FONTERRA ANNUAL MEETING
10 NOVEMBER 2022
CHIEF EXECUTIVE OFFICER'S ADDRESS

Tēnā koutou katoa
Nau mai, haere mai
Ki te hui-ā-tau
Ki ngā mate
Haere, haere atu rā.
Ki a tātou e pae nei
Tēnā tātou.
Te Arawa waka, Te Arawa whānui
Tēnā koutou

I want to reiterate the Chairman's words of welcome and acknowledge Te Arawa as the host iwi in Rotorua. After the disruptions of COVID-19, it's great to see so many of you here today.

I want to spend a few minutes reflecting on the last financial year 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 us all.

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 your precious milk and in the face of uncertainty, delivered an impressive set of results.

It was pleasing to see the final Farmgate Milk Price of $9.30. With the total dividend of 20 cents per share, it meant a final cash pay-out of $9.50 per kgMS for our fully shared-up farmers. We should all be proud of what that means for New Zealand as a whole, with around $13.7 bn flowing into the domestic economy.

A high milk price has the potential to squeeze margins, so it was pleasing to make progress on our key metrics. Total Group Revenue, Normalised Profit After Tax and Group normalised EBIT were all up. Given lower milk collections, it's good to see Total Group gross profit up $226 million. This was due to significantly higher product prices across our Ingredients channel – particularly in the protein portfolio.

It won't have escaped you that net debt was also up, however.

A key aim of the strategic reset we 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. 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%.

As the Chair said, 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. This increase in prices did place pressure on margins in our Foodservice and Consumer channels, but it 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 choices are guiding our business and every single decision we're making. I'm pleased with the progress to date.

Success for us means allocating our scarce resource – those precious milk solids – where they will deliver the greatest value. You'll see from this slide how that played out last year, with the growth in our Active Living business.. The allocation of milk to our Foodservice channel continues to grow, with innovation expanding the uses of our UHT cream 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 you, our farmer owners, have created a natural advantage in the sustainability stakes. It means we have 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 this advantage and keep pace with their expectations.

I know that comes at a cost and at a time when change seems to be the only constant. But this is why we are part of a Co-operative. We exist because of you and for you. That’s why we’ll continue to work with Government on their proposals for He Waka Eke Noa to ensure your voices are heard.

We do want to send an early signal today that the Co-op is considering setting a target for scope 3 emissions. Scope 3 encompasses carbon emissions that are not produced by the company itself, but those it's indirectly responsible for, up and down its value chain. That includes farmers.
Before the end of the year, we will be out discussing the target and what the flow-on effect for farmers might mean. We can’t go into that detail until a target has been identified, but I can explain the rationale for it.

In short, it comes down to us collectively meeting the climate change expectations of our stakeholders, and the risk if we don’t. Now that COVID-19 restrictions have largely been lifted, the Chair and I have been spending time in our markets. The subject that dominates conversations with our customers and debt capital providers is sustainability.

Our high value customers are setting emissions reductions targets and looking for our help. If we can’t give them confidence that we will help them achieve their targets, they will look to our competitors – including using alternatives to milk.

You may have seen the recent announcement of our Sustainable Finance Framework, which aligns our funding strategy with our sustainability ambitions. Our banks and financiers want to know the steps we’re taking to reduce our emissions footprint. It is our expectation that the bankswill be setting their own industry targets over the coming years.

We anticipate that you will be having similar conversations with your banks in relation to your individual farming businesses within a similar timeframe, so it’s a conversation and a change that we need to do together.

We all know that change is inevitable, but with change comes opportunity and that’s why I’m excited about the future. It’s good to kick the year off with another strong forecast Farmgate Milk Price range and that midpoint of $9.25 per kgMS alongside our earnings guidance of 45-60 cents per share.
GDT has shown that despite strong demand, dairy isn’t immune to the effects of market volatility. But we have kicked off the year with strong contract rates and I look forward to updating you on our Q1 performance next month.

Longer term, we have our 2030 targets firmly in our sights. The changes we recently made to our organisational structure put us in the strongest possible position to deliver, and I’m pleased 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 precious 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.

The Chair mentioned our flexible shareholding and I'm also looking 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 farmer owners, our rural communities, and New Zealand as a whole.

I want to close by acknowledging our departing CFO Marc Rivers. Marc joined our Co-op at a difficult time, and it's testament to the work he's led in improving our balance sheet and our portfolio management that he leaves us with a strong set of numbers. In these volatile market conditions, it is the strength of our balance sheet that gives us flexibility to make the best decisions about where and when we allocate your milk. Personally, I've valued Marc's wise counsel and the focus he's brought to our Co-op and he leaves with our best wishes.

Thank you for the support you continue to give me and my management team.

Tēna koutou
Tēna koutou
Tēna koutou katoa

Thank you and I will now hand back to Peter.