



Dairy for life

Capital Structure Revised Proposal

September 2021

What we'll cover today



1
**Why we need
to change**



2
**What we're
proposing**

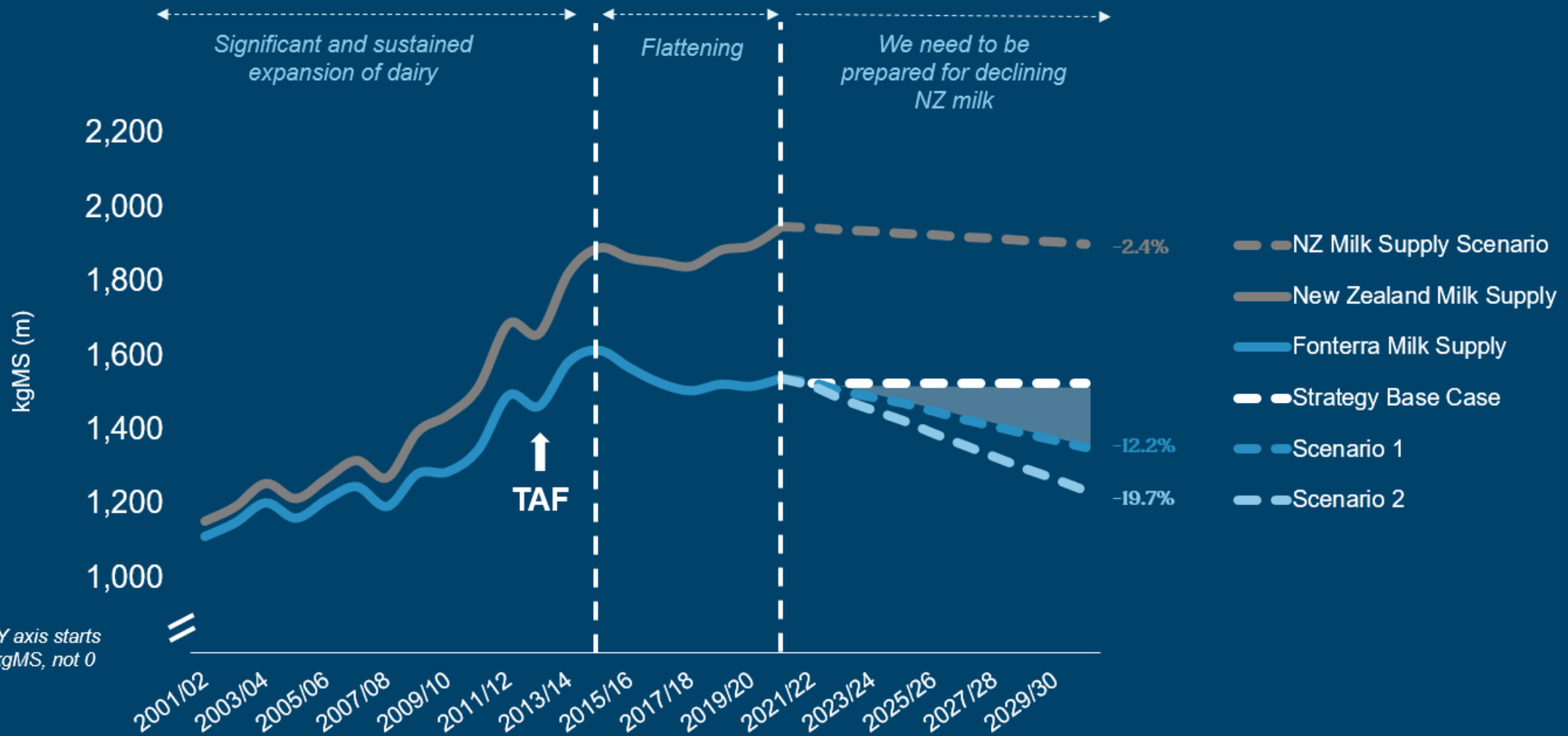


3
**How it
would work**



4
**Where to
from here?**

If we don't provide flexibility for farmer owners, we are likely to see our milk supply decline



Note: Y axis starts at 1b kgMS, not 0

A strong Co-op of scale protects value for farmers

Potential value impacts

Smaller,
less efficient
Co-op



Fund size thresholds could be exceeded, and/or capital required for share or unit buy-backs \$500m to \$1.2b by FY30



More conservative risk settings, such as lower debt targets and dividend policies



Milk Price could reduce by 6 to 13 cents / kgMS by FY30



May need to close between 12 and 18 plants within our manufacturing sites, on top of operating costs which would need to reduce by \$100m to \$160m by FY30



Harder to attract and retain milk supply and staff; more difficult to provide scale benefits to farmers





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Key features of the proposed structure



Increased flexibility

- Share minimum - 33% of supply
- Share maximum - 4x supply



Move to a farmer-only market with the Fund capped

- Shares could not be exchanged into units in the Fund
- Farmers set prices for shares in FSM



More types of farmers could hold shares

- Sharemilkers, contract milkers and farm lessors associated with a supplying farmer



Exit provisions after ceasing extended

- Existing farmer owners would have up to 15 seasons initially, reducing to 10 seasons
- New suppliers would have up to 5 seasons
- Associated farmers would have up to 3 seasons



Entry provisions eased

- Up to 6 seasons for 33%
- Share-Up Over Time and MyMilk contracts would no longer be offered, with all existing contracts honoured



Voting rights remain the same

- 1 vote per 1000 kgMS supplied, backed by shares



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The value targets we are aiming to achieve by 2030



\$6.50-\$7.50

per kgMS
Average Farmgate
Milk Price range for the decade

40-50%

Increase in operating
profit from FY21

~9-10%

Group Return on Capital,
up from 6.6% in FY21

~\$1b

Intended to be distributed to
shareholders by FY24 after
asset sales

~\$2b

Available for investment in
a mix of further growth and
return to shareholders

~\$1b

Invested in moving milk to
higher value products

~\$1b

Invested in
sustainability

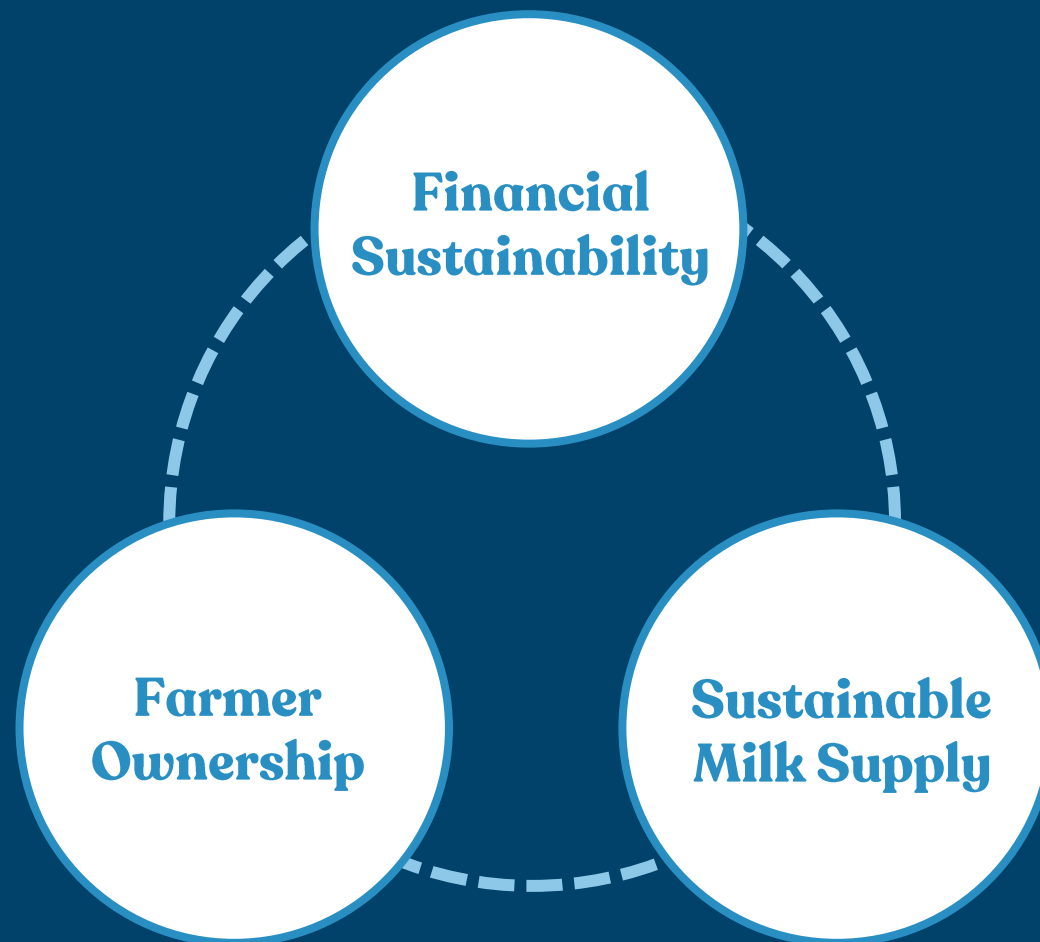
Note: The figures on this slide are targets that we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. They are subject to successfully completing a number of business initiatives, and assumptions, each of which could materially affect the actual outcomes. The key assumptions and risks relating to these targets are set out in the Appendix of the booklet titled Our Path to 2030. Please also refer to the important cautions and disclaimer at the beginning of our strategy presentation.

Flexible Shareholding delivers on the principles of the review

Supporting a sustainable milk supply by providing farmers with capital flexibility

Protects farmer ownership and control by capping the Fund

Maintains our financial sustainability by supporting efficiency, enabling our strategy, and protecting against uncertain and recurring risk to our balance sheet



We believe a farmer-only market should function well

- A 4x cap provides headroom for those wanting to sell
- A market maker would provide buy and sell quotes for shares in the FSM within certain limits and timeframes so that there is a price available for shares to be traded
- We would allocate up to \$300 million to support liquidity if needed, as farmers transition to the new structure
- The FSM would continue to be a regulated market operated by the NZX, so the Co-op would continue to be required to comply with continuous disclosure requirements and reporting and have robust governance systems in place, including independent directors
- Independent market research and broker coverage would be expected to continue to provide ongoing analysis and insight on Fonterra's performance for farmers and unit holders
- The Fund would provide a reference point for how external investors value the economic rights in a Co-operative share



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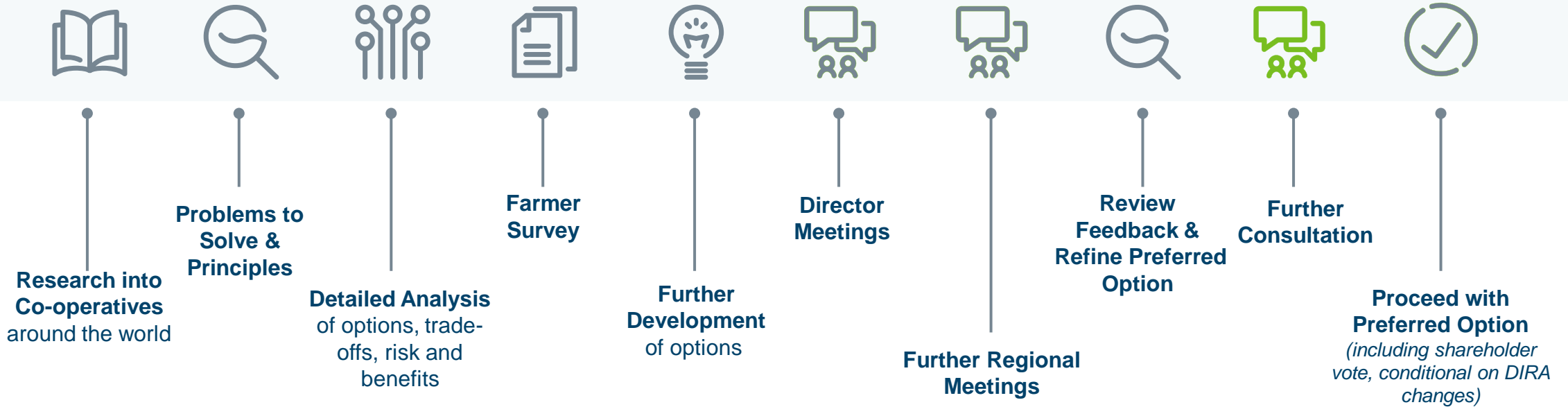
4
**Where to
from here?**



Continue to have your say

- Attend meetings and webinars
- Contact Directors or Area Managers
- Fonterra Co-operative Council
- Email CSfeedback@fonterra.com

We are here
↓





Dairy for life

Discussion

Appendix

Flexible Shareholding



FONTERRA FARMERS
holding shares



PUBLIC INVESTORS
holding units

Flexible Shareholding
- from 33% of supply
- up to 4x supply

Voting rights based
on supply
backed by shares

No voting rights

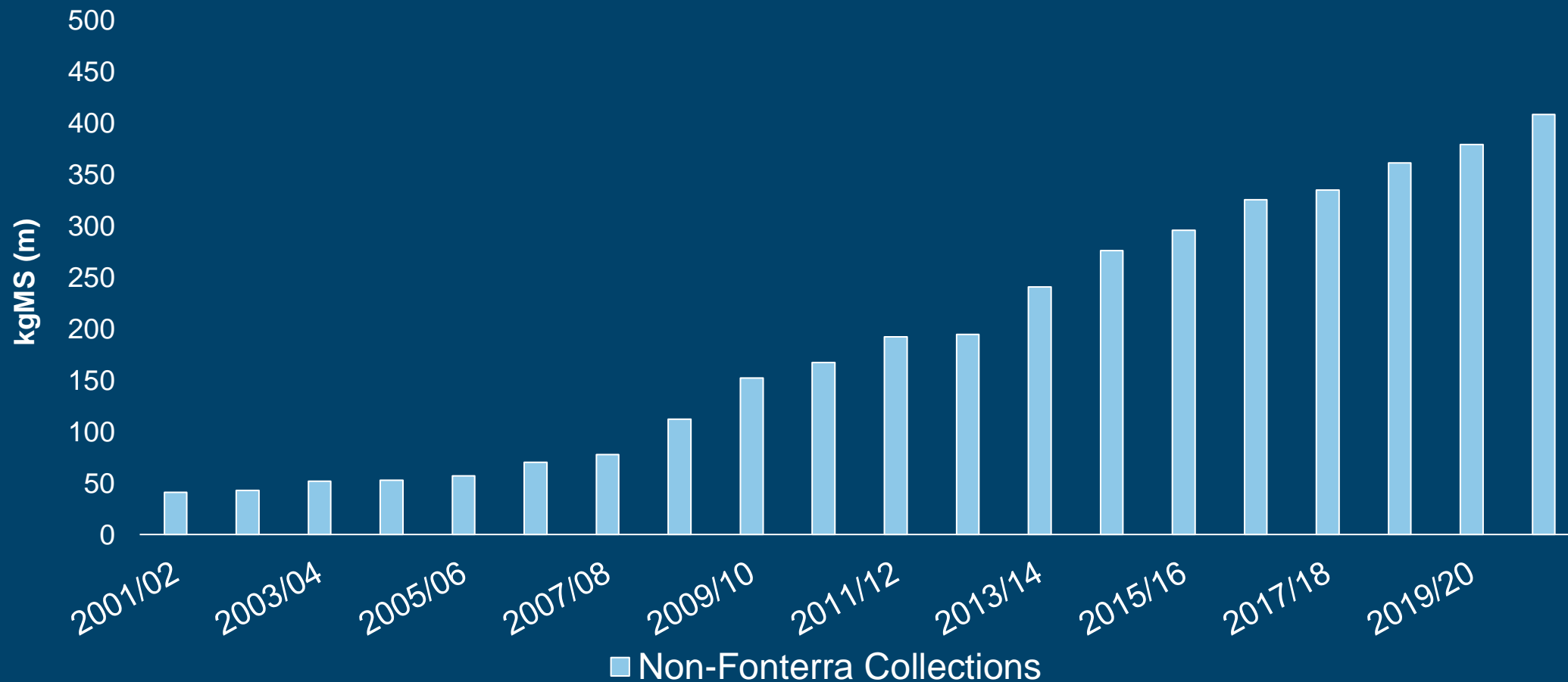
**Farmer-only
Fonterra Shareholders' Market**

For supplying farmer owners,
plus associated sharemilkers,
Contract milkers and farm lessors

Access to
economic rights
of a share

**Capped
Fonterra
Shareholders'
Fund**

Non-Fonterra milk collections have consistently grown



There are three situations where liquidity support may be required

Support

Day-to-day

- It's expected trading between farmer owners buying and selling would support sufficient liquidity, based on our understanding of the levels of trading prior to the temporary cap.
- Features of the structure such as the Minimum and Maximum Holdings, the entry and exit timeframes and enabling associated farmer owners to participate would also support liquidity.
- A registered volume provider or market maker would be in place to support the existence of buy and sell orders in the market.

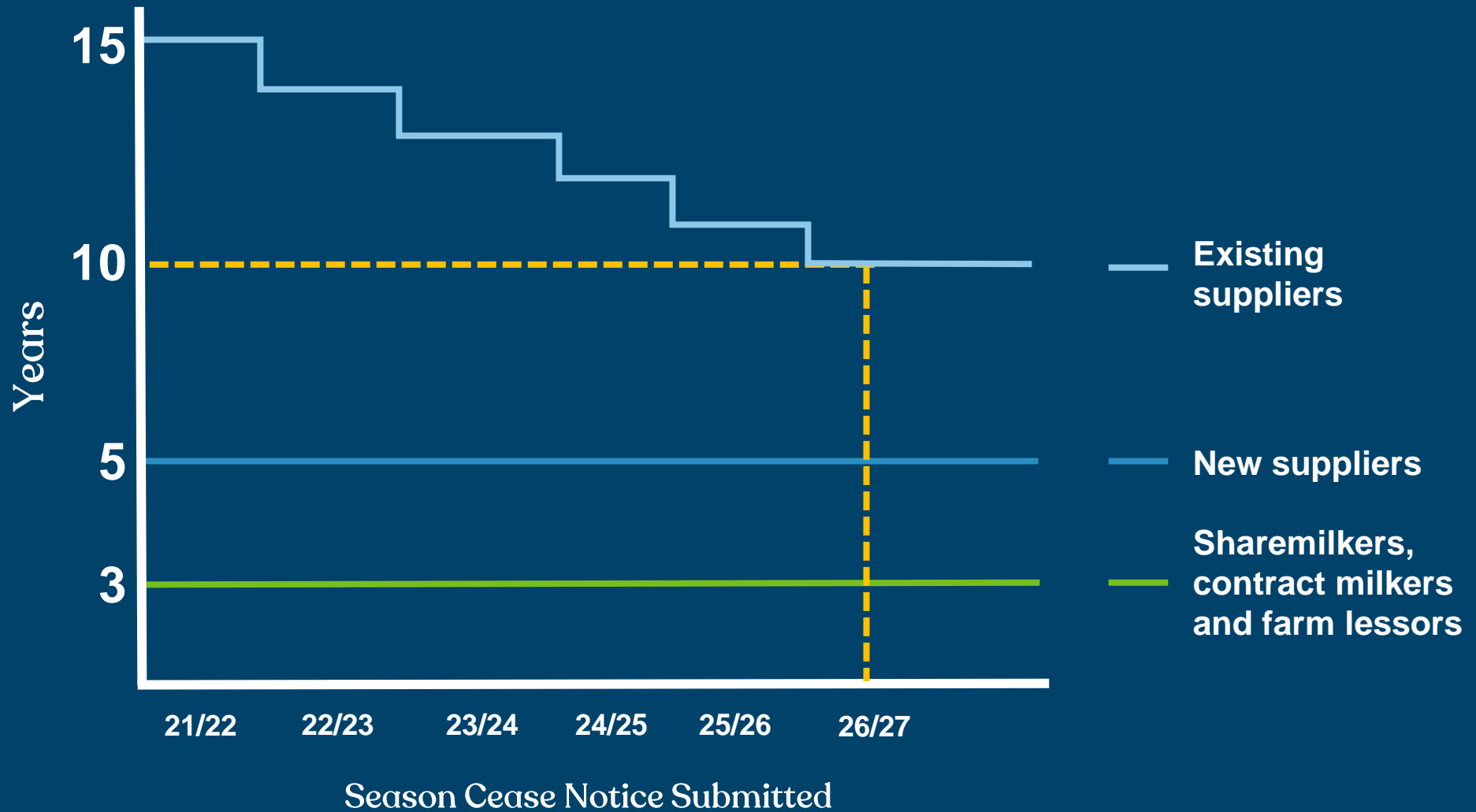
During transition

- Up to \$300m would be available to support liquidity in the FSM as farmer owners' transition to the new structure.

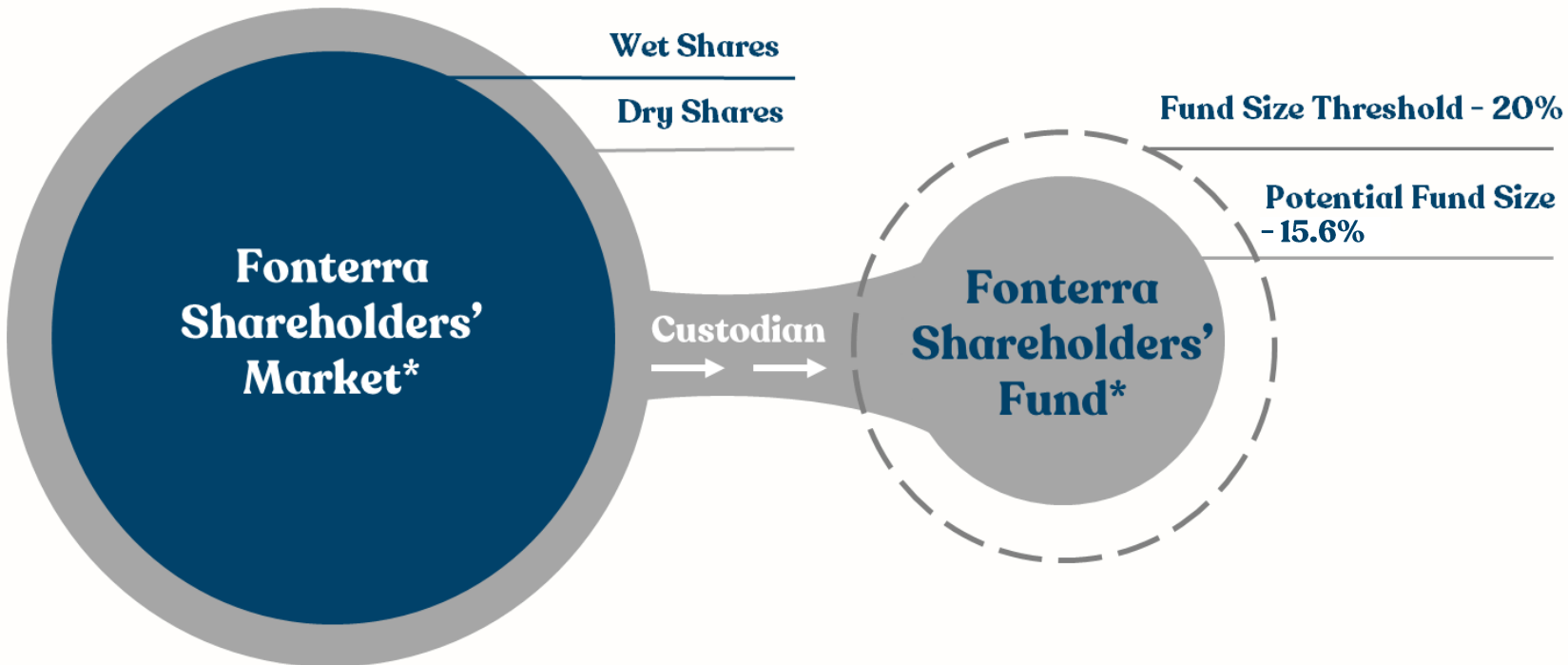
One-off macro events

- One-off events such as a widespread drought or low milk price could impact liquidity.
- However, many farmers have reduced their level of debt following several seasons of a strong milk price, putting them in a better position to manage through these types of macro events.
- As set out in Our Path to 2030 booklet, we are planning to continue to provide strong returns to our farmers.

Exit timeframes



The alternative options



Fund Size Growth

1. **Buy back shares or units** 
(to stay within Fund size thresholds)
2. **Increase Fund size thresholds** 
(allow Fund size to grow)

Thank You.