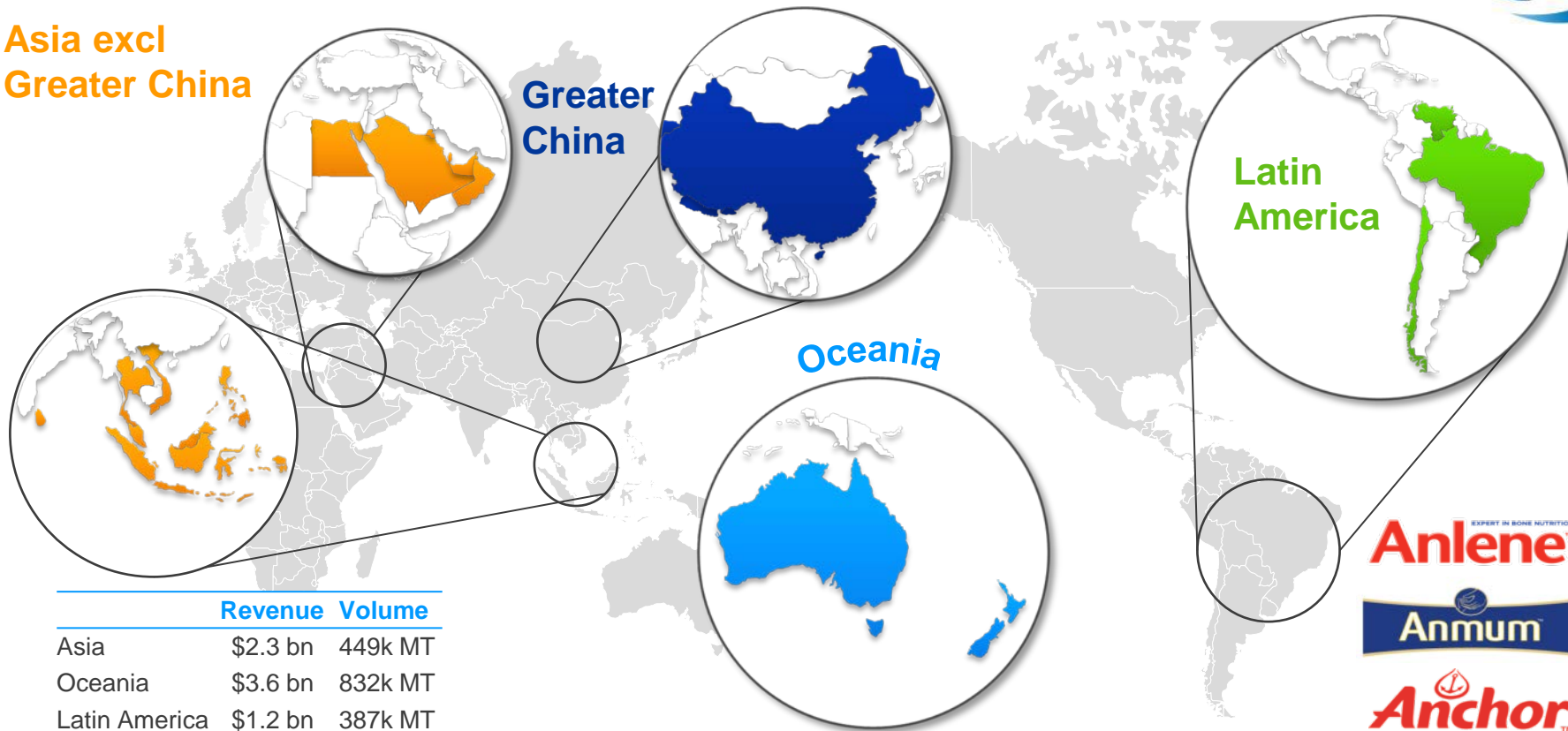


Asia excl  
Greater China

Greater  
China

Latin  
America

Oceania



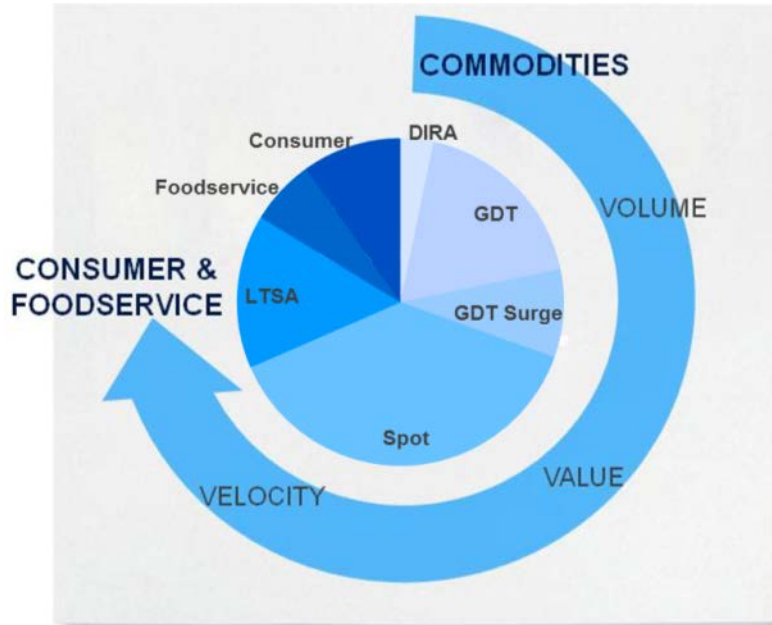
	Revenue	Volume
Asia	\$2.3 bn	449k MT
Oceania	\$3.6 bn	832k MT
Latin America	\$1.2 bn	387k MT

EXPERT IN BONE NUTRITION  
**Anlene**

**Anmum**

**Anchor**

# Value creation beyond the Milk Price by 'Turning the Wheel'



Growth in consumer and  
foodservice volumes



Drive price achievement  
in Ingredients

leads to

Maximising Return on Capital

1

Fonterra Global

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Fonterra in Greater China

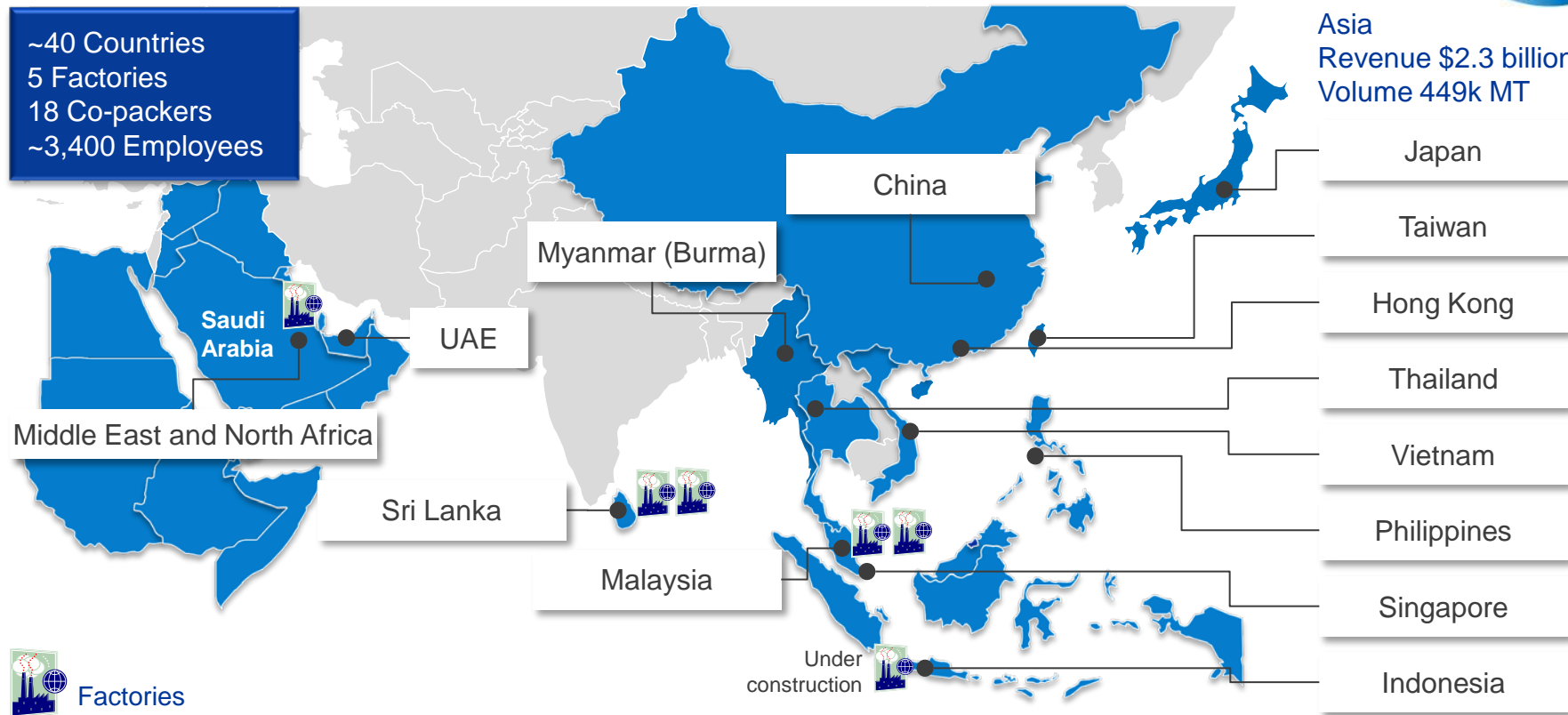


# Asia/MENA is a unique and complex market

- More than 40 countries – different cultures, religions, economic and political landscapes
- Diverse retail landscape; very different from New Zealand and Europe
- No two markets are the same



# Consumer and Foodservice Brands in Asia/Middle East and Africa



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Fonterra Global

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Fonterra in Greater China



# Greater China is our largest market in Asia

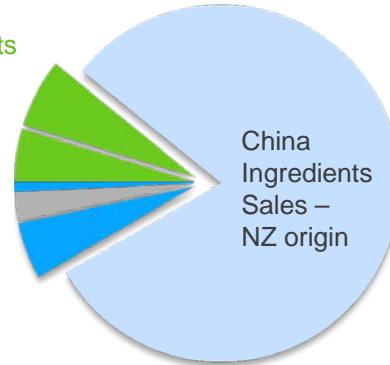
Targeting ROC of 15% in three years

7 strategic paths

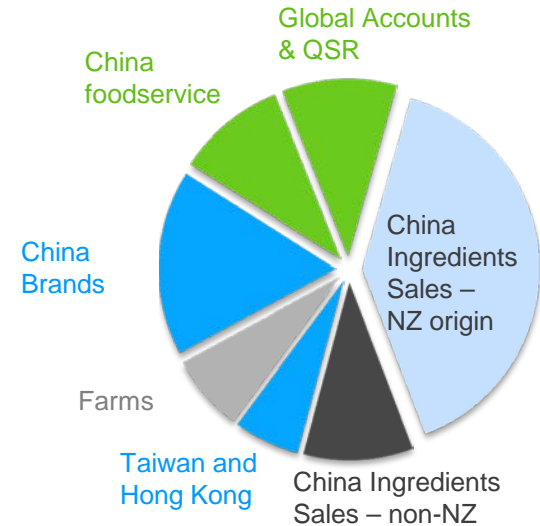
Turning the Wheel

- 1 **Optimise** NZ milk
- 2 **Build and grow** beyond our current consumer positions
- 3 **Deliver on** Foodservice potential
- 4 **Grow our** Anlene™ business
- 5 **Develop** leading positions in paed & maternal nutrition
- 6 **Selectively invest** in milk pools
- 7 **Align** our business and organisation

Global Accounts & QSR  
China foodservice  
China Brands  
Farms  
Taiwan and Hong Kong



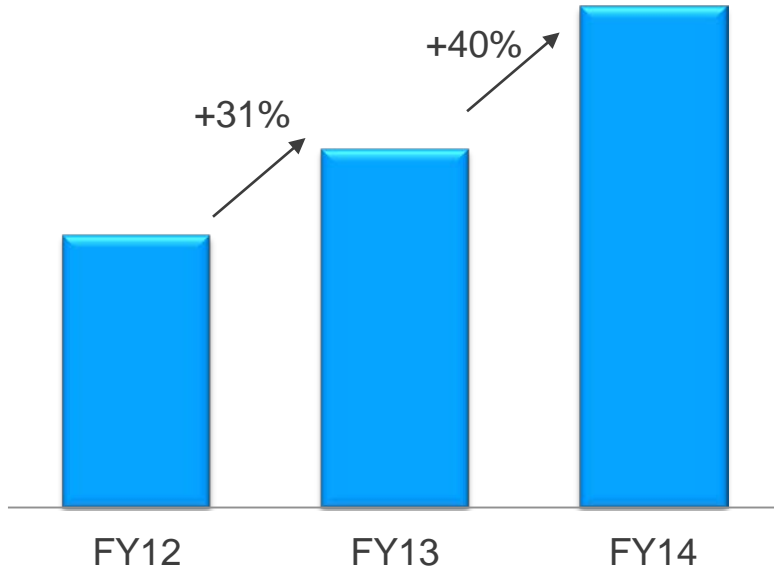
FY14 Volume  
4bn litres LME



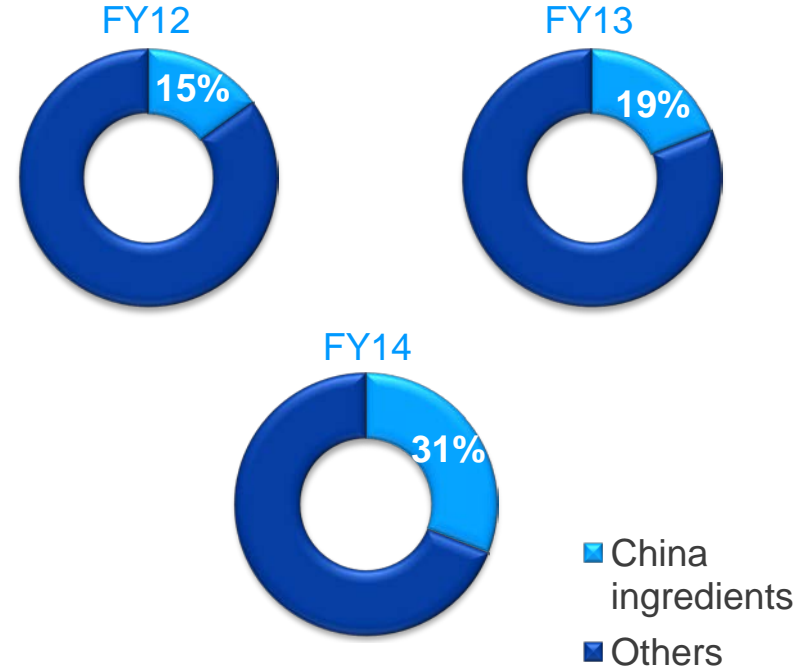
2020 Volume  
8bn litres LME

# Strong growth in ingredient sales to China

Total volume sales (000s MT)



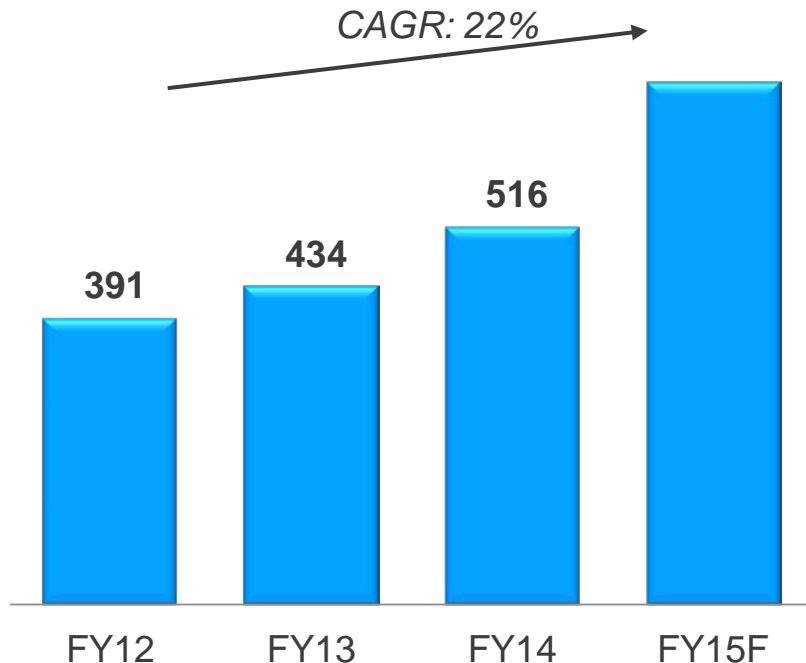
% of Fonterra NZ milk (LME) imported into China



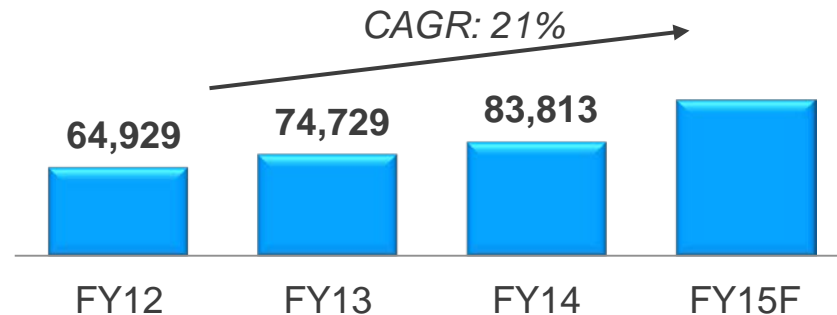
# Strong growth in consumer and foodservice revenue and volume



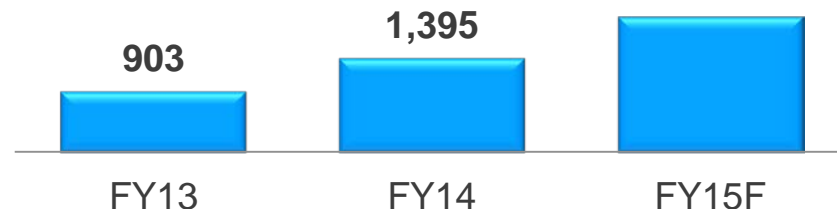
Total revenue (\$m)



Total volume (MT)



China staff growth incl. farm and ingredients



# Fonterra China Farms – creating a fully integrated supply chain



Farms to integrate with downstream positions

Hub approach allows flexibility in partnerships

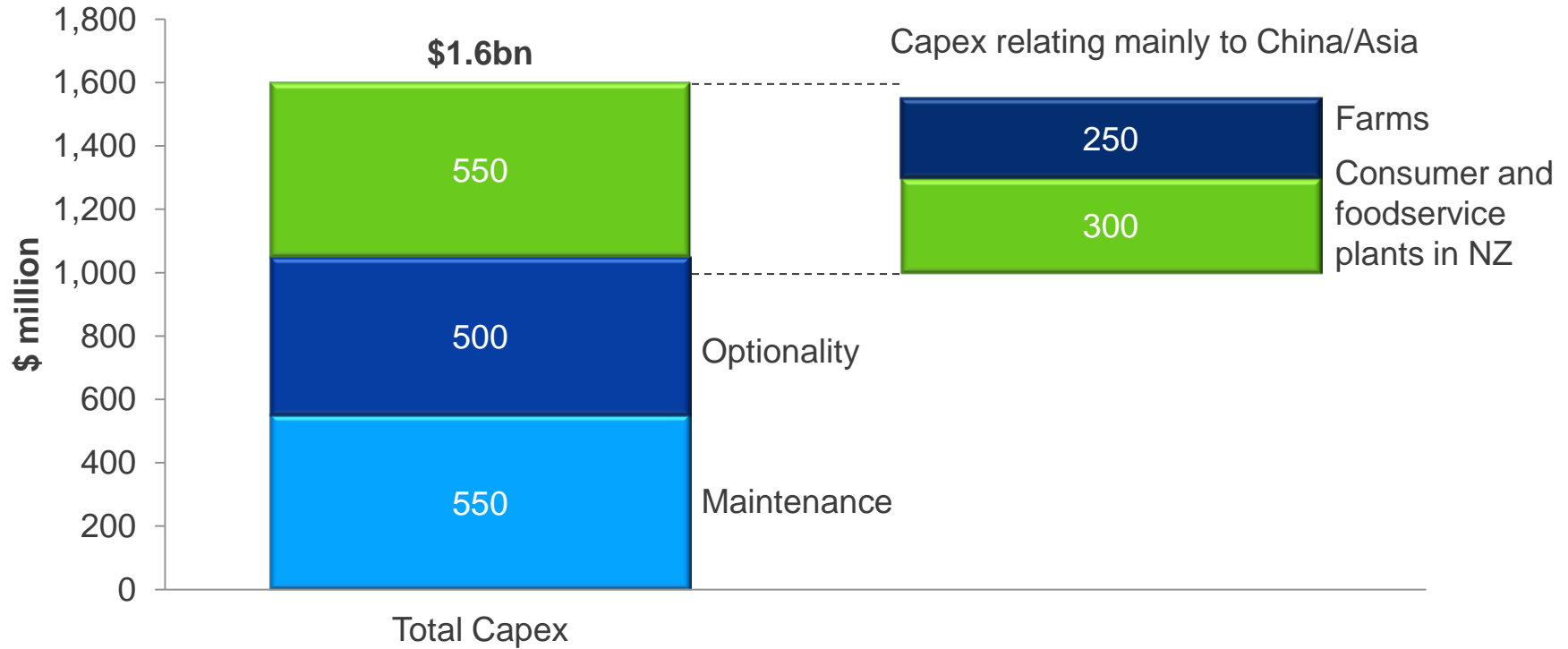
Capex for farms in FY15 of \$250 million

Further expansion to be pursued through partnerships

To be developed



# Investing in future growth



# Investment in China funded by foodservice and established markets – Hong Kong and Taiwan



Investment in new markets/categories<sup>1</sup>  
(A&P spend)

EBIT contribution from developed markets<sup>2</sup>

FY14

(\$84m)

\$78m

FY13

(\$73m)

\$90m

FY12

(\$34m)

\$64m

1. Excludes China Farms

2. Includes Hong Kong, Taiwan Consumer, Taiwan Foodservice and China Foodservice



# FONTERRA **UP-CLOSE IN CHINA**

Fonterra Greater China Strategy

Johan Priem, President Fonterra Greater China

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## Key China Market Trends

- Macro Trends
- China Government Economic Priorities

2

## China Dairy Industry

- Market and Consumer Trends
- China Government Economic Priorities

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## Fonterra in Greater China



# China has experienced strong growth but pace expected to slow down in 2014



However, strong market fundamentals remain

- 1 China will probably surpass the United States as the world's largest economy in 2014<sup>1</sup>
- 2 Real GDP growth expected to be 7.2% in 2014
- 3 Nominal wages expected to rise by around 10% in 2014
- 4 Total consumer expenditure will grow by 8.8% in real terms in 2014









Key Statistics	1995	2000	2005	2013	2014	2015	2020
GDP (US\$ billion)	757	1,193	2,287	9,469	10,229	10,951	13,341
GDP (% real growth)	10.9	8.4	11.3	7.7	7.2	7.1	6.1
Inflation (% change)	16.9	0.3	1.8	2.6	2.2	2.8	3
Population (million)	1,199	1,258	1,300	1,354	1,361	1,367	1,393

1. Calculated at PPP.

Source: Euromonitor

# China macro trends that will influence our business to 2020



1	<b>Deceleration</b>		<ul style="list-style-type: none"><li>• Slowing down of overall consumption growth; across all city tiers and product categories</li></ul>
2	<b>Dynamic shifting</b>		<ul style="list-style-type: none"><li>• Continued urbanisation but at slower pace</li><li>• Spending power centre of gravity shifting from tier 1 cities to lower tier cities</li><li>• Redistribution towards rural areas</li></ul>
3	<b>Demographics</b>		<ul style="list-style-type: none"><li>• Aging population and population divide is diminishing</li></ul>
4	<b>Digitalisation</b>		<ul style="list-style-type: none"><li>• Fast penetration of e-commerce severely impacting traditional business models</li><li>• Diffusion of sphere from social media (Weibo, Wechat, etc. ...)</li></ul>
5	<b>Deflation</b>		<ul style="list-style-type: none"><li>• Slow down of premiumisation trend</li><li>• Increased competition driving prices down, promotions up</li><li>• Some categories in deflation (real prices)</li></ul>
6	<b>De-carbonisation</b>		<ul style="list-style-type: none"><li>• Growing concerns over food and environmental (water, air, etc...) safety</li></ul>

Source: Bain

# China Government economic priorities



## Focus areas:

- In particular, food security is a long term strategic concern. By “food security”, the government means less reliance on imports and greater reliance on self-sufficiency<sup>1</sup>
- Modernise the economy through consolidation and innovation to speed up development<sup>2</sup>
- Economic model transformation to support higher quality development<sup>2</sup>
- Guarantee food safety to restore market confidence
- New Food Safety law expected to be passed by end-2014
- Constructing a resource-saving and eco-friendly society with sustainable growth<sup>2</sup>
- Environmental protection is one of China’s 7 basic state policies
- Stricter environmental supervision<sup>3</sup>
- Establish long term mechanism of expanding domestic demand and shift away from overdependence on exports and investments. Create positive consumption environment to gradually make the overall size of the domestic market to rank among the largest internationally<sup>2</sup>
- To transform from (i) labour-intensive country into a talent-rich one and (ii) manufacturing hub to a world leader in innovation<sup>4</sup>
- To cultivate business leaders and CEOs who can lead large scale businesses<sup>4</sup>

1. Rabobank *Unleashing the Potential of Global F&A – A call for innovation and leadership* (October 2014).

2. China’s 12th Five-year plan (2011-15) (<http://www.britishchamber.cn/content/chinas-twelfth-five-year-plan-2011-2015-full-english-version>).

3. *Environmental Protection Law Amendment will come into effect in 2015.*

4. *The National Medium- and Long-term Talent Development Plan (2010-2020).*

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## China Dairy Industry

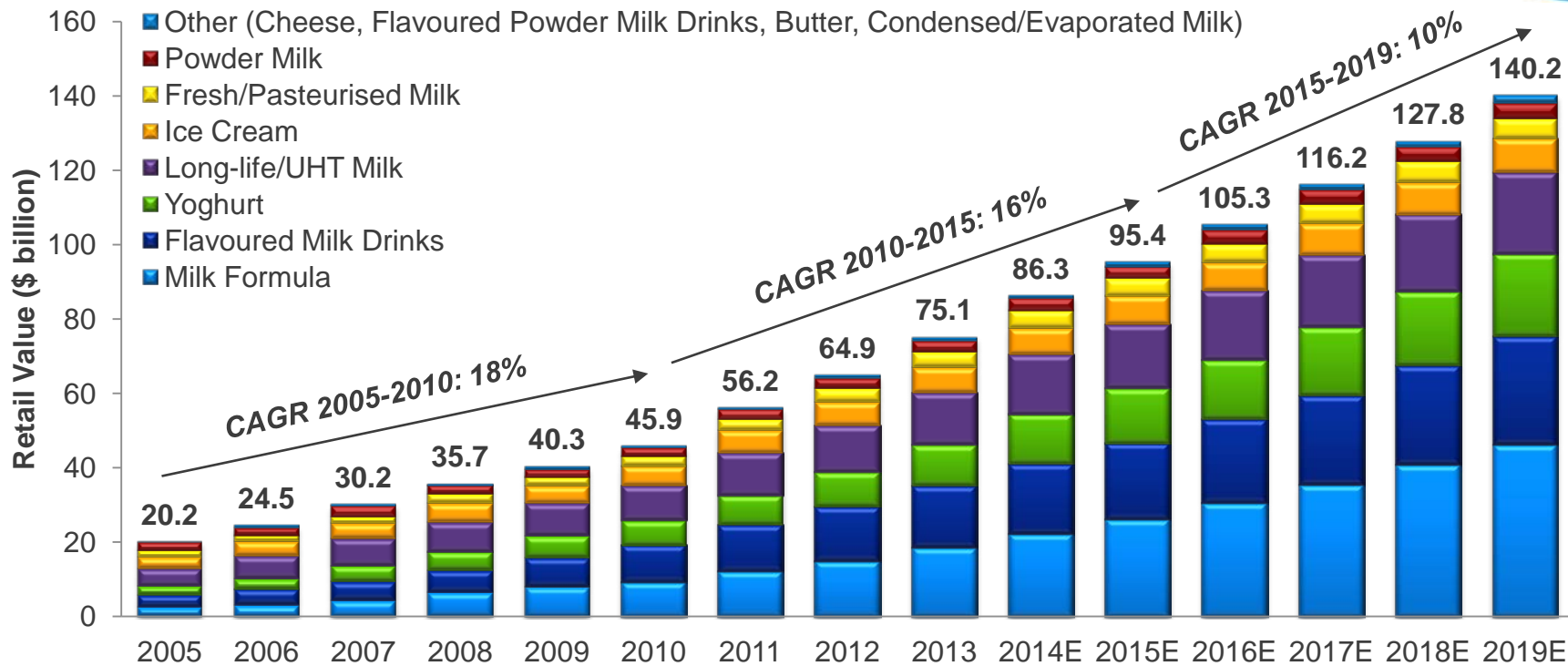
- Market and Consumer Trends
- China Government Economic Priorities

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## Fonterra in Greater China



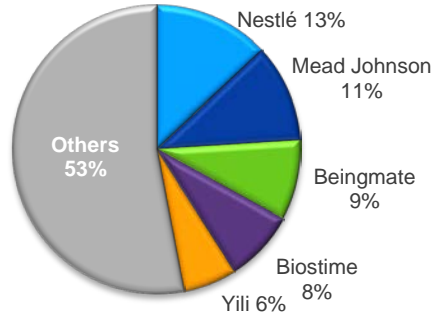
# China dairy retail market expected to reach \$86.3 billion and 28.3m MT in 2014



Source: Euromonitor

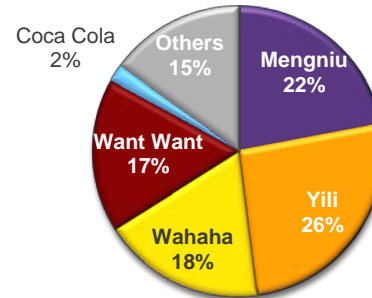
# Top 5 players in the four largest dairy categories

## Infant milk formula (IMF), 2014E



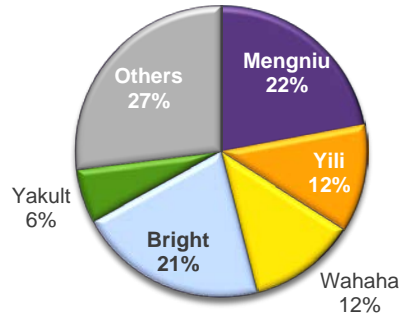
- Top 5 players make up 47% of the category

## Flavoured milk drinks, 2014E



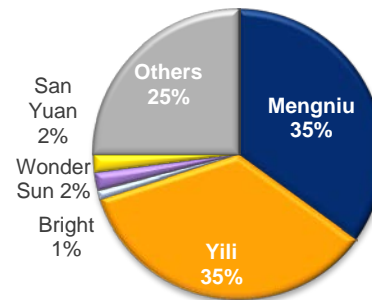
- Top 5 players make up 85% of the category

## Yoghurt, 2014E



- Top 5 players make up 73% of the category
- Ambient yoghurt is the fastest growing category dominated by Bright

## UHT milk, 2014E



- Top 5 players make up 75% of the category
- Premium segment accounts towards 40% of the total UHT category by value<sup>1</sup>

1. Comprises premium ambient white milk, kids milk and functional milk (Nielsen).

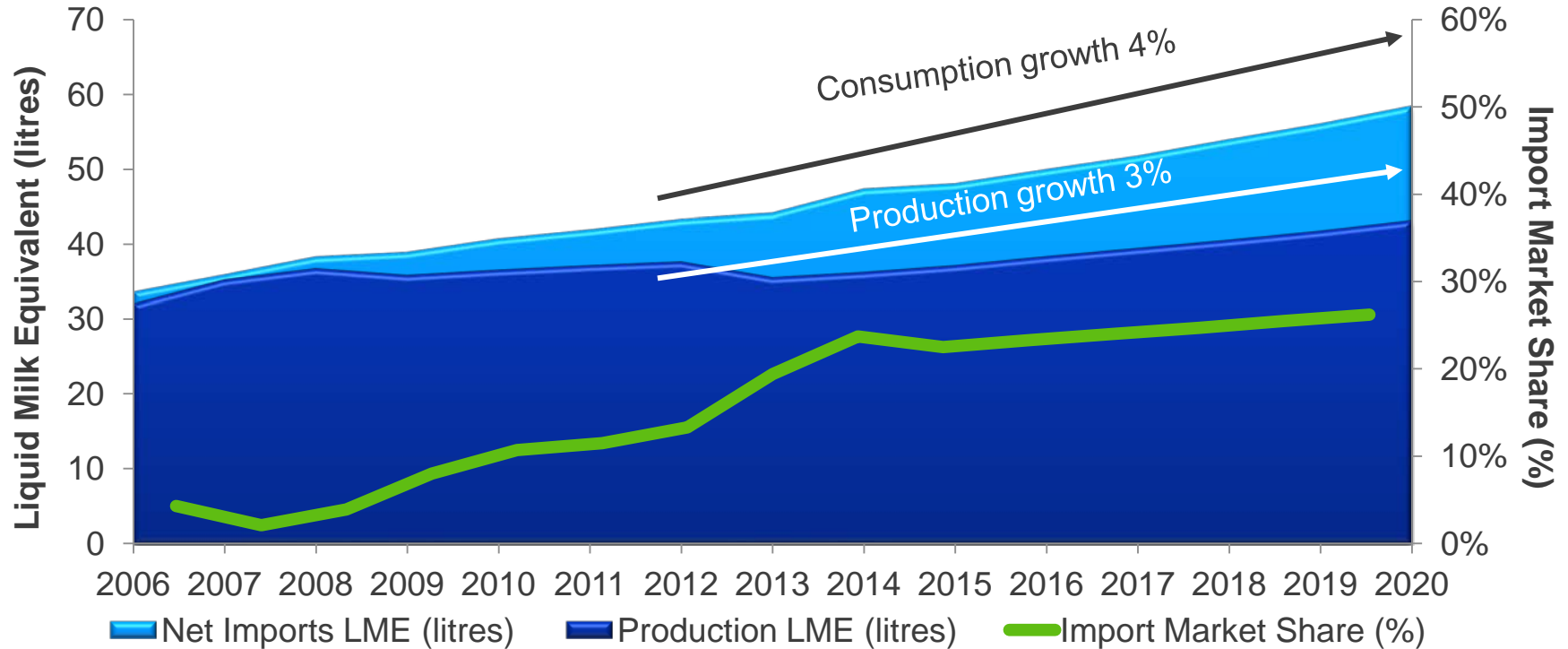
Source: Euromonitor

# Multi-nationals and Chinese dairy companies are actively entering into partnerships



Partnership		Date	Details
Mengniu	Danone (French) COFCO	2013	<ul style="list-style-type: none"> <li>Danone established a new JV company with COFCO</li> <li>Through the new JV, Danone owned 4% share of Mengniu which increased to 9.9% in 2014</li> </ul>
Mengniu	Arla (Swedish-Danish)	2005-2012	<ul style="list-style-type: none"> <li>2005: Partnership to produce milk powder in the Chinese market</li> <li>2006: JV set up to produce and distribute milk powder and other solid milk products</li> <li>2012: Entered into strategic co-operation agreement</li> </ul>
Mengniu	Whitewave Foods (US)	2014	<ul style="list-style-type: none"> <li>JV takes the US company into new fast-growing territory and the Chinese company wins a much-needed international partner to restore its reputation</li> </ul>
Bright	Synlait (NZ)	2010-2013	<ul style="list-style-type: none"> <li>2010: Bright took a 51% stake in Synlait</li> <li>2013: Bright to retain 40% shareholding post-IPO</li> </ul>
Bright	Mundella	2014	<ul style="list-style-type: none"> <li>To acquire cheese and yoghurt maker through their Australian arm Manassen Foods in which they have 75% stake</li> </ul>
Synutra	Sodiaal	2012	<ul style="list-style-type: none"> <li>Synutra and Sodiaal entered into a long term cooperation agreement</li> </ul>
Synlait	New Hope	2014	<ul style="list-style-type: none"> <li>Synlait to acquire 25% stake in New Hope (subject to approval)</li> </ul>
Fonterra	Abbott	2014	<ul style="list-style-type: none"> <li>Entered into partnership to develop farms in China</li> </ul>
Fonterra	Beingmate	2014	<ul style="list-style-type: none"> <li>Fonterra to acquire 20% stake in Beingmate (subject to approval)</li> </ul>

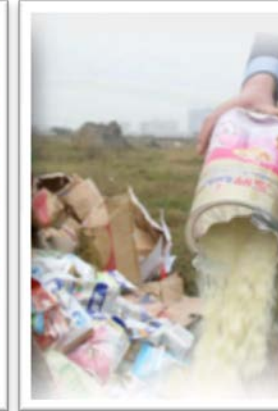
# China's dairy fundamentals are positive for us



Source: Agrifax / IFCN / Fonterra analysis

# We see six key consumer trends at play

- 1 Disposable incomes are increasing
- 2 Children get only the very best
- 3 Aging population
- 4 Government pushing consumption of dairy products
- 5 Food safety concerns drive elevation to superior quality
- 6 Growing importance of E-commerce and digital platforms



# China Government economic priorities specific to dairy market



## Focus areas:

- Supporting national dairy industry development aimed towards improving China's self-sufficiency
- National Animal Husbandry Development Plan<sup>1</sup>
- Foster national champions by encouraging M&As and consolidation (MIIT)
- Plan to improve IMF quality and boost social consumption confidence (MIIT)
- Central and local governments restructure to impose stricter food safety regulation and supervision<sup>2</sup>
- Promote the sustainable and healthy development of animal husbandry, increase farmers' income, protect and improve ecological environment<sup>1</sup>
- In 2008, Premier Wen Jiabao's "I have a dream to provide every Chinese, especially children, sufficient milk each day" speech signalled the central government's support for efforts to promote nutrition by increasing the children's daily dairy consumption
- China's per capita milk consumption is one-third of the world average
- Mid-to-long term plan on the rural practical talent and agricultural science and technology talent team construction (2010-2020)<sup>3</sup>

1. China's 12th Five-year plan (2011-15)

2. The State Council Circular No. 42 and 59

3. The National Medium- and Long-term Talent Development Plan (2010-2020)

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## Key China Market Trends

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## Fonterra in Greater China




# Bringing Fonterra's global relevancy to China


## Strategic Paths

## We have an integrated business in China


- 1 Optimise NZ milk**




- China ingredients is our biggest and most established business in China
  - 31% of Fonterra NZ milk (LME) imported into China in FY14
  - Strong growth of imported dairy ingredients is projected to close the demand and supply gap
- 2 Build and grow beyond our current consumer positions**




- Providing high quality milk to Chinese consumers through imported products and further choices identified through strategic review
- 3 Deliver on Foodservice potential**



- Delivering foodservice solutions to meet consumer growth towards out-of-home consumption
- 4 Grow our Anlene™ business**



- Grow our position in adult nutrition (mobility) to support aging population
- 5 Develop leading positions in paed & maternal nutrition**



- Driving growth through Beingmate partnership
  - Serving and caring for every Chinese mum and her child by providing high quality and safe infant formula
- 6 Selectively invest in milk pools**

- Farming hubs: key part of our strategy to be (i) a more integrated dairy business in China; (ii) contribute to the growth and development of the local Chinese dairy industry; (iii) help meet local consumers' need for safe, nutritious dairy products; and (iv) address the Chinese Government's priority to improve food self-sufficiency rate
- 7 Align our business and organisation**

- Building the right systems, processes and relationships to execute on our integrated strategy in China

# We play a key role to Fonterra's strategy of Turning the Wheel

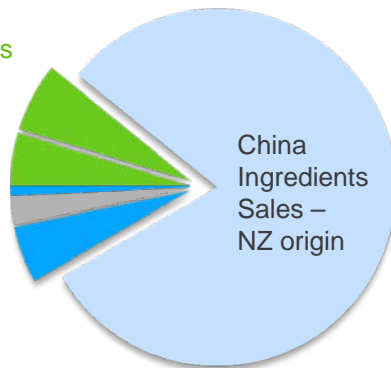


## 7 strategic paths

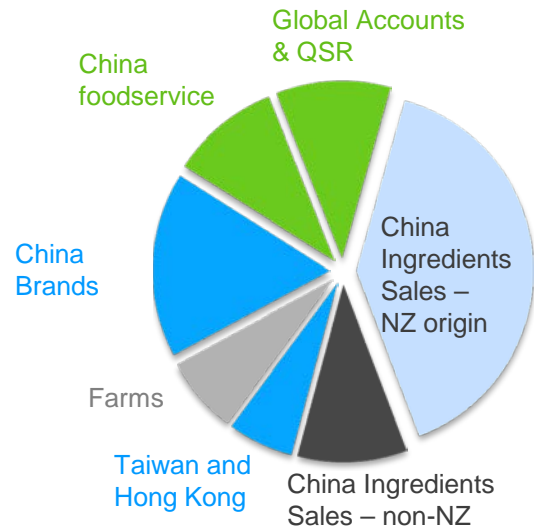
## Turning the Wheel

- 1 **Optimise** NZ milk
- 2 **Build and grow** beyond our current consumer positions
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Global Accounts & QSR  
China foodservice  
China Brands  
Farms  
Taiwan and Hong Kong

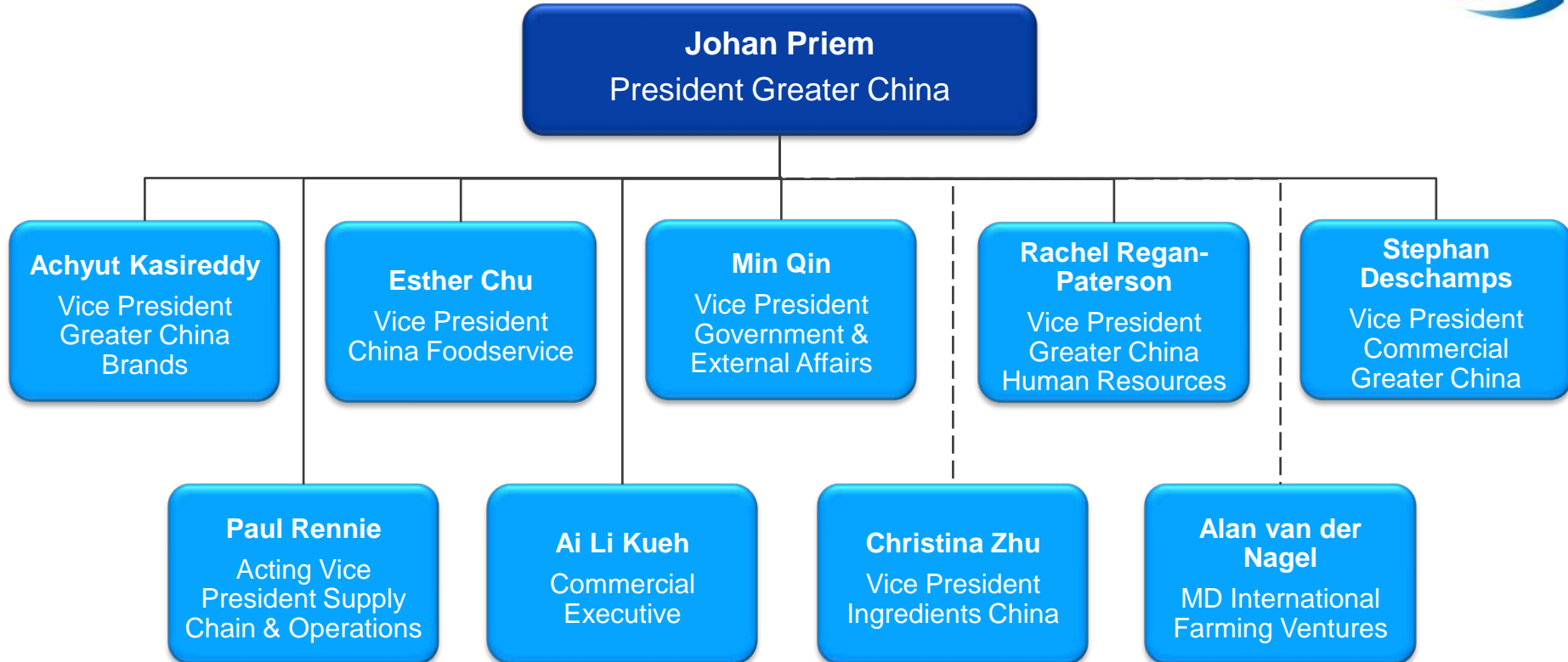


**FY14 Volume**  
4bn litres LME



**2020 Volume**  
8bn litres LME

# Greater China team



# Detailed strategy to be covered

## Strategic Paths

- 1 Optimise**  
NZ milk  
Jin Ling, Marketing Director Ingredients
- 2 Build and grow**  
beyond our current consumer positions  
Achyut Kasireddy, VP Greater China Brands
- 3 Deliver**  
on Foodservice potential  
Esther Chu, VP China Foodservice
- 4 Grow**  
our Anlene™ business  
Achyut Kasireddy, VP Greater China Brands
- 5 Develop**  
leading positions in paed and maternal nutrition  
Achyut Kasireddy, VP Greater China Brands
- 6 Selectively invest**  
in milk pools  
Alan van der Nagel, MD International Farming Ventures



# FONTERRA **UP-CLOSE IN CHINA**

China Farms

Alan van der Nagel, MD International Farming Ventures

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## Overview of China Farms

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## China Farms Operations

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## China Farms Statistics



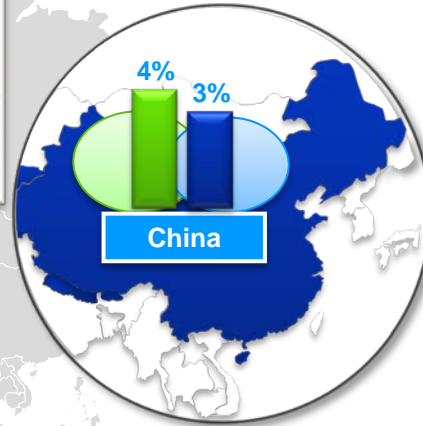
# Our purpose



## TO BE THE WORLD'S MOST TRUSTED INTEGRATED MILK SUPPLY OPERATION



# China Farms – investing for the future



## Our plan for China

- Our target is to **produce 1 billion litres of raw milk by 2020**
- Investing in farms enabling downstream integration
- Growth strategy adopts a hub approach
  - leveraging economies of scale
  - mitigating biosecurity risks
- A typical hub accommodates approx 16,000 milking cows, consisting of 3-5 farms in one region

**By 2020 our milk production target will account for 3% of total forecast milk produced in China**

○ Demand Volume 
 ■ Demand Growth 
 ○ Supply Volume 
 ■ Supply Growth

# We focus on suitable areas for sustainable production



## Desirable agricultural environment

- Suitable climate for dairy farming
- Access to quality feeds
- Access to land
- Access to water



## Access to high quality labour

- Good education system and high concentration of schools to supply local labour force
- Beijing metropolis area is attractive to expatriates



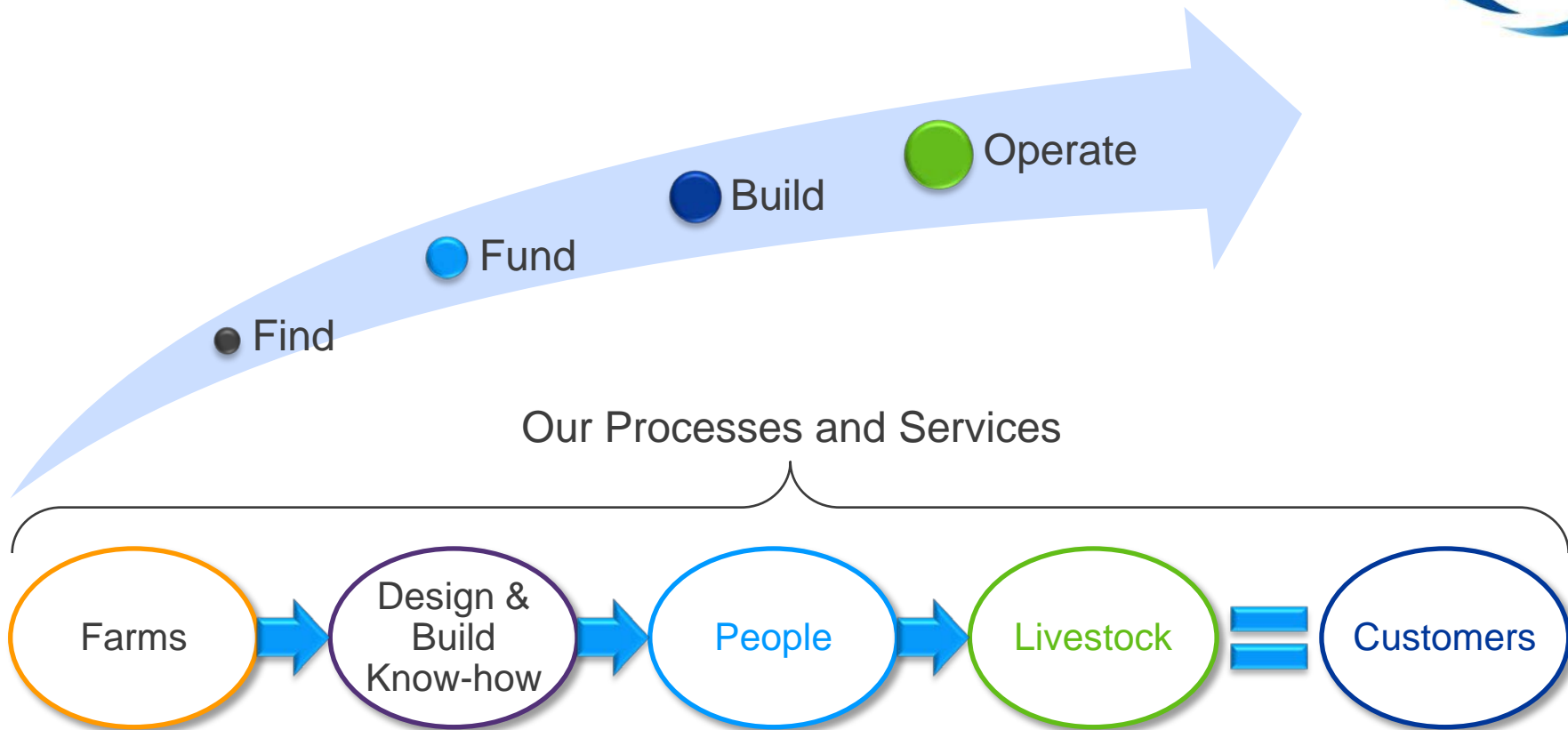
## Access to major population centres

- High population density
- Urban middle class drives demand for our quality raw milk
- End consumer-demand for premium dairy products drives investment in processing facilities by our customers

## Proximity to customers

- Multiple customers with significant investments in processing
- Broad range of products processed
- Logistical advantages with optimized milk collection circuits and reduced transportation and handling costs

# Our farm rollout model



# Committed to high-quality and traceable milk supply in China



## Commercial rationale

- 1 Food safety concerns and regulations drive demand
- 2 Premium raw milk attracts highest prices
- 3 Premium milk market under-penetrated
- 4 Premium milk is fastest growing segment



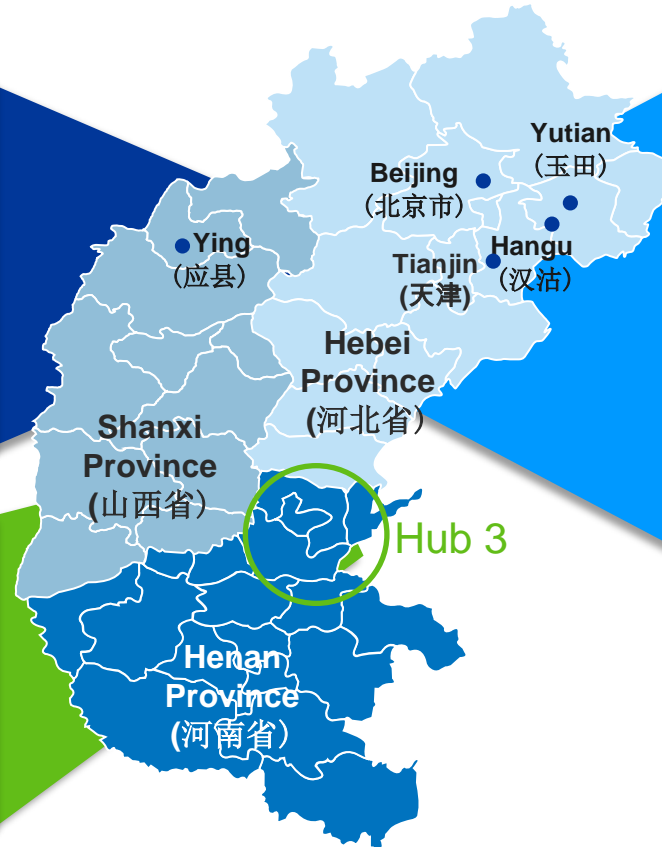
# Our pipeline China farm hub development

## Ying Hub

- Two double farms in Ying County for expected completion in:
  - **Sunny** - Autumn 2014
  - **Cowbell** - Spring 2015
- Finished capacity of ~170 million litres
- Two additional single farm sites have been identified
- Targeting 250 million litres by FY18

## Henan Hub

- JV with Abbott, subject to regulatory approval
- Milk production 180 million litres at steady state with 6,000 milking cows
- Construction expected to commence in 2015
- Henan province site location



## Yutian Hub

- Four farms in production east of Beijing:
  - **Hangu** – 2008 single farm
  - **Yutian 1** – 2011 single farm
  - **Yutian 2** – 2012 single farm
  - **Yutian 3** – 2013 double farm
- A single farm is 3,200-3,500 milking cows, a double is approx. 6,500 milking cows
- Targeting over 180 million litres in FY15
- Plan to expand this hub with two additional farms expected in FY15
- Grow it to 200 million litres capacity

## Future developments

- Hub 4
- Additional sites in Ying
- Expand Yutian hub
- Fifth hub

# Strategic alliance with Abbott

- Agreement to develop a new hub subject to regulatory approval
- Will leverage
  - Fonterra's expertise in dairy nutrition and farming
  - Abbott's commitment to business development in China
- Joint venture to invest combined \$340 million
  - 1 hub with 5 dairy farms
  - >16,000 milking cows
  - 160 million litres annually
- Completion of first farm in first half 2017



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## Overview of China Farms

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## China Farms Operations

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## China Farms Statistics



# We apply significant expertise to optimising the feed mix



## Optimal feed mix to maximize output

Feed	Source
Corn Silage	Local
Imported Alfalfa	US
Ground Corn	Local
Steamed Corn Flake	Local
Brewers Grain	Local
Concentrates	Local

- Feed processing trials → higher corn silage replaces some of the expensive imported alfalfa
- Buying harvesters to improve silage quality

- Trialling processing feed supplements on farm instead of buying in pre-mixed feed
- Reducing the spend on concentrates

## Commitment to quality feed

- ✓ Choosing the most reliable feed suppliers
- ✓ Stringent selection processes
- ✓ High-frequency tests and examinations on quality of feed
- ✓ Dedicated efforts in educating local feed suppliers

- We are a committed local community partner
- Only our Alfalfa (15% of total feed cost) is sourced from the US. All the rest from China and locally from nearby suppliers

# Our advanced disease management programme helps mitigate and manage risk



## World-class animal health management plan

- Intensive vaccination
- Best practice bio-security management
- Best veterinary staff
- Staff health checks

## High-frequency testing and vaccination regime

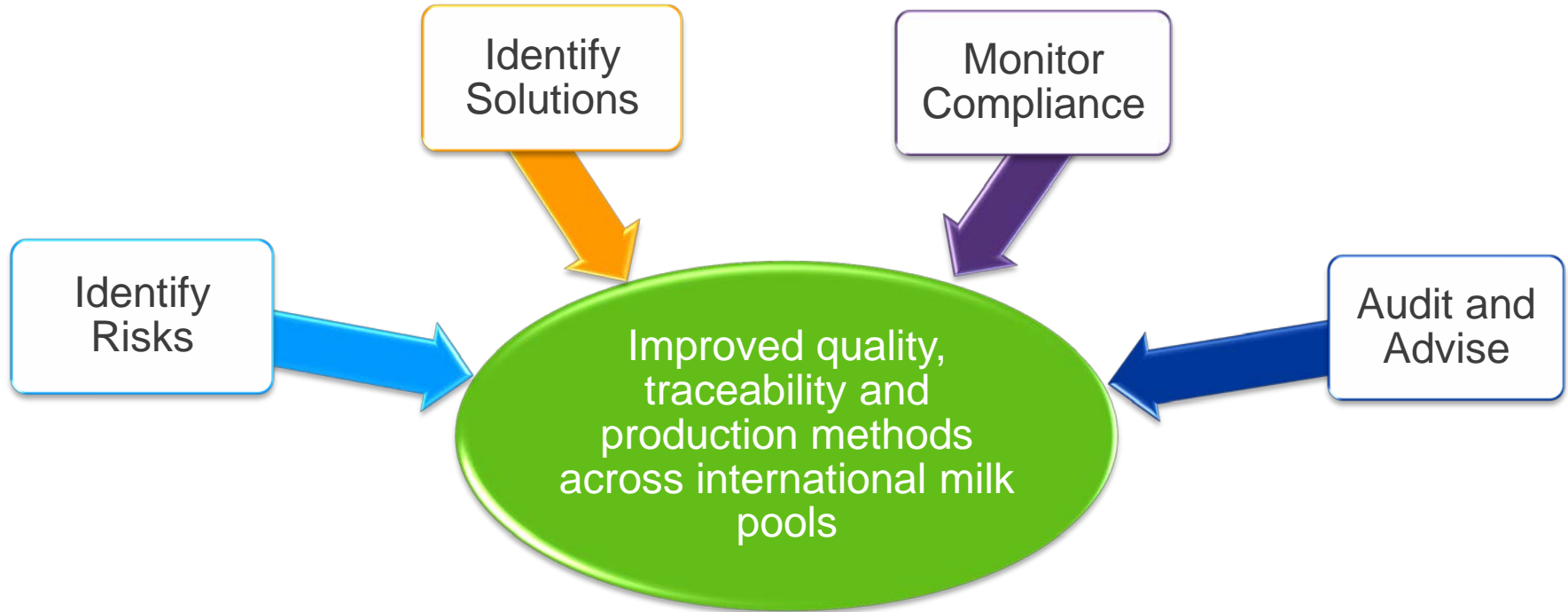
- Health monitoring programme in place
- Best practice vaccination protocols
- Daily observation by vets
- Test any animals with disease symptoms

## Fast responding system

- Immediate treatment
- Specialist facilities
- International expert networks

Disease	Impact	Presence in		IFV Management
		China	Our Farms	
Tuberculosis	Poor performance Can be transmitted to people	✓	✗	TB free cows from NZ and maintained in a closed herd
Brucellosis	Significant reduction in reproduction performance	✓	✗	Extensive and controlled vaccination programme

# Backed up with a world-class milk quality and sustainability programme



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## Overview of China Farms

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## China Farms Operations

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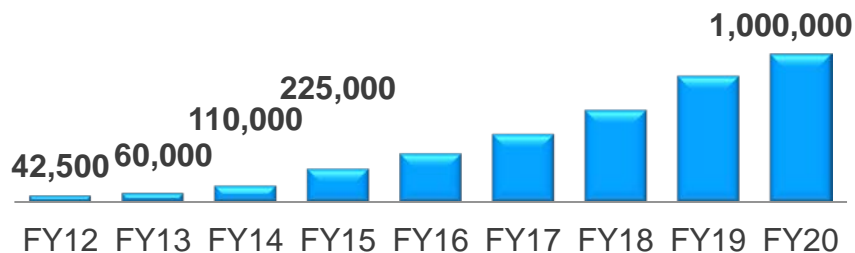
## China Farms Statistics



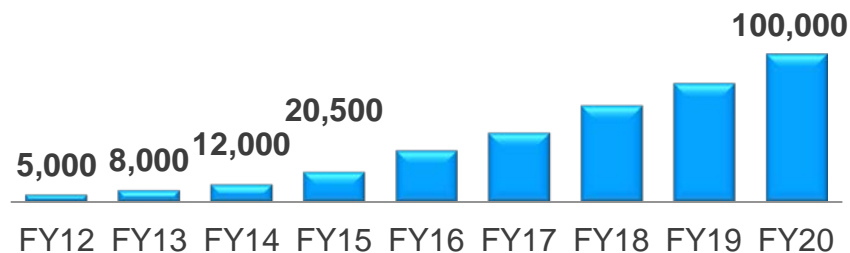
# We are targeting 5+ hubs, 3,500 employees and 100,000 milking cows by 2020



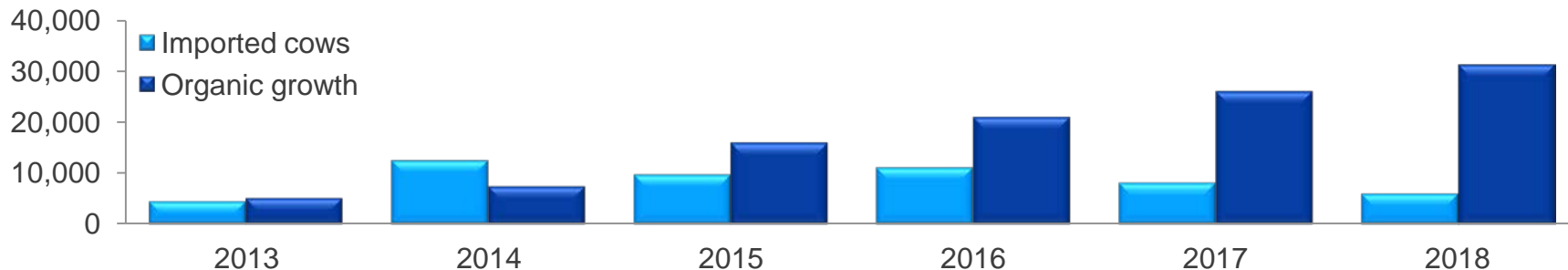
Litres of milk (000s)



Number of milking cows



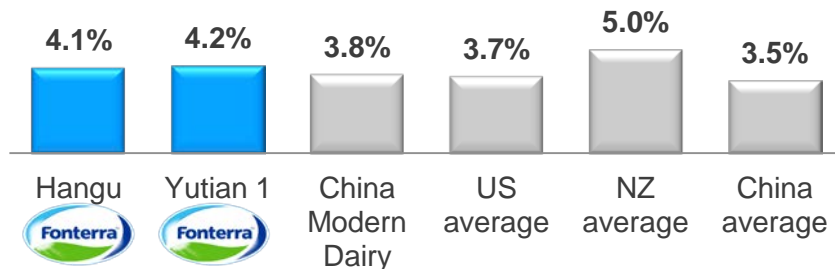
## Livestock pipeline in place to support expansion plans



# Our milk is superior on key metrics

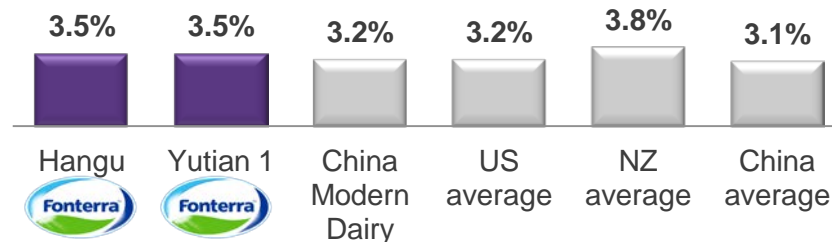
## Fat content

Higher is better...



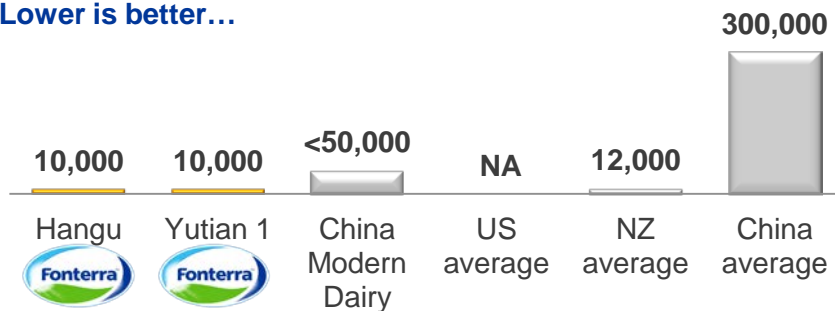
## Protein

Higher is better...



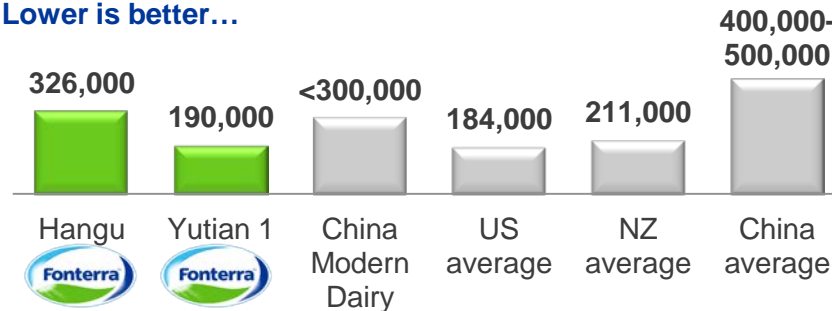
## Bacterial count

Lower is better...



## Somatic cell count

Lower is better...

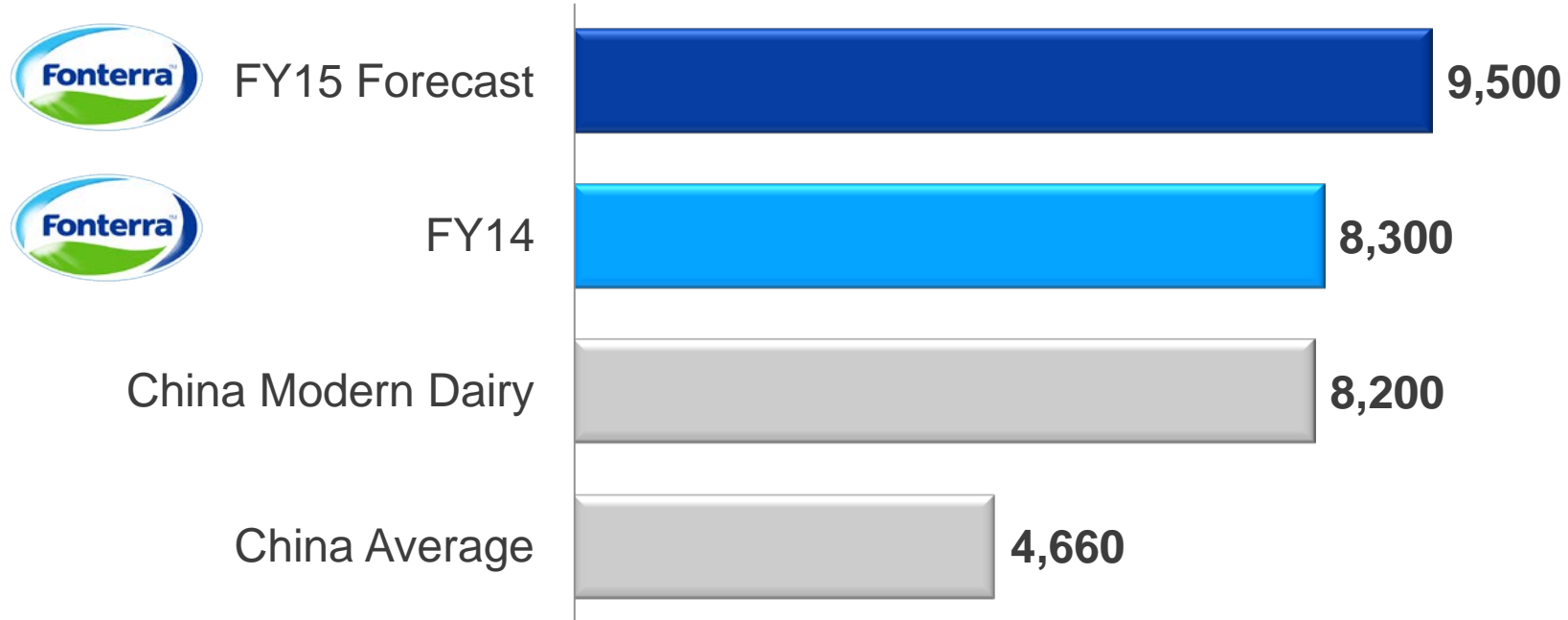


Note: Hangu and Yutian data as of weighted average of last twelve months.

Source: DairyNZ national statistics; China Modern Dairy 2012 results presentation; Fonterra estimates; California Herd Improvement Association Annual Report (2011)

# Our yields are among some of the highest in China

Milk yield per cow (litres per year)

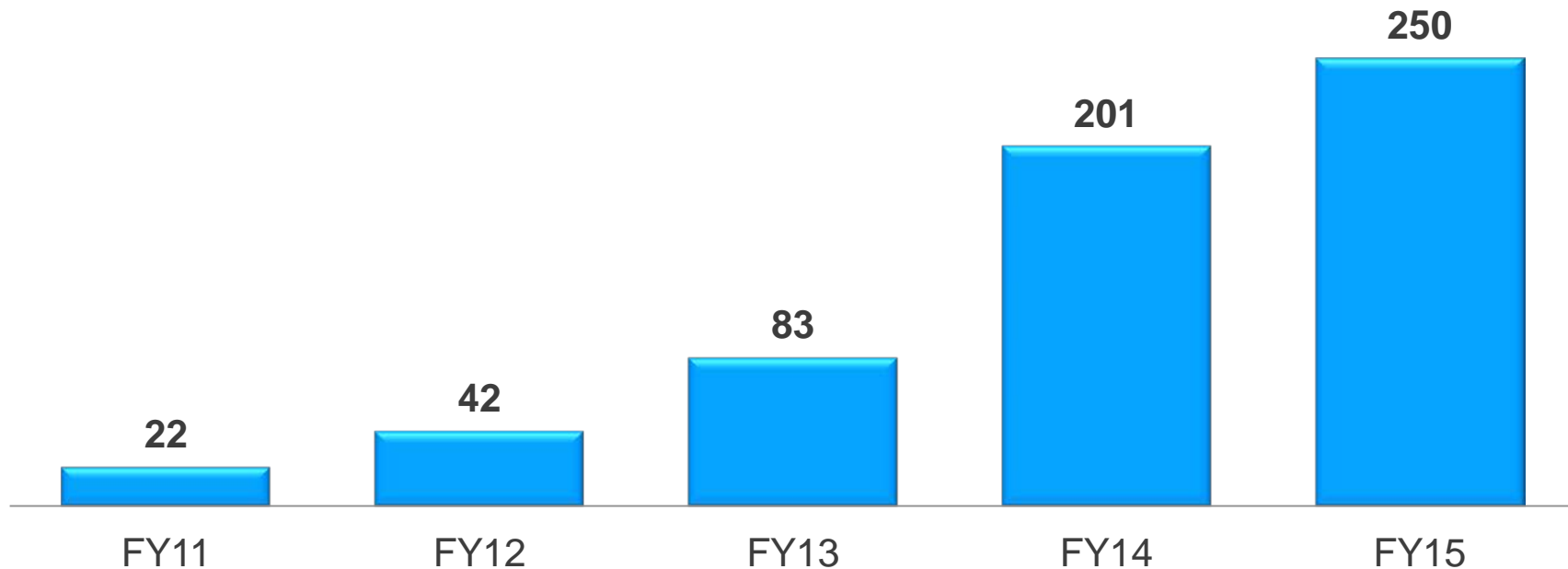


*Note: Yutian Hub rolling herd average production.*

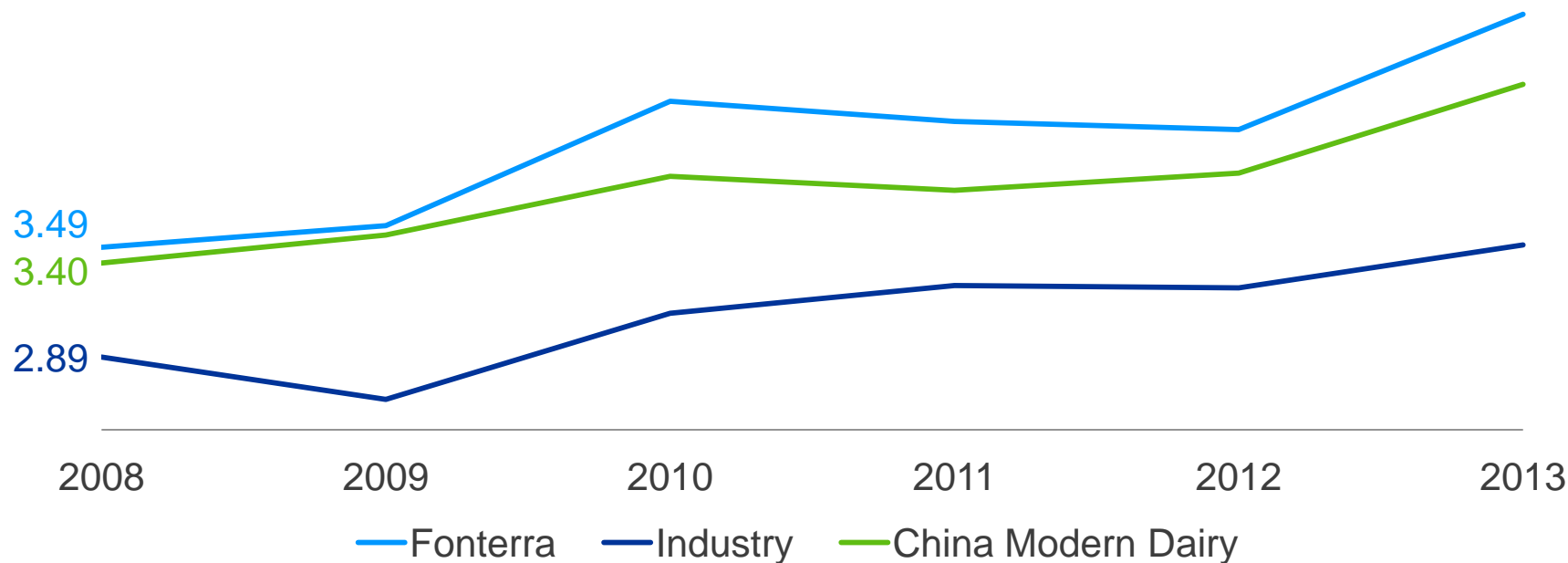
*Sources: China Modern Dairy 2013 results presentation*

# Capital invested

\$ million



# Our milk price is consistently achieving a superior premium



Note: Milk price refers to calendar year average milk price, except for 2013, which includes part year data for Fonterra farms; China Modern Dairy data calendarised.

Source: China Dairy Statistical Summary 2011 report and Ministry of Agriculture, China Modern Dairy prospectus, interim reports and annual reports, Wall Street research reports, Fonterra estimates

# Risks and opportunities

- Competition for land has intensified in China
- Significant environmental and sustainability challenges
- Securing feed supply at competitive feed prices
- Animal welfare and diseases are prevalent and bio security is a major challenge
- Competition for milk supply and sustainable milk price
- This business is capital hungry
- Building and retaining local capability



# Summary

- China Farms will be the enabler of an integrated business model in China
- It is not easy and there are challenges, but the opportunity is huge
- We will not compromise milk quality, sustainability and our excellent standards as we develop this business

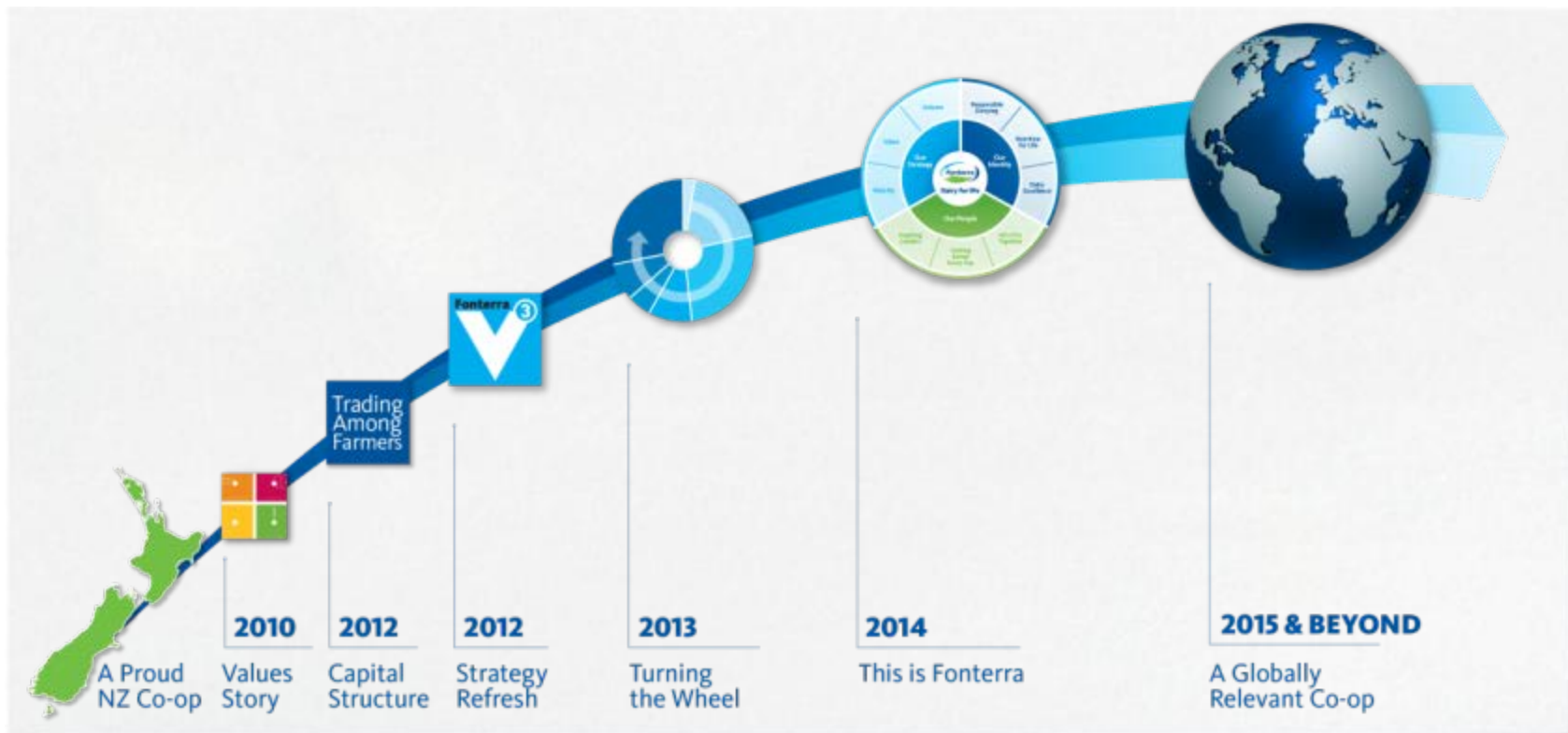


# FONTERRA **UP-CLOSE IN CHINA**

Fonterra Strategy

Theo Spierings, Chief Executive Officer

# Our journey to becoming a globally relevant Co-op



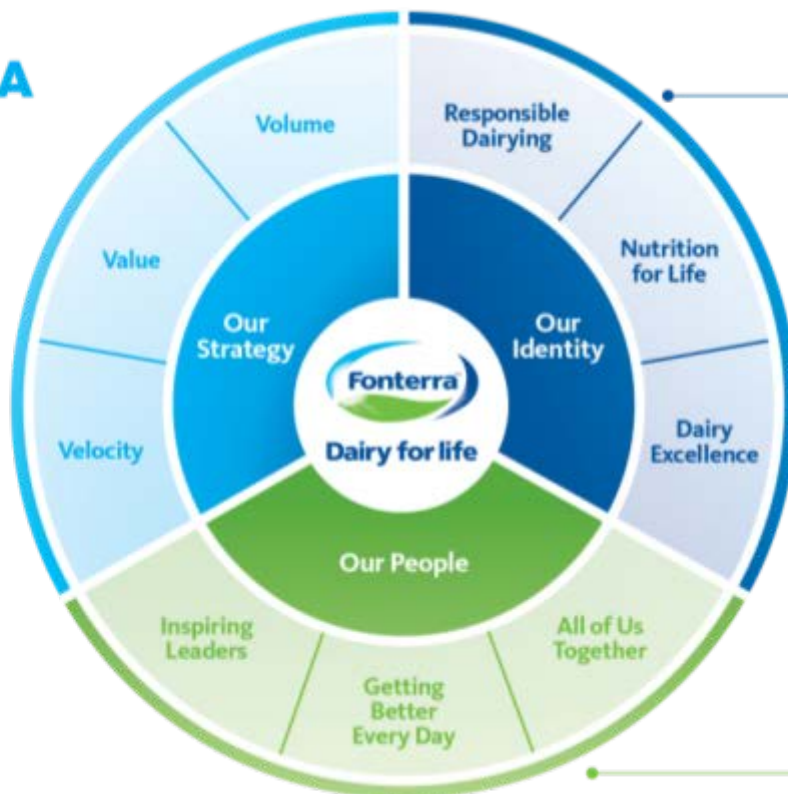
# THIS IS FONTERRA FRAMEWORK

With our purpose, story and values at the heart, our 'This is Fonterra framework' brings together our people, identity and strategy commitments

## OUR STRATEGY

The V3 strategy is all about driving volume, value and velocity through our seven strategic paths:

- Optimise New Zealand milk.
- Build and grow beyond our current consumer positions.
- Deliver on Foodservice potential.
- Grow our Anlene™ business.
- Develop leading positions in paediatrics and maternal nutrition.
- Selectively invest in milk pools.
- Align our business and organisation to enable the strategy.



## OUR IDENTITY

### Responsible Dairying

- Committed to helping our dairying communities thrive.
- Champion of the health of our farms and waterways.

### Nutrition for Life

- Delivering superior products to improve health at key life stages.
- Making dairy nutrition accessible.

### Dairy Excellence

- Global leader in dairy safety and quality.
- Innovation, expertise and openness.

## OUR PEOPLE

### Inspiring Leaders

- Trusted leaders inspiring exceptional performance.

### Getting Better Every Day

- Simplicity, clarity and focus in everything we do.
- Capable, passionate people, growing every day.
- High performing teams who own our collective success.

### All of Us Together

- A collaborative and connected culture.
- Caring for our people and our consumers.
- Accountable to our customers, communities and shareholders.

## 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



Top 3  
Reputation



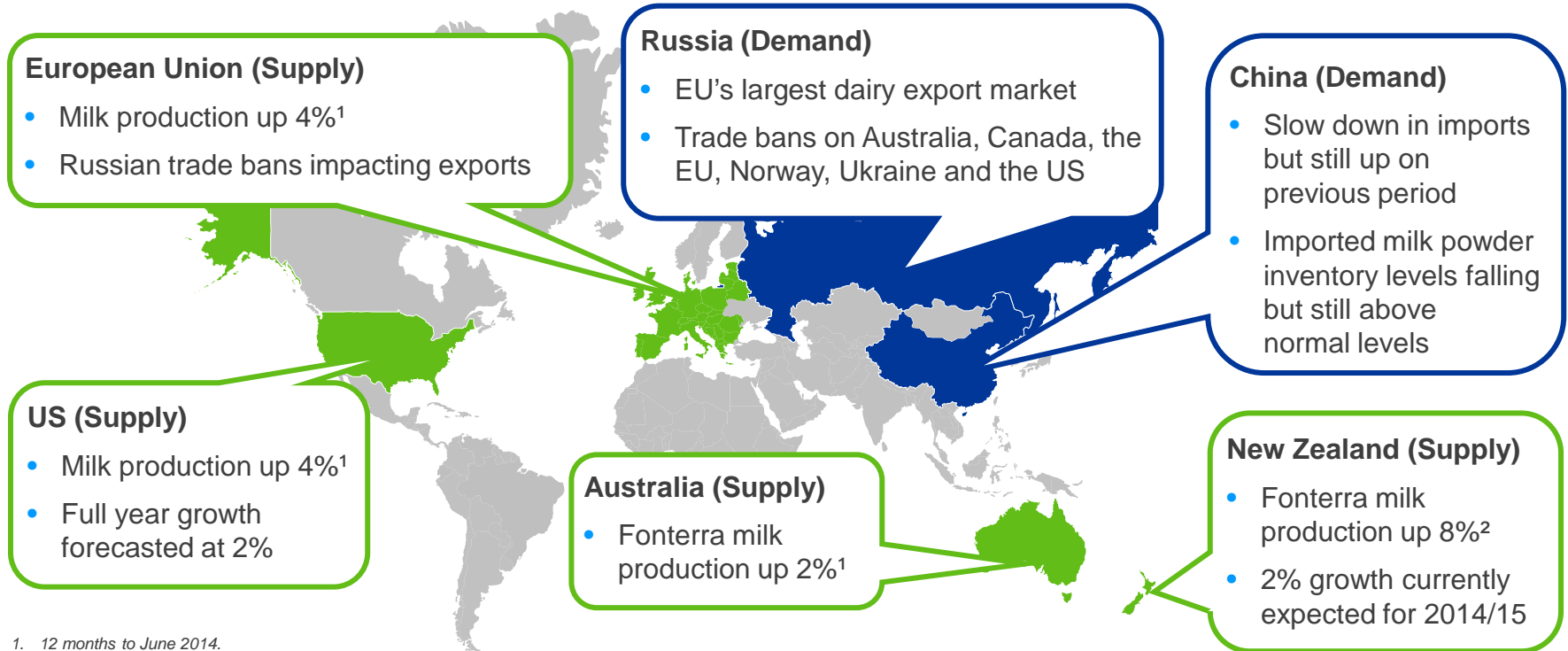
World  
Class  
Engagement



This is  
globally  
relevant

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

# Challenging global situation in key dairy regions



1. 12 months to June 2014.

2. 12 months to May 2014.

Source: Government milk production statistics / GTIS trade data / Fonterra analysis

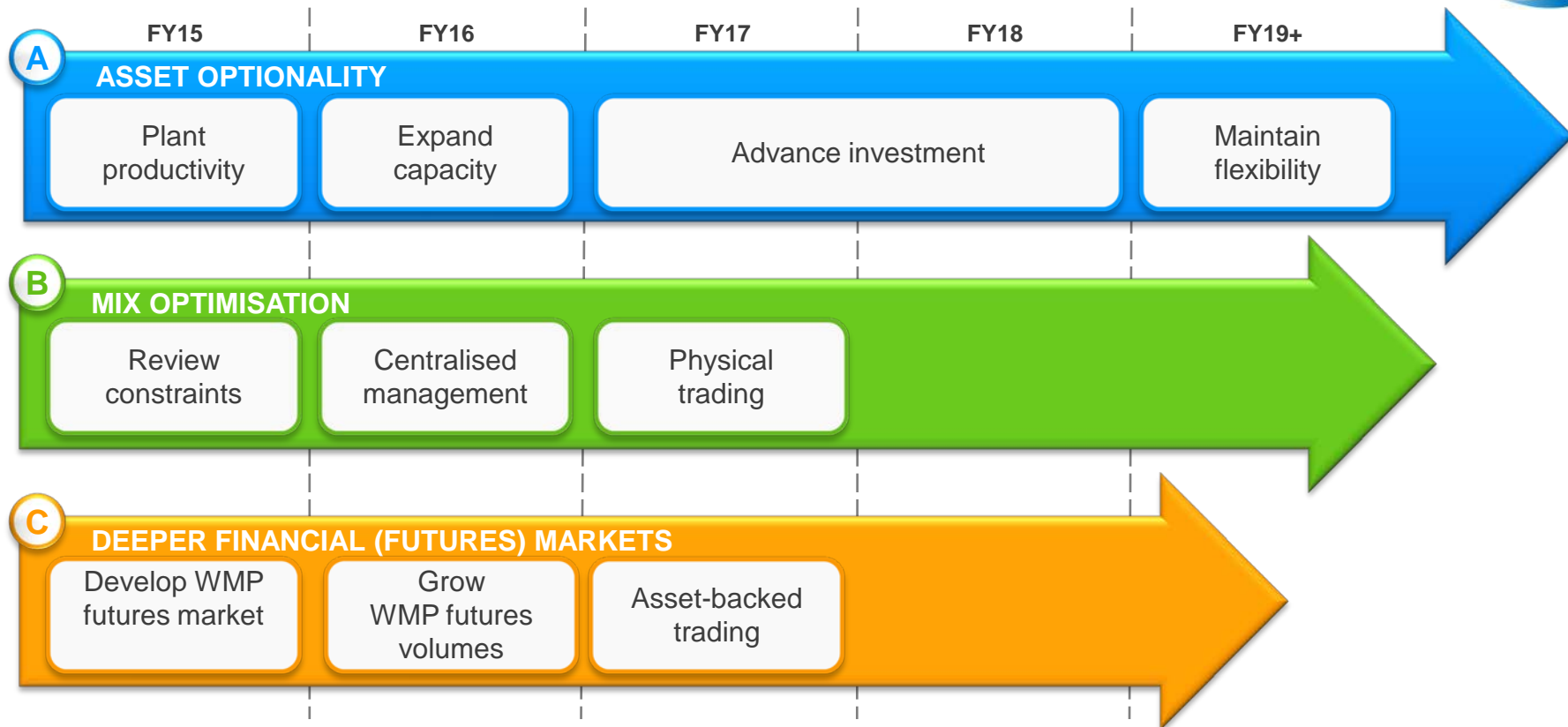
# Strategic priorities



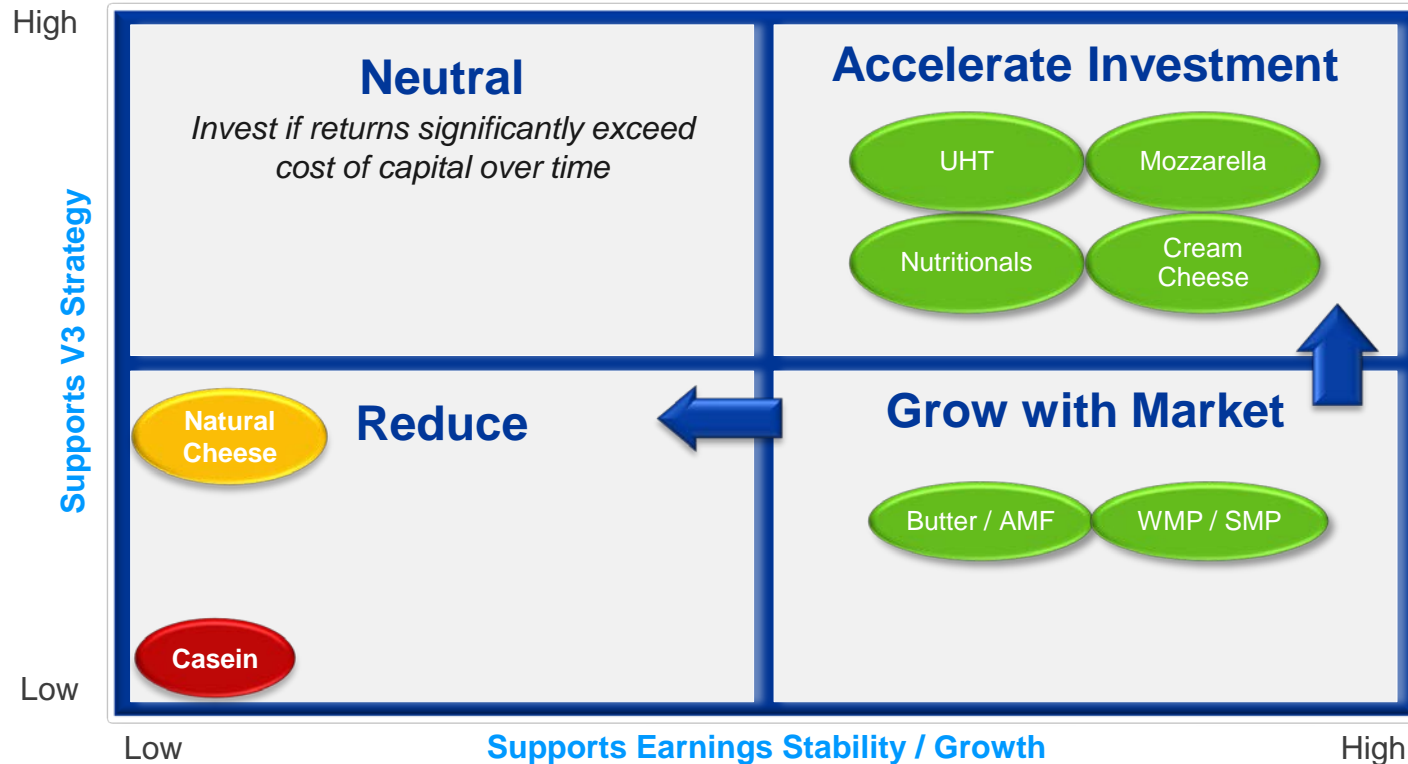
# Farm Source: real benefits exclusive to our farmers



# Investing in optionality to achieve less volatile returns

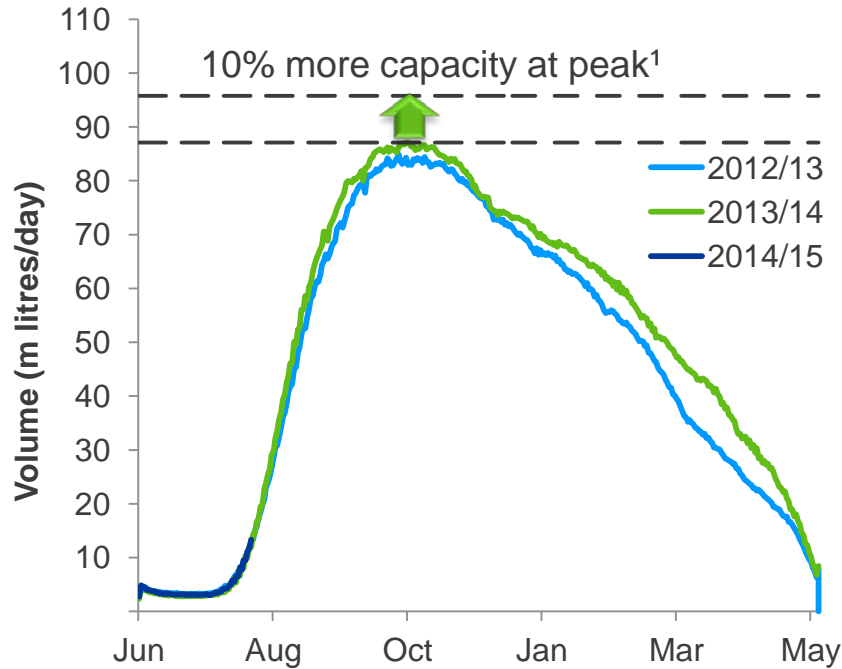


# Optimising our asset footprint to support premium growth platforms



# Investing in additional capacity

## Optionality

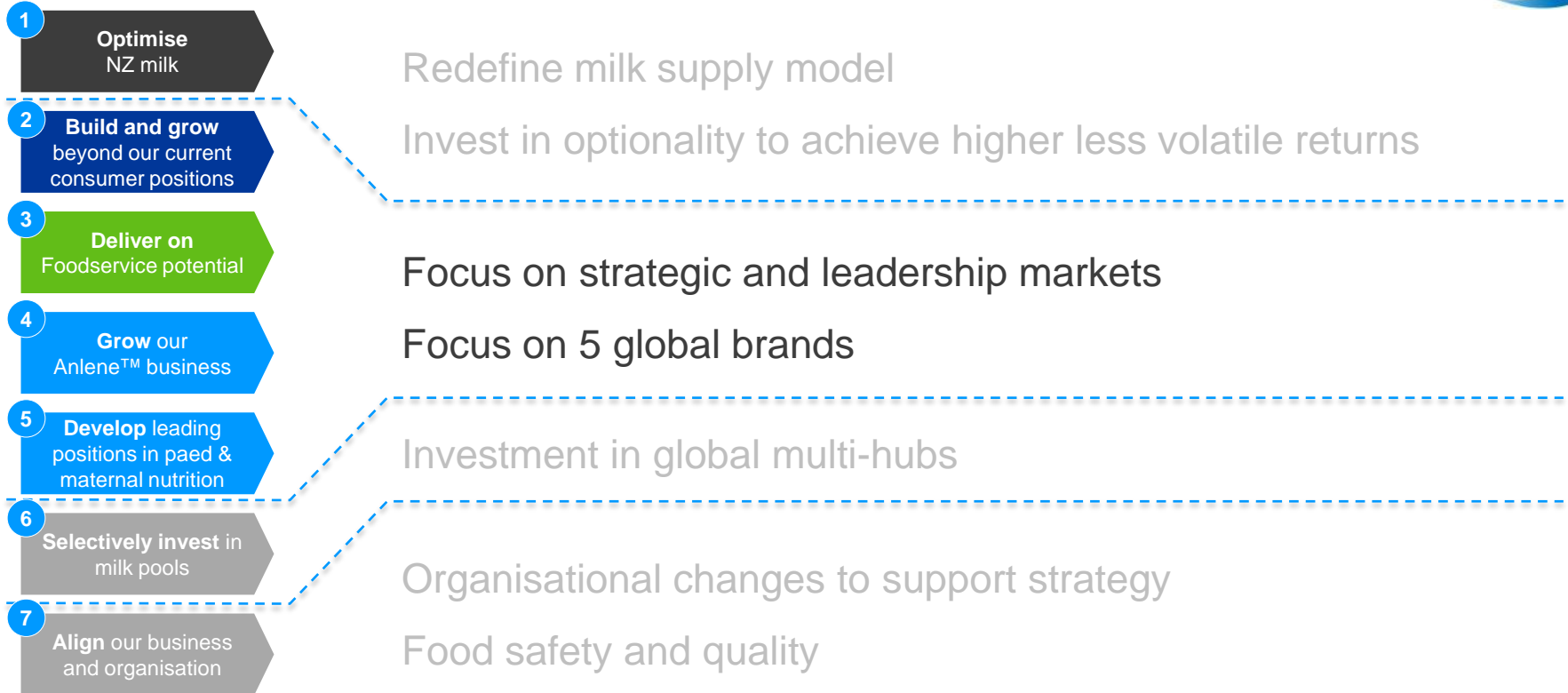


1. Expected to come on stream FY16/17

## Consumer and Foodservice

- Waitoa UHT facility
  - First shipments of UHT sent to China
  - \$126 million investment to meet Asian demand
  - Will process >100 million litres a year
- Clandeboye
  - \$72 million investment
  - Will double capacity to produce individual quick frozen (IQF) grated mozzarella
- Eltham
  - \$32 million for slice-on-slice cheese
  - Expected completion in mid-2015
  - Used in Quick Service Restaurants
- Te Rapa
  - \$32 million investment for cream cheese – foodservice
  - Capacity to process additional 20,000 tonne

# Strategic priorities



# Global brands aligned to benefit and technology platforms



## Strategic Platforms

- 1 Optimise NZ milk
- 2 Build and grow beyond our current consumer positions
- 3 Deliver on Foodservice potential
- 4 Grow our Anlene™ business
- 5 Develop leading positions in paed & maternal nutrition
- 6 Selectively invest in milk pools

## Global Brands



## Benefit Platforms

Uncompromising Taste, Texture and Stability

Natural Energy

Growth and Development

Mobility

Cognition

## Technology Platforms

Dairy Farming Systems

Dairy Nutrition

Dairy Food Design

Dairy Processing

Leadership



Strategic



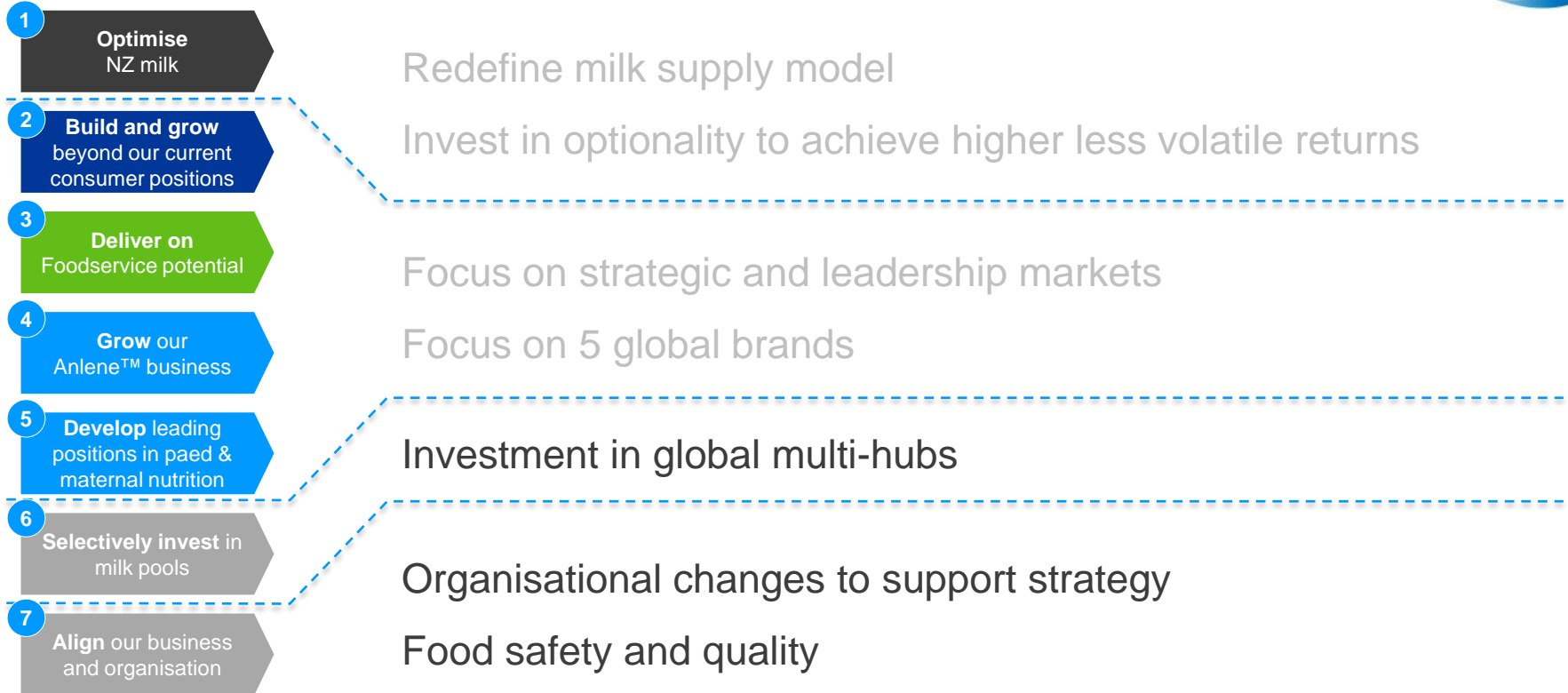
Seeding

B2B and B2C beach-heads

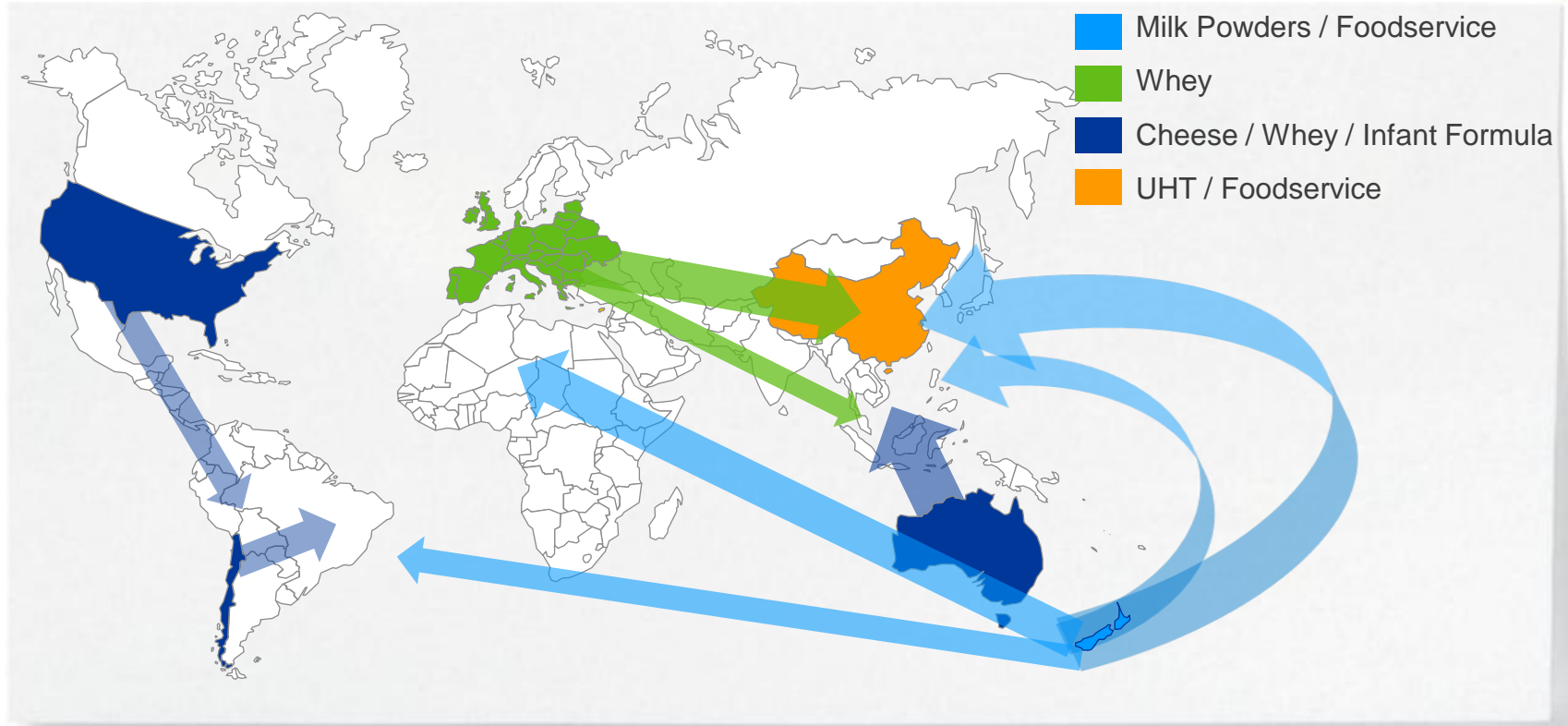
Cash

Self-funding expansion

# Strategic priorities



# Multi-hub strategy will match demand growth to our best source of supply



# Multi-hub strategy will match demand growth to our best source of supply



## Europe:

- 30,000 MT Whey products



## China:

- Global Fonterra and Beingmate potential partnership
- Partial Tender Offer for 20% of Beingmate
- Annum™ distribution agreement
- Subject to regulatory approval



## Australia:

- 50,000 MT infant formula from Darnum



## New Zealand:

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



# Fonterra group structure



Theo Spierings  
CEO

## Global Operations



Robert Spurway  
MD Global Operations

## Global Ingredients



Kelvin Wickham  
MD Global Ingredients

## Consumer and Foodservice

### APMEA



Pascal de Petrini  
MD APMEA

### Latin America



Alex Turnbull  
MD Latin America

### Greater China



Johan Priem  
President Greater China

## International Farming



Alan van der Nagel  
MD International Farming Ventures

## Group Functions



Lukas Paravicini  
Chief Financial Officer



Jacqueline Chow  
MD Global Brands and Nutrition



Maury Leyland  
MD People, Culture and Strategy

# Our food safety and quality roadmap





# FONTERRA **UP-CLOSE IN CHINA**

Greater China Brands (Consumer)

Achyut Kasireddy, Vice President Greater China Brands

1

## Market overview

2

## Strategy in Action

3

## Winning in China



# Key to Fonterra's strategy of turning the wheel

Turning the Wheel

7 strategic paths

1 **Optimise**  
NZ milk

2 **Build and grow** beyond our  
current consumer positions

3 **Deliver**  
on Foodservice potential

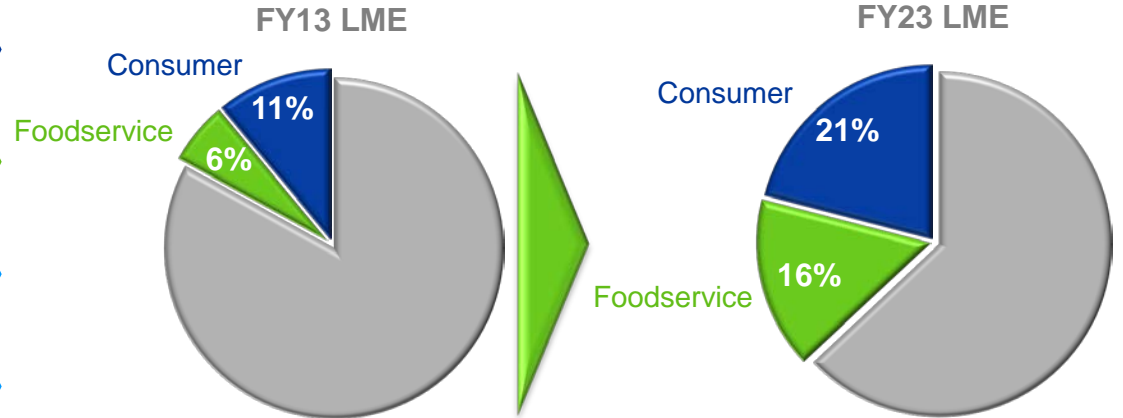
4 **Grow**  
our Anlene™ business

5 **Develop** leading positions in  
paed and maternal nutrition

6 **Selectively invest**  
in milk pools

7 **Align** our business and  
organisation

Portfolio Approach



# We see six key consumer trends at play

1

Disposable incomes are increasing



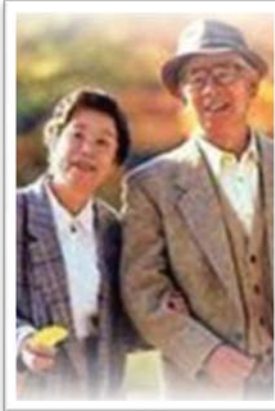
2

Children get only the very best



3

Aging population



4

Government pushing consumption of dairy products



5

Food safety concerns drive elevation to superior quality



6

Growing importance of E-commerce and digital platforms



1

## Market overview

2

## Strategy in Action

3

## Winning in China



# Three brands in the right segments addressing the right consumer issues



## Power brand

## Portfolio

## Proposition



Anchor™ brand for **natural nourishment**;  
**New Zealand provenance** / standards,  
superior **natural nutrition**



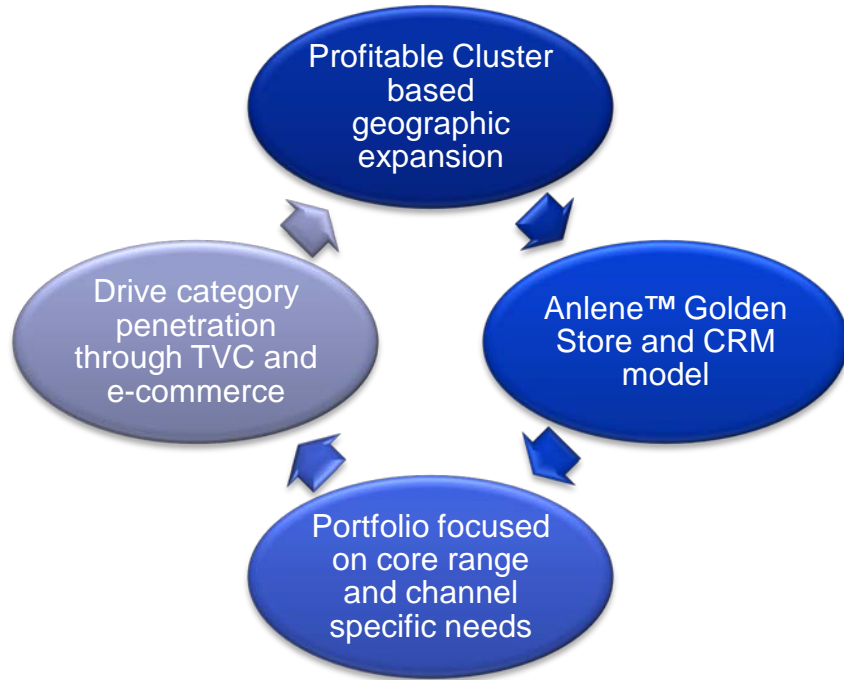
A unique **mobility proposition**, with  
**emotional and functional benefits**  
formulated for bone, joint and muscle health





Trustworthy and safe “grass to glass”  
integrity with **all-round smart and**  
**socialised brain** development with digestion  
benefits in **partnership with mum**

# Growing a position in adult nutrition (mobility)

## Anlene™ model



		FY14	FY15	FY16
Journey		Bone Health	Bone + Mobility ("Freedom to move starts with strong bones")	Full Mobility ("Live Young")
				
		<b>Cluster 1</b> (SH and South) ~20% MS		
		<b>Cluster 2</b> (JS and West) ~15% MS		
		<b>Cluster 3</b> (HN/HB/AN/ZJ/North) ~4% MS		
		<b>Cluster 4</b> (e-commerce) ~12% MS		

Source: Nielsen Retail Audit - Value Market share July 2014

# Piloting a new model in paediatrics

## Value proposition

- Differentiated value proposition based on:
  - Source integrity for product safety reassurance
  - Better cognition coupled with digestion benefit
  - Partnership with mum



## Target segment and channels

- Premium positioning, focusing on Self-Determined Mothers (SDM)
- Channel focus on Mother and Baby Stores (MBS) and digital



## Demand generation model

- 'One on one relationship', engagement and advocacy with customers through CRM model
- Acquisition through CRM reps and digital
- Leveraging position in Maternal ('Annum™ system')



# Building an **Everyday Nutrition** brand

## Value proposition

- Anchor™ brand for natural nourishment; New Zealand provenance / standards, superior natural nutrition

## Target segment and channels

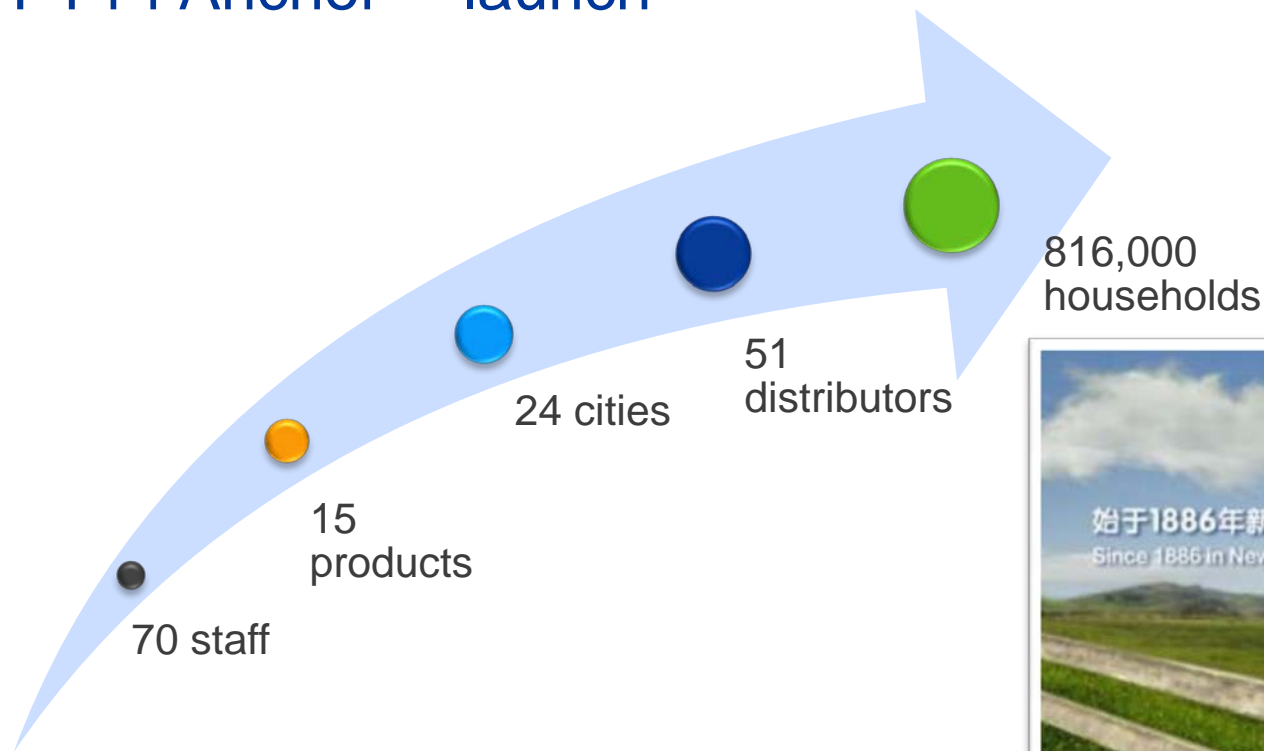
- Premium (White Milk Family import and local), White Milk Kids, Flavoured Milk
- Focus on hyper-supermarkets and e-channel

## Demand generation model

- Focus on new media (digital), with best-in-class execution
- Clear articulation of the value proposition through ATL
- Acquisition through perfect in-store activation (promotion, gift box etc.)



# FY14 Anchor™ launch



1

## Market overview

2

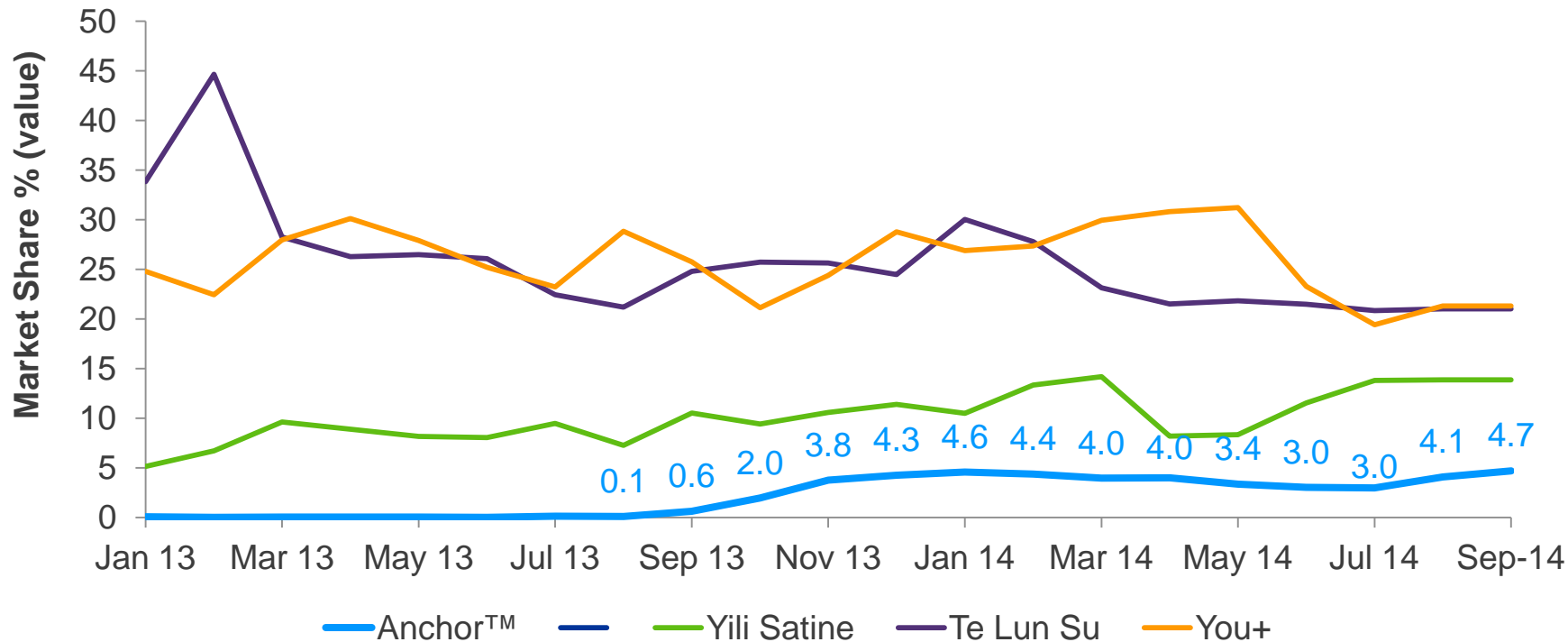
## Strategy in Action

3

## Winning in China



# Anchor™ achieved ~4% market share five months after launch



Source: Nielsen Retail Audit – YRD Hyper

# FY15 Innovation: Kids milk

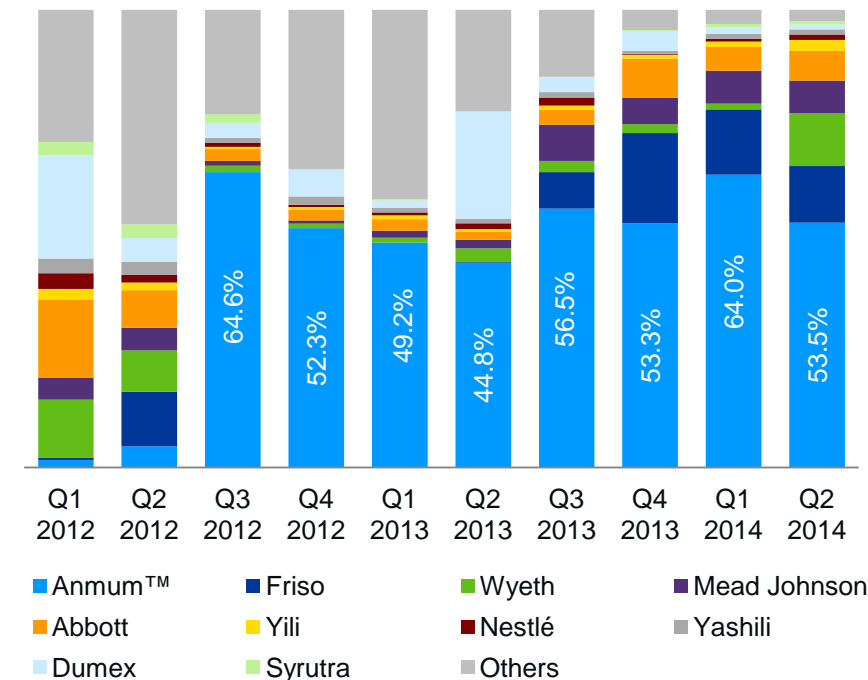


- **First** imported Kids Milk into China
- **No added sucrose** (naturally sweetened with pineapple juice)
- **Balanced nutrition** formula
- **1,800 sets of kids milk sold in 8 hours on Tmall**
- **Top selling SKU** in kids milk category on Tmall

# Building new capabilities to win with innovative models



Anmum™ Maternal Tmall market share



Source: Smart Path e-commerce Audit – Value Share

# Repeatable model to expand penetration

## Geography / channel

Anchor™	39 cities
Anlene™	65 cities
Anmum™	5 cities



## E-commerce / digital



# Work with the **right** partners



## BEINGMATE

Proposed partnership is a game changer for Fonterra and the Annum™ brand, taking Annum™ to 80,000 retail outlets in China



# We have a **winning track record** and a **repeatable model** in Hong Kong



Market share



58%



53%



Note: Market share based on volume, Anlene™ in LFNF segment; Annum™ in Pregna Pro segment.

# Why we will win in mainland China



Right growth segments



Trust: Security of supply



Unmatched brand credentials



Capability building: Digital e-commerce focus



Strong consumer insights and tailored offerings



Repeatable model for national rollout



# FONTERRA **UP-CLOSE IN CHINA**

China Ingredients

Jin Ling – Marketing Director China ingredients

1

## China Ingredients Overview

2

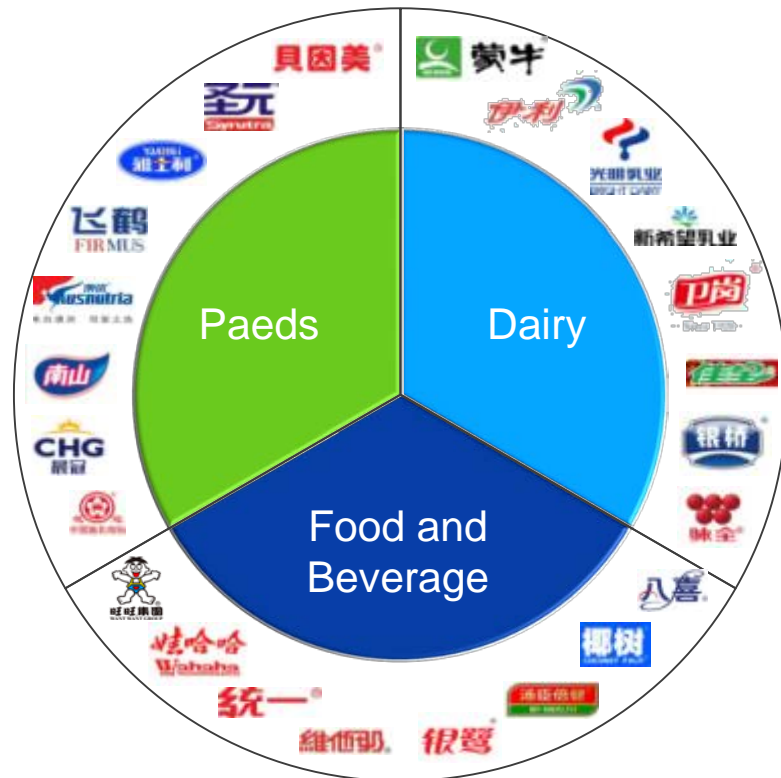
## China Ingredients Performance

3

## Strategic Priorities



# Strong direct supply relationship with leading national and regional customers in China



## Some customer examples...



- No. 1 dairy player in China
- Global dairy top 10
- US\$7.7bn revenue



- No. 1 flavour milk brand
- ~35% Nielsen retail volume share
- US\$3.8bn revenue



- No. 1 local (Infant Milk Formula) IMF brand
- No. 3 IMF player
- US\$1bn revenue



- Own 12 regional brands
- US\$0.9bn revenue

Source: 2013 customer annual reports, Rabobank Global Dairy Top-20 June 2014, Nielsen MAT Q1 2014 panel data, Euromonitor Passport data October 2014

# Fonterra ingredients can be found in leading dairy products in China



## Some product examples...

### WantWant Kid's Milk



- No. 1 flavour milk brand
- ~35% Nielsen retail vol share
- US\$2.0bn revenue
- 80% milk content
- 900k tons Whole Milk Powder (WMP) usage

### Yili Greek Yoghurt



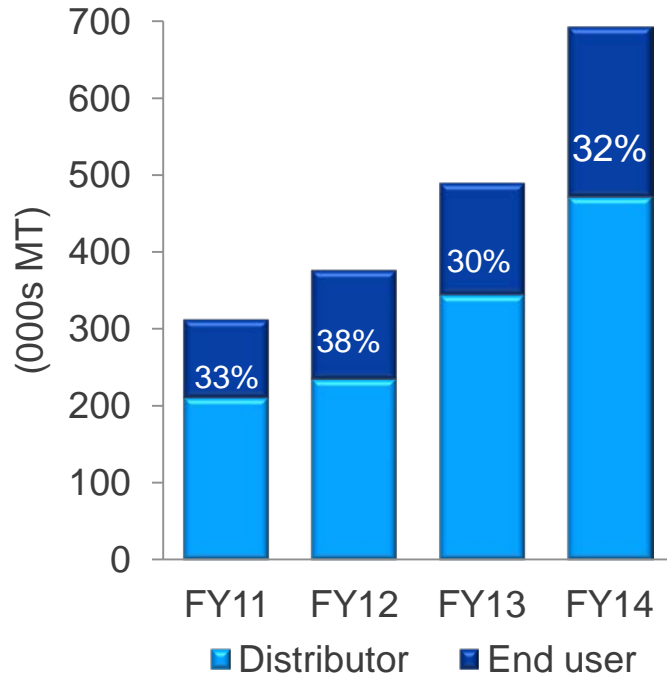
- Premium yoghurt
- Raise protein content from 2.8% to 6%
- 45.7g Milk Protein Concentrate (MPC) usage per 1,000g product

Source: 2013 customer annual reports, Nielsen MAT Q1 2014 panel data, Fonterra sales analysis

# Authorised distributors extend our business reach



Total volume sales by channel



Number of distributors in different provinces/cities

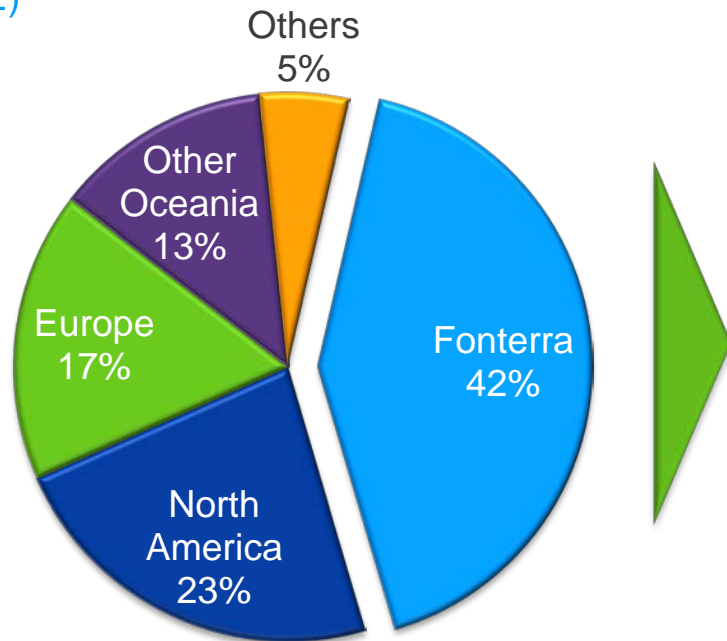


Source: Fonterra sales analysis

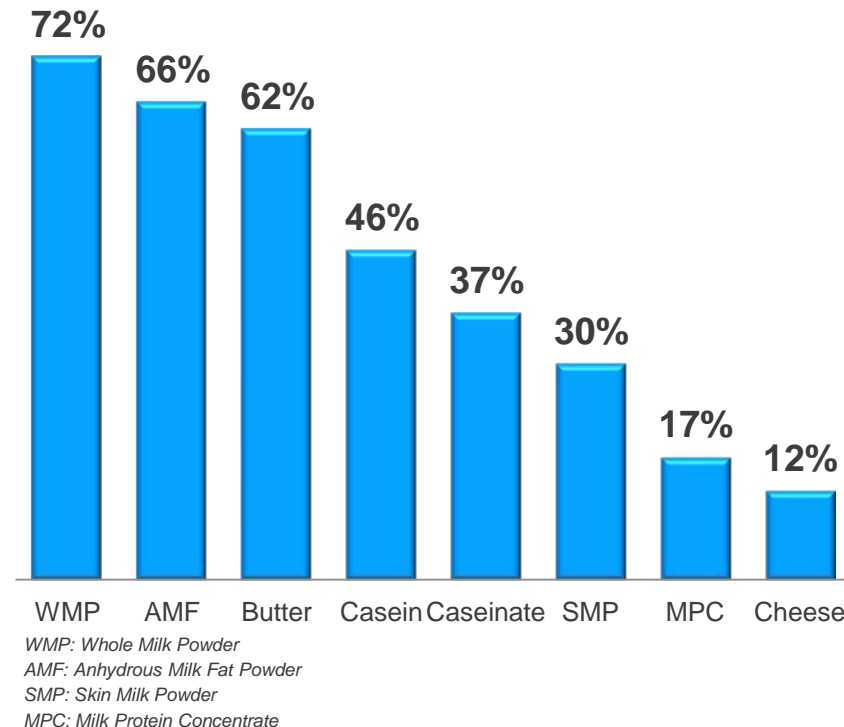
# Fonterra ingredients hold a leading position in this competitive China market



2013 share of dairy ingredients imported into China (% LME)



2013 Fonterra volume share in main product categories (% product tonnes)



Source: Fonterra analysis, China Customs

1

## China Ingredients Overview

2

## China Ingredients Performance

3

## Strategic Priorities

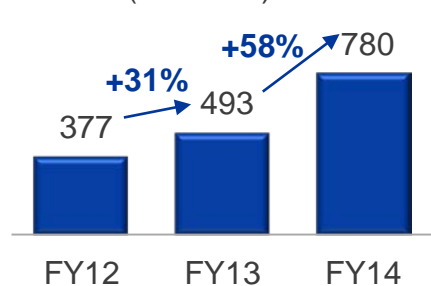


# China ingredients business has been transformed following V3 strategy

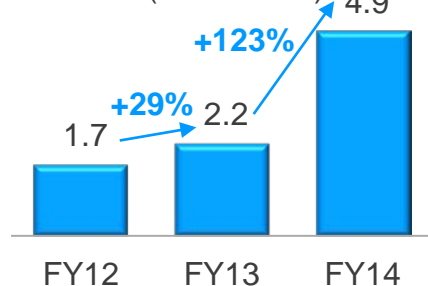


## Total sales performance

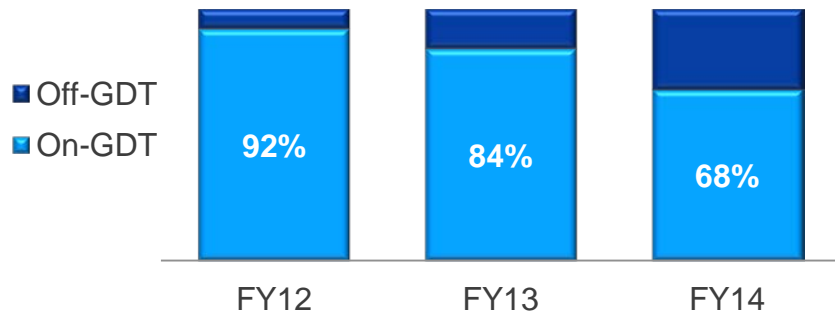
Volume (000s MT)



Revenue (NZD billion)

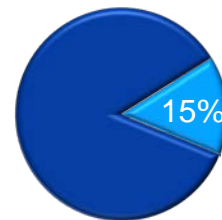


## % of volume sales from GDT

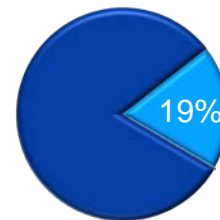


## % of Fonterra NZ milk imported into China (LME<sup>1</sup>)

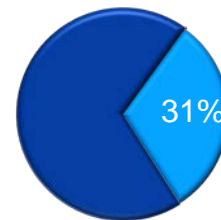
FY12



FY13

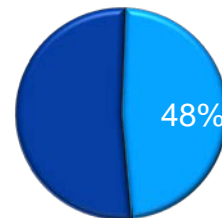


FY14

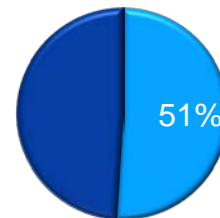


## % of total sales on GDT from China

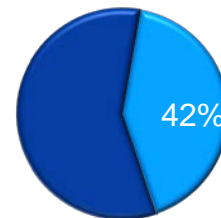
FY12



FY13



FY14



1. Liquid milk equivalent

Source: Fonterra data

# Ingredients earned high customer recognition despite impact from precautionary recall



- Precautionary recall had significant impact on China ingredients business
- Much work has been done in customer communication, government engagement and complaint handling in close cooperation with teams both in New Zealand and China
- Outstanding scores were received in June 2014 CVM survey with improvement on overall image and reputation, being a world leader in dairy as well as product performance

## Some comments from CVM survey ...

"Fonterra is the world's largest exporter of dairy products – quality is guaranteed."

*Customer A*

"A leading position in the industry, well-known, trusted product quality."

*Customer B*

"Naturalness, nutrition and supply guarantee of Fonterra's products add business values."

*Customer C*

"As a well-known international brand, Fonterra has vitality, offers reliable products with assurance."

*Customer D*

# China is an increasingly open market and food regulations expected to be more stringent

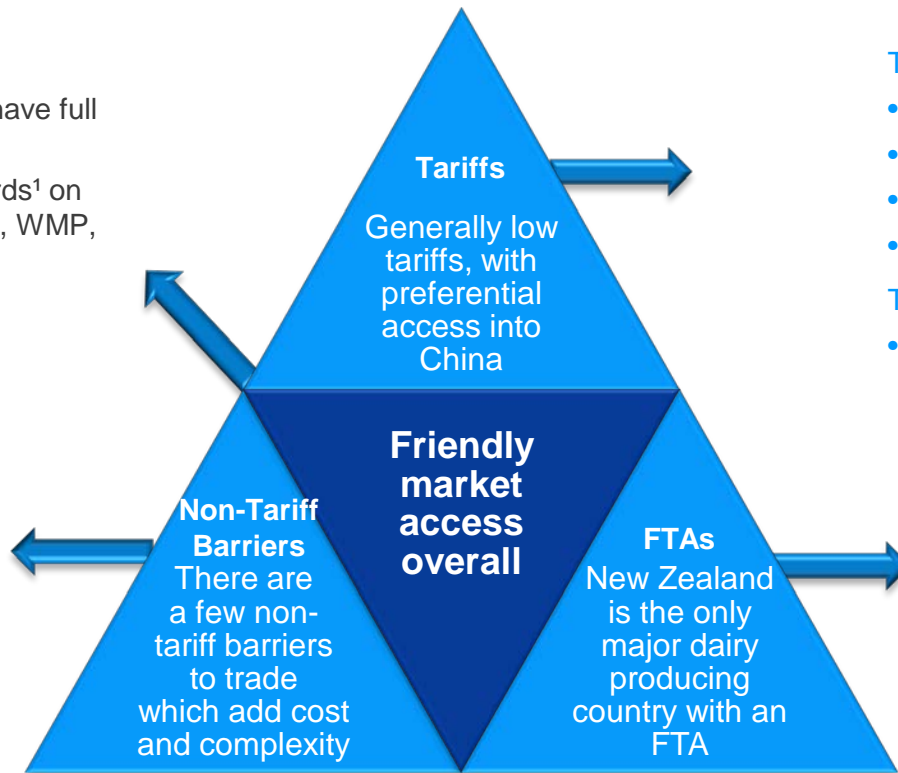


## Comments

- Under NZ-China FTA, will have full duty free access by 2024
- Until then Special Safeguards<sup>1</sup> on liquid milk and cream, SMP, WMP, butter and cheese

## Non-Tariff Barriers

- China requires certificates of non-manipulation where transshipment occurs in order to get preferential access
- China Special Safeguards are now too small and are often triggered within the first two months of the year



## Tariffs

- **China** generally below 10%
- **Hong Kong** 0%
- **Macau** 0%
- **Mongolia** generally 5%

## Tariffs (ex.NZ)

- **China** generally below 5% within safeguard, duty free for non-safeguard products

## NZ FTAs

- In-force NZ-China
- Under negotiation NZ-Taipei

## Other FTAs of interest

- Under negotiation Australia/Switzerland/Norway – China

1. New Zealand China Free Trade Agreement, Annex 2 Special Agricultural Safeguard Measures  
<http://www.chinafta.govt.nz/1-The-agreement/2-Text-of-the-agreement/0-downloads/NZ-ChinaFTA-Annex-2-Safeguards.pdf>

1

## China Ingredients Overview

2

## China Ingredients Performance

3

## Strategic Priorities



# 7 key pillars strategy will support China ingredients to deliver \$5 billion in sales by 2020



## Strategic priorities

### Customer/ channel

- 1 Strengthen share of wallet (SOW) and drive value with lead customers
- 2 Build direct sales with selected mid-tier customers
- 3 Refine reseller programme: establish an effective distribution network to support sales and services

### Product/ competition

- 4 Drive Paediatrics business with local Chinese customers
- 5 Maximize value of our powder in China: secure volume leadership, generate more added value, and defend New Zealand milk source
- 6 Build a growth portfolio beyond powder: grow sales of high value and new ingredients and applications

### Sourcing

- 7 Shape global sourcing strategy and execution to close the supply/demand gap, enhance our product portfolio, satisfy customers' need for diversification, and manage geo risk



# FONTERRA **UP-CLOSE IN CHINA**

China Foodservice

Esther Chu, Vice President China Foodservice

1

**Foodservice – Strategy**

2

**Foodservice – Route-to-market**

3

**Chef-led solution model**

4

**One-to-One case study**

5

**One-to-Many case study**



# Foodservice growth strategy is based on focused channels and categories



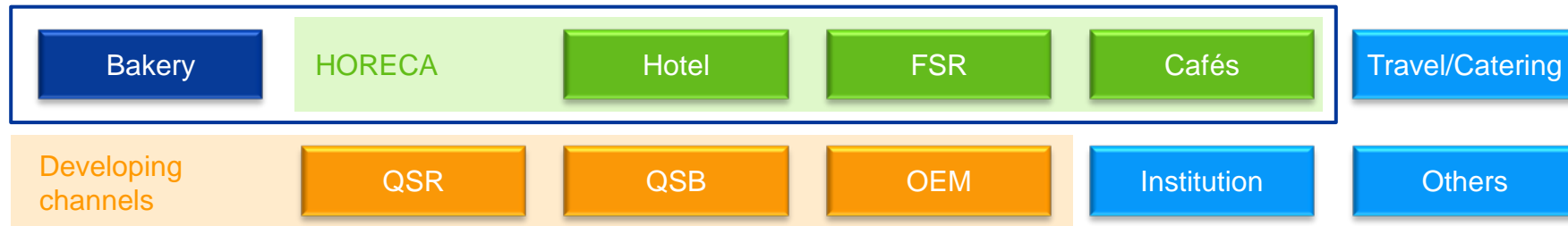
## National bakery chains and key customers



## Chef and creative team



## Focused on channels...

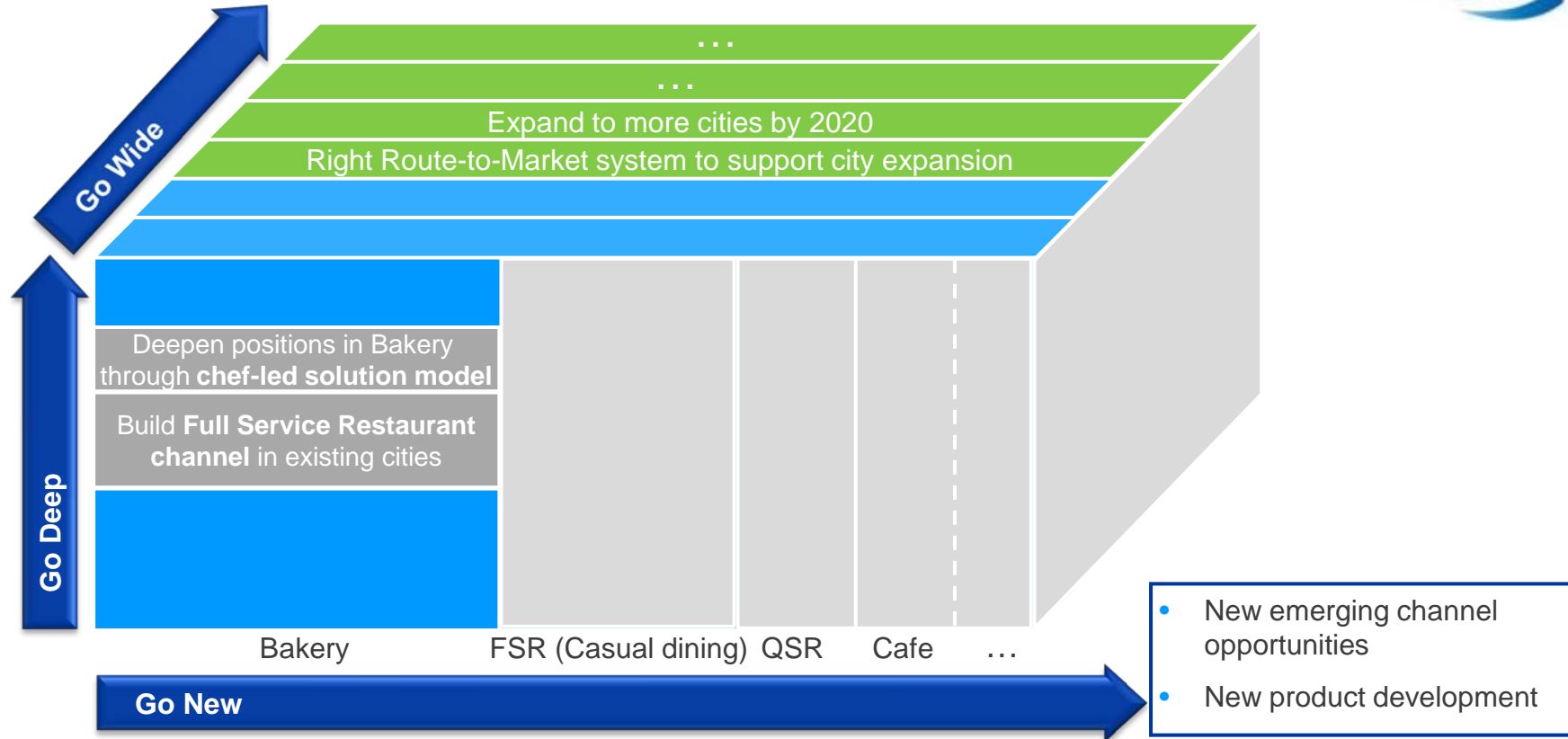


## ...and five product categories



★ Highest selling category

# Establishing a robust repeatable model



1

Foodservice – Strategy

2

Foodservice – Route-to-market

3

Chef-led solution model

4

One-to-One case study

5

One-to-Many case study



# Around 300 prefectural cities, 250 of them with populations over one million

Based on 80:20 rules, Fonterra to cover over 70 cities by 2020

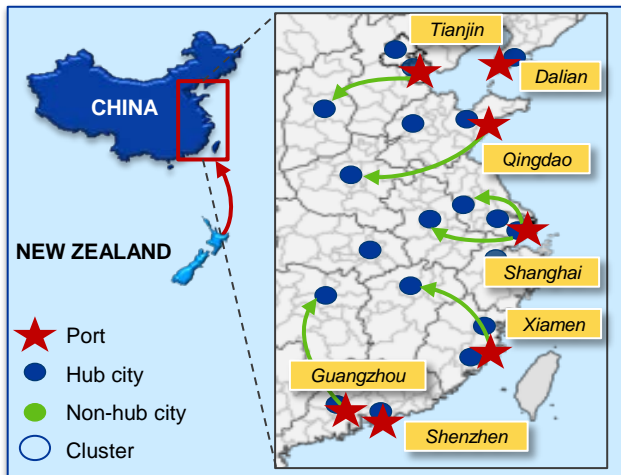


Source: Fonterra interview; National Bureau of Statistics; Bain analysis

# Trusted route-to-market system critical to winning in China

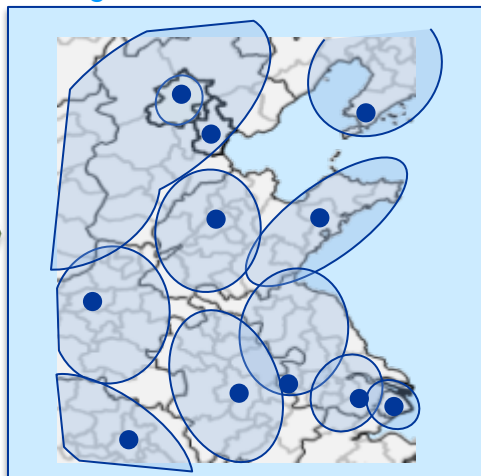


## In-bound supply chain



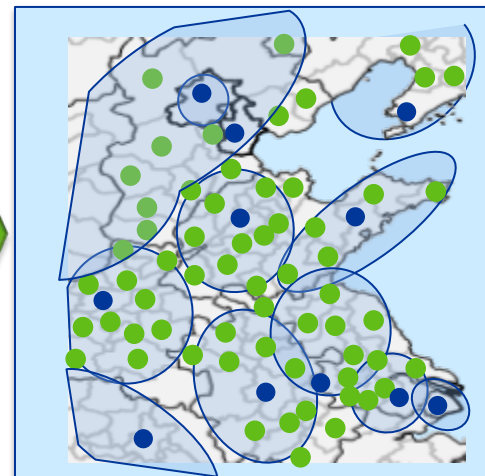
- **7 ports** nationwide
- Custom clearance
- In-port warehousing/storage
- Distribution from ports to hubs/clusters

## Hub/cluster warehousing and management



- **24 hubs**/24 clusters nationwide
- Hub cities warehousing and inventory management
- Deployment of products from hub city warehouses to cities within cluster

## Intra-city distribution and sales activities

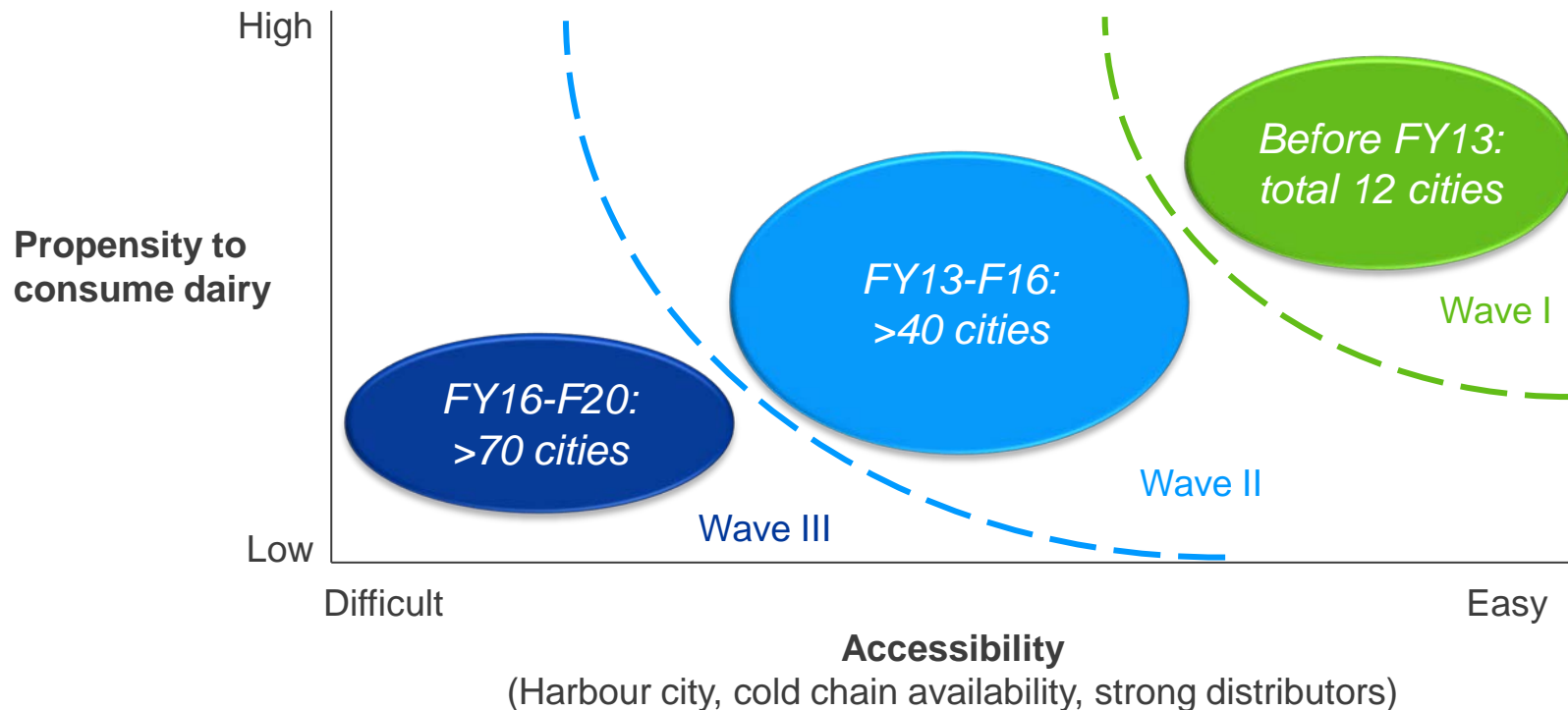


- **>70 cities** by FY20
- Physical delivery of products to local customers
- End-to-end sales activities (mapping, initiating contact, driving conversion/SoW increase, and reporting)

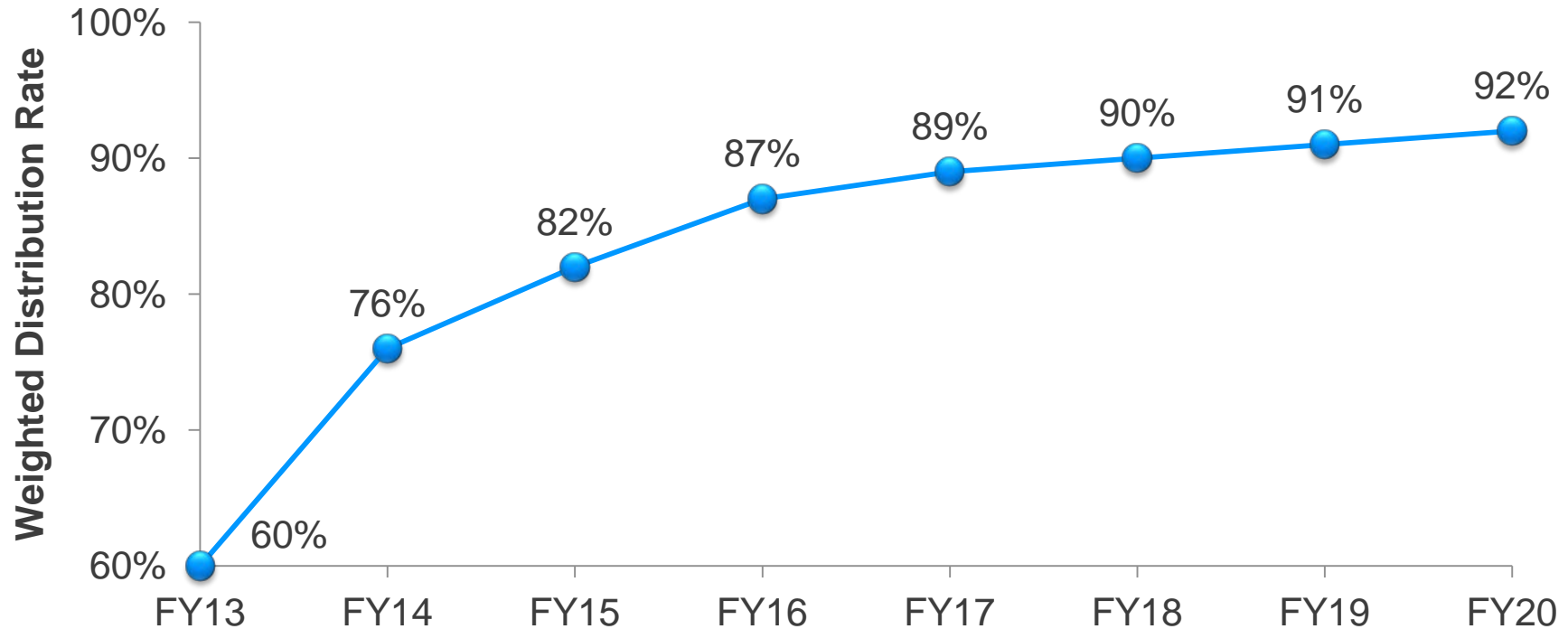
# City roll out roadmap



**ILLUSTRATIVE**



# New city expansion, increased distribution and building a trusted supplier brand



Source: Bain market sizing model; Fonterra interviews; Bain analysis.

1

Foodservice – Strategy

2

Foodservice – Route-to-market

3

**Chef-led solution model**

4

One-to-One case study

5

One-to-Many case study



# Solution selling model applied across customer types

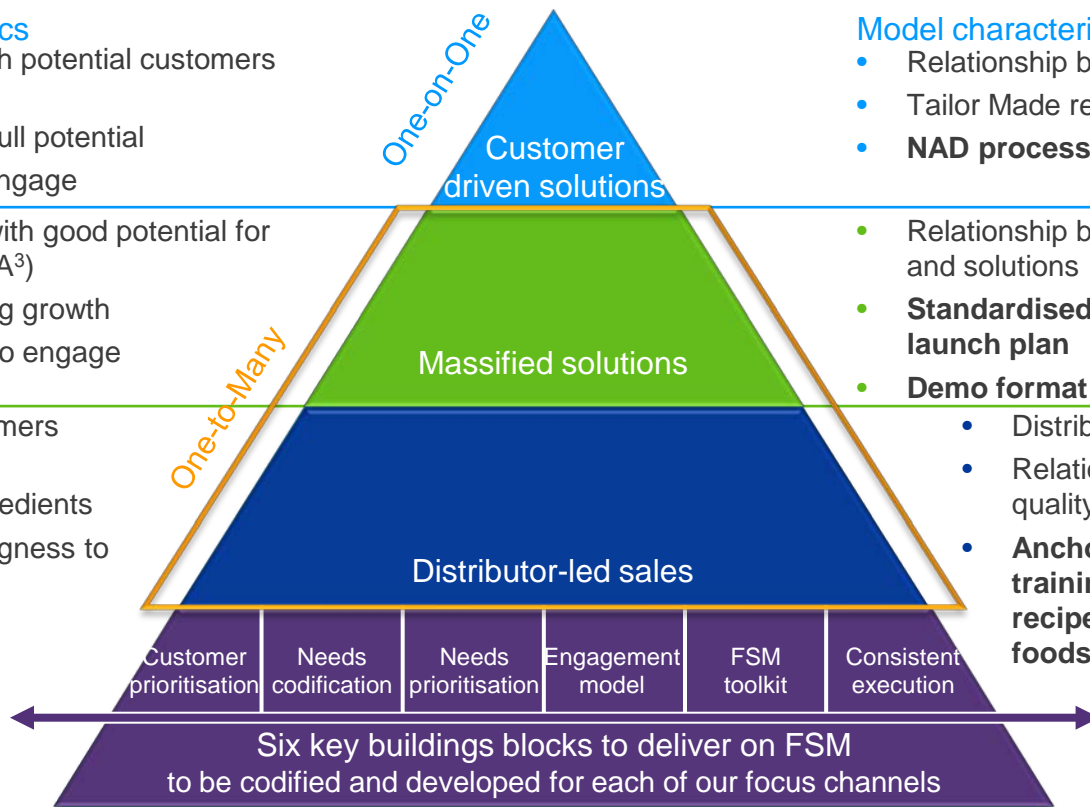


## Customer characteristics

- Typically large or high potential customers (NKA<sup>1</sup> and RKA<sup>2</sup>)
  - Focus on achieving full potential
  - High willingness to engage
- 
- Medium customers with good potential for growth (RKA and LKA<sup>3</sup>)
  - Focus on accelerating growth
  - Medium willingness to engage
- 
- Small-medium customers (LKAs, etc.)
  - Focus on quality ingredients
  - Low to medium willingness to engage

## Model characteristics

- Relationship build on trust and reliability
  - Tailor Made recipe and launch plan
  - **NAD process**
- 
- Relationship build on technical expertise and solutions
  - **Standardised recipes/POSM design/ launch plan**
  - **Demo format**
    - Distributor basic selling tools
    - Relationship build on product quality, service reliability
    - **Anchor™ product knowledge training deck and standard recipes proposed by Fonterra foodservice**



1. NKA: National Key Accounts  
 2. RKA: Regional Key Accounts  
 3. LKA: Local Key Accounts

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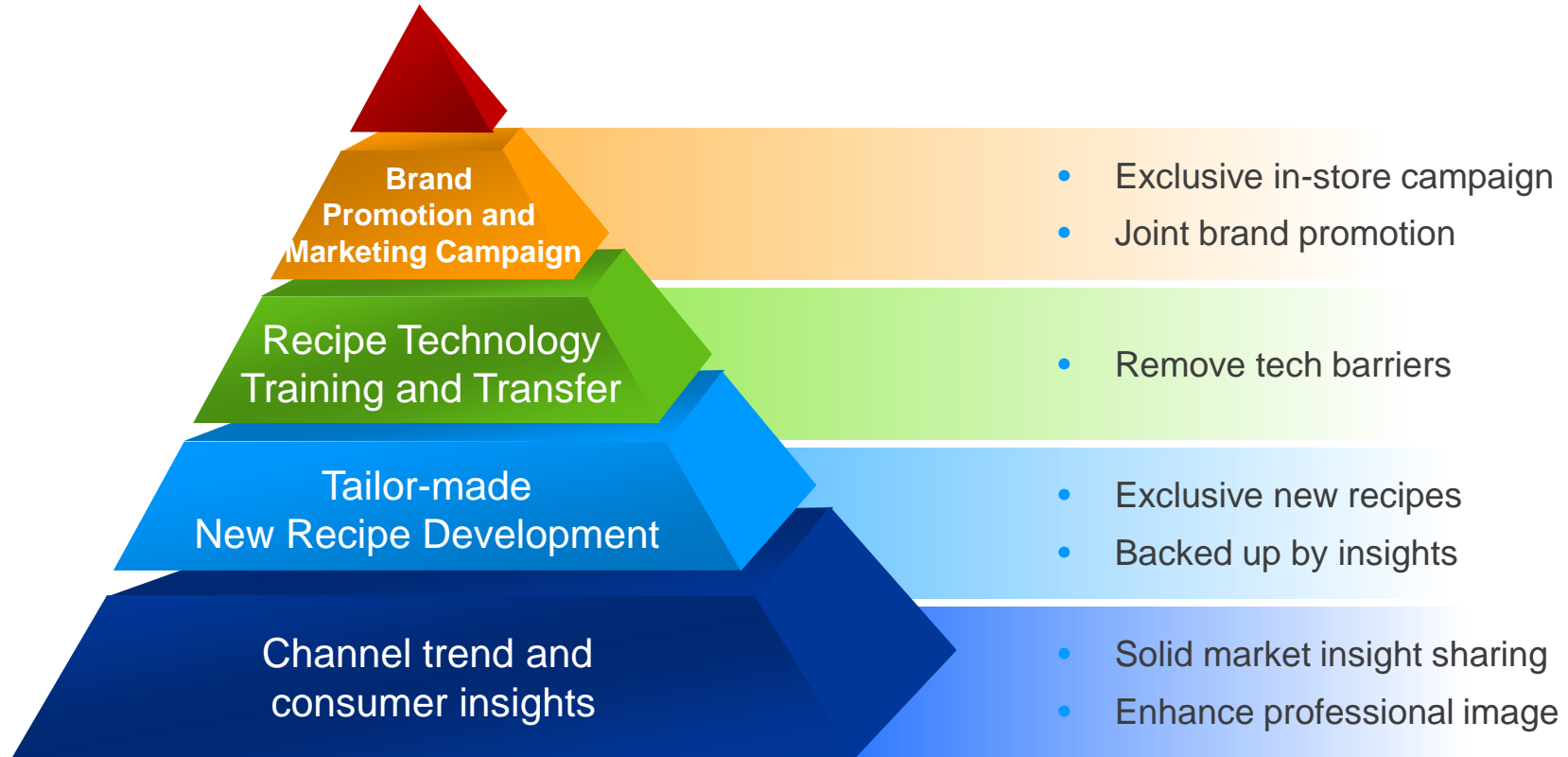


# Co-operation milestones

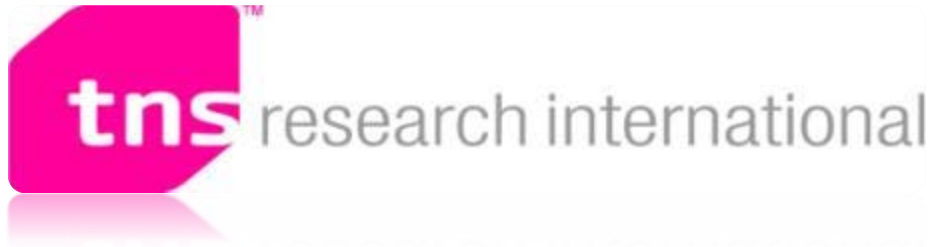
- Biggest bakery in China with >1,000 outlets
- By end of FY14 - 13 different products from Anchor™
- Sep-2013, Fonterra CEO and group of directors visited Mr. LUO Hong, President of Holiland



# One-on-one strategic cooperation framework

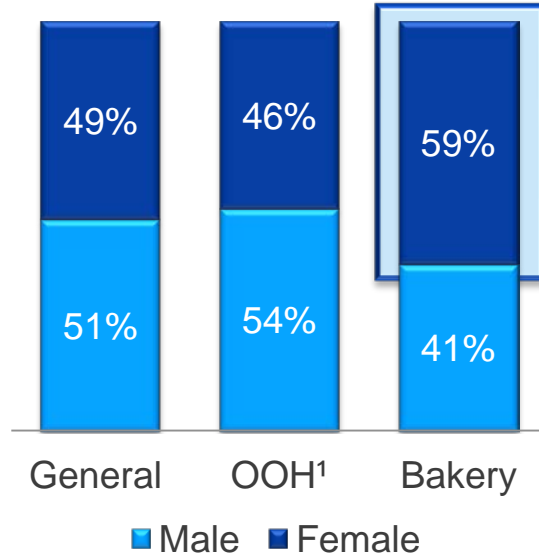


# Insight – data source

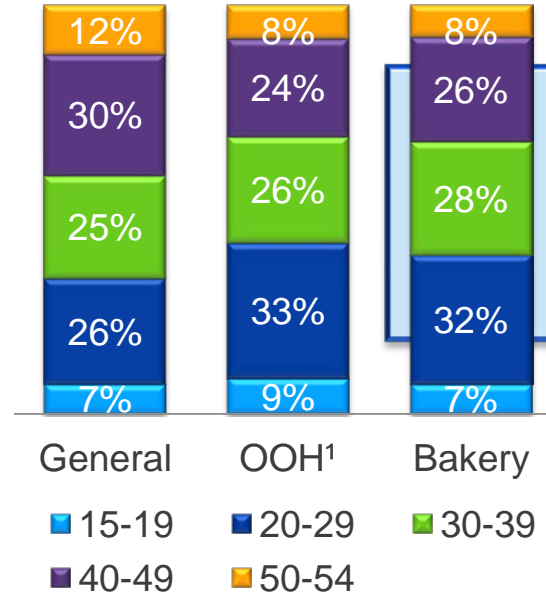


# Bakery consumer demographics

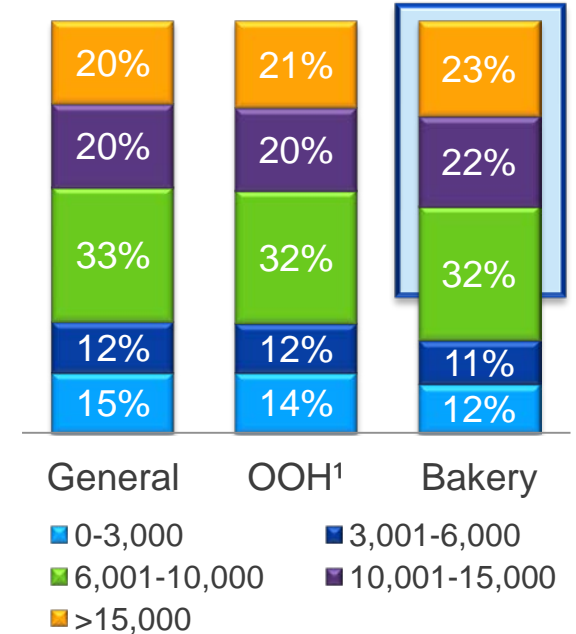
Gender



Age



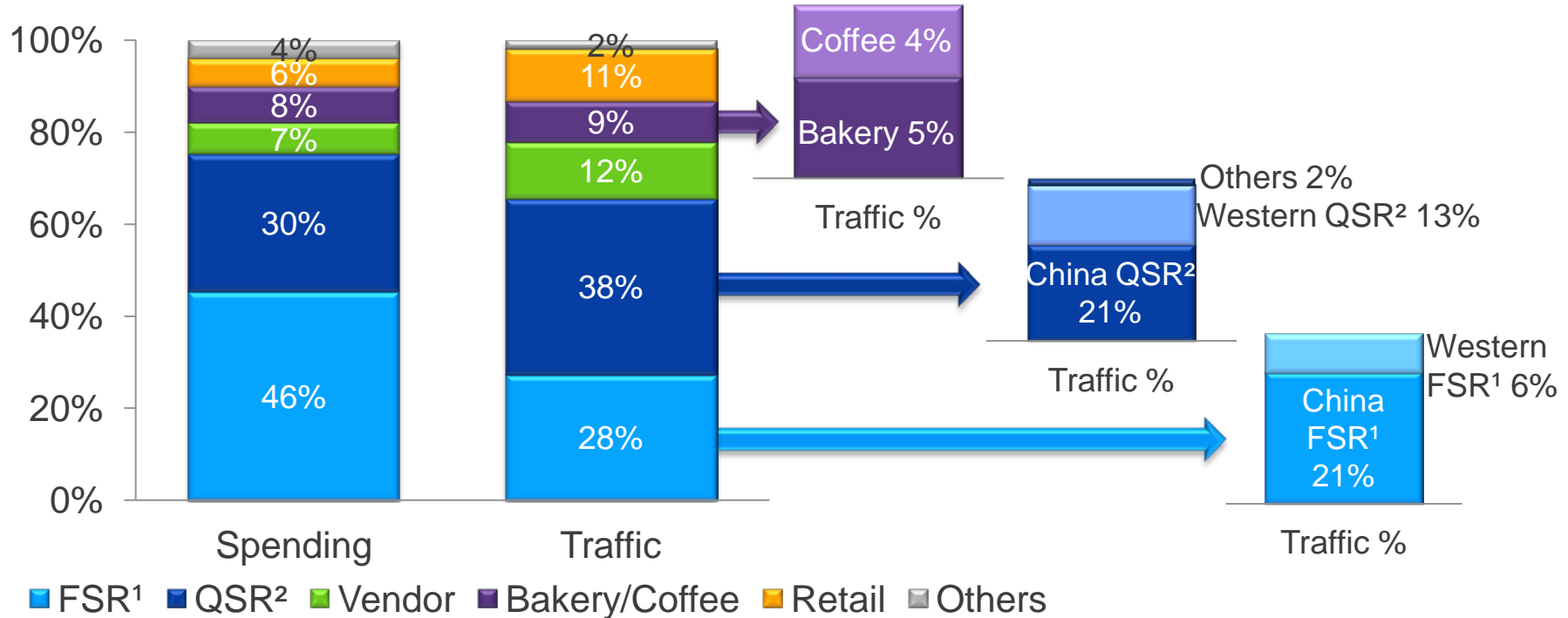
Income (RMB)



1. OOH: Out-of-Home  
Source: The NPD Group, Inc.

# Bakery's traffic is 5% of total China Out-of-Home market

## Out-of-Home market by channel %



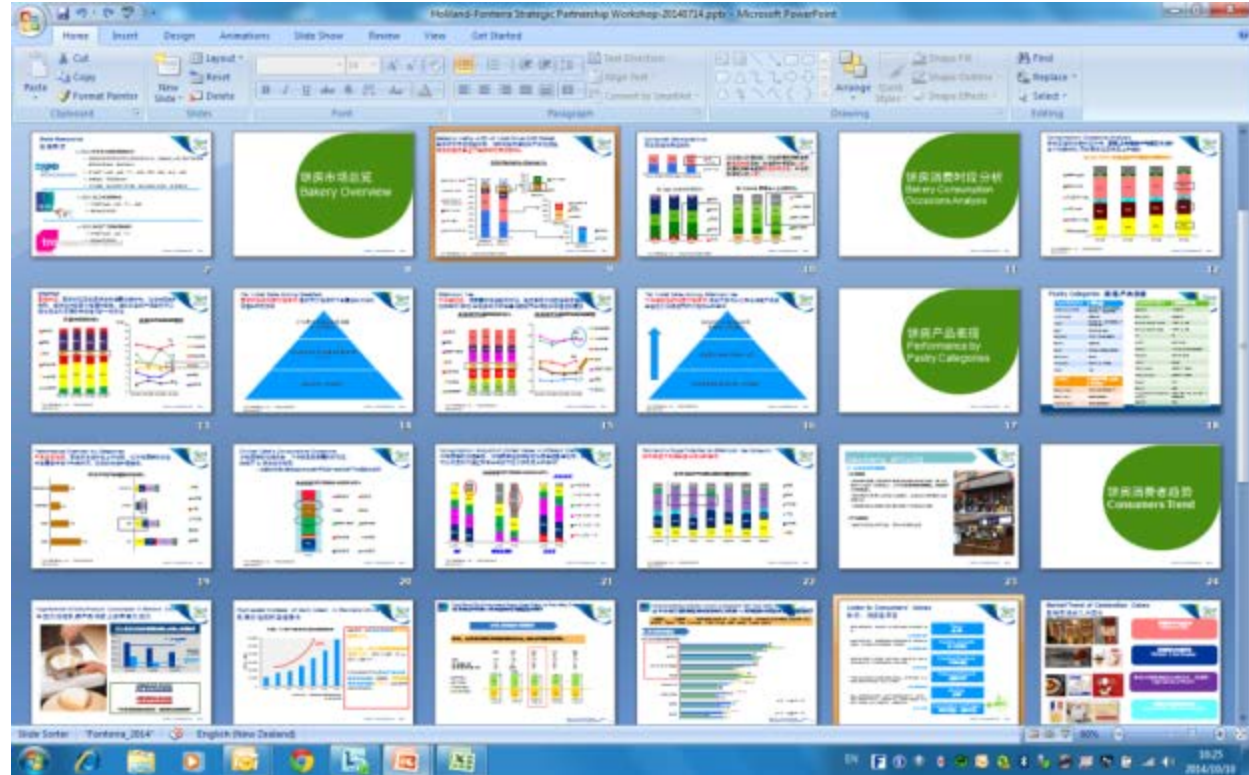
1. FSR: Full Service Restaurant

2. QSR: Quick Service Restaurant

Source: The NPD Group, Inc.

# Bakery trend and consumer insights – more...

- Consumer spending by day part
- Consumer preference by product categories
- Market trend for better taste and healthier



# Tailor-made recipe development



爱，  
就在你身边。。。。





## Breakfast

给家人的关爱，  
从早餐开始！

### Cheese Bread 芝士面包



## Indulge Yourself

乳脂初体验，  
自己最纯的犒赏！



Dairy Cream  
Cake  
乳脂小蛋糕



## Afternoon Tea

一起分享午后的幸  
福时光！

Cheese Cakes  
下午茶芝士茶点



## Co-branding Social Responsibility

你来顾小家，  
我们来爱大家！

（双方联合品牌社会公益活动）

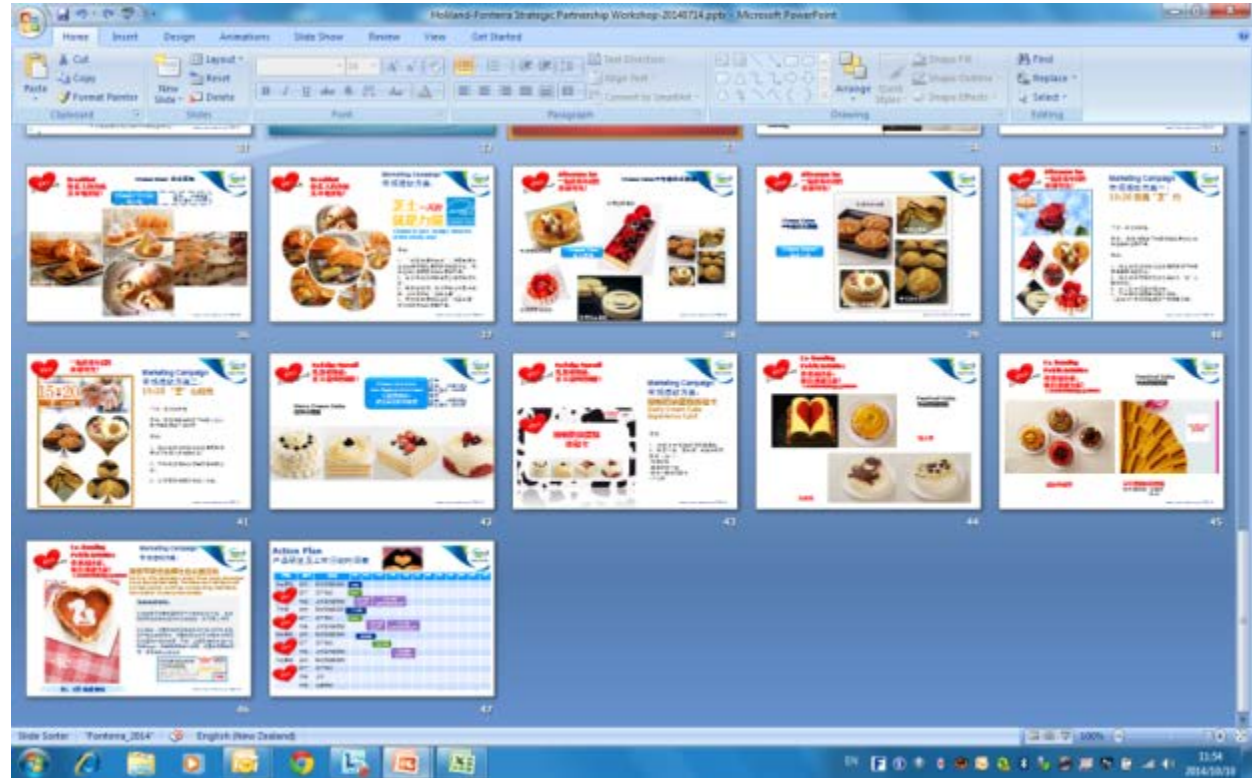


Festival Cakes  
节庆蛋糕



# Recipe technology transfer

- Recipe features and linkage with insights
- Consumer benefits and reason to believe
- Anchor™ proposal of launch plan and in store activation



## Results with Holiland

- Triple our volume and gain significant share of wallet growth
- Enhance our TRUST with biggest bakery in China
- Set up higher benchmark for engagement with customers



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# China repeatable model used across three types of key accounts



## National key accounts (12)



- ~17% of total FY13 volume
- Large modern bakery key accounts
- Large # outlets (hundred)
- Mostly premium and mid-end bakeries

## Regional key accounts (58)



- ~18% of total FY13 volume
- Medium to large regional modern bakery key accounts focusing on specific regions
- Large number of outlets
- Mostly mid-end/low-end

## Local key accounts (~350)



- ~32% of total FY13 volume
- Small/medium local key accounts
- Multiple outlets
- Mostly mid-end or low-end bakeries

**“One-to-One” model approach**

**“One-to-Many”**

## Distributor-led customers (~1,600 customers)

- Distributor accounts nationwide
- Represents ~33% of remaining Fonterra FY13 sales

**“One-to-Many” via involving distributors in town hall activities**

# China town hall events

## Big Ideal

- Many outlets in inland cities – hungry for dairy training and knowledge
- We have limited resources – can't be everywhere to detail one on one
- Develop a "Town Hall" format, where we detail proven concepts to many

①

## Key Messages

- Channel trend and consumer insights
- Dairy goodness and knowledge
- High value product tech demo
- Local media coverage and advertorial

③



②

## Challenges for Dairy Use

- Dairy is more expensive than non-dairy, and harder to sell
- Dairy is too difficult to use – poor stability, and strict on temp control

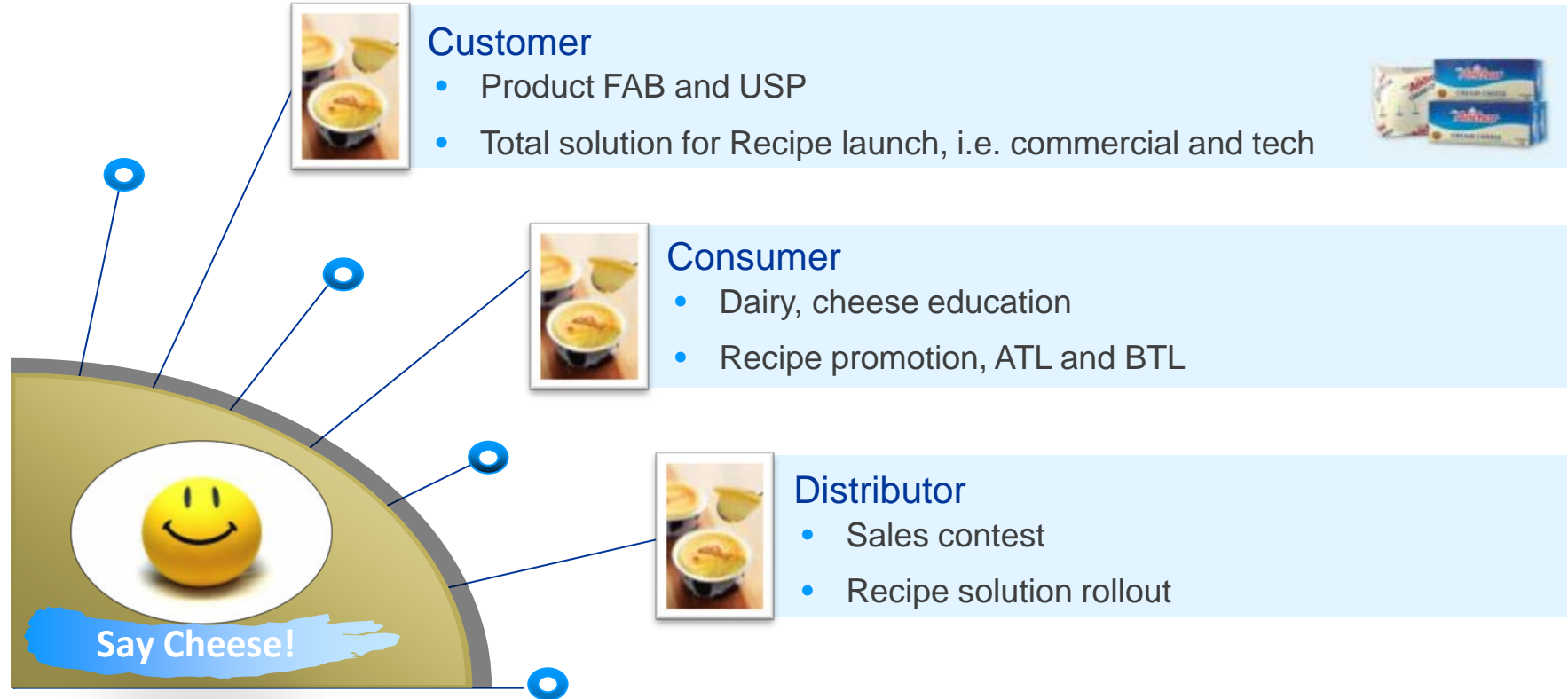
## Benefits for Anchor™

- Reach many in a short space of time and efficient use of our resources
- Leverage proven ideas and insights and establish Anchor™ professional dairy expert brand image

④

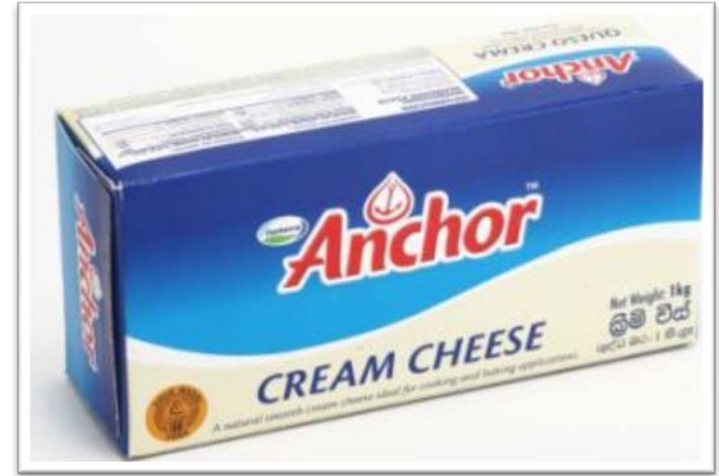
# What's Say Cheese?

Integrated category growth campaign



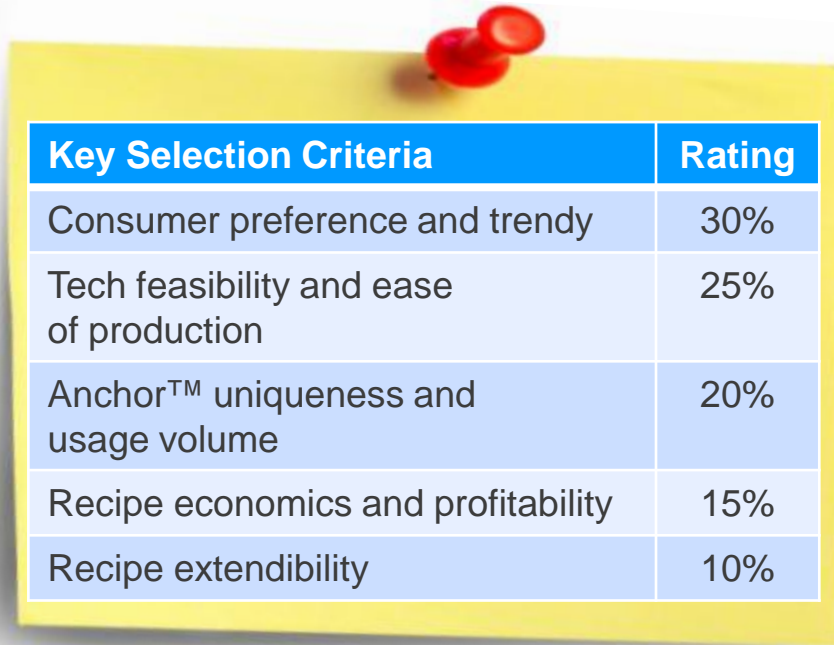
# China Foodservice – cream cheese

- Anchor™ cream cheese is No.1 in Foodservice Channel
- \$30 million expansion at Te Rapa
- Doubled capacity for cream cheese
- More opportunity to meet market demand



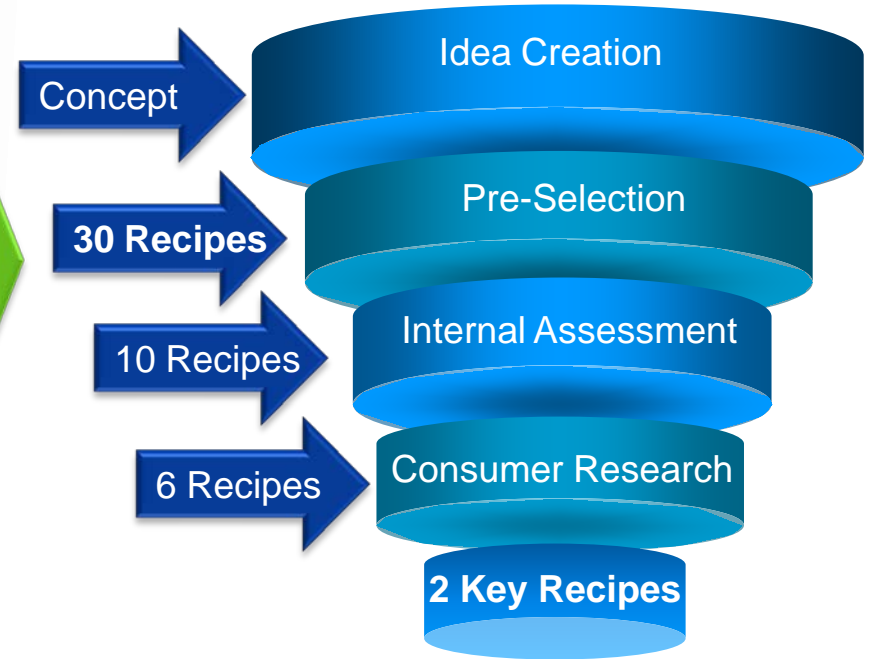
***Category Leader to Drive Growth***

# New recipe development



Key Selection Criteria	Rating
Consumer preference and trendy	30%
Tech feasibility and ease of production	25%
Anchor™ uniqueness and usage volume	20%
Recipe economics and profitability	15%
Recipe extendibility	10%

## Recipe creation funnel



# Say Cheese – 30 new recipes

All major cream cheese applications

## Cheese cake



## Cheese mousse



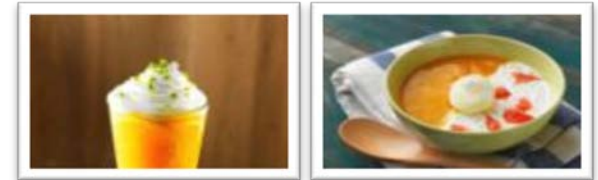
## Cheese snack



## Cheese filling in bread



## Cheese beverage



# Consumer research



Cheese egg tart



Snow cheesecake



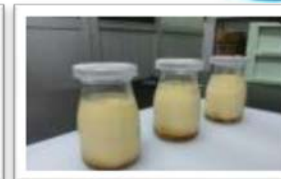
Cheese toast



Raspberry cheese mousse

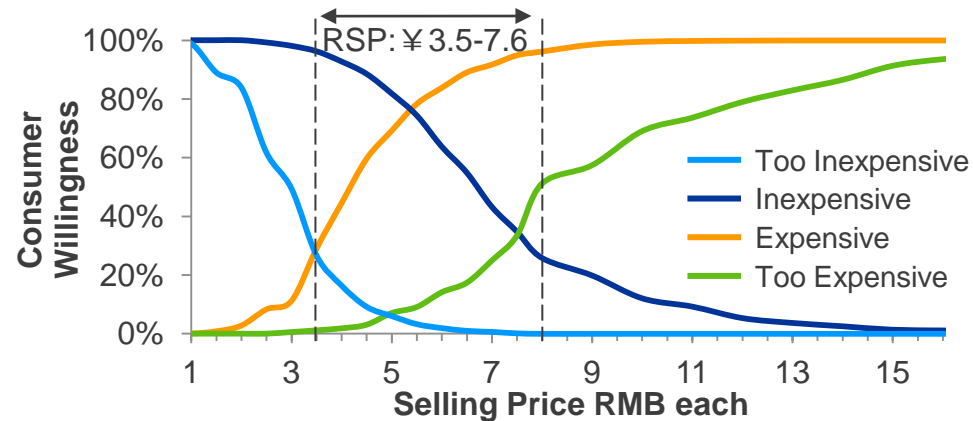


Half baked cheesecake

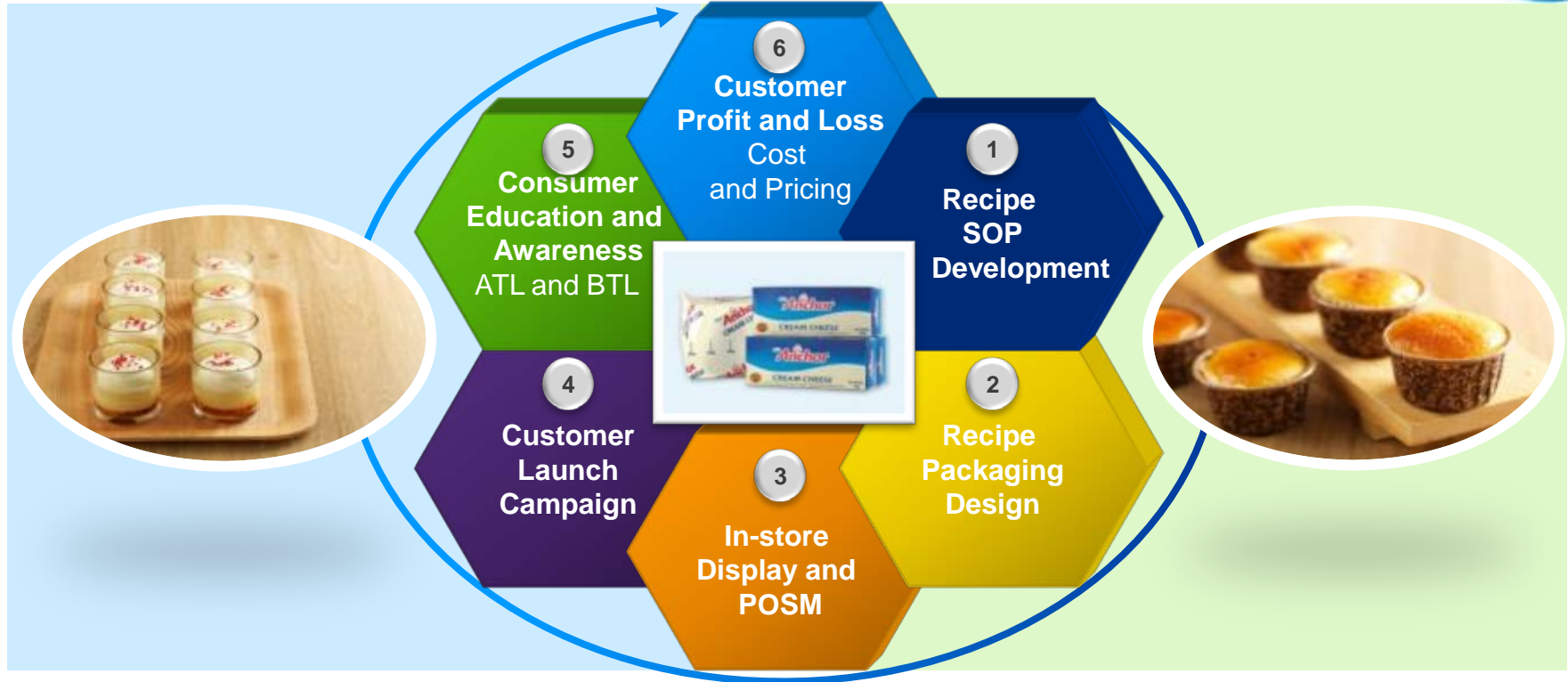


Caramel cheese pudding

## Price sensitivity



# Say Cheese – two standard recipe total solution



# Total solution – recipe SOP

### CARAMEL CHESS PUDDING formula



**Caramel recipe**  
焦糖做法

1. 將糖、牛油、淡奶、芝士、雞蛋、香草、鹽等材料放入攪拌機中，攪拌均勻。

2. 將攪拌好的材料倒入烤盤中，烤至金黃色即可。

### Pudding COOKING PROCEDURE 烘焙步驟

**STEP 1**  
將攪拌好的材料放入烤盤中，烤至金黃色即可。

**STEP 2**  
將攪拌好的材料放入烤盤中，烤至金黃色即可。

**STEP 3**  
將攪拌好的材料放入烤盤中，烤至金黃色即可。



**STEP 4**  
將攪拌好的材料放入烤盤中，烤至金黃色即可。



### Caramel CHESS PUDDING


芝士  
焦糖布丁

Anchor  
Dairy for life



Fonterra  
Dairy for life

Anchor  
Dairy for life



半熟芝士蛋糕  
Slight-baked Cheese Cake

# Total solution – recipe packaging design

Low cost plastic cup



Premium aluminum milk cup



Recommended gift pack: 3-in-1



**Recommend packaging vendors and pricing for our customers**

# Total solution – in-store display and POSM



