Market Announcement

30 September 2024

Fonterra's revised strategy to grow end-to-end value

Fonterra Co-operative Group Ltd has today released its revised strategy, which will see the Co-op deepen its focus on its high-performing Ingredients and Foodservice businesses to grow value for farmer shareholders and unit holders.

This follows a strategic review that confirmed the Co-op's strengths as a B2B dairy nutrition provider, resulting in Fonterra's decision to explore divestment options for its global Consumer businesses.

Chairman Peter McBride says the revised strategy creates a pathway to greater value creation, allowing the Co-op to announce enhanced financial targets and policy settings.

"The Co-op exists to provide stability and manage risk on farmers' behalf, while maximising the returns to farmers from their milk and the capital they have invested in Fonterra.

"Through implementation of our strategy, we can grow returns to our owners while continuing to invest in the Co-op, maintaining the financial discipline and strong balance sheet we've worked hard to build over recent years.

"We have increased our target average return on capital to 10-12%, up from 9-10%, and announced a new dividend policy of 60-80% of earnings, up from 40-60%. At all times, we remain committed to maintaining the maximum sustainable Farmgate Milk Price," says Mr McBride.

CEO Miles Hurrell says Fonterra is in a strong position, delivering results well above its five-year average, which puts it in a position to think about the next evolution of its strategic delivery.

"The foundations of our strategy – our focus on New Zealand milk, sustainability, and dairy innovation and science – remain unchanged. What's changed is how we play to these strengths.

"Following our recent strategic review, we are clear on the parts of the business that create the most value today and where there is further headroom for growth. These are our innovative Ingredients and Foodservice businesses, supported by efficient and flexible operations.

"By streamlining the Co-op to focus on these areas, we can grow greater value for farmer shareholders and unit holders, even if we divest our Consumer businesses," says Mr Hurrell.

Looking out to the next decade and beyond, Fonterra has made six strategic choices. These are:

1. **Deliver the strongest farmer offering** – work alongside farmers to enable on-farm profitability and productivity and support the strongest payout.

2. **Unleash the Ingredients engine** – deepen Fonterra's position as a world-leading provider of sophisticated dairy ingredients and build trading capability to grow both the Farmgate Milk Price and earnings.

3. **Keep up the momentum in Foodservice –** expand our successful Foodservice business in China and other key markets to grow earnings.

4. **Invest in operations for the future** – an efficient manufacturing and supply chain network that allows flexibility to allocate milk to the highest returning product and sales channel.

5. **Build on our sustainability position –** further improve the Co-op's sustainability credentials and strengthen partnerships with customers who value this position.

6. **Innovate to drive an advantage** – use science and technology to solve the Co-op's challenges and build on competitive advantages.

"As previously announced, we are exploring divestment options for our global Consumer businesses to free up capital and allow the Co-op to focus on what it does best.

"This process is ongoing and progressing well. It remains our intention to seek shareholder approval prior to divesting these businesses," says Mr Hurrell.

Targets & policy settings

Alongside the highest sustainable Farmgate Milk Price, the performance measures Fonterra will track its progress against are:

Outcome	Targets and policy settings	FY18-23 average
Strong shareholder returns	Return on capital: 10-12% *Average ROC FY24-30*	8.6%
	Dividend policy: 60-80%	50%
	Capital distributions: guided by Resource Allocation Framework	
Stable balance sheet	Gearing Ratio: 30-40%	35%
	Debt to EBITDA: 2-3x	2.5x
Enduring Co-op	Capital investment requirements: ~$1 billion per annum in essential, sustainability and growth capital	$650 million
	Emissions reductions by 2030 (from an FY18 base year) • Absolute Scope 1&2 emissions: 50% • On-farm emissions intensity Scope 3: 30%	

"The Co-op's improved returns will primarily be driven by increased earnings in Ingredients and Foodservice along with operational efficiencies.

"We continue to have significant capital investment needs ahead of us to maintain fit for purpose assets and we can meet these investment requirements while maintaining our strong balance sheet. We also intend to make a significant capital return to shareholders if we divest our Consumer business," says Mr Hurrell.

Fonterra will provide farmers and the market a rolling three-year forward-looking view of the financial assumptions underpinning its performance targets annually and will measure progress through its annual business updates.

"This is the right strategy for the Co-op. It has a clear-eyed view of where we best generate returns for farmer shareholders and unit holders and will see us unlock value at every point in our supply chain by focusing on our strengths.

"Together, Fonterra's Board and Management are looking forward to working alongside our Co-op's farmers and employees to deliver on our vision to be the source of the world's most valued dairy," says Mr Hurrell.

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About Fonterra

Fonterra is a co-operative owned and supplied by thousands of farming families across Aotearoa New Zealand. Through the spirit of co-operation and a can-do attitude, Fonterra's farmers and employees share the goodness of our milk through innovative consumer, foodservice and ingredients brands. Sustainability is at the heart of everything we do, and we're committed to leaving things in a better way than we found them. We are passionate about supporting our communities by Doing Good Together.