

Remarks by Fonterra Director Brent Goldsack

Northland Dairy Development Trust

3 April 2019

Good morning.

Thank you for having me – it's a real pleasure.

I trust that you have all had a good season.

Spring was certainly in our favour this year but unfortunately, we have had some dry conditions recently.

Today, I'll provide a bit of an overview as to where your Board sees dairy trends headed in global markets and how we, with the support of Management, intend to prepare for the challenges and maximise the opportunities ahead.

I'll also provide an update on your Co-op's strategy and how you, as Northland farmers, will play a key role in that.

It is worth noting that since your last conference, a lot has changed for the Co-operative.

Most obvious is that I am here speaking to you in a place once reserved for John Wilson. I know he always enjoyed the time, and tough questions, and I hope to bring even half of the passion he did.

In addition to our new Chairman John Monaghan, we also have a new Chief Executive in Miles Hurrell. Kiwi born and bred, and recently appointed unanimously by the Board.

Recently, the Interim Result was released, which shows progress, but still much work to be done. The performance of the Co-op is not where we expect it to be.

Much has also changed and will continue to change around the world.

Global Challenges and Opportunities

Today, the world produces just enough calories to feed 7 billion people

By 2050, there will be 9 billion - or 30% more mouths to feed.

The world will not only have more people but it will also be older.

This is not a new trend. From 1950 to 2015, the proportion of older people (65+) rose from 5% to 8%.

By the end of the century the proportion of older people is forecast to rise to 22 percent.¹

A growing middle class will bring with it a growing population wanting and able to afford meat, dairy and other more resource intensive foods, with implications for our natural resources.

With these fundamental socio-economic changes, it's not surprising to see two major trends emerging – a desire for cleaner food as well as food that is more sustainable.

¹ <http://www.fao.org/3/a-i6583e.pdf>

Health conscious consumers are increasingly looking for clean food – food they believe is fresh, real, minimally processed and resembles its most natural form.

One-off calorie cutting diets have been replaced with lasting lifestyle changes.

Obviously, not referring to myself – I was made for dinner, and lunch, and breakfast...

But there will be a small proportion of consumers that may turn away from dairy.

All the while, others will double down through trends like Keto – an approach that ditches sugar and puts total emphasis on fats and protein.

Customers and consumers increasingly care about the world they live in and want to make choices for a sustainable future, a future where people and the planet are protected and cared for.

Consumers – millennials especially - see their diet choices helping to make a positive difference in the world.

This means, however, that they are turning a critical eye to how products are made, wanting to ensure the process matches the idyllic and pristine imagery on the packaging.

Importantly, they are also willing to pay more for sustainably produced products.

Capitalising on these opportunities

What does this mean for you and for New Zealand?

It means the future of food is sustainable nutrition.

How we farm and make our products needs to reflect our customer and consumers aspirations about their food. The growth opportunities we are seeing will require a dedicated effort to anticipate and deliver on they want.

Management is working hard to support the current forecast milk price – and will continue to do so in the seasons ahead by making smart use of our manufacturing flexibility, our new product research and development expertise.

That leads me in to giving you an update on our Co-op's future focus and strategy.

Our response – Our strategy

So how we respond to these challenges, opportunities, and trends starts with our strategy.

Your Board is working to create a new strategy that will deliver fundamental change. We're not just tinkering around the edges.

I know everyone is keen to see progress and we are meeting often to ensure we get a new strategy quickly – and that it's the right one to lead us into the future.

We are taking a hard look at our end-to-end business, where we can win in the world and the products where we have a real competitive advantage.

We have set out six key themes for the strategy.

- We are a NZ dairy co-op owned by our farmers and we want to remain competitive on the global stage.
- Sustainability will be at the heart of everything we do. We see this as both the right thing to do as well as a key pillar in our ability to earn a premium from our heritage and provenance.
- Our pasture based, organic supply is well positioned to compete in the global market in this respect.
- We will prioritise NZ milk and this means we are not driven by size but instead by value.
- This means we need to simplify our business to focus on areas where we have a competitive advantage and right to win.
- And this improved performance and value needs to be tangible in our return on capital

Achieving our goals will rely on us maintaining premium quality right across the supply chain - starting on-farm and flowing through to the products we make, and the customers we sell to. It will need the support and commitment of you, our farmer owners.

The Co-operative Difference

You have made tremendous progress on farm to date – whether it's fencing, improvements to waterways, or nitrogen management.

We are proud of the global reputation Fonterra farmers have for producing high quality milk.

But if we are to hold on to the trust and loyalty of our consumers and customers, we must continue to step up when it comes to producing dairy in a more sustainable way.

In line with key themes emerging from our new strategy, I'm pleased to announce the first details of the Co-op's new approach to sustainability on farm.

The Co-operative Difference will:

- put sustainability at the heart of everything we do,
- empower the Co-op to get value for its New Zealand heritage and uniqueness,
- and help us to remain a globally competitive New Zealand co-operative.

As a Co-op owned by 10, 000 farming families, sustainability is about more than just the environment.

It's about looking after our staff, caring for animals, adapting to changing customer and consumer expectations, and respecting the communities and land where we live and work.

It is also about our shared prosperity and engaging in our Co-operative so that it remains strong for our children and their children.

Specifically, the Co-operative Difference will:

- recognise farmers who go beyond the minimum requirements
- help other farmers follow suit by making existing on-farm requirements easier to understand
- provide tailored, industry-leading support services to those who want to improve;
- provide more information and advance notice to farmers so they can plan;
- streamline reporting and auditing to save farmers' time and energy,
- help the Co-op protect its market position, strengthen its sustainability claims, and drive demand for products that customers and consumers value the most;

- and lastly, the Co-operative Difference will support farms wanting to improve, while taking a firmer line with those that persistently fail to meet minimum standards.

In addition to providing industry leading support to our farmers to help you take the next step in your sustainability journey, we will recognise those who are already going above the minimum requirements to produce more sustainable dairy.

The Co-op will recognise farmers in various ways, including award nights, external publications, recognition on farm, and for the best performers, Farm Source Reward Dollars.

We will be providing more detail about the Co-operative Difference, including our future aspirations, levels of recognition and what you need to do to achieve that recognition at this year's My Connect Conference in May.

Innovation

We will also help meet our customer and consumers demands through world-leading innovation.

Dairy innovation has been huge over the past years – whether it's whey to proteins, lactoferrins, probiotics etc.

It will continue to be a focus of your Co-op's moving forward.

Let me share some exciting ways we're extending the reach of dairy.

Medical nutrition division

Global industry worth est. NZ\$17.5 billion

We are the leading global supplier of dairy ingredients to the industry

Opportunity to support healthy ageing by leveraging ingredients into new applications e.g. better tasting beverage with 2 times the protein of leading competitor.

Active nutrition division

\$200 billion industry, centred around protein,

Growing 3X faster than ordinary dairy

We have the world's best protein portfolio

Complementary Nutrition

And while we are firmly focused on getting the most value from every drop of milk you produce, we are also keeping an eye on the competition.

I'm of course referring to complementary nutrition – or plant-based and fermented nutrition

If we are to keep our Co-op sustainable for generations to come – we must keep an eye on changing preferences of consumers.

So we've made a small investment in a US company called Motif and together we can use our collective strength to get a better idea of where this industry is heading.

We not only want to know what impact it may have on our industry but whether there is an opportunity to generate value from it for our owners.

Conclusion

With our collective skills, knowledge and passion, we will continue to deliver the highest quality and in-demand dairy in the world.

What is important is that we know practices and performance can change for the better because we have already done it.

Each year the bar gets lifted a little higher and, with the support of our Co-operative, we will keep rising to that challenge.

On behalf of your Board, I'd like to thank you for your continued commitment to your Co-op and for your milk.

Thank you.