Milk Sourcing

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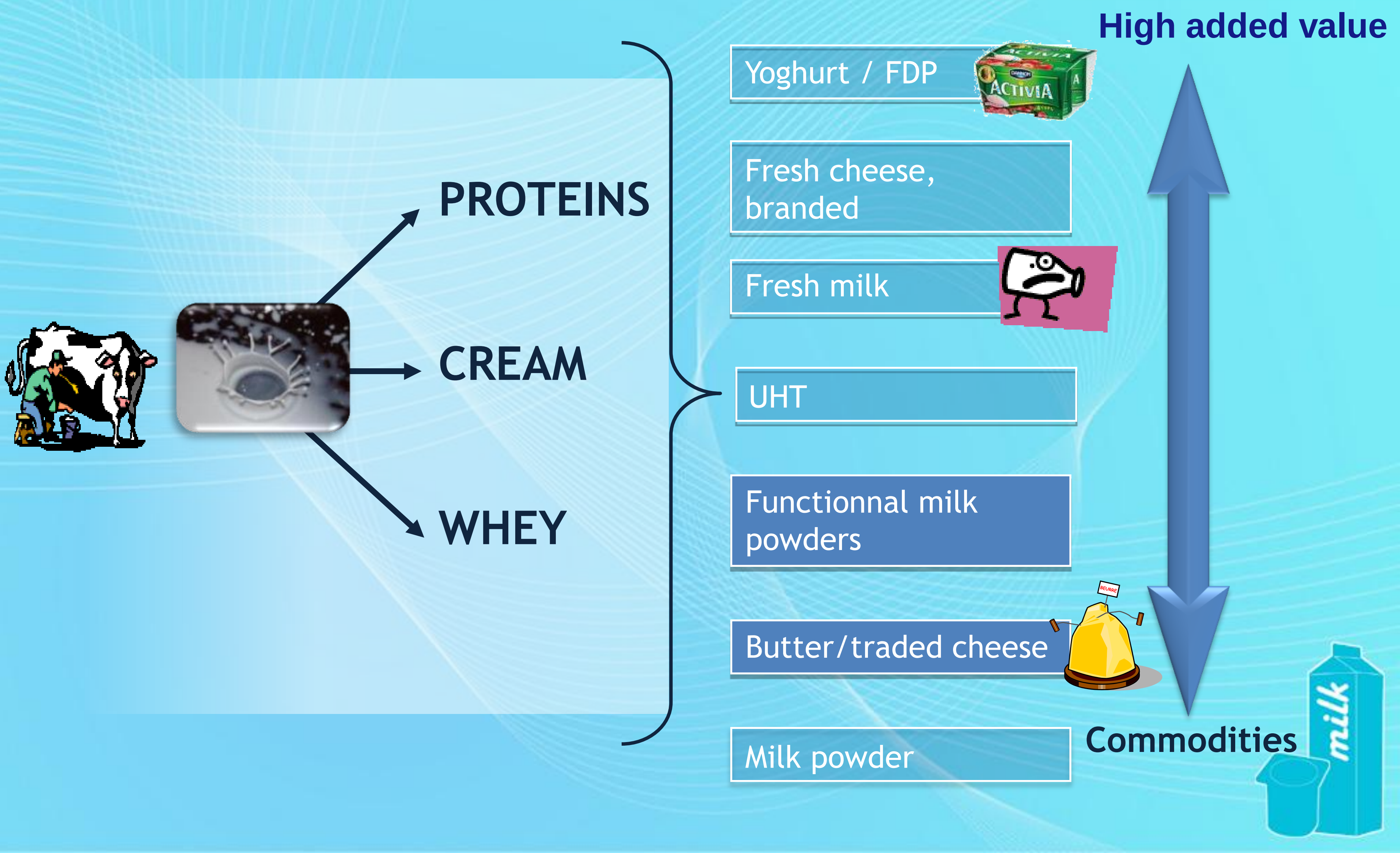
Milk Sourcing

1. What is milk?
2. Key market specifics
3. Milk pricing
4. Milk strategic axes

How milk is used



Key market specifics

- Liquid milk cannot be stored (48h max) nor transported over long distances (1,500 km max)

- SMP / butter / cheese are the only way to store big volumes of milk and trade them

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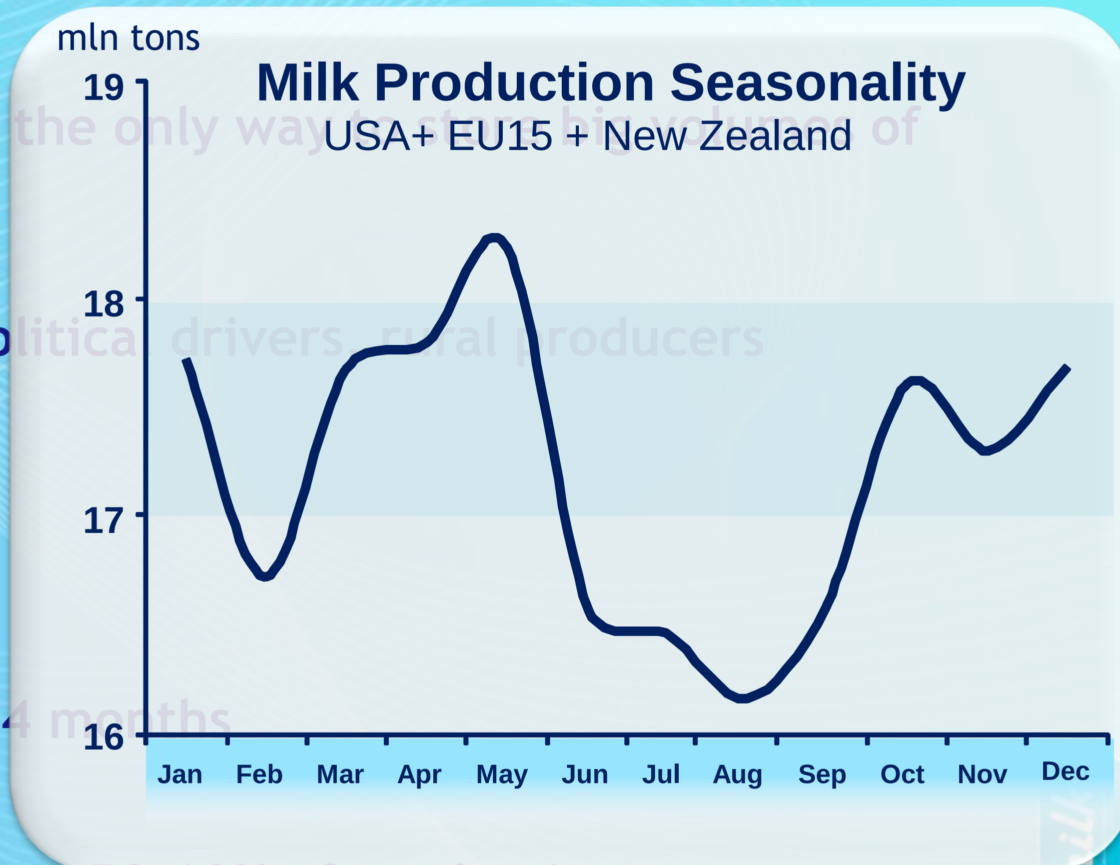
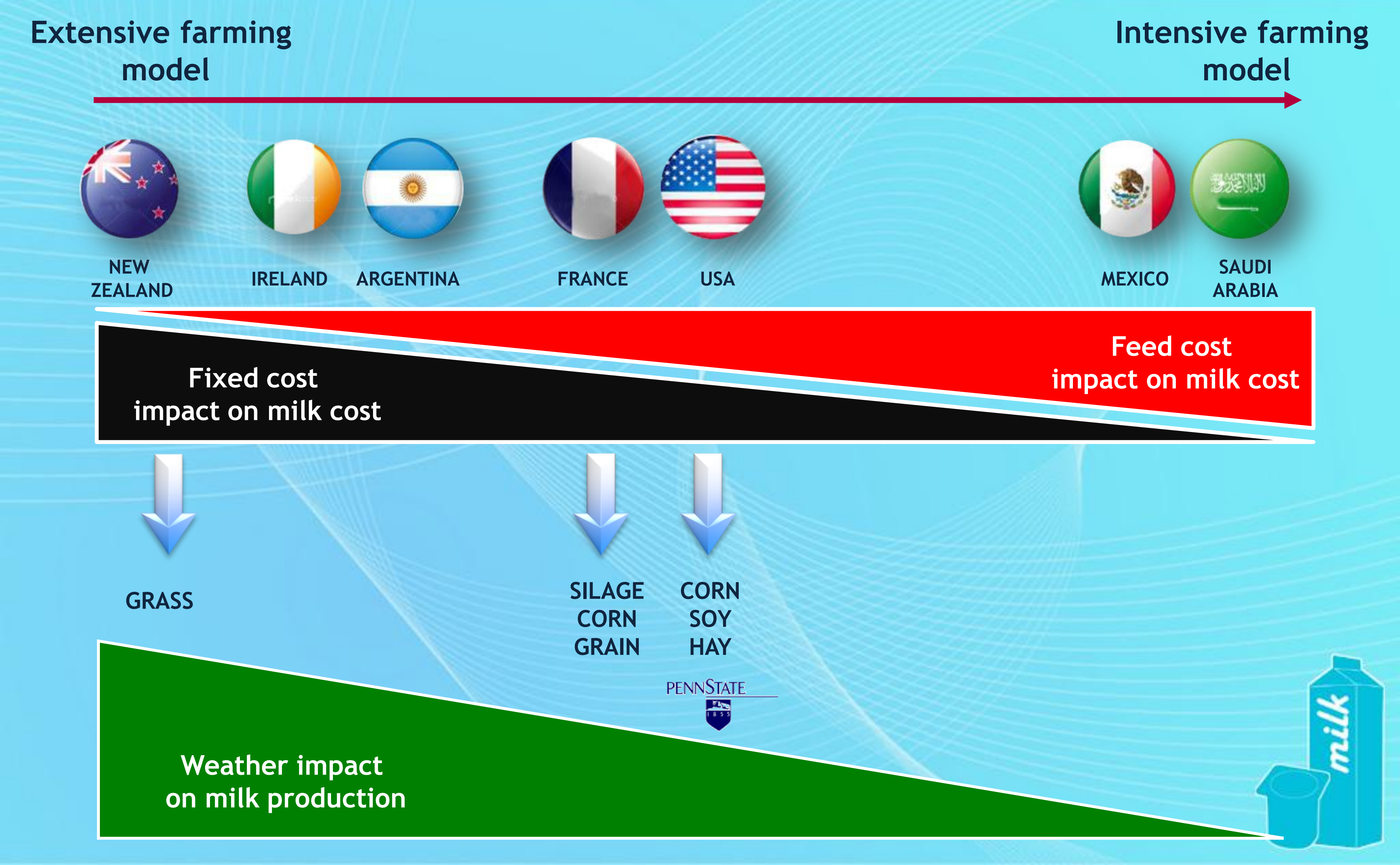
- Liquid milk cannot be stored (48h max) nor transported over long distances (1,500 km max)
- SMP / butter / cheese are the only way to store big volumes of milk and trade them
- Fresh milk: Strong local political drivers, rural producers having political influence
- Seasonality is significant
- Market cycle ± 18 to 24 months
- Feed cost represents 50-60% of production costs



Drivers of milk production costs
Feed & type of farm model



Milk Pricing

How the milk price is formed

Open market

High import/export

Extensive farm model

Driven by supply/demand

Milk Price

Regulated markets

Export subsidies

Controlled stock

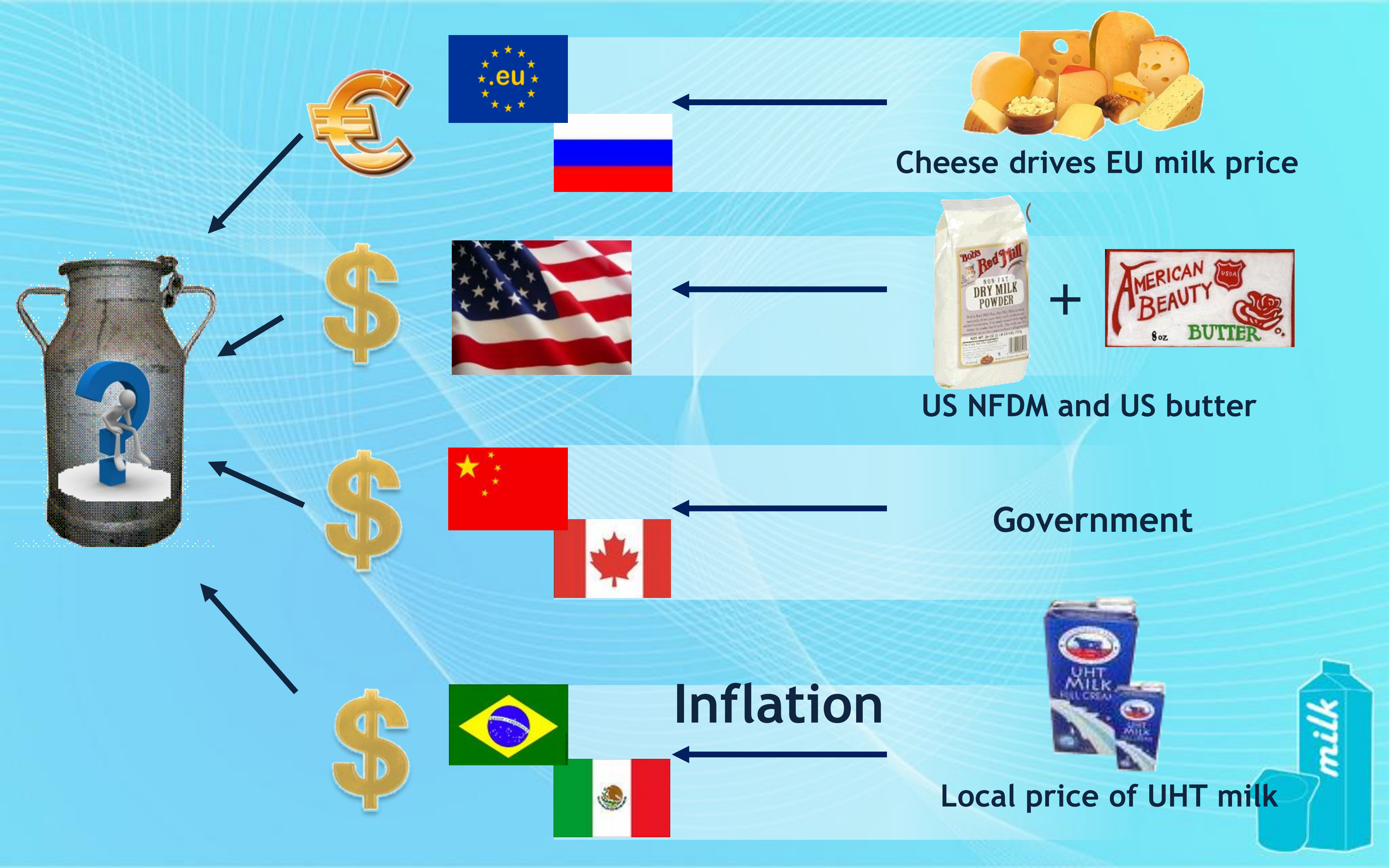
Government interaction

Intensive farm model

Driven by feed price

Common drivers but price differs by region & country

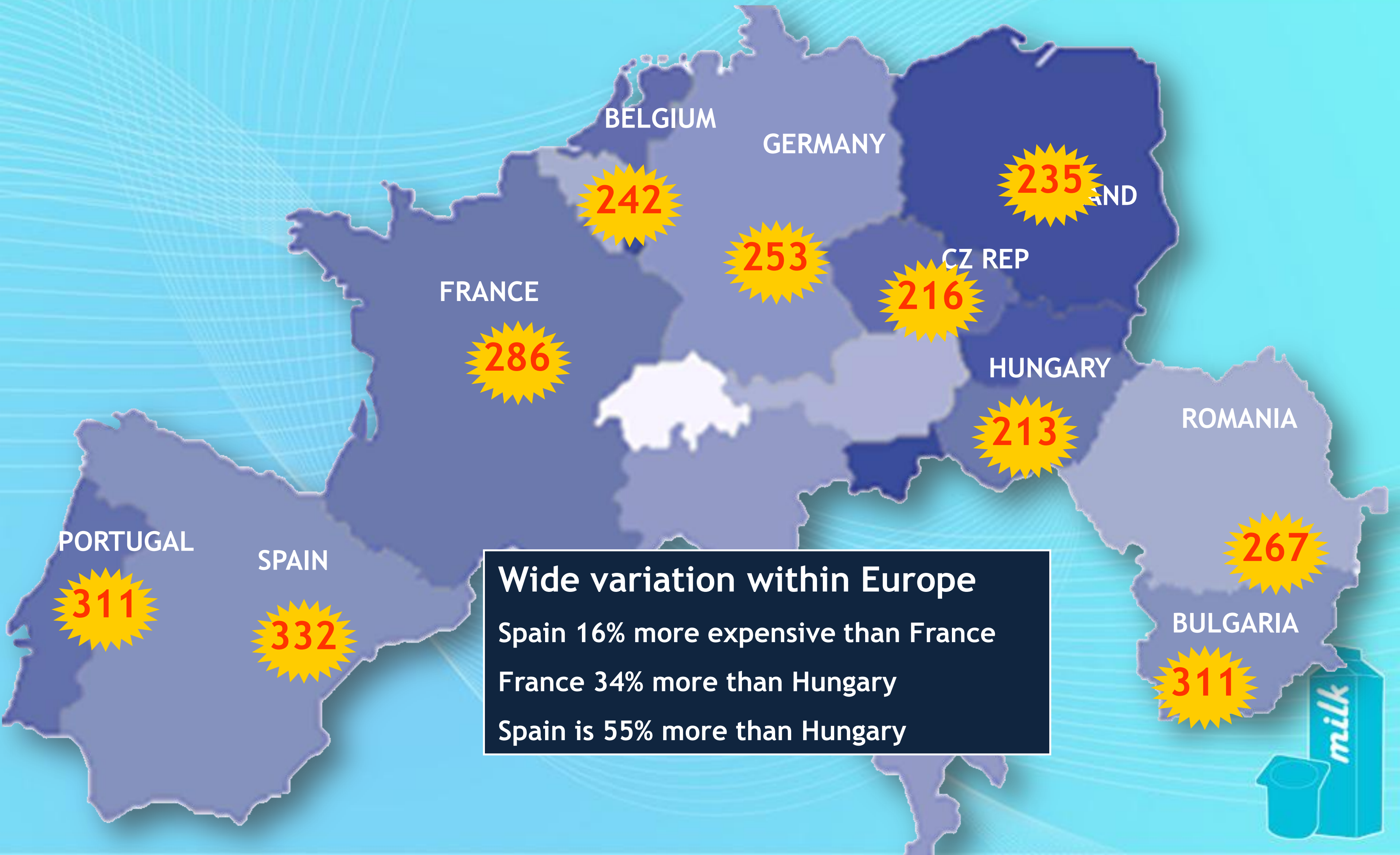
Key drivers of Farm Gate prices



Milk price patchwork €/ton

Still wide variation between regions

Milk price patchwork - Europe €/ton



Wide variation within Europe

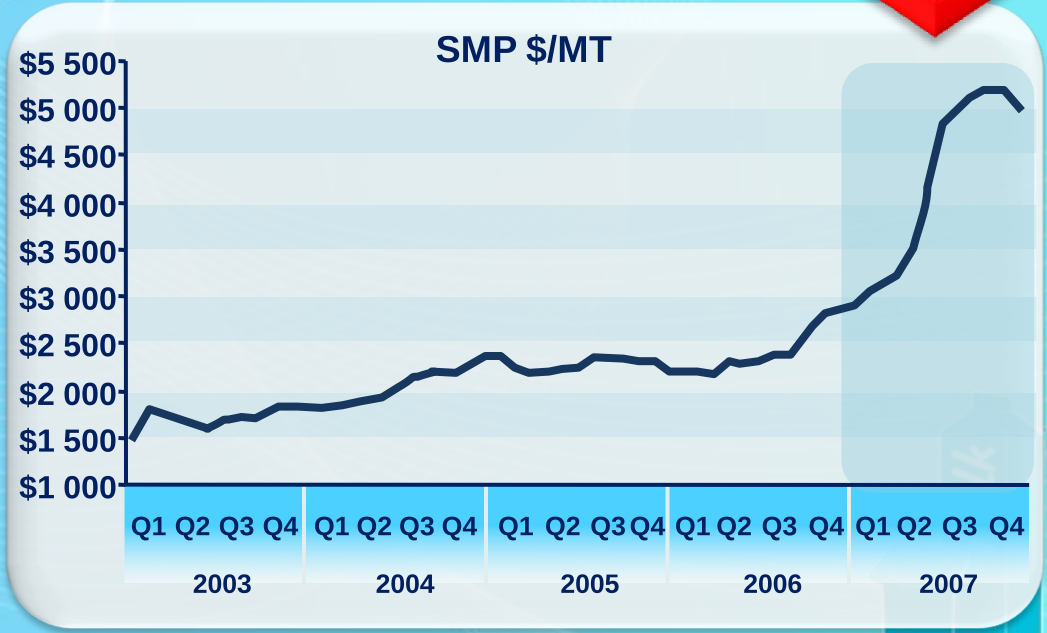
Spain 16% more expensive than France

France 34% more than Hungary

Spain is 55% more than Hungary

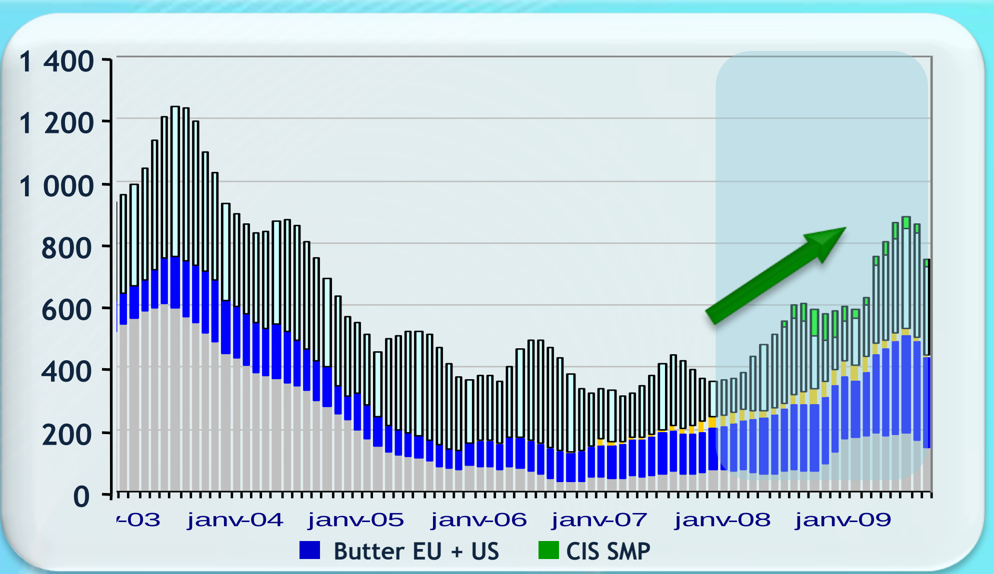
What happened in 2007?

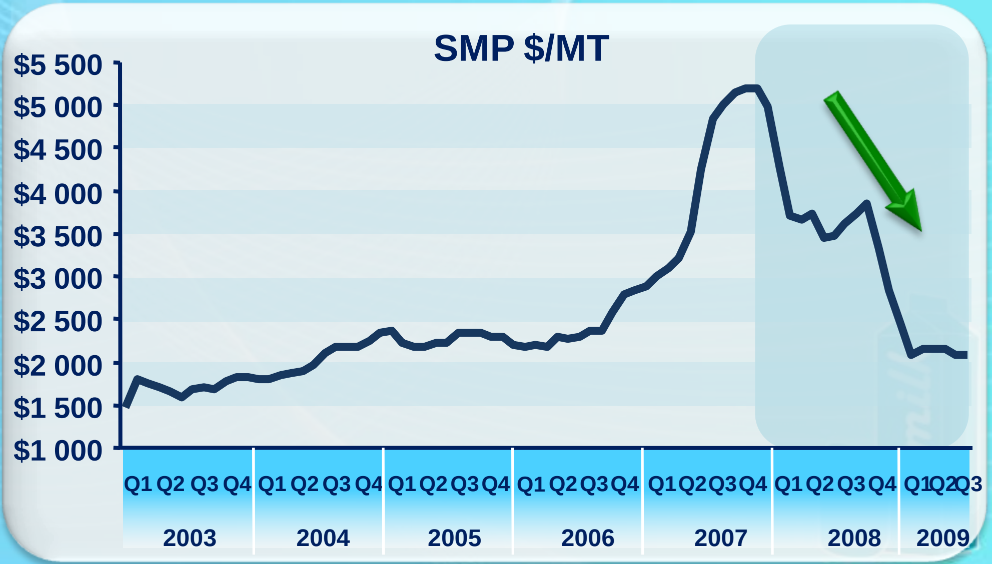
- Stock-to-use ratio **<10%** - stock piles exhausted
- Consumption increasing > **2%**
- Rise in milk production costs (input costs – Feed & fuel)
- Severe drought in Oceania
- Critical supply situation; prices exploded ➔ "Milk Tsunami"
- Activated cross operations productivity program P300
  - P300 ➔ **€300 mln** productivity
  - DanSource to leverage volume
    - Fruit & resins



What happened since 2007?

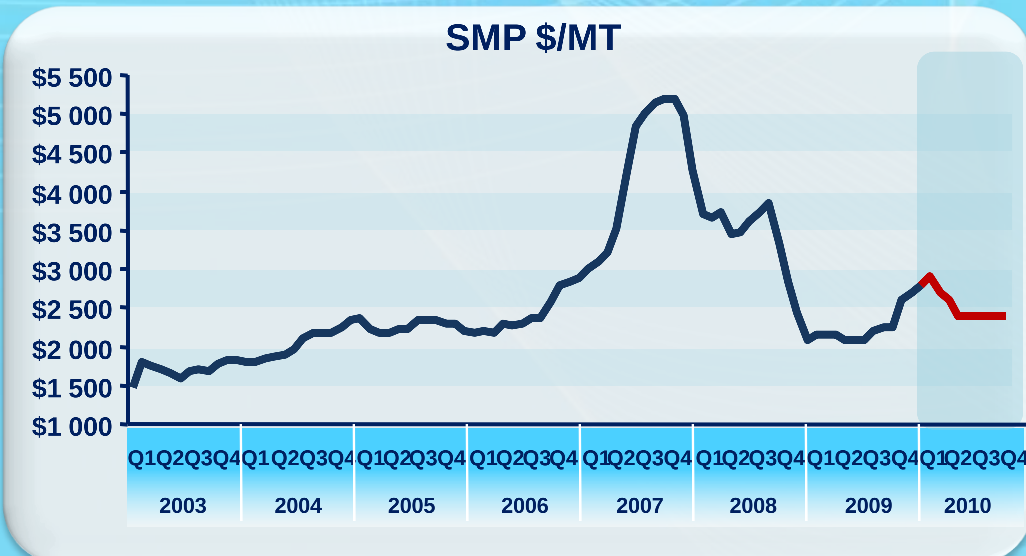
- **Farmers reacted faster**
  - 8 months instead of 14
- **Retail consumption fell to ~1%**
- **The market overcompensated**
  - Excess supply
  - Stocks increased dramatically
- **Prices fell sharply from $5,000 to $2,200**

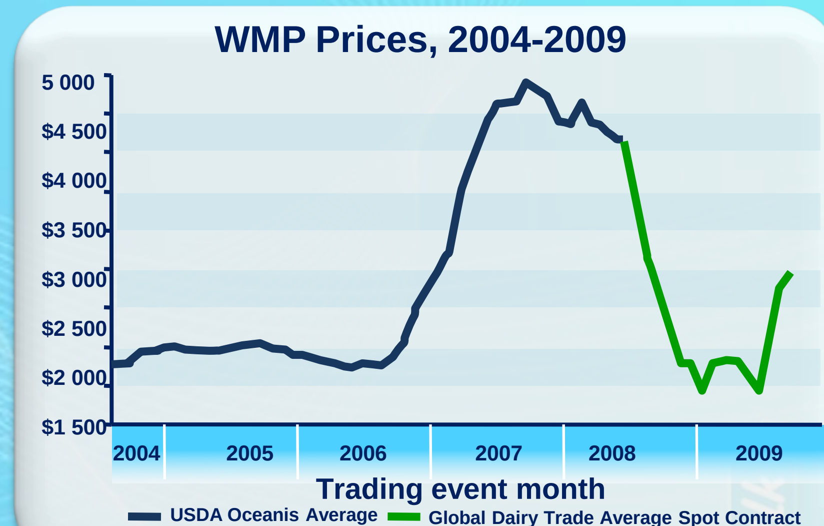




Market Outlook 2010-12

- **Farmers' margins** very low – below 10yr historical average
  - Farmer protests & political intervention
  - De-regulation making markets more volatile
  - Government stocks being witheld from market
- **Consumer demand picking up ➔ 2%+**
- **Production reduced to +0.9% in 09**
- **➔ Short term market is tightening**





Source: USDA International Dairy Market News, global Dairy Trade

- **Mid-term price increase slightly above long-term average**

P300 → Accelerate

- **€ 750 mln in next 3 years in COGS**

- **Supplier engagement**
  - They generate productivity ideas
  - Challenge our way of working
  - Incentivized on results

- **Decomplexification**
  - Ex 900 fruits preps sku in Europe, 300 for strawberry only !

- **Leverage DanSource organisation further**

Key points

- **The market is becoming more volatile**
  - Possibility for milk futures being developed

- **Near-term price will be above the historical average**

- **Project “Accelerate” will contribute to offset the market**

- **Access to milk is key success factor for growth in emerging countries**

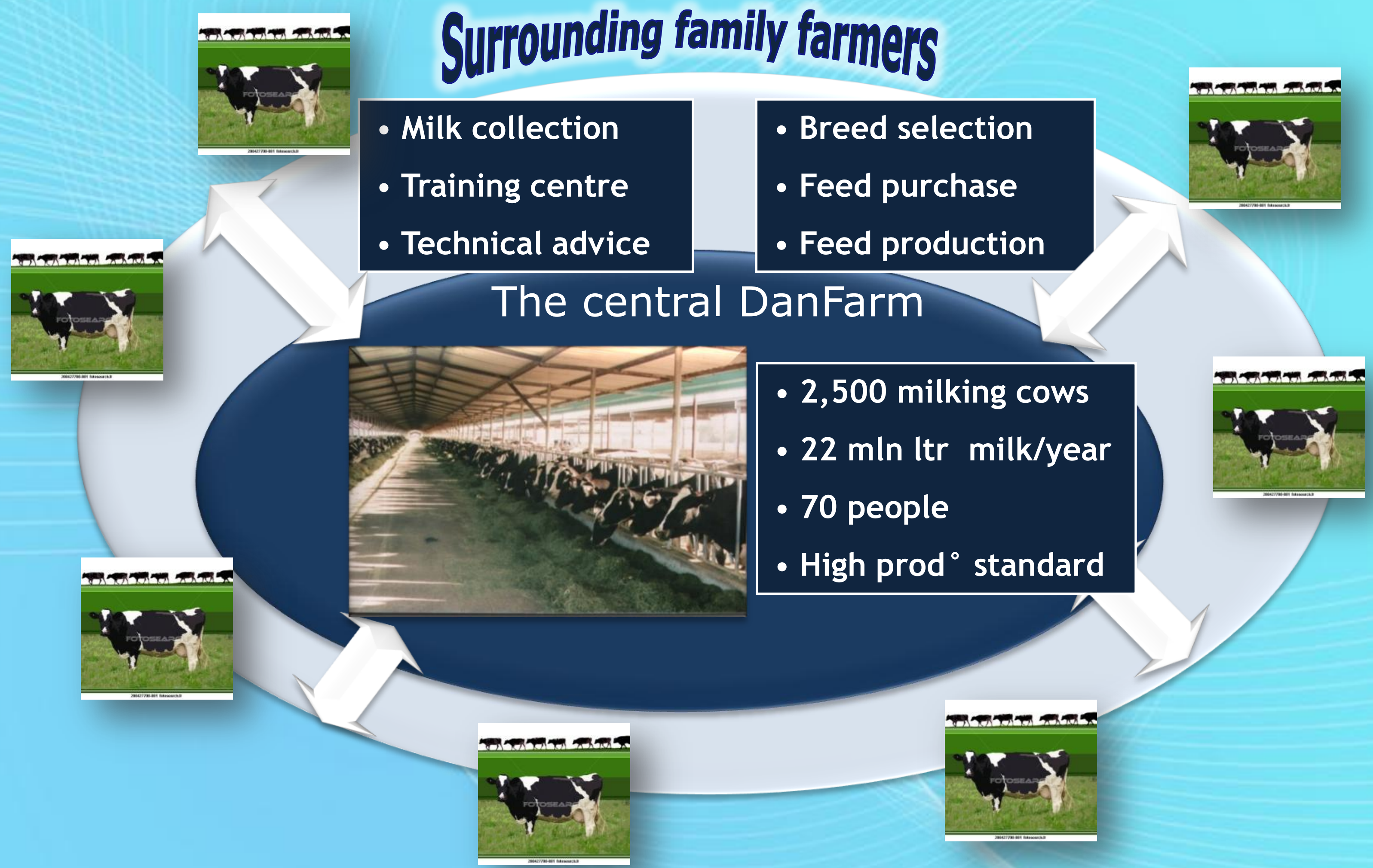
- **Need to support our farmers toward more sustainable economical & environmental model**

Key Milk Strategic Axes

Main Milk Axes

- **Upstream**
  - Dan Farm
  - Feed programs
  - Environmental impact
- **Transformation**
  - Cracking milk
  - Optimal use of all milk components
- **Valorisation**
  - Cream resales
  - Innovative products

Upstream - DanFarm model

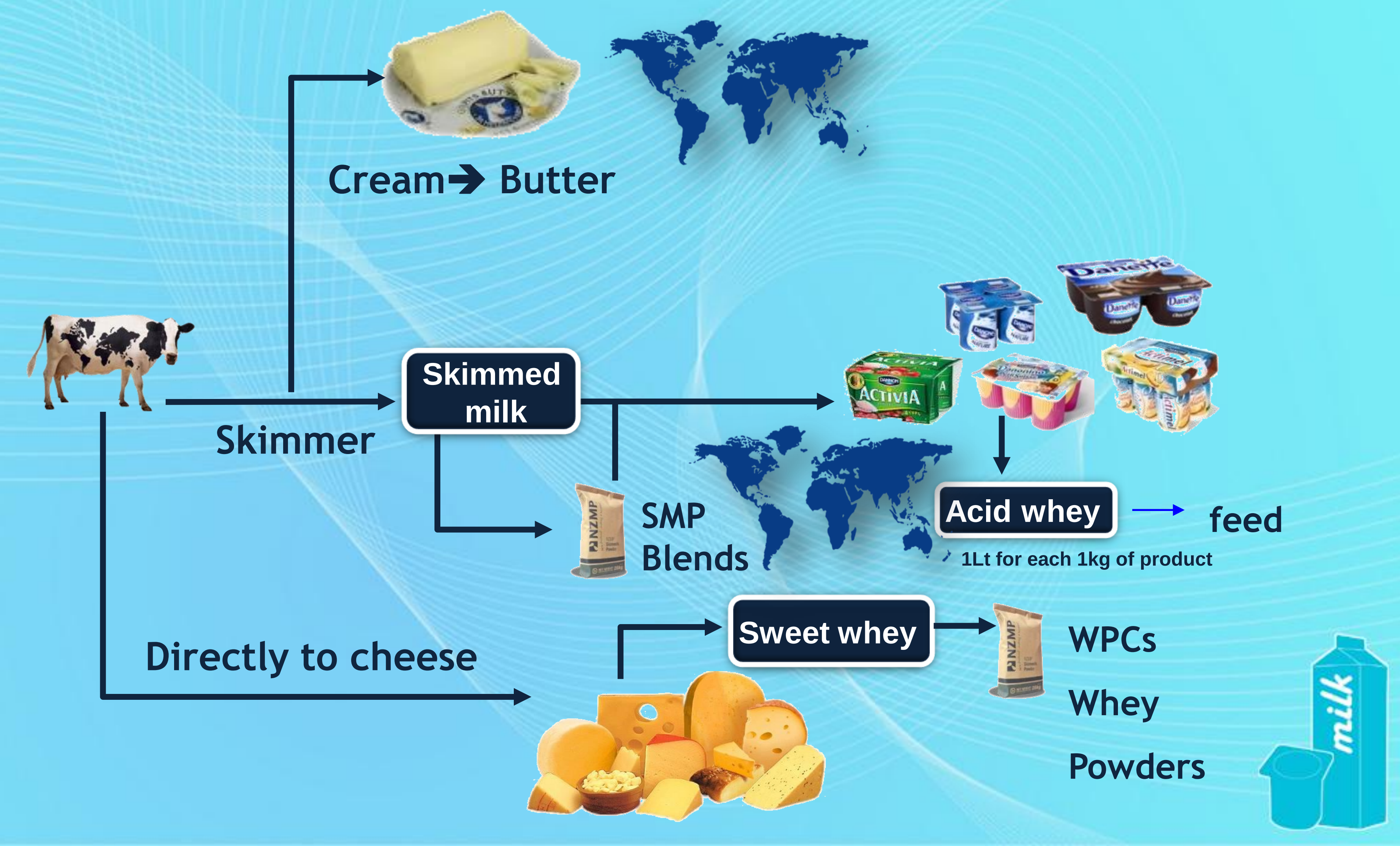


DanFarm benefits

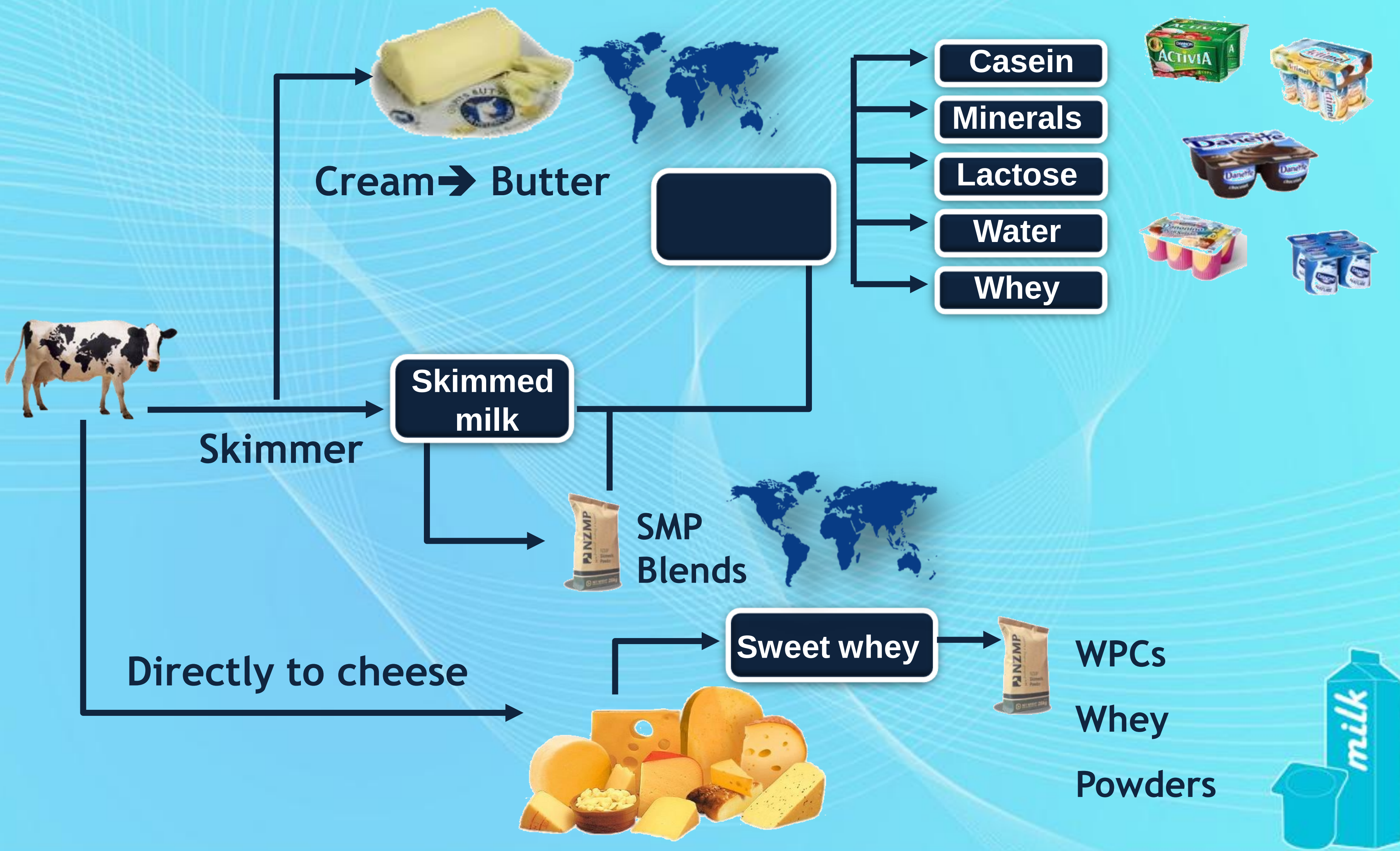
DanFarm

- Secure supply
- Cost efficient model
- Manage the feed risks
- Optimise feed & cow yields
- Develop local milk value chain
  - Ecosystem
  - Develop communities

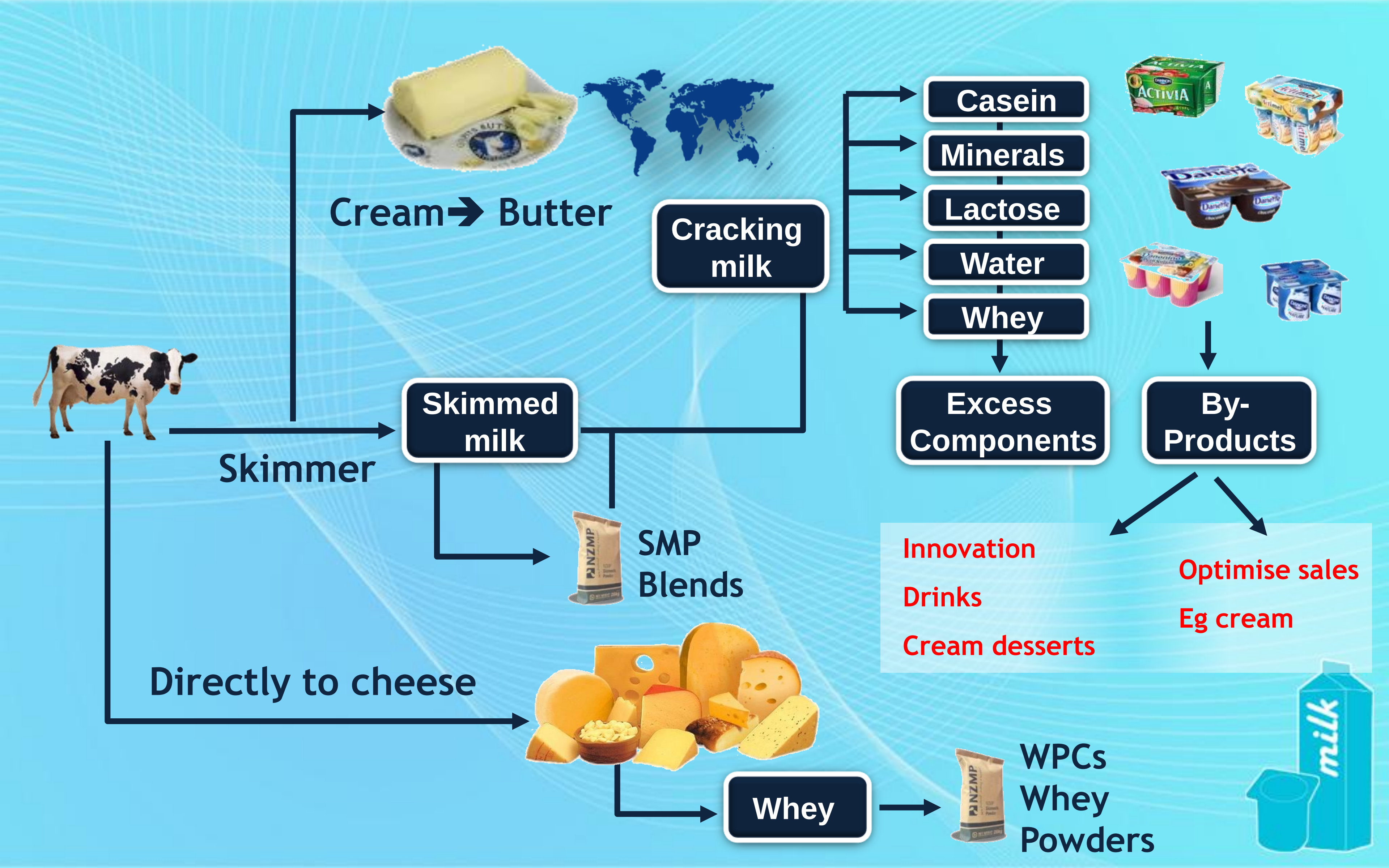
Transformation
The Danone milk platform



Transformation
The Danone milk platform (2)



Transformation
The Danone milk platform (3)



Thank you