Fonterra Business Performance Report 2023

Pūrongo haumāuiui pakihi Te Mātāpuna

Dairy for life

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Waikato

COVER
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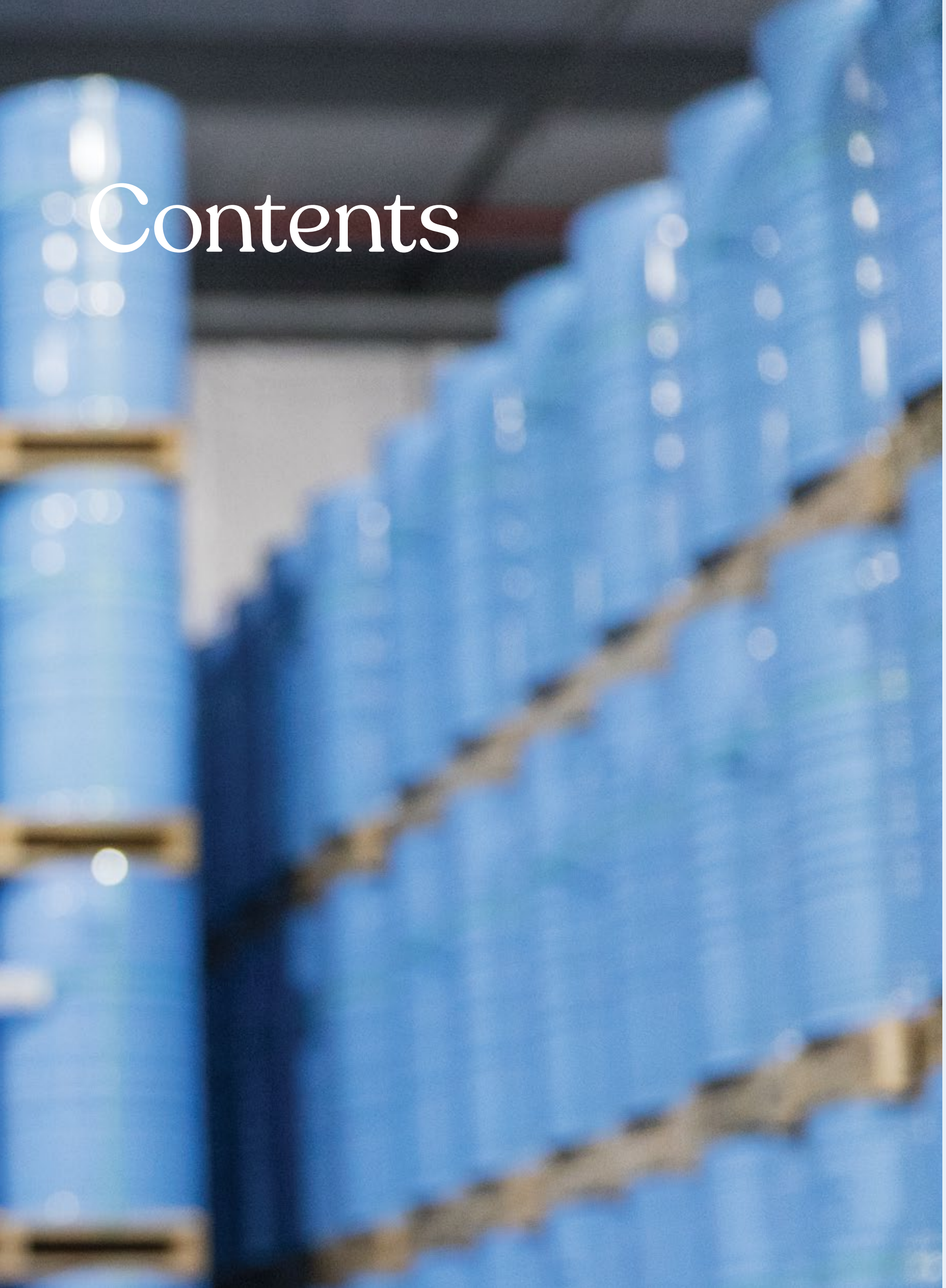

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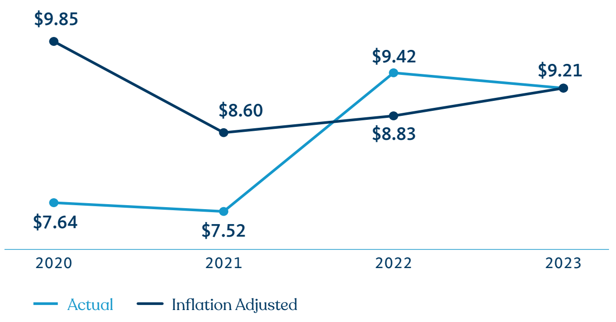
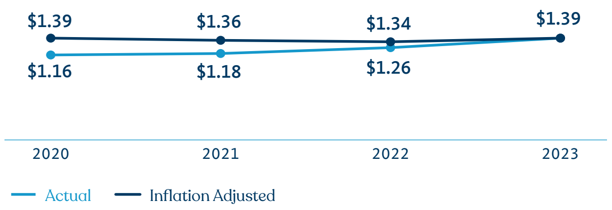
OUR REPORTS ARE AVAILABLE FROM **FONTERRA.COM/NZ/EN/INVESTORS.HTML**

Business Performance Dashboard

Gross profit from Core Operations per kgMS



Cash operating expenses per kgMS



Return on Capital
12.4%
↑ from 6.8%

Profit after tax
$1,577m
↑ from $583m

Earnings per share
95c
↑ from 36c

$9.22
Total Cash Return[1]

$0.50
Capital Return

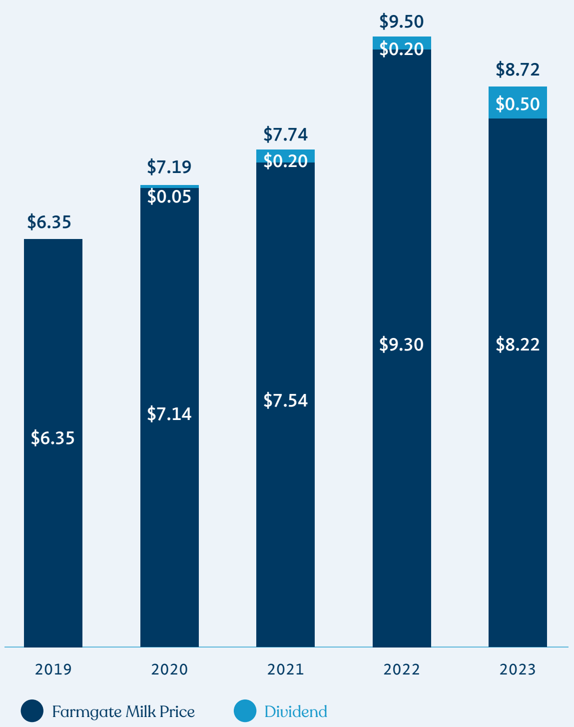
$0.50
Dividend
↑ from 20c

$8.22
Farmgate Milk Price
↓ from $9.30

1. Per share backed kgMS

Total Group Performance

Total Payout[1]



1. Refer to the Glossary for definition.

We returned $8.22 on average for every kilogram of milk solids our farmer owners supplied us. Combined with a dividend of 50 cents per share, this means a total payout of $8.72 per kgMS.

In addition, the Co-operative returned 50 cents per share to shareholders and unit holders in August following the divestment of Soprole. This resulted in a total cash return of $9.22 per share backed kgMS for our farmer owners.

Commodity product prices that inform the Farmgate Milk Price (Reference Commodity Products) were down on average 14.2% compared to the prior season and the main reason for the $1.08 per kgMS decline in the Farmgate Milk Price from $9.30 per kgMS last season.

Our profit after tax increased $994 million to $1,577 million. Excluding non-controlling interests this is equivalent to 95 cents per share, up from 36 cents in the prior period.

Our profit after tax performance reflects a $1.3 billion increase in gross profit to $4.6 billion. The increase in gross profit was mainly due to favourable product margins in our Ingredients channel, in particular protein and cheese products, across multiple markets at a time of constrained supply.

Our Foodservice channel earnings have also improved as our in-market product prices adjust to reflect the higher cost of milk over recent years. However, our Consumer channel continues to experience challenging market conditions and earnings are down due to recognising impairments of our New Zealand consumer business and our Asia brands – Anlene™, Anmum™ and Chesdale™.

Total Group operating expenses increased $344 million to $2.8 billion, mainly due to inflationary pressure and impairments of $252 million.

Excluding the net gain on divestments, our normalised profit after tax is up $738 million to $1,329 million. Excluding non-controlling interests this is equivalent to 80 cents per share.

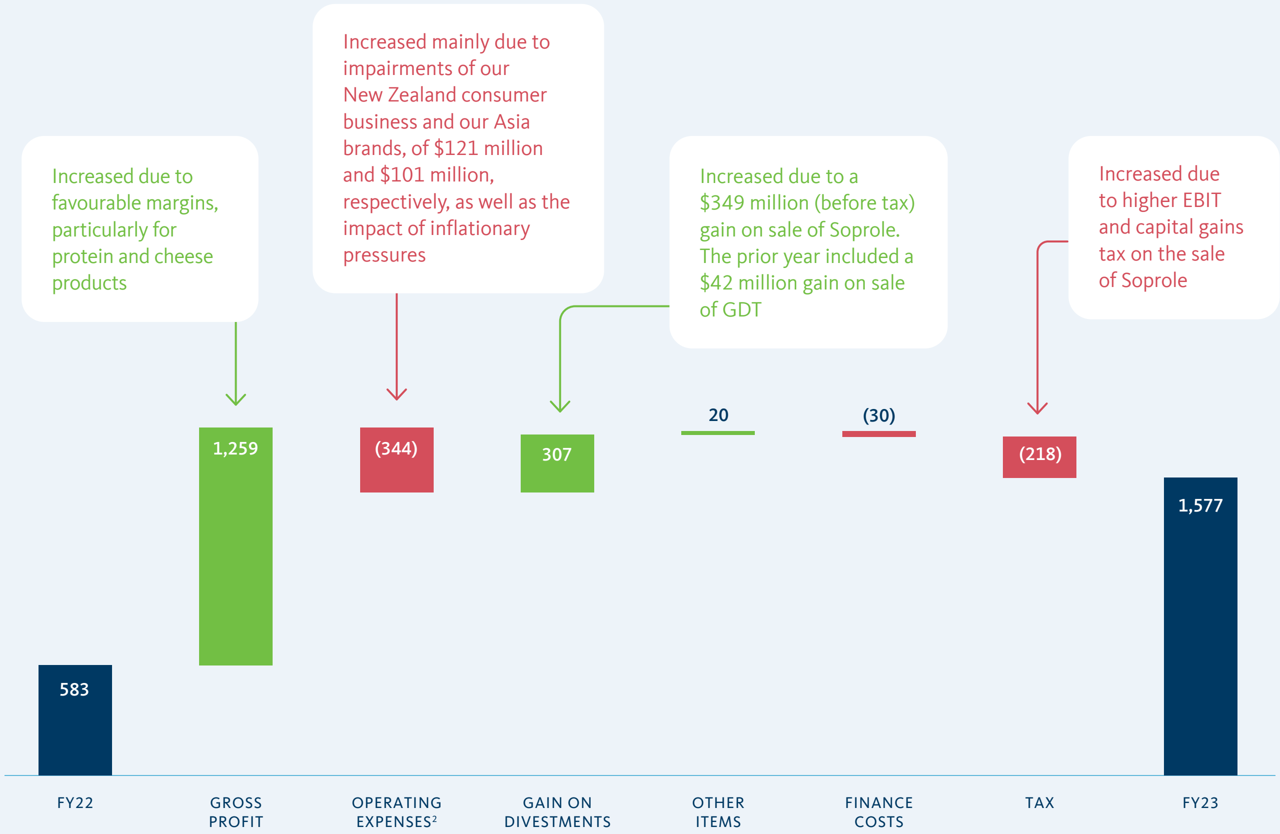
The Co-operative's operating environment continues to improve following the pandemic, and with the global supply chain network stabilising and slowly returning to normal, our inventory levels at year end have improved.

Our net debt is $3.2 billion, $2.1 billion lower due to the improved inventory levels, increased earnings and the sale of Soprole for aggregate proceeds of $1.3 billion – of which $804 million was returned to shareholders and unit holders on 18 August 2023.

Our increased earnings combined with the strength of our balance sheet has put us in a position to pay a full year dividend of 50 cents per share, comprising of 10 cents per share paid at interim and a final dividend of 40 cents per share.

Our profit after tax increased 170%, or $994 million, to $1,577 million, driven by an increase in gross profit

Profit After Tax[1]

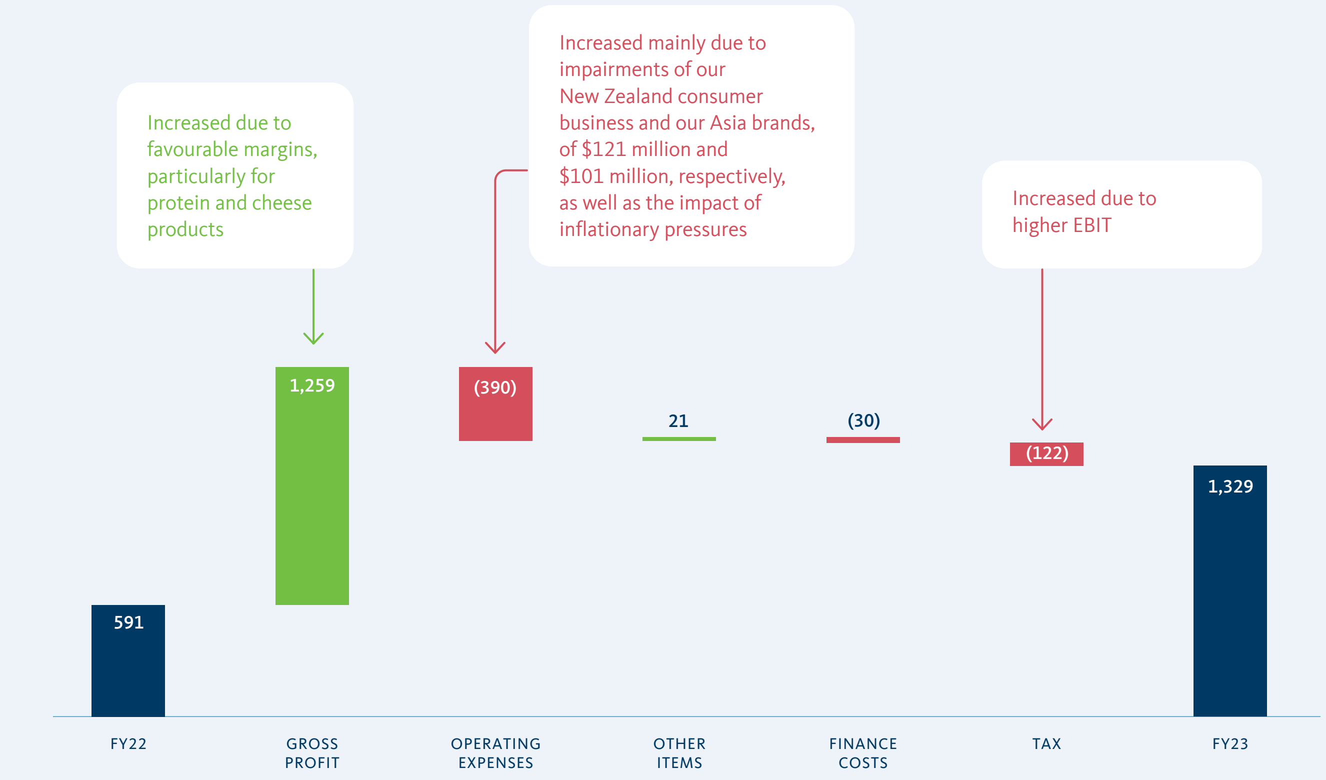


1. Includes amounts attributable to non-controlling interests.
2. Operating expenses includes $11 million net loss on sale related to Hangu China farm and the sale of GDT.

Our normalised profit after tax increased 125%, or $738 million, to $1,329 million.

We have normalised $260 million (after tax) related to the gain on sale from Soprole, and a $12 million loss relating to the disposal of Hangu farm in China.

Normalised Profit After Tax[1]



1. Includes amounts attributable to non-controlling interests.

Overall, Fonterra milk collections on a milk solids basis are up on last year but down on a litre basis.

Our milk collections are dominated by our New Zealand-sourced milk.

Our New Zealand milk collections increased 2 million kgMS compared with the 2021/22 season due to higher collections in the latter half of the season as a result of more favourable weather which was conducive to stronger pasture growth.

There is a long-term trend of increasing milk solids per litre in New Zealand due to improvements in the national herd and on-farm practices. The 2022/23 season saw this improvement continue with Fonterra's average season milk composition lifting to 9.07% from 9.01% in the 2021/22 season. The increase in milk solids per litre explains why milk solids collected can be slightly up while litres are slightly down year-on-year.

Our market share of New Zealand milk decreased 0.1% to 79.0%, due to a small net loss of milk supply to competitors.

Over the past two years, Fonterra Australia's milk collection market share has continued to climb.

Fonterra Australia's Farm Source support model and competitive milk price saw increased levels of milk recruitment and strong farmer supplier retention. Fonterra's milk collections in Australia remained stable while the industry milk pool declined in 2023 because of spring flooding in Northern Victoria and reduced availability of quality fodder.

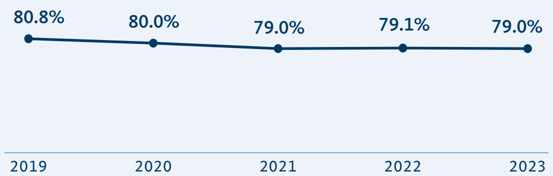
The rate of decline in industry milk production slowed in the second half of the year as cost of production eased, access to on-farm labour improved and competing land uses, such as beef, became less attractive.

New Zealand Milk Collections

Litres
16,317 million
down 0.5%

Milk solids (kgMS)
1,480 million
up 0.1%

New Zealand Market Share (kgMS)



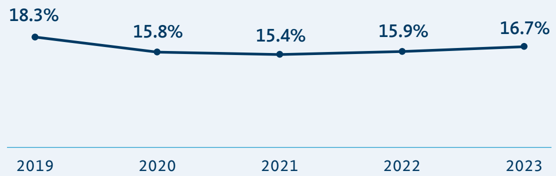
Market share and collections are for the period 1 June – 31 May.

Australian Milk Collections

Litres
1,362 million
flat

Milk solids (kgMS)
106 million
flat

Australia Market Share (kgMS)



Market share and collections are for the period 1 July - 30 June.

Consistent with our strategy to focus on our New Zealand milk, we completed the divestment of our operations in Chile and China, and made progress divesting our operations in Brazil.

In November 2022, we announced the agreement to sell Soprole to Gloria Foods – JORB S.A – a consumer dairy market leader in Peru. The divestment was completed on 31 March 2023. The aggregate proceeds (including pre- settlement dividends) before tax, hedging and transaction costs were $1.3 billion, of which $804 million was returned to shareholders and unit holders on 18 August 2023.

In December 2022, Fonterra and Nestlé agreed the sale of DPA Brazil to French dairy company Lactalis for BRL 700 million. The proceeds at completion will be subject to closing transaction adjustments. Fonterra's 51% share of the DPA Brazil sale proceeds will be used to repay our share of debt held directly by DPA Brazil.

The sale is subject to several conditions including receipt of regulatory approvals from competition authorities. The Brazilian competition regulator released its first report on the proposed sale in late July 2023. The parties are engaging with authorities to understand and to address the matters raised in relation to limited parts of the business and expect the sale to be completed within one year of balance date.

We also finalised our exit of China Farms, following the sale of our Hangu China farm.

Our discontinued operations in 2023 comprised of Soprole, DPA Brazil and our Hangu China farm. Profit after tax from discontinued operations increased $374 million to $336 million, mainly due to the gain on sale of Soprole. The prior year's $38 million loss was due to an impairment of $50 million to the value of DPA Brazil. In the prior period, our discontinued operations comprised DPA Brazil and our Hangu China farm. To be consistent the comparative figures have been re-presented to include Soprole as a discontinued operation.

Breakdown of Total Group Performance

FOR THE YEAR ENDED	31 JULY 2022			31 JULY 2023		
NZD MILLION	CONTINUING OPERATIONS[1]	DISCONTINUED OPERATIONS[1]	TOTAL GROUP	CONTINUING OPERATIONS[1]	DISCONTINUED OPERATIONS[1]	TOTAL GROUP
Sales volume ('000 MT)	3,318	606	**3,924**	3,497	476	**3,973**
Revenue	21,901	1,524	**23,425**	24,580	1,466	**26,046**
Cost of goods sold	(18,992)	(1,093)	**(20,085)**	(20,399)	(1,048)	**(21,447)**
Gross profit	2,909	431	**3,340**	4,181	418	**4,599**
Gross margin (%)	13.3%	28.3%	**14.3%**	17.0%	28.5%	**17.7%**
Operating expenses	(2,065)	(390)	**(2,455)**	(2,496)	(303)	**(2,799)**
Other[2]	102	(11)	**91**	70	348	**418**
EBIT	946	30	**976**	1,755	463	**2,218**
Net finance costs	(194)	(37)	**(231)**	(211)	(50)	**(261)**
Tax expense	(131)	(31)	**(162)**	(303)	(77)	**(380)**
Profit after tax	621	(38)	**583**	1,241	336	**1,577**

1. Refer to Note 1a and 2c of the FY23 Financial Statements. Comparative information has been re-presented for consistency with the current period.
2. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.

Our Total Group sales volumes were up 1% on the prior year, with milk collections only up 0.1%. The increased sales volume was due to the sell down of additional inventory we held at 2022 year end, partially offset by lower sales volume out of Chile as a result of the Soprole sale concluding in March 2023.

Our Total Group gross profit increased $1.3 billion relative to the prior year, due to favourable margins in our Ingredients channel, particularly cheese and proteins. Gross margin improved from 14.3% to 17.7%, driven by improved pricing in both the Ingredients and Foodservice channels.

New Zealand and Non-New Zealand Sourced Milk[1]

FOR THE YEAR ENDED 31 JULY

NZD MILLION	TOTAL			NEW ZEALAND MILK			NON-NEW ZEALAND MILK		
	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]
Sales volume ('000 MT)	3,318	**3,497**	5%	2,903	**3,071**	6%	415	**426**	3%
Revenue	21,901	**24,580**	12%	19,551	**21,791**	11%	2,350	**2,789**	19%
Cost of goods sold	(18,992)	**(20,399)**	(7)%	(16,986)	**(17,941)**	(6)%	(2,006)	**(2,458)**	(23)%
Gross profit	2,909	**4,181**	44%	2,565	**3,850**	50%	344	**331**	(4)%
Operating expenses	(2,065)	**(2,496)**	(21)%	(1,808)	**(2,252)**	(25)%	(257)	**(244)**	5%
Other[3]	102	**70**	(31)%	95	**69**	(27)%	7	**1**	(86)%
EBIT	946	**1,755**	86%	852	**1,667**	96%	94	**88**	(6)%
Net finance costs	(194)	**(211)**	(9)%	–	**–**	–	–	**–**	–
Tax expense	(131)	**(303)**	(131)%	–	**–**	–	–	**–**	–
Profit after tax from continuing operations	621	**1,241**	100%	561	**1,203**	114%	60	**38**	(37)%
Profit after tax from discontinued operations	(38)	**336**	–	–	**–**	–	(38)	**336**	–
Gross margin[4]	13.3%	**17.0%**		13.1%	**17.7%**		14.6%	**11.9%**	
EBIT margin[4]	4.3%	**7.1%**		4.4%	**7.6%**		4.0%	**3.2%**	

1. New Zealand and Non-New Zealand sourced milk is prepared on a continuing operations basis. Comparative information has been re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.
4. Calculated on a continuing operations basis.

Our business is diversified across both regions and product channels, enabling us to capture the significantly favourable price relativities between Reference and Non-Reference Products by continuing to allocate milk into the products, such as cheese and proteins, that generated the best overall returns.

Profit after tax generated from our New Zealand milk, the value we were able to deliver over and above the Farmgate Milk Price, increased $642 million to $1,203 million, mainly due to the favourable margins in our Ingredients channel. The performance of New Zealand milk in the Ingredients channel was partially offset by the losses made in the Consumer channel due to recognising impairments of our New Zealand consumer business and our Asia brands – Anlene™, Anmum™ and Chesdale™. Further detail on the value of New Zealand milk is provided in the Reportable Segment and Product Channel sections.

Non-New Zealand milk for our continuing operations is predominantly made up of our Australian business and products from our Heerenveen site. EBIT was down $6 million, or 6%, mainly due to the impact of the increased cost of milk in Australia. Profit after tax generated by Non-New Zealand milk was $38 million, down $22 million on the prior year, due to higher interest rates impacting net financing costs.

Total Group operating expenses are $2,799 million, up $344 million on the prior period.

Of this increase, continuing operations increased $431 million but was offset by discontinued operations' operating expenses reducing $87 million due to the completion of the Soprole sale on 31 March 2023.

The $431 million increase in continuing operations' operating expenses was due to:

- A $204 million increase in impairments, mainly due to impairments of our New Zealand consumer business and of our Asia brands (Anmum™, Anlene™ and Chesdale™), of $121 million and $101 million, respectively.
- A $103 million increase in employee benefits expenses, due to inflationary pressures, and the prior year benefiting from the release of a provision held at Group following a final judicial interpretation on the application of the Holidays Act 2003 in New Zealand to certain discretionary incentive payments.
- Other increased $71 million, in part due to higher travel and entertainment costs reflecting COVID-19 related restrictions easing, and an increase in doubtful debts.
- Professional and management fees increased $18 million, in part due to the successful implementation of the new Flexible Shareholding capital structure, and capital return to shareholders and unit holders.

Operating expenses[1] (by nature)

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023
Employee benefits expense	860	**963**
Storage and distribution	241	**263**
Advertising and promotion	227	**219**
Information technology	191	**205**
Professional and management fees	149	**167**
Depreciation and amortisation	173	**180**
Impairment	44	**248**
Other	180	**251**
Operating expenses from continuing operations[2]	2,065	**2,496**
Operating expenses from discontinued operations	390	**303**
Total Group operating expenses	2,455	**2,799**

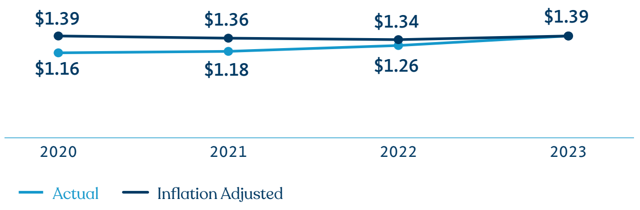
1. Comparative information has been re-presented for consistency with the current period.
2. Operating expenses for continuing operations are reported on the same basis as in Note 1a of the FY23 Financial Statements.

To support our long-term discipline and focus on reducing our operating expenses from continuing operations to around $2 billion we have introduced a new efficiency metric of cash operating expenses per kgMS.

The metric monitors the actual cash cost base having regard to changing milk volumes, and adjusts for inflation so underlying efficiency gains/losses are transparent.

After removing the impact of inflation and non-cash costs, our operating expenses on a per kgMS basis increased from $1.34 to $1.39 per kgMS. The increase mainly reflects increased staff costs and storage and distribution costs.

Cash Operating Expenses per kgMS



In addition to the $963 million of employee benefits expenses included in our operating expenses, $1,267 million of employee benefits expenses is included in our cost of goods sold. Our total continuing operations employee benefits are $2,230 million, $196 million or 10% up on the prior year.

Continuing operations employee benefits expense is made up of all people related costs including the use of contractors. During 2023, on average we had 692 Fixed term workers globally and 257 in our New Zealand Core Operations manufacturing business.

The graph below shows an increase in employee benefits expenses per milk solid since emerging from COVID.

From 2020 through to 2022 we had record low employee turnover due to COVID restrictions and as a result less remuneration pressure, fewer in-person conferences and training, no travel, and few redundancies. In 2023, with COVID restrictions removed, there was a significant increase in employee turnover, translating in higher salary expectations to secure and retain talent and to return to normal business activities. In addition, inflation impacted salary and wage remuneration globally.

The 2022 figure of $1.28 per kgMS benefited from the release of a provision held at Group following a final judicial interpretation on the application of the Holidays Act 2003 in New Zealand.

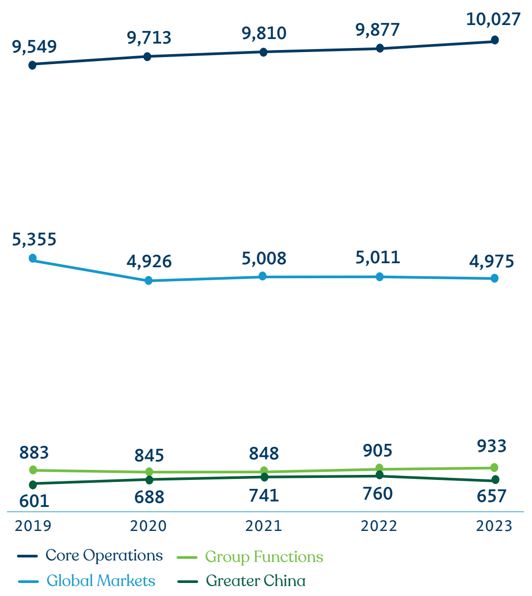
Continuing operations employee benefits expense per global milk solids collected

Continuing operations employee benefits expense

FOR THE YEAR ENDED 31 JULY					
NZD MILLION	2019	2020	2021	2022	2023
Employee benefits expense in cost of goods sold	1,029	1,062	1,117	1,174	1,267
Employee benefits expense in operating expenses	814	901	880	860	963
Total	**1,843**	**1,963**	**1,997**	**2,034**	**2,230**
Global milk solids collected (million kgMS)	1,644	1,624	1,645	1,584	1,586

1. Comparative information has been re-presented for consistency with the current period.

Continuing operations full time employees



Our workforce fluctuates during the year as we hire seasonal workers to support production through the milk peak period, cover short-term projects and long-term leave cover. During and after COVID-19 it became a challenge to source the quality and quantity of temporary workers required to efficiently operate our New Zealand and Australia manufacturing sites.

Therefore, over the past couple of years we increased the permanent manufacturing and supply chain full-time equivalent employees (FTE), across several sites in New Zealand and Australia. This can be seen in the increase in Core Operations FTE numbers. We will use natural turnover to smooth required workforce numbers during the off season.

The Co-operative's remuneration framework is designed to attract and retain talent, and both motivates and recognises the role our people play in the success of Fonterra.

Fonterra's remuneration framework for salaried staff is based on a 'total remuneration' approach, which is consistent with best practice globally. This includes base salary, benefits (KiwiSaver, superannuation and insurance where applicable), and variable remuneration (incentives).

Fonterra's remuneration packages are benchmarked against comparable companies in relevant markets, using information obtained from independent remuneration consultants. For more information on the Co-operative's remuneration framework please refer to the Remuneration Report within the Governance & Statutory Disclosures.

Research and Development Costs[1]

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023
Operating expenditure	86	108
Cost of goods sold	10	11
Total Group research and development costs	96	119

1. Comparative information has been re-presented for consistency with the current period.

Other[1]

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022			2023		
	CONTINUING OPERATIONS[2]	DISCONTINUED OPERATIONS[2]	TOTAL	CONTINUING OPERATIONS[2]	DISCONTINUED OPERATIONS[2]	TOTAL
Other	102	(11)	**91**	70	348	**418**

1. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees
2. Refer to Note 1a and 2c of the FY23 Financial Statements. Comparative information has been re-presented for consistency with current period

The 'Other' line item, which includes other operating income, net foreign exchange movements, and share of profit or loss of equity accounted investees, increased $327 million, mainly due to the sale of Soprole, with a gain on sale (before tax) of $349 million recognised in other operating income.

Globally we incurred costs of $119 million in research and development this year, up from $96 million in the prior year. $108 million is reported in our operating expenses, with the remaining $11 million in our cost of goods sold.

Our Co-operative has a long and proud heritage of dairy innovation, pioneering many world firsts from instant whole milk powder to spreadable butter.

Our innovation hub, the Fonterra Research and Development Centre (FRDC) based in Palmerston North, focuses on ground-breaking technologies and dairy science, aligned to our strategic choices; focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science.

Key research and development projects this year include:

- in Foodservice, we are developing a new cost-effective, high-moisture mozzarella, to better serve our value focused customers and attract new customers.
- in Sustainability, we partnered with MIT to trial process heat alternatives to help assist us to continue to drive energy efficiency in our manufacturing.
- we continue our research programme on Kowbucha™, a probiotics derived from Fonterra's large bacterial culture collection that are designed to reduce the methane produced by cows. Kowbucha™ has produced promising results with some trials showing up to a 20% reduction in methane without compromising productivity, but further work is needed to validate these effects.

Total Group EBIT to Normalised Profit After Tax Reconciliation[1]

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023	CHANGE[2]
EBIT	976	**2,218**	127%
Net finance costs	(231)	**(261)**	(13)%
Tax expenses	(162)	**(380)**	(135)%
Reported profit after tax	583	**1,577**	170%
Normalisation adjustments[3]	15	**(337)**	–
Add: Tax on normalisation adjustments	(7)	**89**	–
Normalised profit after tax	591	**1,329**	125%
(Profit)/loss attributable to non-controlling interests	1	**(40)**	–
Less: Normalisation adjustments attributable to non-controlling interests	(24)	**–**	–
Normalised profit after tax attributable to equity holders of the Co-operative	568	**1,289**	127%
Normalised earnings per share (cents)	35	**80**	129%
Full year dividend per share (cents)	20	**50**	150%

1. Includes continuing and discontinued operations.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Refer to the Non-GAAP Measures section in the Annual Review 2023.

Our Total Group net finance costs increased $30 million, or 13%, reflecting increases in global rates on interest accrued and paid, but partially offset by the Group having lower average borrowings during the year. In addition, the 2023 financial year had a lower net favourable impact from fair value changes of derivatives used to manage interest rate risk and the associated borrowings.

Our Total Group tax expense increased $218 million, due to the higher taxable earnings generated in the 2023 financial year relative to 2022 and capital gains tax on the sale of Soprole.

Dividend

Stronger balance sheet supports increased dividend payment

Fonterra's dividend policy is a payout ratio of 40% to 60% of reported profit after tax attributable to equity holders of the Co-operative, excluding abnormal gains. Distributions of any abnormal gains are considered separately. Dividend payments should not require Fonterra to take on more debt and should not reduce our ability to service existing debt.

For the year ended 31 July 2023 abnormal gains included the $260 million from selling Soprole.

The total dividend of 50 cents per share is equivalent to a payout ratio of 63% of reported profit after tax attributable to equity holders of the Co-operative, excluding abnormal gains. The decision to payout slightly above the upper end of the guidance range was mainly due to the strengthened balance sheet and our leverage metrics being well within target levels.

Dividend Calculation

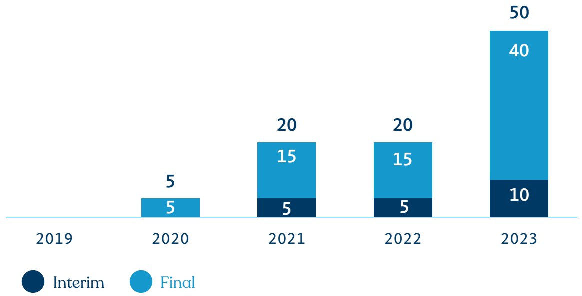
FOR THE YEAR ENDED 31 JULY

NZD CENTS PER SHARE	2022	2023
Reported earnings[1]	36	**95**
Less: Abnormal gains	(2)	**(16)**
Net earnings for dividend payment[2]	34	**79**
Dividend payment percentage (%)	59%	**63%**
Total dividend	20	**50**
Interim dividend	5	**10**
Final dividend	15	**40**

1. Attributable to equity holders of the Co-operative, excludes non-controlling interests.
2. Represents net earnings as specified in the Dividend Policy and is calculated as reported profit after tax less abnormal gains.


Barlass Farm, Canterbury

Dividend per share (cents)



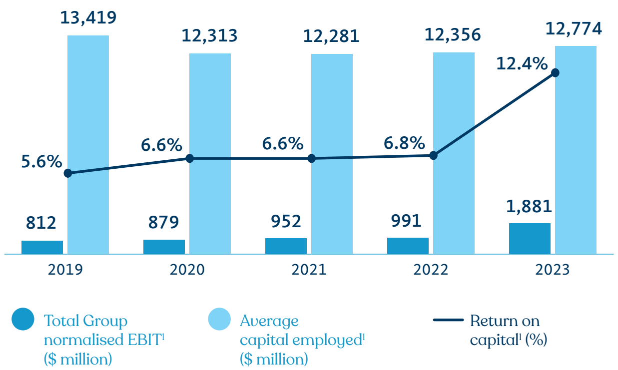
Return on Capital

Total Group Return on Capital improved from 6.8% to 12.4%

Our improved return on capital was due to the increase in our normalised EBIT. We have normalised $349 million related to the gain on sale from Soprole, as well as normalising a $12 million loss related to the disposal of Hangu China farm. The impairments of $248 million, mainly recognised in our Consumer channel, have not been normalised.

The impact of the improved EBIT was partially offset by higher average levels of capital employed compared to the prior year. This was mainly driven by higher average working capital levels, including the impact of the additional inventory carried forward from the prior year.

Return on Capital[1]



1. Refer to the Glossary.

Return on Capital by Product Channel

Ingredients
16.4% ↑
from 9.0%

Foodservice
15.7% ↑
from 5.5%

Consumer
(4.6)% ↓
from (0.4)%

Return on Capital

FOR THE YEAR ENDED 31 JULY		
NZD MILLION	2022	2023
Total Group normalised EBIT	991	**1,881**
Finance income on long-term advances	7	**11**
Notional tax charge	(161)	**(305)**
Total Group normalised EBIT plus finance income on long term advances less notional tax charge	837	**1,587**
Capital employed at year end	12,179	**11,121**
Impact of seasonal capital employed	177	**1,653**
Average capital employed	12,356	**12,774**
Return on Capital (%)	6.8%	**12.4%**

Cash Flow and Working Capital

Net cash flows from operating activities increased $3.3 billion to $3.2 billion due to the higher operating earnings and a reduction in working capital during the year, and after deducting interest and tax payments of $0.4 billion.

Our working capital requirements decreased by $0.9 billion reflecting both a reduction in inventory volume on hand during the year and a lower value of inventory on hand per metric tonne.

Our net cash flows from investing activities of $0.1 billion include divestments, which largely reflects the sale of Soprole for aggregate proceeds of $1.3 billion less costs and the pre-settlement dividend, partly offset by other investing cash flows, predominantly capital expenditure, of $0.7 billion. Combined with net cash flows from operating activities, this delivered a free cash flow of $3.3 billion for the year.

We have funded dividends of $0.4 billion (including 15 cents from last year's final dividend and this year's interim dividend of 10 cents).

Our net debt has decreased $2.1 billion reflecting the strong earnings, reduction in working capital and divestment proceeds. This, combined with our strong balance sheet enables us to pay a final dividend of 40 cents resulting in a total dividend of 50 cents per share.

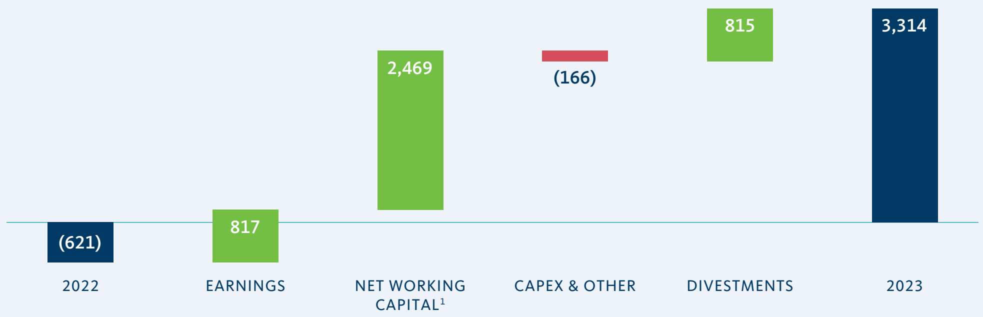
Cash Flow and Change in Net debt

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023
Cash generated from operations[1]	1,494	**2,311**
Net change in working capital and other operating activities	(1,598)	**871**
A. Net cash flows from operating activities	(104)	**3,182**
Cash flows from investing activities		
Divestments and asset sales	26	**846**
Capital expenditure and other	(543)	**(714)**
B. Net cash flows from investing activities	(517)	**132**
Free cash flow (A+B)	(621)	**3,314**
Dividends paid to equity holders of the Co-operative	(323)	**(403)**
Other financing cashflows	(18)	**63**
Capital return payable	–	**(804)**
Other non-cash changes in net debt	(52)	**(38)**
Decrease/(increase) in net debt[2]	(1,014)	**2,132**

Note: Comparative information has been re-presented for consistency with the current period.
1. Includes profit after tax and non-cash and non-operating adjustments to profit after tax to determine cash generated from operations.
2. Net debt includes amounts attributable to disposal groups held for sale.

Movements in Free Cash Flow ($ million)



Note: Comparative information has been re-presented for consistency with the current period.
1. Includes amounts owing to suppliers.

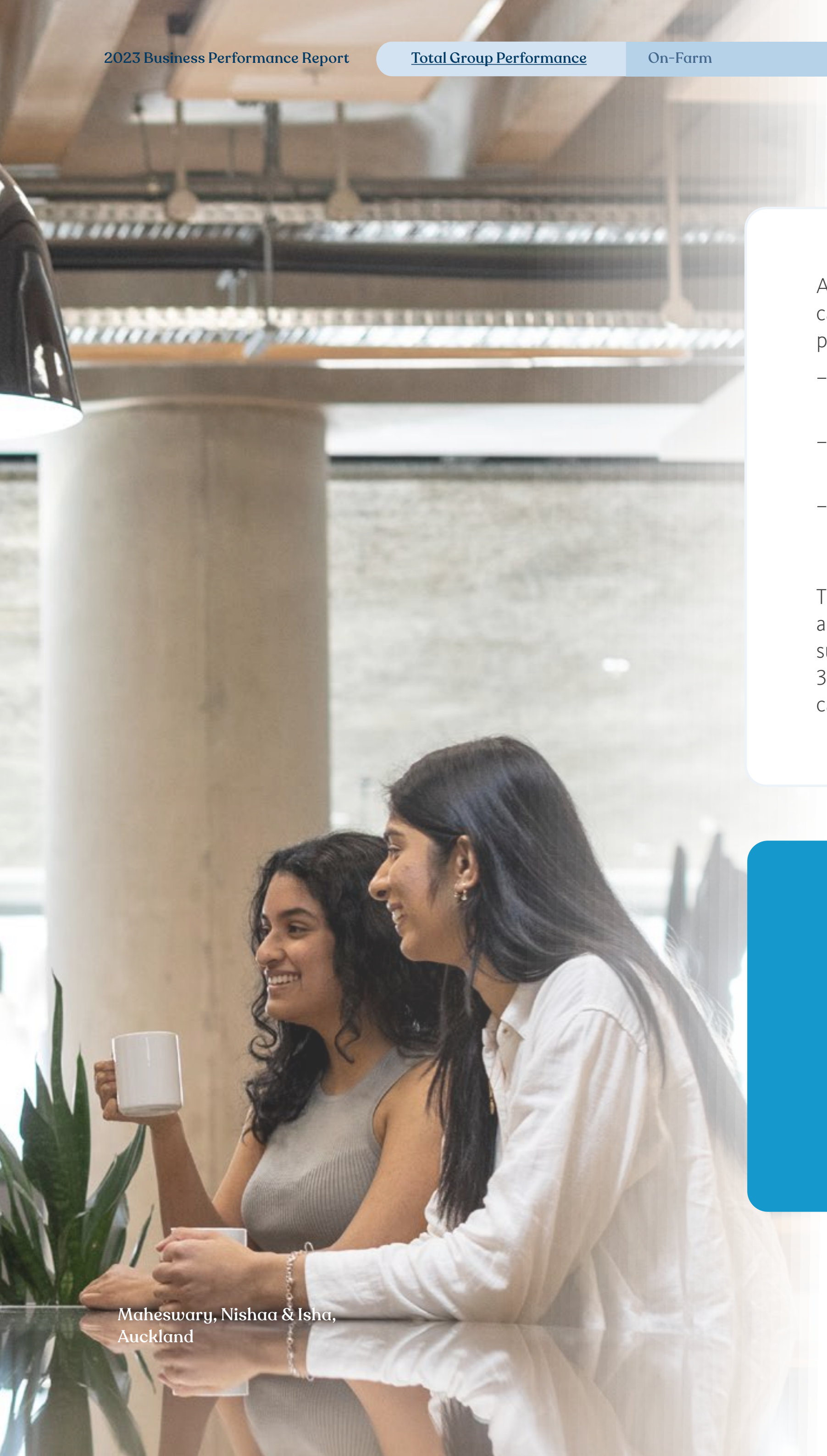
Our Total Group free cash flow was $3.9 billion higher than last year at $3.3 billion, and is before the $804 million capital return payment to shareholders and unit holders. The increase reflects:

- strong earnings performance resulting in underlying cash flow from earnings increasing by $0.8 billion,
- an improvement in working capital cash flows of $2.5 billion over the year, and
- an increase in net cash received from divestments of $0.8 billion, due to the sale of Soprole during the year, partially offset by
- an increase in capital expenditure and other investing cash flows of $0.2 billion.

The strong free cash performance supports the payment of the capital return of 50 cents per share and a 2023 full year dividend of 50 cents per share.

Free Cash Flow[1] ($ million)

Note: Comparative information has been re-presented for consistency with the current period.
1. Refer to the Glossary for definition.



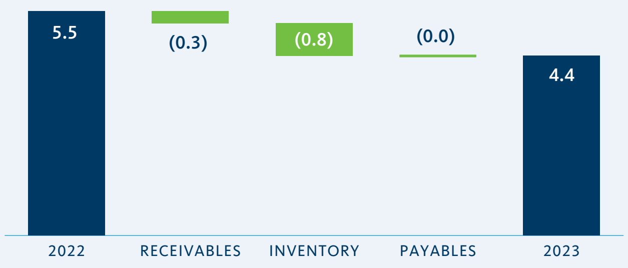
Maheswary, Nishaa & Isha, Auckland

As at 31 July 2023, our trade working capital decreased $1.1 billion from the prior year end, reflecting:

- a $0.2 billion reduction due to the divestment of Soprole;
- lower inventory volume on hand of 61,000 metric tonnes; and
- a lower milk price resulting in a lower carrying value per metric tonne of inventory on hand.

These figures are before taking into account amounts owing to farmer suppliers, which were $2.0 billion as at 31 July 2023, resulting in net working capital of $2.4 billion.

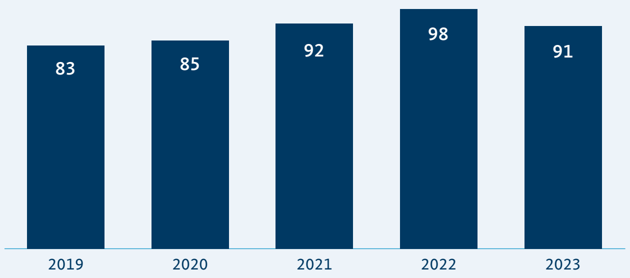
Trade Working Capital ($ billion)



Note: Includes amounts attributable to disposal groups held for sale. Comparative information has been re-presented for consistency with the current period.

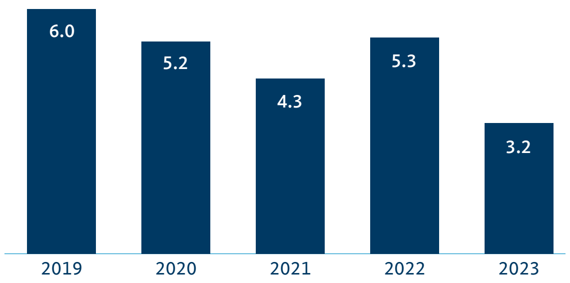
Working capital days have decreased by seven days relative to the prior year, mainly reflecting the higher value of sales, which were driven by Non-Reference Products.

Working Capital Days[1]



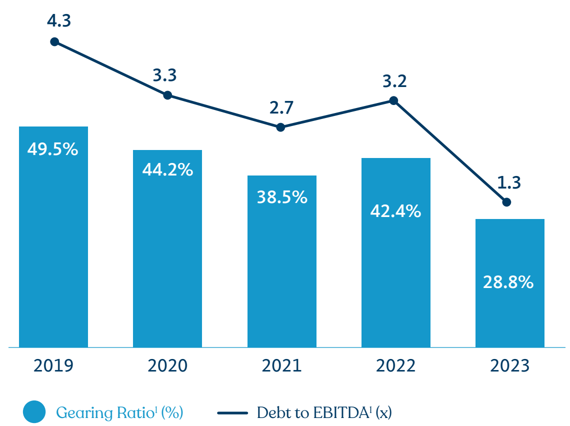
1 Refer to the Glossary for definition. Comparative information has been re-presented for consistency with the current period.

Net Debt[1] ($ billion)



1 Refer to the Glossary for definition.

Leverage Metrics



1 Refer to the Glossary for definition.

Balance Sheet

Net debt has decreased by $2.1 billion reflecting higher earnings, a reduction in working capital and the divestment of Soprole. This enabled an increase in cash dividends paid during the year and the capital return paid in August 2023.

The improvement in the Gearing Ratio from 42.4% to 28.8% reflects the lower level of debt together with higher equity from higher earnings.

Debt to EBITDA has improved from 3.2x to 1.3x as a result of lower net debt combined with higher earnings for the year.

Stephanie, Teagan & Keeley, Waiuku

Capital Invested

Total capital invested was $747 million for the 2023 financial year, the sum of capital expenditure of $668 million and other capital invested of $79 million.

The capital expenditure of $668 million comprised $621 million for capital projects to maintain and improve existing assets, referred to as sustaining capital expenditure, and $47 million for projects to drive future growth. The $79 million of other investments were mainly for right-of-use assets and equity investments.

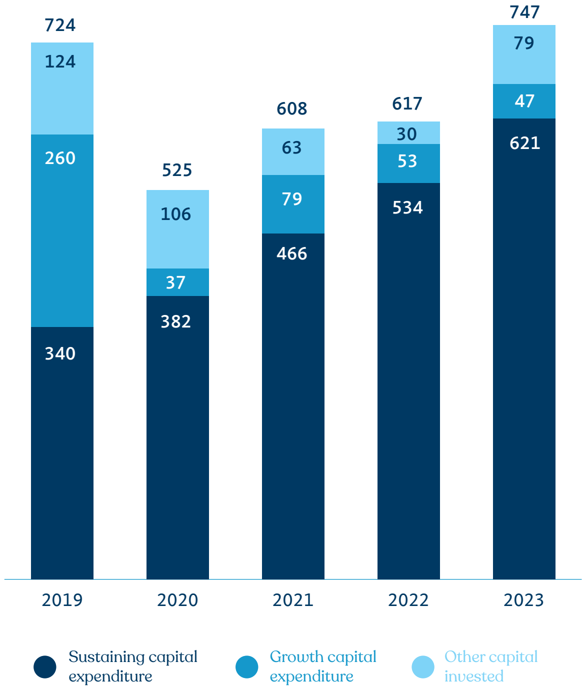
Our total capital expenditure has increased $81 million, with increased investment in capital projects such as decarbonisation, to meet our public commitments and to more sustainably collect and process milk across our network of assets.

We are continuously working through our capital expenditure programme to keep our processing sites fit for purpose. Key projects included installation of a biomass boiler to remove the use of coal at our Waitoa site, improved refrigerant technology at our Whareroa site and Te Rapa site utilities upgrades.

Across New Zealand, we continue to progress our annual truck and trailer replacement programme and on-farm milk vat replacement programme to drive operating efficiencies.

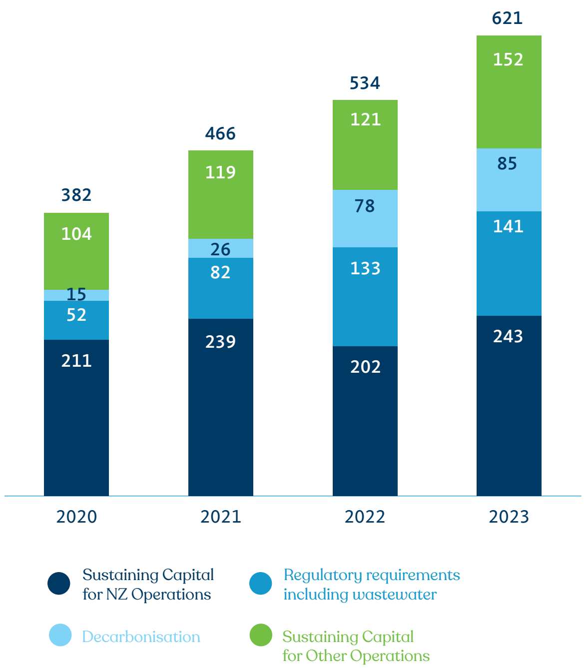
Growth capital expenditure included an upgrade to our probiotic's capacity in Palmerston North and an expansion to string cheese processing capacity in Malaysia for Global Foodservice customers.

Capital Invested[1]
($ million)



1 Refer to the Glossary for definition.

Breakdown of Sustaining Capital Expenditure
($ million)



Key Capital Expenditure Projects Across New Zealand

Central North Island

Waitoa
- Invested in biomass boiler to replace coal
- Improving power quality to increase plant stability
- Increasing capacity of organic UHT milks for our Greater China Consumer channel

Tirau
- Upgraded infrastructure to better manage wastewater

Te Rapa
- Acquisition of assets to continue to supply steam to process milk

Hautapu
- Changed from R22 based refrigeration to a sustainable alternative

Te Awamutu
- Upgraded infrastructure to better manage wastewater
- Change from R22 based refrigeration to a sustainable alternative

Lichfield
- Invested in brine storage and filtration capability to mitigate food safety and quality risk when processing cheese

Lower North Island

Whareroa
- Changed refrigeration to heat pump technology
- Improved powder dryer building integrity to manage product quality risk

Palmerston North
- Invested in ability to supply probiotics strains for a growing segment aligned to our Active Living category

South Island

Stirling
- Invested in biomass boiler to replace coal

Clandeboye
- Treat wastewater using biological treatment plant
- Investment to improve reliability of generation and distribution of hygienic compressed air
- Installed a heat recovery system for the Lactose plant to reduce energy requirements

Sites displayed are not a full representation of all Fonterra factories

On-farm

We believe having a strong and resilient dairy co-operative makes a real difference to our farmer owners, and to New Zealand. Our scale and diversification allow us to move our farmer owners' milk into the most valuable products and markets and achieve scale advantages in processing, innovation and supply chain. This helps mitigate some of the risk for farmers that can occur when demand for certain products or markets soften.

Blair, Hawkes Bay

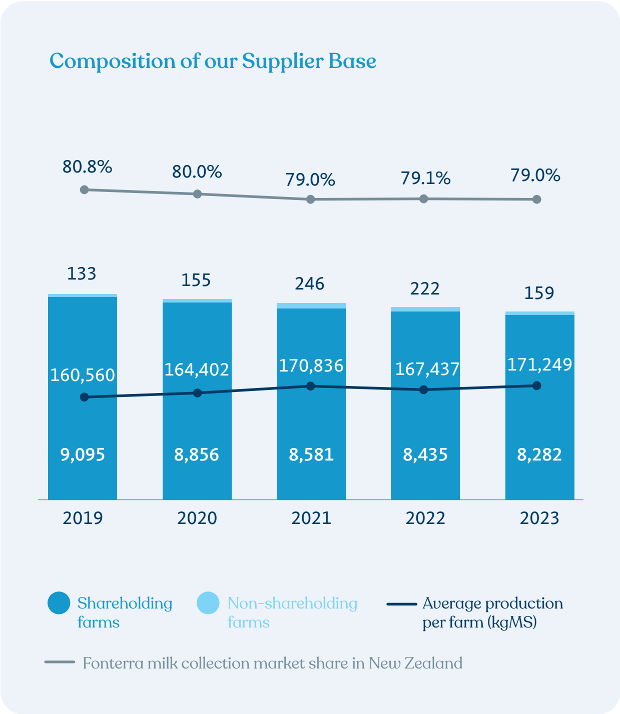
Our New Zealand Supplier Base and Owners

As at 31 July 2023 the Co-operative collected milk from 8,282 shareholding farms and 159 non-shareholding supplying farms around New Zealand. The decline in supplying farms is primarily due to farm conversions to other land uses and increased competitor activity.

Our supply from non-shareholding farms is largely made up of farms supplying MyMilk. At the end of the 2022/23 season, 23 of the 25 farms that had completed their permitted maximum number of seasons with MyMilk switched to supplying the Co-operative as a supplying shareholder. In addition, prior to the end of the 2022/23 season an additional 26 farms shifted from MyMilk to join the Co-operative as a supplying shareholder having completed less than their permitted maximum number of seasons with MyMilk.

Under the Flexible Shareholding capital structure, the Co-operative no longer accepts new applications for supply under MyMilk. Therefore, over the next four years the non-shareholding farms will steadily decline as MyMilk suppliers reach the permitted maximum five seasons.

Average production per farm this season is up on the prior 2021/22 season, primarily due to more favourable on-farm conditions with the prior year impacted by weather that was less conducive to pasture growth. In addition, while the trend in declining cow numbers over recent years has continued, productivity per cow continues to improve as farmers continue to focus on cow quality over quantity.



Share Capital

Flexible Shareholding came into effect on 28 March 2023, and more information on the Co-operative's capital structure can be found here.

Under Fonterra's Flexible Shareholding capital structure, Fonterra is required to report information on the alignment between milk supply and ownership of the Co-operative, and the distribution of ownership of the Co-operative.

When considering these Flexible Shareholding metrics, it's important to note share compliance was put on hold during the two-year capital structure consultation period and this is reflected in the metrics. Furthermore, the level of shares held by Ceased Shareholders is not necessarily a reflection of lost supply to the Co-operative.

- The number of shares linked to Ceased Shareholders reflects the number of shares linked to farm sales within a year. Typically, the majority of farms that are sold continue to supply the Co-operative under the new owner. Therefore, the milk solids linked to Ceased Shareholders are not necessarily lost to the Co-operative, but the shares become uncoupled from the original supplying farm.
- Historically around 60 – 90 million shares shift from being linked to a Supplying Shareholder to a Ceased Shareholder at the end of each season. Therefore, the current 149 million shares held by Ceased Shareholders and Permitted Transferees as of 1 September 2023 is in line with annual historical levels given it captures the 2020/21 and 2021/22 seasons where share compliance was put on hold as well as the recently ended 2022/23 season.
- Under the Flexible Shareholding capital structure, new shareholders have up to six seasons to reach their minimum holding of shares, while shareholders at the time of the capital structure vote have up to 15 seasons to share down after they cease to supply the Co-operative. Given the change in the minimum shareholding requirement, it is possible to see a proportion of shares held by non-supplying shareholders for a longer period.

Flexible Shareholding Metrics

METRIC	AS AT 31 JULY 2023	THRESHOLD
Total shares on issue above/(below) the aggregate Share Standard	12.22%	+/-15.00%
Shares held by Ceased Shareholders and Permitted Transferees	9.23%	≤ 25.00%
Shares held for the Fonterra Shareholders' Fund ("Overall Limit")	6.67%	≤ 10.00%

As of 31 July 2023, the Co-operative was within the specified thresholds for all three Flexible Shareholding metrics:

- **Total shares on issue above the aggregate Share Standard** – measures the percentage of Co-operative Shares on issue above/(below) the aggregate Share Standard for all Shareholders.
- **Shares held by Ceased Shareholders or Permitted Transferees** – measures the proportion of shares held by shareholders who have ceased supplying milk to the Co-operative, and/or transferred their shares to a non-supplying person or entity in accordance with the permitted transferee rules.
- **Shares held for the Fonterra Shareholders' Fund** – under the Flexible Shareholding capital structure, the size of the Fonterra Shareholders' Fund has been capped at 10% of shares on issue to protect farmer ownership and control of the Co-operative.

Additional information

To provide further transparency on the distribution of Co-operative ownership, Fonterra is providing information on the proportion of shares held by different shareholder types and the number of shares to be bought and sold by the compliance date.

Share Compliance Requirements

	SEASON						
# OF SHARES:	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Bought by	11,332,112	4,100,521	4,276,688	4,081,149	3,149,308	2,257,560	–
Sold by	9,234,420	–	–	22,818	–	–	–

	SEASON (continued)							
# OF SHARES	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	TOTAL
Bought by	–	–	–	–	–	–	–	**29,197,338**
Sold by	–	–	–	–	–	–	140,050,972	**149,308,210**

Shareholder Distribution

SHAREHOLDER	# OF SHARES HELD AS AT 31/07/2023	% OF TOTAL SHARES
Supplying Shareholders	1,347,783,820	83.75%
Secondary Shareholders	3,154,635	0.20%
Associated Shareholders	595,530	0.04%
Ceased Shareholders	138,675,995	8.62%
Permitted Transferees	9,840,123	0.61%
Custodian, on behalf of the Fund	107,410,984	6.67%
Custodian, on behalf of the Market Makers	1,783,582	0.11%
Total shares on issue	1,609,244,669	100%

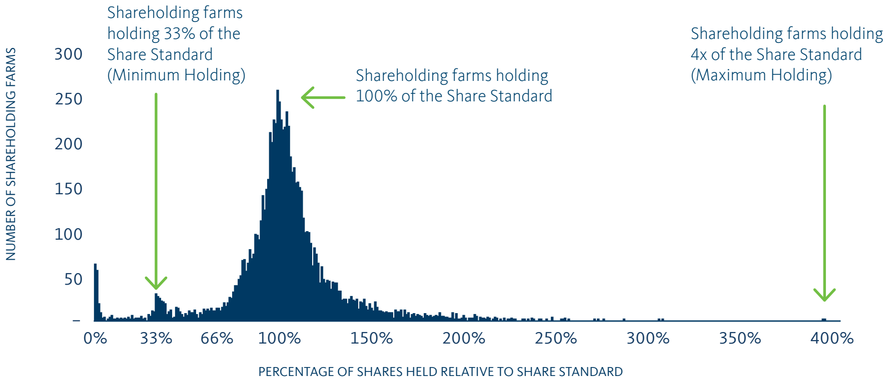
Shareholdings Relative to Share Standard

	<33%	33% – 79%	80% – 120%	>120%	TOTAL
# of shareholding farms	245	694	5,671	1,276	**7,886**
Milk Supply[1] (kgMS)	40,437,712	80,827,953	1,035,205,269	228,994,216	**1,385,465,150**

Note: Shareholding farms presented exclude farms where the owning entity is in the process of sharing up on a Share Up Over Time contract or six-year transition. It also excludes Ceased Shareholders, Permitted Transferees, Associated Shareholders and shareholding farms over 4 times the Share Standard.

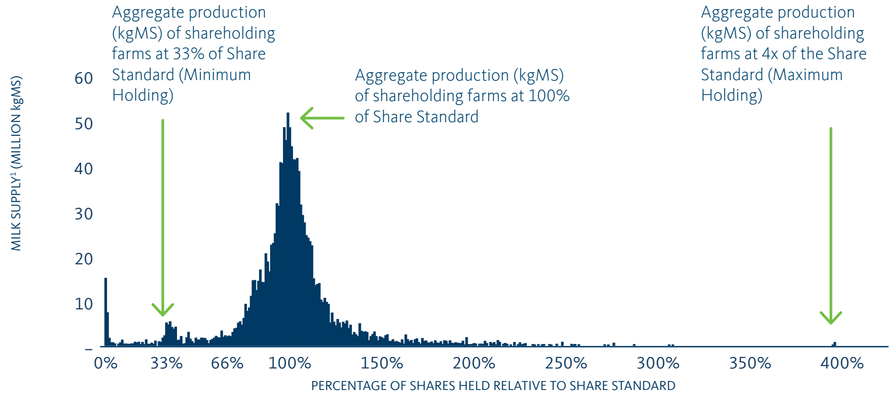
1. Production is derived from the shareholding farm's Share Standard.

Shareholdings by Shareholding Farms Relative to 1:1 Share Standard



Note: Shareholding farms presented exclude farms where the owning entity is in the process of sharing up on a Share Up Over Time contract or six-year transition. It also excludes Ceased Shareholders, Permitted Transferees, Associated Shareholders and shareholding farms over 4x the Share Standard.

Shareholding by Milk Supply Relative to 1:1 Share Standard



Note: Shareholding farms presented exclude farms where the owning entity is in the process of sharing up on a Share Up Over Time contract or six-year transition. It also excludes Ceased Shareholders, Permitted Transferees, Associated Shareholders and shareholding farms over 4 times the Share Standard.

1. Milk Supply is derived from the shareholding farm's Share Standard.

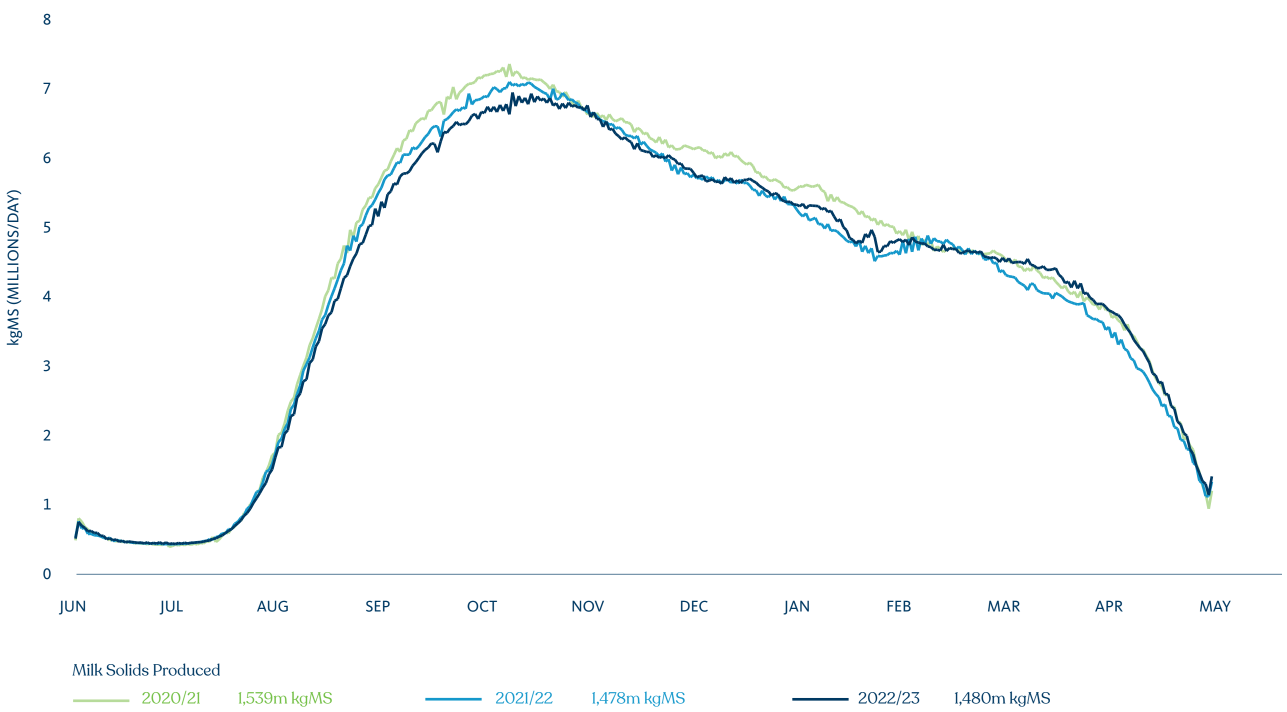
Fonterra's New Zealand Milk Production

For the 2022/23 season, production from Fonterra farmers in New Zealand was 1,480 million kgMS, up 0.1% compared to the prior season.

The 2022/23 season had a challenging start, with wet weather conditions throughout the North Island, dry conditions in the South Island, and a reduction in the number of cows impacting peak production.

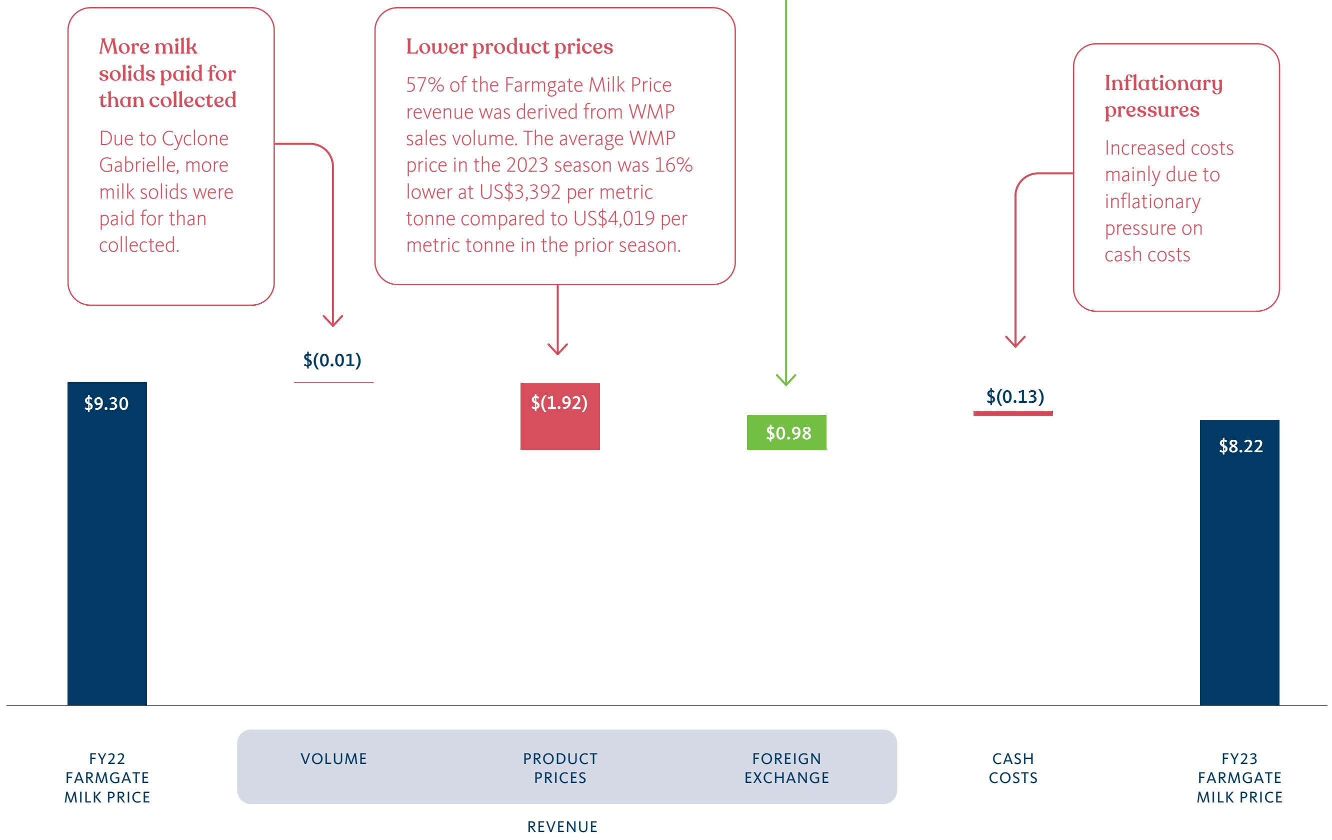
After the peak collection period the weather was more conducive to strong pasture growth, with intermittent rain and warmer temperatures resulting in strong milk supply towards the end of the season.

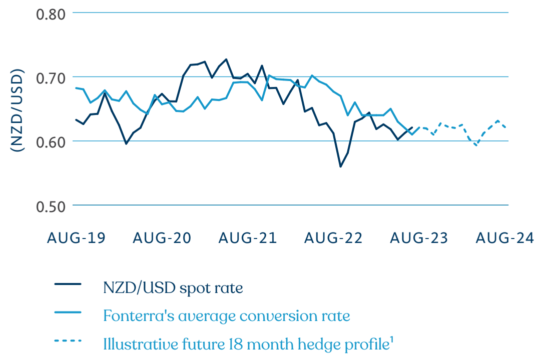
Fonterra's New Zealand Milk Production



New Zealand Farmgate Milk Price (per kgMS)

For more information, please see
Farmgate Milk Price Statement 2023 – see MP





The favourable foreign exchange (FX) season-on-season impact is because the hedge rate decreased as a result of the New Zealand dollar weakening over the two seasons. The average hedge rate decreased from NZD/USD 0.6884 last season to NZD/USD 0.6357 this season.

Fonterra hedges the FX risk progressively over an 18-month period, therefore the FX conversion rate for the Farmgate Milk Price for a specific season is largely based on the weighted average spot rate over the previous and current seasons.

The hedging approach means changes in the New Zealand dollar spot rate will still impact the Farmgate Milk Price, but it will impact at a later date and we can estimate with greater certainty what the impact of that change will be on the Farmgate Milk Price. As a result, hedging provides increased visibility and certainty on what the FX conversion rate for the season will be and means a narrower range on the Farmgate Milk Price relative to not hedging.

1. The future conversion rate is only an estimate because forecast USD receivables are only partially hedged over the forecast 18 month period and the hedges include options so the final conversion rate can vary.

Reportable Segments

Fonterra's reportable segments are Core Operations and the two customer-facing regional business units, Global Markets and Greater China as presented to the right.

	Core Operations	Global Markets	Greater China	Total
External sales volume ('000 MT)		2,517 10% ↑	980 5% ↓	3,497 5% ↑
Profit after tax contribution from continuing operations				
Ingredients	$602m $459m ↑	$429m $114m ↑	$133m $13m ↑	$1,164m $586m ↑
Foodservice	$(12)m $72m ↑	$50m $53m ↑	$203m $46m ↑	$241m $171m ↑
Consumer	$(18)m $1m ↑	$(94)m $90m ↓	$(52)m $48m ↓	$(164)m $137m ↓
Total	$572m $532m ↑	$385m $77m ↑	$284m $11m ↑	$1,241m $620m ↑

Note: Figures are for the year ended 31 July 2023
Prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.
Financing Costs are allocated based on the average capital employed by each segment and channel. The notional tax rates applied are based on which country the entity, within a segment or channel, generates the income in.

Core Operations represents the business activities that collect and process New Zealand milk through to selling products to our customer-facing regional business units, Global Markets and Greater China. When products are sold from Core Operations to the regional business units, the internal transfer prices used are largely determined by market-based commodity reference prices (e.g., GDT and other external benchmarks) and include charges, where appropriate, to reflect the additional costs of producing non-commodity products.

The performance of Core Operations reflects the efficiency of our milk collection, manufacturing and supply chain operations, our ability to optimise our product mix, the impact of our price risk management tools as well as a significant portion of our business's volatility, including the impact of price relativities between Reference Products that inform the Farmgate Milk Price and Non-Reference Products.

Our Greater China business unit includes the Ingredients, Foodservice and Consumer channels in Greater China, and our Global Markets business unit includes our Ingredients, Foodservice and Consumer channels outside of Greater China.

The performance of the regional business units in the table on the next page reflects the in-market value added after purchasing the products from Core Operations at the transfer price.

During the year corporate costs were not included within the segments. From July 2023, corporate costs, including Co-operative Affairs and other Group Functions, are included within Global Markets, Greater China and Core Operations.

In addition, Segments and Product Channels are reported to profit after tax. Financing Costs are allocated based on the average capital employed by each segment and channel. The notional tax rates applied are based on which country the entity, within a segment or channel, generates the income in.

Reportable Segments[1]

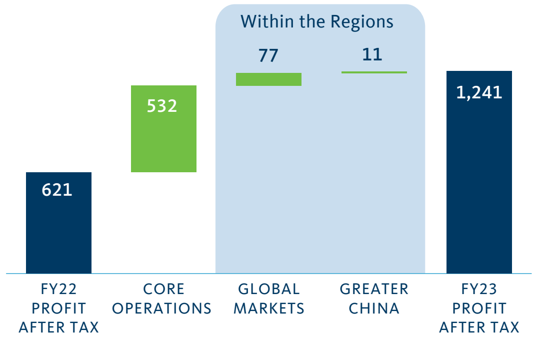
FOR THE YEAR ENDED 31 JULY

	CORE OPERATIONS		GLOBAL MARKETS		GREATER CHINA		ELIMINATIONS		TOTAL	
NZD MILLION	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Sales volume ('000 MT)[2]	2,554	2,784	2,344	2,575	1,028	978	(2,608)	(2,840)	3,318	**3,497**
Revenue	16,987	19,142	15,374	18,401	6,869	7,072	(17,329)	(20,035)	21,901	**24,580**
Cost of goods sold	(16,251)	(17,513)	(13,832)	(16,565)	(6,238)	(6,356)	17,329	20,035	(18,992)	**(20,399)**
Gross profit	736	1,629	1,542	1,836	631	716	–	–	2,909	**4,181**
Operating expenses	(691)	(840)	(1,081)	(1,310)	(293)	(346)	–	–	(2,065)	**(2,496)**
Other[3]	110	17	(15)	53	7	–	–	–	102	**70**
EBIT	155	806	446	579	345	370	–	–	946	**1,755**
Net finance costs	–	–	–	–	–	–	–	–	(194)	**(211)**
Tax expenses	–	–	–	–	–	–	–	–	(131)	**(303)**
Profit after tax	40	572	308	385	273	284	–	–	621	**1,241**
Gross margin[4]	4.3%	8.5%	10.0%	10.0%	9.2%	10.1%	–	–	13.3%	**17.0%**
EBIT margin[4]	0.9%	4.2%	2.9%	3.1%	5.0%	5.2%	–	–	4.3%	**7.1%**

1. Performance is prepared on a continuing operations basis. Comparative information has been re-stated and re-presented for consistency with the current period.
2. Includes sales to other segments.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.
4. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.

Change in profit after tax contribution by segment between 2022 and 2023[1]

Profit after tax ($ million)



1. Prepared on a continuing operations basis. Comparative information has been re-stated and re-presented for consistency with the current period.

Our previous reportable segments were Asia Pacific; Africa, Middle East, Europe, North Asia and Americas (AMENA); and Greater China. The income statement of Group Operations (now Core Operations) was attributed between the three regional business units.

In June 2022, we announced changes to our organisational structure to better support our strategy, following the strategy refresh announced in September 2021. Effective from 1 October 2022, our Asia Pacific and AMENA business units were merged into a combined Global Markets business unit. The reportable segments have been updated to reflect the changes and include Core Operations as a reportable segment.

Additionally, from 31 October 2022, Soprole met the conditions to be classified as held for sale and the definition of a discontinued operation and is excluded from the reportable segment figures. The comparative information for previous years has been restated and re-presented to reflect the change in the Group's reportable segments.

The table to the right reflects the performance of our regional business units, Global Markets and Greater China, with Core Operations allocated to them to determine an end-to-end segmental result of the two customer-facing regional business units, consistent with how the segments were reported in the last two financial years.

The principle of the end-to-end attribution is to reflect the underlying transaction between Fonterra and the customer, where possible. If costs are not directly linked to transactions, such as overheads, attributions are activity based where appropriate e.g. Information Technology and Research and Development. If none of these principles applies, the attribution uses the share of product sold/manufactured in the region as the base of allocation.

End-to-End Regional Business Unit Performance[1]

FOR THE YEAR ENDED 31 JULY

	GLOBAL MARKETS			GREATER CHINA		TOTAL	
NZD MILLION	2022	2023		2022	2023	2022	2023
Sales volume ('000 MT)	2,284	2,517		1,034	980	3,318	3,497
Revenue	15,201	17,926		6,700	6,654	21,901	24,580
Cost of goods sold	(13,154)	(14,911)		(5,838)	(5,488)	(18,992)	(20,399)
Gross profit	2,047	3,015		862	1,166	2,909	4,181
Operating expenses	(1,541)	(1,882)		(524)	(614)	(2,065)	(2,496)
Other[2]	56	63		46	7	102	70
EBIT[3]	562	1,196		384	559	946	1,755
Net finance costs	–	–	–	–	–	(194)	(211)
Tax expense	–	–	–	–	–	(131)	(303)
Profit after tax	342	830		279	411	621	1,241
Includes Core Operations attribution[4]	34	445		6	127	40	572
Gross margin[5]	13.5%	16.8%		12.9%	17.5%	13.3%	17.0%
EBIT margin[5]	3.7%	6.7%		5.7%	8.4%	4.3%	7.1%

1. Performance is prepared on a continuing operations basis. Comparative information has been re-stated and re-presented for consistency with the current period.
2. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.
3. Includes Core Operations attribution.
4. Core Operations attribution is an after tax amount that is included in the Global Markets and Greater China's profit after tax line.
5. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.

Core Operations

Core Operations represents the business activities from collecting and processing New Zealand milk, through to selling products to our customer-facing regional business units, Global Markets and Greater China.

It is comprised of three functions

1. Chief Operating Office (COO), which includes New Zealand milk collection and processing operations, supply chain, Group IT, safety and food safety.

2. Strategy and Optimisation (S&O). This includes optimising the New Zealand milk pool, product pricing guidance, strategy & transformation, managing Fonterra's dairy and non-dairy price risk and providing price risk management tools to both our customers and farmer shareholders.

3. Fonterra Farm Source™ retail stores.

Smith Farm, Southland

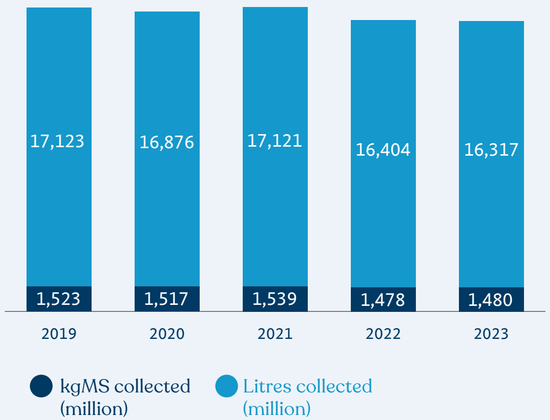
Milk Collection

The performance of our Core Operations during the 2023 financial year demonstrated resilience as 2023 was impacted by high inflationary pressures and, at times, significant weather events.

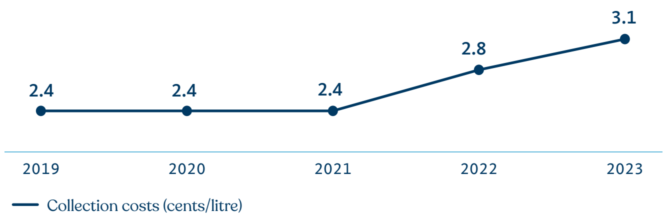
This year we collected 16,317 million litres of milk from the Co-operative's farmers which equated to 1,480 million kgMS.

Around 11 litres of milk produce 1kg of milk solids, or about 9% of milk collected is solids, and the rest is other components of milk and water.

Litres and milk solids collected

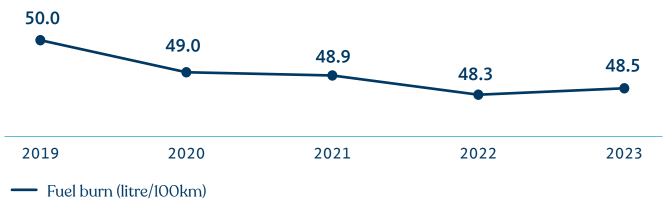


Cost of collecting milk[1]



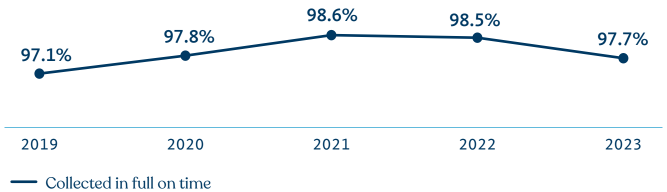
The Co-operative experienced significant increases in several input costs, including the cost of diesel increasing 30% which has impacted the cost of collecting milk. This has been partially offset by the government reducing Road User Charges for most of the year.

Fuel efficiency when collecting milk



To improve fuel efficiency, we use data analytics to provide a view of efficiency by tanker and driver, and through our annual truck and trailer replacement programme we manage the condition and age of our fleet. Fuel efficiency was relatively stable year-on-year.

Timeliness of collecting milk



"Collected in full on time" (CIFOT) is the measure of how well we have performed in collecting our farmer owners' milk within our planned collection windows. This is important for farmer engagement and milk processing. Our performance this year was impacted by several weather events across the country.

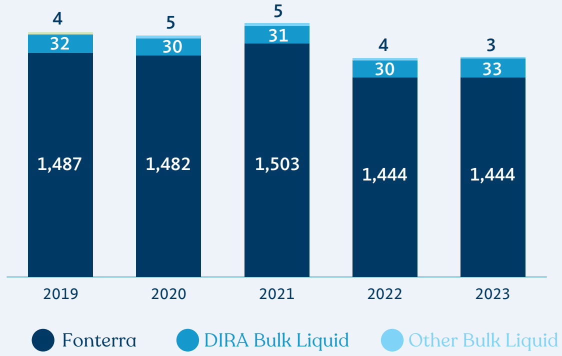
1. Cost of collecting milk excludes milk and liquid product transfers between sites. Comparative information has been re-presented for consistency with the current period.

Milk solids available to process and where we allocated them

We process around 98% of the milk we collect in New Zealand.

In some instances, we choose to enter into commercial agreements to provide bulk liquids to other independent processors in New Zealand. Under the Dairy Industry Restructuring (Raw Milk) Regulations 2012 Fonterra is required to provide up to 600 million litres of milk each season to eligible independent third-party processors (including Goodman Fielder) at a regulated price. Under these regulations, Goodman Fielder is entitled to buy up to 350 million litres of the overall eligible independent processor entitlement. Under the regulations, the default regulated price for eligible processors (other than Goodman Fielder) is Fonterra's farm gate milk price plus the reasonable costs of transporting the milk to the processor. Certain independent processors may also qualify for fixed quarterly pricing. Under the regulations, the default regulated price for Goodman Fielder is Fonterra's farm gate milk price plus reasonable costs of transporting the milk to Goodman Fielder and, an additional charge of 10 cents per kgMS. The additional charge enables Fonterra to recover a contribution to the overall costs of milk sourcing and the costs of providing Goodman Fielder with a "flat supply curve" of milk across the season.

New Zealand milk solids processed and Bulk Liquid sales (million kgMS)



Nesta,
Hawkes Bay

Favourable long-term trend of shifting milk solids into higher value products

The Co-operative is focused on shifting our New Zealand milk into higher value products. This is a key driver of our strategy to deliver both a strong Farmgate Milk Price and earnings growth.

The graph to the right shows the favourable trend in allocating more milk solids to Non-Reference Products, which are typically higher value products relative to Reference Products.

Milk solids allocated to Reference Products have reduced from 72.7% in 2019 to 68.6% in 2023. Reference Products informing the Farmgate Milk Price include commodity specifications of whole milk powder (WMP) and skim milk powder (SMP), and their by-products which are butter milk powder (BMP), butter, and anhydrous milkfat (AMF).

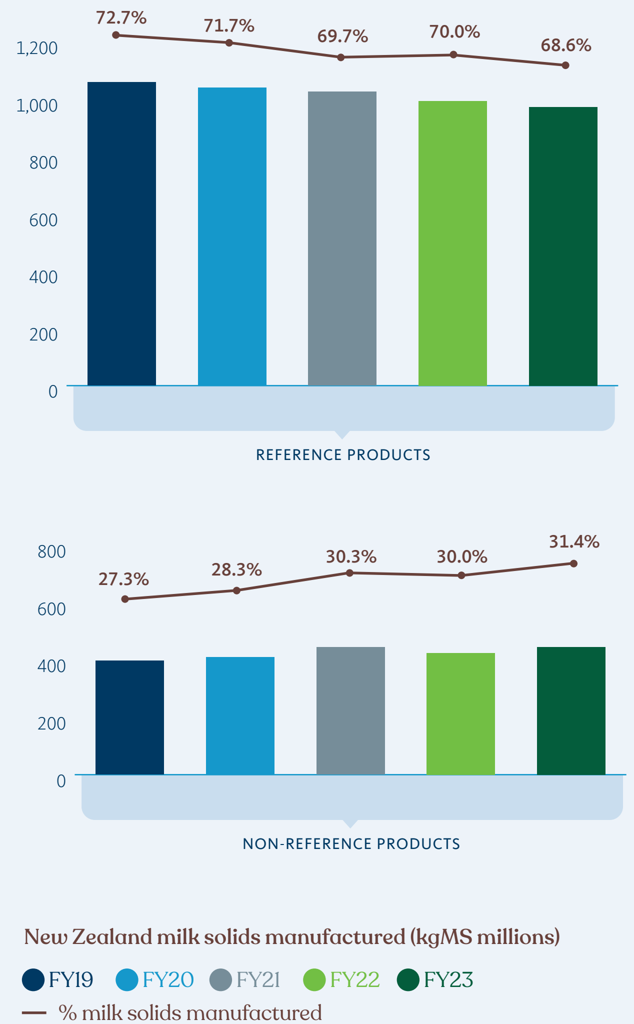
The allocation of milk solids to Non-Reference Products, such as specialised protein products in our Ingredients channel and all products sold into our Foodservice and Consumer channels, have increased from 27.3% in 2019 to 31.4% in 2023. The allocation of milk solids to higher value products can fluctuate year-on-year as our optimisation team responds to supply and demand signals and makes decisions to help generate the best overall returns to Fonterra and our farmer owners within a season.

Our strategy to direct more milk solids, within a constrained milk environment, into Non-Reference Products focuses on:

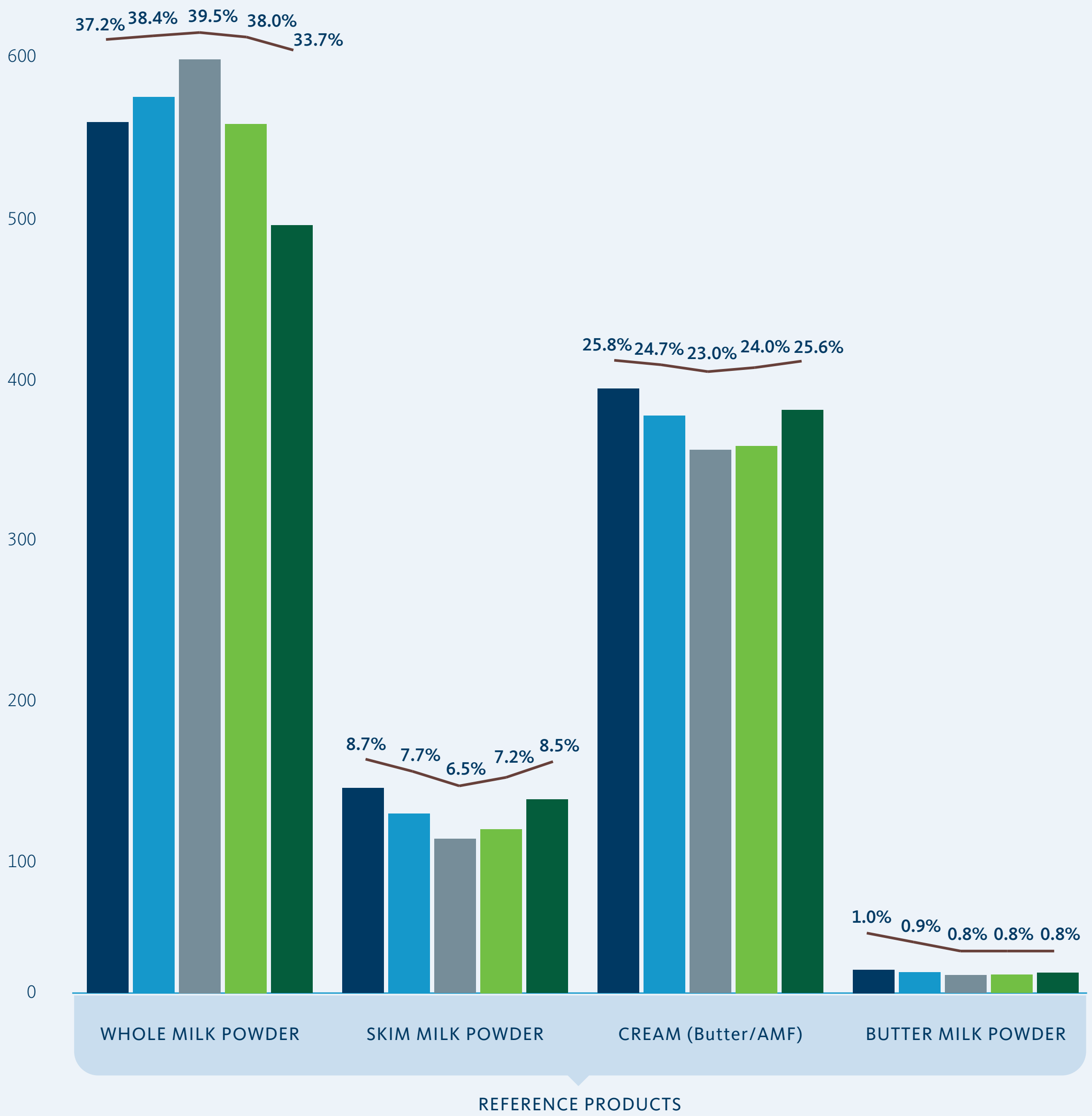
- Ingredients channel – growing our higher-value ingredients and solutions targeting the areas of physical, patient, digestive and mental wellness plus immunity
- Foodservice channel – growing our global Foodservice presence across Greater China, Southeast Asia, and the USA
- Consumer channel – use our New Zealand provenance and sustainability credentials to differentiate our brands

In addition to increasing volume sold into the Non-Reference portfolio, another driver of the allocation change between Reference and Non-Reference Products is as total milk solids collected and processed have trended down over the past five years, the reduced collections have been removed from the allocation to Reference Products.

New Zealand milk solids allocated to Reference & Non-Reference Products



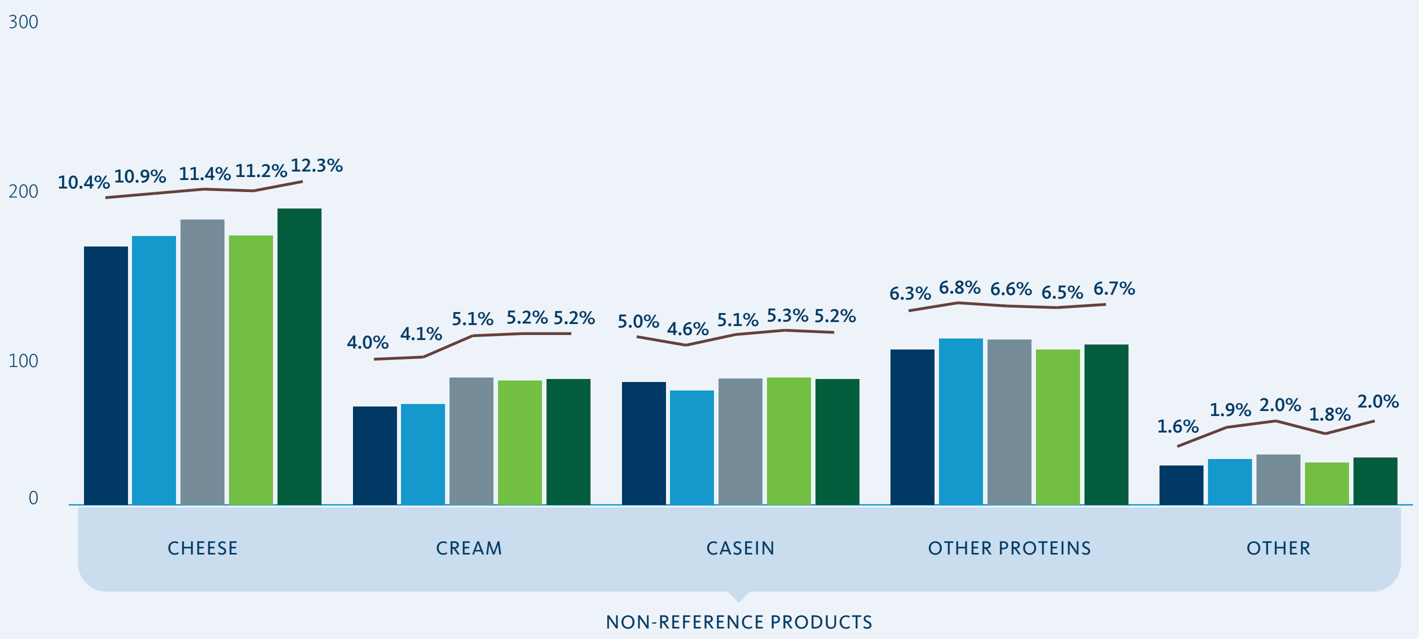
Breakdown of milk solids allocated to manufacture of Reference & Non-Reference Products



Overall, the portion of milk solids allocated to Reference Products is a favourable trend downwards. However, as seen in the graph left the allocation between WMP and SMP year-on-year is more responsive to market signals and demand for the two products and their by-products, as our Optimisation team focuses on delivering the greatest value for the Farmgate Milk Price within a season.

- Value derived from WMP for the past two years has remained relatively low compared to other products, in particular SMP and its by-products, due to the reduced demand for imported WMP from China.
- Value created from SMP and its cream by-products (AMF and butter) have improved year-on-year which supported the shift in allocation of solids from WMP to SMP to deliver the highest possible Farmgate Milk Price to the Co-operative's suppliers.
- The increased volume in cream Reference Products can be attributed mainly to butter, which has provided a better return relative to AMF over the past couple of years.

Breakdown of milk solids allocated to manufacture of Reference & Non-Reference Products



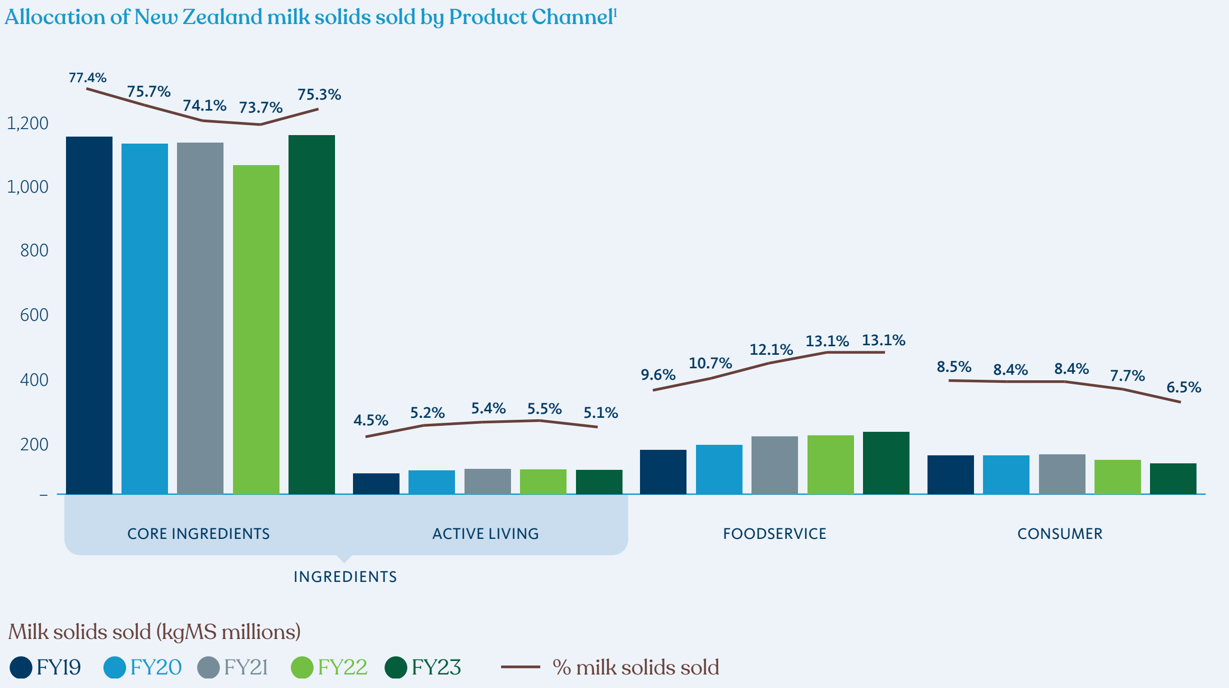
Relative to Reference Products, Non-Reference Products do not adjust year-on-year as much, as we balance maximising the value of milk within a year as well as our long-term strategy to generate sustainable volume growth of our higher margin products.

Our cheese portfolio has had good growth over the past five years mainly due to the growth in our Foodservice channel for mozzarella.

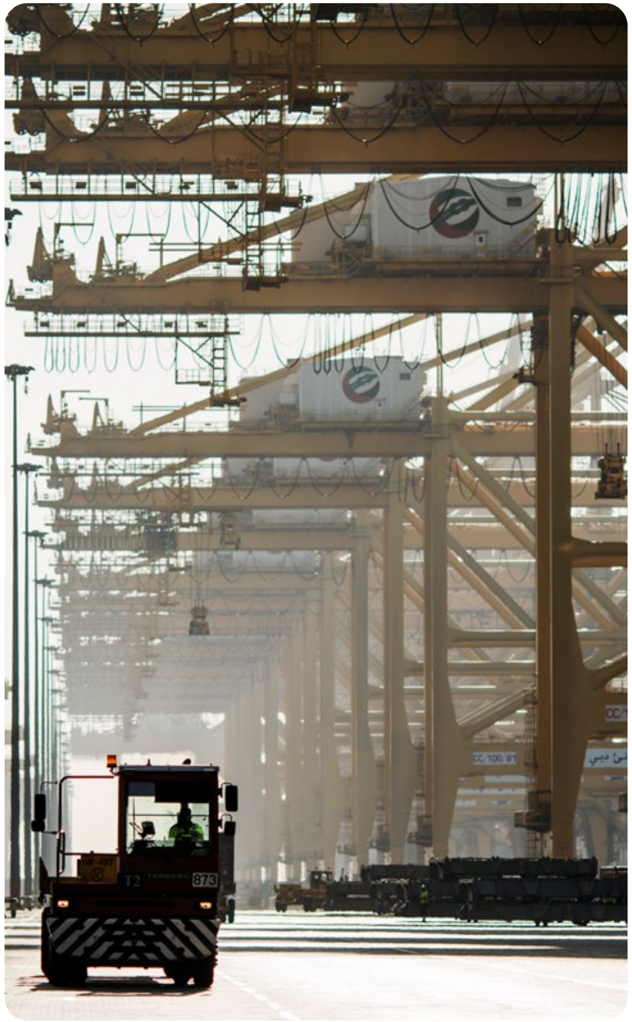
Our cream (Non-Reference) portfolio has had increased allocation of milk solids due to solid growth in our Foodservice channel particularly for UHT cream in our Greater China Foodservice business.

Our casein and caseinate portfolio allocation of milk solids has remained stable over the past five years due to constrained manufacturing capacity. However, as demand has grown over the past year gross margins have increased significantly, in particular for rennet casein – an ingredient used in processed cheese. Due to COVID-19 related regulations, the cost and complexity to import cheese into China increased, and customers in China shifted from imported processed cheese to locally manufactured processed cheese, driving up the demand for rennet casein.

Our other proteins portfolio (excluding casein and caseinates) is mainly made up of milk protein concentrates (MPC). The two most prominent MPCs are MPC70 and MPC85. MPC70 is a commodity specification product and over the past five years the trend has been for less milk solids allocated to it. Instead we have increased our allocation to MPC85 which is a specialised protein product sold within our sub-channel Active Living. Overall, the other proteins portfolio has remained stable.



1. Comparative information has been re-presented for consistency with the current period.



The kgMS of milk products that we produce each year differs to the kgMS of products that we sell within the financial year.

This year, due to the sell down of the additional 2022 financial year Core Ingredients inventory and in-market challenges, we are selling a higher proportion of our milk solids through our Core Ingredients channel and a lower proportion through our Active Living and Consumer channels.

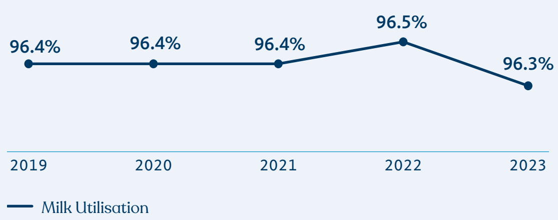
Milk solids allocated to our Foodservice channel are in line with last year, with demand lifting across our major product categories in the second half of the year as a result of COVID-19 related restrictions lifting, relative to the prior year.

Our Active Living portfolio was impacted due to high in-market inventory in some markets, and lower demand from the USA as a result of some customers' current manufacturing constraints.

Our Consumer channel experienced lower sales volume, mainly due to economic challenges in Sri Lanka impacting the ability to access US dollars in the first half of the financial year.

Milk Processing Performance

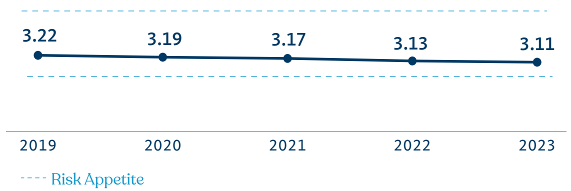
Portion of milk solids made into product



Within our New Zealand manufacturing operations, we have optimised our product mix by allocating a higher proportion of this season's milk solids to proteins (including skim milk powder) and cheese products, and less to whole milk powder.

Milk utilisation (the proportion of milk solids made into products) reduced from 96.5% to 96.3% due to the shift to a more complex product mix, which incur larger processing losses, but on a net basis provide greater earnings to the Co-operative and represent the greatest overall return for our milk solids. We are focused on improving manufacturing of more complex products. For example, at our Hautapu and Maungaturoto sites, we have worked on ensuring consistency of final product and improving product yield of rennet casein.

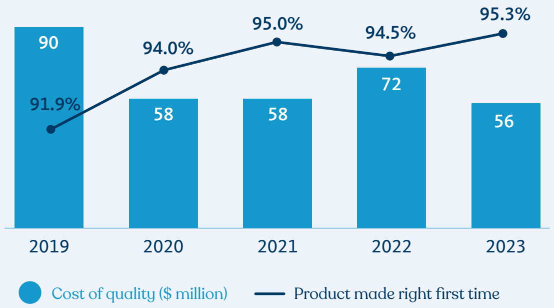
Asset health



Asset health measures the condition and reliability of our manufacturing assets on a scale of one to five, with five indicating the asset is in the best condition possible. Fonterra's risk appetite range is from 3 to 3.5.

From 2016 to 2020, we under-invested in sustaining capital, leading to the downwards trend of asset health. Since 2021, capital has been allocated to regaining asset condition and risk mitigation particularly in food safety and health & safety. The Asset health score does not yet reflect the increase in spend as we catch up from prior underspend.

Product made right first time



Product made 'right first time' tracks the product that passes grading tests once the product is manufactured. Manufacturing more complex products increases the risk on quality and reliability, but despite this, we have achieved a record result in product made 'right first time' at 95.3%.

Cost of quality is one of our key measures of the effectiveness of our manufacturing activity and it improved this year, reducing to $56 million. This is more in-line with historical levels seen during 2020 and 2021, rather than 2022, which was impacted by several one-off events.

Core Operations operating performance

Core Operations revenue is derived from selling products to our two in-market selling regions, Global Markets and Greater China.

Core Operations Performance by Channel[1]

FOR THE YEAR ENDED 31 JULY

	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]
Sales volume ('000 MT)[3]	2,554	2,784	9%	2,011	2,191	9%	286	334	17%	257	259	1%
Revenue	16,987	19,142	13%	14,055	15,692	12%	1,569	1,994	27%	1,363	1,456	7%
Cost of goods sold	(16,251)	(17,513)	(8)%	(13,331)	(14,207)	(7)%	(1,588)	(1,908)	(20)%	(1,332)	(1,398)	(5)%
Gross profit	736	1,629	121%	724	1,485	105%	(19)	86	–	31	58	87%
Operating expenses	(691)	(840)	(22)%	(561)	(678)	(21)%	(77)	(89)	(16)%	(53)	(73)	(38)%
Other[4]	110	17	(85)%	85	16	(81)%	14	–	–	11	1	(91)%
EBIT	155	806	420%	248	823	232%	(82)	(3)	96%	(11)	(14)	(27)%
Net finance costs and tax expense	(115)	(234)	(103)%	(105)	(221)	(110)%	(2)	(9)	(350)%	(8)	(4)	50%
Profit after tax	40	572	1,330%	143	602	321%	(84)	(12)	86%	(19)	(18)	5%
Gross margin	4.3%	8.5%		5.2%	9.5%		(1.2)%	4.3%		2.3%	4.0%	
EBIT margin	0.9%	4.2%		1.8%	5.2%		(5.2)%	(0.2)%		(0.8)%	(1.0)%	

1. Core Operations performance is prepared on a continuing operations basis. Comparative information has been restated for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.

When products are sold from Core Operations to our in-market regions, the internal transfer prices are largely determined by market-based reference prices (e.g. GDT and other external benchmarks) and include charges, where appropriate, to reflect the additional specification costs to make the product. The internal pricing is reviewed weekly for Ingredients products and either monthly or quarterly for Consumer and Foodservice products.

Core Operations profit after tax was $572 million, an increase of $532 million, on the prior comparable period.

A key driver of Core Operations profit after tax is the relative price difference between Reference Product prices and Non-Reference Product prices.

The graph to the right illustrates these prices relativities. Price relativities in the 2023 financial year were significantly more favourable than prior years, and these price relativities, particularly in our protein and cheese portfolios, have driven the improved gross margin from 4.3% to 8.5%.

The increase in gross profit has been partially offset by higher operating expenditure. Our supply chain costs have increased due to inflationary pressures, staff costs, and incurring additional storage costs due to the impact of holding higher inventory at the start of the 2023 financial year.

To support our long-term discipline on efficient New Zealand operations we have introduced a new efficiency metric of gross profit from Core Operations per kgMS.

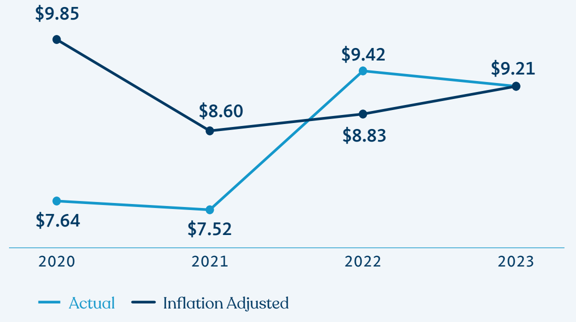
The metric monitors the cash cost base having regard to changing milk volumes, and adjusts for inflation so underlying efficiency gains/losses are transparent. The metric is calculated at a gross profit level to take into account the net result of maximising value generated from every milk solid, which can increase the cost base.

After removing the impact of inflation and non-cash costs, our gross profit from Core Operations on a kgMS basis increased from $8.83 to $9.21 per kgMS. The increase reflects higher revenue in New Zealand dollars.

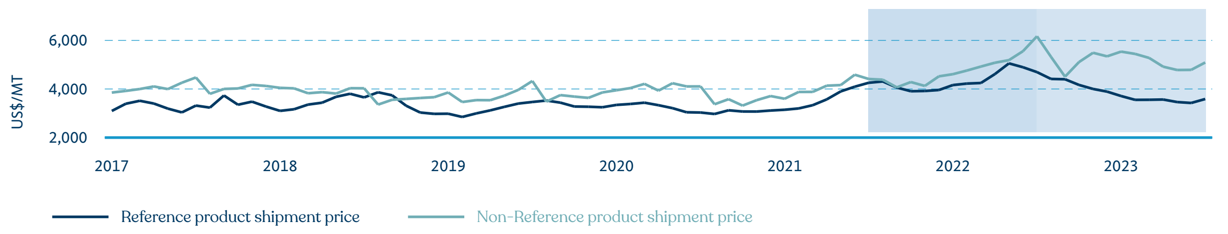
'Other' is down $93 million, to $17 million, reflecting foreign exchange movements in our net receivables due to timing differences between the processing and hedging of invoices. Last year's 'Other' also included a portion of the gain on sale of Global Dairy Trade.

Despite favourable price relativities improving gross profit in both the Foodservice and Consumer channels relative to the prior year, at an EBIT level these channels have continued to incur losses in Core Operations reflecting both higher operating costs and other gains not repeated in the 2023 financial year.

Gross profit from Core Operations per kgMS



Reference and Non-Reference Price Relativities



Regional performance

The performance of the regional business units reflects the in-market value added after purchasing the products from Core Operations at the transfer price.

Global Markets

Our Global Markets business covers our sales regions outside of the Greater China region, which includes Africa, Middle East, Europe, North Asia, Americas, New Zealand, Australia, Pacific Islands, Southeast Asia, and South Asia.

Global Markets' profit after tax increased $77 million to $385 million, mainly due to the Ingredients channel in-market profit after tax increasing by $114 million due to improved pricing and higher sales volumes. Performance also improved in the Foodservice channel as in-market sales teams were able to adjust sales prices for higher cost of goods. This was partially offset by impairments in Global Markets' Consumer channel of our New Zealand Consumer business and our Asia brands (Anmum™, Anlene™ and Chesdale™). See page 59.

On an end-to-end basis (including Core Operations' attribution), Global Markets' profit after tax increased 143%, or $488 million to $830 million, driven by Core Operations attribution, reflecting favourable price relativities in the Ingredients channel, particularly in our protein and cheese portfolios.

Global Markets Performance by Channel[1]

FOR THE YEAR ENDED 31 JULY

	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]
Sales volume ('000 MT)[3]	2,344	2,575	10%	1,498	1,732	16%	274	280	2%	572	563	(2)%
Revenue	15,374	18,401	20%	11,127	13,516	21%	1,543	1,845	20%	2,704	3,040	12%
Cost of goods sold	(13,832)	(16,565)	(20)%	(10,376)	(12,584)	(21)%	(1,349)	(1,582)	(17)%	(2,107)	(2,399)	(14)%
Gross profit	1,542	1,836	19%	751	932	24%	194	263	36%	597	641	7%
Operating expenses	(1,081)	(1,310)	(21)%	(386)	(381)	1%	(187)	(192)	(3)%	(508)	(737)	(45)%
Other[4]	(15)	53	–	45	31	(31)%	(2)	3	–	(58)	19	–
EBIT	446	579	30%	410	582	42%	5	74	1,380%	31	(77)	–
Net finance costs and tax expense	(138)	(194)	(41)%	(95)	(153)	(61)%	(8)	(24)	(200)%	(35)	(17)	51%
Profit after tax	308	385	25%	315	429	36%	(3)	50	–	(4)	(94)	(2,250)%
Gross margin	10.0%	10.0%		6.7%	6.9%		12.6%	14.3%		22.1%	21.1%	
EBIT margin	2.9%	3.1%		3.7%	4.3%		0.3%	4.0%		1.1%	(2.5)%	

1. Global Markets performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.

Global Markets End-to-End Performance by Channel[1]

FOR THE YEAR ENDED 31 JULY

	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]
Sales volume ('000 MT)	2,284	2,517	10%	1,453	1,686	16%	264	272	3%	567	559	(1)%
Revenue	15,201	17,926	18%	11,038	13,218	20%	1,458	1,758	21%	2,705	2,950	9%
Cost of goods sold	(13,154)	(14,911)	(13)%	(9,797)	(11,176)	(14)%	(1,277)	(1,486)	(16)%	(2,080)	(2,249)	(8)%
Gross profit	2,047	3,015	47%	1,241	2,042	65%	181	272	50%	625	701	12%
Operating expenses	(1,541)	(1,882)	(22)%	(786)	(882)	(12)%	(204)	(212)	(4)%	(551)	(788)	(43)%
Other[3]	56	63	13%	103	40	(61)%	1	3	200%	(48)	20	–
EBIT	562	1,196	113%	558	1,200	115%	(22)	63	–	26	(67)	–
Net finance costs and tax expense	(220)	(366)	(66)%	(169)	(316)	(87)%	(8)	(25)	(213)%	(43)	(25)	42%
Profit after tax[4]	342	830	143%	389	884	127%	(30)	38	–	(17)	(92)	441%
Profit after tax attribution from Core Operations[5]	34	445	1,209%	74	455	515%	(27)	(12)	56%	(13)	2	–
Gross margin	13.5%	16.8%		11.2%	15.4%		12.4%	15.5%		23.1%	23.8%	
EBIT margin	3.7%	6.7%		5.1%	9.1%		(1.5)%	3.6%		1.0%	(2.3)%	

1. Global Markets performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.
4. Includes Core Operations attribution.
5. This is included in Global Markets profit after tax.

Global Markets

Australia – Our Australia business is part of the Global Markets region.

Australia Performance[1]

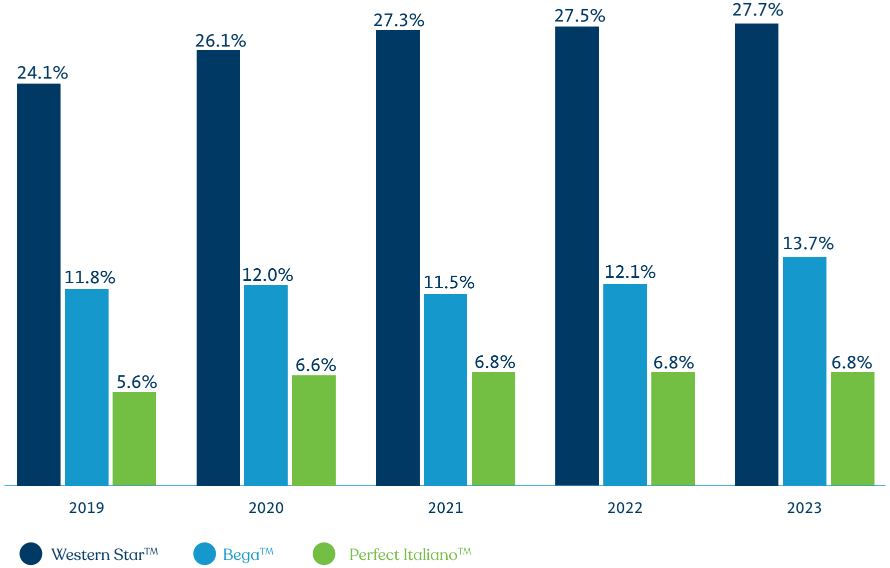
FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023	CHANGE[2]
Milk collections (million kgMS)	106	106	–
Sales volume ('000 MT)[3]	365	379	4%
Revenue	2,094	2,531	21%
Cost of goods sold	(1,811)	(2,237)	(24)%
Gross profit	283	294	4%
Operating expenses	(178)	(219)	(23)%
Other[3]	1	–	–
EBIT	106	75	(29)%
Net finance costs and tax expense	(41)	(52)	(27)%
Profit after tax	65	23	(65)%
Gross margin	13.5%	11.6%	
EBIT margin	5.1%	3.0%	

1. Australia's performance is prepared on a continuing operations basis.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income and net foreign exchange gains/(losses).

Fonterra Australia Value Market share by brand

MAT Aug-19 to MAT Aug-23, percentage share of category
Source: Nielsen RMS, Total AU grocery scan



The Australian business continued to demonstrate milk share growth, as well as sales volume and revenue growth, despite a decline in the overall Australian milk pool. Effective portfolio management in the Ingredients business, leveraging high global commodity prices combined with effective price management in Consumer and Foodservice, has helped offset significant inflationary pressures across the business.

Our Consumer brands continued to grow in market share as shown in the graph above.

Operating expenses were impacted by one off costs of $27 million (before tax) relating to the class action settlement agreement with Fonterra Australia milk suppliers in relation to milk price during the 2015/2016 season. In the prior year a provision was held at a Group level, while the settlement outcome was pending.

The higher net finance costs and tax expense was drive by rate increases on borrowings.

This reduced profit after tax in the current financial year by 65%, or $42 million, to $23 million.

Greater China

The Greater China business covers our Greater China sales region.

Greater China Performance by Channel[1]

FOR THE YEAR ENDED 31 JULY

	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]
Sales volume ('000 MT)	1,028	978	(5)%	697	632	(9)%	259	274	6%	72	72	–
Revenue	6,869	7,072	3%	4,646	4,460	(4)%	1,855	2,236	21%	368	376	2%
Cost of goods sold	(6,238)	(6,356)	(2)%	(4,440)	(4,226)	5%	(1,535)	(1,836)	(20)%	(263)	(294)	(12)%
Gross profit	631	716	13%	206	234	14%	320	400	25%	105	82	(22)%
Operating expenses	(293)	(346)	(18)%	(55)	(62)	(13)%	(129)	(137)	(6)%	(109)	(147)	(35)%
Other[3]	7	–	–	4	–	–	3	–	–	–	–	–
EBIT	345	370	7%	155	172	11%	194	263	36%	(4)	(65)	(1,525)%
Net finance costs and tax expense	(72)	(86)	(19)%	(35)	(39)	(11)%	(37)	(60)	(62)%	–	13	–
Profit after tax	273	284	4%	120	133	11%	157	203	29%	(4)	(52)	(1,200)%
Gross margin	9.2%	10.1%		4.4%	5.2%		17.3%	17.9%		28.5%	21.8%	
EBIT margin	5.0%	5.2%		3.3%	3.9%		10.5%	11.8%		(1.1)%	(17.3)%	

1. Greater China performance is prepared on a continuing operations basis. Comparative information has been re-stated for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.

Greater China profit after tax increased $11 million to $284 million, due to the Foodservice channel earnings having increasing by $46 million and reflects higher prices that adjusted for the higher input costs. However, this was partially offset by an impairment in Greater China's Consumer channel of our Asia brands. See page 60.

Greater China

On an end-to-end basis (including Core Operations attribution), Greater China's profit after tax increased 47%, or $132 million to $411 million, driven by Core Operations' attribution and reflecting favourable price relativities in both the Ingredients and Foodservice channel.

However, this was partially offset by an impairment in Greater China's Consumer channel of our Asia brands. See page 60.

Greater China End-to-End Performance by Channel[1]

FOR THE YEAR ENDED 31 JULY

	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]
Sales volume ('000 MT)	1,034	980	(5)%	697	633	(9)%	264	274	4%	73	73	–
Revenue	6,700	6,654	(1)%	4,497	4,198	(7)%	1,844	2,107	14%	359	349	(3)%
Cost of goods sold	(5,838)	(5,488)	6%	(4,057)	(3,589)	12%	(1,530)	(1,630)	(7)%	(251)	(269)	(7)%
Gross profit	862	1,166	35%	440	609	38%	314	477	52%	108	80	(26)%
Operating expenses	(524)	(614)	(17)%	(216)	(239)	(11)%	(189)	(206)	(9)%	(119)	(169)	(42)%
Other[3]	46	7	(85)%	31	7	(77)%	14	–	–	1	–	–
EBIT[4]	384	559	46%	255	377	48%	139	271	95%	(10)	(89)	(790)%
Net finance costs and tax expense	(105)	(148)	(41)%	(66)	(97)	(47)%	(39)	(68)	(74)%	–	17	–
Profit after tax[4]	279	411	47%	189	280	48%	100	203	103%	(10)	(72)	(620)%
Profit after tax attribution from Core Operations[5]	6	127	2,017%	69	147	113%	(57)	–	–	(6)	(20)	(233)%
Gross margin	12.9%	17.5%		9.8%	14.5%		17.0%	22.6%		30.1%	22.9%	
EBIT margin	5.7%	8.4%		5.7%	9.0%		7.5%	12.9%		(2.8)%	(25.5)%	

1. Global Markets performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.
4. Includes Core Operations attribution.
5. This is included in Greater China profit after tax.

Product Channels

Ingredients

Our Ingredients channel's profit after tax increased $586 million, or 101%, to $1,164 million, due to continued favourable margins in our protein and cheese products, as well as higher sales volumes due to the sell down of additional inventory held at 2022 financial year-end.

Ingredients Performance[1]

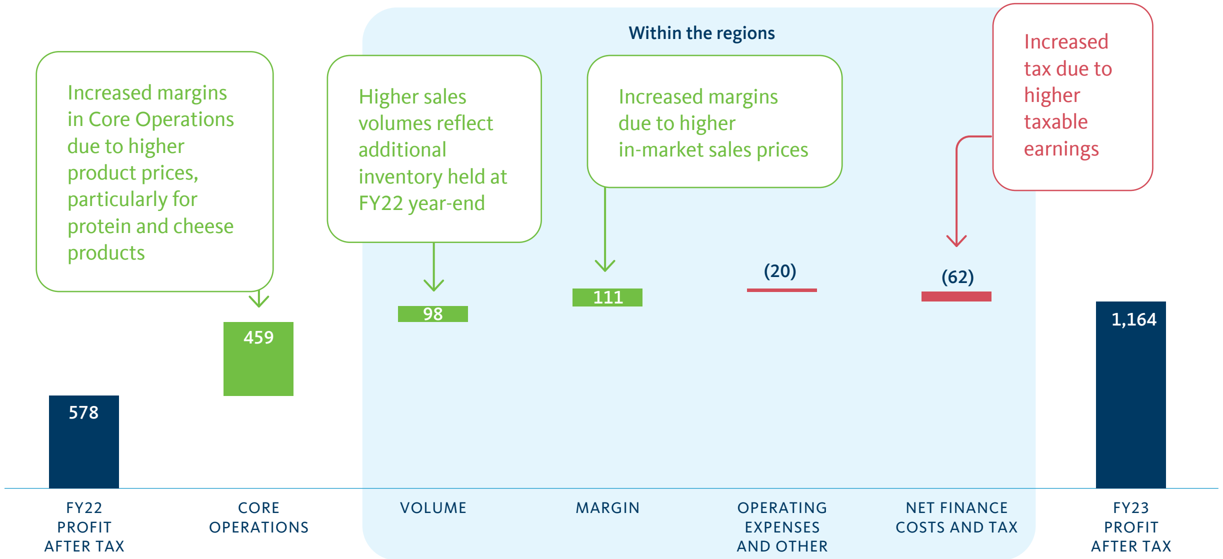
FOR THE YEAR ENDED 31 JULY

	TOTAL			CORE OPERATIONS			GLOBAL MARKETS			GREATER CHINA			ELIMINATIONS	
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023
Sales volume ('000 MT)[3]	2,150	2,319	8%	2,011	2,191	9%	1,498	1,732	16%	697	632	(9)%	(2,056)	(2,236)
Revenue	15,535	17,416	12%	14,055	15,692	12%	11,127	13,516	21%	4,646	4,460	(4)%	(14,293)	(16,252)
Cost of goods sold	(13,854)	(14,765)	(7)%	(13,331)	(14,207)	(7)%	(10,376)	(12,584)	(21)%	(4,440)	(4,226)	5%	14,293	16,252
Gross profit	1,681	2,651	58%	724	1,485	105%	751	932	24%	206	234	14%	–	–
Operating expenses	(1,002)	(1,121)	(12)%	(561)	(678)	(21)%	(386)	(381)	1%	(55)	(62)	(13)%	–	–
Other[4]	134	47	(65)%	85	16	(81)%	45	31	(31)%	4	–	–	–	–
EBIT	813	1,577	94%	248	823	232%	410	582	42%	155	172	11%	–	–
Net finance costs and tax expense	(235)	(413)	(76)%	(105)	(221)	(110)%	(95)	(153)	(61)%	(35)	(39)	(11)%	–	–
Profit after tax	578	1,164	101%	143	602	321%	315	429	36%	120	133	11%	–	–
Gross margin	10.8%	15.2%		5.2%	9.5%		6.7%	6.9%		4.4%	5.2%			
EBIT margin	5.2%	9.1%		1.8%	5.2%		3.7%	4.3%		3.3%	3.9%			

1. Ingredients performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.

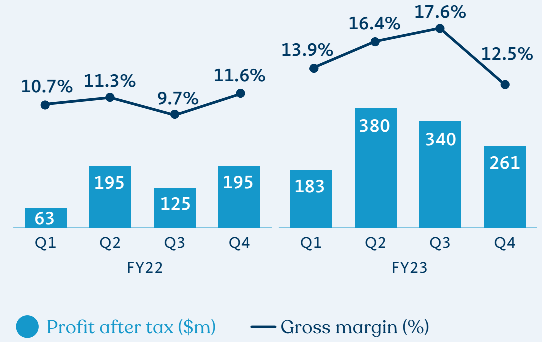
Ingredients: Key Performance Drivers[1]

Profit after tax ($ million)



1. Ingredients performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

Ingredients profit after tax by quarter



Our Ingredients channel gross margin decreased in the fourth quarter due to the seasonal profile of the milk curve relative to our fixed costs. In the prior year, price relativities significantly improved in the fourth quarter which offset the adverse impact of the seasonal profile.

The Global Markets sales teams secured new contracts and tenders in both the Asia Pacific and Africa regions to support the sell down of additional inventory held at 2022 financial year-end and offset the softer demand for imported WMP in the Greater China region. Additionally, sales volumes in our cream portfolio to European customers increased as the price of New Zealand cream products traded below European cream products. Global Markets' Ingredients sales volumes increased 16% compared to the prior year.

Overall, consumption of dairy continues to increase in China following the lift of COVID-19 related restrictions. However, our sales volume in Greater China was impacted by local milk processors converting excess liquid milk into WMP, which reduced the demand for imported WMP.

Gross profit has increased in Core Operations and in both regions mainly due to favourable margins in our protein and cheese portfolios.

A key driver of the favourable margins in our protein and cheese portfolio is the relative price difference between product prices that inform the Farmgate Milk Price, referred to as Reference Products, and product prices that inform EBIT, referred to as Non-Reference Products.

Sales volumes of Ingredients are higher this year, despite similar collections, reflecting the sell down of the 2022 financial year closing inventory position and optimisation decisions made to produce the highest returning product mix.

A key driver of the favourable gross margins this year is the increase in the relative price difference between product prices for Reference Products, and Non-Reference Products. The relative price differences over the past 12 months have been historically high.

- The average Reference Product sale price per metric tonne has decreased 2% compared to the prior year, mainly due to lower WMP and AMF prices. In USD terms average pricing has fallen further, but a decrease in the average foreign exchange conversion rate in the 2023 financial year has mitigated some of the impact.
- The average Non-Reference Product sale price per metric tonne increased 16%, with significant price increases across most products compared to the prior year. Prices for casein, milk protein concentrate (MPC) and cheese all increased over 21%. The strong prices in the second half of the 2022 financial year carried through into the current year before softening in the latter half of the 2023 financial year.

The milk cost allocated to our products is derived from the fat and protein values within the Farmgate Milk Price. Within the Farmgate Milk Price, relative weakness in the value attributed to protein, compared to the value attributed to fat, has resulted in the protein-based dairy components getting a proportionally lower allocation of milk cost this year, relative to fat-based dairy components.

New Zealand-sourced Ingredients' product mix[1]

FOR THE YEAR ENDED 31 JULY	2022	2023	CHANGE[2]
Sales Volume ('000 MT)			
Reference Products	1,629	1,782	9%
Non-Reference Products	822	883	7%
Revenue			
Reference Products ($ billion)	10.4	11.1	7%
Non-Reference Products ($ billion)	5.7	7.1	25%
Reference Products ($ per MT)	6,361	6,257	(2)%
Non-Reference Products ($ per MT)	6,951	8,089	16%
Cost of Milk			
Reference Products ($ billion)	(8.3)	(8.4)	(1)%
Non-Reference Products ($ billion)	(3.7)	(3.5)	5%
Reference Products ($ per MT)	(5,077)	(4,696)	8%
Non-Reference Products ($ per MT)	(4,494)	(3,974)	12%

1. Table includes Ingredients products that are on-sold to the Foodservice and Consumer channel and excludes bulk liquid milk. Bulk liquids for the year ended 31 July 2023 was 73,000 MT of kgMS equivalent (the year ended 31 July 2022 was 68,000 MT of kgMS equivalent). Figures represent Fonterra-sourced New Zealand milk only. Reference Products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF. Milk solids used in the products sold were 1,004 million kgMS in Reference Products and 442 million kgMS Non-Reference Products (previous comparative period 919 million kgMS Reference Products and 424 million kgMS Non-Reference Products).
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.

Our casein portfolio gross margin growth has been supported by improved pricing in rennet casein – an ingredient used in processed cheese. Due to COVID-19 related regulations, the cost and complexity of importing cheese into China increased, and customers in China shifted from imported processed cheese to locally manufactured processed cheese, driving up the demand for rennet casein.

Our sales teams have also captured the improved margins of caseinate and its precursor acid casein by continuing to deliver sales volume growth for caseinate into beverages and non-dairy creamer applications (i.e. substitutes for milk or cream) where caseinate is a preferred choice as an emulsifier.

Greater China and to a lesser extent Southeast Asia have seen strong growth in the non-dairy creamer and beverage sector for use of caseinate in products such as milk tea and coconut juice.

Our cheese portfolio has also contributed to the improved earnings in our Ingredients channel. The price of cheese increased in the second half of the 2022 financial year in response to constrained European milk supply. As customers looked to secure volume due to the uncertainty of European supply, our sales teams were able to use long contracts to secure good pricing across additional volume. In the second half of 2023 financial year, supply and demand for cheese rebalanced and prices returned to more normal levels relative to Reference Product prices.

Our Active Living portfolio is part of our Ingredients channel and represents the ingredients and solutions sold to businesses that cater to consumers' health and wellness needs. It addresses three dimensions of wellbeing (Physical, Mental and Inner), to meet the nutritional needs of medical patients through to everyday people pursuing active lifestyles.

This portfolio includes proteins such as milk protein concentrates (MPC) and whey protein concentrates (WPC), specialty ingredients such as probiotics, lactoferrin and lipids, and patented formulations.

Overall, Active Living sales volumes are down due to high in-market inventory in some markets, and lower demand from the USA as some customers' experience manufacturing constraints.

However, several markets including Europe and China experienced increased demand and sales volume growth. In particularly in China with continued strong growth post COVID-19 of our emerging probiotic portfolio, which contributed to the 20% increase in our Active Living portfolio's gross profit.

Active Living[1]

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2022	2023	CHANGE[2]
Sales volume ('000 MT)	113	110	(2)%
Revenue	1,760	1,876	7%
Gross profit	236	284	20%
Gross margin	13.4%	15.1%	

1. Active Living performance is prepared on a continuing operations basis and reflects the in-market value added after purchasing the products from Core Operations at the transfer price. Comparative information has been re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.

Foodservice

Our Foodservice channel's profit after tax increased $171 million, or 244%, to $241 million, due to improved gross margins combined with higher sales volumes.

Foodservice Performance[1]

FOR THE YEAR ENDED 31 JULY

	TOTAL			CORE OPERATIONS			GLOBAL MARKETS			GREATER CHINA			ELIMINATIONS	
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023
Sales volume ('000 MT)[3]	528	546	3%	286	334	17%	274	280	2%	259	274	6%	(291)	(342)
Revenue	3,302	3,865	17%	1,569	1,994	27%	1,543	1,845	20%	1,855	2,236	21%	(1,665)	(2,210)
Cost of goods sold	(2,807)	(3,116)	(11)%	(1,588)	(1,908)	(20)%	(1,349)	(1,582)	(17)%	(1,535)	(1,836)	(20)%	1,665	2,210
Gross profit	495	749	51%	(19)	86	–	194	263	36%	320	400	25%	–	–
Operating expenses	(393)	(418)	(6)%	(77)	(89)	(16)%	(187)	(192)	(3)%	(129)	(137)	(6)%	–	–
Other[4]	15	3	(80)%	14	–	–	(2)	3	–	3	–	–	–	–
EBIT	117	334	185%	(82)	(3)	96%	5	74	1,380%	194	263	36%	–	–
Net finance costs and tax expense	(47)	(93)	(98)%	(2)	(9)	(350)%	(8)	(24)	(200)%	(37)	(60)	(62)%	–	–
Profit after tax	70	241	244%	(84)	(12)	86%	(3)	50	–	157	203	29%	–	–
Gross margin	15.0%	19.4%		(1.2)%	4.3%		12.6%	14.3%		17.3%	17.9%			
EBIT margin	3.5%	8.6%		(5.0)%	(0.2)%		0.3%	4.0%		10.5%	11.8%			

1. Foodservice performance is prepared on a continuing operations basis. Comparative information has been re-stated and re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.

Foodservice channel gross profit improved $254 million, or 51%, driven by both Core Operations and the regions.

Sales volume increased 3% relative to last year. This was driven by improved sales volume in Greater China as a result of increased demand across our major product categories in the second half of the year as COVID-19 restrictions eased. Our UHT cream portfolio has experienced strong organic growth this year, with products such as our newly innovated ambient UHT cream, driving incremental sales.

Core Operations gross profit improved due to the increase in Non-Reference Product prices relative to Reference Products that inform the cost of milk.

Gross profit in our Greater China and Global Markets regions improved relative to the prior year, particularly in the second half of the year. Our in-market product prices adjusted in the first quarter of the year for the higher cost of milk, benefiting our margins in the remaining three quarters of the year. The graph of monthly milk prices illustrates the decrease in the cost of milk over the course of the year, in contrast to the prior year which significantly increased over the course of the year.

Our Greater China region is the most significant contributor to our Foodservice channel, and we continue to grow our presence in the region. We now deliver our products to 490 cities, compared to 431 cities this time last year. We continue to lead in the bakery and beverage channels and have gained further penetration into low tier cities.

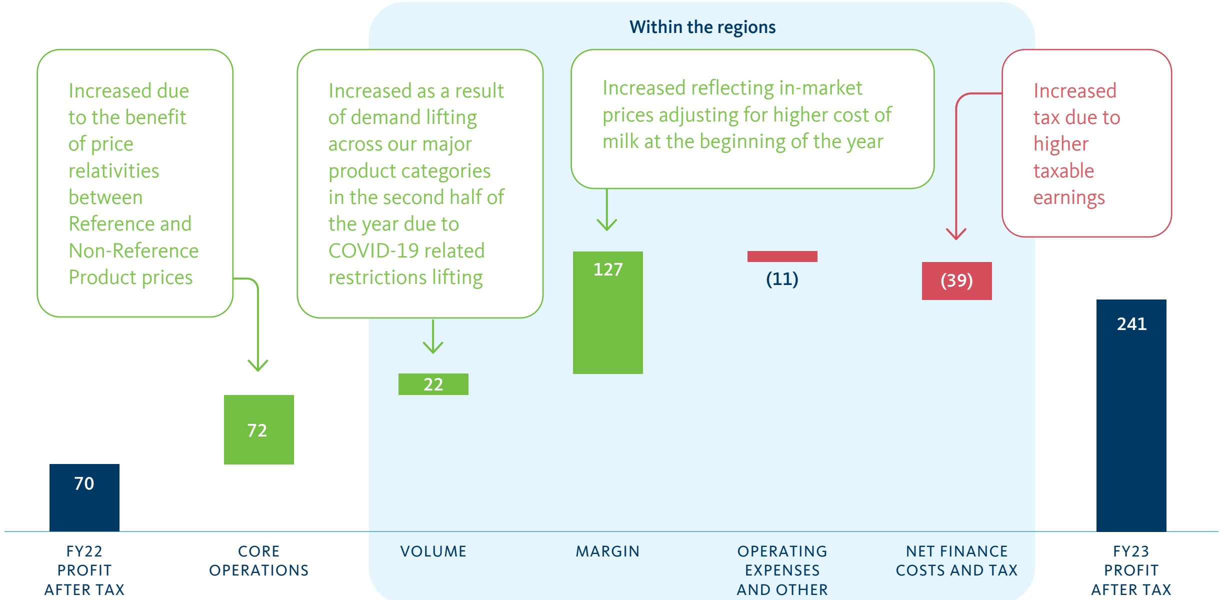
We successfully gained market share through new products and applications innovation, such as our Anchor™ Food Professionals Easy Topping Cream and Aerosol Cream, as well as improving margins through the execution of a new 'Route-to-Market' strategy, which focuses on digital visibility, in low tier cities.

The Greater China region has also benefitted from the New Zealand-China Free Trade Agreement. Since 1 January 2022, products such as liquid milk and cream, butter, anhydrous milkfat, and cheeses have been entitled to duty free access to China without volume restrictions. From 1 January 2024, this will also be extended to WMP and SMP, at which point all dairy exports from New Zealand to China will be entitled to duty free access.

In our Global Markets region, the increase in gross profit has been mainly driven by improved pricing and sales volume growth and in our Australian business, which has benefited from an increase in out-of-home dining due to the lift of lockdown restrictions relative to last year. The Southeast Asia business has also benefited from the economic recovery post COVID-19 related restriction lifting.

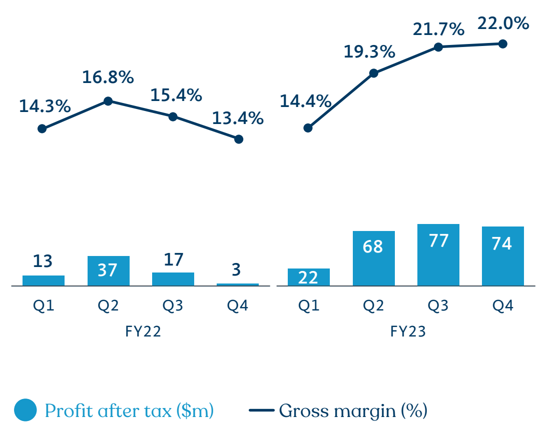
Foodservice: Key Performance Drivers[1]

Profit after tax ($ million)



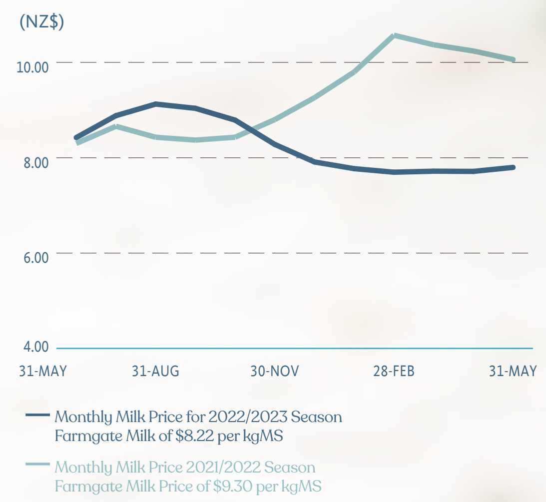
1. Foodservice performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

Foodservice Profit After Tax by Quarter



Our Foodservice channel gross margin increased throughout the year as in-market product prices adjusted for the higher cost of milk at the beginning of the year, and as the year progressed the cost of milk declined.

Monthly Milk Prices[1]



1 The weighted average of the monthly milk prices are equivalent to $9.30 and $8.22 for 2021/22 and 2022/23 season, respectively.

Consumer

Our Consumer channel profit after tax decreased $137 million to a loss of $164 million, mainly due to impairments of our domestic New Zealand Consumer business and our Asia brands.

Consumer Performance[1]

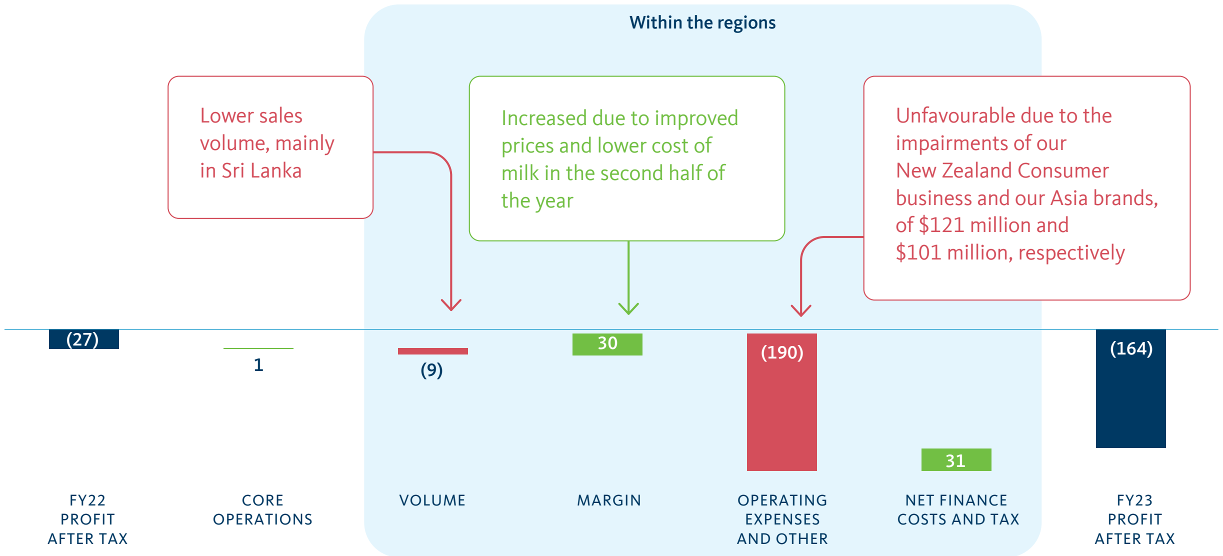
FOR THE YEAR ENDED 31 JULY

	TOTAL			CORE OPERATIONS			GLOBAL MARKETS			GREATER CHINA			ELIMINATIONS	
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023
Sales volume ('000 MT)[3]	640	632	(1)%	257	259	1%	572	563	(2)%	72	72	–	(261)	(262)
Revenue	3,064	3,299	8%	1,363	1,456	7%	2,704	3,040	12%	368	376	2%	(1,371)	(1,573)
Cost of goods sold	(2,331)	(2,518)	(8)%	(1,332)	(1,398)	(5)%	(2,107)	(2,399)	(14)%	(263)	(294)	(12)%	1,371	1,573
Gross profit	733	781	7%	31	58	87%	597	641	7%	105	82	(22)%	–	–
Operating expenses	(670)	(957)	(43)%	(53)	(73)	(38)%	(508)	(737)	(45)%	(109)	(147)	(35)%	–	–
Other[4]	(47)	20	–	11	1	(91)%	(58)	19	–	–	–	–	–	–
EBIT	16	(156)	–	(11)	(14)	(27)%	31	(77)	–	(4)	(65)	(1,525)%	–	–
Net finance costs and tax expense	(43)	(8)	81%	(8)	(4)	50%	(35)	(17)	51%	–	13	–	–	–
Profit after tax	(27)	(164)	(507)%	(19)	(18)	5%	(4)	(94)	(2,250)%	(4)	(52)	(1,200)%	–	–
Gross margin	23.9%	23.7%		2.3%	4.0%		22.1%	21.1%		28.5%	21.8%			
EBIT margin	0.5%	(4.7)%		(0.8)%	(1.0)%		1.1%	(2.5)%		(1.1)%	(17.3)%			

1. Consumer performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss of equity accounted investees.

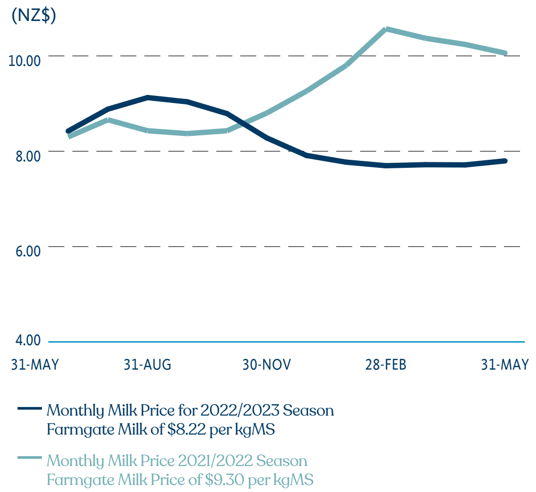
Consumer: Key Performance Drivers[1]

Profit after tax ($ million)



1. Consumer performance is prepared on a continuing operations basis. Comparative information has been restated and re-presented for consistency with the current period.

Monthly Milk Prices[1]



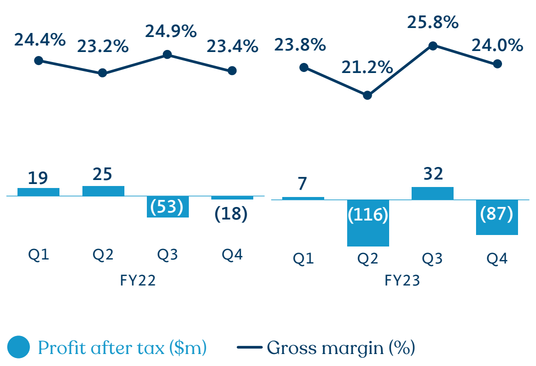
1 The weighted average of the monthly milk prices are equivalent to $9.30 and $8.22 for 2021/22 and 2022/23 season, respectively.

During the first half of the year our Consumer channel gross profit was impacted by higher input costs that increased through the second half of the prior year, and our in-market sales prices not increasing at the same rate to offset them.

As can be seen in the graph of monthly milk price to the left, the cost of milk has eased over the second half of the 2023 financial year, which has meant improved gross margins in Core Operations and our Global Markets segments.

The $48 million, or 7%, improvement in gross profit was more than offset by a 43% increase in operating expenses, from $670 million to $957 million.

Consumer Profit After Tax by Quarter



Operating expenses have increased due to inflation and the recognition of impairments to both our domestic New Zealand Consumer business and our Asia brands. The $222 million of impairments were booked at the end of the second quarter ($162 million) and final quarter ($60 million), as seen in the Consumer profit after tax by quarter graph to the left.

Our New Zealand Consumer business has experienced challenging market conditions, including higher input costs and inflationary pressures. The New Zealand domestic dairy market is highly competitive, and this has impacted the sales team's ability to fully recover the higher input costs through product price increases. Additionally, rising interest rates have also put pressure on our New Zealand Consumer business. This has resulted in a $121 million goodwill impairment of the business for the year ended 31 July 2023.

We also recognised an impairment of $101 million on our Asia brands – Anmum™ ($51 million), Anlene™ ($45 million) and Chesdale™ ($5 million), due to a reduction in forecast sales growth for Anmum™ and Anlene™, and changes in discount rates and foreign exchange rates to all three brands.
The impairments were recognised as operating expenses in both Global Markets ($55 million) and Greater China ($46 million).

Performance of our Middle East and Africa business improved on the prior period with additional volume in our manufacturing business for third-parties as the team recruited new customers. The team was also able to increase margins through proactively managing product pricing.

Our sales volume into Sri Lanka was down on last year due to the country's economic challenges impacting the ability to access US dollars in the first half of the financial year. Despite the challenging conditions, performance has improved year-on-year as a result of value growth and innovations.

Malaysia is one of our strongest consumer markets globally and our flagship brand in that market, Fernleaf™, is well known among local consumers for its New Zealand provenance.

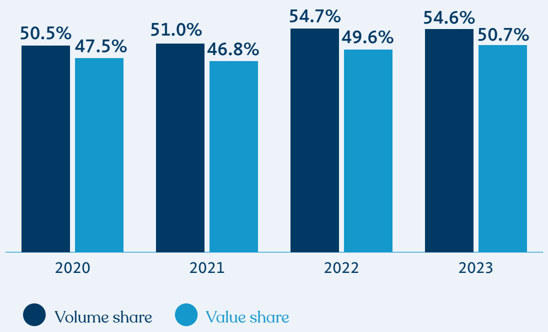
Despite a challenging year for both our Consumer channel and Southeast Asia region, our Fernleaf™ brand continues to grow in Malaysia.

Fernleaf™ has over 50% market share in the growing-up milk (GUM) powder segment, offering quality and affordable nutrition to support children's growth.

Recently, Fernleaf™ expanded its health product offerings launching Protein+ and Probiotic+.

Fernleaf™ has since shown strong growth and has further cemented its position with its first win in Kantar's Brand Footprint Award 2023 as the Fastest Growing Dairy Brand in Malaysia.

Fernleaf™ Family Milk Powder Volume and Value Share[1]



1 Nielsen, MAT as at 31 July.

Discontinued Operations

Discontinued operations represent the financial effect of business units that are classified as held for sale and are a separate major line of business or geographical area of operations. They are presented separately to the Group's continuing operations in the Statement of Profit or Loss and Other Comprehensive Income and excluded from segment reporting within the Financial Statements.

Discontinued Operations Performance[1]

FOR THE YEAR ENDED 31 JULY

	TOTAL			HANGU CHINA FARM			DPA BRAZIL			SOPROLE		
NZD MILLION	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]	2022	2023	CHANGE[2]
Sales volume ('000 MT)	606	476	(21)%	2	1	(50)%	216	224	4%	388	251	(35)%
Revenue	1,524	1,466	(4)%	27	15	(44)%	445	599	35%	1,052	852	(19)%
Cost of goods sold	(1,093)	(1,048)	4%	(31)	(27)	13%	(317)	(405)	(28)%	(745)	(616)	17%
Gross profit	431	418	(3)%	(4)	(12)	(200)%	128	194	52%	307	236	(23)%
Operating expenses	(390)	(303)	22%	(9)	(12)	(33)%	(161)	(137)	15%	(220)	(154)	30%
Other[3]	(11)	348	–	(1)	(1)	–	(1)	–	–	(9)	349	–
EBIT[4]	30	463	1,443%	(14)	(25)	(79)%	(34)	57	–	78	431	453%
Net finance costs	(37)	(50)	(35)%	–	–	–	–	–	–	–	–	–
Tax expense	(31)	(77)	(148)%	–	–	–	–	–	–	–	–	–
Profit after tax	(38)	336	–	(14)	(25)	(79)%	(64)	16	–	40	345	763%
Gross margin	28.3%	28.5%		(14.8)%	(80.0)%		28.8%	32.4%		29.2%	27.7%	
EBIT margin	2.0%	31.6%		(51.9)%	(166.7)%		(7.6)%	9.5%		7.4%	50.6%	

1. Comparative information has been re-presented for consistency with the current period.
2. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income and net foreign exchange gains/(losses).
4. Depreciation is not recognised in discontinued operations from the date at which the operations become held for sale.

We completed the divestment of Soprole in March 2023, finalised the exit of China Farms following the sale of Hangu China farm in April 2023, and continue to progress the sale process of DPA Brazil.

The divestment of Soprole to Gloria Foods – JORB S.A., a consumer dairy market leader in Peru, was completed on 31 March 2023 and was comprised of two transactions with aggregate considerations of 591 billion Chilean Pesos (CLP). The aggregate proceeds (including pre-settlement dividends) before tax, hedging and transaction costs were $1.3 billion, of which $804 million was returned to shareholders and unit holders on 18 August 2023.

DPA Brazil

For the 2023 financial year, DPA Brazil's profit after tax increased $80 million to a profit of $16 million. The prior year losses included an impairment of $50 million. Additionally, performance improved due to higher product prices and increased sales volume.

In December 2022, Fonterra and Nestlé agreed the sale of DPA Brazil to French dairy company Lactalis for BRL 700 million. The sale is subject to several conditions including receipt of regulatory approvals from competition authorities. The Brazilian competition regulator released its first report on the proposed sale in late July 2023. The parties are engaging with authorities to understand and to address the matters raised in relation to limited parts of the business and expect the sale to be completed within one year of balance date. The proceeds at completion will be subject to closing transaction adjustments.

Fonterra's 51% share of the DPA Brazil sale proceeds will be used to repay debt held directly by DPA Brazil.

Historical Summary

Market Statistics

	MAY 2019	MAY 2020	MAY 2021	MAY 2022	MAY 2023
Fonterra Seasonal Statistics[1]					
Total New Zealand milk collected (million litres)	17,123	16,876	17,121	16,404	16,317
Highest daily volume collected (million litres)	85.4	82.6	82.8	79.9	77.9
New Zealand shareholding farms milk solids collected (million kgMS)	1,495	1,486	1,505	1,432	1,440
New Zealand non-shareholding farms milk solids collected (million kgMS)	28	31	34	46	40
New Zealand milk solids collected (million kgMS)	1,523	1,517	1,539	1,478	1,480

	JULY 2019	JULY 2020	JULY 2021	JULY 2022	JULY 2023
Fonterra Supply Base					
Total number of shareholding farms[2]	9,095	8,856	8,581	8,435	8,282
Total number of non-shareholding farms[2]	133	155	246	222	159
Total number of shares on issue (million)	1,612	1,612	1,613	1,613	1,609
Shareholder Supplier Returns					
Farmgate Milk Price (per kgMS)[2]	6.35	7.14	7.54	9.30	8.22
Dividend (per share)	–	0.05	0.20	0.20	0.50
Dividend yield (%)[2]	–	1.3%	4.6%	6.9%	17.8%
Total pay-out[2]	6.35	7.19	7.74	9.50	8.72
Retentions (per share)[2]	–	0.38	0.16	0.16	0.45
Weighted average share price ($ NZD)	4.63	3.79	4.32	2.88	2.81
Weighted Average Commodity Prices ($ USD per MT FOB)					
Whole milk powder[3]	2,907	3,110	3,323	4,019	3,392
Skim milk powder[3]	2,216	2,755	3,012	3,750	3,242
Butter[3]	4,448	4,140	4,117	5,601	5,072
Cheese[4]	3,772	4,011	4,060	5,261	4,825
Fonterra's average NZD/USD conversion rate[2]	0.69	0.66	0.67	0.69	0.64
Staff Employed					
Total staff employed (000's permanent full-time equivalents)	20.0	19.6	18.7	19.0	17.5
New Zealand	11.4	11.5	11.6	11.7	11.9
Overseas	8.6	8.1	7.1	7.3	5.6

Total Group Overview (continuing & discontinued operations)

	JULY 2019	JULY 2020	JULY 2021	JULY 2022	JULY 2023
Income Statement Measures					
Sales volumes ('000 MT)	4,152	4,069	4,102	3,924	3,973
Revenue ($ million)	19,920	20,975	21,124	23,425	26,046
EBITDA ($ million)[2]	544	1,774	1,601	1,611	2,880
EBIT ($ million)	(17)	1,147	959	976	2,218
Profit after tax ($ million)	(610)	659	599	583	1,577
Normalised EBIT ($ million)	812	879	952	991	1,881
Normalised profit after tax attributable to equity holders of the Co-operative ($ million)	264	382	550	568	1,329
Earnings per share	(0.35)	0.43	0.36	0.36	0.95
Normalised earnings per share	0.16	0.24	0.34	0.35	0.80
Revenue Margin Analysis					
EBITDA margin (%)[2]	2.7%	8.5%	7.6%	6.9%	11.1%
EBIT margin (%)[2]	(0.1)%	5.5%	4.5%	4.2%	8.5%
Profit after tax margin (%)[2]	(3.1)%	3.1%	2.8%	2.5%	6.1%
Cash Flow ($ million)					
Operating cash flow	696	1,097	886	(104)	3,182
Free cash flow[2]	668	1,433	1,109	(621)	3,314
Net working capital[2]	3,159	3,469	3,789	5,595	4,790
Capital Measures					
Equity excluding hedge reserve ($ million)	6,102	6,602	6,895	7,252	7,925
Net debt ($ million)[2]	6,001	5,238	4,325	5,339	3,207
Gearing ratio (%)[2]	49.5%	44.2%	38.5%	42.4%	28.8%
Debt to EBITDA ratio[2]	4.3x	3.3x	2.7x	3.2x	1.3x
Average capital employed ($ million)[2]	13,419	12,313	12,281	12,356	12,774
Capital expenditure ($ million)[2]	600	419	545	587	668
Capital invested ($ million)[2]	724	525	608	617	747
Return on capital (%)[2]	5.6%	6.6%	6.6%	6.8%	12.4%

Core Operations[5,6,7,8]

	JULY 2021	JULY 2022	JULY 2023
Ingredients			
Sales volume ('000 MT)	2,200	2,011	2,191
Revenue ($ million)	12,381	14,055	15,692
Gross profit ($ million)	334	724	1,485
Gross margin (%)[2]	2.7%	5.2%	9.5%
EBIT ($ million)	(160)	248	823
EBIT margin (%)[2]	(1.3)%	1.8%	5.2%
Profit after tax ($ million)	(220)	143	602
Profit after tax margin (%)	(1.8)%	1.0%	3.8%
Foodservice			
Sales volume ('000 MT)	361	286	334
Revenue ($ million)	1,459	1,569	1,994
Gross profit ($ million)	83	(19)	86
Gross margin (%)[2]	5.7%	(1.2)%	4.3%
EBIT ($ million)	9	(82)	(3)
EBIT margin (%)[2]	0.6%	(5.0)%	(0.2)%
Profit after tax ($ million)	(6)	(84)	(12)
Profit after tax margin (%)	(0.4)%	(5.2)%	(0.6)%
Consumer			
Sales volume ('000 MT)	272	257	259
Revenue ($ million)	1,331	1,363	1,456
Gross profit ($ million)	50	31	58
Gross margin (%)[2]	3.8%	2.3%	4.0%
EBIT ($ million)	(23)	(11)	(14)
EBIT margin (%)[2]	(1.7)%	(0.8)%	(1.0)%
Profit after tax ($ million)	(35)	(19)	(18)
Profit after tax margin (%)	(2.6)%	(1.5)%	(1.2)%

Core Operations (continued)

	JULY 2021	JULY 2022	JULY 2023
Total			
Sales volume ('000 MT)	2,833	2,554	2,784
Revenue ($ million)	15,171	16,987	19,142
Gross profit ($ million)	467	736	1,629
Gross margin (%)[2]	3.1%	4.3%	8.5%
EBIT ($ million)	(174)	155	806
EBIT margin (%)[2]	(1.1)%	0.9%	4.2%
Profit after tax ($ million)	(261)	40	572
Profit after tax margin (%)	(1.7)%	0.2%	3.0%

Global Markets[5,6,7,8]

	JULY 2021	JULY 2022	JULY 2023
Ingredients			
Sales volume ('000 MT)	1,519	1,498	1,732
Revenue ($ million)	8,843	11,127	13,516
Gross profit ($ million)	630	751	932
Gross margin (%)[2]	7.1%	6.7%	6.9%
EBIT ($ million)	348	410	582
EBIT margin (%)[2]	3.9%	3.7%	4.3%
Profit after tax ($ million)	253	315	429
Profit after tax margin (%)	2.9%	2.8%	3.2%

Global Markets (continued)

	JULY 2021	JULY 2022	JULY 2023
Foodservice			
Sales volume ('000 MT)	262	274	280
Revenue ($ million)	1,330	1,543	1,845
Gross profit ($ million)	256	194	263
Gross margin (%)[2]	19.2%	12.6%	14.3%
EBIT ($ million)	89	5	74
EBIT margin (%)[2]	6.7%	0.3%	4.0%
Profit after tax ($ million)	69	(3)	50
Profit after tax margin (%)	5.2%	(0.2)%	2.7%
Consumer			
Sales volume ('000 MT)	589	572	563
Revenue ($ million)	2,663	2,704	3,040
Gross profit ($ million)	679	597	641
Gross margin (%)[2]	25.5%	22.1%	21.1%
EBIT ($ million)	177	31	(77)
EBIT margin (%)[2]	6.6%	1.1%	(2.5)%
Profit after tax ($ million)	110	(4)	(94)
Profit after tax margin (%)	4.1%	(0.1)%	(3.1)%
Total			
Sales volume ('000 MT)	2,370	2,344	2,575
Revenue ($ million)	12,836	15,374	18,401
Gross profit ($ million)	1,565	1,542	1,836
Gross margin (%)[2]	12.2%	10.0%	10.0%
EBIT ($ million)	614	446	579
EBIT margin (%)[2]	4.8%	2.9%	3.2%
Profit after tax ($ million)	432	308	385
Profit after tax margin (%)	3.4%	2.0%	2.1%

Global Market - Australia[5,6]

	JULY 2021	JULY 2022	JULY 2023
Total			
Milk collection (millions kgMS)	106	106	106
Sales volume ('000 MT)	373	365	379
Revenue ($ million)	1,953	2,094	2,531
Gross profit ($ million)	243	283	294
Gross margin (%)[2]	12.4%	13.5%	11.6%
EBIT ($ million)	74	106	75
EBIT margin (%)[2]	3.8%	5.1%	3.0%
Profit after tax ($ million)	45	65	23
Profit after tax margin (%)	2.3%	3.1%	0.9%

Greater China[5,6,7]

	JULY 2021	JULY 2022	JULY 2023
Ingredients			
Sales volume ('000 MT)	825	697	632
Revenue ($ million)	4,150	4,646	4,460
Gross profit ($ million)	180	206	234
Gross margin (%)[2]	4.3%	4.4%	5.2%
EBIT ($ million)	166	155	172
EBIT margin (%)[2]	4.0%	3.3%	3.9%
Profit after tax ($ million)	123	120	133
Profit after tax margin (%)	3.0%	2.6%	3.0%

Greater China (continued)

	JULY 2021	JULY 2022	JULY 2023
Foodservice			
Sales volume ('000 MT)	274	259	274
Revenue ($ million)	1,668	1,855	2,236
Gross profit ($ million)	368	320	400
Gross margin (%)[2]	22.1%	17.3%	17.9%
EBIT ($ million)	255	194	263
EBIT margin (%)[2]	15.3%	10.5%	11.8%
Profit after tax ($ million)	201	157	203
Profit after tax margin (%)	12.1%	8.5%	9.1%
Consumer			
Sales volume ('000 MT)	78	72	72
Revenue ($ million)	360	368	376
Gross profit ($ million)	121	105	82
Gross margin (%)[2]	33.6%	28.5%	21.8%
EBIT ($ million)	(45)	(4)	(65)
EBIT margin (%)[2]	(12.5)%	(1.1)%	(17.3)%
Profit after tax ($ million)	(37)	(4)	(52)
Profit after tax margin (%)	(10.3)%	(1.1)%	(13.8)%
Total			
Sales volume ('000 MT)	1,177	1,028	978
Revenue ($ million)	6,178	6,869	7,072
Gross profit ($ million)	669	631	716
Gross margin (%)[2]	10.8%	9.2%	10.1%
EBIT ($ million)	376	345	370
EBIT margin (%)[2]	6.1%	5.0%	5.2%
Profit after tax ($ million)	287	273	284
Profit after tax margin (%)	4.6%	4.0%	4.0%

Product Channels[2,6]

	JULY 2021	JULY 2022	JULY 2023
Ingredients			
Sales volume ('000 MT)	2,296	2,150	2,319
Revenue ($ million)	13,580	15,535	17,416
Gross profit ($ million)	1,145	1,681	2,651
Gross margin (%)[2]	8.4%	10.8%	15.2%
EBIT ($ million)	347	813	1,577
EBIT margin (%)[2]	2.6%	5.2%	9.1%
Profit after tax ($ million)	152	578	1,164
Profit after tax margin (%)	1.1%	3.7%	6.7%
Foodservice			
Sales volume ('000 MT)	500	528	546
Revenue ($ million)	2,906	3,302	3,865
Gross profit ($ million)	670	495	749
Gross margin (%)[2]	23.1%	15.0%	19.4%
EBIT ($ million)	338	117	334
EBIT margin (%)[2]	11.6%	3.5%	8.6%
Profit after tax ($ million)	248	70	241
Profit after tax margin (%)	8.5%	2.1%	6.2%
Consumer			
Sales volume ('000 MT)	699	640	632
Revenue ($ million)	3,141	3,064	3,299
Gross profit ($ million)	886	733	781
Gross margin (%)[2]	28.2%	23.9%	23.7%
EBIT ($ million)	131	16	(156)
EBIT margin (%)[2]	4.2%	0.5%	(4.7)%
Profit after tax ($ million)	58	(27)	(164)
Profit after tax margin (%)	1.8%	(0.9)%	(5.0)%

New Zealand and Non-New Zealand Milk[5,6]

	JULY 2021	JULY 2022	JULY 2023
New Zealand Milk			
Sales volume ('000 MT)	3,016	2,903	3,071
Revenue ($ million)	17,331	19,551	21,791
Gross profit ($ million)	2,487	2,565	3,850
Gross margin (%)[2]	14.4%	13.1%	17.7%
EBIT ($ million)	782	852	1,667
EBIT margin (%)[2]	4.5%	4.4%	7.6%
Profit after tax ($ million)	447	561	1,203
Profit after tax margin (%)	2.6%	2.9%	5.5%
Non-New Zealand Milk			
Sales volume ('000 MT)	479	415	426
Revenue ($ million)	2,296	2,350	2,789
Gross profit ($ million)	214	344	331
Gross margin (%)[2]	9.3%	14.6%	11.9%
EBIT ($ million)	34	94	88
EBIT margin (%)[2]	1.5%	4.0%	3.2%
Profit after tax ($ million)	11	60	38
Profit after tax margin (%)	0.5%	2.6%	1.4%
Total			
Sales volume ('000 MT)	3,495	3,318	3,497
Revenue ($ million)	19,627	21,901	24,580
Gross profit ($ million)	2,701	2,909	4,181
Gross margin (%)[2]	13.8%	13.3%	17.0%
EBIT ($ million)	816	946	1,755
EBIT margin (%)[2]	4.2%	4.3%	7.1%
Profit after tax ($ million)	458	621	1,241
Profit after tax margin (%)	2.3%	2.8%	5.0%

Discontinued Operations[2,9]

	JULY 2021	JULY 2022	JULY 2023
China Farms			
Sales volume ('000 MT)	15	2	1
Revenue ($ million)	195	27	15
Gross profit ($ million)	53	(4)	(12)
Gross margin (%)[2]	27.2%	(14.8)%	(80.0)%
EBIT ($ million)	89	(14)	(25)
EBIT margin (%)[2]	45.6%	(51.9)%	(166.7)%
Profit after tax ($ million)	89	(14)	(25)
Profit after tax margin (%)	45.6%	(51.9)%	(166.7)%
DPA Brazil			
Sales volume ('000 MT)	213	216	224
Revenue ($ million)	364	445	599
Gross profit ($ million)	100	128	194
Gross margin (%)[2]	27.5%	28.8%	32.4%
EBIT ($ million)	(17)	(34)	57
EBIT margin (%)[2]	(4.7)%	(7.6)%	9.5%
Profit after tax ($ million)	(22)	(64)	16
Profit after tax margin (%)	(6.0)%	(14.4)%	2.7%
Soprole			
Sales volume ('000 MT)	379	388	251
Revenue ($ million)	938	1,052	852
Gross profit ($ million)	283	307	236
Gross margin (%)[2]	30.2%	29.2%	27.7%
EBIT ($ million)	71	78	431
EBIT margin (%)[2]	7.6%	7.4%	50.6%
Profit after tax ($ million)	74	40	345
Profit after tax margin (%)	7.9%	3.8%	40.5%

Notes to the Historical Summary

1. Fonterra Seasonal Statistics are based on the 12-month New Zealand milk season of 1 June – 31 May.
2. Refer to the Glossary for definition.
3. Source: Fonterra Farmgate Milk Price Statement representing the weighted-average United States Dollar contract prices of Reference Commodity Products.
4. Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.
5. Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
6. Prepared on a continuing operations basis.
7. Comparative information has been restated and re-presented for consistency with the current period.
8. Includes inter-segment transactions.
9. The China Farms business, DPA Brazil consumer and foodservice businesses and Soprole meet the definition of a discontinued operation. The Group's China Farms business comprises the Hangu China farm and the two farming hubs in Ying and Yutian. Performance of discontinued operations are recognised up to the date of sale.

Glossary

Barnes Farm, Southland

Terms	Definitions
Active Living	represents ingredients and solutions sold to businesses who cater to consumers' health and wellness needs. It addresses three dimensions of wellbeing (Physical, Mental, Inner), extending to meet the nutrition needs of medical patients through to everyday people pursuing active lifestyles. This portfolio includes proteins, specialty ingredients such as probiotics, lactoferrin and lipids, and patented formulations.
Adjusted net debt	is calculated as total borrowings, plus bank overdraft, less cash and cash equivalents, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries, adjusted for derivatives used to manage changes in hedged risks on debt instruments. Amounts relating to disposal groups held for sale are included in the calculation.
Associated Shareholder	is a Shareholder that is a Farm Lessor, Sharemilker or Contract Milker.
Attributable to equity holders of the Co-operative	is used to indicate that a measure or sub-total excludes amounts attributable to non-controlling interests.
Average capital employed	is a 13-month rolling average of capital employed.
Bulk liquids	means bulk raw milk that has not been processed and bulk separated cream.
Capital employed	is adjusted net debt less the cash adjustment (used in calculating adjusted net debt), plus cash and cash equivalents held by subsidiaries for working capital purposes, plus equity excluding hedge reserves and net deferred tax assets.
Capital expenditure	is purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets (excluding purchases of emissions units), net purchases of livestock, and includes amounts relating to disposal groups held for sale.
Capital invested	is capital expenditure plus right of use asset (e.g. leases) additions and business acquisitions, including equity contributions, long-term advances, and investments.
Cash operating expenses per kgMS	is continuing operations operating expenses, less non-cash costs (depreciation, amortisation, right of use asset costs, impairments). Shown by kilogram of New Zealand milk solids collected.
Ceased Shareholder	is a Shareholder that has given notice of ceasing supply, or is treated as having given such a notice, and whose cease notice has become effective.

Terms	Definitions
Consumer	is the channel of branded consumer products, such as powders, yoghurts, milk, butter and cheese.
Continuing operations	means operations of the Group that are not discontinued operations.
Core Operations	represents core operating functions including New Zealand milk collection and processing operations and assets, supply chain, Group IT and Sustainability; Fonterra Farm Source™ retail stores; and the Strategy and Optimisation function.
Custodian	means the Fonterra Farmer Custodian, which is the legal holder of the shares in respect of which economic rights are held for the Fund and any Market Makers.
Debt to EBITDA	is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees, net foreign exchange gains/losses and any normalised EBITDA relating to entities divested during the year.
DIRA	means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities, subsequent amendments to the Act, and the Dairy Industry Restructuring (Raw Milk) Regulations 2012.
Discontinued operations	means a component of the Group that is classified as held for sale (or has been sold) and represents, or is part of a single co-ordinated plan to dispose of, a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.
Dividend yield	is dividends (per share) divided by volume weighted average share price for the period 1 August to 31 July.
Earnings before interest and tax (EBIT)	is profit before net finance costs and tax.
Earnings before interest, tax, depreciation and amortisation (EBITDA)	is profit before net finance costs, tax, depreciation and amortisation.
Earnings per share (EPS)	is profit after tax attributable to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.
EBIT margin	is EBIT divided by revenue from sale of goods.
EBITDA margin	is EBITDA divided by revenue from sale of goods.

Terms	Definitions
Economic rights	means the rights to receive dividends and other economic benefits derived from a share, as well as other rights derived from owning a share.
Eliminations	represents eliminations of inter-business unit sales.
Farmgate Milk Price	means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual.
Fonterra's average NZD/ USD conversion rate	is the rate that Fonterra has converted net United States Dollar receipts into New Zealand Dollars including hedge cover in place.
Foodservice	represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, cafés, airports, catering companies etc. The focus is on customers such as; bakeries, cafés, Italian restaurants, and global quick-service restaurant chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold in alongside our business solutions under the Anchor Food Professionals brand.
Free cash flow	is the total of net cash flows from operating activities and net cash flows from investing activities.
Fund	is the Fonterra Shareholders' Fund.
Gearing ratio (%) (adjusted net debt)	is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt.
Global accounts	means large scale, multi-national/multi-region customers.
Global Dairy Trade (GDT)	means the electronic auction platform that is used to sell commodity dairy products.
Global Markets	represents the Ingredients, Foodservice and Consumer channels outside of Greater China.
Greater China	represents the Ingredients, Foodservice and Consumer channels in Greater China.
Gross margin	is gross profit divided by revenue from sale of goods.

Terms	Definitions
Gross profit from Core Operations per kgMS	is Core Operations business unit gross profit excluding Farm Source and the cost of New Zealand milk sold. Shown per kilogram of New Zealand milk solids sold by Core Operations (continuing business).
Growth capital expenditure	is investments to drive business expansion or improvement toward our strategy and generate incremental revenue. This includes organic growth (existing business projects) and inorganic growth (mergers and acquisitions).
Held for sale	is an asset or disposal group is classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable. A disposal group is a group of assets and liabilities to be disposed of (by sale or otherwise) in a single transaction.
Ingredients	represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia and Europe, or sourced through our global network, and sold to food producers and distributors.
kgMS	means kilograms of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.
Market Maker	is a third party appointed by the Co-op who is active in making bids and offers on a minimum number of Fonterra Co-operative Group Shares.
Maximum Holding	is the maximum number of shares a Supplying Shareholder can hold, which is equal to 4 times the Share Standard.
Minimum Holding	is the minimum number of shares a Supplying Shareholder is required to hold, which is equal to 33% of the Share Standard. New entrants have up to six seasons to meet this.
Net debt	means adjusted net debt.
Net working capital	is total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements.
Non-Reference Products	means all New Zealand milk solids processed by Core Operations, except for Reference Commodity Products.
Non-shareholding farm	means a farm where the owning entity is not entitled to hold shares in the Co-operative. As an example, farms supplying MyMilk.
Non-supplying Shareholder	means all shareholdings that are not Supplying Shareholders.

Terms	Definitions
Normalisation adjustments	means adjustments made for certain transactions that meet the requirements of the Group's Normalisation Policy. These transactions are typically unusual in size and nature. Normalisation adjustments are made to assist users in forming a view of the underlying performance of the business. Normalisation adjustments are set out in the Non-GAAP Measures section. Normalised is used to indicate that a measure or sub-total has been adjusted for the impacts of normalisation adjustments. E.g. 'Normalised EBIT'.
Permitted Transferee	is a person who has been approved by the Co-op and who is (and remains) related to or associated with a Ceased Shareholder.
Price Relativities	refers to the difference in the weighted average price (in USD) between the Co-op's Reference Product portfolio and Non-reference Product portfolio. The difference between these two weighted average prices is a key driver of the Co-op's gross margin.
Product channel	Fonterra has three product channels, Ingredients, Foodservice and Consumer.
Profit after tax margin	is profit after tax attributable to equity holders of the Co-operative, divided by revenue from sale of goods.
Reference Commodity Products (also referred to as Reference Products)	is commodity specifications of the five Reference Commodity Products (RCPs) which are Whole Milk Powder (WMP) and Skim Milk Powder (SMP), and their by-products Butter, Anhydrous Milk Fat (AMF) and Buttermilk Powder (BMP). These commodity groups are included in the calculation of the Farmgate Milk Price.
Reported	is used to indicate a sub-total or total is reported in the Group's Financial Statements before normalisation adjustments. E.g. 'Reported profit after tax'.
Retentions	means earnings per share, less dividend per share. Retentions are reported as nil where Fonterra has reported a net loss after tax.
Return on Capital (ROC)	is calculated as Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed.
Rules for Shareholding	is the Rules for Shareholding adopted by the Fonterra Board from time to time.
Season	New Zealand: A period of 12 months from 1 June to 31 May. Australia: A period of 12 months from 1 July to 30 June.

Terms	Definitions
Secondary Shareholder	is a sharemilker as defined in section 34 of the Co-operative Companies Act that holds shares as if they were a Supplying Shareholder, pursuant to section 44 of the Co-operative Companies Act and clause 30.5 of the Constitution.
Share Standard	means one share per one kgMS supplied, used to calculate a Supplying Shareholder's Minimum Holding and Maximum Holding.
Shareholding farm	means a farm where the owning entity of the farm has a minimum required shareholding of at least 1,000 shares in the Co-operative. This includes farms where the owning entity is in the process of sharing up on a Share Up Over Time contract.
Supplying Shareholder	is a shareholder supplying milk to the Co-op.
Sustaining capital expenditure	represents investments to maintain the capability of our existing assets from risk management, legislation/regulation commitments, business continuity and capital replacement, as well as projects that drive the Co-operative's sustainability targets.
Total Group	is used to indicate that a measure or sub-total comprises continuing operations, discontinued operations and non-controlling interests. E.g. 'Total Group EBIT'.
Total payout	means the total cash payment per milk solid that is backed by a share, being the sum of the Farmgate Milk Price per kgMS and the dividend per share.
Total Shareholder Return (TSR)	is the measure of share price movements and all economic distributions (e.g. dividends, capital returns) over a specified period of time, divided by the original investment amount. Expressed as an annualised percentage.
Tradeable shares	represents shares on issue that are in excess of aggregate minimum shareholding.
WACC	means weighted average cost of capital.
Weighted average share price	represents the average price Fonterra Co-operative Group Limited shares traded at, weighted against the trading volume at each price over the reporting period.
Working capital days	is calculated as 13-month rolling average working capital divided by revenue from the sale of goods (excluding impact of derivative financial instruments) multiplied by the number of days in the period. The working capital days calculation excludes other receivables, prepayments, other payables and includes working capital classified as held for sale.

Ngahere,
Waitako

Fonterra Business Performance Report 2023
Pūrongo haumāuiui pakihi Te Mātāpuna

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