



Epiim

**Experience of Estonian Dairy
cooperative E Piim - growth,
cooperative position strengthening in
the market**

25.10.2018

Structure of milk cooperatives in Baltics

Milk collecting cooperatives

- Many interdependent cooperatives in all Baltic countries

Added value cooperatives

- Only few cooperatives own the factories, brands and have market access to high value market and emerging markets.



Added value cooperatives-only way to guarantee the sustainability of members.

- Easy to say but difficult to reach the target.
- In all developed and democratic countries (from New Zealand to Norway) the added value milk cooperatives controlling 60-95% of markets.
- Added value cooperatives only not existing in authoritarian states.
-In which countries we are living!?



No way back only forward

- We need to learn from our experiences.
- The bad experiences are sometime the best ones-bad experiences are the fertilizer for the future.
- We need to do the right thing right way.
- To win the LOTO we need figer out all 6 number-to lose we just not figer out one of the six.
- To win the war we need to lose sometime the battle.



Preconditions to build successful cooperative dairy factory







- Combine the common competence of existing coops.
- Combine the amount of milk.
- To have the markets
- To have the brands
- To build the most efficient and flexible factory in region.
- To have waterproof businessplan.
- To have knowledged and expierence management
- To have global network.



Estonian and Latvian Dairy Sector

- Dairy is priority sector of Estonian and Latvian agriculture. In Estonia with strategic target to increase the yearly milk production to 1 million MT.
- Dairy farming is well developed: large effective farms, very productive cows (milk yield per cow 2nd in EU after Denmark), Estonia is located in preferable milk production area.
- Dairy farming structure and size are very competitive- 88% of Estonian cows stay in Farms which are bigger than 100 cows in farm.
- Raw milk production grows 2-3% in year.

Main players in our area

	Raw milk intake MT/day	Product portfolio	Markets
Valio 	600 MT milk	2 factories: fresh milk products, cheese	Estonian market, export
E-Piim 	280 MT milk +350MT whey	2 factories: cheese, powders, butter	Export, Estonian market
Farmi 	220 MT milk	1 factory: fresh milk products	Estonian market
Tere 	180 MT milk	2 factories: fresh milk products, SMP	Estonian market
Saaremaa 	150 MT milk	1 factory: cheese, butter	Estonian market, export
Estover 	150 MT milk	1 factory: cheese, butter	Estonian market

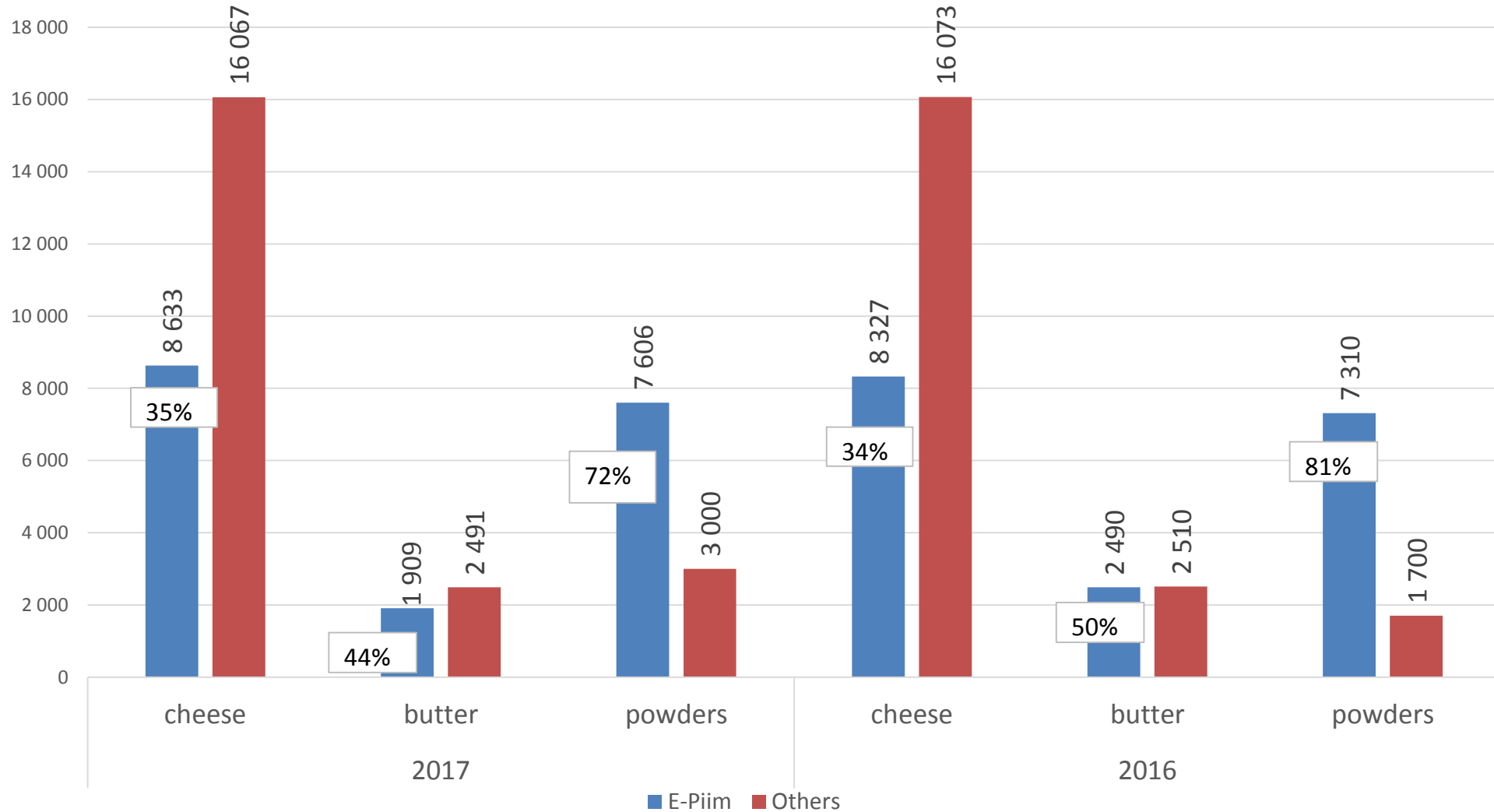


DAIRY COOPERATIVE E-PIIM

- Dairy cooperative E-Piim as it is today was founded in 1997 by the result of merger of Järva-Jaani dairy cooperative, Põltsamaa dairy cooperative and Haimre dairy cooperative. The history of dairy plants date back to 1910 and 1911.
- Today apprx 150 members.
- 95 000 MT milk a year, 120 000 MT liquid raw material in total.
- Cheese factory in Põltsamaa, powder-butter factory in Järva-Jaani and processed cheese factory in Türi.
- Apprx 250 employees in group.
- Turnover 50 M EUR, 75% out of that is export.
- Equity 14 M EUR.
- E-Piim is the member of Estonian Chamber of Agriculture and Commerce and the member of Eucolait.



PRODUCTION MT/YEAR





NEW DAIRY FACTORY





Main target to build the new cooperative based factory.

- To increase and strengthen the competitiveness of the cooperative dairy industry in the region and to take leading roll in region.
- To join the Estonian and Latvian cooperatives because all the farmers will have direct benefit of that merge.
- To quarantee for members farmers the highest milk price in region.
- To increase the negotiation power of cooperatives with supermarkets(markets) and government and other institutions.



New factory milkprice compare to today factories

- Only from efficiency we earn 4 cent /per 1 kg milk more money.
- Additionally we will benefit of more flexible product portfolio.
- We have access to all the markets in the world because of our investor Interfood B.V.
- EU-Japan trade agreement decrease the custom tariff for cheese from 29,8% to 0%.
- We have strong access to Japan market

Government subsidy for new dairy factory

- The subsidy for new factory is main action of government programme of restructuring Estonian dairy sector and building export oriented dairy factory.
- There is one subsidy on this purpose for one big project.
- In February 2017 took place government tender for 15M subsidy for building new dairy factory in Estonia.
- Two projects applied for subsidy.
- PRIA announced E-Piim the winner of the subsidy on 29.06.2017.
- Tender consists of two phases and after announcing winner E-Piim has to present additional documents during 18 months (29.12.2018)
- 2019-2021 subsidy payments up to 20 parts.

New factory general information

- New factory is greenfield project, running 24/7 365 days a year.
- Processing 1000 MT of raw milk and 85 MT of whey concentrate in a day.
- Production: 33 000 MT different types of cheese, 26 000 MT whey based powders and more than 10 000 MT products of milkfat in a year.
- The size of the factory is 23 000 m²
- The territory of the factory apprx 14 ha
- Budget 106 M EUR
- More than 100 additional jobs



New factory - most competitive in region

- In Estonia and Latvia there is 20 dairy factories with processing capacity 50-300 MT milk/day. These factories are not effective: 100MT milk=100 employees. Low processing volumes don't allow to invest in to automatization as low volumes don't cover high investemnts. Dead circle.
- It is very complicated or impossible to fulfill high quality requirements and special zoning in old buildings. That leads to exporting goods in lowest price segment.
- New bigger capacity and efficient factory based on new technology will certainly bring copmetetive advantage in region.
- Strategic partnership between E-Piim and Interfood is modern structure for smaller cooperatives for increasing competitiveness. E-Piim could be big trough partnership with multinational companies like Interfood, Marubeni, Mondelez, Barry-Callebaut.



Product portfolio

Main products

- Cheese (Gouda, Edam, Cheddar, Tilsit, Oltermanni) 32 000 tons/year
- Whey based powders 26 000 tons/year

Optional products

Skim Milk Powder (SMP), Whey Powder (WP), instant WPC 80, concentrated WPC 35 and, Dry Salted Gouda

Markets and volumes

- **Cheese:**
 - Baltic and Finnish retail market 10 000 tons/year.
 - Asian and Japanese market 10 000 tons/year.
 - EU market 10 000 tons/year.
- **Whey powders-** Japan/Asia/EU
- **Butter and milkfat products** - EU/Japan/Asia/Russia



Participants

- Estonian and Latvian dairy cooperatives
- Strategic investor
- Commercial banks
- European investment bank

Budget and financing

- Budget 106 M EUR
- EU subsidy 15 M EUR
- Investor > 15 M EUR
- Banks <76 M EUR

Production equipment	66 M EUR
Building&indirects	31 M EUR
Other equipmement	9 M EUR

Financing

- ING bank 56M EUR
- EIB 26M EUR
- Luminor 15M subsidy bridge+working capital

'000 EUR	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Investment	230	296	3 138	1 622	920	25 372	7 485	12 875	36 602	7 008	7 851	315	7 295
Subsidy	0	0	0	0	0	4 064	594	1 136	1 996	5 786	0	1 423	0



Timeline and current activities

- Tenders for technology are finished
- Paide municipality issued Building Permit
- Agreement with AS Enefit Green for steam supply is fixed.
- Electricity supply contract is fixed.
- Tender for Building take place in September
- Pre-agreements with banks are in place.
- Contracts for milk delivery with farmers are in process.
- The total investment amount and percent of the share are fixed with investor

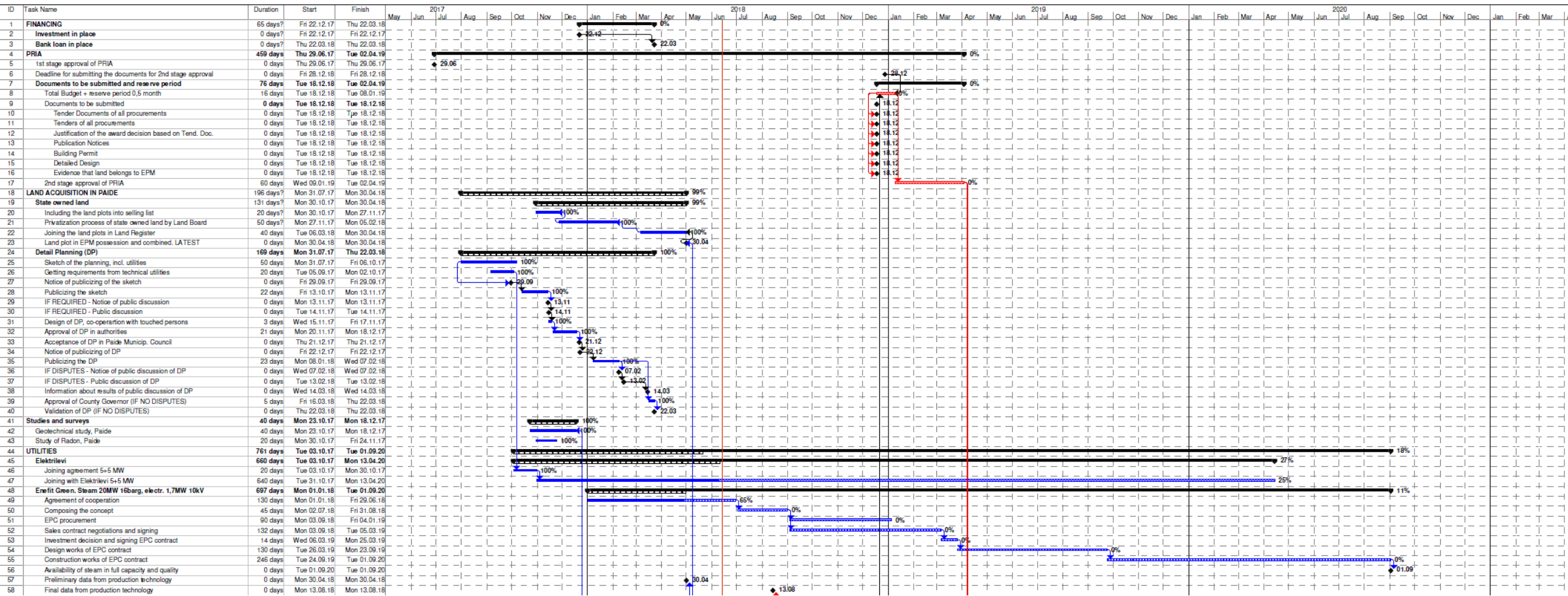


Timeline and current activities

E-Pim Tootmine AS Dairy Plant

GENERAL TIME SCHEDULE

File name and revision: EPM Schedule 20180613 general update



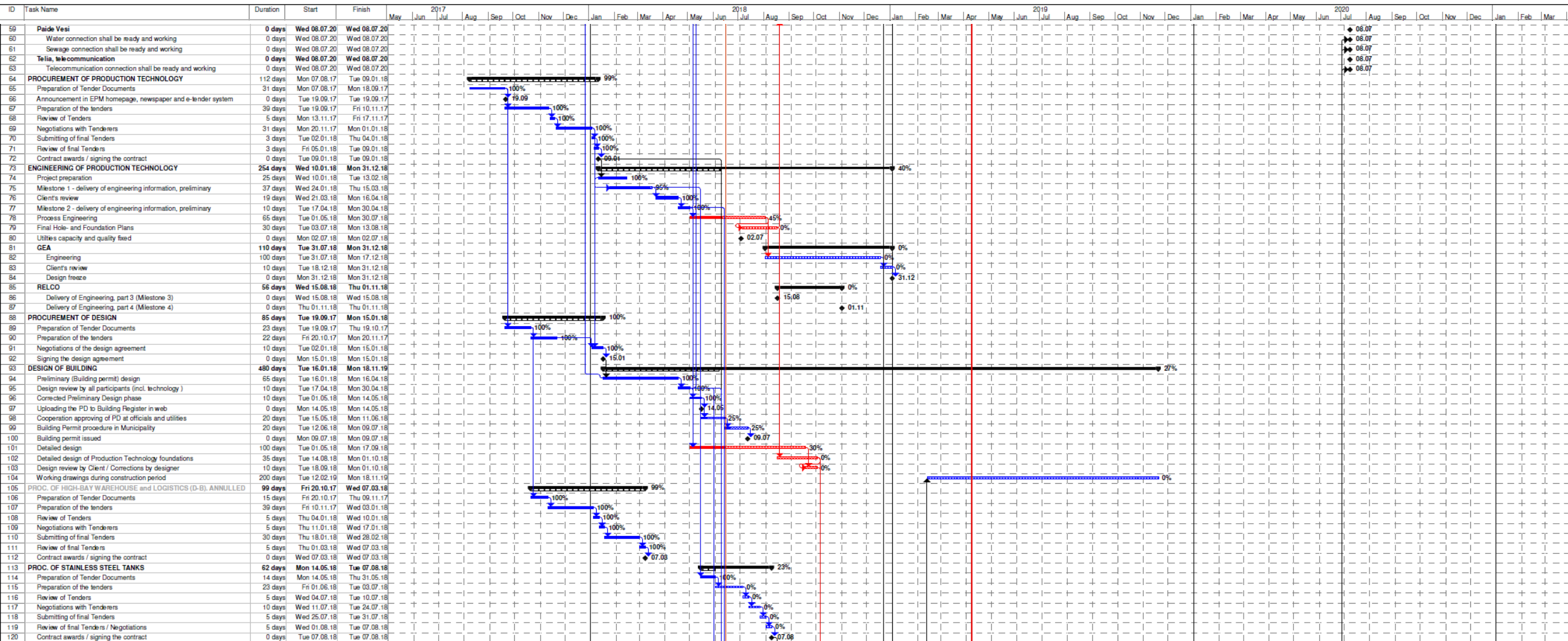


Timeline and current situation

E-Plim Tootmine AS Dairy Plant

GENERAL TIME SCHEDULE

File name and revision: EPM Schedule 20180613 general update





Thank You!