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Colin Armer speaking at the 27 November Cooperatives Association Annual General Meeting
PHOTO: COSTA BOTES (LONE PINE FILM & TV PRODUCTIONS)

One of the slides that Colin Armer used to accompany his 27 November speech

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GUEST EDITORIAL

Securing Fonterra's future

by Colin Armer

Director, Fonterra Cooperative Group Ltd

Cooperatives are an adaptable and efficient form of organisation, particularly if you are a dairy farmer producing a perishable commodity, milk.

That adaptability has recently been demonstrated by Fonterra's successful initiative to adjust its capital structure so that its farmer shareholders can support their cooperative by subscribing more capital.

One of the key issues for cooperatives around the world is the security and permanence of their equity, and access to investment capital.

Fonterra is no different. Although we are New Zealand's largest company – accounting for 7% of gross domestic product and 25% of exports – the 2008 drought, during which our equity dropped by some \$600 million, highlighted the need to strengthen and secure our capital base so we can pursue our strategy.

Our strategy is built around an integrated business. There are any number of ways strategy and capital structure can be developed if the business is broken up. But our integrated approach is non-negotiable.

At the foundation are our farmer shareholding members and New Zealand milk. Our New Zealand plants supply commodity dairy products to 140 countries around the world.

Building on this "efficient core" is our ingredients business, which supplies many of the world's largest food companies. These companies plan steady growth, and we have the opportunity to grow with them.

Then there are our increasingly profitable regional consumer businesses in Australia and New Zealand, Asia, Africa and the Middle East, and Latin America.

The strategy requires equity as well as debt capital so we can invest in stainless steel for processing and downstream to add value to our shareholders' milk.

It is clear that farmers not only want to keep 100% control and ownership of their cooperative, but are prepared to put up the capital needed to take it forward.

The 90% support for the first two steps clearly shows farmers want to strengthen the co-op.

The first step changes the previous standard,



which capped shareholdings at one share for every kilogram of milksolids supplied. Our members will now be entitled, but not obliged, to own "dry shares" up to 120% of their production.

OPEN MARKET VALUATION

The second step is a change from an open market valuation of our shares to a restricted market basis which recognises that the market for Fonterra's shares is restricted to its farmer suppliers.

There will, however, be a transition period during which the share price is held at the current open market price of \$4.52 until the restricted market price catches up.

These changes preserve the fundamental principles of cooperatives:

- that the owners and financiers of the co-op are those that use it;
- that the co-op is controlled by those who use it;
- and that the benefits of the co-op are distributed to users on the basis of their use.

They help firm up our capital base and give us more certainty in running the business.

SHARE TRADING

Evolution of our capital base is an ongoing business as the co-op grows and prospers. Next year we will be talking to our shareholding members about trading of our shares among farmers, a move which would remove redemption risk altogether. ●