

Kia ora

I know many of you are under pressure right now and that the two recent revisions to our forecast Farmgate Milk Price for the 2023/24 season have made the outlook for the year even more challenging.

It's regrettable to have had to make revisions of this magnitude early in the season. While we rely on market information we have at the time, I acknowledge the pace and magnitude of these recent price changes has been unsettling.

I wanted to share some insights on what we're seeing out in the market and also update you on the actions we're taking to reduce our costs and ultimately improve our overall returns to you.

China market context

We're hearing a lot about the China market right now, as a reduction in demand from China for imported whole milk powder has been one of the key drivers of falling prices.

I wanted to give you a bit more context on the market dynamics we're seeing play out and our expectations over the medium to long term.

Strong domestic milk supply growth in China has been propelled by high raw milk prices over the past few years.

More recently, China's extended COVID-19 lockdown has reduced consumer demand for fresh milk products and this demand has not yet recovered to the previously forecast levels.

Chinese processors have been left with no choice but to spray dry their surplus milk, leading to high in-market stocks of whole milk powder.

There are reports of some rebalancing of China's domestic milk production occurring. As these changes on the supply side play out, indications are demand for New Zealand product could start to return over calendar year 2024. This coincides with the remaining tariffs on New Zealand dairy products being removed from January 2024 as part of the NZ-China Free Trade Agreement.

Overall, demand for dairy in China has continued to grow - just at a slower pace more recently. Looking beyond whole milk powder, our Greater China business is performing well, with demand for our broader product categories continuing to be strong.

China is still the world's top market for dairy imports and we believe imports will remain an important part of product mix for the foreseeable future.

We will continue to watch these market dynamics closely and will update you promptly if there are any changes in the outlook for the Farmgate Milk Price as a result.

FY24 forecast milk collections

Further, I wanted to provide an update on our forecast milk collections for the 2023/24 season, which we've revised from 1,480 million kgMS to 1,465 million kgMS.

Wet weather has impacted pasture cover and quality, and while we could see some improvement in these conditions as we head into Spring, we expect inflationary pressures and the Farmgate Milk Price outlook to continue to impact milk production levels.

Driving efficiencies across the Co-op

While we have delivered good earnings through FY23 and have a strong balance sheet, looking out to 2030, we know achieving our long term targets depends on rigorous focus on where we allocate your milk and where we invest your cash.

We also know this means reducing our costs to assist us to hit our short-term and long term targets.

For these reasons, since late last year we have been developing plans with an aim to reduce costs across the Co-op by about \$1 billion over the 7 years to 2030.

This goal will help offset higher inflation expectations and we intend to achieve it through a range of projects that will streamline how we operate.

These projects include operational efficiencies, reducing cash costs across the business, and digitisation of business processes.

We plan to front load as much of this activity as possible over the next few years. This work has been underway for some time, with cost reduction and business simplification activities already delivered or in progress through the FY23 and FY24 business plans.

To track our progress, we are introducing two new efficiency metrics which we'll report against every six months.

These are:

1. Opex per kgMS – targeting a 4% cash operating cost improvement per year to support long-term discipline in our global overheads.
2. Gross profit per kgMS – targeting a 2% New Zealand cash manufacturing cost improvement every year to support efficient New Zealand operations while remaining laser focused on delivering value.

While this focus on efficiencies will have implications for staff numbers, we don't want this to be at the expense of driving value growth.

This is about enhancing our culture of continuous improvement and maintaining progress towards our long-term targets by being very deliberate about where we focus our people and your cash.

We will keep you updated on these initiatives as they progress. We are also updating our long-term strategy and plan to share this early next year.

Your Management team and Board will be out over the coming weeks and look forward to discussing these topics with you in more detail.

Our Annual Results roadshow meetings will be held at the end of September and you can find the meeting schedule [here](#).

Ngā mihi,

Miles