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Management Team

**Mengniu**
- Lu Minfang, Chief Executive Officer & Executive Director
- Wu Wenting, Vice President & Executive Director
- Zhang Ping, Chief Financial Officer
- Shi Dongwei, Executive President
- Liu Shengli, Vice President
- Gao Fei, Vice President
- Chris Kwok, Financial Controller & Company Secretary

**Yashili**
- Chopin Zhang, Chief Executive Officer & Executive Director
- Wen Jieping, Chief Financial Officer
Financial Overview
## Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>1H 2016</th>
<th>1H 2017</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>27,257.2</td>
<td>29,465.8</td>
<td>+8.1%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>9,181.4</td>
<td>10,502.6</td>
<td>+14.4%</td>
</tr>
<tr>
<td><strong>Gross Profit Margin</strong></td>
<td>33.7%</td>
<td>35.6%</td>
<td>+1.9ppt</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>1,525.5</td>
<td>1,805.6</td>
<td>+18.4%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>2,155.1</td>
<td>2,289.7</td>
<td>+6.2%</td>
</tr>
<tr>
<td><strong>EBITDA Margin</strong></td>
<td>7.9%</td>
<td>7.8%</td>
<td>-0.1ppt</td>
</tr>
<tr>
<td><strong>Profit Attributable to Owners of the Company</strong></td>
<td>1,077.3</td>
<td>1,127.9</td>
<td>+4.7%</td>
</tr>
<tr>
<td><strong>Net Profit Margin</strong></td>
<td>4.0%</td>
<td>3.8%</td>
<td>-0.2ppt</td>
</tr>
<tr>
<td><strong>Basic EPS (RMB)</strong></td>
<td>0.277</td>
<td>0.290</td>
<td>+4.7%</td>
</tr>
</tbody>
</table>
# Financial Highlights – Excluding Modern Dairy

<table>
<thead>
<tr>
<th>RMB Million</th>
<th>1H 2016</th>
<th>1H 2017</th>
<th>+/-</th>
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<td>Revenue</td>
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</tr>
<tr>
<td>Operating Profit</td>
<td>1,525.5</td>
<td>1,909.7</td>
<td>+25.2%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,311.1</td>
<td>2,756.1</td>
<td>+19.3%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>8.5%</td>
<td>9.4%</td>
<td>+0.9ppt</td>
</tr>
<tr>
<td>Profit Attributable to Owners of the Company</td>
<td>1,233.3</td>
<td>1,594.3</td>
<td>29.3%</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>4.5%</td>
<td>5.4%</td>
<td>+0.9ppt</td>
</tr>
</tbody>
</table>
# Revenue Breakdown by Segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>1H 2016</th>
<th>1H 2017</th>
<th>+/- (%)</th>
<th>% of Revenue</th>
<th>+/- (ppt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid Milk</td>
<td>23,761.5</td>
<td>25,372.1</td>
<td>+6.8%</td>
<td>86.1%</td>
<td>-1.1ppt</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>1,703.4</td>
<td>1,985.3</td>
<td>+16.6%</td>
<td>6.7%</td>
<td>+0.5ppt</td>
</tr>
<tr>
<td>Milk Formula</td>
<td>1,660.0</td>
<td>1,786.4</td>
<td>+7.6%</td>
<td>6.1%</td>
<td>-</td>
</tr>
<tr>
<td>Others (1)</td>
<td>132.3</td>
<td>322.0</td>
<td>+143.5%</td>
<td>1.1%</td>
<td>+0.6ppt</td>
</tr>
<tr>
<td>Total</td>
<td>27,257.2</td>
<td>29,465.8</td>
<td>+8.1%</td>
<td>100.0%</td>
<td>/</td>
</tr>
</tbody>
</table>

(1) Others refers to cheese, plant-based nutritional food business, etc.
Stable Market Share Performance by AC Nelson

**Liquid Milk**

- **1H 2016**: 31.8%
  - Mengniu: 27.4%
  - A: 7.6%
  - B: 26.7%
  - C: 6.5%
  - Others: 5.7%

- **1H 2017**: 30.8%
  - Mengniu: 27.8%
  - A: 6.9%
  - B: 28.8%
  - C: 5.7%

**Chilled Products**

- **1H 2016**: 32.6%
  - Mengniu: 27.9%
  - A: 14.9%
  - B: 16.1%
  - C: 8.5%
  - Others: 9.3%

- **1H 2017**: 32.4%
  - Mengniu: 28.2%
  - A: 13.6%
  - B: 16.5%
  - C: 9.3%

**UHT Products**

- **1H 2016**: 27.0%
  - Mengniu: 27.7%
  - A: 8.7%
  - B: 30.6%
  - C: 6.0%

- **1H 2017**: 24.8%
  - Mengniu: 28.4%
  - A: 7.6%
  - B: 33.8%
  - C: 5.4%

**Chilled Yogurt**

- **1H 2016**: 31.1%
  - Mengniu: 31.5%
  - A: 13.2%
  - B: 20.9%
  - C: 3.3%

- **1H 2017**: 29.9%
  - Mengniu: 32.3%
  - A: 12.2%
  - B: 21.7%
  - C: 3.9%

Source: AC Nielsen Retail Research
Cashflow and CAPEX

Net Cash Inflows from Operating Activities (RMB Million)

1H 2016: 2,675.3
1H 2017: 3,434.1

Capital Expenditure (RMB Million)

1H 2016:
- Plant & equipment: 1,482.9
- Biological assets: 87.6
- Equity investment: 1,136.0

1H 2017:
- Plant & equipment: 1,015.0
- Biological assets: 79.9
- Equity investment: 4,218.3
SG&A Expenses

<table>
<thead>
<tr>
<th></th>
<th>S&amp;D (RMB Million)</th>
<th>G&amp;A (RMB Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H 2016</td>
<td>6,448.9</td>
<td>1,135.9</td>
</tr>
<tr>
<td>1H 2017</td>
<td>7,143.8</td>
<td>1,087.5</td>
</tr>
</tbody>
</table>

SG&A Expenses % of revenue:
- S&D: 23.7% in 1H 2016, 24.2% in 1H 2017
- G&A: 4.2% in 1H 2016, 3.7% in 1H 2017
Operating Efficiency Index

<table>
<thead>
<tr>
<th></th>
<th>1H 2016</th>
<th>1H 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory Turnover</td>
<td>39.3</td>
<td>31.5</td>
</tr>
<tr>
<td>Receivables Turnover</td>
<td>15.2</td>
<td>15.5</td>
</tr>
<tr>
<td>Payables Turnover</td>
<td>52.5</td>
<td>57.0</td>
</tr>
</tbody>
</table>

(1) Receivables Turnover = (Average Balance of Trade and Bills Receivables / Revenue) x Number of Days
(2) Payable Turnover = (Average Balance of Trade and Bills Payables / Cost of Sales) x Numbers of Days
Business Review and Prospect
Implementation of Five Key Strategic Themes of in 2017

March towards 2020 strategy and grow into the most dynamic & internationalized Chinese company targeting at 100 billion revenue scale

1. Take organization restructuring and enhance head-quarter competitiveness
   - Organizational restructuring based on new business strategy

2. Improve operational efficiency and strengthen profitability
   - Comprehensively enhance quality & efficiency to improve profitability

3. Deploy upstream resources at home and abroad with a forward-looking vision and build an efficient and integrated enterprise
   - Integrate resources and industry chain to create synergies

4. Focus on star brands and promote full upgrade across all categories
   - Continue premiumization & drive new product development

5. Continue “Route to Market” initiative and strengthen competitiveness in sales channels
   - Build up channel advantage through various approaches
Organizational restructuring based on new business strategy

Focus on UHT/chilled segments and stabilize ice cream business

- **Brand**
  - Continue to communicate around quality upgrade

- **Product**
  - Integrate product line & enhance brand premium

- **Media**
  - Implement accurate marketing & strengthen interaction

- **Sales**
  - Strengthen terminals & penetrate through key channels

Accelerate milk formula business

- Actively adjust organization structure to promote channel transformation and increase revenue contribution from mom-and-baby stores
- Optimize product mix and implement clear brand strategy to cover various consumer groups
- Obtain approval of formula registration for several product series among the first few producers and establish first-mover advantage
- Results of improved operational efficiency and utilization will gradually emerge

Actively build up new segment and develop business with high growth potential

- Pasteurized milk
- Plant-based protein drink
- Cheese
- International business

Improvement of both revenue scale and operational efficiency
Improve HR system construction to match new structure and increase organizational efficiency & capability

- Optimize function systems and processes, deepen the division's empowerment, and strengthen the strategy of streamlining headquarter
- Sort out the R&D and branding departments and build the organizational structure and team matching long-term strategic plan

Inspiring and empowering talents and improving staff efficiency

- Promote cultural construction
- Internal trainer
- Dual path for professional development
- Optimize incentive system

- Develop “Fighter” team and culture through wage differentiation
- Strengthen performance appraisal and promote the performance-driven culture
Comprehensively enhance quality & efficiency to improve profitability

Public bidding & centralized procurement
- Establish centralized procurement system and comprehensively promote group purchasing bidding procedures
- Strictly control procurement costs against rising raw materials

Improve merchandising efficiency
- Realize effective cost control and energy saving through project improvement and delicate process management
- Sort out and streamline SKUs

Enhance quality & efficiency along supply chain
- Integrate resources, ensure operation and improve efficiency
  - Reduce excess capacity and production lines
  - Optimize deployment of raw milk sources, production and logistics
Continuously enhance quality & efficiency with emphasis

1. Improve utilization of fixed assets
2. Manage and control asset/liability ratio
3. Streamline brands and SKUs
4. Improve shared operational efficiency
5. Reduce expenses, account receivables and inventories
6. Increase free cash flow

Enhance quality & efficiency
Integrate resources and industry chain to create synergies

1. Increased shareholding of CMD to establish more integrated upstream and downstream cooperation
   - Ensure stable and high quality raw milk supply
   - Vigorously develop pasteurized milk business
   - Develop Modern Dairy brand business to promote Mengniu’s mid-to-high end product offering

2. Successful operation of milk sourcing division
   - Effectively exert centralized procurement and management of raw milk & bulk milk powder and realize cost reduction
   - Milk sourcing division smoothly collaborated with all segments, which ensured successful implementation of milk sourcing strategies
Gradual implementation of collaborative efforts from Mengniu and Modern Dairy

Established six collaborative project teams to focus on Overall Company, Brand Business and Farming Business

Brand business
Room temperature business
♦ Integrate sales teams/networks
♦ Improve market share of mid-to-high end products after integration and form strong competitiveness among peers

Low temperature business
♦ Set up fresh milk business division and collaborate with CMD’s nationwide farm layout and existing plants to rapidly enter into pasteurized milk market
♦ Manage CMD’s chilled yogurt business

Overall company
Financial cost
♦ Reduce CMD’s borrowing costs through various financing methods

Quality control
♦ Identify and streamline duplicate items / functions in existing raw milk inspection and reduce duplicated investment in equipment

Farming business
Raw milk supply
♦ Formulate collaborative production adjustment plan based on sales target of both parties in order to maximize profits

Raw material procurement of upstream business
♦ Set up unified raw materials procurement platform for upstream farming, integrate purchasing demands and reduce overall costs
Continue premiumization and drive new product development

<table>
<thead>
<tr>
<th>Star brands showed strong performance while high margin products achieved high growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room temperature</td>
</tr>
<tr>
<td>Strategies</td>
</tr>
</tbody>
</table>

Promote "Aeronautic Quality, Healthy China" special marketing campaign and continue to enhance image of Mengniu brand

- The special marketing campaign has been well executed and successfully enhanced consumers’ confidence in Mengniu brand

Actively developed new products – focus on chilled products and function upgrade

**Super premium chilled yogurt**
- Leveraging on strong brand advantage, Milk Deluxe extended to yogurt category
- Focus on core products, high-end platforms and value marketing

**Probiotic drink**
- Small size probiotic drink became core driver for category growth
- Product upgrade + high end innovation + integrated on/offline marketing
Strong pipeline of new categories and products

- Modern Dairy Xianyu pure milk
  - Fresh and nutritious
  - Integration of “forage planting, cow breeding and milk processing” + “Milking to Processing in Two Hours” to preserve active substances maximally

- Milk Deluxe M-PLUS high protein milk
  - Build No. 1 sports milk
  - Customized for sports players
  - 6.0g high quality milk protein + multi-vitamin group + minerals + taurine

- Milk Deluxe – HiMilk
  - First issue of 3 artistic editions
  - 3.6g milk protein, 120mg calcium, exclusive ranch for Milk Deluxe near Hongze Lake

- Champion BB-12
  - Product differentiation
  - Highlight China health food approval number obtained with exclusive strain BB-12 and two wheat combination to generate double nutrients

- New products under “Just Yoghurt”
  - Accelerate launch of new room temperature yogurt products and seize the growth opportunity of the category

- European-style charcoal yogurt
  - Expand into charcoal drinking yogurt category
  - Real charcoal flavor with out additives

Room temperature products

Low temperature products
Build up channel advantage through various approaches

Implement sophisticated channel management, improve sales coverage and focus on precise investment

Delicate management of sales regions
- Implement achievement of KPIS of all region offices
- Supervise expense uses
- Streamline management mechanism and improve power-responsibility system
- Establish regular communication mechanism
- Strictly implement financial supervision mechanism

Optimize sales model
- Strengthen management of sales companies and CBUs under direct sales system to achieve stable performance
- Stabilize revenue contributions between distributors and direct sales team

Implement fine terminal management
- Key accounts management
  - Strategic alliance with retailers – closely cooperate with supermarkets and jointly build up an ecosystem
  - Focus resources from both parties to invest into core markets and categories
- Strengthen markets in lower-tier regions, make breakthrough in Beijing and Shanghai, pursue campus marketing and focus on strategic terminals
  - Improve market share and sales per POS
  - Remarkable results of network expansion
Explore channels through multiple dimensions and strengthen channel advantages

1. **Organization structure**
   - Promote organization restructuring to bring sales growth of all categories and improvement of operational efficiency

2. **Resources integration**
   - Merge channels of Mengniu and China Modern Dairy

3. **Sales model**
   - Continuously improve operational capability of direct sales system

4. **Channel terminals**
   - Strengthen management of key accounts

5. **Market penetration**
   - Quickly and effectively cover markets in county, town and village
THANKS

創新
INNOVATION

誠信
INTEGRITY

開放
OPENNESS

激情
PASSION

只為點滴幸福