

FONTERRA SHAREHOLDERS' FUND ANNUAL MEETING

14 NOVEMBER 2022

FONTERRA CFO'S ADDRESS

Good morning everyone

I want to echo Peter's words by acknowledging those Directors retiring this year – Chair John Shewan and Directors Kim Ellis and Donna Smit.

I want to spend a few minutes reflecting on the year just gone but also look ahead to what's on the horizon.

FY22 was a year like no other. COVID-19 continued to test us. We saw new strains and regional lockdowns in New Zealand and ongoing restrictions in a number of our global markets.

The war in Ukraine accelerated decisions about the future of our Russian business, and we also felt the impact of the Sri Lanka economic crisis.

And of course, we started to feel the effects of rising inflation, which continues to be an issue for all of us.

As an exporter, we're used to dealing with geopolitical and macroeconomic events. But FY22 was exceptional in terms of the number and their impact.

Despite this, we stuck to our strategy of maximising the value of our precious milk and in the face of uncertainty, delivered an impressive set of results.

We all know that a high milk price has the potential to squeeze margins, so it was good to see progress in our key metrics.

Total Group Revenue, Normalised Profit After Tax and Group normalised EBIT were all up.

Given the lower milk collections, it's good to see Total Group gross profit up \$226 million due to significantly higher product prices across our Ingredients channel.

We delivered this result despite the significantly higher cost of milk, with the Farmgate Milk Price increasing from \$7.54 per kgMS last year to \$9.30 per kgMS this year.

I know it won't have escaped your notice however, that net debt was also up.

As you know, a key aim of the strategic reset kicked off in 2019 was to shore up our foundations and strengthen our balance sheet.

That strong balance sheet means we were able to hold greater inventory at the end of the financial year.

The bulk of this was contracted but shipping disruptions and stronger milk collections towards the end of the season meant we held more inventory than usual at year end.

The result was an increase in working capital and in our net debt position. I'm pleased to say the team has made great progress in getting that inventory out the door and we expect working capital and debt to return to normal levels over the course of this year.

Despite the decision to hold more inventory, it's good to see that our improved performance has meant our return on capital has increased from 6.6% to 6.8%.

The financial year saw continued strong demand for dairy across multiple markets and products at a time of constrained milk supply.

We faced global supply chain challenges, and a significantly higher cost of milk for our businesses.

The increase in prices over the season did place pressure on margins in our Foodservice and Consumer channels, but this was more than offset by strong earnings in our Ingredients channel.

I want to turn now to our strategy.

It's just over a year since we announced our strategy to 2030.

The last year shows that there will be some bumps along the way, but we remain committed to the goals we set ourselves 12 months ago.

Demand for our sustainable, nutritious dairy remains strong.

We made three strategic choices – to focus on our NZ milk, to lead in innovation and science and to lead in sustainability.

These are guiding our business and every single decision we're making. We're pleased with the progress to date.

Success for us means allocating our scarce resource – those milk solids – where they will deliver the greatest value.

You'll see from this slide how that played out last year, with the growth you see in our Active Living business. The allocation of milk solids to our Foodservice channel has also continued to grow, with innovation expanding the uses of our UHT cream range within our Anchor Food Professionals brand.

We continue to make progress on the sale of our Soprole business which of course underpins the capital return we've discussed

previously. We've also completed the review of our Australian business and decided that long-term, it's in our best interest to maintain full ownership.

Sustainability sits at the heart of our strategy, and we continue to make good progress. The public private partnership between our sector and the Government to address the methane challenge builds on some of the sustainability work we're already doing.

Of course, we have a natural advantage in the sustainability stakes, with a carbon footprint less than one third of the global average. But we can't sit back. Customers and consumers expect more and doing nothing simply isn't an option. We need to maintain our advantage and keep pace with their expectations which is why we signalled at last week's Annual Meeting that we're considering setting a target for scope 3 emissions.

We know change is inevitable, but with change comes opportunity and that's why we're excited about the future.

Looking ahead to the current season, it's good to kick the year off with strong earnings guidance of 45-60 cents per share, up from our initial forecast of 30 to 45 cents per share.

As you would expect, we continue to monitor a number of global risks, but we do expect to see an easing in some of the significant geopolitical events which tested us last year and you can see that also reflected in the strong earnings guidance and the forecast milk price.

Longer term, we have our 2030 targets firmly in our sights. The changes we recently made to our organisational structure puts us in the

strongest possible shape to deliver, and it's good that we were able to do that by promoting some of our brightest internal talent.

Emma Parsons heads up our Strategy and Optimisation team, ensuring that in the context of our shrinking New Zealand milk pool, our milk solids are being allocated to the highest value product mix.

Her team also ensures our strategy remains fit for purpose in the context of changing global trends and events.

We have a proud heritage of dairy innovation, and our future success depends on our ability to double down to extract maximum value from our milk.

Komal Mistry-Mehta leads our Innovation & Brand team, putting innovation at the heart of our Co-op.

And Judith Swales heads up our expanded global markets team, bringing the customer voice front and centre as we focus on our New Zealand milk pool.

It's good to see the progress being made on our flexible shareholding and we look forward to those changes being implemented as soon as we are able to so that our Co-op can continue to thrive. A strong, united Co-op is in everyone's best interests, delivering for you, our rural communities, and New Zealand as a whole.

Thank you for your ongoing support.