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.