

**FONTERRA SPECIAL MEETING
9 DECEMBER 2021
CHAIRMAN'S ADDRESS**

I'd like to start by thanking all of our farmers for the spirit in which you have engaged with us on the capital structure review.

One of the strengths of this Co-op is the diverse thinking, experience and perspectives amongst its members.

We have embraced that diversity in this review.

We have received input from thousands of farmers. Your feedback, ideas and constructive challenges have strengthened the recommendations, so I hope you all felt genuinely consulted through the process.

The Board, senior management and 92% of your Co-operative Councillors are united in the belief that these changes are our best course of action.

Our situation here in New Zealand is changing fundamentally, and we need a capital structure that maintains a strong Co-op through these changes.

Milk is the lifeblood 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.

It is an environment that is rapidly changing due to factors such as environmental pressures, new regulations and alternative land uses.

To be successful, Fonterra must be an attractive option to farmers, many of whom have a choice on where their milk goes.

Farmers leave for different reasons, but one of the most influential ones is the high level of compulsory investment that's required to be part of our Co-op.

A capital structure with flexible shareholding would help to level the playing field with competitors, many of whom are foreign-backed and don't require farmers to invest capital.

Stronger financial performance alone is not enough to retain milk. We need a more level playing field.

If we do nothing, we are likely to see around a 12–20% decline by 2030 based on the scenarios we have modelled.

Staying stronger together is in all of our interests. Our scale efficiencies lead to better utilised factories, lower processing costs, and our ability to pay the highest sustainable milk price.

Our recommended structure gives all farmers a level of flexible shareholding, which is critical to supporting farmers to join or stay with our Co-op.

The key features of the recommendation are:

- A 33% share minimum – where you would only need to hold one share for every ~3 kgMS supplied.
- A 4x share maximum – you could hold up to four times your milk supply in shares. A farmer-only market for shares, with a capped Fund. Farmers would decide the prices at which they buy and sell shares, without the traded price being influenced by external investors. The overall limit on the Fund size would be reduced from 20% to 10%.
- A more inclusive pathway to becoming a Co-op member – as sharemilkers, contract milkers and farm lessors can hold dry shares.
- On exit from the Co-op, existing shareholders would have up to 15 seasons to share-down initially, reducing to 10 seasons. New suppliers would have up to 5 seasons. Associated shareholders would have up to 3 seasons.
- On entering the Co-op, farmers would have up to 6 seasons to reach the 33% share minimum.
- Voting remains based on share-backed milk supply.

There is no perfect answer, but we are confident that this structure will support the sustainable supply of New Zealand milk that our long-term strategy relies on. One enables the other, and together they give our Co-op the potential to deliver the competitive returns that will continue to support our families' livelihoods from this generation to the next.

If our recommendations are supported by the necessary 75% of voting farmers, the changes will take effect once the Board is satisfied that any steps necessary for implementation have been, or will be, completed.

Part of that is working with the Government on what the changes might mean under the Dairy Industry Restructuring Act.

I believe we are philosophically aligned with the Government. We both want to see Fonterra continue to thrive as a New Zealand co-operative and deliver increasing value for the economy and for farmers.

I have spoken to Minister O'Connor since receiving his letter that was included in the Notice of Meeting and remain confident that we can find a regulatory framework that supports the Flexible Shareholding structure.

If the recommendations don't receive the required level of support, the Board will consider the result of the vote and then engage with shareholders about next steps. I expect that the temporary cap on the Fund will remain in effect at least until then.

James I'll now invite you to address the meeting.

[Chair of the Co-operative Council addresses the meeting]

Thanks James.

Before I ask Brent Goldsack to speak to the resolution, I'd like to make some final comments of my own.

Changing our capital structure is one of the most profound decisions we will make as farmers.

At its heart, this review has been about protecting the Co-operative that we have built together. Building on what we've got today and handing it over in a stronger position, from one generation of Kiwi farmers to the next.

It's a conversation we need to have now when we have options open to us and when our Co-op is in a relatively strong financial position.

The easy thing to do as a Board would have been to wait, kick the can down the road, and leave it for the next set of governors to solve.

That's not what good governance is about. Collectively we all need to show some leadership.

At the heart of the conversation is a single decision. Either we are a corporate or a co-operative. We have to decide what we are.

The current model where we are trying to have a foot in both camps is not sustainable. If we are only interested in the value of our shares, then we should fully corporatize right now.

But if we want to be a strong and enduring cooperative, we believe the capital structure changes we are recommending are the best course of action available.

I fully believe in the potential of this Co-operative.

Fonterra hasn't always lived up to its promise – we can all agree on that.

But the capital structure conversation isn't about past mistakes. It's about enabling the future of Fonterra.

We need to look up and look out and take a long-term view.

Our aspiration for Fonterra's future is a Co-op that pays the highest sustainable milk price and a respectable return on your invested capital.

- Where farmers decide the prices at which they buy and sell shares.
- Where New Zealand's best dairy farmers choose to belong and commit their capital.
- Setting the benchmark for milk quality, ethical and environmentally sustainable farming practices that consumers pay a premium for.

- It's a Co-op that invests in research and development. Creating new and interesting products for customers, in response to changing consumer trends.
- It supports farmers' efforts to adapt to regulatory changes by being part of the search for solutions to methane, fresh water and access to skilled labour.
- Where the smartest minds in global dairy choose to work on behalf of its members.
- It's a Co-op owned and controlled by kiwi farming families that had the courage and foresight to form an internationally competitive farmers' Co-op of scale.

If that sounds like something you want to be a part of, then I hope you can support the recommendations.