



Market Announcement

19 July 2021

Farmer feedback set to shape revised capital structure proposal

With the first phase of Fonterra's capital structure consultation now complete, the Co-op is drawing up a revised proposal that aims to reflect farmers' views.

A number of changes are being considered to the preferred option initially put forward in the [Consultation Booklet](#) in May – including adjusting the proposed minimum shareholding requirement for farmers and enabling sharemilkers and contract milkers to own shares.

"It's a good time for the Board to step back and reflect on the feedback as most farmers will now be busy with calving. Once they've come through this particularly busy time of the season, we'll be ready to consult on the updated proposal," says Chairman Peter McBride.

Consultation has been extensive to date, starting with the initial communication on [6 May](#) and the Consultation Booklet being sent to every farmer owner. Since then:

- Directors have held **90 farmer meetings**, attended events such as the My Connect conference and Field Days as well as leading **7 online webinars** and speaking with many farmers directly.
- Over **5,000 farmers** have directly engaged through feedback channels, in addition to discussing the options with each other.
- Members of Fonterra's Board and management have also been talking with other groups such as the Co-operative Council (formerly the Shareholders' Council), the Fonterra Shareholders' Fund, the Government, major banks and rural professionals. This engagement will continue as the consultation progresses.

"We would like to thank our farmer owners for getting involved and approaching the consultation with open minds," says McBride.

"We also want to acknowledge the uncertainty that comes along with us considering changes to our capital structure and the significant challenges that it's creating for some farmers. The best way to give certainty is to ensure we have a full discussion as a Co-op and get to a quality outcome.

"The Board maintains its belief that, in a flat or potentially declining milk environment, making changes early will put us in the best position to provide farmers with more flexibility while protecting farmer ownership and strengthening our Co-op's financial sustainability."

Summary of farmer feedback

Many farmers said that additional information on the Co-op's business strategy and future performance would help them form a clearer view on capital structure.

“In August and September, we will provide further information on our long-term strategy including the types of activities we will invest in, the returns we are targeting, and the measures against which we will track our progress.”

McBride says farmers’ views have been varied and heartfelt, but with some clear themes coming through.

“We will seek to cater for the diversity within our ownership base, but it is impossible to incorporate every piece of feedback. As a Co-op, we need to be pragmatic and open to compromise in order to find a way forward together that is in our best long-term interests.”

A summary of the feedback as well as a high-level overview of alternative proposals submitted by farmers is available at www.fonterra.com/capitalstructure.

Proposed areas for change

The Board is considering a number of changes as it thinks about what a final proposal could look like. These include:

- Setting the minimum shareholding requirement at 33% of milk supply (or 1 share per 3 kgMS), rather than 25% (or 1 share per 4 kgMS) as originally set out in the preferred option.
- Enabling sharemilkers and contract milkers to hold shares if the Co-op moved permanently to a farmer-only market.
- Extending the entry timeframe from five to six years.
- Extending exit timeframes for all farmer owners on the date of the vote to up to 10 or 15 years, including those who have already ceased in the past few seasons but who still hold shares.
- Reviewing the market maker role and looking further at how potential share buy-back options might support liquidity in a farmer-only market.
- Maintaining the share maximum at 4x milk supply to also help support liquidity.

“We have also reconsidered voting rights in light of some feedback and at this stage our preference is for voting to continue to follow share-backed supply as it currently does,” adds McBride.

Next steps for consultation

Fonterra is committed to moving as quickly as it can through the capital structure review while also taking the time needed to consider all views.

Over the next couple of months, the Co-op plans to do surveys and hold focus groups to ask farmers specific questions and test different aspects of the potential changes.

“This will help us as we continue to develop a more detailed proposal to present to farmers around the time of our annual results in late September for further consultation. At this stage, we are still aiming for a farmer vote at our Annual Meeting, which will be held in December.”

Further information is available at www.fonterra.com/capitalstructure

Attachment

- Presentation

ENDS

For further information contact:

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