

FONTERRA SHAREHOLDERS' FUND 2024 ANNUAL MEETING
18 NOVEMBER 2024
FONTERRA CHAIR'S ADDRESS

Good morning everyone, thank you all for attending today.

In a few minutes Miles will talk you through a short summary of our financial performance. I know many of you will also be keen to hear his comments on our strategy refresh and the intended divestment of consumer.

Before we hear from Miles, I thought it would be informative to talk you through a couple of key insights that the board considers important in the development of strategy.

These form the background of the conversations we have as a leadership team when we consider our options around the strategy, including the decision to divest our wider consumer business.

The first insight is our global operating context – which continues to change.

And the second is risk – how we manage risk on your behalf and the way we treat your capital.

We are and always will be a New Zealand farmer-owned Co-op, but we are also a global export business.

When considering our strategy we need to challenge ourselves to look past the here and now.

The world is changing. We are moving out of an era of trade liberalisation and co-operation and into a world that's more expensive, competitive and volatile. Where expectations are evolving and New Zealand milk is becoming more scarce.

Customers are increasingly calling on us to partner with them to improve their sustainability and innovation capabilities. And there's even more focus on sustainability from banks, regulators, and from a market access perspective.

The cost of capital has increased, and many industries – including agriculture and our bankers – face higher capital requirements.

In this new global context, Fonterra also faces increasing competition for both milk and capital here at home.

That all sounds inherently negative, and it's certainly not without risk, but the opportunity for us still absolutely exists.

Demand for dairy continues to grow and, in a rapidly changing world, we are uniquely positioned to capitalise on any shifts.

We have high quality New Zealand milk which is becoming more scarce.

And most critically, we have scale.

That gives us great confidence in the future of our Co-op. Success will come by focusing on our comparative advantages, simplifying the business to meet that, and then aligning our people to achieve that singular vision.

The second insight we consider is risk.

Fonterra is an extension of our farmers' businesses. It exists to provide certainty and manage risk on their behalf, while also maximising returns via a competitive and sustainable milk price, and a respectable return on the capital you invest in the Co-op.

We govern Fonterra through a set of financial settings and a risk appetite that is now more appropriately aligned to that of our farmer owners.

As you've seen from our recent financial performance, this approach has served us well in recent years and has set a strong platform for this next phase in Fonterra's evolution.

Fonterra adds value for all dairy farmers by creating stability for the industry and de-risking the on-farm investment.

We add value through the milk price - delivering a return on the \$50 billion invested in on-farm capital.

And by generating a return on the \$12 billion worth of capital farmers and unit holders have invested in the Co-op.

This last piece is central to the conversation on our strategy and the divestment of our consumer business.

Right now, we estimate the weighted average cost of capital for a dairy farmer is somewhere around 10%.

Consumer businesses are inherently more capital intensive and riskier businesses to operate - you've seen that play out over time in our own operation.

Overlay that with the potentially higher geographic risk in the markets where our consumer businesses operate, and a respectable return on capital for the consumer business should be something north of 15%.

Our Consumer business had one of its better years in 2024, but despite that, its return on capital was just 6.8%, up from negative 3.9% in 2023 and 0.2% in 2022.

We cannot justify investing money into a business that generates returns lower than our farmers' opportunity cost of capital, whilst at the same time exposing shareholders and unit holders to more risk.

We are better off returning that capital to you, reinvesting it into the parts of our business where we have a comparative advantage, or a mixture of both.

That might seem like a cold message to the people in the room that have an emotional connection to those brands. We understand that. Those brands and the associated assets that go with them do hold a lot of value, to the right owner.

Fonterra, as a farmer-owned co-operative and the associated cost of capital that comes with that model, is not the natural owner of a consumer business.

Having reached that conclusion, our focus from here is on running a process that maximises value in a way that is in the best long-term interests of shareholders and unit holders.

The evolved Fonterra that remains will be a simplified business focused on our comparative advantages. It will be lower risk, be less capital intensive, and achieve an increased return on capital overall.

I hope that's a useful insight into the way the Board looks at these strategic choices. Having options is a good thing and you are right to want more information around these big decisions.

Ultimately this will be a decision for our farmer shareholders to make. We will keep you updated as much as possible along the way and provide you with the details that sit behind any final decision.

Miles will give you his perspective shortly, but before we go there, I do need to quickly cover off some other governance matters.

Given the heightened uncertainty and volatility I mentioned earlier, the Co-op can be proud of the set of financial results it has put up this year.

We did have some tail winds in terms of favourable price relativities, but the team worked hard to take full advantage of those and our underlying performance has improved significantly through time.

In my opinion, the shift in the unit price reflects performance, and the returning confidence investors have in Fonterra.

As MJ mentioned earlier, over the past 12 months the unit price has increased from \$3.14 to \$5.41.

You should have seen an announcement last week that we are moving Fonterra Co-operative Group shares onto the NZX main board.

I want to reiterate that there is no change who can buy shares in the Co-op or units in the Fund.

This is a simple but important cost-saving exercise that we have initiated and, as MJ has already mentioned, was supported by the Fonterra Shareholders' Fund Board.

Lastly, I'd like to touch on the Board changes that came into effect at the conclusion of last week's Fonterra's Annual Meeting.

Last year, just over 88% of voting farmers supported the recommendation for the Board size to reduce from 11 down to 9 directors. That change came into effect at the end of last week and Fonterra's Board now comprises six farmer elected directors and three appointed independent directors.

One of those independent directors is Alistair Field, who we welcomed to the Board earlier this month.

As I told our farmers last week, our Co-op is in good health.

The sentiment we are receiving from stakeholders right now is overwhelmingly positive and there is a huge amount of positive momentum in the Co-op.

Our teams are confident and energised, which is important as we look to lean into increasing competition overseas and back here at home.

Thank you. I look forward to answering any questions you have on these comments later in the meeting.

ENDS