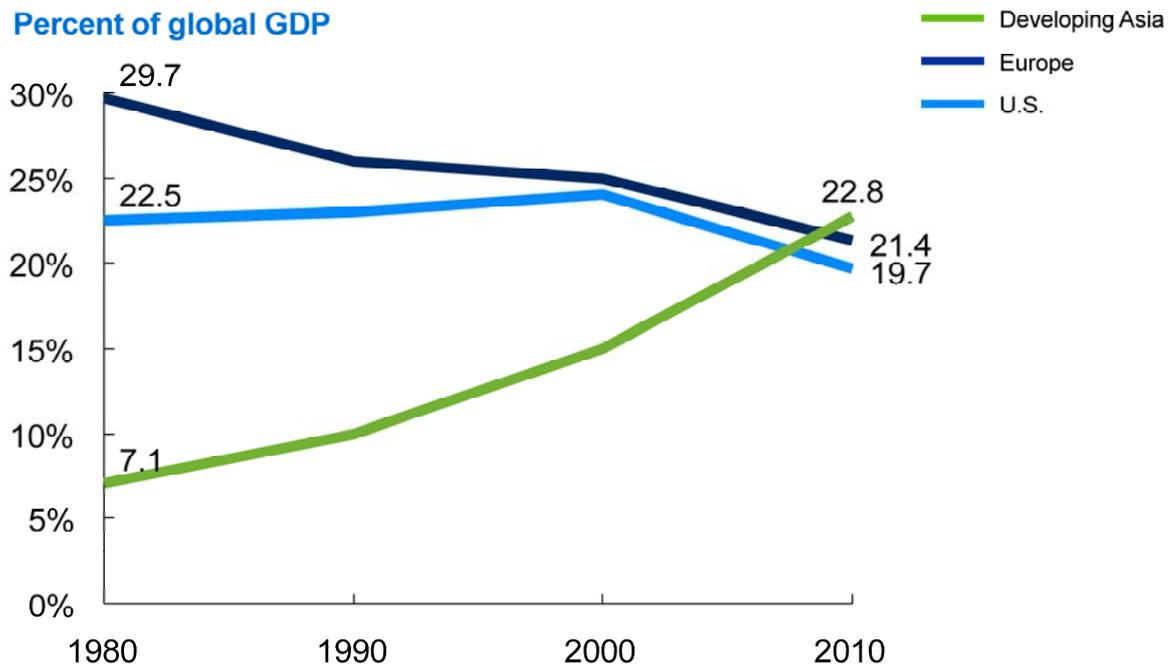




- Thank you
- I've been asked to contribute to the discussion from a business perspective
- I'll cover our view of economic prospects in Asia, what this means for us dairy, what Fonterra is doing in this region and the relevance for US dairy producers.

The rise of Asian economies

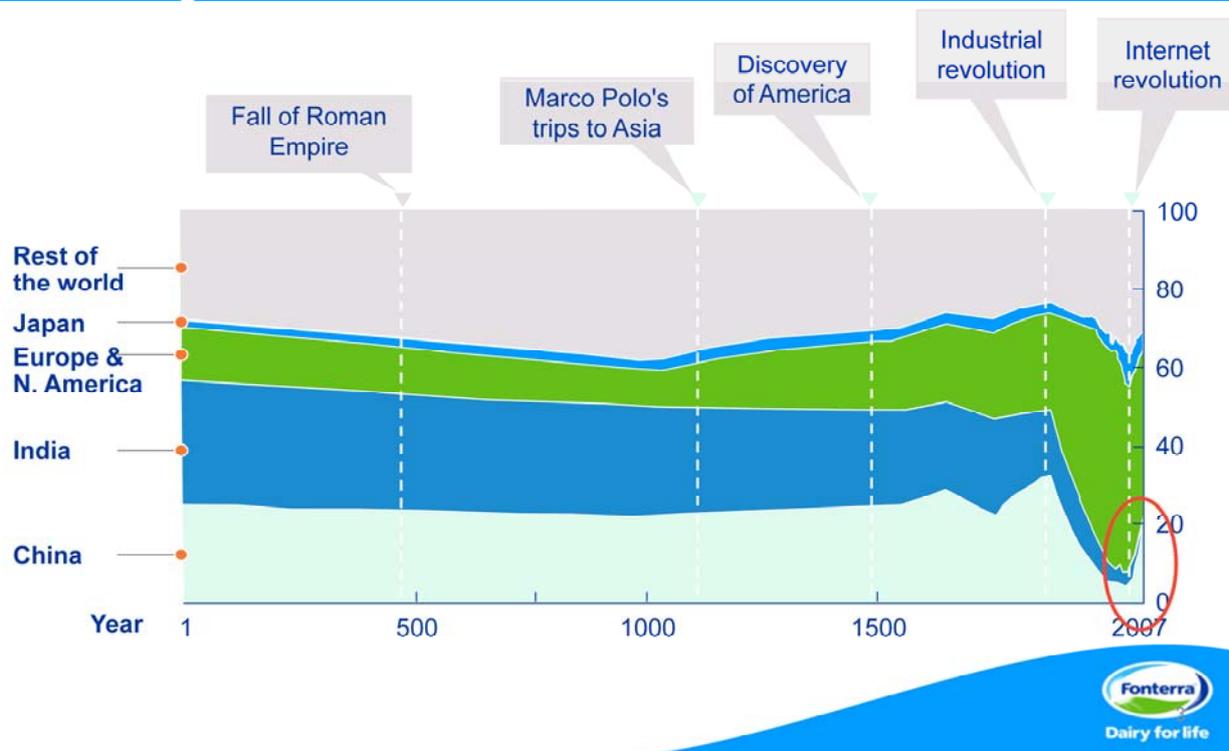


2



- Asian economies have been among the fastest-growing in the world.
- As a percentage of global GDP, developing Asian economies are overtaking Europe and the US
- This growth has stalled as a result of the recession, but the forecasts are for a steady recovery.
- China, for example is still expecting GDP growth of 6.5% this year.
- While Asia has been hit by recession – in line with the rest of the world's economies, the forecast is for a modest recovery in 2010. GDP growth of 4.2% expected in 2010, still below 10 year average of 6.7%.

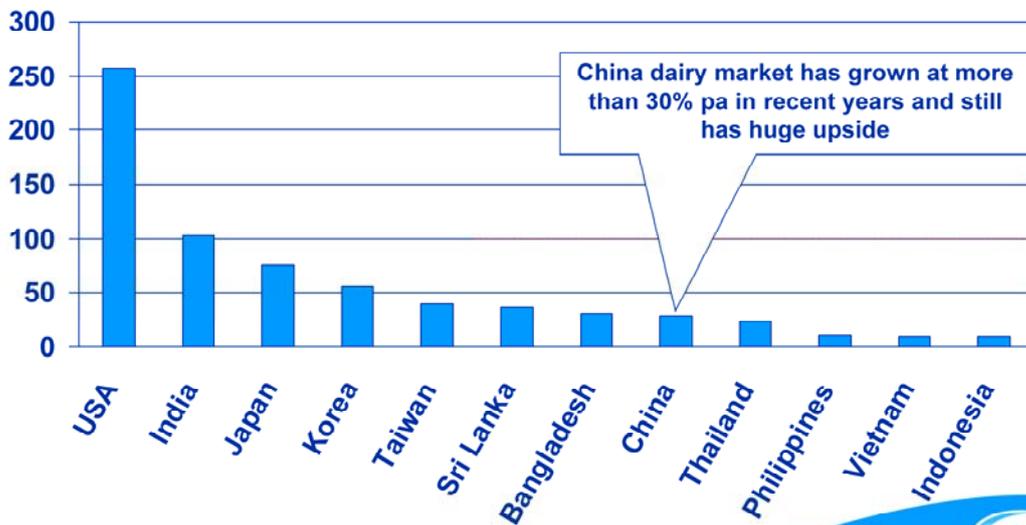
Share of total world GDP (1 AD-2007 AD), GDP share Percentage



- And here's an interesting historical perspective.
- What does the economic health of Asia mean for us?

Appetite for dairy growing

Consumption per capita per annum



Source: IFCN, China Dairy Industry Statistics



- A growing middle class, growing incomes, growing demand for dairy.
- Asia is a massive dairy market. But as you see from this graphic, consumption rates per head are still relatively low compared to the US.
- There is a combined population of 750 million – which is getting younger. In SouthEast Asia for example, only 8% of people are over 60.
- Milk consumption has been growing fast right across Asia with developed countries like Japan and Singapore with per capita consumption rates of around 50 litres a year, well ahead of markets like China.
- But this is still way below consumption rates in the west
- There is growing recognition of the part that dairy plays in a balanced, healthy diet
- So there is considerable scope for growth in the region – we estimate to be at around an average of 4-5% per annum

Our strategy

- Ensuring Fonterra remains one of the lowest-cost sustainable dairy co-operatives in the world
- Make Fonterra indispensable to customers by augmenting NZ supply with product from multiple countries to ensure continuity of supply
- In regions where it is not practical to use NZ milk, we are using our cow to consumer expertise to supply customers and customer using locally produced milk
- Make Fonterra products the first choice of customers and consumers wherever we do business

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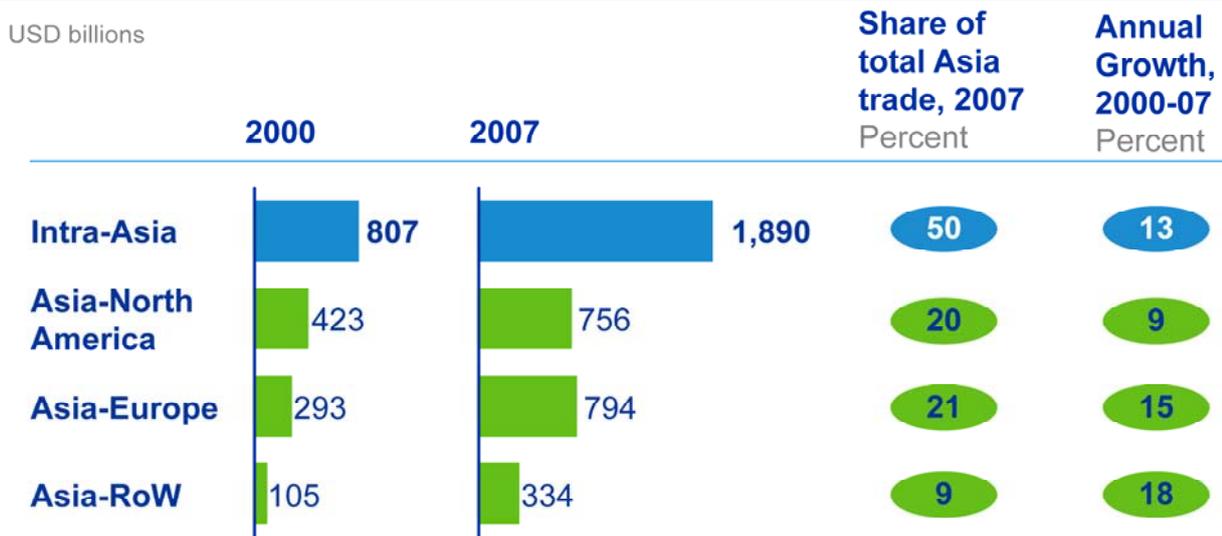


- Our global strategy has four strands and you will see it includes a clear focus on capitalising on demand growth in markets like Asia.
- It starts at home, ensuring we remain one of the lowest cost, sustainable dairy co-operatives in the world. We are the world's largest dairy processor. We are determined to remain the most competitive at scale.
- We are forming very close customer relationships with our customers. We work to grow with them and provide supply that is secure and without geographic risks. NZ milk remains at the heart of our dairy products, particularly in Asia and the Middle East. However, we augment our New Zealand milk supply with product from other sources so we can guarantee secure supply, year round. This includes the US.
- Diversifying our sources means we now have contracts to supply our largest global customers with up to 70% of their requirements. 60% of that milk comes from here.
- In regions, where it is not practical to use New Zealand milk, we are also working to meet local demand with locally produced milk. We do this in Chile, in Australia, in Sri Lanka and in China.
- The fourth strand of our strategy is to make Fonterra products the first choice of customers and consumers wherever we do business. We do not see ourselves as a global force in dairy brands, but we have very strong regional positions, especially in Asia and we are building on them.



- The NZ –China FTA was implemented in October 2008. One year old
- We are now on a track to full free trade in dairy products (eg 10% tariff on milk powder phase to zero over 12 years).
- We are seeing high growth in exports from NZ due to Chinese demand for high quality, safe dairy products.
- As a result NZ total exports to China have increased **by over 60%** in 2009 vs 2008 (64% Jan-Aug YTD. This increase is predominately from dairy and logs and from a relatively low export year.
- This combination of a more open trading environment, coupled with high internal demand in China for dairy products which meet the market's demand for high quality, safe dairy products provides opportunities for the world's dairy exporters.

Asian countries are developing a broad range of important trading relationships – including with other Asian countries



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- The Asian region is opening its doors – as evidenced by the proliferation of trade agreements.
- Some 400 RTAs alone are scheduled to be implemented by 2010.
- NZ is very actively engaged in this process.
- An FTA between the 10 ASEAN countries, Australia and NZ will be implemented next year. Fonterra exports 25% of its dairy exports to this very important region of over 500 million people. This FTA will eventually lock in free trade and assist us to grow dairy consumption and trade
- We have had two rounds of negotiation towards a NZ-Korea FTA. Both sides want fast progress towards completion. We also look forward to the implementation of a US-Korea FTA. As an exporter of US dairy products we see this as a great outcome for US dairy industry. It will remove high tariff barriers to trade (176% for powder, 36% for cheese) and open the door for us to grow dairy consumption.



- The combination of rising incomes, economic growth, growing demand and a more open trade environment provides exceptional opportunities for dairy in the Asian region.
- It is a significant market for us, representing around 40% of our exports, and one we want to grow.
- Which brings me to this observation.
- We see opportunities for the US to partner with Fonterra & NZ to manufacture complementary products from countercyclical milk production and provide smooth supply to the world market.
- We can in fact open up markets together, through vehicles such as FTAs, addressing regulatory or non tariff barriers to trade and bringing our farmers new markets for their milk and new sources of income
- What's needed is for the US industry to develop a stable export focus rather than use exports on a more opportunistic basis
- The US can be competitive in the world market, especially in Asia
- We believe we can contribute here through our long association with US producers through DFA, our global supply chain and our well established customer relationships in Asia.



Thank you

