

FONTERRA ANNUAL MEETING
10 NOVEMBER 2022
CHAIRMAN'S ADDRESS

Before going into the formal business of the meeting we will take a look back at the year that's been and the outlook for 2023 and beyond.

In a few minutes I'll ask Miles to come up and share his perspective, along with a short summary of the Co-op's financial performance over the past year.

Overall, our Co-op has continued to make good progress towards becoming a more innovative and customer-led organisation.

The Board is very pleased with the team's progress implementing our strategy and this year's strong financial performance in the context of historically high milk prices, inflationary pressure, and continued geo-political disruption in a number of key regions.

We will always push hard for performance.

But when you consider the continued supply chain disruption resulting from COVID-19, the geo-political and economic challenges we face in multiple markets, Miles and his team have done an excellent job.

We have made strong progress towards our 2030 strategic targets, which we set in September last year and remain committed to.

However, volatility has always been a feature of global dairy.

Tracking progress towards our 2030 targets will never be a straight line. You should expect some earnings volatility year-to-year as we move through to 2030.

In the past few years, we have moved our Co-op's strategy away from a global volume play to a focus on deriving value from our sustainable New Zealand milk.

That strategy is starting to deliver for us, as demonstrated by this year's milk price and earnings performance.

Our customers are at the heart of our strategy. We will achieve our performance targets by continuing to deliver products to market in a way that meets their changing expectations.

Miles will speak to this in more detail in his address, but our high-value customers are asking us to support them in meeting the expectations of their stakeholders – especially the end consumer.

Today, 73% of global consumers find sustainability pledges important when buying dairy products.

It's great news for a Co-op that's strategy is focused on New Zealand milk and being a leader in sustainability.

New Zealand dairy farmers already have the world's lowest carbon footprint. If we can maintain that advantage, we have an excellent opportunity to build mutually beneficial relationships with our premium customers.

Maintaining a sustainable supply of that New Zealand milk, in an environment where we expect the country's total milk volumes to decline, has been a key priority for Board and management over the past few years.

This morning, the Primary Production Select Committee has released its report on the legislative changes to DIRA that are required to implement our Flexible Shareholding capital structure.

It's another key milestone in the legislative process, and we remain hopeful that the Government will reach a decision before the end of the year. After which we will move to the Flexible Shareholding structure as fast as possible.

Innovation, research and development, and collaborations with strategic partners are also a focus for the Board. We continue to invest capital on your behalf into these initiatives.

You will remember that as part of our 2030 strategy, we were targeting investment of:

- \$1 billion into sustainability
- \$1 billion into moving milk into higher value products
- The intention to increase current total annual R&D investment by over 50% to around \$160 million per annum in 2030.
- And \$2 billion available for investment in a mix of future growth – including opportunities for nutrition science – and return to shareholders.

We are still committed to our investment targets for sustainability, higher-value products and R&D.

The return to shareholders and unitholders had anticipated divestments including Soprole and a stake in our Australian business.

Even though we have since decided not to sell a stake in our Australian business, we are still committed to targeting a significant capital return to our shareholders and unitholders.

We need to be mindful that we retain the asset in Australia, and the earnings associated with it.

The amount of any capital return will be determined by the successful completion of the divestment programme as well as the Co-op's financial position at the time.

We support the recent changes Miles has made to the organisational structure to increase the visibility and focus on innovation and strategic implementation at a senior leadership level. They will drive performance in these areas.

To quickly give you an idea of the progress that has been made this year, let me share a few examples.

As part of our customer-led approach to product innovation, Fonterra and VitaKey Inc. announced a dairy science collaboration to further unlock the benefits of Fonterra's probiotic strains.

It will give us greater access to the global medical nutrition market, which is valued at US\$50 Billion globally and growing at 5% per annum.

Utilising VitaKey's technology and customised solutions, Fonterra is looking to design dairy products that incorporate targeted and time-controlled release of specific dairy nutrients, starting with probiotics.

We think we can do this in a way that locks in the freshness for longer and allows the nutrients to be more active and beneficial in the body.

At an on-farm innovation level, the focus is on supporting you to reduce emissions.

One example is our work with AgResearch and the Pastoral Greenhouse Gas Research Consortium.

We are tapping into our large collection of dairy cultures to create new fermentations we are calling Kowbucha™, which could inhibit the bugs that create methane in cows.

It's still early days but the initial results have been promising.

In October, we announced our participation in a joint venture between MPI and industry as part of the new Centre for Climate Action on Agricultural Emissions.

The JV aims to ramp up our capacity to test new technology, designed to help tackle the methane challenge within our pasture based systems.

The Co-op has committed \$50 million in funding over the next four years. The Government is matching industry funding.

The final topic I want to cover today is He Waka Eke Noa and the on-farm changes we are all facing as farmers.

We know that the rate and extent of some of the changes dairy is being asked to make is a concern and not without significant cost – both financial and personal.

Our focus is on supporting you through the changes by signalling them early.

Seeking to provide the tools and resources needed to implement change.

And delivering the highest possible, sustainable returns to counter balance rising input costs.

Fonterra supports the intent of He Waka Eke Noa, which clearly aligns with our strategy of focusing on sustainable New Zealand milk.

Like DairyNZ, we have reservations about the Government's current approach to the levy price setting process, governance, and the approach to sequestration.

We are supporting changes on these issues and working with DairyNZ to help farmers engage in the process.

It's important that the final package works for all of the primary sector.

It won't be perfect for everybody, but we firmly believe that the original He Waka Eke Noa proposal is a better option than being forced into the Emissions Trading Scheme – which is what happens if consensus on He Waka Eke Noa is not reached.

So how is the Co-op going to help you through the change, and what's next?

We established the Co-operative difference and Farm Environment Plans as a service and toolbox for farmers.

These are designed to support you when making the necessary changes on-farm, and to recognise those who choose to take proactive action.

In the future, being able to demonstrate basic reporting and environmental progress is going to be critical for lending purposes.

This year more than 70% of farms achieved the Co-operative Difference payment at some level, which is a good starting point.

The Co-operative Difference provides a clear signal to us about what needs to happen on our farms to ensure we can collectively meet the expectations of our customers and other stakeholders – both today and into the future.

Part of that future is likely going to include the Co-op setting itself a target for scope 3 emissions.

Scope 3 encompasses carbon emissions that are not produced by the company itself, but by those that it's indirectly responsible for. That includes farmers.

Miles will take you through what's influencing our thinking from a customer and competitive point of view.

From my perspective, setting a scope 3 target will help us to maintain competitive access to some of our key international markets.

For example, the EU has proposed a carbon border adjustment tax on certain carbon-intensive goods.

They are subject to a carbon emissions price via the EU's Emissions Trading Scheme.

Agriculture is not currently in scope, but it is possible it will be brought into the scheme.

Others will follow.

I expect these types of trade barriers to become more frequent as international Government's respond to their own climate commitments.

It's important we get ahead of them early.

These changes are not just compliance.

They are an opportunity for us to leverage our natural advantages.

Despite the very real challenges we as farmers have in front of us today, the Board remains confident and excited by the future prospects for our Co-op and New Zealand dairy.

I'd now like to pass over to Miles for a recap of the financial year and his perspective on the Co-op's outlook for the future.

Over to you Miles.

**FONTERRA ANNUAL MEETING
10 NOVEMBER 2022
CHIEF EXECUTIVE OFFICER'S ADDRESS**

Tēnā koutou katoa
Nau mai, haere mai
Ki te hui-ā-tau
Ki ngā mate
Haere, haere atu rā.
Ki a tātou e pae nei
Tēnā tātou.
Te Arawa waka, Te Arawa whānui
Tēnā koutou

I want to reiterate the Chairman's words of welcome and acknowledge Te Arawa as the host iwi in Rotorua. After the disruptions of COVID-19, it's great to see so many of you here today.

I want to spend a few minutes reflecting on the last financial year but also look ahead to what's on the horizon.

FY22 was a year like no other. COVID-19 continued to test us. We saw new strains and regional lockdowns in New Zealand and ongoing restrictions in a number of our global markets.

The war in Ukraine accelerated decisions about the future of our Russian business, and we also felt the impact of the Sri Lanka economic crisis. And of course, we started to feel the effects of rising inflation, which continues to be an issue for us all.

As an exporter, we're used to dealing with geopolitical and macroeconomic events. But FY22 was exceptional in terms of the number and their impact. Despite this, we stuck to our strategy of maximising the value of your precious milk and in the face of uncertainty, delivered an impressive set of results.

It was pleasing to see the final Farmgate Milk Price of \$9.30. With the total dividend of 20 cents per share, it meant a final cash pay-out of \$9.50 per kgMS for our fully shared-up farmers. We should all be proud of what that means for New Zealand as a whole, with around \$13.7 bn flowing into the domestic economy.

A high milk price has the potential to squeeze margins, so it was pleasing to make progress on our key metrics. Total Group Revenue, Normalised Profit After Tax and Group normalised EBIT were all up. Given lower milk collections, it's good to see Total Group gross profit up \$226 million. This was due to significantly higher product prices across our Ingredients channel – particularly in the protein portfolio.

It won't have escaped you that net debt was also up, however.

A key aim of the strategic reset we kicked off in 2019 was to shore up our foundations and strengthen our balance sheet. That strong balance sheet means we were able to hold greater inventory at the end of the financial year. The bulk of this

was contracted but shipping disruptions and stronger milk collections towards the end of the season meant we held more inventory than usual at year end.

The result was an increase in working capital and in our net debt position. I'm pleased to say the team has made great progress in getting that inventory out the door. We expect working capital and debt to return to normal levels over the course of this year. Despite the decision to hold more inventory, it's good to see that our improved performance has meant our return on capital has increased from 6.6% to 6.8%.

As the Chair said, the financial year saw continued strong demand for dairy across multiple markets and products at a time of constrained milk supply. We faced global supply chain challenges, and a significantly higher cost of milk for our businesses. This increase in prices did place pressure on margins in our Foodservice and Consumer channels, but it was more than offset by strong earnings in our Ingredients channel .

I want to turn now to our strategy. It's just over a year since we announced our strategy to 2030. The last year shows that there will be some bumps along the way, but we remain committed to the goals we set ourselves 12 months ago. Demand for our sustainable, nutritious dairy remains strong.

We made three strategic choices – to focus on our NZ milk, to lead in innovation and science and to lead in sustainability. These choices are guiding our business and every single decision we're making. I'm pleased with the progress to date.

Success for us means allocating our scarce resource – those precious milk solids – where they will deliver the greatest value. You'll see from this slide how that played out last year, with the growth in our Active Living business.. The allocation of milk to our Foodservice channel continues to grow, with innovation expanding the uses of our UHT cream within our Anchor Food Professionals brand. We continue to make progress on the sale of our Soprole business which of course underpins the capital return we've discussed previously. We've also completed the review of our Australian business and decided that long-term, it's in our best interest to maintain full ownership.

Sustainability sits at the heart of our strategy, and we continue to make good progress. The public private partnership between our sector and the Government to address the methane challenge builds on some of the sustainability work we're already doing.

Of course you, our farmer owners, have created a natural advantage in the sustainability stakes. It means we have a carbon footprint less than one third of the global average. But we can't sit back. Customers and consumers expect more and doing nothing simply isn't an option. We need to maintain this advantage and keep pace with their expectations.

I know that comes at a cost and at a time when change seems to be the only constant. But this is why we are part of a Co-operative. We exist because of you and

for you. That's why we'll continue to work with Government on their proposals for He Waka Eke Noa to ensure your voices are heard.

We do want to send an early signal today that the Co-op is considering setting a target for scope 3 emissions. Scope 3 encompasses carbon emissions that are not produced by the company itself, but those it's indirectly responsible for, up and down its value chain. That includes farmers.

Before the end of the year, we will be out discussing the target and what the flow-on effect for farmers might mean. We can't go into that detail until a target has been identified, but I can explain the rationale for it.

In short, it comes down to us collectively meeting the climate change expectations of our stakeholders, and the risk if we don't. Now that COVID-19 restrictions have largely been lifted, the Chair and I have been spending time in our markets. The subject that dominates conversations with our customers and debt capital providers is sustainability.

Our high value customers are setting emissions reductions targets and looking for our help. If we can't give them confidence that we will help them achieve their targets, they will look to our competitors – including using alternatives to milk.

You may have seen the recent announcement of our Sustainable Finance Framework, which aligns our funding strategy with our sustainability ambitions. Our banks and financiers want to know the steps we're taking to reduce our emissions footprint. It is our expectation that the bank will be setting their own industry targets over the coming years.

We anticipate that you will be having similar conversations with your banks in relation to your individual farming businesses within a similar timeframe, so it's a conversation and a change that we need to do together.

We all know that change is inevitable, but with change comes opportunity and that's why I'm excited about the future. It's good to kick the year off with another strong forecast Farmgate Milk Price range and that midpoint of \$9.25 per kgMS alongside our earnings guidance of 45-60 cents per share.

GDT has shown that despite strong demand, dairy isn't immune to the effects of market volatility. But we have kicked off the year with strong contract rates and I look forward to updating you on our Q1 performance next month.

Longer term, we have our 2030 targets firmly in our sights. The changes we recently made to our organisational structure put us in the strongest possible position to deliver, and I'm pleased that we were able to do that by promoting some of our brightest internal talent.

Emma Parsons heads up our Strategy and Optimisation team, ensuring that in the context of our shrinking New Zealand milk pool, our precious milk solids are being allocated to the highest value product mix. Her team also ensures our strategy remains fit for purpose in the context of changing global trends and events.

We have a proud heritage of dairy innovation, and our future success depends on our ability to double down to extract maximum value from our milk. Komal Mistry-Mehta leads our Innovation & Brand team, putting innovation at the heart of our Co-op.

And Judith Swales heads up our expanded global markets team, bringing the customer voice front and centre as we focus on our New Zealand milk pool.

The Chair mentioned our flexible shareholding and I'm also looking forward to those changes being implemented as soon as we are able to so that our Co-op can continue to thrive. A strong, united Co-op is in everyone's best interests, delivering for you, our farmer owners, our rural communities, and New Zealand as a whole.

I want to close by acknowledging our departing CFO Marc Rivers. Marc joined our Co-op at a difficult time, and it's testament to the work he's led in improving our balance sheet and our portfolio management that he leaves us with a strong set of numbers. In these volatile market conditions, it is the strength of our balance sheet that gives us flexibility to make the best decisions about where and when we allocate your milk. Personally, I've valued Marc's wise counsel and the focus he's brought to our Co-op and he leaves with our best wishes.

Thank you for the support you continue to give me and my management team.

Tēna koutou
Tēna koutou
Tēna koutou katoa

Thank you and I will now hand back to Peter.



Dairy for life

Fonterra Co-operative Group Limited **Annual Meeting 2022**

Rotorua Energy Events Centre, Rotorua
10 November 2022

Agenda



Welcome



Chairman's Review



Chief Executive Officer's Address

Agenda



Resolution **1** ➤ **Approval of remuneration of Shareholder Elected Directors**

Resolution **2** ➤ **Approval of remuneration of Co-operative Councillors**

Resolution **3** ➤ **Approval of remuneration of Members of Directors' Remuneration Committee**


Resolution **4** ➤ **Appointment of KPMG as auditor and authorisation of the Directors to fix the auditor's remuneration**

Resolution **5** ➤ **Ratification of appointment of Mr Scott St John**

Agenda



Co-operative Council Report – James Barron

Resolution **6**  **Approval of the Co-operative Council programme and budget**



 **Voting Paper Collection**



 **General Business**



 **Closing**



Dairy for life

Fonterra Co-operative Group Limited **Annual Meeting 2022**

Chairman's Review

Peter McBride

We're on track for 2030

	FY20 Actual	FY21 Actual	FY22 Forecast	FY22 Actual	FY30 Year 9 Target
Improved performance					
Milk Price per kgMS (\$)	\$7.14	\$7.54		\$9.30	
Normalised EBIT (\$m)	\$879m	\$952m	\$875-\$975m	\$991m	\$1,325-\$1,425m
Earnings per share (CPS)	24c	34c	25-40c	35c	55-65c
Return on capital	6.6%	6.6%	6.5-7.0%	6.8%	9.0-10.0%
Financial position					
Capital investment (\$m)	\$525m	\$608m	\$650m	\$617m	\$980m
Debt to EBITDA ratio	3.3x	2.7x	2.4x¹	3.2x	<2.5x
Gearing ratio	44%	39%	35%¹	42%	<35%
Dividend to shareholders					
Dividends (CPS)	5c	20c	15-20c	20c	40-45c

Flexible Shareholding on track

Government is
supportive



Expect legislation
to progress
through Select
Committee this
year



Implement as
soon as possible



Market making
arrangements and
transitional buy
back in place



Measurement
statement issued
confirming new
minimum
shareholding



Our strategy is built on a strong platform

Our strategic long term aspirations and targets to 2030



PERFORMANCE TARGETS

40–50%

EBIT increase
from FY21

~9–10%

Return on capital

Increase dividends to

~40–45

cents per share

Aspiration to be

**Net zero
by 2050**



INVESTMENT

~\$1 billion

in sustainability

~\$1 billion

moving more milk to
higher value products

~\$160m

per annum in
R&D

~\$2 billion

for mix of
investment in
further growth and
return to
shareholders



DISTRIBUTION OF FUNDS

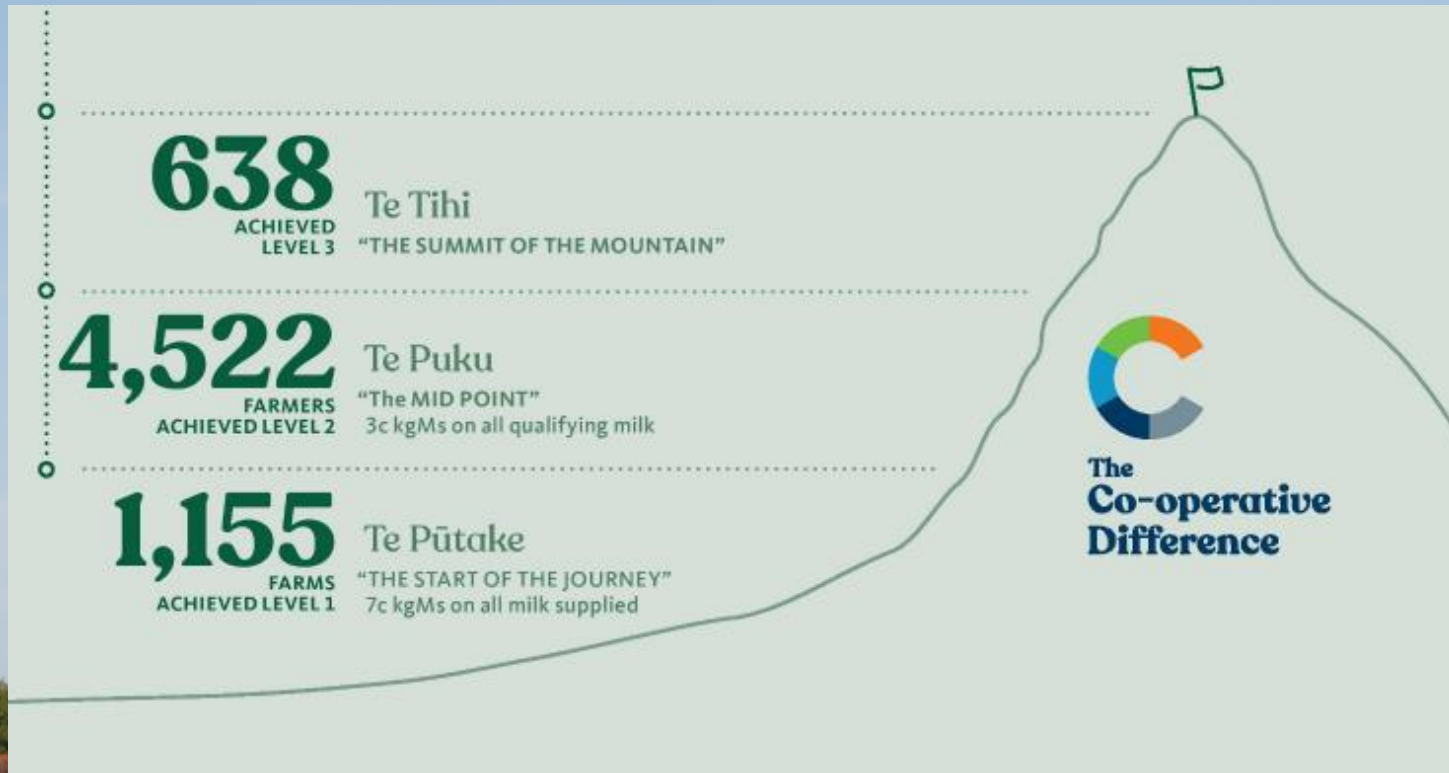
~\$1 billion

Intended to be distributed to shareholders after asset sales

A black and white cow with yellow ear tags (432 and 20) is grazing in a lush green field under a blue sky with light clouds. The cow is the central focus of the image.

**Kowbucha™ could
inhibit the bugs that
create methane in
cows.**

We're making progress on farm



72%

Achieved
Co-operative
Difference

71%

FEPs



Chief Executive Officer's Address

Miles Hurrell

We've had a good year

Farmgate Milk Price
\$9.30 per kgMS

Dividend
20c per share

Reported profit after tax
\$583 million

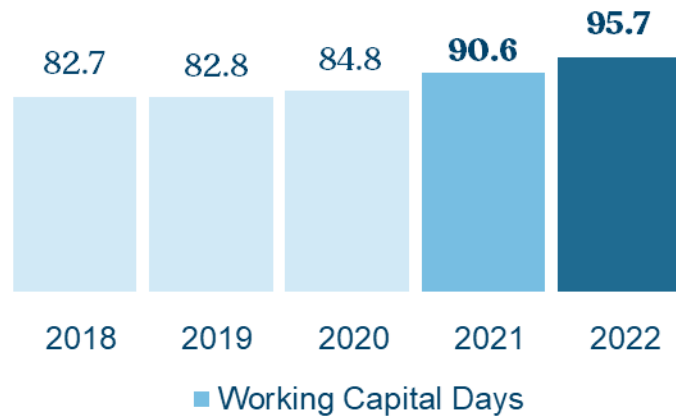
Normalised profit after tax
\$591 million

35c earnings per share

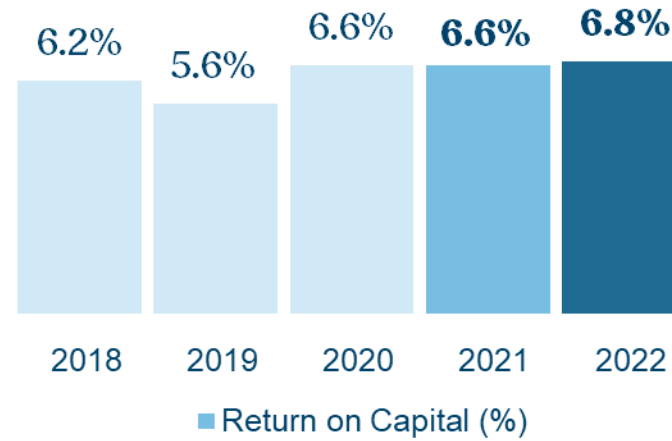
million	2021	2022	%Δ
Sales volume ('000 MT)	4,102	3,924	(4)%
Revenue (\$)	21,124	23,425	11%
Cost of goods sold (\$)	(18,010)	(20,085)	(12)%
Gross profit (\$)	3,114	3,340	7%
Gross margin (%)	14.7%	14.3%	
Operating expenses (\$)	(2,242)	(2,397)	(7)%
Other ³ (\$)	80	48	(40)%
Normalised EBIT (\$)	952	991	4%
Normalised profit after tax (\$)	588	591	1%
Normalised EPS (cents)	34	35	3%

**Delivering
a solid
Total Group
business
performance**

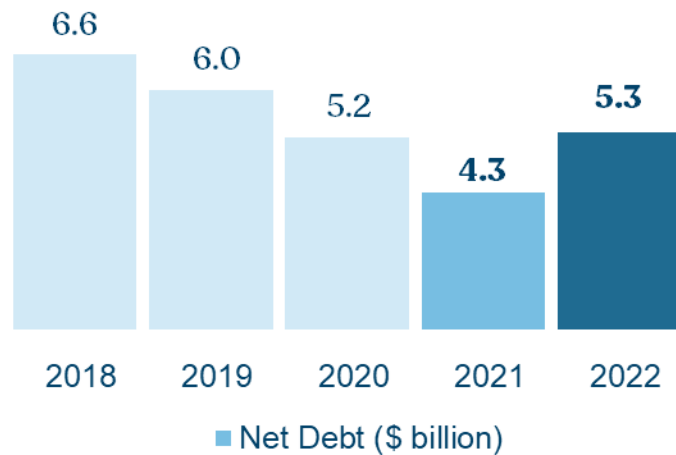
Working Capital



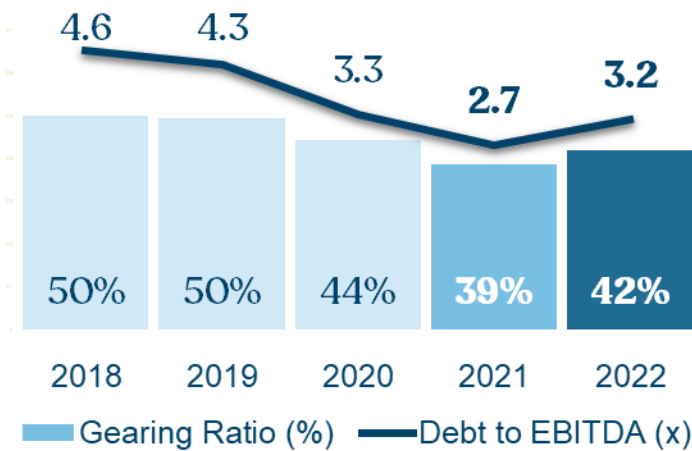
Return on Capital



Net Debt



Leverage



A strong balance sheet enabled us to manage inventory

**We optimised
our business
on the best
performing
products to
capture
higher
returns**

	Asia Pacific	AMENA	Greater China	Total
Volume ('000 MT)	1,370 ↓ 1%	1,355 n/c	1,029 ↓ 13%	3,754 ↓ 4%
EBIT contribution				
 Ingredients	\$192m ↑ \$168m	\$442m ↑ \$231m	\$282m ↑ \$152m	\$916m ↑ \$551m
 Foodservice	\$(13)m ↓ \$92m	\$(4)m ↓ \$19m	\$155m ↓ \$120m	\$138m ↓ \$231m
 Consumer	\$58m ↓ \$144m	\$89m ↓ \$21m	\$(5)m ↓ \$3m	\$142m ↓ \$168m
Total	\$237m ↓ \$68m	\$527m ↑ \$191m	\$432m ↑ \$29m	

Our strategy is built on a strong platform

Our strategic long-term aspirations and targets to 2030



Focus on Aotearoa
New Zealand Milk



PERFORMANCE
TARGETS

40–50%
EBIT increase
from FY21

~9–10%
Return on capital

Increase dividends to
~40–45
cents per share

Aspiration to be
Net zero
by 2050



Be a leader in dairy
Innovation & science



INVESTMENT

~\$1 billion
in sustainability

~\$1 billion
moving more milk to
higher value products

~\$160m
per annum in
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~\$2 billion
for mix of
investment in
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Be a leader in
Sustainability

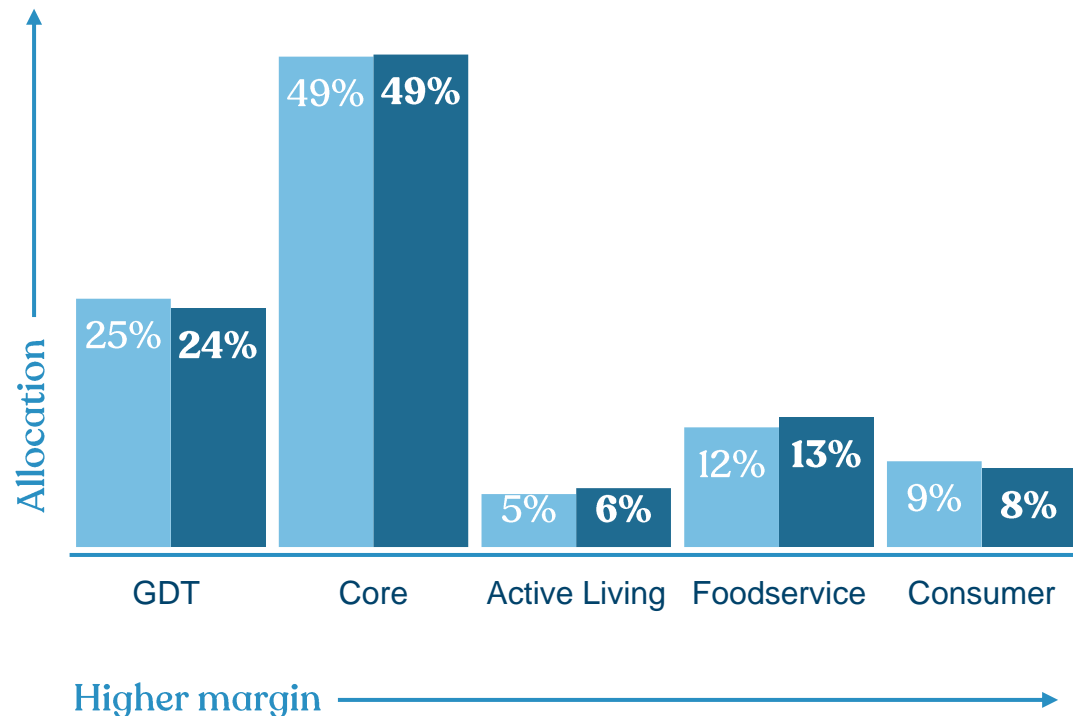


DISTRIBUTION
OF FUNDS

~\$1 billion
Intended to be distributed to shareholders after asset sales

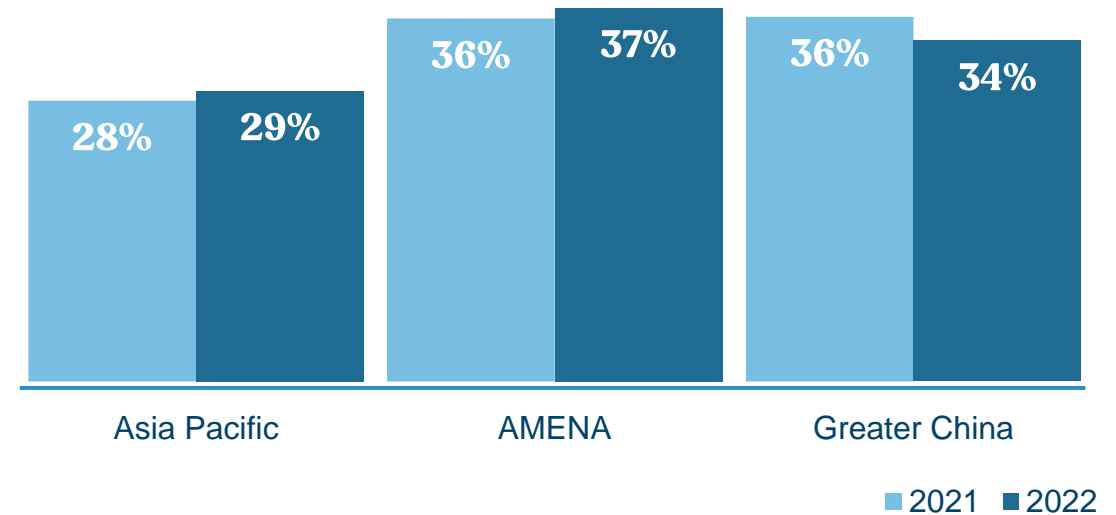
We're shifting milk into higher value products

New Zealand milk solids allocation by product channel



New Zealand milk solids allocation by region

% of milk solids



FY23 Outlook

2022/23 Forecast Farmgate Milk Price

\$8.50– \$10.00
per kgMS

Midpoint of **\$9.25** per kgMS

Forecast Earnings

45–60c
per share





Dairy for life

Fonterra Co-operative Group Limited **Annual Meeting 2022**

Resolution

1

Approval of remuneration of Shareholder Elected Directors



Dairy for life

Resolution 2

Approval of remuneration of Co-operative Councillors

Resolution 3

Approval of remuneration of members of the Directors' Remuneration Committee

Resolution 4

**Appointment of KPMG as
auditor and authorisation of
the Directors to fix the
auditor's remuneration**



Dairy for life

Resolution 5

Ratification of appointment of Mr Scott St John



FONTERRA
CO-OPERATIVE
COUNCIL

Chairman - Fonterra Co-operative Council

James Barron

Resolution 6

Approval of the Co-operative Council programme and budget

FONTERRA
CO-OPERATIVE
COUNCIL





Dairy for life

Fonterra Co-operative Group Limited **Annual Meeting 2022**

General Business



Dairy for life

Fonterra Co-operative Group Limited **Annual Meeting 2022**