Northington Partners

FONTERRA CO-OPERATIVE COUNCIL

Fonterra
Dairy for life

Review of 1H24 Performance

Fonterra Co-operative Group

April 2024

Important Notice

Declarations

This report is dated 30 April 2024 and has been prepared by Northington Partners at the request of the Fonterra Co-operative Council ("**FCC**") on behalf of Fonterra Co-operative Group Limited ("**Fonterra**") for the purposes of s109LA of the Dairy Industry Restructuring Act 2001. The report is intended to provide Fonterra shareholders and unitholders with an independent review of Fonterra's performance for 1H24.

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The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D, Jonathan Burke B.Com (Hons) and Fletcher Edmond, CFA, BSc. Each individual has a wealth of experience in providing independent corporate finance advice to a wide range of clients.

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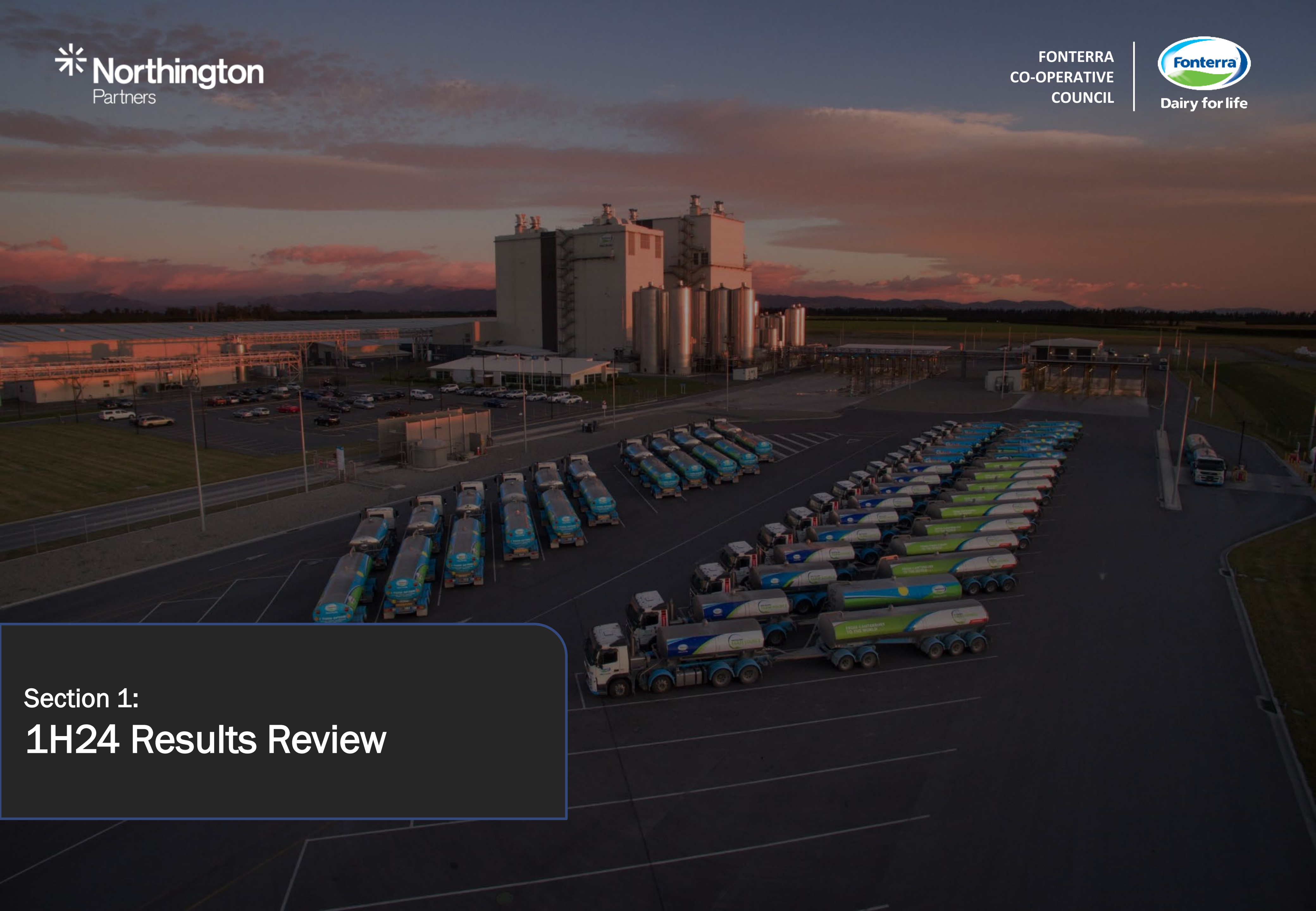
1H24 Highlights

1	**Continuation of Strong Total Group Earnings Performance**	Reported EBIT from continuing operations in 1H24 increased by $122m (+14%) to $986m compared to 1H23. However, we note that this result is $40m lower than the same period last year when stripping out the $162m impairment in the Consumer channel for the prior period. Return on capital on a 12-month rolling basis was up to 13.4% vs 8.6% on the prior period, reflecting a solid performance in the prevailing market conditions and the impact of recent divestments. The composition of earnings between channels was materially different to the same period last year with lower earnings from Ingredients offset by higher earnings in Foodservice and Consumer.
2	**Favourable Price Relativities for the Ingredients Channel Tailing off**	EBIT for the Ingredients channel was down $383m (-45%) to $467m vs 1H23, largely attributable to a decline in earnings contribution from Price Relativities. Fonterra expects the contraction of Price Relativities (between Reference and Non-Reference products) and margins to continue during 2H24. Earnings related to this key driver were estimated to have contributed 6c per share to 1H24 continuing operations EPS of 43c (relative to 16c contribution to 37c EPS in 1H23). Based on Fonterra's FY24 earnings outlook, Price Relativities in the second half of the year are expected to reduce materially.
3	**Strong performance in Foodservice and Consumer**	Compared to 1H23, Foodservice EBIT was up $203m (+146%) to $342m and Consumer EBIT was up $140m (+378%) to $177m (when adjusting for the prior period impairments). Much of this was due to favourable pricing and lower cost milk driving increased margins. As noted above, margins in both channels are expected to tighten in 2H24 as a result of higher Reference product pricing on GDT and a higher cost of milk.
4	**Simplified Business with Strong Balance Sheet**	Recent asset sales have resulted in a business with more of a focus on NZ milk and core operations. The asset sales have also supported a significant reduction in net debt and gearing levels, with the Gearing Ratio dropping to 34.6% vs 43.3% in 1H23. The reduction in net debt provides Fonterra with significant balance sheet flexibility for future investment and / or capital management.
5	**Farmgate Milk Price Range Narrowed**	While the range of the Forecast Farmgate Milk Price for the 2023/2024 season has narrowed to $7.50 - $8.10 per kgMS (from $7.30 - $8.30 per kgMS), the mid-point remains unchanged at $7.80 per kgMS.
6	**Earnings Outlook Maintained**	Despite achieving 1H24 earnings from continuing operations of 43c per share, Fonterra has maintained its full year guidance of 50c – 65c per share. This implies projected earnings for 2H24 of 7c – 22c per share and reflects the company's view that Price Relativities will materially reduce and margins in Foodservice and Consumer will return to more historical levels.
7	**Ongoing Weakness in the Fonterra Farmers Market for Shares**	Following Fonterra's capital review announcement in 2021, there has been ongoing weakness in the Fonterra farmers' market for shares (NZX:FCG) relative to the price of units in the Fonterra Shareholders' Fund (NZX:FSF). This weakness has extended into the current period with the market capitalisation of Fonterra (based on the current FCG price) now significantly below the book value of net assets. The price of Fonterra shares is also now ~35% below the price of Fund units, relative to an average discount of 14% in the period since announcing the capital structure review (May 2021) and implementation of the Flexible Shareholding (April 2023).



Section 1:

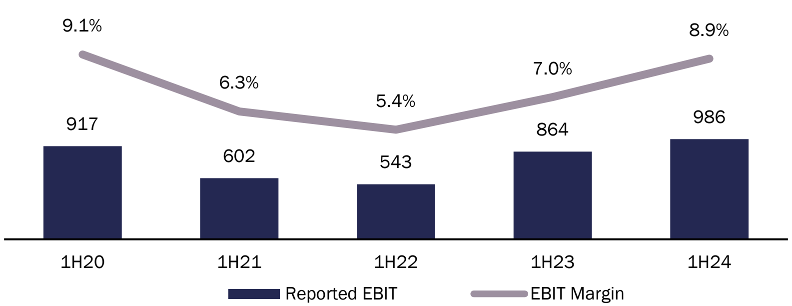
1H24 Results Review

Total Group Financial Performance

Fonterra reported earnings (EBIT) from continuing operations of $986m for the half, a modest reduction of $40m on 1H23 when excluding impairments from the previous period.

NZ$ Million (Continuing Operations)	1H24	1H23	*% Change*
Sales Volume ('000 MT)	1,721	1,699	*1%*
Total Revenue	**11,085**	**12,333**	***(10%)***
Cost of Goods Sold	(9,049)	(10,287)	*(12%)*
Gross Profit	**2,036**	**2,046**	***(0%)***
Gross Margin	*18.4%*	*16.6%*	*n/a*
Operating Expenses	(1,109)	(1,057)	*5%*
Impairments	-	(162)	*n/a*
Other Items	59	37	*59%*
Reported EBIT	**986**	**864**	***14%***
Reported EBIT Margin	*8.9%*	*7.0%*	*n/a*
Net Finance Costs & Tax	(272)	(320)	*(15%)*
Net Profit After Tax (Continuing Ops)	**714**	**544**	***31%***
Net Profit After Tax (Discontinued. Ops)	(40)	2	*n/a*
Total Group Net Profit After Tax	**674**	**546**	***23%***
Earnings Per Share (Continuing Ops)	$0.43	$0.33	*30%*
Dividend per Share	$0.15	$0.10	*50%*

Reported EBIT and Reported EBIT Margin (Continuing Operations)



Fonterra delivered a solid earnings result for 1H24, with reported earnings before interest and tax (EBIT) and reported net profit after tax (NPAT) above 1H23 performance and long-term historical averages. Reported EBIT from continuing operations increased by 14% to $986m, modestly down when adjusting for $162m of impairments in 1H23.

Similar to 1H23, Fonterra's results for 1H24 are complicated by earnings relating to discontinued businesses, being DPA Brazil in 1H24 and Hangu China farm and Soprole in 1H23. We have therefore focused on the results for the continuing operations, as summarised in the adjacent table and commentary below.

- Flat sales volumes and lower product pricing contributed to a 10% reduction in revenue ($11,085m in 1H24 vs $12,333m in 1H23).
- Offsetting the revenue decline, group gross profit for 1H24 held steady on 1H23 ($2,036m vs $2,046 in 1H23) due to improved gross margins (18.5% 1H24 vs 16.6% 1H23). This was largely driven by higher margins and sales volume in the Foodservice and Consumer channels, more than compensating for lower margins in the Ingredients channel.
- Operating expenses from continuing operations increased by $52m (5%) reflecting ongoing inflationary pressures as well as technical and professional costs. Management reports these are primarily related to the upfront costs of delivering future cost efficiencies which should support future cost savings.
- Reported EBIT from continuing operations was up $95m (14%) when including the $162m of brand impairments in the Consumer channel in 1H23.
- The resulting reported NPAT for 1H24 was $674m on a continuing and discontinued operation basis (40c per share), compared to an equivalent $546m in 1H23 (33c per share). 1H24 NPAT benefited from a significant decline in finance costs due to recent divestments and the resulting reduction in debt costs.
- Based on the full year earnings guidance of 50c – 65c per share and the 43c per share from continuing operations in 1H24, expected EPS for 2H24 is a significantly lower 7c – 22c per share.
- The Group declared an interim dividend in 1H24 of 15c per share, a 5c increase compared to 1H23. While below the target payout range of 40% to 60%, the dividend policy is based on full year performance and it is typical for the interim dividend to conservatively allow for some second half downside.

Financial Performance by Channel & Segment

While the price differential between Non-Reference and Reference products contributed to lower performance in the Ingredients channel, the lower cost of milk and firm end-product pricing led to significant margin & earnings improvement in Fonterra's downstream businesses.

There was a material shift in the composition of operating earnings (EBIT) between channels in 1H24 vs 1H23:

EBIT from the Ingredients channel was down by $383m in 1H24, reflecting the following key factors:

- Lower sales volumes of Non-Reference products and reduced margins, largely due to a relatively higher cost of milk for Non-Reference products compared to Reference Products;
- Lower regional margins in Australia (due to a higher milk price) and weaker demand for milk protein concentrate and cheese in China; and
- An increase in the cost of milk (as per the Milk Price calculation) due to changes in lactose prices. This lactose-related benefit was significantly reduced compared to 1H23.

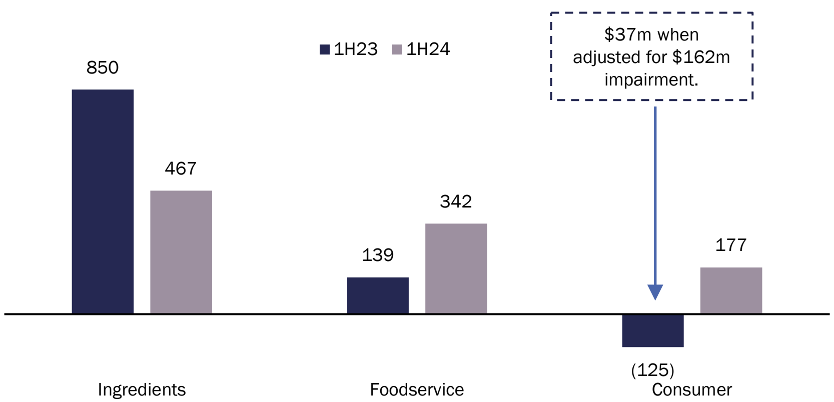
Conversely, EBIT for Foodservice and Consumer was up $203m and $140m respectively when adjusting for impairments in the Consumer channel in 1H23. Both segments benefited from:

- Favourable margins predominantly driven by a comparatively lower cost of milk as well as higher in-market pricing; and
- Increased sales volumes, mainly driven by UHT cream in China for Foodservice and Consumer products in Sri Lanka and the Middle East.

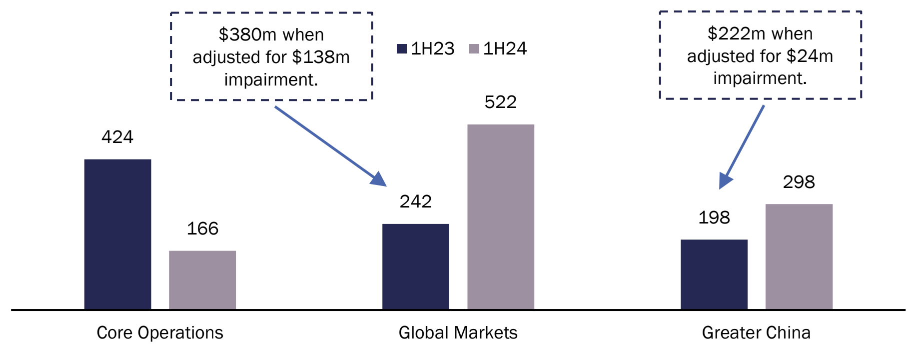
Similar market dynamics led to a shift in earnings contributions across the three Segments

- Core Operations reported a $258m reduction in EBIT, largely reflecting lower margins in New Zealand milk processing (Ingredients).
- Global Markets earnings were up $142m (adjusting for 1H23 impairments) to $522m, largely driven by improvements in the Consumer channel.
- Greater China delivered a $76m increase in EBIT (adjusting for 1H23 impairments), with a particularly strong pick-up in Foodservice across the region.

Reported EBIT by Channel (NZ$ million)



Reported EBIT by Segment (NZ$ million)



Note: Segment and Channel Information is available for continuing operations only

Price Relativities

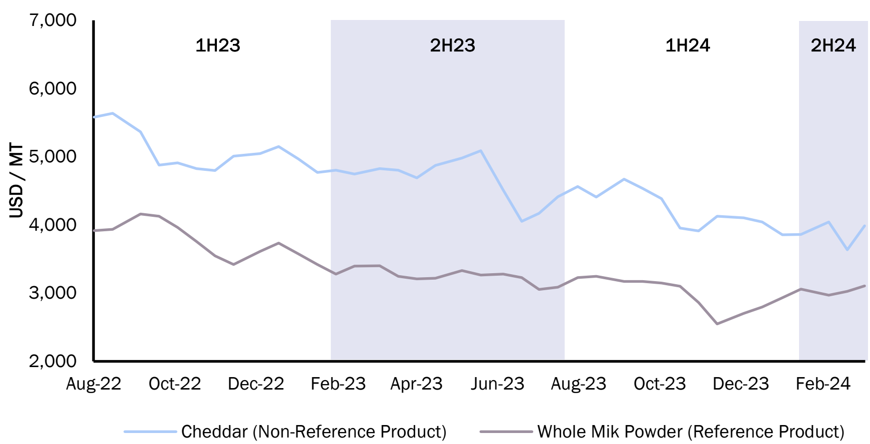
Fonterra’s Price Relativities for Reference and Non-Reference products were broadly in line with 1H23, but the benefit to earnings declined materially (~6cps vs ~16cps in 1H23). The difference is largely attributable to a lower margin differential (relatively higher cost of milk) and reduced volumes for Non-Reference products.

Price Relativities at the start of the period remained strong, with the price of cheddar ~1.6x the price of WMP (a key proxy for Reference products) in late August. However, the Price Relativities have since tracked back to levels closer to recent averages (~1.3x).

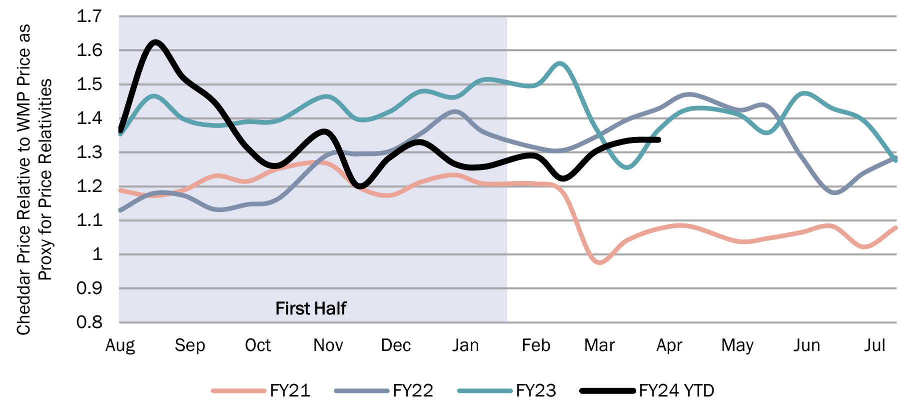
Fonterra believes the margin differential between Non-Reference and Reference products is set to return to more normalised levels with the price for cheddar adjusting down to within long-term historical averages, reflecting expectations for higher production in the US. Both contract and forward pricing are also indicating a contraction in the pricing differential between Reference and Non-Reference products.

It is therefore likely that the price and margin differential between Non-Reference and Reference products and the contribution to Group financial performance will continue to contract through 2H24, contributing to lower earnings across the Ingredients channel (particularly versus FY23). This is consistent with the expected weakening in second half earnings implied from Fonterra’s FY24 earnings guidance – earnings per share from continuing operations for 1H24 was 43c vs expected EPS in the second half of 7c – 22c (see page 10).

Price Relativities (Cheddar vs WMP)



Historical Price Relativities (Non-Reference / Reference Product Prices)



Source: Global Dairy Trade, adjusted forward 3 months to reflect shipment delay.
WMP and Cheddar used as proxies for Reference & Non-Reference Products.

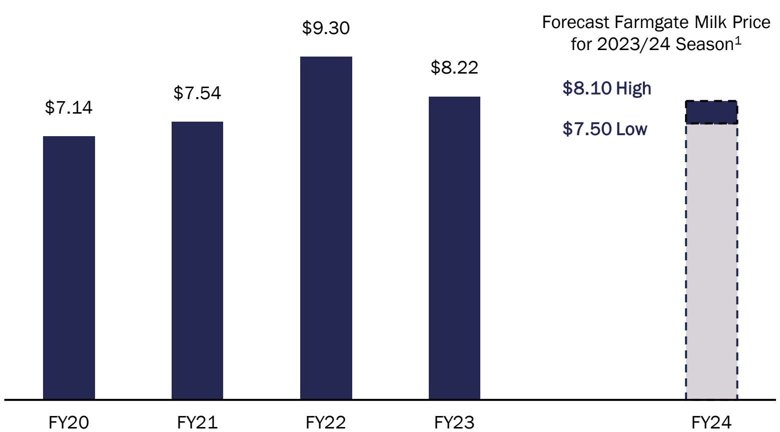
Milk Price Range of $7.50 - $8.10 per kgMS

While the forecast Farmgate Milk Price has narrowed to $7.50 - $8.10, the mid-point remains $7.80.

The Farmgate Milk Price range has narrowed from $7.30 - $8.30 to $7.50 - $8.10 per kgMS, reflecting a well contracted sales book and ~90% of USD cash flows being hedged for the remainder of the season.

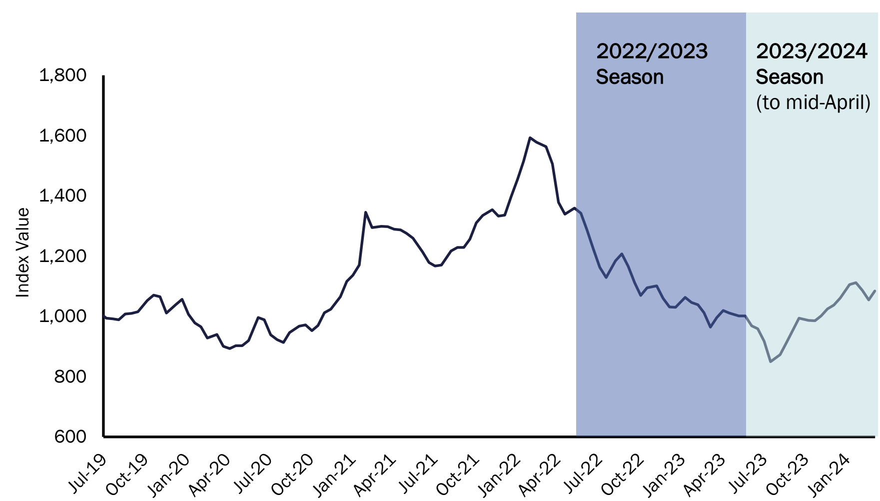
With only several weeks until the end of the 2023/2024 season, the mid-point Farmgate Milk Price of $7.80 per kgMS represents a ~5% reduction on the prior year but a significant improvement on the guidance provided earlier in the season ($6.00 - $7.50/kgMS in August 2023). This reflects that in contrast to the 2022/2023 season where GDT auction prices for key Reference products declined over the course of the year, prices early in the current season have generally been on an improved trajectory since August. This trend is summarised in the GDT Price Index chart below (representing the change in prices for both Reference and Non-Reference milk products).

Historical Farmgate Milk Price vs 2023/24 Season Forecast



[1]As per forecast update 21 March 2023

GDT Price Index



Source: GDT

Financial Position and Return on Capital

Fonterra's recent focus on capital management, improved earnings performance and recent divestments (including DPA Brazil in 1H24) have contributed to a significant reduction in borrowings and a sustained increase in return on capital.

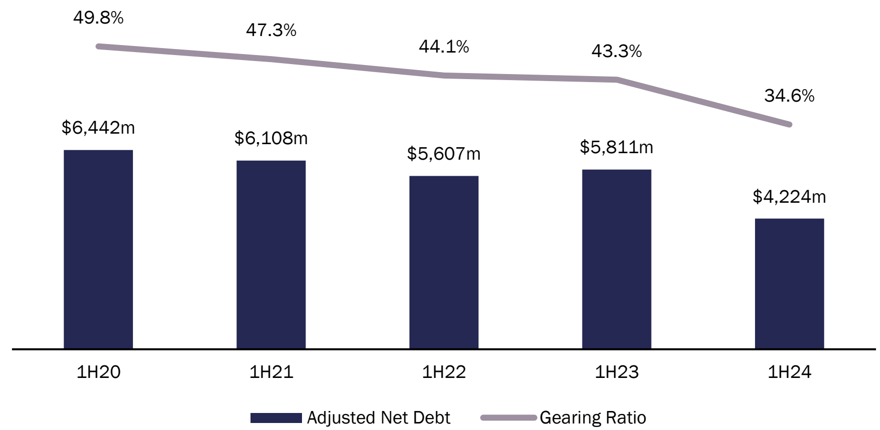
Fonterra's net borrowings have reduced by ~$2.2bn since 1H20. This has been achieved by ~$2bn in asset sales over the period (China Farms, Soprole, DPA Brazil) and ongoing earnings improvements, offset by the $800m capital return in 2023.

Gearing levels have also reduced materially to 34.6% at 1H24 vs 43.3% 1H23 and 49.8% in 1H20. With the first half typically representing a seasonal peak in debt levels, Fonterra should be comfortably below its LTA gearing target of 35% at the end of FY24. This will provide the Company with considerable financial flexibility and debt headroom (to support consistent dividend levels and / or new investment).

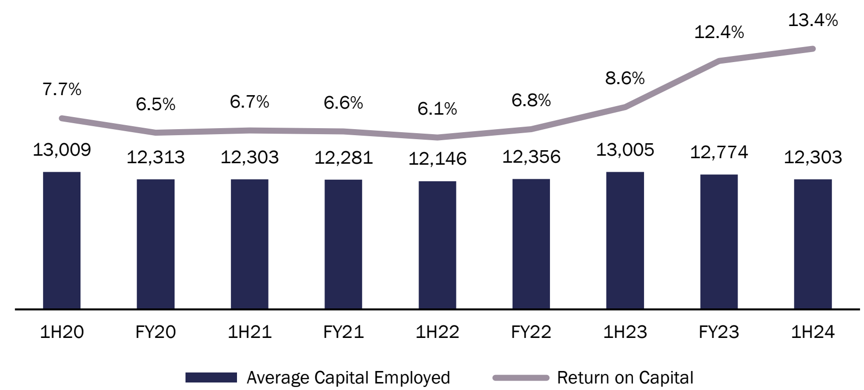
Recent capital management initiatives and Fonterra's improved earnings performance have also contributed to a sustained increase in its return on capital ("**ROC**") with 1H24 ROC of 13.4% well above both the 8.6% achieved in 1H23 and the long-term LTA target of 9% - 10%.

NZ$ Million	1H24	1H23	*% Change*
Assets			
Cash and Cash Equivalents	239	319	*(25%)*
Receivables	2,122	2,870	*(26%)*
Inventories	6,499	7,034	*(8%)*
Other Current Assets	362	2,025	*(82%)*
PP&E	6,283	6,262	*0%*
Intangible Assets	1,813	1,881	*(4%)*
Other Non-Current Assets	913	1,000	*(9%)*
Total Assets	**18,231**	**21,391**	***(15%)***
Liabilities			
Payables	4,790	5,906	*(19%)*
Current Borrowings	1,270	2,120	*(40%)*
Other Current Liabilities	465	1,789	*(74%)*
Non-Current Borrowings	3,371	3,426	*(2%)*
Other Non-Current Liabilities	255	221	*15%*
Total Liabilities	**10,151**	**13,462**	***(25%)***
Net Assets	**8,080**	**7,929**	***2%***
Equity Attributable to Co-op	**8,014**	**7,913**	***1%***

Adjusted Net Debt (NZ$ million) and Gearing Ratio (%)



Historical Return on Capital (Based on Fonterra Estimates)[1]



[1] Rolling twelve months

Full year FY24 Outlook

Fonterra has maintained its earnings guidance for FY24 of 50c – 65c per share, implying 2H24 earnings of 7c – 22c per share. The second half outlook reflects Fonterra's expectation of a higher milk price, lower Price Relativities and lower margins in the Foodservice and Consumer channels.

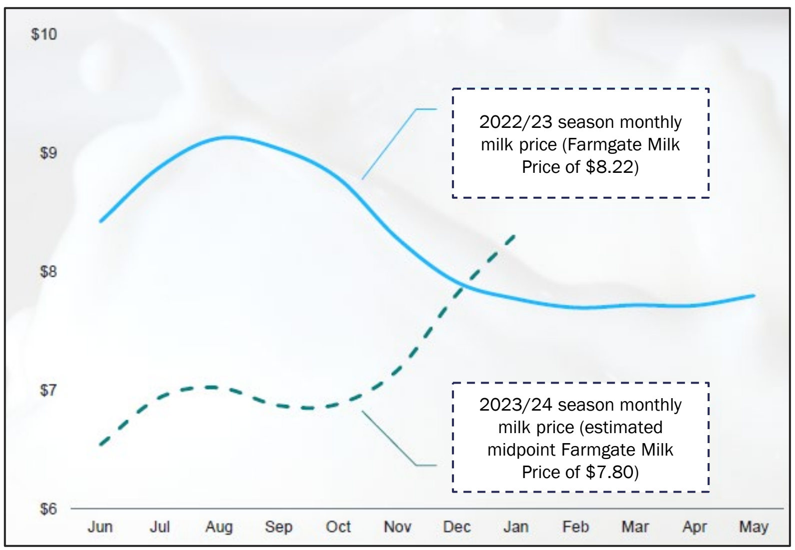
Fonterra remains cautious around the outlook for the remainder of the year and has maintained FY24 earnings guidance of 50c – 65c per share (mid-point 58c). This compares to consensus broker estimates towards the upper end of Fonterra's guidance and implies EPS for the second half of just 7c – 22c. The lower earnings expectation in 2H24 primarily reflects:

- An increasing cost of milk (bottom chart) and less favourable in-market pricing contributing to margins in the Foodservice and Consumer segments reducing to levels more consistent with historical levels;
- Price Relativities between Reference and Non-Reference products continuing to contract, contributing to significant headwinds for the margin differential on Non-Reference and Reference products, with the potential for the gap to close completely; and
- Normal seasonal factors mean that 2H earnings are typically lower due to lower sales volumes and lower milk collections impacting cost recovery in Core Operations.

Despite the cautious outlook for the remainder of the year, Fonterra now has a stronger balance sheet which should support its ability to sustain dividend levels. Consistent with Fonterra's FY24 earnings guidance and target dividend payout policy of 40% – 60%, total dividends for FY24 should be in the vicinity of 30c (consistent with broker estimates but above the LTA target for FY24 of 22c – 27c). This suggests a 2H24 dividend similar to the 1H24 dividend of 15c.

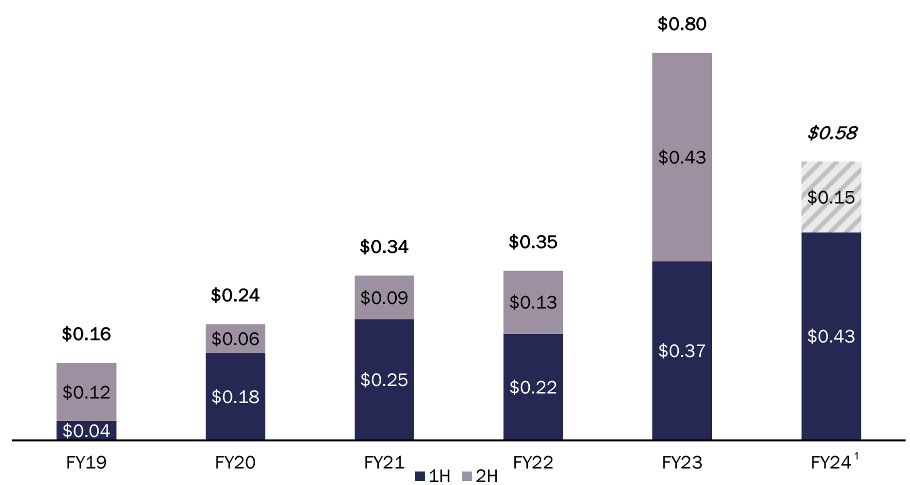
At Fonterra's current share price (farmer-only market), FY24 dividends of 30c per share would represent a cash dividend yield of >12%.

Monthly Milk Prices (NZ$ per kgMS)



Source: Fonterra Extract

Normalised Earnings Per Share for 1H24 and Projection for 2H24[1]



[1] *1H24 based on continuing operations, 2H24 based on midpoint forecast earnings range of 50c – 65c per share.*

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Section 2:

LTAs and Update on Flexible Shareholding

Strategic Update and Long-Term Aspirations

While Fonterra last year indicated that it might update the LTAs established in 2021, no changes were announced at the interim results.

Fonterra had previously indicated that the LTAs last updated and amended in September 2021 might be updated in early 2024. As part of the FY23 results, the Company also introduced two new operational efficiency measures being 1) cash operating expenses per kgMS, and 2) gross profit from Core Operations per kgMS.

As part of the 1H24 results, Fonterra subsequently confirmed there was no intention to update the LTAs but that it remains comfortable with the targets and that an update would be provided to the market if this view changed.

With no update to the LTAs, this suggests that Fonterra remains on-track to achieve the long-term targets for FY30 EPS of 55c – 65c. This effectively represents flat earnings growth over the next 6 years given the FY24 guidance of 50c – 65c. We expect this reflects uncertainty around future Price Relativities and the expectation that margins will reduce to long-term historical levels across the Foodservice and Consumer channels. If this view changes over the remaining LTA period, Fonterra will update the market, or possibly revise its LTAs.

LTA Measure	Forecast FY22	Actual FY22	Forecast FY24	Actual 1H24	Forecast FY27	Forecast FY30
EBIT ($ million)	875–975	991*	1,025–1,125	986 (cont. ops)	1,150–1,250	1,325–1,425
Earnings per Share (cents)	25–40	35*	45–55	43	50–60	55–65
Return on Capital	6.5%–7.0%	6.8%*	7%–8%	13%	7.5%–8.5%	9%–10%
Capital Investment ($ million)	650	617	980	289	980	980
Debt to EBITDA	2.4x	3.2x	<2.5x	n/a	<2.5x	<2.5x
Gearing Ratio	35%	42%	<35%	35%	<35%	<35%
Dividends (cents)	15–20	20*	22–27	15	30–35	40–45

** Indicates that target was met*
Note: LTAs when released only had targets for FY22, FY24, FY27 & FY30

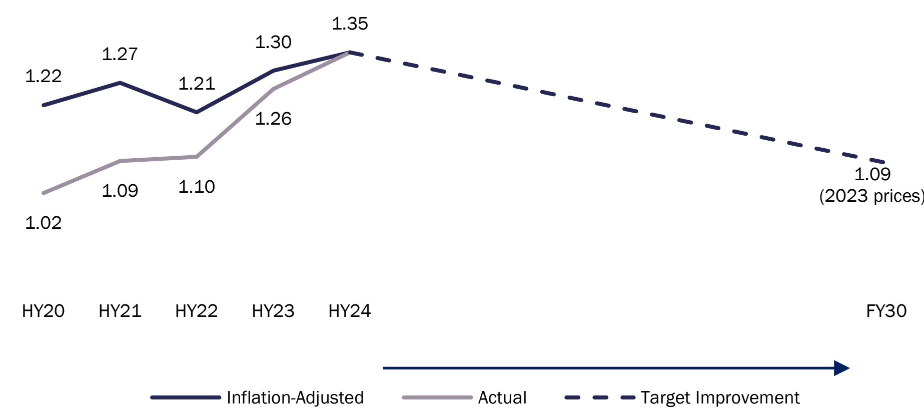
At the results announcement for FY23, Fonterra announced a target of reducing cash operating expenses per kgMS by 4% every year (to 2030) as part of its aspiration of sustainably removing ~$1 billion of overall costs from both its operational and overhead cost base by 2030.

Cash operating expenses per kgMS in 1H24 have tracked counter to this target, increasing 9c to $1.35 (7% increase on 1H23). However, we note:

- Approximately 4c of the increase was due to expenses for efficiency initiatives (e.g. automation) that are intended to drive future cost savings;
- ~5c related to a change in product mix with more volumes going to Foodservice and Consumer which have higher operating expenses but also contribute higher EBIT margins; and
- Key costs such as wages, insurance and distribution are likely growing at levels greater than CPI.

In the current environment, it is likely that meeting these cost efficiency targets will continue to be difficult over the medium term.

Cash Operating Expenses per kgMS (12-month rolling average vs long-term target)



Note: This report was finalised 30 April 2024 based on information disclosed as part of Fonterra's HY24 interim results. On 16 May 2024, Fonterra announced a material change in strategic direction, including:

- That it was exploring full or partial divestment of some or all of the global Consumer business and other integrated businesses Fonterra Oceania and Fonterra Sri Lanka.
- Given the potential divestment, the Board has subsequently withdrawn the FY30 financial targets but remains committed to meeting sustainability targets and associated investment plans as well as the cost efficiency targets.

Flexible Shareholding – Initial Review

Fonterra's new Flexible Shareholding structure has been in force since April 2023 and has resulted in many farmers looking to adjust their shareholding.

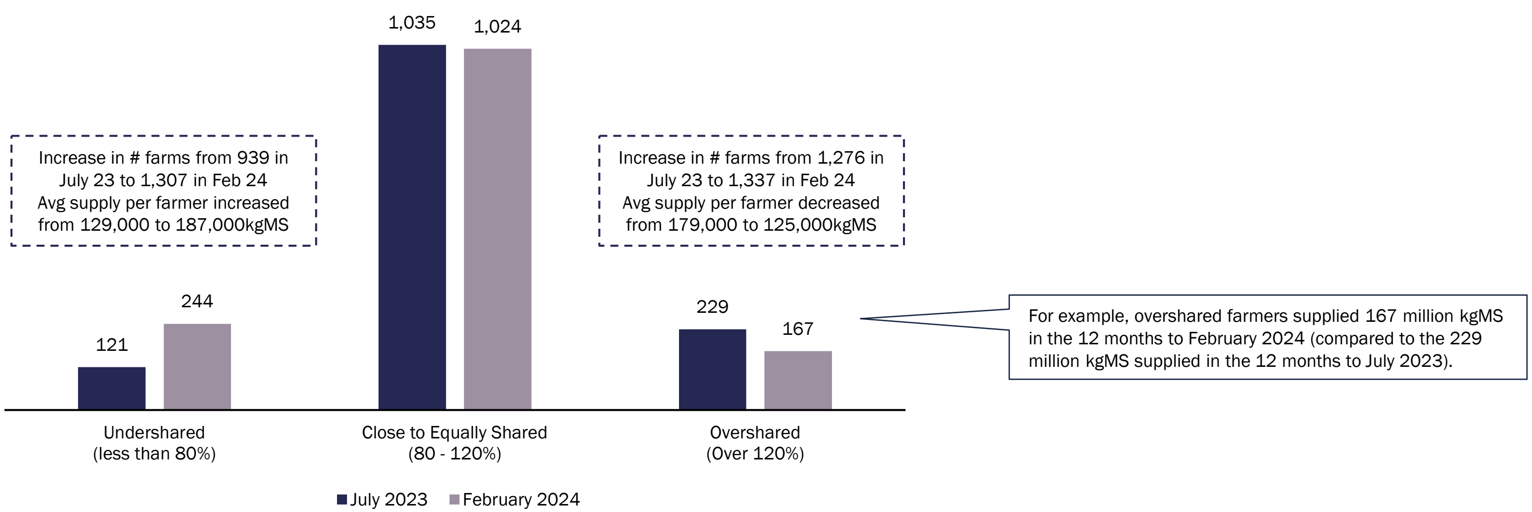
Fonterra's Flexible Shareholding was announced in May 2021 and introduced in April 2023. Since then, it is required to periodically disclose certain shareholding metrics including ceased-farmer holdings and the distribution of farmer shareholders relative to the Share Standard (1 share per kgMS supplied). The recent February 2024 disclosure confirms that Fonterra was within its specified thresholds for the Flexible Shareholding metrics (shares on issue above the Share Standard, shares held by ceased farmers and shares held by the Fonterra Shareholders' Fund). However, the data also highlights movements in farmer shareholdings relative to the Share Standard since the first disclosure for July 2023.

We have summarised the change in the distribution of farmer milk supply relative to shareholding levels in the chart below. Farmers described as "undershared" are those that have shares less than 80% relative to the Share Standard, "close to equally shared" being those that are 80% – 120% of the Share Standard and "overshared" being those with more than 120% of the Share Standard. Over the 7-month period, the recent data demonstrates significant compositional changes at the under and over shared ends of the spectrum.

While it is difficult to determine the drivers of changes in farmer shareholdings relative to milk supply, we note that:

- Milk supply from undershared farmers has more than doubled to 244 million kgMS from an increase in the number of undershared farms of only ~40%. The average milk supply from farmers in this category has increased from 129,000kgMS to >187,000kgMS (vs an overall average supply of 174,000kgMS). This change is more than can be explained by the level of new farmers joining the Co-operative and suggests larger farms have been sharing down;
- Milk supply in the overshared category has decreased by ~62 million kgMS despite an increase in the number of farms in this category. There has been a significant decrease in average farm supply from this category, from 179,000kgMS to 125,000kgMS. This suggests that overshared farms are increasingly smaller farms; and
- An increase in the "restricted market discount" since the Flexible Shareholding structure came into effect (see next page) suggests a buyer / seller imbalance (i.e. insufficient buyer demand from undershared farmers in the farmers-only market to support selling farmers).

Farmer Milk Supply Relative to Share Standard (million kgMS)



Restricted Market Discount

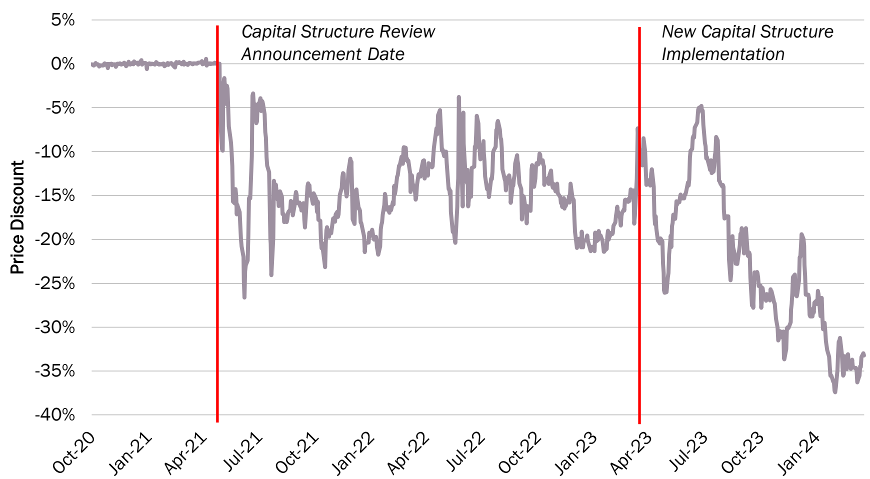
One of the consequences of Fonterra's changes to the shareholding structure and the capped shareholders' fund has been a poorly performing share price in the farmers-only market relative to the price for units, with the price differential at all-time highs.

The price of Fonterra shares (FCG) in the farmer-only market is trading at all time high discounts compared to the price for units in the Fonterra Shareholders' Fund (FSF). The current discount of ~35% compares to an average in the period between announcement of the capital structure review and implementation of the Flexible Shareholding regime of ~14%. All else equal, this represents over $200,000 in lost value to an average fully shared-up farmer (the current value of FCG shares vs the value of FSF units and an average farm size of 174,000kgMS).

We expect much of the recent widening in discount will be transitory as farmers reweight their shareholding for individual reasons, but the discount has been exacerbated by the significant decrease in market volumes for FCG shares. Average 12-month daily volumes are less than one third of the levels in the 2019/2020 season prior to changes to the capital structure and the removal of investors from the market. We note that liquidity in the FSF market has also decreased materially meaning price discovery in both markets has likely diminished.

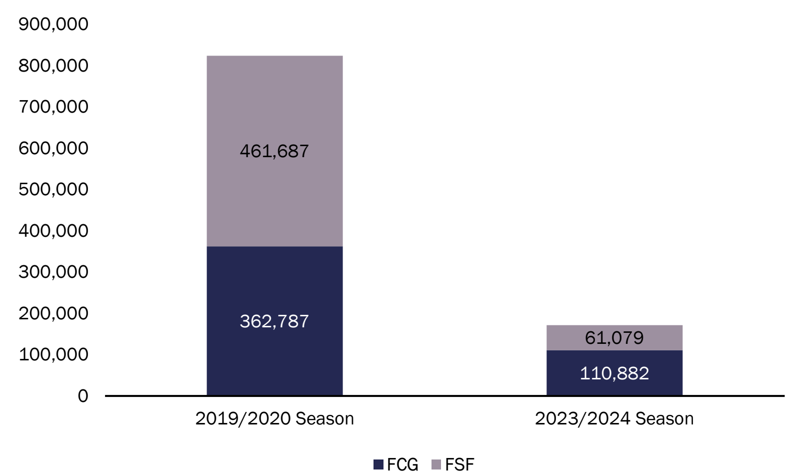
We expect that some level of steady state "equilibrium" in the long-run restricted market discount will eventually be reached as farmers obtain their desired shareholding levels. However, there is still likely to be periods of volatility (increase or decrease in the restricted market discount) caused by a range of external factors (droughts, financial conditions, etc).

Discount of FCG Share Price to FSF Share Price[1]



[1] *Calculated as (FCG price per share / FSF price per share) - 1*

Average Daily Trading Volume on NZX - 2019/2020 Season vs Current Season



Appendix – Supporting Information

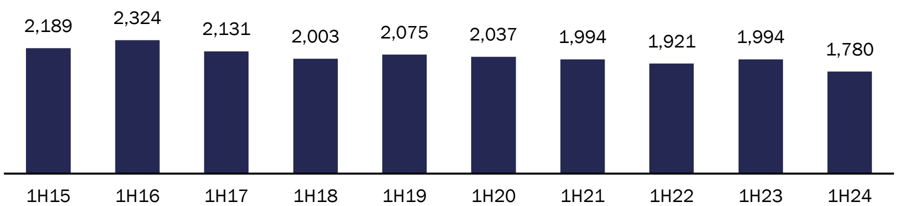
Progress Against FY24 Integrated Scorecard

Key Performance Indicator (KPI)		FY22 Actual	FY23 Actual	FY24 Scorecard	FY24 1H
People	Serious harm	8	5	*4*	*0**
	Gender diversity (Band 12+)	37.6%	39.5%	*40.0%*	*39.4%*
	Culture Measure	-	79	*-*	*78*
Nature	GHG emissions (Scope 1,2)	(11.2%)	(14.1%)	*(15.6%)*	*(20.2%)**
	FEP adoption (New Zealand)	71%	85%	*92%*	*89%**
	Water Improvement Plans in place	-	44.0%	*100.0%*	*On Track**
Relationships	Share of New Zealand milk collected for the season to 31 May	79.1%	79.0%	*79.0%*	*78.5%*
	Delivered in full, on time (DIFOT, ex-New Zealand)	51.6%	53.2%	*80.0%*	*Behind*
Financial / Assets & Infrastructure	Cash operating expenses per kgMS (real)	1.34	1.39	*1.37*	*Behind*
	Gross profit from Core operations per kgMS (real)	8.83	9.21	*8.52*	*Behind*
	Return on capital	6.8%	12.4%	*8.0% - 9.0%*	*Ahead**
	Farmgate Milk Price ($)	9.30	8.22	*6.00 – 7.50*	*$7.30 - $8.30**
Alignment Rights	Total shareholder return (share price plus dividend)	$2.73 ($0.20)	$3.20 ($1.00)	*No Target*	*No Target*
	On-farm profitability ($ per hectare)	4,150	2,063	*No Target*	*No Target*

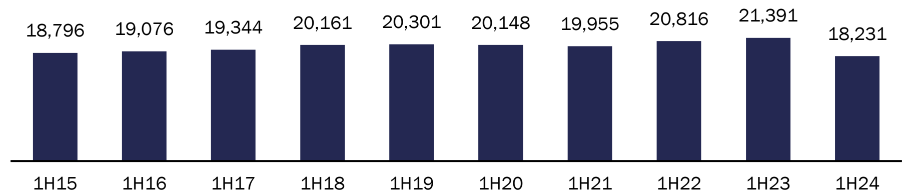
** Indicates that target was met*

Historical Financial Information

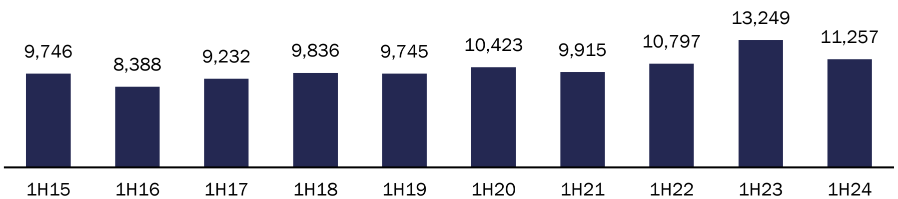
Sales Volume (‘000 MT)



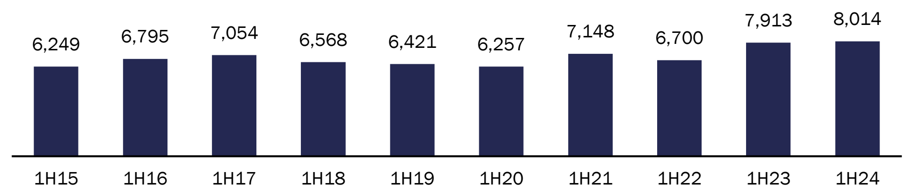
Total Assets (NZ$ million)



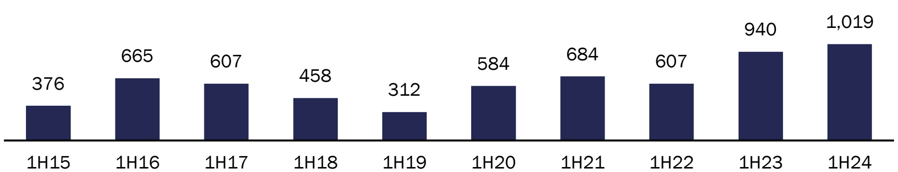
Revenue (NZ$ million)



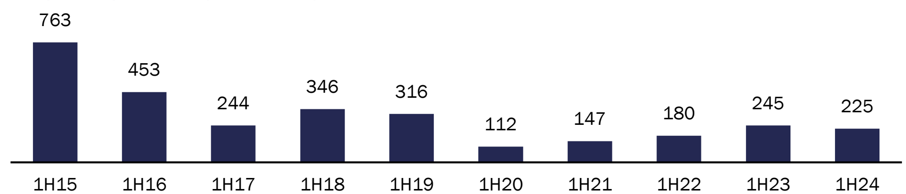
Total Equity (NZ$ million)[1]



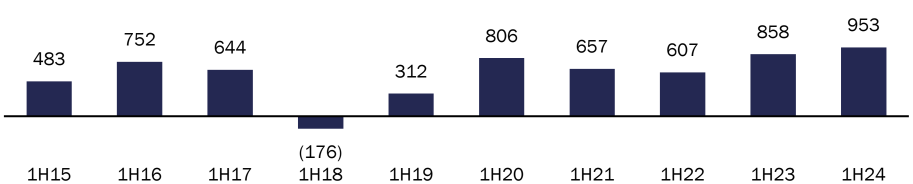
Normalised EBIT (NZ$ million)



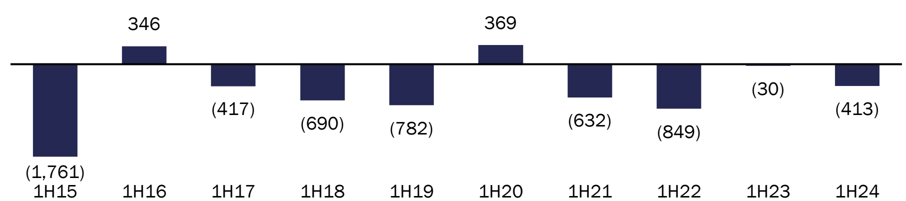
Capital Expenditure (NZ$ million)



Reported EBIT (NZ$ million)



Free Cash Flow (NZ$ million)

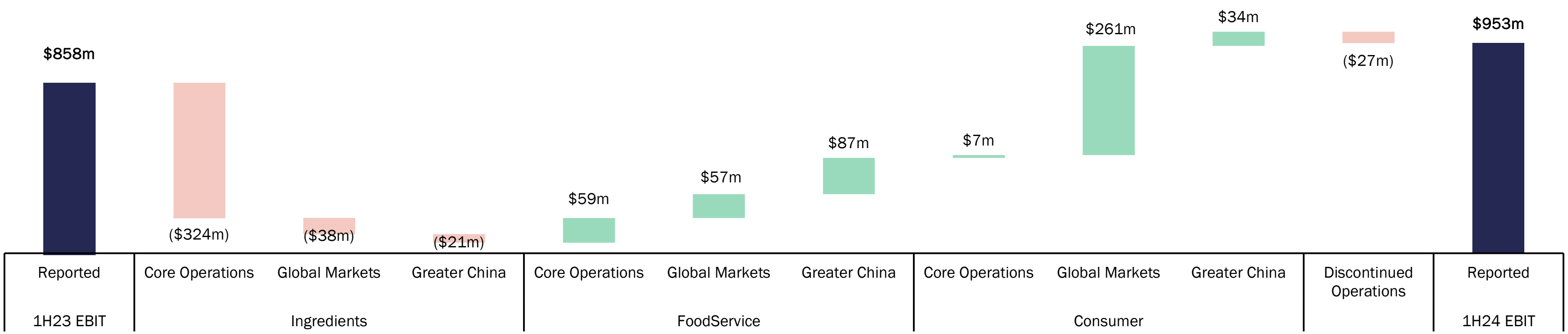


[1]*Excluding non-controlling interests*

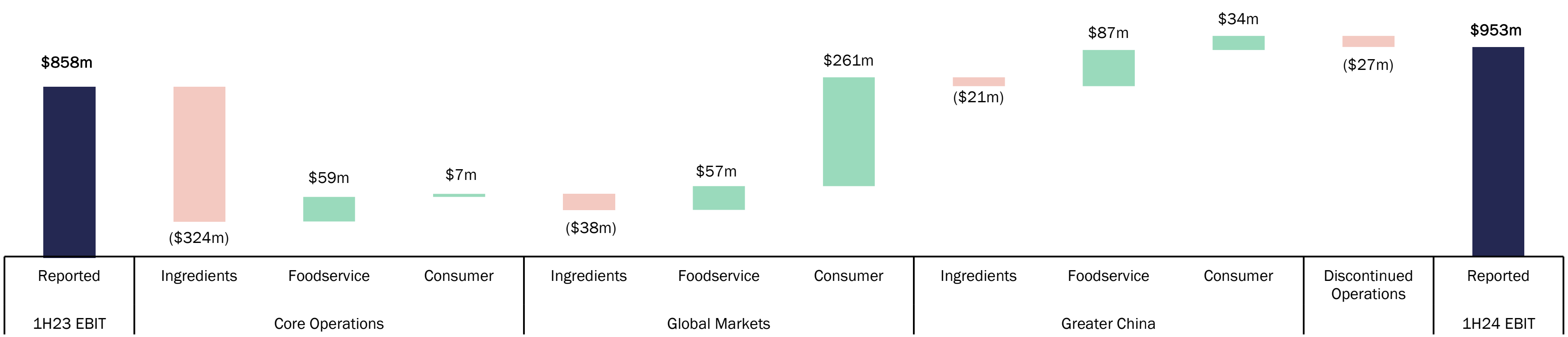
Note: Includes continued & discontinued operations where known.

Reported EBIT Bridge by Segment and Channel

Reported EBIT Bridge by Channel



Reported EBIT Bridge by Segment



Continuing and Discontinuing Operations

NZ$ Million	6 Months to January 2023			6 Months to 30 January 2024		
	Continuing Operations	Discontinued Operations	Total Group	Continuing Operations	Discontinued Operations	Total Group
Sales Volume (‘000 MT)	1,699	295	**1,994**	1,721	59	**1,780**
Total Revenue	12,333	916	**13,249**	11,085	172	**11,257**
Cost of Goods Sold	(10,287)	(664)	**(10,951)**	(9,049)	(106)	**(9,155)**
Gross Profit	2,046	252	**2,298**	2,036	66	**2,102**
Gross Margin (%)	16.6%	27.5%	**17.3%**	18.4%	38.4%	**18.7%**
Operating Expenses	(1,219)	(258)	**(1,477)**	(1,109)	(99)	**(1,208)**
Other Items	37	-	**37**	59	-	**59**
Reported EBIT	864	(6)	**858**	986	(33)	**953**
Reported EBIT Margin (%)	7.0%	(0.7%)	**6.5%**	8.9%	(19.2%)	**8.5%**
Normalisations	-	65	**65**	-	66	**66**
Normalised EBIT	864	59	**923**	986	33	**1,019**
Reported Net Profit After Tax	544	2	**546**	714	(40)	**674**
Normalised Net Profit After Tax	544	67	**611**	714	26	**740**

Summary of Normalisations

Impact of FY23 Normalisations

Item	Impact on EBIT		Impact on Gearing	
Loss on Sale of DPA Brazil	▲	$66m loss on sale	▼	Sale proceeds reduce Net Debt, while the loss on sale decreases Equity. All else equal, the net impact should be a reduction in Gearing.

Normalisation Adjustments to EBIT

NZ$ million	1H21	1H22	1H23	1H24
Disposals	($50m)	-	($82m)	($66m)
Impairment	$23m	-	-	-
Total	**($27m)**	**-**	**($82m)**	**($66m)**
Reported EBIT	$657m	$607m	$858m	$953m
Normalisations	$27m	-	$82m	$66m
Normalised EBIT	**$684m**	**$607m**	**$940m**	**$1,019m**

Abbreviations & Definitions

Term	Definition
Co-op, Group or the Company	Fonterra Co-operative Group Limited
DIRA	Dairy Industry Restructuring Act
DPA Brazil	Dairy Partners Americas Brazil
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
ESG	Environmental, social and governance
FCG	Shares in Fonterra Co-operative Group Ltd (FCG.NZ)
FGMP	Farmgate Milk Price
FSF	Shares in Fonterra Shareholders' Fund (FSF.NZ)
Fund	Fonterra Shareholders' Fund (FSF.NZ)
FY	Financial year ending 31 July
GDT	Global Dairy Trade
kgMS	Kilograms of milk solids
LTAs	Long Term Aspirations
MT	Metric tonnes
NPAT	Net profit after tax
Non-Reference Products	Products that are not included in the calculation of the Farmgate Milk Price.
NWC	Net working capital
NZD	New Zealand dollars
PP&E	Plant, property and equipment
Price Relativities	Refers to the difference in the weighted average price (in USD) between the Reference Product portfolio and Non Reference Product portfolio.
Reference Products	Includes commodity products and groups that are included in the calculation of the Farmgate Milk Price.
Share Standard	Means one share per one kgMS supplied
RHS	Right hand side (axis)
ROC	Return on capital employed
USD	United States dollars
WMP	Whole milk powder

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