

CHAIRMAN'S EMAIL

26 JANUARY 2021

Subject: Board priorities and Capital Structure

Email:

Dear [name]

I want to provide you with a short update on the work the Board has been undertaking over the past few months, and our key priorities for the year ahead.

As you know, the Board has been leading a review of our Capital Structure to ensure it best supports our strategy and long-term vision for our Co-op.

We have spent the past few months reviewing potential options, including staying with our current structure.

Every option has its own merits, but also involves some form of trade-off.

To support that work, we are seeking your feedback on the structural principles that are most important to you, via [this online survey](#). That feedback will be considered as part of the Board's decision-making process as we move toward a preferred option.

To give you an idea of the process for the rest of the project from here, broadly the key milestones are:

Farmer survey > Further development of options > Stakeholder consultation > Refinement of preferred option(s) > Stakeholder consultation on the preferred option(s) > Proceed with preferred option (if change is recommended, then this will likely include a shareholder vote).

In addition to the review of our Capital structure, the Board's other priorities for 2021 include continuing to navigate the challenges presented by COVID-19 and delivering a strong Milk Price and our forecast earnings. We are also focused on implementing our strategy, while clearly defining our longer-term strategic aspirations, and completing our portfolio review work through the asset divestment processes we have previously announced.

We look forward to discussing these topics with you in-person during our farmer roadshow in March.

Peter

SURVEY INTRODUCTION

Share your views with us.

As you know, your Board is reviewing Fonterra's capital structure to make sure that it supports our strategy into the future. We want to hear your views on our capital structure, changes you might like to see, and the principles that the Board should consider throughout this review.

What do we mean when we talk about Capital Structure?

Capital structure means different things to different people. It can be defined as the way a company manages the balance between its debt and equity to finance its activities, assets and growth.

As a farmer-owned Co-op, when we talk about capital structure we think about other things as well, like:

- How should the price for our shares be set?
- How can we make sure that the capital requirements do not make it too hard for new and young farmers to join the Co-op?
- How can we make sure that existing shareholders have flexibility with their capital as they progress through their farming lives?
- How much capital do we need to support our strategy?
- How does our capital structure support a strong balance sheet?
- To what extent should non-farmers be able to invest in the Co-op?
- How do we make sure that our share structure can be resilient to economic shocks?

MAIN QUESTIONNAIRE

First, a few questions about your views on Fonterra's Capital Structure Review.

- Q1. Which of the following statements best describes how you feel about a potential change to Fonterra's capital structure?

Strongly support a change	
Slightly support a change	
Slightly oppose a change	
Strongly oppose a change	
Don't know	

- Q2. We are aware that different things are important to farmers with regards to Fonterra's Capital Structure Review.

Please select up to 3 of these that you feel are most important to you.

Providing growth in the capital invested in the Co-op over time	
Having a high share price	
Being simple to understand	
Providing a good return on investment	
Giving farmers more flexibility about how much they invest in the Co-op	
Aligning incentives between shareholders, unitholders and management to maximise value	
Making it easy for new farmers to join the Co-op	
Maintaining farmer ownership and control of the Co-op	
Making sure that Fonterra has a strong balance sheet that is resilient to changing milk supply and climate or economic shocks	
Being able to raise capital from non-farmer investors	
Something else (please specify)	
None of these	

Q3. And which one of these is the most important to you? *[Show only those selected at Q2]*

Providing growth in the capital invested in the Co-op over time	
Having a high share price	
Being simple to understand	
Providing a good return on investment	
Giving farmers more flexibility about how much they invest in the Co-op	
Aligning incentives between shareholders, unitholders and management to maximise value	
Making it easy for new farmers to join the Co-op	
Maintaining farmer ownership and control of the Co-op	
Making sure that Fonterra has a strong balance sheet that is resilient to changing milk supply and climate or economic shocks	
Being able to raise capital from non-farmer investors	
Something else (please specify)	
None of these	

Q4a What does (INSERT ONE OF TOP 3 FROM Q2) mean to you?
Please type in your response

Q4b. What does (INSERT ONE OF TOP 3 FROM Q2) mean to you?
Please type in your response

Q4c. What does (INSERT ONE OF TOP 3 FROM Q2) mean to you?
Please type in your response

Q5. We are aware that farmers choose to supply Fonterra for a range of different reasons. Which of these are key reasons why you supply milk to the Co-op?
Please select all that apply

To get better deals / purchasing power	
Better able to market / sell our products	
The relationships and support I receive from the Co-op	
Being less likely to get a better return on my capital elsewhere	
Being a part-owner of the company	
Being satisfied with the Co-op's performance	
Having guaranteed milk collection	
Farmers supporting each other	
Supplying a NZ-owned company	
All profits being returned to the Co-op members	
Working together with other farmers towards a common goal	
Better milk price offered by Fonterra	
Getting a say in how the company is run	
Having no alternative processor available	
Something else (please specify)	

Q6. In thinking about Fonterra's Capital Structure Review, what early views do you want to share?
Please type in your response

We now have a few questions about your broader thoughts on Fonterra and the Co-op.

Q7. Firstly, thinking about the Fonterra Co-operative, how important is it for you to be part of this Co-operative?
Please select one response only

Not important at all										Very important	Don't know
0	1	2	3	4	5	6	7	8	9	10	99

Q8. And what value do you see in being part of the Co-operative with Fonterra?
Please type in your response

Q9. Using a scale from 0 to 10 where 0 is 'not at all likely' and 10 is 'very likely', how likely would you be to leave Fonterra next season or switch to a competitor?
Please select one response only

Not at all likely										Very likely	Don't know
0	1	2	3	4	5	6	7	8	9	10	99

Lastly, we just have a few quick questions about you and your farm.

D1. What is your role in relation to your farm?
Please select one only

Owner	
Sharemilker	
Contract Milker	
Other (please specify)	

D2. Which of the following best describes the status of your shareholding with Fonterra?
Please select one response only

Fully shared up	
Currently sharing up	
Working towards becoming a shareholder	
Other (please specify)	

D3. Do you also hold dry shares in Fonterra, above your minimum shareholding requirement?
Please select one response only

Yes	
No	

(IF YES AT D3)

D4. What is your main reason for holding dry shares?
Please select all that apply

As an investment	
To provide milk production flexibility	
I'm in the process of ceasing and selling down shares	
I don't know how to sell shares or it is hard to sell shares	
Waiting for a higher share price to sell	
Some other reason (please specify)	

D5. Can you please tell us your age?
Please select one only

Under 25 years old	
25-29 years old	
30-34 years old	
35-39 years old	
40-44 years old	
45-49 years old	
50-54 years old	
55-59 years old	
60-64 years old	
65 years old and over	
Would rather not say	

D6. How long have you been a shareholder with Fonterra?
Please select one only

Less than 5 years	
Between 5 and 10 years	
Between 11 and 20 years	
More than 20 years	
Would rather not say	

D7. Finally, do you have any other feedback you would like to give to Fonterra on these topics or in general?
Please type in your response

CLOSE - That's the end of today's survey, thank you very much for your time and opinions.