Content of presentation

1- General introduction to the dairy market of China
2- Yili as key player developing the dairy market
3- Two recent success cases
4- Closer collaboration with us
Driven by active factors, like economic development, income growth, population increase and urbanization rising, China dairy industry will continue a growth of about 10% in the coming years.

The average milk consumption amount of Chinese is approx. 1/5 of that of Western countries → ... a great opportunity ahead of us!
With the coming of 4th baby boom and implementation of comprehensive two-child policy, breast-feeding rates are in a falling trend. Thus, infant power milk will embrace a further development, reach to 180 million in 2020.

With the rapid increase of aging population, improvement of payment capacity and enhancement of health consciousness, the dairy production for aging people and food with health function will possess a better development opportunity.
In recent years, the growth rate of the disposable income per capita of Chinese urban population and that of the net income per capita of Chinese rural population both exceeded 10%.

The upgrading trend of consumption patterns will have a big influence on sales of premium products like: infant milk formula, health products, ice cream, and new (for China) dairy products.
YILI
The Leading Brand of the Industry

NO. 1
ASIA

Ranking
First camp
in global
industry
成为全球最值得信赖的健康食品提供者
Be and Be recognized as the most trustworthy healthy food provider around the world
核心价值观
Core Values
卓越
Excellence
担当
Responsibility
创新
Innovation
共赢
Win-win
Yili’s penetration in China

伊利的品牌渗透率达88.1%
The brand penetration of Yili has reached 88.1%

覆盖全国500万个销售网点
Yili has covered 5,000,000 sales networks in China.

Data source: 2015 Brand Footprint
Big numbers in China

- **110 million**
  - 每天，将近1.1亿份伊利产品，到达消费者手中。
  - About 110 million Yili's products are chosen by Chinese consumers everyday.

- **80 billion**
  - 2018年，伊利全品类产品销量超过80亿份。
  - In 2016, the sales of Yili’s products reached over 80 billion RMB (>10 billion €).

- **1.1 billion**
  - 每年，有将近11亿中国消费者可享用到营养美味的伊利产品。
  - We serve 1.1 billion Chinese consumers with nutritious and tasty Yili products every year.
The Development of YILI

Birth

- In 1956, the Cow-raising Cooperation Group at Hui Min district in Hohhot was founded which was YILI's predecessor
- YILI is one of the earliest dairy industry in China and also has the longest history

Growth 1993-1996

- In 1993, after company ownership was changed from state-owned to shareholding, it was officially renamed as “YILI”

A Huge Leap 2005-2010

- In 1996, YILI listed on the stock market which has become the first A-share listed company in dairy industry
- In 1999, the YILI liquid milk division was founded. It introduced the first domestic large-scale modernization of liquid milk production line, extending the shelf life of milk to 6-8 months. Since then, YILI pioneered a new era of liquid milk in China, and expanded from Inner Mongolia to China

Became the exclusive supplier for Beijing 2008 Olympic Games
- Became the only supplier for the 2010 Shanghai Expo
- Brand repositioning, launched new logo and slogan of the brand

Became the exclusive supplier for Chinese Olympic Athletes of London 2012 Olympic Games
- Became the first Chinese dairy industry with revenue over 40 billion
- Became the exclusive supplier for Chinese Olympic Athletes of Rio 2016 Olympic Games
- Became official sponsor for 2022 Olympic Games

2010-Present

A Dairy Giant
Yili’s product portfolio/BU’s

Liquid Milk

Yoghurt

Ice Cream

Milk Powder
Yili’s product portfolio/BU’s

Healthy Beverages

Cheese
Yili’s billion RMB Brands

**Liquid Milk**
- First organic milk brand in China
  - Satine Milk certificated by OFDC as first organic brand in 2006
  - Awarded as SIAL Innovation Brand in 2012

**Yoghurt**
- NO.1 Children Brand in China
  - Reach 100 million children (220 million children aged 0-14 in China)

**Ice Cream**
- No.1 Ice-Cream Brand in China
  - More than 2.32 million Chocliz sticks sold out every day

**Milk Powder**
- Every One of Six Chinese babies drinks YILI milk powder
  - World’s First Breast Milk Research Database
  - World’s Largest factory of infant formula powder
... and the growth continues

2018年营业总收入达795.53亿元，实现净利润（归属上市公司股东）64.40亿元，双双保持增长，继续稳居亚洲乳业首位。

Total revenues of Yili in 2018 were RMB79.553 billion, and net profit attributable to shareholders of the company was RMB6.40 billion. Both revenues and net profit maintained growth as compared with last year and continued to rank NO.1 in Asia dairy industry.

营业总收入（1996 - 2018）
Total Revenues (1996 - 2018)

单位：十亿元
Unit: RMB billion

(+16.9%)
... and the growth continues

Yili climbs ahead in 2018 ranking of food and soft drinks brands

Table 1: Global Dairy Top 20, 2018

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Country of headquarters</th>
<th>Dairy turnover, 2017*</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Nestlé</td>
<td>Switzerland</td>
<td>USD billion</td>
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<tr>
<td>2</td>
<td>Lactalis</td>
<td>France</td>
<td>EUR billion</td>
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<tr>
<td>3</td>
<td>Danone</td>
<td>France</td>
<td></td>
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<tr>
<td>4</td>
<td>Dairy Farmers of America</td>
<td>US</td>
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<tr>
<td>5</td>
<td>Fonterra</td>
<td>New Zealand</td>
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<td>6</td>
<td>FrieslandCampina</td>
<td>Netherlands</td>
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<tr>
<td>7</td>
<td>Arla Foods</td>
<td>Denmark/Sweden</td>
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<td>8</td>
<td>Saputo</td>
<td>Canada</td>
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<td>9</td>
<td>Yili</td>
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<td>Mengniu</td>
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<td>11</td>
<td>Dean Foods</td>
<td>US</td>
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<td>12</td>
<td>Unilever</td>
<td>Netherlands</td>
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<td>13</td>
<td>DMK</td>
<td>Germany</td>
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<tr>
<td>14</td>
<td>Kraft Heinz</td>
<td>US</td>
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<td>15</td>
<td>Meiji</td>
<td>Japan</td>
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<td>16</td>
<td>Sodiaal</td>
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<td>17</td>
<td>Savencia</td>
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<td>Müller</td>
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<td>19</td>
<td>Agropur</td>
<td>Canada</td>
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<tr>
<td>20</td>
<td>Schreiber Foods</td>
<td>US</td>
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</tbody>
</table>

* Note: Turnover data is dairy sales only, based on 2017 financials and M&A transactions completed between 1 January and 30 June 2018. Pending mergers/acquisitions not incorporated include Lactalis’ acquisition of També.

† Note: estimate

Source: Rabobank 2018
Two recent examples of Yili developing the market

- *Probiotic yogurt*
- *Greek-style yogurt*
EXAMPLE 1: Chang-qing probiotic yogurts

Chang-qing, comes from Yili's fastest-growing product category - Yogurt.

Chang-qing won the "IDF Innovation Award - Best New Functional Dairy Product".
Challenges

• Regulatory
  • Limited strains on positive list
  • Chinese population efficacy studies needed
  • Restrictions in labelling

• Marketing
  • How to market the physical benefits to the consumer

• Technical
  • Impact on flavour
  • Shelf life control

➢ Health studies
  • Trial with 400 male and female volunteers, aged 25 to 45
  • With: non-pathological mild constipation
From our clinical study it appears that Chang-qing yoghurt has a beneficial effect on the gut health and intestinal comfort of consumers having pre-existing mild constipation.
Product performance in the Market

Premium yoghurt category
- Market size (2017)
  ✓ 16.8 Billion RMB (2.1 B Euro)
  ✓ 17.6% of total yoghurt sales

A proven effective product delivers in the marketplace even with marketing/ labelling restrictions
Premium probiotic yogurt-Chang-qing range

- 250G Organic series
  250g 有机系列

- 250G Oat fruit series
  250g 燕麦水果系列

- 450G Oat fruit series
  450g 燕麦水果系列

- 8 cups Oat fruit series
  八连杯 燕麦水果系列

- PET fruit series
  PET 水果系列
EXAMPLE 2: Ambrosial Greek Yogurt

Greek-style yogurt → fully adjusted to the Chinese consumers!

AMBROSIAL protein content is 35% more than ordinary yogurt.
Marketing/technical challenges

- precise insight into Consumption
- work in open innovation with suppliers and equipment manufacturers → SPEED!
Ambrosial Greek Yogurt in the market

Ambient temperature yogurt

AMBROSIAL (launch 2 years ago)

Sales revenue

year 1: over 1 billion euro

year 2: about 1.5 billion euro!
So what’s next?
Our (eating) cultures differ...
Which reflects / explains already part of the challenge!
Our (eating) cultures differ...
... But offering big opportunities if you do it right!

← Not sure she is into this product...
China challenges...

• Winning trust of the consumer (food safety!)

• Often changes in regulatory affairs (and not only for IMF!)

• How to adapt dairy products for Chinese market (e.g. cheese category – see next slide!)

• How to deal with distribution (especially cold chain) in China

• How to increase INNOVATION?!

• How to build the best partnerships?
Something very important to understand about China

The 10 rules to do business in China.

1. Relationship is everything.
2. Relationship is everything.
3. Everything is possible in China.
4. Nothing is easy.
5. Patience is the key to success.
6. The answer "Yes" is not necessarily an indication of agreement or confirmation.
7. "You don't understand China" means disagreement.
8. Signing a contract means the beginning of the real negotiation.
9. When you are discouraged, think about rule #3.
10. When you don't know what to do, think about rule #1 and #2.
Open Innovation: working on WIN-WIN with Yili

Exploring open innovation opportunities with external partners to increase SPEED and BOLDNESS of innovations

“Everything in research takes twice as much time as you think it does... even if you take this into account!”

Feike Sybesma (CEO DSM)

→ YILI wishes further develop collaborations into STRATEGIC PARTNERSHIPS
For INNOVATIONS - Yili reaches out!

Yili Innovation Center Europe

- Trends, technologies, idea scouting
- Projects with universities and institutes
- Better cooperation with (new) strategic suppliers
Thank you