

## **CHAIRMAN'S SPEECH VOTE ON CAPITAL STRUCTURE CHANGES BY HENRY VAN DER HEYDEN**

### **Fonterra Annual Meeting 18 November 2009**

It's now time to consider the three resolutions that relate to Capital Structure change.

Before we go through the resolutions in detail it is important to remember what is at stake today.

Essentially we are voting to change our capital structure to strengthen our Co-operative. We are looking to make these changes in a way that will ensure farmers retain 100% control and ownership of our Co-operative.

We want to reduce and eventually eliminate redemption risk. We want to stop equity washing in and out the door when production drops.

We want to provide greater certainty about the Co-operative's equity base so that the business can operate and invest with confidence.

We want to reduce our debt levels and have the flexibility to take advantage of profitable opportunities when they come along.

We want to ensure Fonterra has access to enough equity at the right price to deliver the highest sustainable payout to farmers.

The changes are designed to be fair to everyone and to provide stronger incentives for farmers to invest in and retain shares in our Co-operative.

The first of these resolutions relates to the first step, Strengthening the Share Structure. The second resolution relates to the second step, introducing a Restricted Share Value. The third resolution involves housekeeping changes to the Constitution.

Each of these resolutions is stand-alone and will be voted on separately. As these are special resolutions, they need to be passed by at least 75 per cent of shareholders (as represented by milksolids) who vote in person or in proxy.

The Capital Structure proposal before you today is the result of almost a year's work by your Board and management. The Board has listened to shareholders. You've made it clear you want Fonterra to remain a 100 per cent farmer-controlled and owned Co-operative, with voting rights linked to milk production. We have looked for a solution from every possible angle. We stress-tested it with the Shareholders' Council. We sought feedback from farmers through meetings with directors around the country and through 100s of local shed meetings. As a result, we've made some changes resulting in the final proposal that's before you today.

So the proposal before you today is all about improving the incentives for you as farmers to invest and retain equity in your Co-op. By allowing you to hold shares up to 120 per cent of your production. And by rewarding you for holding dry shares above your milk production, through paying the Profit or Value Return on shares held.

The Board also believes it's sensible that we change the valuation approach for Fonterra shares to recognise that fact that only farmers can own shares. If ownership of Fonterra shares is restricted to farmers, it is appropriate the share value reflects this restricted market.

A change to a restricted market valuation approach would most likely result in a lower Fonterra share value. That's why we've recommended a transition during which the share price would effectively be held at the current level of \$4.52, until the restricted share value catches up.

That's a short summary of Steps One and Two of Capital Structure. We've also signalled to shareholders a further Step – Trading Among Farmers. This step would involve farmers buying or selling shares from one another rather than through the Co-operative. That would remove redemption risk from the Co-op.

We outlined principles of Trading Among Farmers during the recent consultation process, and we received some good feedback. But I must stress that Trading Among Farmers is still a concept at this stage. It needs a lot more work and discussion and will be a completely separate consultation process.

It's not being voted on today – and nothing that you vote on today will commit you in any way to it. Instead, the Board intends to consider the preliminary feedback received from farmers over the past and coming months and to discuss possible solutions with the Shareholders' Council. All going well, we would like to come out and discuss this with you in the first quarter of next year.

I'm delighted that the Council has come out in support of the Capital Structure resolutions being put to the vote today. We've worked closely with Council since early this year. We've had many meetings, and lots of vigorous, healthy discussion that has helped refine and improve the proposal.

We've ended up at what I believe is a very good outcome. We're taking important steps to preserve and strengthen the Co-op's equity base. We're maintaining farmer control and ownership. And we're ensuring a level playing field that's fair to all farmers.

Your Board has voted unanimously in favour of today's proposals and I encourage you to give them your support also.

Thank you.