



Market Announcement

9 November 2021

Fonterra farmers to vote on Co-op's capital structure proposal

Fonterra has today announced it will proceed with a shareholder vote on the change to the Co-operative's capital structure, which would give farmers greater financial flexibility and better enable the Co-op's strategy.

Fonterra Chairman Peter McBride says the Board and Management are united in the belief that the Flexible Shareholding structure is the best course of action for the Co-operative.

The decision to go ahead as planned has been informed by a significant volume of shareholder feedback that shows strong support for the changes.

"The Board is unanimously recommending the changes to our capital structure to put us in the best position to deliver the value outlined in the strategy and protect farmer ownership and control of our Co-op.

"Our strategy is focused on New Zealand milk and our future success relies on our ability to maintain a sustainable milk supply in an increasingly competitive environment, and one that is changing rapidly due to factors such as environmental pressures, new regulations and alternative land uses.

"We see total New Zealand milk supply as likely to decline, or flat at best. Our share of that decline depends on the actions we take with our capital structure, performance, productivity and sustainability. If we do nothing, we are likely to see around 12-20% decline by 2030 based on the scenarios we have modelled.

"Protecting a strong New Zealand farmer-owned Co-operative of scale is in all of New Zealand's interests.

"Fonterra's scale efficiencies deliver value to all of our New Zealand communities. Our milk price sets the benchmark for prices kiwi dairy farmers are paid for their milk, so even farmers who don't supply the Co-operative benefit from it.

"Our scale efficiencies also keep our manufacturing sites efficiently utilised and increases our ability to invest in on-farm support services, innovation, new markets and product development - all of which create value for New Zealand in terms of milk price and profits returned to regions, export performance, employment, environmental performance, and community development.

Mr McBride said the Board's recommendation would require changes to Fonterra's Constitution before coming into effect. Any changes to Part A of Fonterra's Constitution requires the support of at least 50% of the Fonterra Co-operative Council (the representative body elected by its owners to represent their interests), followed by a minimum 75% support from votes cast by eligible farmers.

The Co-operative Council has already voted 92% in support of the recommended changes.

“We would like to thank the thousands of farmers who gave us their time and ideas as part of the consultation process. Their comprehensive feedback has helped us shape this proposal into a model which we believe addresses the broad, and at times, conflicting views within our ownership base.

“We have made several changes to the capital structure proposal we put forward in September, in response to feedback from shareholders and further consultation with the Co-operative Council and the independent directors of the Fonterra Shareholders’ Fund.”

These are:

- The introduction of thresholds to support the alignment of share ownership and milk supply, and reflect Fonterra’s intention that the total number of shares on issue in the Co-op is within +/- 15% of total milk supply, and that the proportion of shares held by ceased suppliers is less than 25% of the shares in the Co-op.
- The way dry shares are allocated to associated shareholders (sharemilkers, contract milkers and farm lessors) has been simplified to make it easier for them to apply to hold dry shares.
- The overall limit on the size of the Fund has been reduced from 20% to 10% of total shares on issue, rather than having a total ban on any further shares being exchanged into units. This recognises that the Fund size, which is currently around 6.7% of total shares on issue, could change from time to time subject to the overall limit. Shares will still not be able to be exchanged into units on a day-to-day basis, and the Board retains its current rights to regulate this process.

The details of the proposal and how to vote will be included in the Notice of Special Meeting, which will be released to Fonterra’s farmers the day before the voting period opens on Thursday 18 November 2021. The Special Meeting will be held immediately after the conclusion of Fonterra’s Annual Meeting on Thursday 9 December.

A successful farmer vote would not take effect until Fonterra’s Board is satisfied that any steps necessary for implementation have been, or will be, completed. Fonterra is aiming for 1 June 2022, but needs to keep working with the Government on what the changes might mean under the Dairy Industry Restructuring Act (DIRA).

Fonterra notes the Government is not in a position to support DIRA changes to facilitate the proposal at this stage, but understands the Government wants to work together to reach an outcome that works for both parties. Fonterra is confident there is a regulatory framework that would support the Flexible Shareholding structure.

If the vote is not passed, Fonterra will need to engage with shareholders about next steps and the temporary cap on the size of the Fund is expected to remain in effect at least until then.

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