



International Dairy Outlook 2020: A Fonterra View

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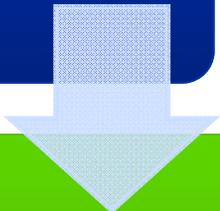
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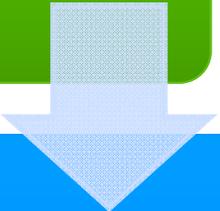
Dairy for life

Presentation Overview

1. Macro Drivers



2. Changing Dairy
Market Dynamics



3. Future Challenges

Global trends are driving significant changes in dairy markets

Rise of emerging markets & urbanisation driving strong demand for dairy nutrition

Higher prices, increased convergence, more volatility, less regulation



Global trends are driving significant changes in dairy markets

Social demographics - leading to greater focus on nutrition of paediatrics and health aging (e.g. Aging in OECD & China)

Rising incomes and busy lifestyles - convenience foods



Global trends are driving significant changes in dairy markets

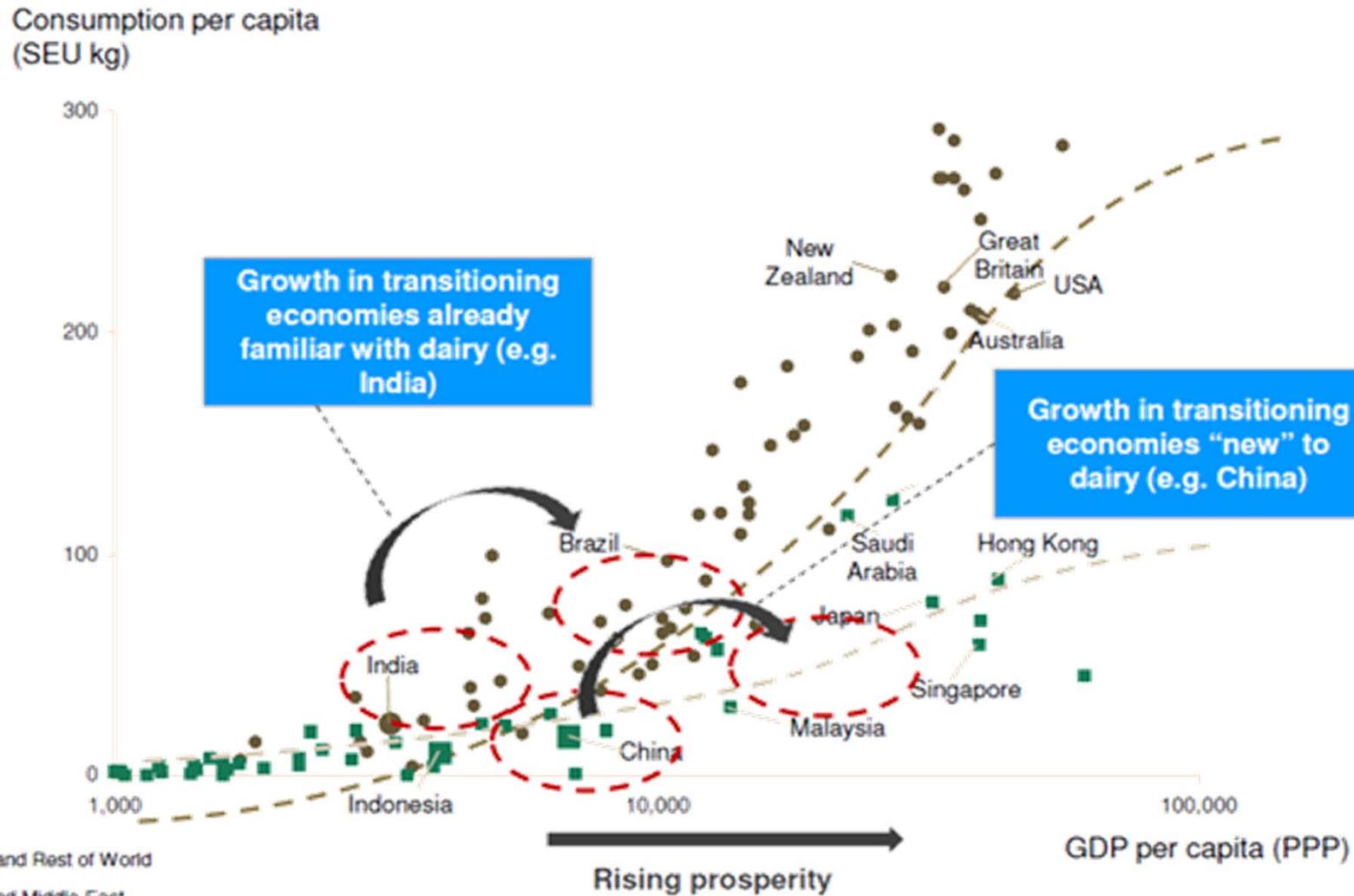
Increased focus on sustainability

New technology & innovation



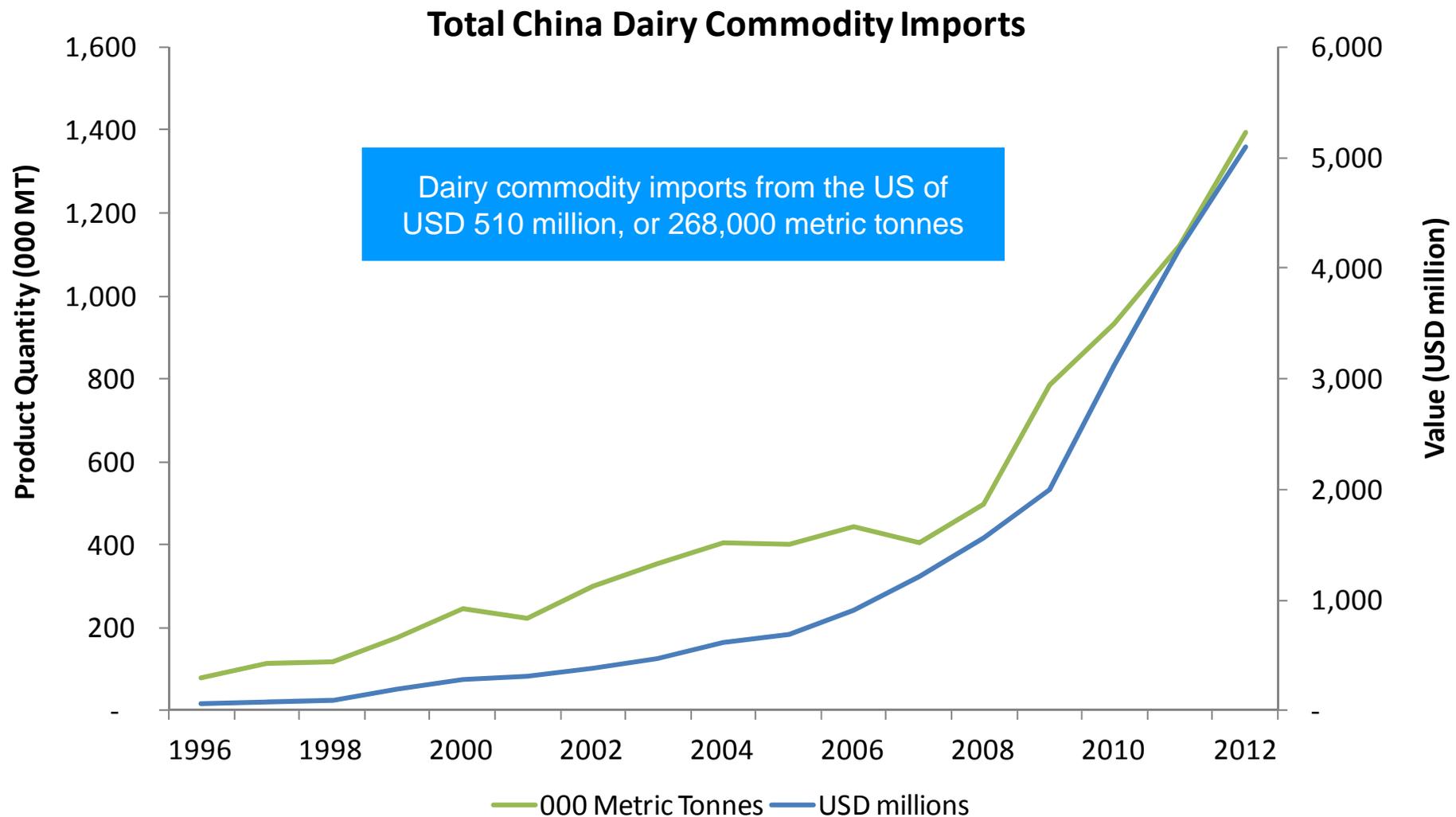
Dairy consumption is highly correlated to development

Rising prosperity fuelling demand for dairy



Source: Euromonitor; EIU Country Data; BCG analysis

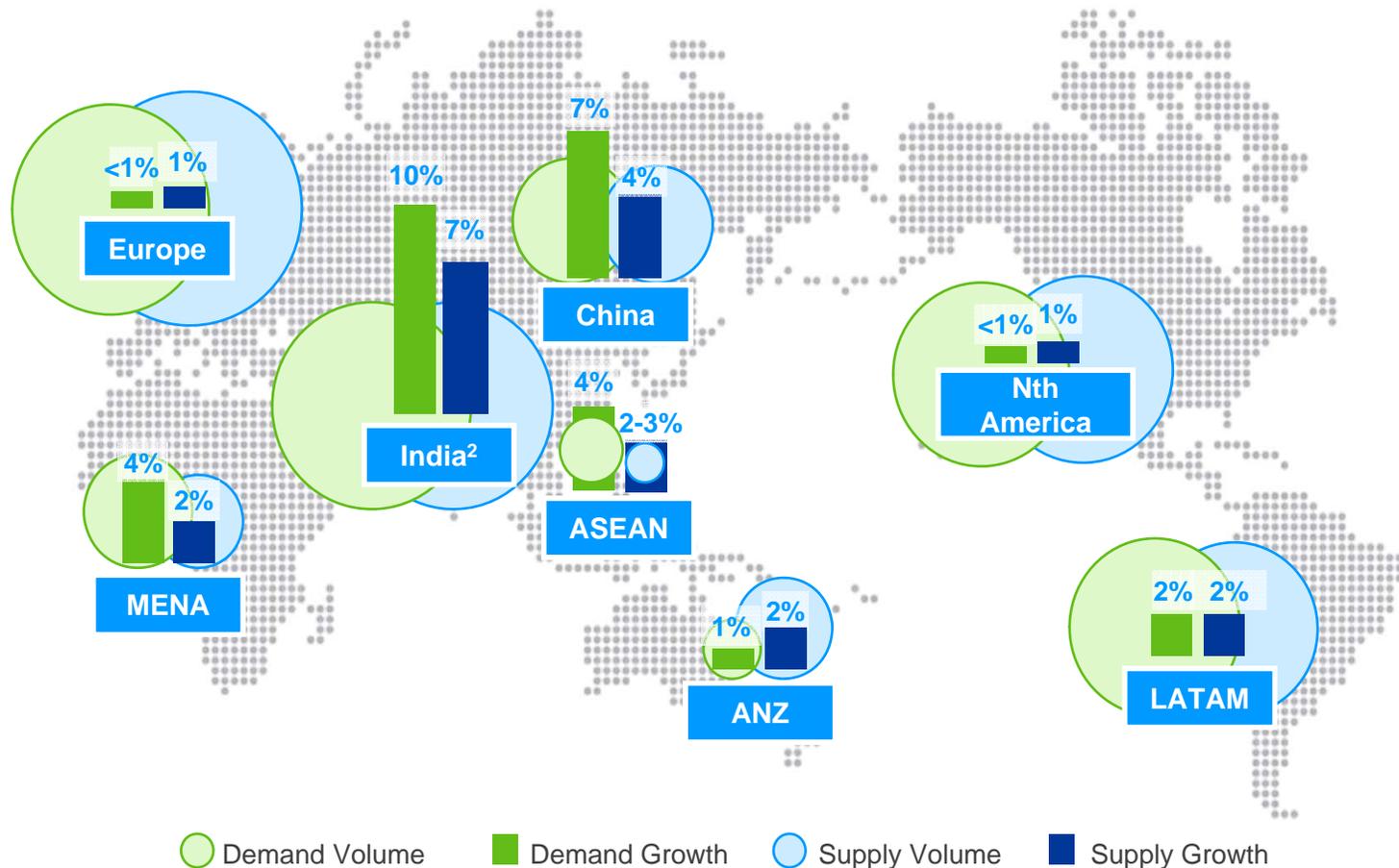
An example of this is the explosion in China's dairy commodity imports



Source: Global Trade Atlas

Dairy has moved from a highly regulated supply driven market to a demand led dynamic

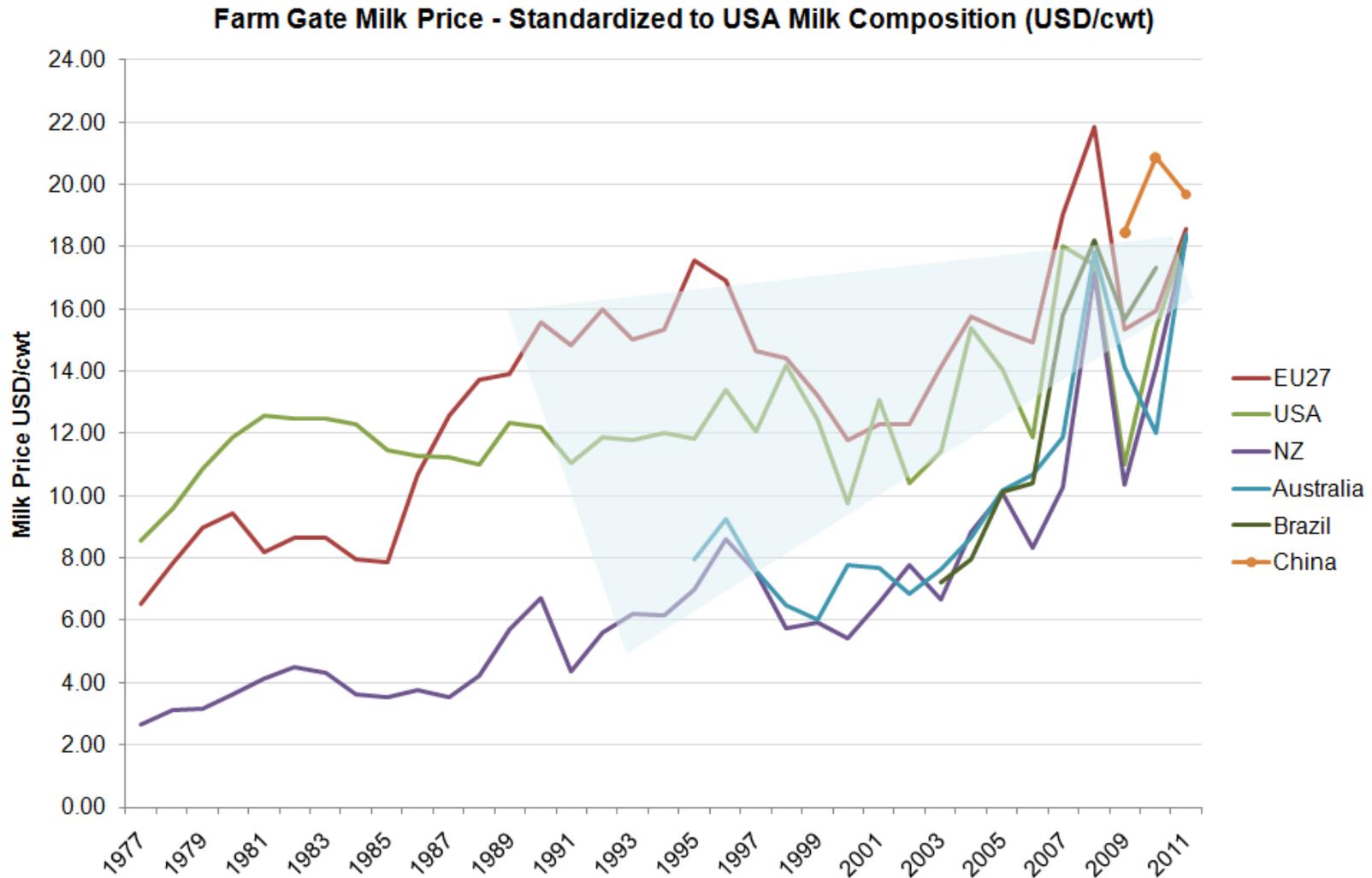
Outlook to 2020¹



1. Current volumes are represented by the area of the circles displayed. Growth rates represent forecast compound annual growth rates.
 2. Although strong growth in demand is expected in India, the ability to supply is likely to remain limited. In the 12 months to May 2012, Fonterra exported 22,300 MT of product to India and total imports represented approximately 0.2% of consumption.

Source: Fonterra estimate

Dairy prices are higher, with more convergence and volatility

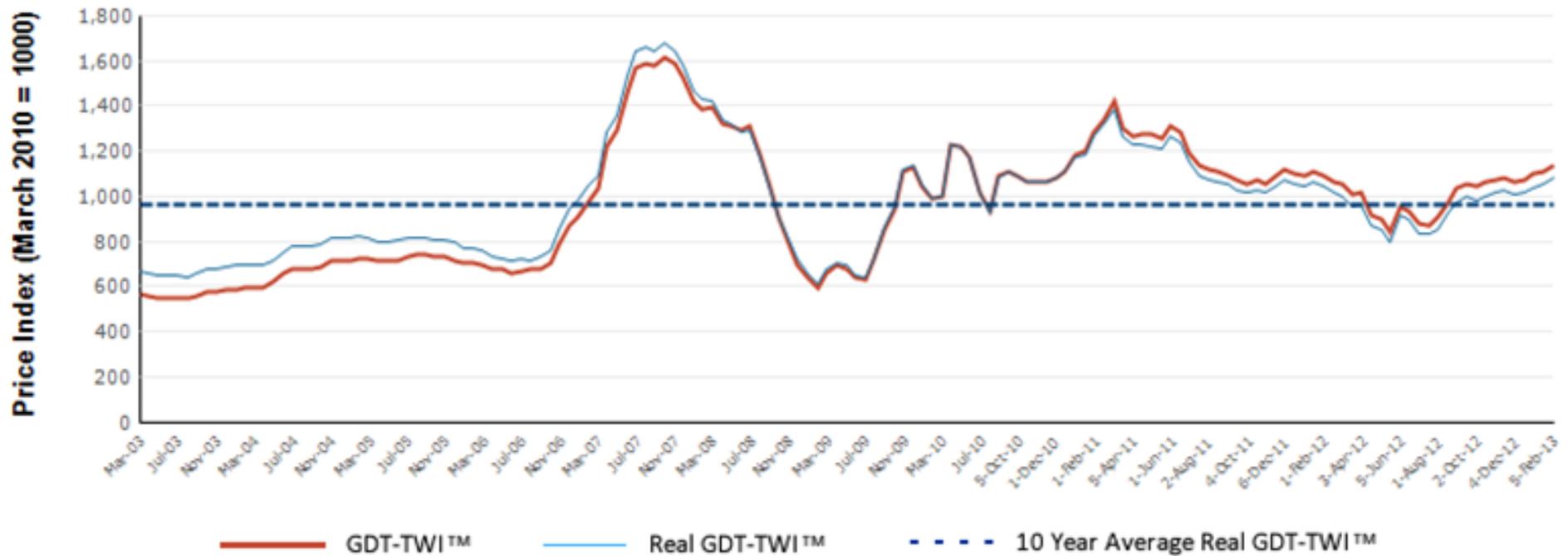


Source: Fonterra analysis

Growth in market based tools will continue to be important to manage dairy price volatility



GlobalDairyTrade Trade Weighted Index

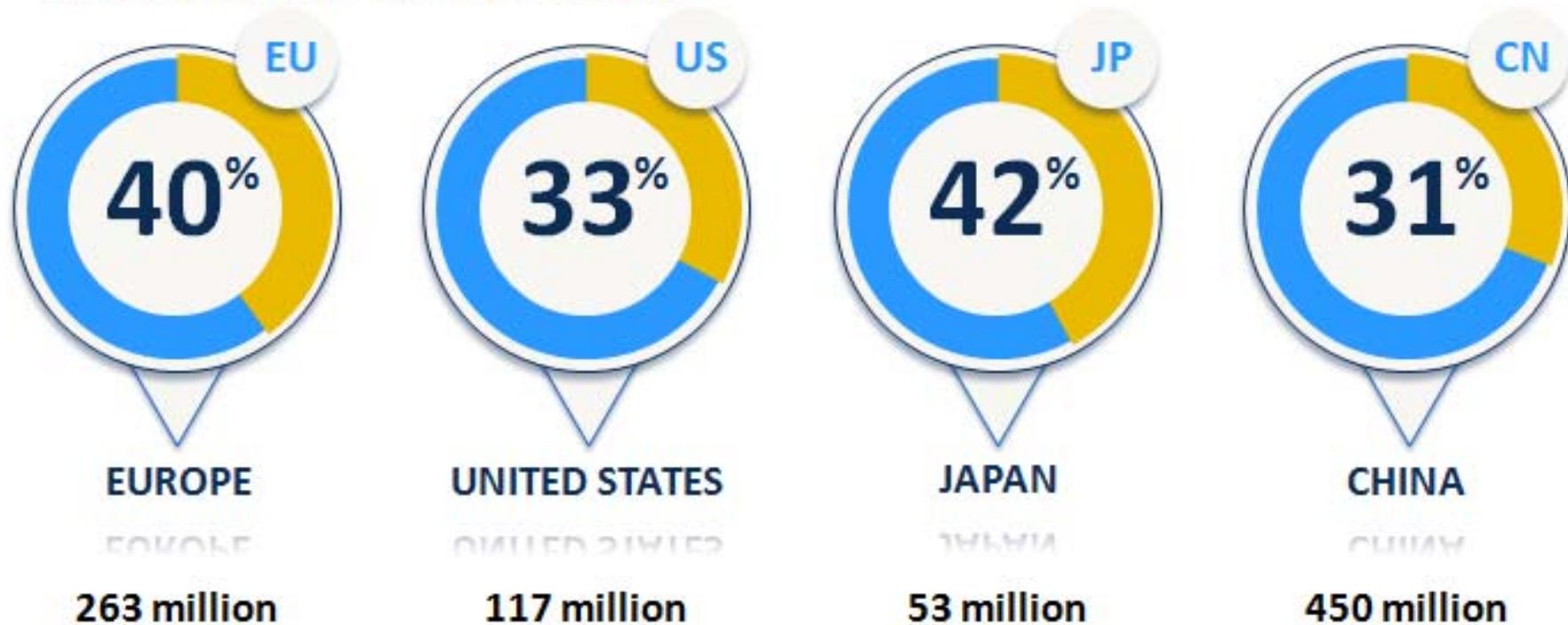


Source: GlobalDairyTrade, Global Trade Atlas, USDA DMN, USDL BLS



The baby-boomers are aging and embracing healthy aging via nutrition

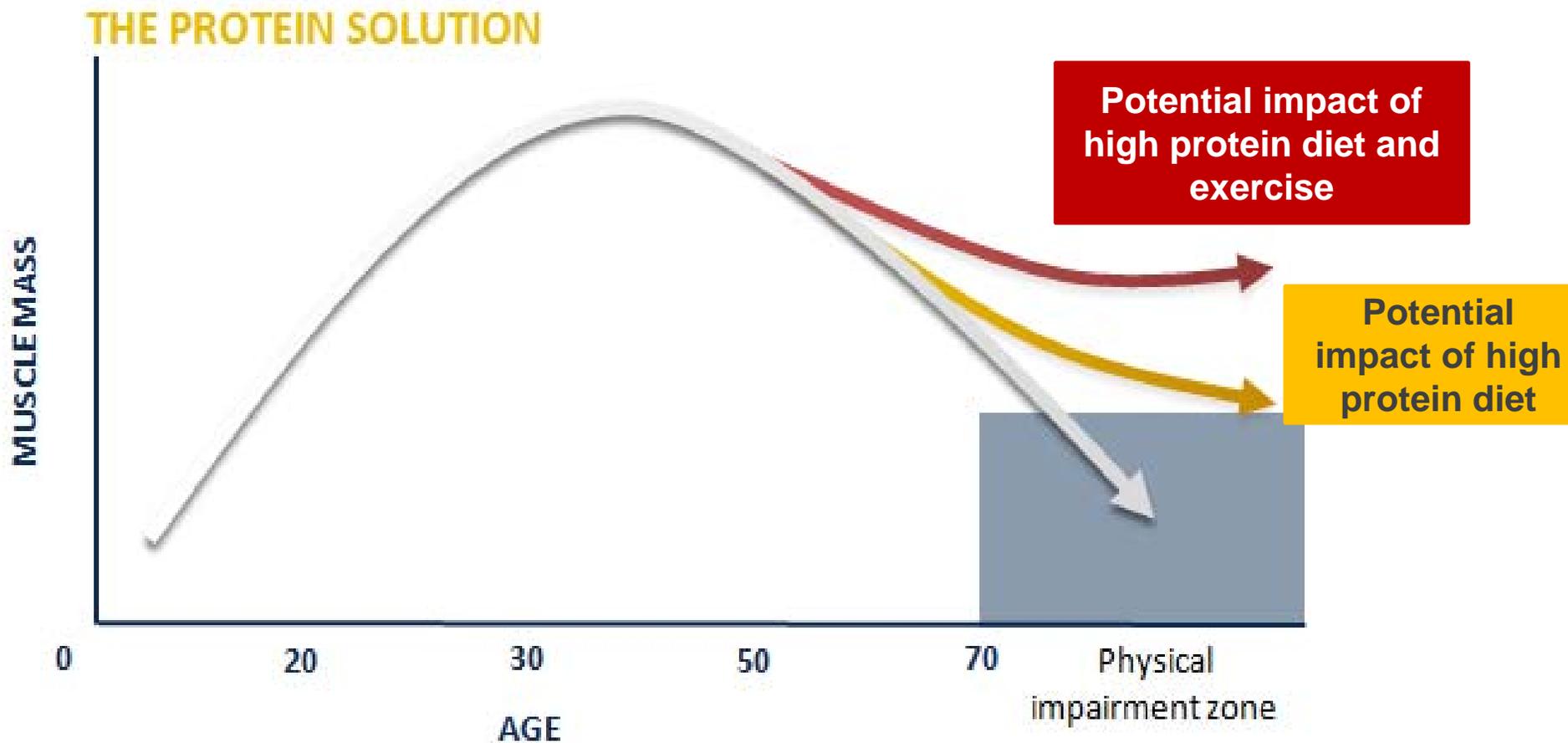
By 2020, the over 50s will make up:



Source: Percentages estimated from Fonterra/TNS research extrapolated by population growth rates

The benefits of protein are increasingly recognised for healthy aging.

Demand for dairy protein is growing



Source: Based on Breen and Phillips 2011

Food security is a major, global challenge for the 21st century. Open markets to allow the free flow of food across borders will be essential



- 9 billion people by 2050
- 60% more food required

- Rapid urbanisation

- Arable land and water constraints
- Likely impacts of climate change

A greater focus is being placed on sustainability to ensure future food production



- A challenge to do more with less
- An opportunity for dairy's nutritional density to gain greater recognition



Summary

1. Macro Drivers

- Global trends are shaping the outlook for dairy markets

2. Changing Dairy Market Dynamics

- The shift from a supply led to a demand led dynamic

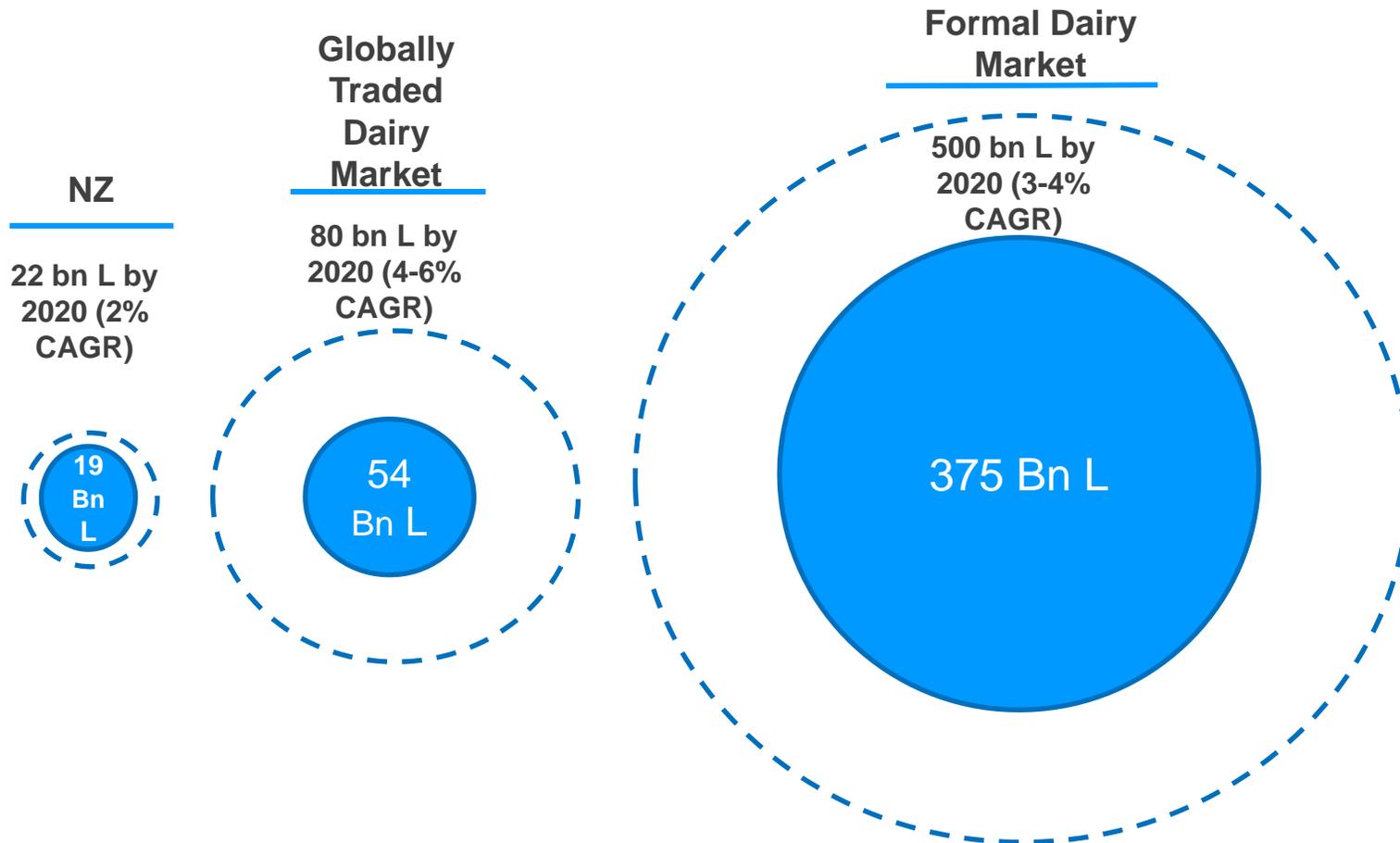
3. Future Challenges

- Ongoing price volatility and food security concerns will require market orientated solutions



**THERE IS A BRIGHT FUTURE FOR
SUSTAINABLE, EFFICIENT,
MARKET FOCUSED DAIRY
FARMERS**

New Zealand cannot meet the significant opportunities for dairy alone



Source: Fonterra analysis