

FONTERRA SHAREHOLDERS' FUND ANNUAL MEETING

14 NOVEMBER 2022

FSF MANAGEMENT COMPANY CHAIRMAN'S ADDRESS

It was good to see Fonterra making progress on implementing its strategy and delivering a strong financial performance in the context of historically high milk prices, inflationary pressure, and continued geopolitical and supply chain disruption in several key regions.

Peter and Chris will speak to this, but it's appropriate that I highlight a few aspects of particular relevance to the Fund.

The reported profit after tax was \$583 million. Normalised earnings per share came in at the top end of the forecast range, at 35 cents per share.

Fonterra declared a total dividend of 20 cents per share which of course flows through to unit holders as 20 cents per unit. This is made up of an interim distribution of 5 cents per share and a final distribution of 15 cents per share which was paid on the 14 October.

Before I move on to discuss the performance of the Fund, I want to reiterate comments I have made at earlier annual meetings of the Fund on the role of the Board of the Manager.

The Fonterra Shareholders' Fund Board has statutory responsibilities for the activities of the Management Company and the Fund. These include monitoring compliance with regulatory requirements and ensuring that unit holders' interests are managed and protected in accordance with the constituent documents that relate to the Fund.

Directors of the Fund have no role in the governance or operation of Fonterra.

Although we have no decision-making role in these areas, we do consider it important to actively represent the interests and views of unit holders to Fonterra, and we do that.

This representation role has been an important function of the Board during the consultation process that Fonterra has undertaken on its capital structure.

Let's now take a close look at the performance of the Fund over the past year.

The graph currently on the screen highlights, despite Fonterra's strong performance, the decline of the unit price over the course of the year.

The unit price decreased 8.4% from \$3.71 at the beginning of August 2021, the start of Fonterra's financial year, to \$3.40 at the time Fonterra released its annual results on 22 September. Since then, the price has dropped a further 10.9% to \$3.03.

How the implementation of Fonterra's new capital structure might impact the unit price has played its part in subduing the price.

In addition, the performance of the unit price this year has been impacted by the heightened volatility in equity markets and the lower valuation of equity markets both in New Zealand and overseas.

This reflects uncertainty driven by inflationary pressure, higher interest rates, geo-political events and recessionary concerns.

As you can see on the graph, the relative NZX50 Index has declined 12.7% over the same period. The S&P500 index is also down 14.3% over the same period.

The graph shows a sudden drop in the unit price towards the end of April and into May 2022. Some of you might recall, this period of weakness in the unit price was directly after the release of the report by the financial and economic consulting firm Castalia, which contained a number of assertions that Fonterra did not agree with.

The Castalia report asserted that protections for a fair milk price will be eroded and that Fonterra's capital restructure will cause Fonterra's Milk Price to increase. Castalia also estimated Fonterra's future share price on the basis of possible dividends up to 2030 but appeared to assume that Fonterra has zero value at the end of 2030. Fonterra, as does the Board of the manager, considers this to be a misleading approach to valuing Fonterra shares and FSF units. And Fonterra strongly disagrees with the contention that the capital structure changes will increase its milk price.

The unit price reached a low of \$2.75 during this period but has since recovered somewhat. However, as mentioned the implementation of Fonterra's new flexible shareholding capital structure has created uncertainty for unit holders and potential investors over what the impact might be on the unit price.

The unit price has declined from \$4.60 immediately prior to Fonterra's capital structure review announcement on 5 May 2021 to last Friday's close price of \$3.03.

This uncertainty may reduce as implementation of the new capital structure proceeds through 2023. However, the independent directors of the Manager of the Fund remain of the view that Fonterra should have bought the Fund back as part of the capital restructure process. I believe that the sequence of events and adverse impact on unit price since the May 2021 announcements shows very clearly why our concerns were entirely justified.

Looking now at the current make-up of the Fund's unit register.

The various investor types have been relatively stable year-on-year. Of note however is the movement in units held by Fonterra Farmer Shareholders, which reduced from 9% to 8% of total units on issue. Farmers held 12% of units in 2020.

This reduction is most likely related to the capping of the Fund as farmers are no longer able to move their shares to units.

Retail holders continue to represent the majority of the unit register although Institutional holdings have increased slightly year-on-year, driven by a combination of New Zealand and Australian institutions. Moving on to some of the key Fund statistics.

The Fund is currently capped at 107.4 million units – at a closing unit price of \$3.03 on 11 November, this puts the market capitalisation at around \$325 million.

The number of units on issue was quite flat year on year, and with no additional Fonterra shares issued over the period the Fund size as a percentage of the total Fonterra shares also remains largely unchanged year-on-year at 6.7%.

As I mentioned a moment ago, the unit price continues to be impacted by a combination of market conditions and the overhang of Fonterra's new flexible shareholding capital structure. This has driven a reduction in the market capitalisation of the Fund by some 22%, a drop of \$93 million, from this time last year.

However, the 2023 financial year is off to a strong start. Fonterra revised its 2023 earnings guidance from 30 to 45 cents to 45 to 60 cents per share, primarily driven by strong demand for cheese and protein products. The Fonterra Board has also reaffirmed its 2030 targets and the focus on its three strategic choices:

- To focus on New Zealand Milk
- To lead in sustainability
- To lead in Dairy innovation and science

We have the opportunity now to hear from the Fonterra team on the strategies and operational plans that will deliver that value to shareholders and unit holders alike.