

CHAIRMAN'S EMAIL

11 JUNE 2021

Subject: Update from the Chairman: Capital structure consultation

Dear [name]

To date, more than 4,000 members of our Co-op have attended one of our capital structure discussions, and there are a lot more opportunities to continue the conversation over the coming months, including:

- **A webinar Q&A:** Andy Macfarlane and I will be hosting an online webinar this coming Tuesday 15 June from 7-8pm. To join, [click here](#)
- **Additional meetings:** The Board will continue to make ourselves available in the coming weeks – keep an eye on the [Farm Source website](#) for more info
- **Q&A:** This [Frequently Asked Questions document](#) answers some of the most common questions we've received to date

Your feedback so far has been helpful to the Board. Many of you that I've heard from have shared in the problem and put your minds to potential solutions or constructive changes to the options you'd like to see.

As we look at our options as a Co-op, I thought it'd be helpful to discuss a couple of the core concepts behind the Board's thinking.

The first concept is deciding who we are as a Co-op.

I'm hearing a strong belief in the idea of an intergenerational Co-op that new farmers want to join because we all share in the benefits of scale and efficiency. At the same time, I'm conscious that some farmers are concerned about the impact the potential changes to our capital structure could have on the share price.

Prior to the temporary cap being put in place, our share price moved in line with the price of units in the Fund. In that sense it was influenced by unit holders, who have a different investor profile to that of us farmers – a farmer's cost of capital is typically higher and, for that reason, most of us expect a higher yield.

If we were to move to a farmer-only market, the price of our shares would ultimately be determined by the performance of our Co-op and trading between us farmers. While this could result in a restricted market discount and not as much liquidity in the market, the Board believes this is a more sustainable proposition over the longer term than what we have now and the other alternative capital structure options we considered.

Our Co-op is at a turning point where we need to decide what is most important to us. It's a big decision for us all and I encourage you to take a long-term view.

The second concept I want to discuss is time.

When confronted with significant change, I think time to adjust is really valuable to us farmers.

One of the ways we can lessen the impact of a farmer-only market would be to give farmers more time to toll the value of their shares via dividends. In the past few weeks, we've heard from a lot of farmers nearing the end of their careers who want the option to stay connected to our Co-op and hold their dry shares for longer. One idea we've heard from farmers is to give them longer to sell down those shares, during which they can continue to toll the value via the dividend. That's something we are open to.

The final concept I want to discuss is choice.

Under the current preferred option, we're changing your ownership relationship with the Co-op from one of compulsion, where we say, "you must," to one of more choice.

Our Co-op has real diversity in our range of ages and stages, objectives, goals and aspirations. Right now, we apply a one-size-fits-all compulsory capital structure and we know the current requirement to hold shares at 1:1 per kgMS is a key factor in farmers' decisions to leave.

We have MyMilk and Share-Up Over Time contracts to help new farmers joining, but Share-Up Over Time contracts result in a contingent liability on those farmers' balance sheets and neither option provides any flexibility for existing farmers.

Flipping that relationship on its head by giving farmers a choice is really powerful. It would put the spotlight on our performance more than ever before.

So rather than saying "you must", the preferred option says, "you can choose to fully align your shareholding to production." Under this model, the Co-op would need to earn your investment through performance and a return on your invested capital over time.

Either way, we want a capital structure that enables participation in our Co-op.

Thank you again to everyone that has already provided feedback. Remember, you can share your views via a number of channels, including the online form at www.fonterra.com/csfeedback.

We're looking to gain as much feedback as possible by the end of June as part of this first round of consultation. The idea is that we'll do further work to refine the preferred option or options and then have a second round of consultation.

Ngā mihi,

Peter.