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

Dairy commodity imports from the US of USD 510 million, or 268,000 metric tonnes.

Source: Global Trade Atlas
Dairy has moved from a highly regulated supply driven market to a demand led dynamic

Outlook to 2020

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

By 2020, the over 50s will make up:

- **EU**: 40% (263 million)
- **US**: 33% (117 million)
- **JP**: 42% (53 million)
- **CN**: 31% (450 million)

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 21\textsuperscript{st} 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

NZ

22 bn L by 2020 (2% CAGR)

19 Bn L

Globally Traded Dairy Market

54 Bn L

80 bn L by 2020 (4-6% CAGR)

Formal Dairy Market

375 Bn L

500 bn L by 2020 (3-4% CAGR)

Source: Fonterra analysis