



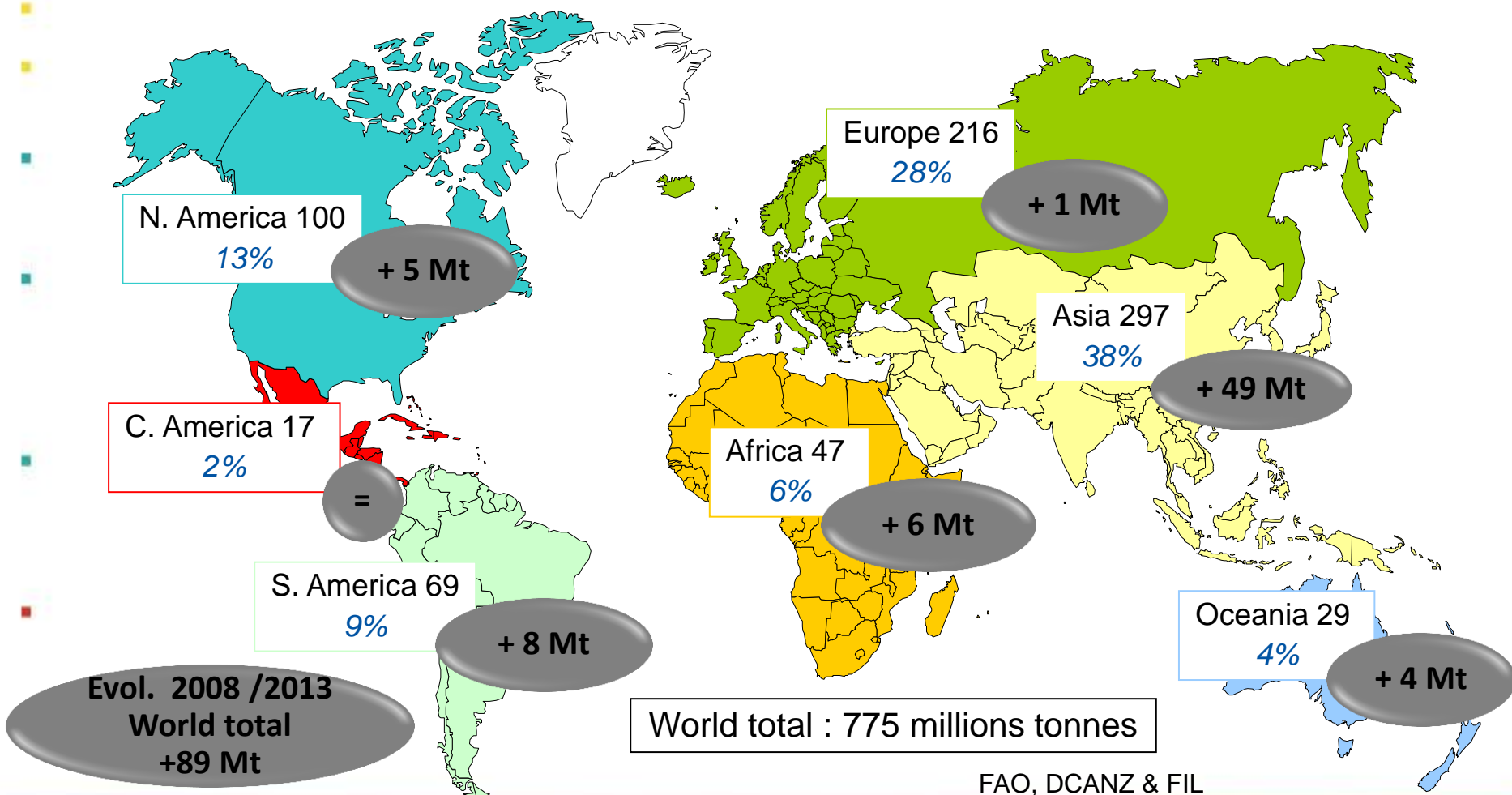
Trends and Prospects in the Global Dairy Sector

38th ICOS National Conference
29th October 2014

Global dairy situation

World milk production (all animal species)

Geographic breakdown of world production in 2013 (estimation, million tonnes)



Main suppliers of the World market in 2013 (equivalent liquid milk - FAO method)

69 million tonnes

9% of world production

Main supplier countries	(%)
New Zealand	26
European Union *	23
United States	15
Belarus	6
Australia	5
Argentina	4

Top 2 : 49 %

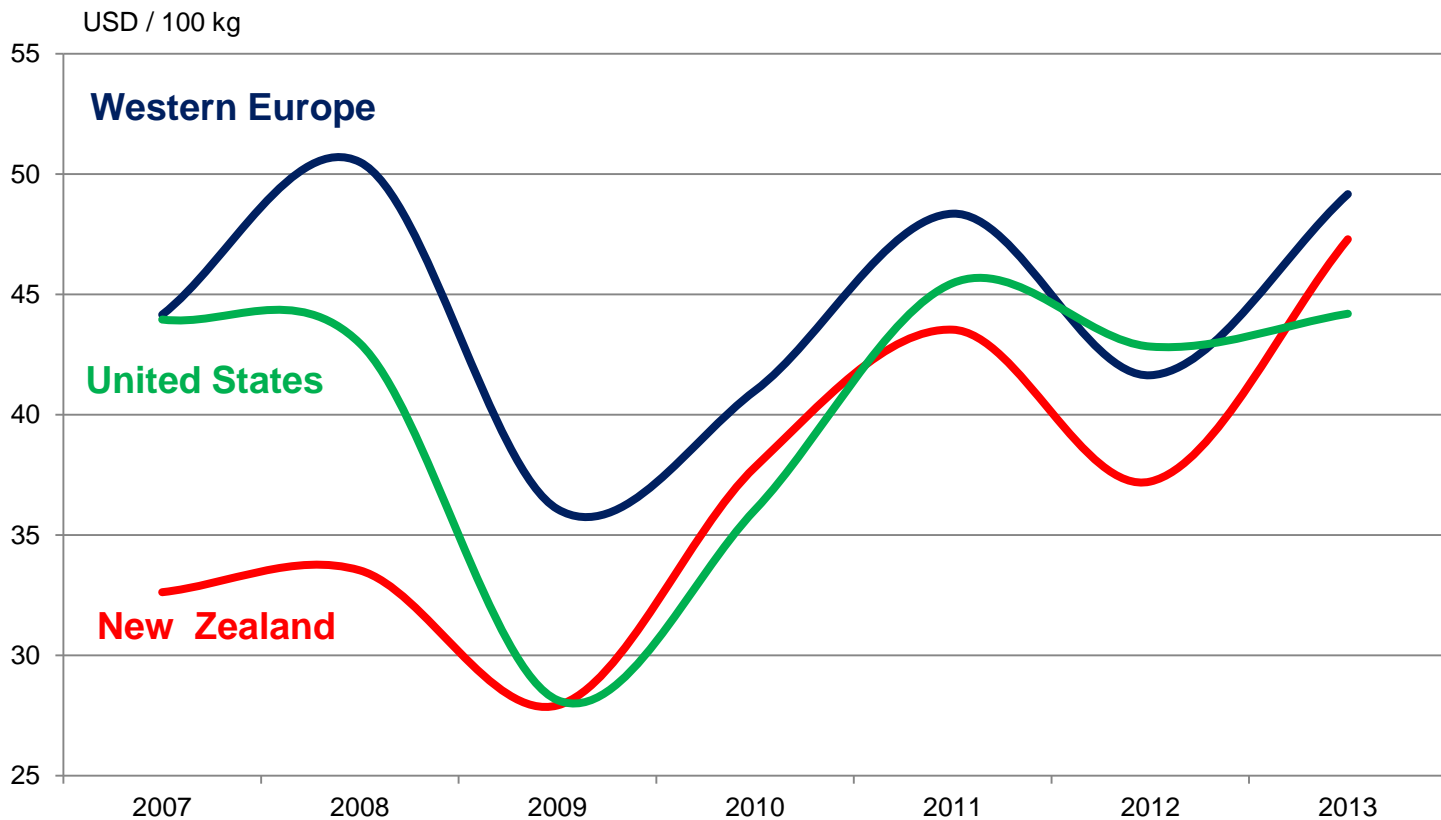
Top 5 : 75 %

* Excl. Intra-EU trade

CNIEL / FAO

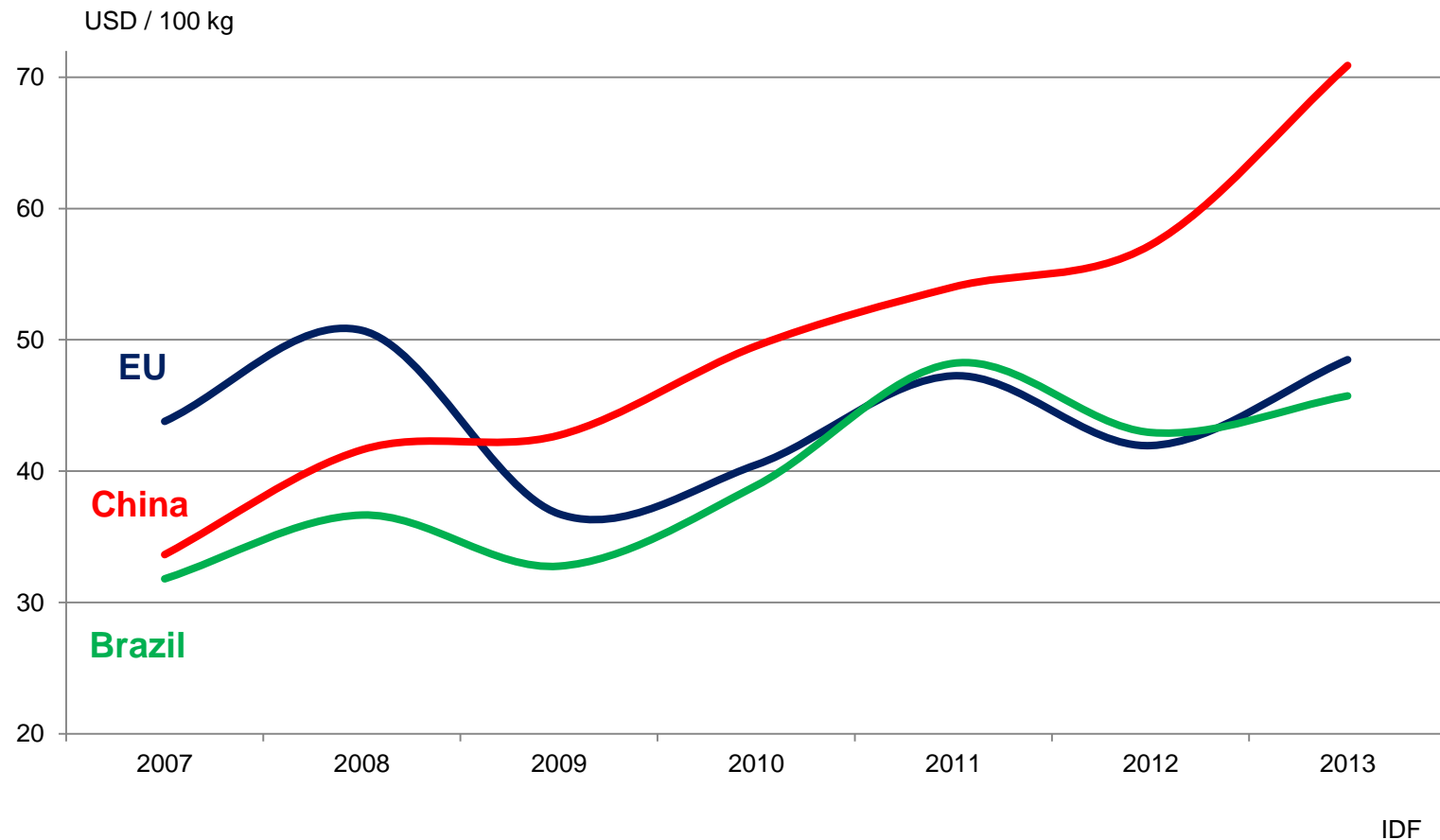
Some trends and prospective elements to take into account in the long term

Milk prices in the main three exporting areas have been converging over the last few years.



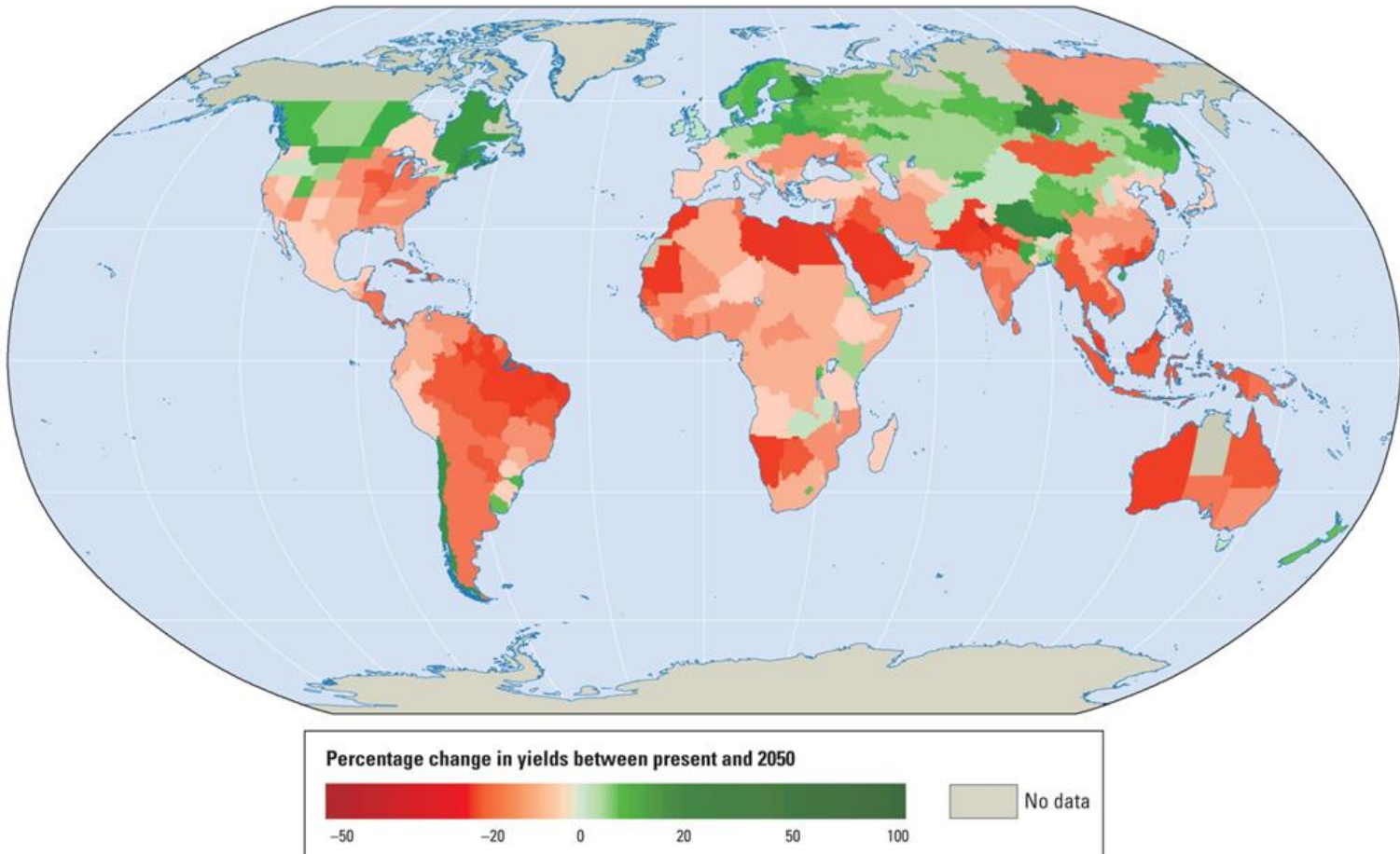
Some trends and prospective elements to take into account in the long term

Milk prices have been steadily growing in emerging countries over the last few years.



Some trends and prospective elements to take into account in the long term

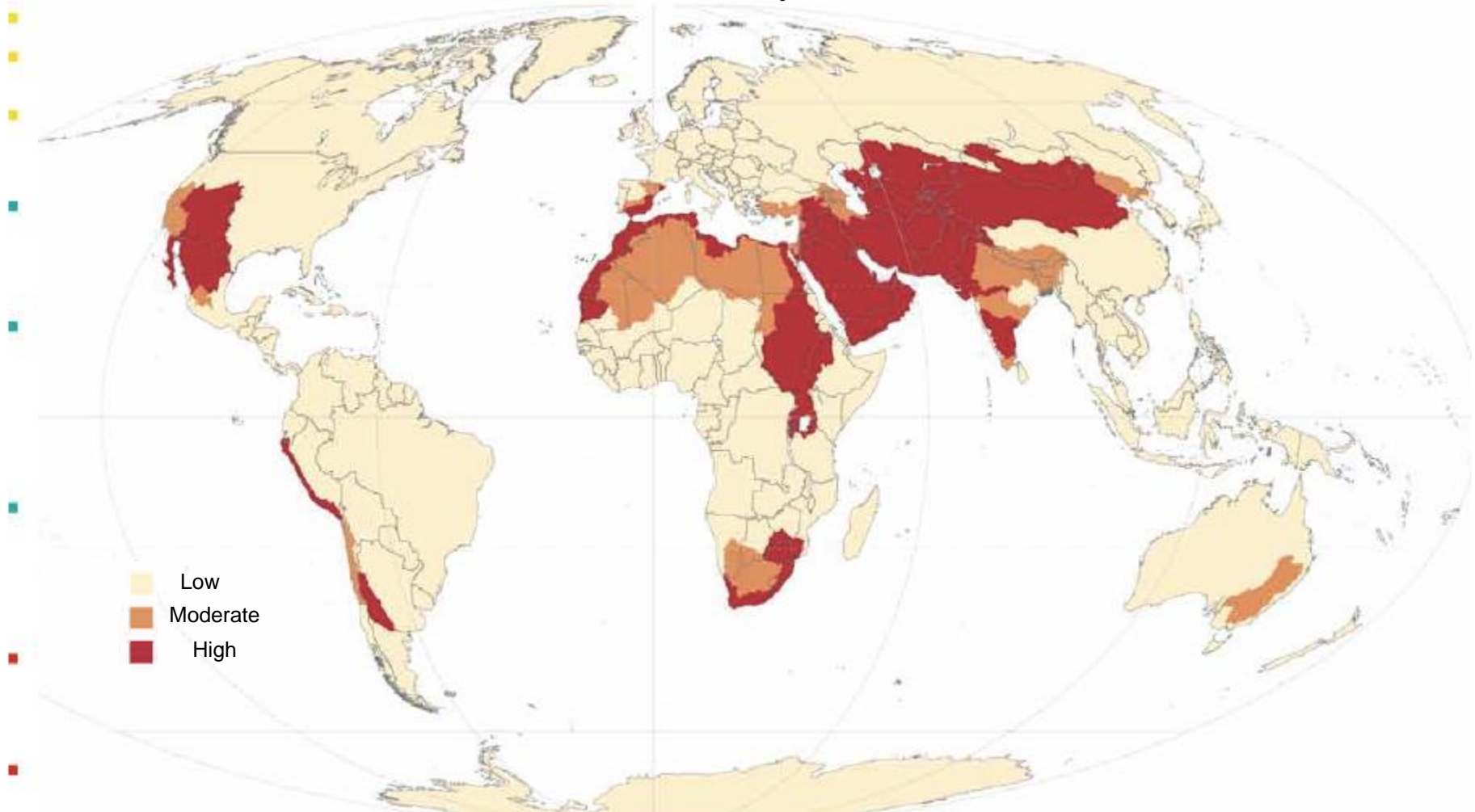
Likely change in crop yields by 2050,
given the current agricultural practices and crop varieties used



World Bank (World Development Report 2010)

Some trends and prospective elements to take into account in the long term

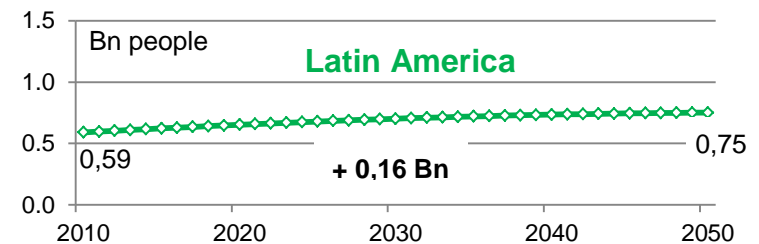
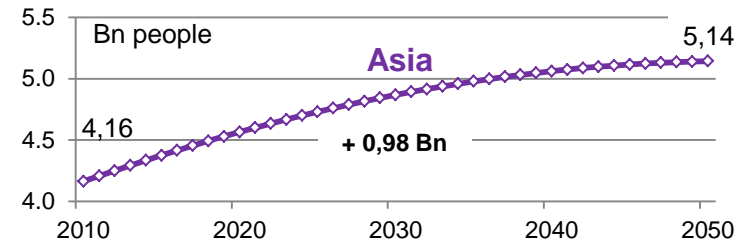
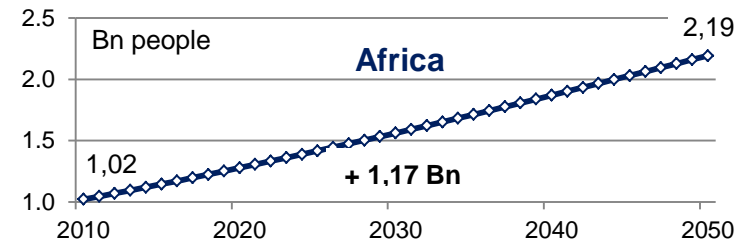
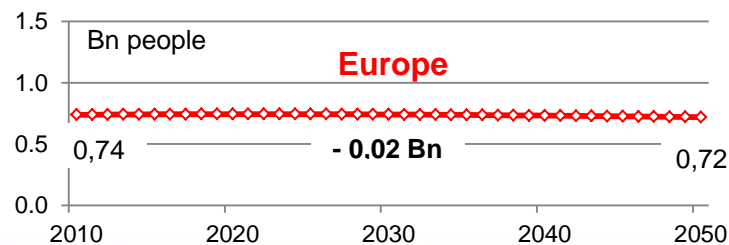
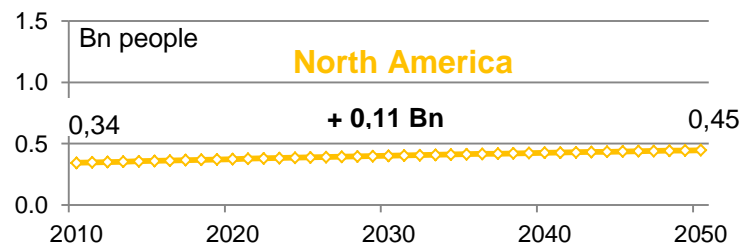
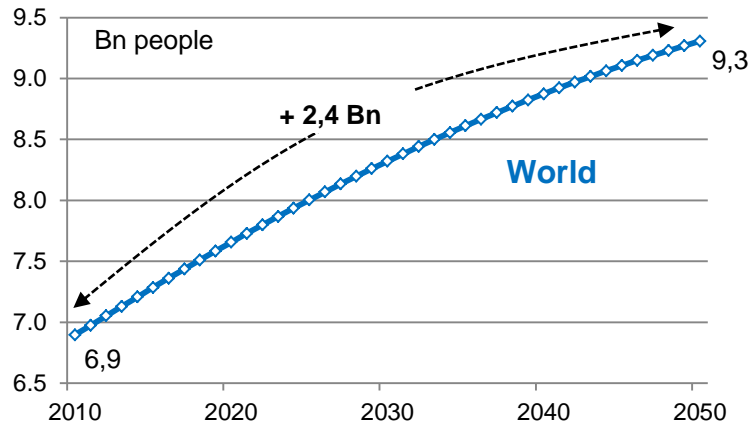
State of water scarcity in the world



FAO – The State of the World's Land and Water Resources for food and agriculture, 2011

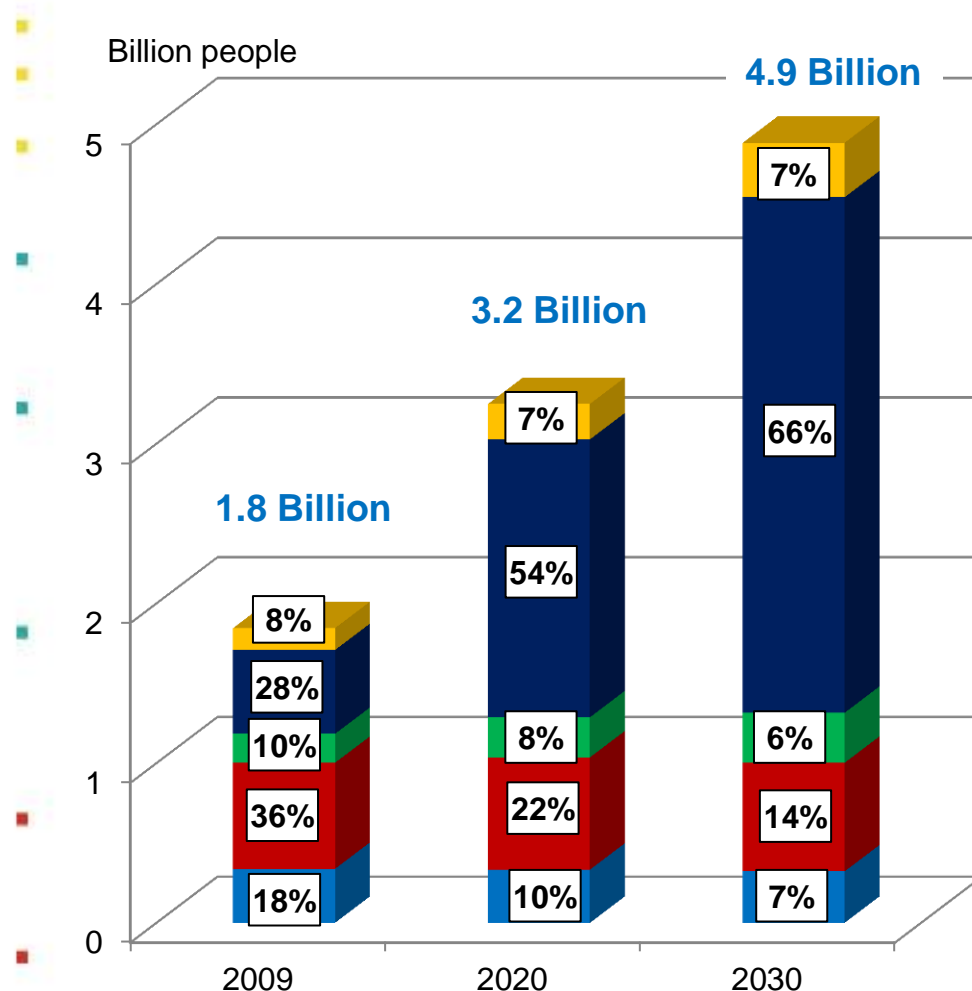
Some trends and prospective elements to take into account in the long term

World population will increase mainly in Africa and Asia in the coming decades.



UN median scenario— data revised in 2010

Some trends and prospective elements to take into account in the long term



The global middle class should have three billion additional people by 2030, coming mainly (85%) from Asia.

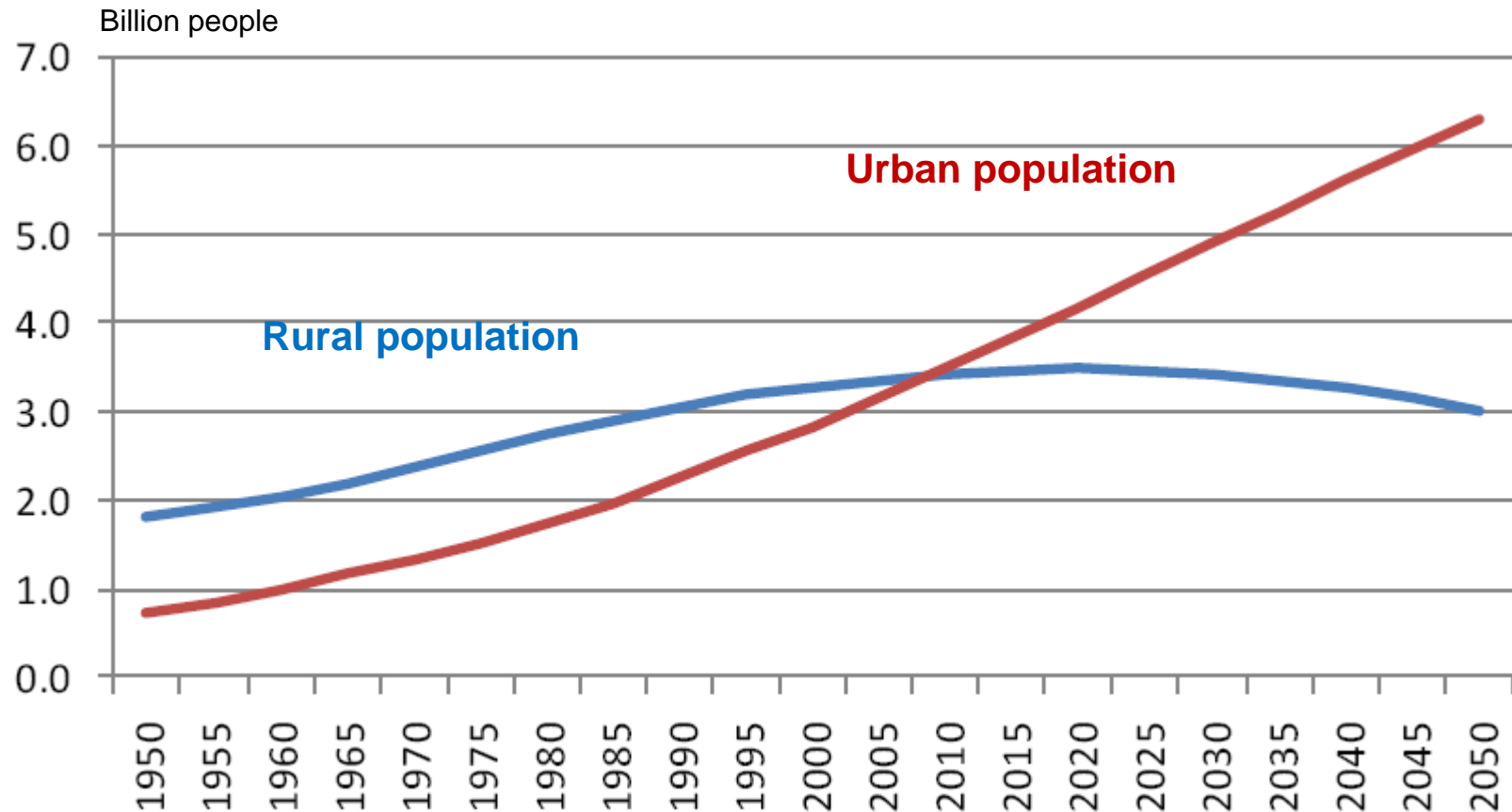
- Africa & Middle East
- Asia Pacific
- Central & South America
- Europe
- North America

Middle class : people living in households with daily per capita incomes of between USD10 and USD100 in Purchasing Power Parities (PPP) terms.

OECD

Some trends and prospective elements to take into account in the long term

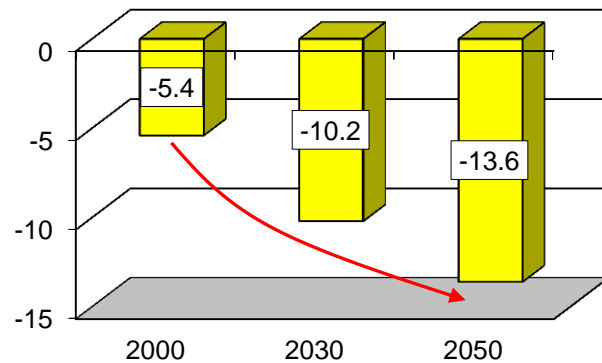
The population is becoming more urban
-> The consumer is increasingly distant from the cow



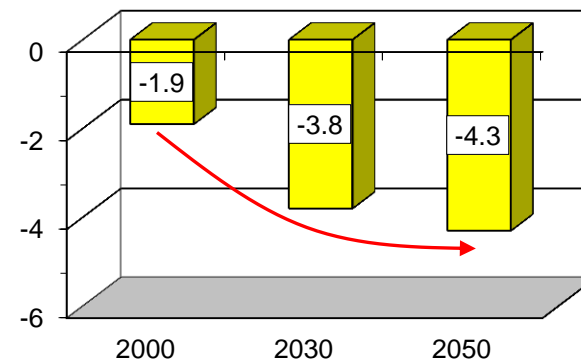
FAO

The dairy deficit in Asia (and Africa) is likely to grow in the years to come

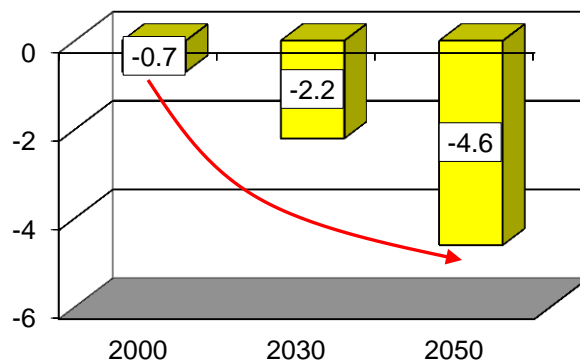
Evolution of the trade balance for dairy products (million tonnes of liquid milk equivalent)



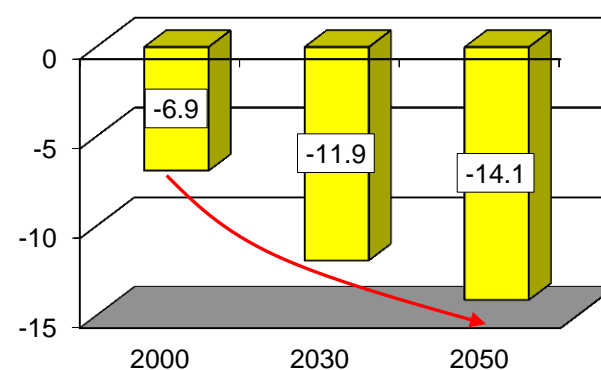
North Africa, Middle East



Subsaharian Africa



Southern Asia

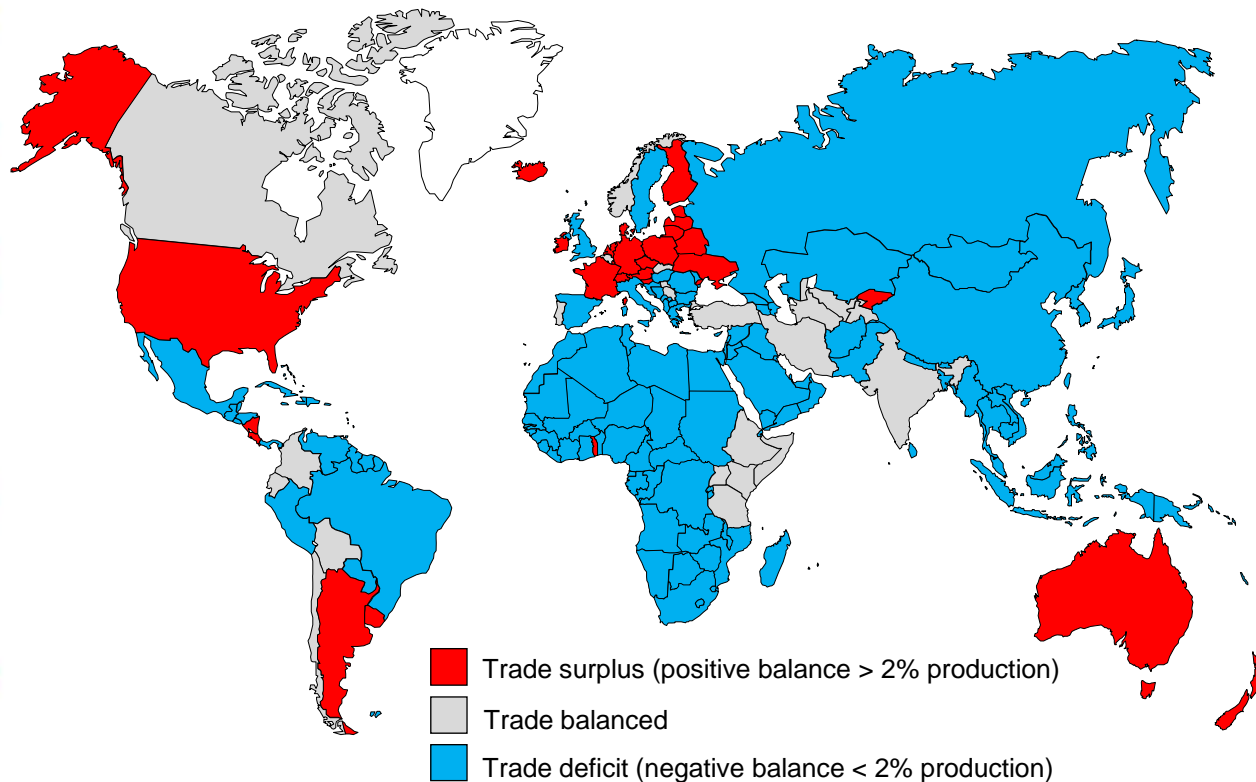


Far East

CNIEL / FAO World agriculture: towards 2030/2050

Investment strategies differ greatly according to area

Classification of countries according to their trade balance for dairy products



Countries with trade surplus
≈ temperate industrialised
countries

Saturated domestic market
(apart from a few exceptions : United
States, Australia, etc.)

Strong export outlook
(unless resource problems)

Countries with trade deficit
≈ emerging countries

Dynamic domestic market
Growing imports in most cases

CNIEL / FAO

Global players and investment dynamics

Leading global dairy processors in 2013: 27 groups (including 11 co-ops) generating dairy sales exceeding 3 billion USD



Co-ops

Private companies



America

DFA (US)	12,8
Dean Foods (US) (D)	9,0
Saputo (CA) (E)	8,8
Schreiber (US) (F)	4,5
Land O'Lakes (US)	4,5
Kraft Foods (US)	3,9
Agropur (CA)	3,7
Lala (MX)	3,2

(A) Infant formula excluded

(B) Perimeter of ice cream and dairy activities was redefined in 2013

(C) Fiscal year ending in July 2014

(D) All activities included

(E) Fiscal year ending in March 2014

(F) Estimate

NB: Kerry, Unilever, PepsiCo & Mondelez not ranked

Europe

Lactalis (FR)	21,2	Bongrain (FR)	5,8
Nestlé (CH) (A) (B)	18,7	Müller (DE) (F)	4,9
Danone (FR) (A)	15,7	Glanbia plc (IE)	4,4
Friesland Campina (NL)	15,1	Bel (FR)	3,6
Arla Foods (DK-SE)	13,1	Emmi (CH)	3,6
DMK (DE)	7,1	Tine (NO)	3,4
Sodiaal (FR)	6,1		



Asia

Yili (CN)	7,8
Mengniu (CN)	7,1
Meiji Dairies (JP) (E)	6,4
Morinaga (JP) (D)	6,0
GCMMF Amul (E)	3,0

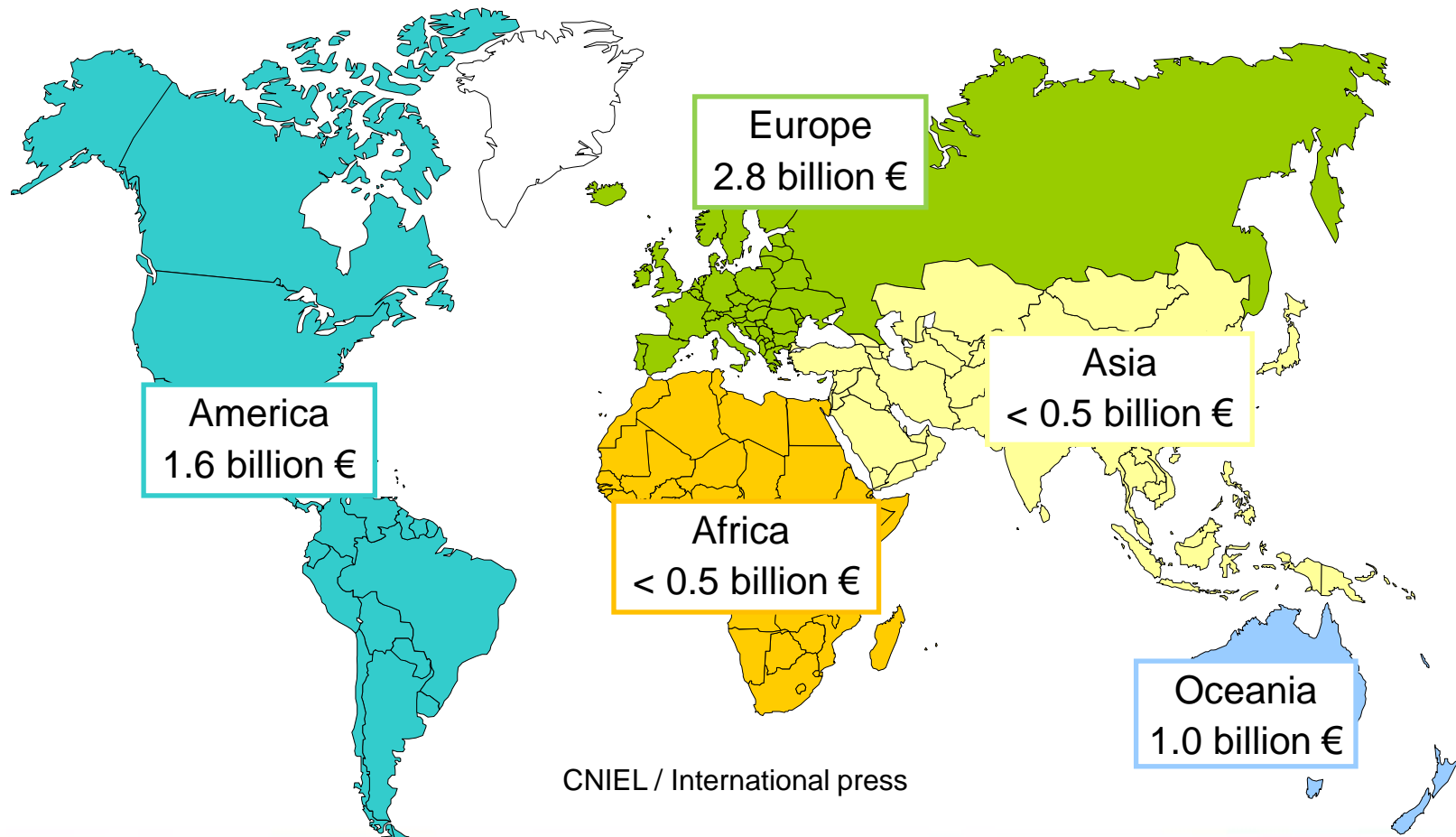
Oceania

Fonterra (NZ) (C)	18,7
-------------------	------



Europe has been rather dynamic in terms of investments over the last few years.

Geographical breakdown of the investments announced (or finalised) in 2012, 2013 and 2014 concerning dried dairy products

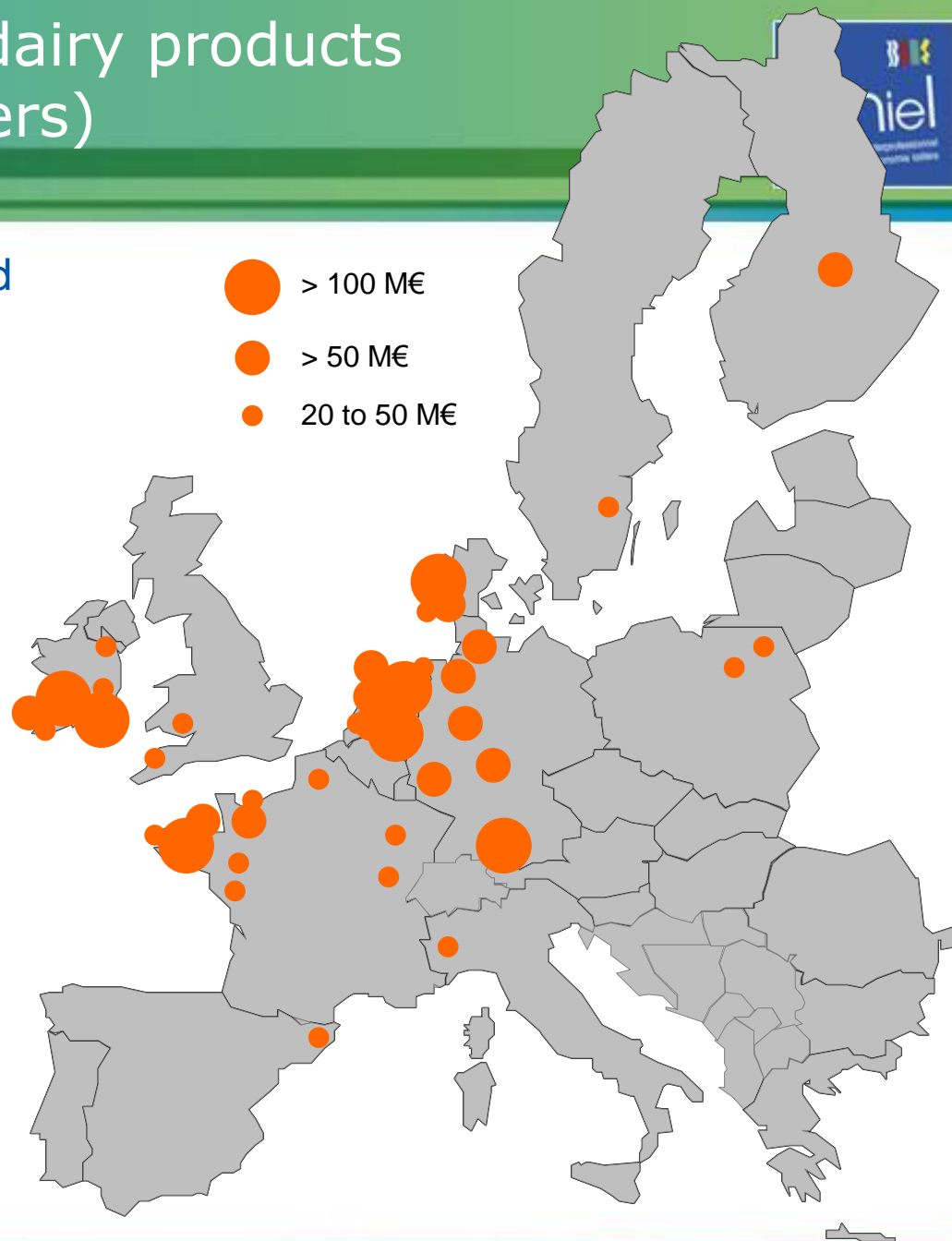


CNIEL / International press

Main investments in dry dairy products (whey, milk, infant powders)

Investments announced or finalised
between 2012 et June 2014
above 20 million EUR

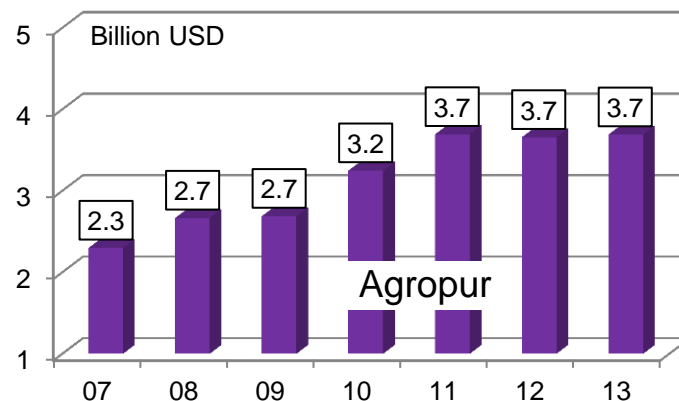
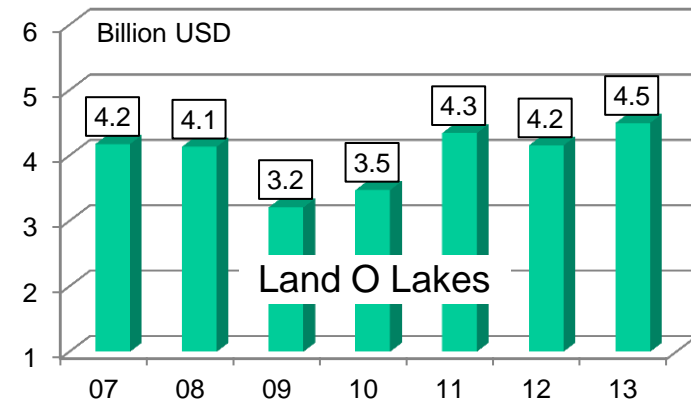
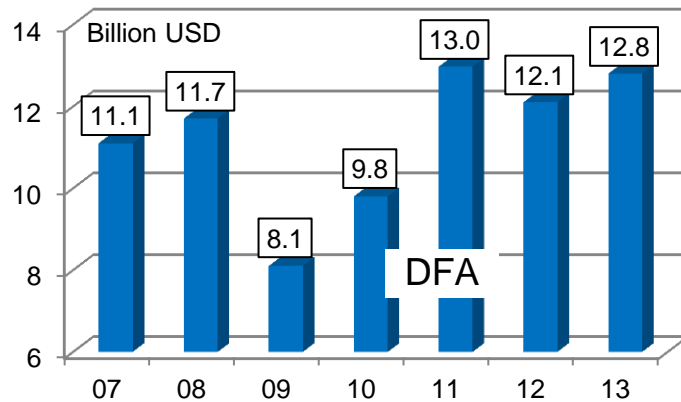
 > 100 M€
 > 50 M€
 20 to 50 M€



Contribution of the dairy cooperatives

Leading co-op groups have been experiencing steady growth over the last few years – The example of North America

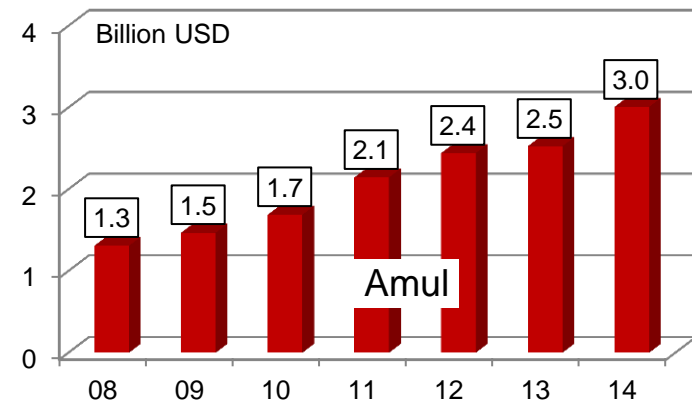
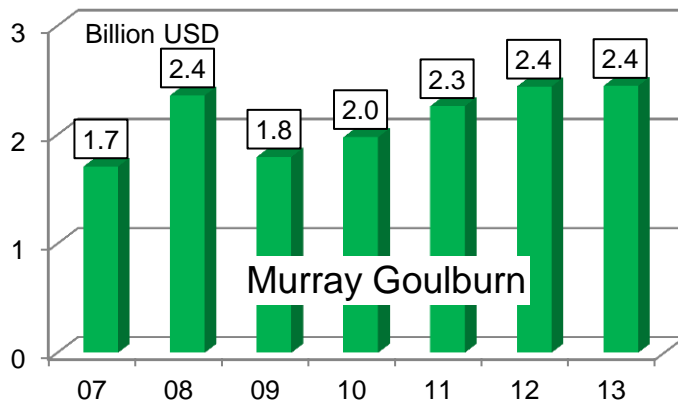
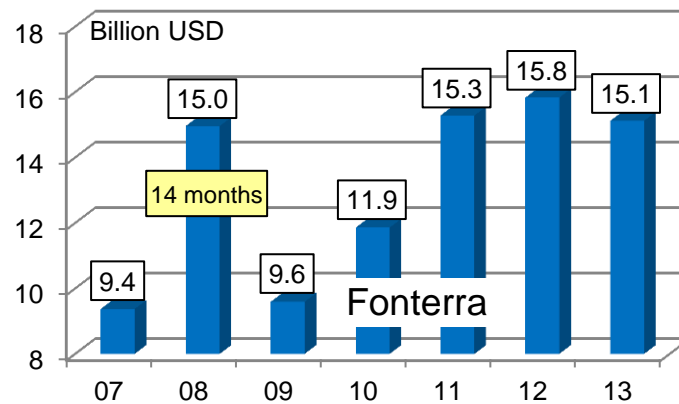
Dairy turnover development (Billion USD)



CNIEL / annual reports, international press

Leading co-op groups have been experiencing steady growth over the last few years – The example of Asia and Oceania

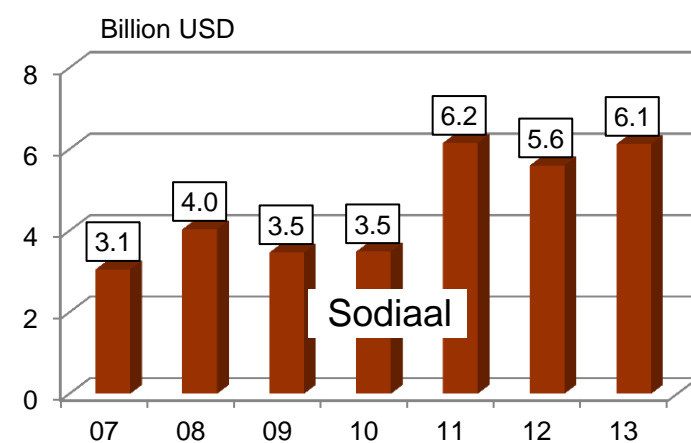
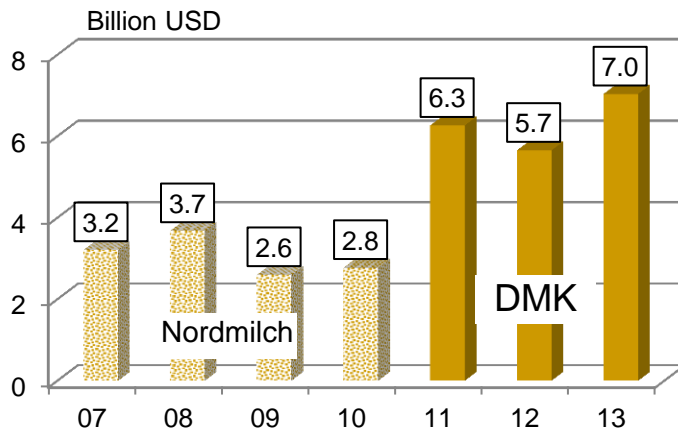
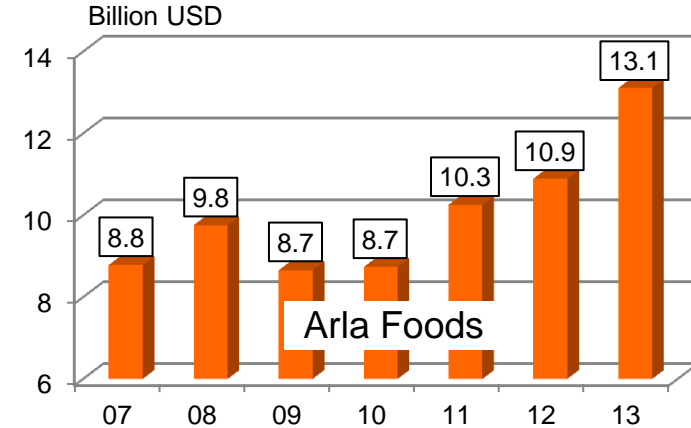
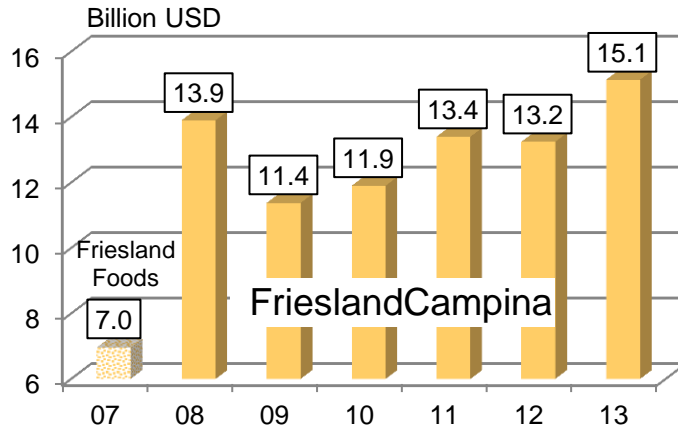
Dairy turnover development (Billion USD)



NB: Fiscal year ending in March for Amul, in June for Murray Goulburn and July for Fonterra
 CNIEL / annual report, international press

Leading co-op groups have been experiencing steady growth over the last few years – The example of Europe

Dairy turnover development (Billion USD)



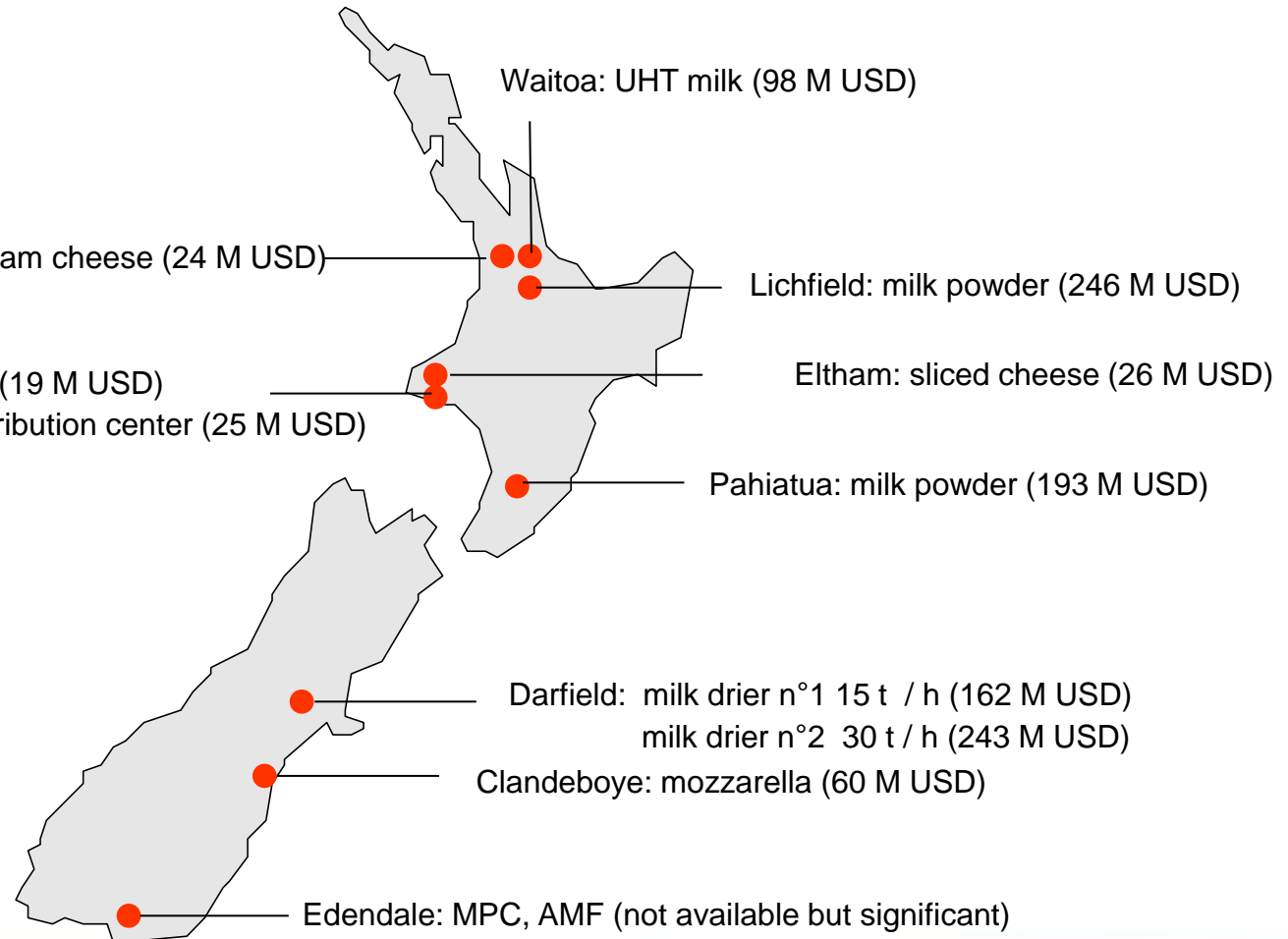
CNIEL / annual report, international press

Dairy co-ops have based their growth on two main means.

- Industrial investments in the heart of their homeland
- Strengthening their international activities

Co-ops invest to satisfy their shareholders' will to grow – The example of Fonterra

Investments announced or finalised by Fonterra in New Zealand since 2012



Total (except Edendale):

1.1 billion USD

Dry products: 870 M USD

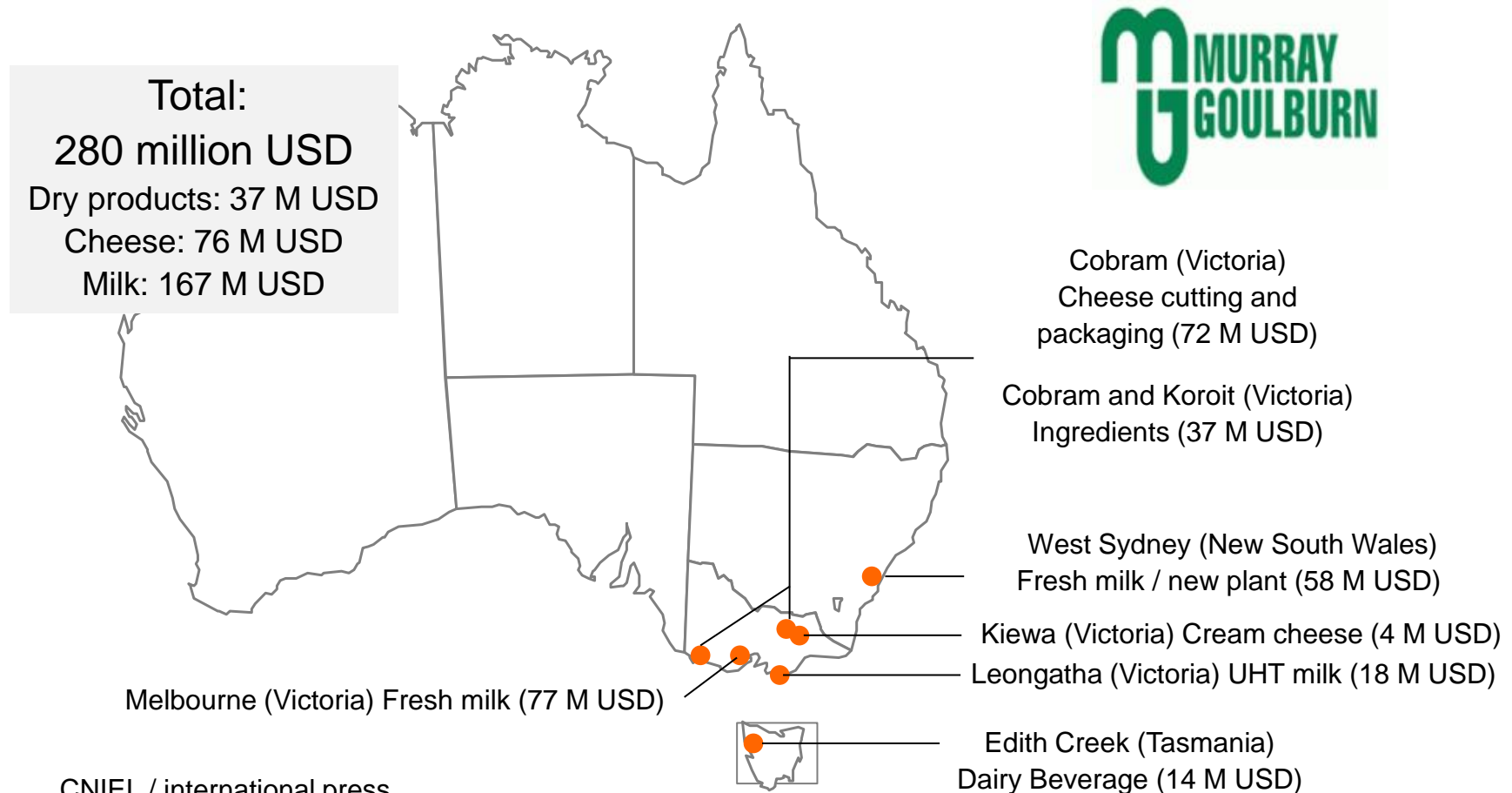
Cheese: 130 M USD

UHT milk: 100 M USD

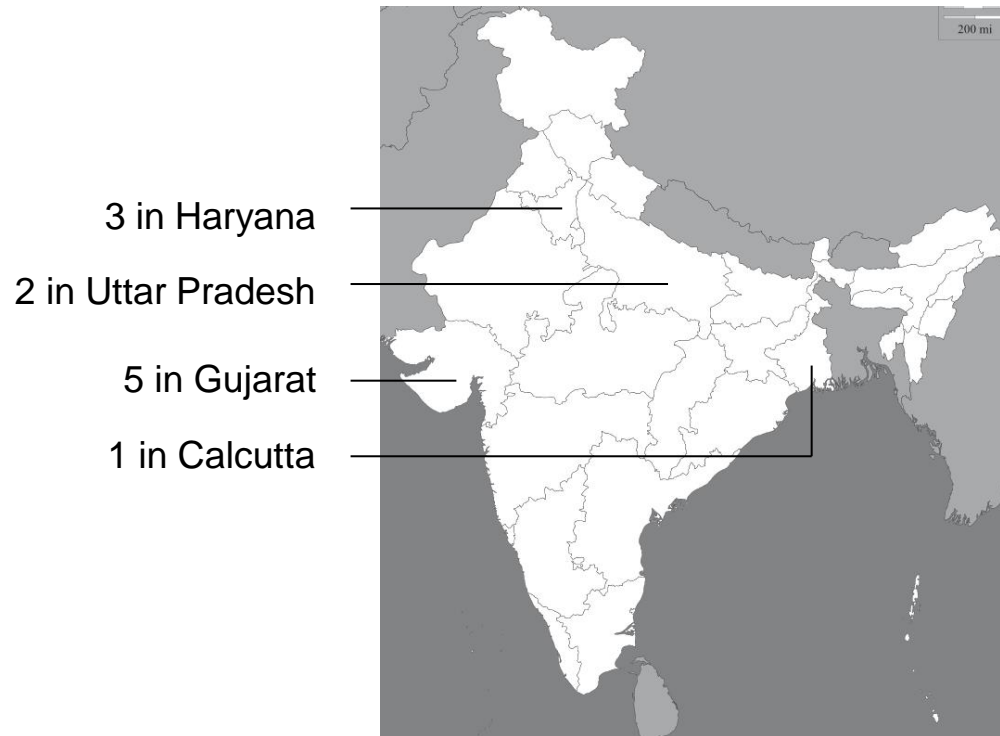
CNIEL / international press

Co-ops invest to satisfy their shareholders' will to grow– The example of Murray Goulburn

Investments announced or finalised by Murray Goulburn since 2012



Co-ops invest to satisfy their shareholders' will to grow – The example of GCMMF



CNIEL / international press

A two-year investment program
of around 700 million USD was
announced in May 2014 to build
11 new factories

Some European dairy co-ops have based their growth around the implementation of very sizeable plants.

A few examples of European dairy plants with an annual capacity exceeding one billion litres of milk



- **Veghel (NL)**: a 75 million USD investment announced in 2012 to expand annual plant capacity from 1.2 to 1.9 billion litres of milk



- **Zeven (DE)**: a 90 million USD investment announced in 2013 to expand annual plant capacity from 0.9 to 1.3 billion litres of milk
- **Edewecht (DE)**: 125 000 tonnes of cheese produced in 2012 → plant processing capacity exceeding 1 billion litres of milk per year



- **Pronsfeld (DE)**: investment program aiming to increase annual capacity from 1.3 to 2.0 billion litres of milk between 2011 and 2014
- **Aylesbury (GB)**: late 2013 implementation of a new pasteurized milk packing plant with capacity exceeding 1 billion litres per year



- **Dringenburg (DE)**: processes more than one billion litres of milk to produce semi-hard cheeses

Some co-ops set up partnerships to build new plants – The example of dairy leaders DMK and Arla Foods



Arla Foods and DMK have jointly invested 65 million USD to build a new ingredient factory.

Joint venture named ArNoCo

Located in Nordhackstedt, where DMK holds a sizeable cheese factory

Production of whey protein concentrates and dry blend lactose (25 000 t per year)

Begun production in August 2014

Some co-ops have set up partnerships with foreign investors to build new processing plants.



Chinese Synutra has invested 115 million USD in a 130 million USD project set up with French Sodiaal to build two driers in Carhaix (France). The opening is scheduled in 2015. The plant will process 280 million litres of milk.



In 2013 Chinese Biostime provided 25 million USD out of the 65 million USD invested jointly with Isigny Ste Mère in the building of a new infant formula plant (30 000 t / y). Biostime has taken a stake in the French co-op.

CNIEL / international press

Dairy co-ops have based their growth on two main means.

- Industrial investments in the heart of their homeland
- Strengthening their international activities

Some co-ops generate a significant part of their industrial activities outside their homeland – The example of Agropur



is a Canadian co-op (3 455 Canadian shareholders in 2013)
endowed with two domestic markets (Canada & United States)

Agropur has recently achieved strong industrial growth in Canada and the United States

2013



1 merger with Farmers Co-operative Dairy
4 acquisitions: Coast Mountain Dairy, Cook's, M Larivée International and fromagerie Damafro



Acquisition of the dry blending business of Foremost Farm
Notification of a expansion program to double plant activity at Hull (Iowa)

Some co-ops generate a significant part of their industrial activities outside their homeland – The example of Agropur



Agropur has recently achieved strong industrial growth in Canada and the United States

2014 (9 months)



1 merger with Dairytown

2 acquisitions: dairy processing and food distribution businesses of Northumberland Dairy Cooperative (sales of 62 million USD / year); dairy business of Sobeys for 345 million USD

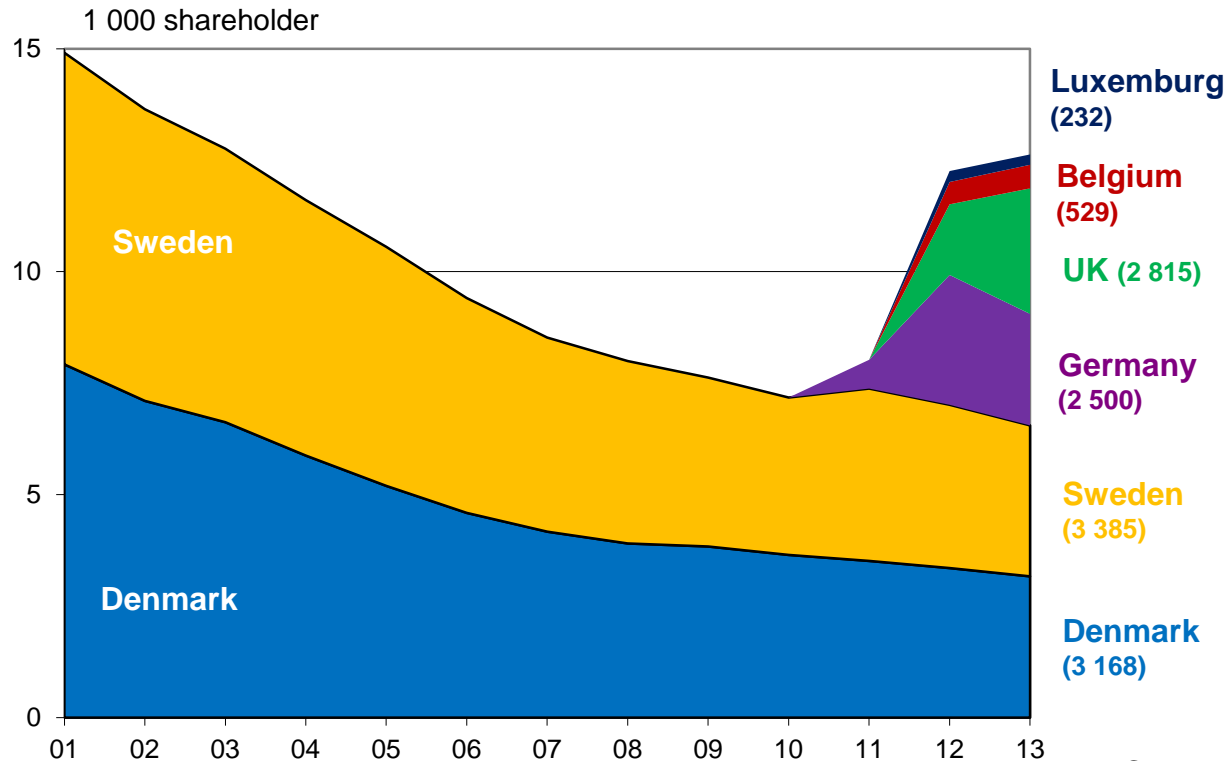


Acquisition in August of Davigco, which processed 1.7 billion litres of milk per year to produce 170 000 tonnes of cheeses and 80 000 tonnes of whey ingredients

Some co-ops generate a significant part of their industrial activities outside their homeland – The example of Arla Foods

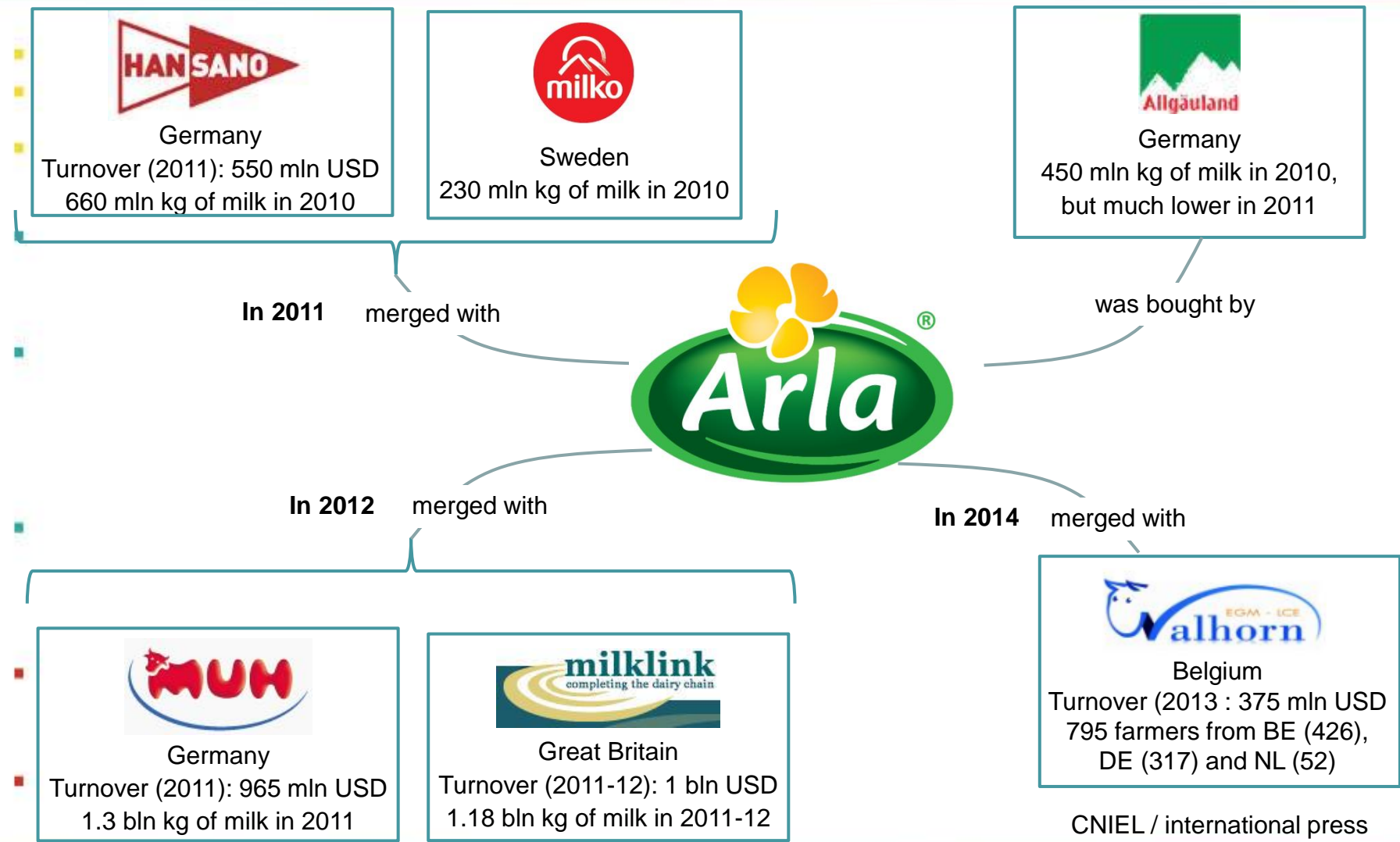


Development of the number and location of Arla Foods shareholders



CNIEL / international press

Arla Foods has internationalised its activities through several mergers



Dairy co-ops strengthen their position in areas with high development potential – A few examples in Latin America



Emmi purchased a Mexican cheese importer

In January 2014 Emmi took a 50% stake in specialty cheese importer Mexideli 2000.

Carbery invested to process whey in Brazil

In November 2012 Carbery set up a 50/50 joint venture with Brasil Foods to build a new whey plant for 50 million USD.



Arla Foods took a stake in Vigor

In September 2014 Arla Foods bought a 8% stake in Vigor, a Brazilian company with which it has been keeping up a partnership in whey processing since 1986.

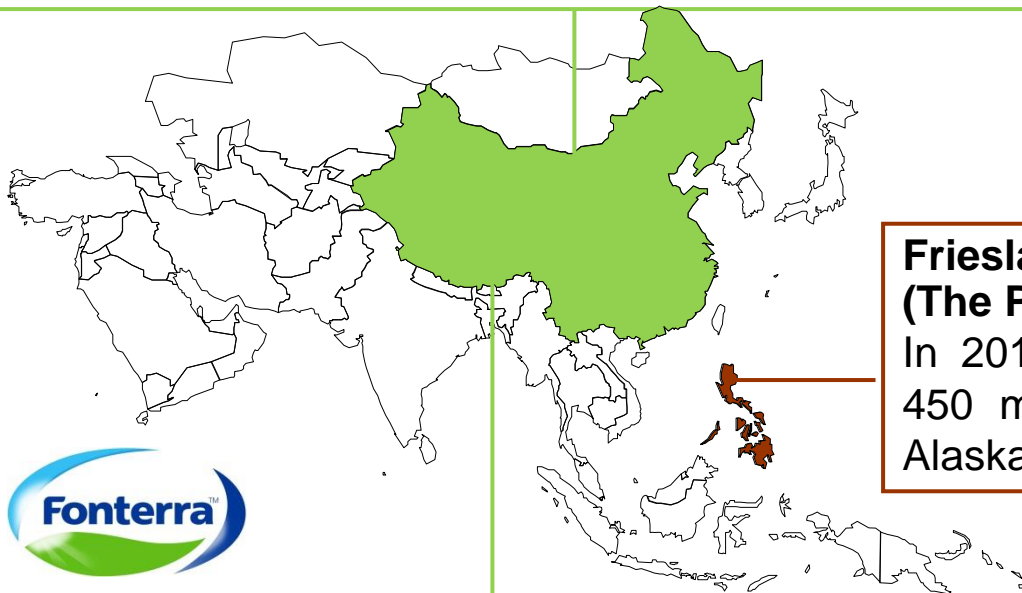


CNIEL / international press

Dairy co-ops strengthen their position in areas with high development potential – A few examples in Asia

Arla Foods took a stake in Mengniu (China)

In 2012 Arla Foods bought a 6% stake in Mengniu for 290 million USD.



FrieslandCampina took control of Alaska (The Philippines)

In 2012 Dutch FrieslandCampina invested 450 million USD to increase its stake in Alaska from 8.1% to 97.7%.

CNIEL / international press

Fonterra investing in dairy farms (China)

Fonterra established a 5 dairy farm hub in North Hebei, expected to produce 150 million litres of milk per year from late 2013 onwards. In July 2014, jointly with Abbott, Fonterra announced a 300 million USD investment to build 5 new mega farms.

Dairy co-ops strengthen their position in areas with high development potential– A few examples in Africa

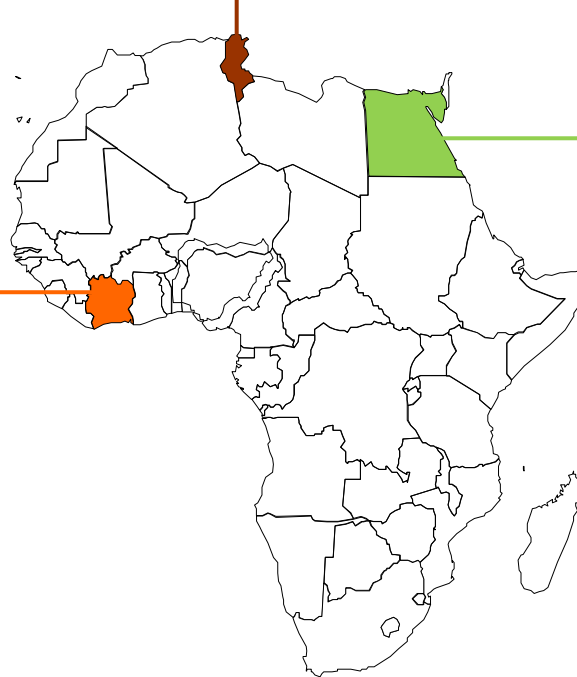
Emmi, through its Kaiku subsidiary, took control of Vitalait (Tunisia)

In 2012 Spanish Kaiku, subsidiary of Swiss group Emmi, purchased a majority stake into Vitalait (Turnover 2011: 90 million USD).



FrieslandCampina purchased a dairy factory in the Ivory Coast

In September 2014 FrieslandCampina bought a dairy plant located in Abidjan from Olam for 19 million USD.



Arla joins race for Arab Dairy Products Co.

Arla Foods is making a non-binding bid for all shares in Arab Dairy Products Company, a listed company based near Cairo. If the takeover goes ahead, Arla looks set to become one of the top five or six players in the Egyptian dairy sector.



Thank you for your attention