




FrieslandCampina




Creating sustainable added value in China
 AgriFoodTop 4 June 2014 Atze Schaap



China will become by far the largest dairy market in the world

Retail sales dairy 2012 (€bn)		Retail sales dairy 2020 (€bn)		Growth 2012-2020	
USA	43	China	102	64	
China	38	USA	56	13	
Brazil	23	Brazil	45	22	
Japan	21	Russia	27	11	
France	17	Japan	25	4	
Russia	16	Iran	22	17	
Germany	15	France	18	1	
Italy	13	Germany	18	3	
UK	12	Italy	15	2	
India	8	UK	14	2	
Iran	5	India	14	6	
Netherlands	4	Netherlands	5	1	
World	360	World	580	World	220

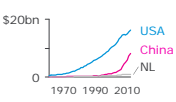
Source: Euromonitor



The increase in dairy consumption is driven by the growth of the urban middle class

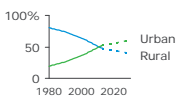
Explosive growth of economy

- From 2003-2013 the economy (GDP) grew by an average 10% per annum




Strong urbanization

- Since 1980 an estimated ~350 million people moved from rural to urban areas




Development of taste for Western food




There is a lack of consumer trust in local dairy due to the many food safety issues

Date	Event
May 2004	50 to 60 children die in Fuyang as a result of bogus infant formula
Jul 2005	Nestlé faces nationwide brand crisis due to excessive iodine found in infant formula
Sep 2008	4 babies die and over 300,000 infants are affected by melamine contaminated infant formula
Aug 2010	Several baby girls reach puberty early, blamed on usage of Synutra infant milk formula
Apr 2011	3 people die and 30 fall ill due to nitrate-tainted milk
Jun 2012	Yili infant milk formula products are found with excessive mercury content
Jun 2012	Mengniu ice cream production site fails hygiene standard
Aug 2013	Fonterra recalls Clostridium contaminated whey used by 3rd parties for infant formula and several types of beverages

As a consequence, the Chinese government has increased regulatory activity and tightened quality control




Local dairy production is not keeping up with growth in demand, partly due to tighter regulation

Chinese dairy consumption by product origin
 Bin liters of milk equivalent





Year	Domestic supply (%)	Import (%)
2008	35	3
2012	36	14
2015E	38	34

Due to high import demand, there is a significant business opportunity for FrieslandCampina in China

Source: FAOSTAT, Rabobank



FrieslandCampina has long term aspirations in China

	Continue to grow in IFT market	Continue to offer high quality nutrition to infants and toddlers
	Expand into new dairy segments	Bring other FrieslandCampina brands to China (e.g. UHT, branded cheese)
	Develop local partnerships	Develop local partnerships e.g. to expand our distribution channels or have local production capacity
	Set up dairy development program	Determine how to bring our proven Grass to Glass Safety and Quality approach to China

China is already important to FrieslandCampina

- Exports to China**
 - ~ 20% Other
 - ~ 80% IFT
 - ~ 80% infant and toddler nutrition (baby milk powder)
 - ~ 20% other, including B2B ingredients and products for retail and food service such as branded cheese
- Main brand in China**
 - Infant and toddler nutrition primarily sold under strong premium Friso brand
- Launch of 2nd IFT brand**
 - Exclusive talks with Huishan to launch a second IFT brand based on local production and dedicated supply chain
- Dairy Development Centre**
 - Sino-Dutch Dairy Development Centre in co-operation with Wageningen UR and China Agricultural University

Our unique "grass to glass" approach is the backbone of our proposition

Co-operation is important for sharing our dairy safety and quality expertise with China


By sharing our knowledge we build relations and make ourselves relevant on governmental level


- The Sino Dutch Dairy Development Centre (SDDDC) was **launched on 16 November 2013 in Beijing** in the presence of the Netherlands' Prime Minister Rutte
- Partnership** between China Agricultural University, Wageningen UR and Royal FrieslandCampina
- The objective of the SDDDC is to **improve dairy production, safety and quality levels** by sharing Dutch dairy expertise with Chinese stakeholders. This is fully in line with the top priorities of the Chinese government


Through the SDDDC, we will share our knowledge and expertise in a number of ways


- Perform high-profile **research** projects on current Chinese dairy safety and quality issues and involve and engage relevant Ministries
- Support a **Dutch Dairy Expertise Centre** in China where safety and quality systems can be put into practice
- Organize a series of **Dutch Dairy Experiences** (field trips) for different stakeholders to showcase best practices in Netherlands
- Cultivate research talent**, facilitate faculty exchange and set up training courses
- Organize other activities to **involve and engage relevant stakeholders**


A prior study funded by topsectoren revealed three focus areas for improvement of China's dairy chain

 **Key elements in sustainable added value**

 **Sound business case based on a strong proposition**

 **Cooperation with multiple stakeholders**

 **Long term benefits for all stakeholders**

 **Balance in benefits**

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