FONTERRA ANNUAL MEETING
9 NOVEMBER 2023
CEO'S ADDRESS

Kia ora. On behalf of Fonterra's Management Team, I'm pleased to welcome you to our 2023 Annual Meeting.

I thank those who have travelled to be with us here in person and greetings to those joining us online.

Before passing to Peter, I will share with you an overview of our Co-op's performance for FY23, our outlook for FY24, and provide key updates on our Co-op's plan to deliver on our 2030 strategy.

Then I will hand over to Peter to provide an update from the Board.

The Co-op delivered strong results for FY23 and made good progress on its strategic initiatives.

During the year, we implemented our new Flexible Shareholding capital structure, completed the divestment of our China Farms and Chilean Soprole businesses, and launched our new nutrition science corporate ventures arm Ki Tua.

These milestones were several years in the making and I'm proud the team delivered upon the commitments we made to you, our shareholders.

Our FY23 financial performance was shaped by market dynamics which we worked hard to make the most of where possible.

Our profit after tax was $1.6 billion, up 170% on last year, and our return on capital was 12.4%, up from 6.8%. This was primarily driven by high protein prices, which we captured in our Ingredients channel.

Our earnings performance put us in the position to pay a full year dividend of 50 cents per share, including the interim dividend of 10 cents per share.

In addition, we returned tax-free 50 cents per share following the divestment of our Chilean Soprole business.

However, we acknowledge these strong returns were against the backdrop of a Farmgate Milk Price which fell across the season. This was a result of reduced demand for Whole Milk Powder, in particular from key importing regions.

To optimise our Farmgate Milk Price, we moved milk into higher performing reference product categories, such as skim milk powder and cream where possible, and ended the season with a final Farmgate Milk Price of $8.22 per kgMS.

Farmers faced pressure across the year from high input costs and a Farmgate Milk Price that was below break even for many. In response, we utilised our balance sheet strength to assist farmers with on-farm cash flow.

Fonterra's balance sheet metrics are better than target levels, even after adjusting for the impact of the Capital Return, thanks to a dedicated focus on lowering debt and financial discipline.

This has allowed us to introduce a new Advance Rate Schedule which gets cash to farmers sooner. It has also supported our ability to pay a full year dividend slightly above our dividend policy range of 40% to 60% of earnings.

At all times, we focus on what's within our control to maximise overall returns to our shareholders and unit holders.

We are continuing our disciplined approach through the introduction of two new efficiency measures and a new resource allocation framework.

The new efficiency measures will assist us to stay on track for our short and long-term targets by ensuring that our costs are managed relative to the value we can generate and the milk volumes we collect.

The two new core metrics are:

- a 4% cash operating cost improvement per year, which will assist long-term discipline in our global operating expenses; and

- a 2% New Zealand cash manufacturing cost improvement every year. This is to support efficient New Zealand operations while ensuring we remain laser focused on delivering value.

We expect application of these two measures will see us reduce costs across our business by $1 billion by 2030.

We are also increasing our focus on the efficient allocation of our farmers' milk and capital, guided by our new resource allocation framework.

Our first priority is safe and efficient operations. We then allocate our farmers' milk toward either our Ingredients, Foodservice or Consumer channels according to where we believe we will see the highest returns.

Following this, we allocate the cash generated from these channels to either dividends, capital returns, paying down debt, growth capital, innovation or share buybacks – whichever will generate the best outcome for our shareholders over time.

Looking now at FY24, our current forecast Farmgate Milk Price range for the season is $6.50 - $8.00 per kgMS, with a midpoint of $7.25 per kgMS.

This reflects ongoing reduced demand for whole milk powder, although we have seen a strengthening in prices recently as supply and demand dynamics improve.

New Zealand's milk collections are forecast to be slightly lower than last season, while aggregate milk growth in key export markets is also expected to be below average.

On the demand side, it is not yet clear whether the stronger demand seen in recent Global Dairy Trade events will be sustained so we are cautious in our outlook.

Looking at our forecast earnings for FY24, the favourable price relativities that we experienced across FY23, and which drove our Ingredients channel performance, have reduced from their peaks.

But we are forecasting improvement in our Consumer and Foodservice channels as our markets capture improved margins. As such, our FY24 forecast earnings range for continuing operations is 45-60 cents per share.

Last week we announced that Neil Beaumont is leaving the Co-op after a relatively short time with us as CFO.

While the terms of Neil's exit are confidential, I can confirm that his departure was mutually agreed by both Fonterra and Neil and was not in any way linked to the Co-op's financial performance.

While he was with us Neil created some real momentum in terms of how we set and achieve our goals for 2030, including the Resource Allocation Framework, two additional efficiency metrics and cost reduction targets we have added to our performance framework.

I am determined that this momentum will continue.

We will be commencing recruitment for our new CFO shortly, in the meantime I'm pleased to have Simon Till acting in the CFO role. Simon has been with the Co-op for over a decade and will be known to many of you.

I'm confident our management team, which now includes Simon, will continue to make strong progress and deliver for our shareholders.

Turning now to strategy, over the medium to long-term, the outlook for New Zealand dairy remains positive. Demand for sustainable nutrition is continuing to grow and by implementing our strategic plans we are well positioned to meet this demand.

As we know, being a leader in sustainability is a fundamental part of our strategy. We already have a competitive advantage, thanks to our pasture-based farming model that produces some of the lowest carbon dairy in the world.

But we also know we need to keep moving to retain our competitive edge. At last years' annual meeting, we signalled that we are considering introducing an on-farm emissions target. Since then, we have held meetings, webinars and engagements with farmers on why a target is needed and what one could look like. I thank those who participated in these sessions.

To re-cap, having a target will assist us to retain and grow customer partnerships and access finance and export markets. It will also bring us into line with our main global competitors, most of which have already set targets.

This is why we have decided to introduce a target of a 30% reduction in our on-farm emissions intensity by 2030, from a 2018 baseline.

Fonterra farmers have built a world leading business on the back of innovation and hard work. We know farmers will continue this tradition and continue to lead the way in producing high quality sustainable dairy, which gives us confidence to set this target.

It's important to note that our target will be measured at the Co-op level, not the farm level. But collectively achieving it will need action by all.

Also, an intensity target means we are seeking to reduce the number of emissions produced per kilogram of milk solids, which is all about finding efficiencies on-farm.

We see a credible pathway to deliver the 30% reduction, which looks like:

- A 7% reduction through farming best practices, including feed quality and herd performance.

- A 7% reduction through the application of new technologies, such as Kowbucha.

- An 8% reduction through carbon removals from existing and new vegetation

- An 8% reduction from historical land-use change.

While everyone will have opportunities for efficiency gains, the action plan will look different for each farm. The Farm Insights Reports provided to you by your Co-op identify the opportunities on your farm. Your Farm Source team can advise on the tools, services or industry resources available to realise those gains.

As our target will be measured from a 2018 baseline, any change made since 2018 will contribute to our 2030 goal. Progress has already been made in the areas of sequestration and land use change. More importantly, of the seven percent we're looking to achieve through on-farm best practices, we've already achieved two percent Co-op wide.

We know the rate of change farmers are facing is already challenging. Good progress can be made towards the target with the tools we already have available today, and your Co-op is here to assist you along the way.

During visits this year to Europe, China and the US it's been very clear to me that sustainability is top of the agenda for our customers and that our competitors are moving at pace.

It's great to see Nestlé and Mars directly supporting farmers with this. You will hear more about this next year.

The target we have introduced is credible and internationally recognised. It will help to future proof both the Co-op and your farming businesses, supporting our ambition to be a long-term sustainable Co-op for generations to come.

Thank you for your time and I will now hand over to Peter.