

Strategic update

16 May 2024



Dairy for life



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Fonterra uses several non-GAAP measures when discussing financial performance. Non-GAAP measures are not defined or specified by NZ IFRS.

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Non-GAAP measures are not subject to audit unless they are included in Fonterra’s audited annual financial statements.

A step-change in strategic direction

Deepen Fonterra's position in high-value, innovative ingredients

One of our greatest strengths is the production of world-class, innovative ingredients for customers to take to consumers.

We can grow further value by focusing on being a B2B dairy nutrition provider, working closely with customers through our high-performing Ingredients and Foodservice channels.

This will be enabled by:

- strong relationships with farmers,
- building a flexible manufacturing and supply chain footprint,
- building deeper partnerships with strategic ingredients customers,
- further investment in our Foodservice channel,
- a continued delivery on our sustainability commitments,
- and investment in innovation.

In this context, we are exploring full or partial divestment options for some or all of our Consumer businesses, as well as Fonterra Oceania and Fonterra Sri Lanka.



To date, we've created value through three key channels

Ingredients

- We offer an extensive range of Ingredients from high-quality powders through to premium protein solutions, which are sold through GDT, resellers and direct to customers.
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- In FY23, our Ingredients channel represented ~**80%** of our New Zealand milk solids sold.
 - It contributed **\$17.4b** in revenue and **\$2.6b** in gross profit.

Foodservice

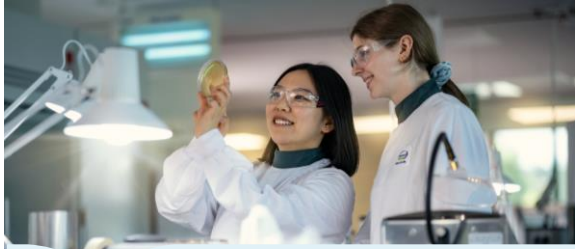
- Foodservice covers food consumed in restaurants and cafes or via takeaways and other pre-prepared meals. Top selling products include cream cheese, UHT cream, and mozzarella.
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- In FY23 our Foodservice channel represented ~**13%** of our New Zealand milk solids sold.
 - It contributed **\$3.9b** in revenue and **\$749m** in gross profit.

Consumer

- Our consumer product range includes staples such as fresh milk, cheese, yoghurt and butter, and our well-known brands are enjoyed in homes around the world.
-
- In FY23 our Consumer channel represented ~**7%** of our New Zealand milk solids sold.
 - It contributed **\$3.3b** in revenue and **\$781m** in gross profit.

Our strength is in Ingredients and Foodservice

We are committing to deepening our position as a world-leading provider of high-value, innovative dairy ingredients



We have expertise in dairy science and innovation, making us leaders in dairy proteins and other advanced solutions.



Ingredients and Foodservice is where we can best apply this expertise, along with our manufacturing and customer partnering capability.



Ingredients and Foodservice have complementary products, manufacturing processes and go-to-market approaches.



Consumer utilises different product formats and requires specialised expertise and marketing approaches to reach consumers.

We go to market through two key brands: **NZMP**, our ingredients brand, and **Anchor Food Professionals**, our Foodservice brand.



NZMP has offices in 13 global locations and customers in over 100 countries. We sell product through GDT, our digital portal MyNZMP, a vast network of resellers, and direct to strategic customers.



Anchor Food Professionals has a strong presence in Greater China and potential for further growth in markets such as South East Asia. We partner with foodservice customers to test and develop products for their kitchens, using our network of application centres and professional chefs.

We are exploring divestment options for Consumer and associated businesses

- Ownership of these businesses is not required to fulfil Fonterra's core function of collecting, processing and selling milk.
- We believe prioritising our Ingredients and Foodservice channels and releasing capital in our Consumer and associated businesses would generate more value.
- A divestment of these assets would help create a simpler, higher performing Co-op with our focus on our core business and doing what we do best.
- A divestment could allow a new owner with the right expertise and resources to unlock the full potential of these businesses.
- We would expect to continue supplying milk to these brands through Ingredients supply agreements.
- We have also received unsolicited interest in parts of these businesses.



What our Consumer and associated businesses comprise

An overview of what would be in scope for a potential divestment

Consumer

Oceania

- Fonterra Oceania (previously known as FBNZ and Fonterra Australia)

Sri Lanka

South East Asia

- Indonesia
- Malaysia
- Philippines
- Singapore
- Thailand
- Vietnam

Greater China

- China
- Taiwan
- Hong Kong

Rest of the World

- Americas²
- Middle East
- Africa

Foodservice

Oceania

- FBNZ and Fonterra Australia Foodservice

Sri Lanka

Ingredients

Oceania

- Fonterra Australia Ingredients

Key Consumer brands¹

Global Consumer brands



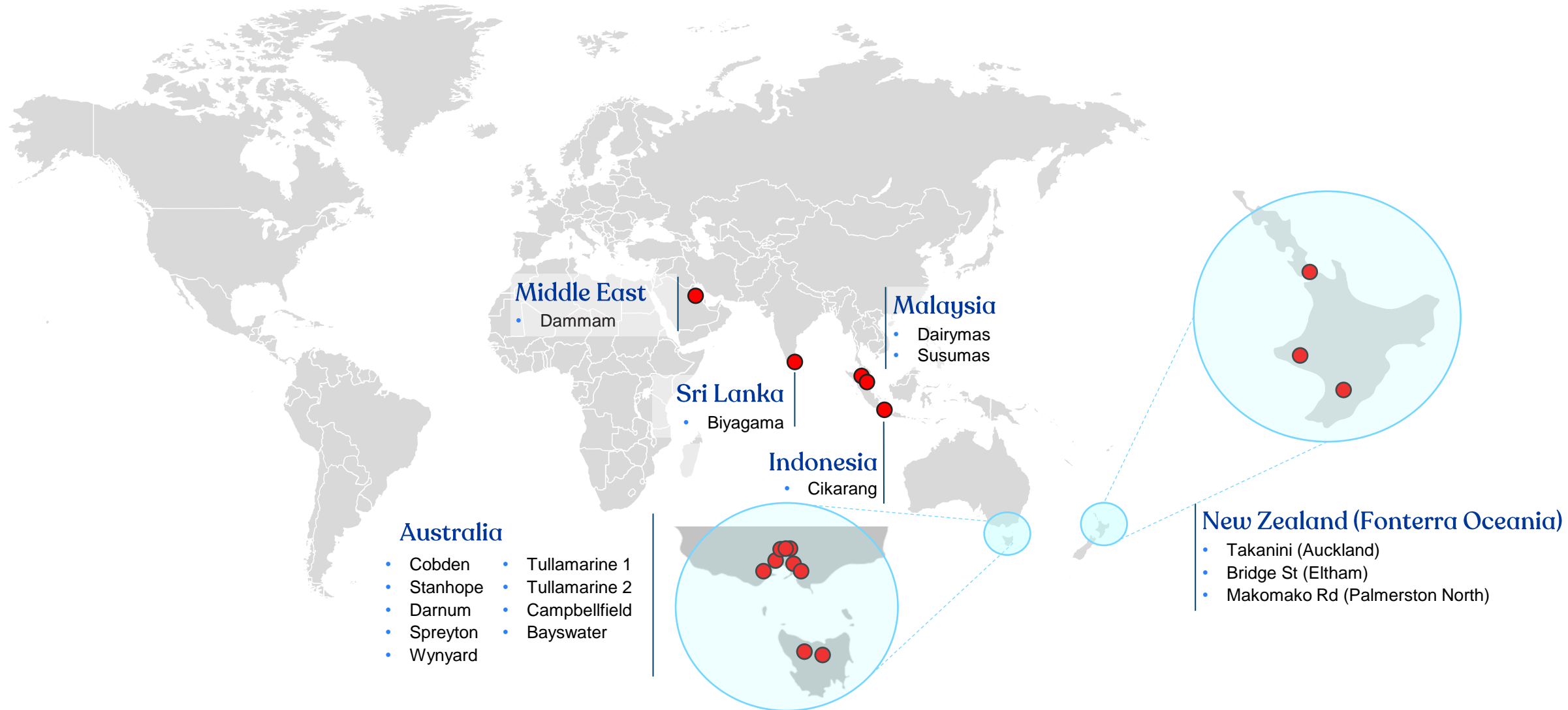
Oceania Consumer brands



Notes:

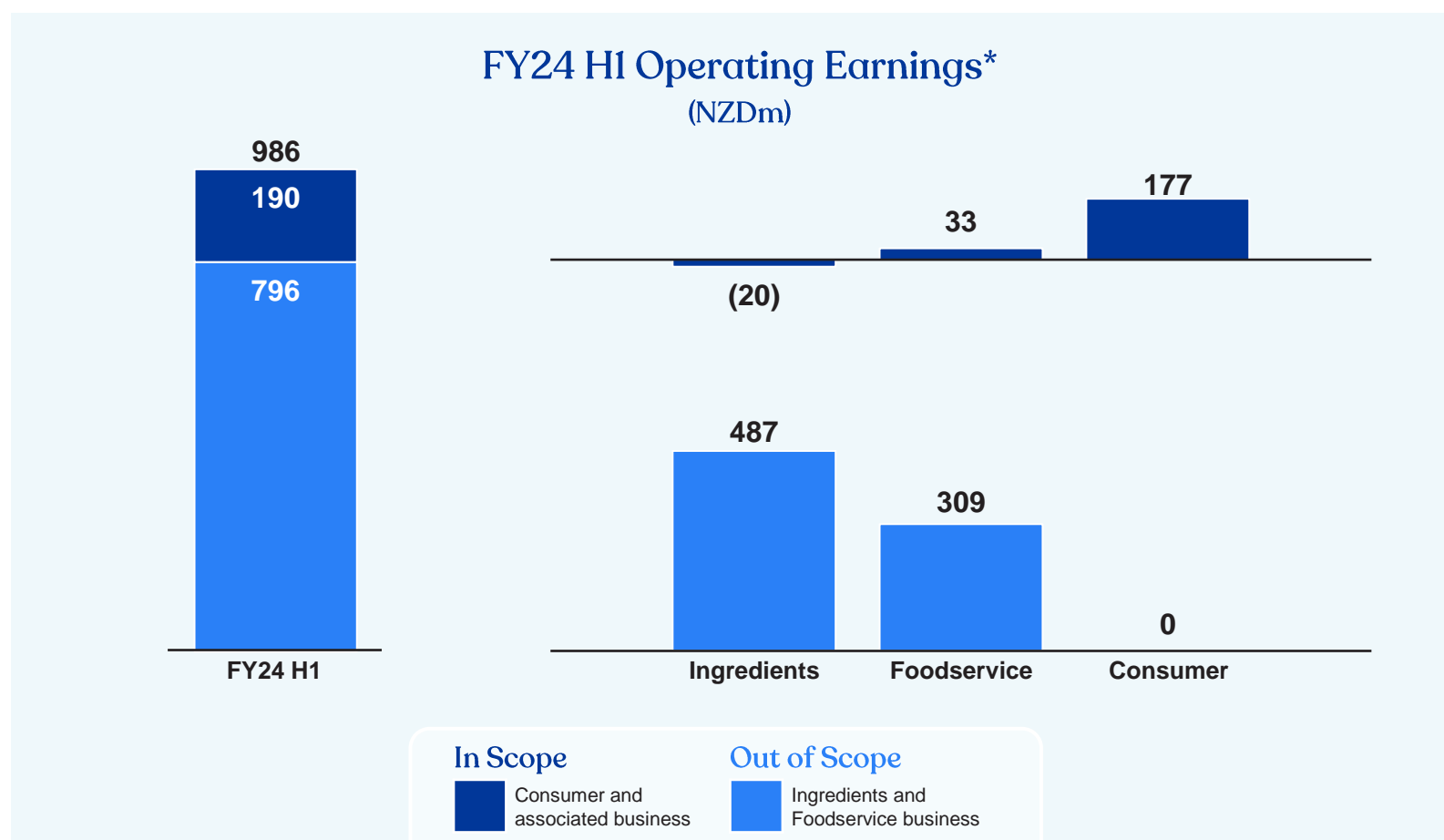
1. Key brands only, not exhaustive. 'Anchor Food Professionals' is a Foodservice brand and excluded.
2. Americas includes Mexico and other Caribbean and Central American countries

Our Consumer and associated businesses include 17 Fonterra-owned manufacturing sites globally



Our earnings profile for In Scope and Out of Scope businesses

H1 FY24 Operating Earnings* reflects improved performance in our Consumer business



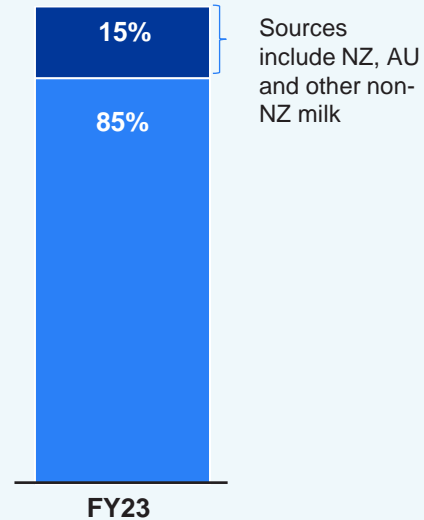
***Notes:**

1. Operating earnings is EBIT contribution from continuing operations. This includes \$45 million of depreciation and amortisation for In Scope business.
2. Total reconciles to FY24 H1 audited financial statements.
3. In preparing the In Scope and Out of Scope breakdowns, we have applied the same principles and assumptions as used in our published channel and segment reporting for our financial statements for FY24. These breakdowns are unaudited.
4. Reflects existing transfer pricing arrangements.
5. Core Operations is fully attributed to the Out of Scope businesses.

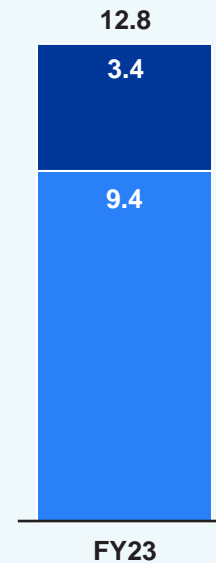
Both In Scope and Out of Scope businesses are substantial

In Scope businesses have capital employed of \$3.4 billion

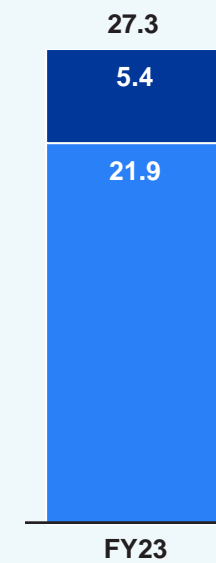
Allocation of milk solids
(sold basis, kgMS)



Capital Employed¹
(NZDb)



Revenue²
(NZDb)



Underlying Operating Earnings³
(NZDm)



In Scope

Consumer and associated business

Out of Scope

Ingredients and Foodservice business

Notes:*

1. Capital employed is a 12-month average and excludes discontinued operations.

2. Reported FY23 revenue is \$24.6 billion from continuing operations after adjusting for eliminations. See slide 17.

3. Underlying operating earnings represent EBIT contribution from continuing operations after adjusting for \$252 million of impairments (\$244 million in Consumer). This includes ~\$100 million of depreciation and amortisation in the In Scope business.

4. These breakdowns are unaudited. See slide 9.

Fonterra and the businesses in scope for potential divestment will continue to operate as usual while we consider options.

What's next?

Divestment process

- Strong team will continue to lead good performance of these businesses.
- Fonterra will appoint advisors to assist with assessing divestment options.
- We expect a divestment process to take at least 12 – 18 months.
- If we were to proceed with a divestment of this size we would seek shareholder support.
- We will keep farmers, unit holders and our people updated and will share any new information as it's available.

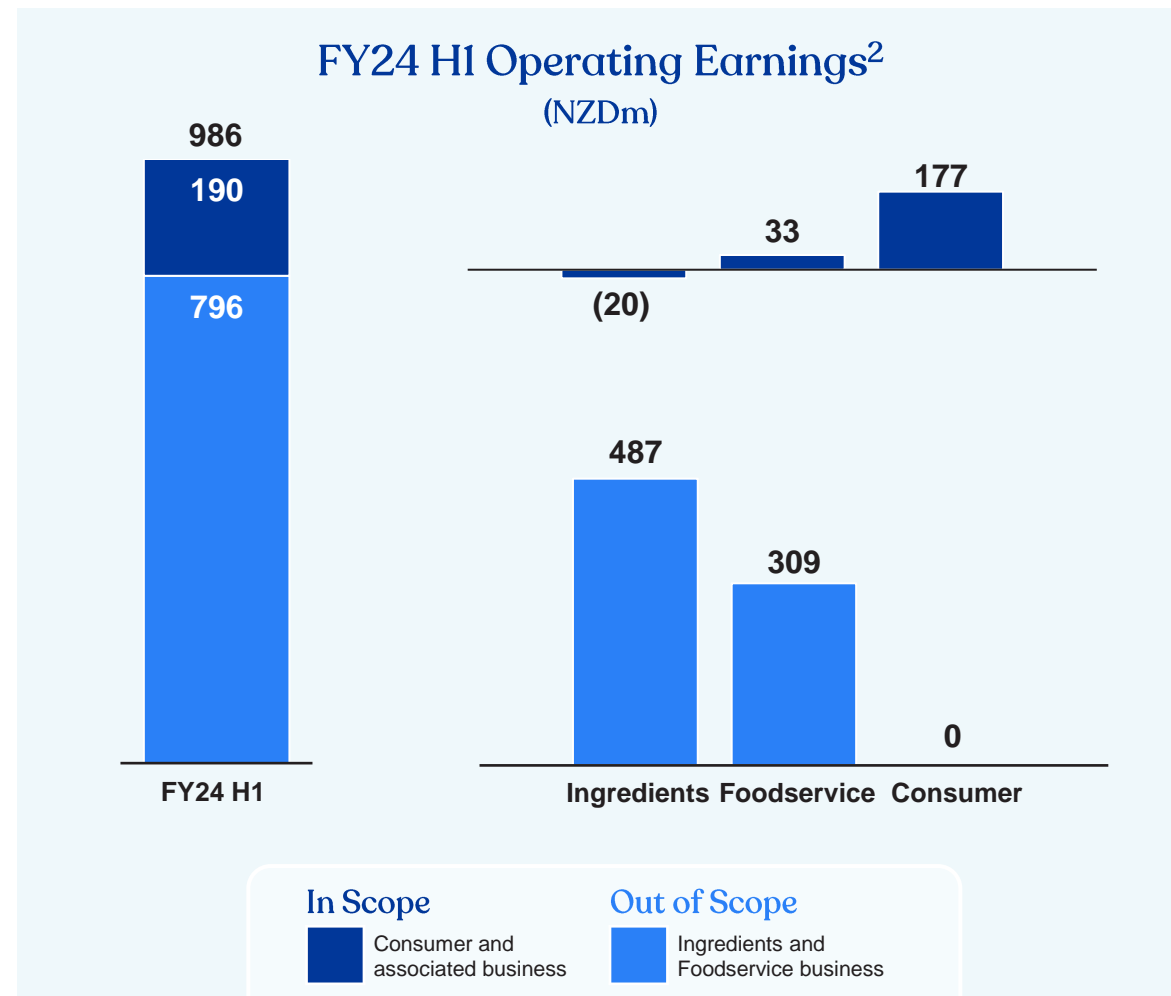
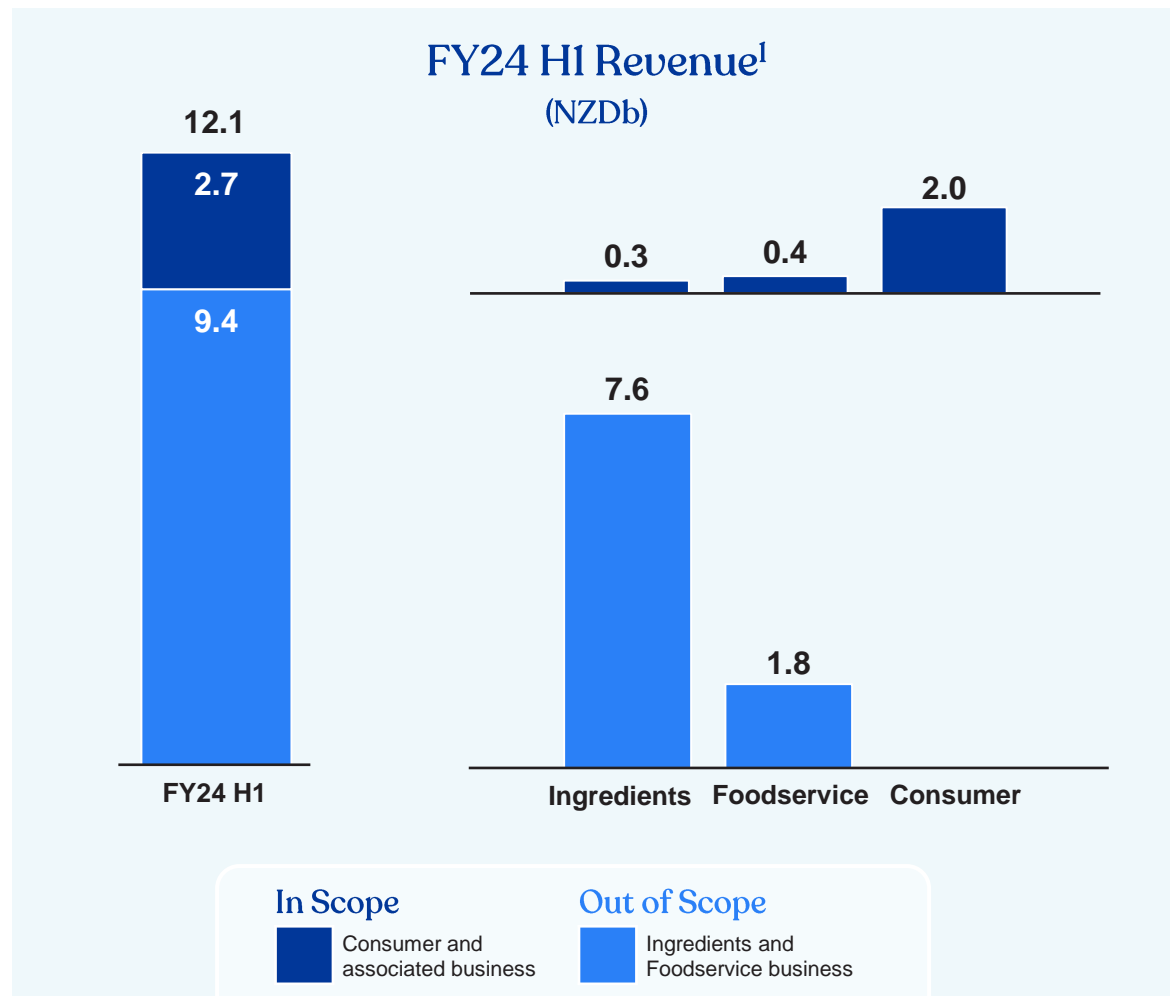
Strategy

- Further update on revised long-term strategy, including detail on our plans to grow value and the measures through which we will track our progress, will be provided in due course.

Appendix

An overview of FY24 H1 Revenue and Earnings*

In Scope vs Out of Scope



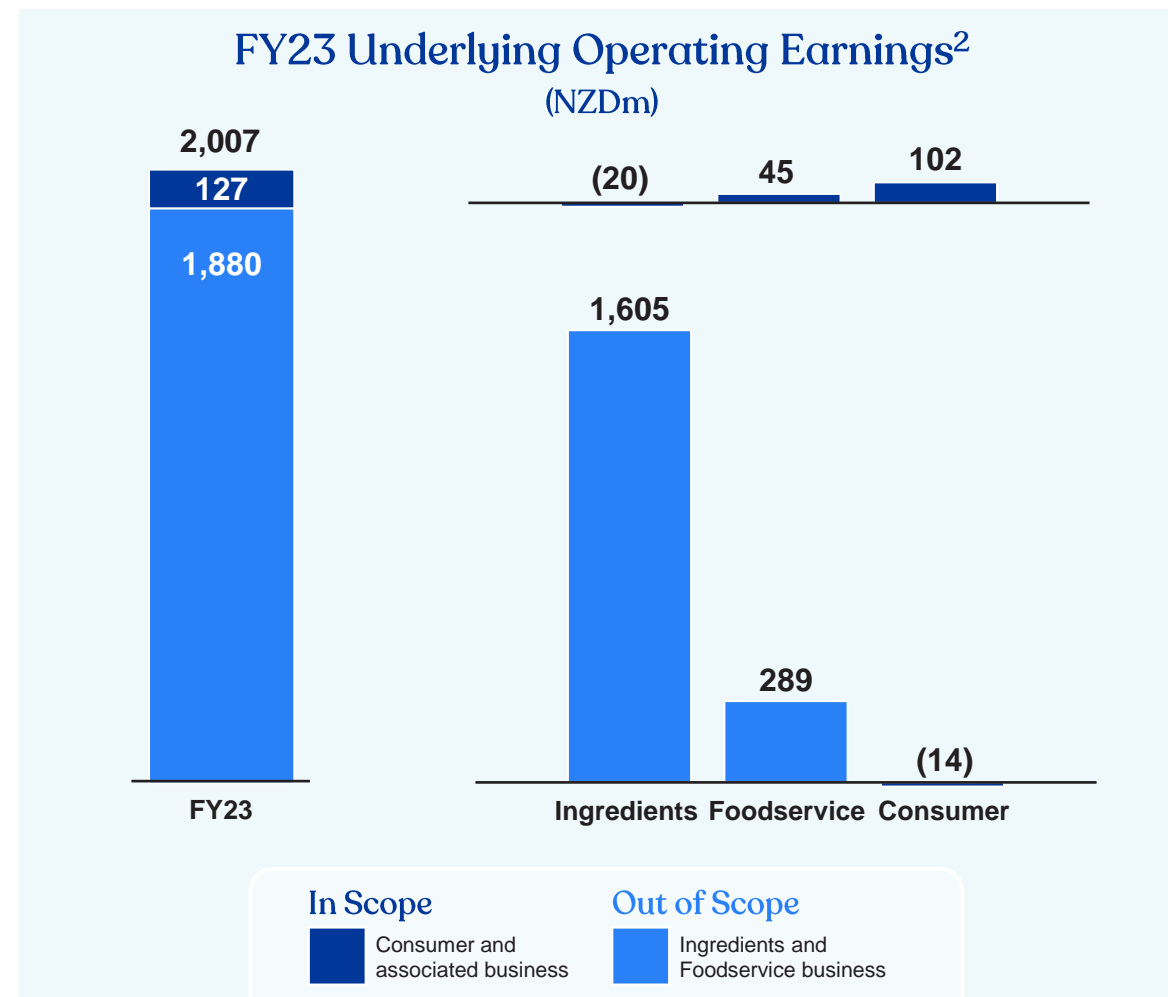
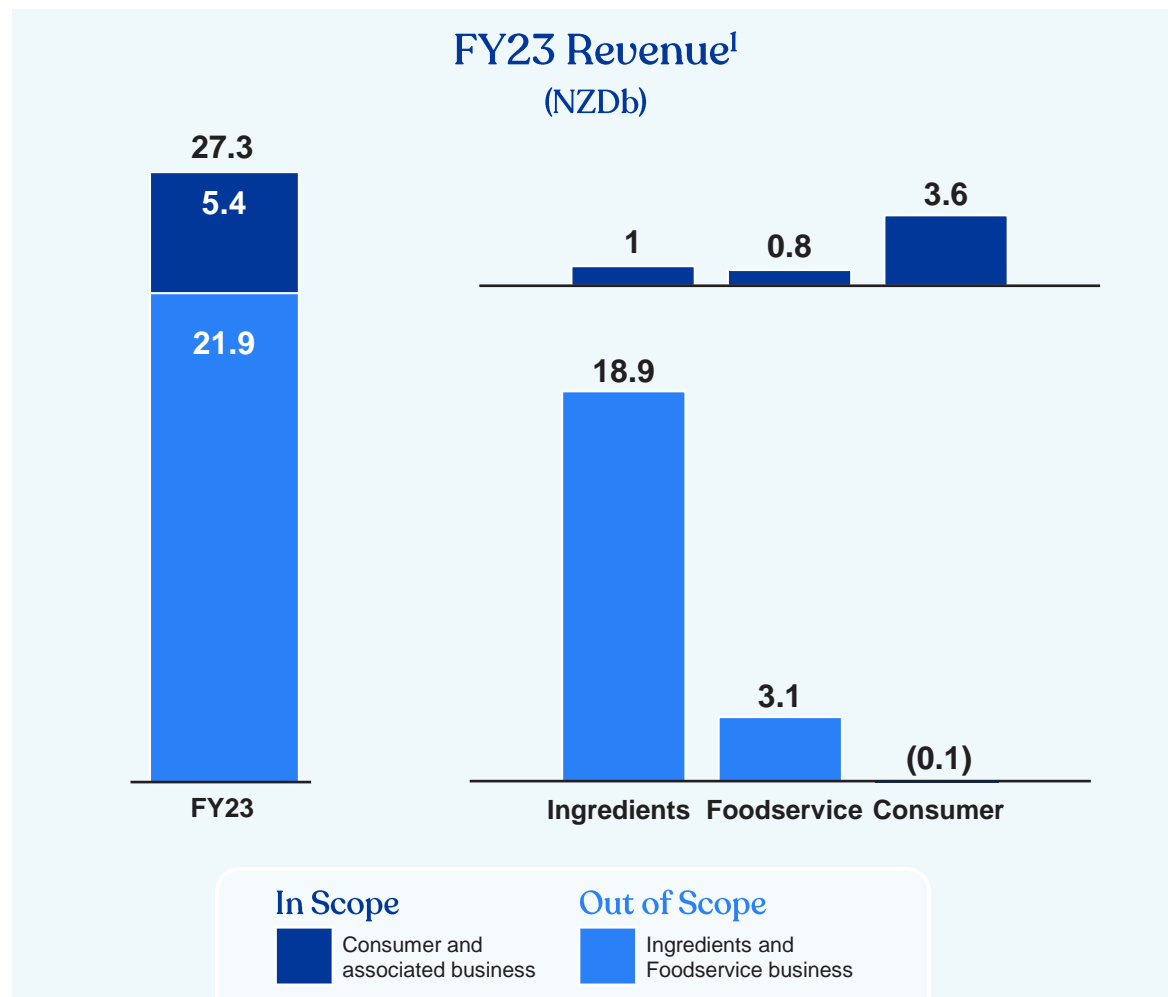
*Notes:

1. Reported FY24 H1 revenue is \$11.1 billion from continuing operations after adjusting for eliminations.

2. Operating earnings is EBIT contribution from continuing operations. This includes \$45 million of depreciation and amortisation for In Scope business. Total reconciles to FY24 H1 audited financial statements. In preparing the In Scope and Out of Scope breakdowns, we have applied the same principles and assumptions as used in our FY24 published channel and segment reporting. These breakdowns are unaudited. Reflects existing transfer pricing arrangements. Core Operations is fully attributed to Out of Scope.

An overview of FY23 Revenue and Earnings*

In Scope vs Out of Scope



*Notes:

1. Reported FY23 revenue is \$24.6 billion from continuing operations after adjusting for eliminations
2. Underlying operating earnings represents EBIT contribution from continuing operations after adjusting for \$252 million of impairments (\$244 million in Consumer). This includes ~\$100 million of depreciation and amortization in In Scope business. Total reconciles to FY23 audited financial statements. In preparing the In Scope and Out of Scope breakdowns, we have applied the same principles and assumptions as used in our FY23 published channel and segment reporting. These breakdowns are unaudited. Reflects existing transfer pricing arrangements. Core Operations is fully attributed to Out of Scope.

FY24 H1 Revenue*

In Scope

Consumer and associated businesses

FOR THE SIX MONTHS ENDED 31 JANUARY 2024

Revenue ¹ (NZDb)	Core Operations	Global Markets	Greater China	Total
Ingredients	-	0.3	-	0.3
Foodservice	-	0.4	-	0.4
Consumer	-	1.8	0.2	2.0
Total	-	2.5	0.2	2.7



Out of Scope

Ingredients and Foodservice businesses

FOR THE SIX MONTHS ENDED 31 JANUARY 2024

Revenue ² (NZDb)	Core Operations	Global Markets	Greater China	Total
Ingredients	0.8	5.2	1.6	7.6
Foodservice	(0.0)	0.5	1.3	1.8
Consumer	(0.0)	-	-	-
Total	0.8	5.7	2.9	9.4

Eliminations of inter-group transactions

Total Group

Revenue

FOR THE SIX MONTHS ENDED 31 JANUARY 2024

Revenue (NZDb)	Core Operations	Global Markets	Greater China	Total
Ingredients	0.0	5.4	1.6	7.0
Foodservice	(0.0)	0.9	1.3	2.2
Consumer	(0.0)	1.7	0.2	1.9
Total	(0.0)	8.0	3.1	11.1

Source: Fonterra 2024 Interim Report Segment Reporting Note (page 24)

* Refer slide 13 for notes

FY24 H1 Operating Earnings*

In Scope

Consumer and associated businesses

FOR THE SIX MONTHS ENDED JANUARY 2024

EBIT (NZDm)	Core Operations	Global Markets	Greater China	Total
Ingredients	-	(20)	-	(20)
Foodservice	-	33	-	33
Consumer	-	167	10	177
Total	-	180	10	190



Out of Scope

Ingredients and Foodservice businesses

FOR THE SIX MONTHS ENDED JANUARY 2024

EBIT (NZDm)	Core Operations	Global Markets	Greater China	Total
Ingredients	134	295	58	487
Foodservice	32	47	230	309
Consumer	-	-	-	-
Total	166	342	288	796

Total Group

Operating Earnings

FOR THE SIX MONTHS ENDED JANUARY 2024

EBIT (NZDm)	Core Operations	Global Markets	Greater China	Total
Ingredients	134	275	58	467
Foodservice	32	80	230	342
Consumer	-	167	10	177
Total	166	522	298	986

Source: 2024 Interim Results Presentation (page 16)

* Refer slide 13 for notes

FY23 Revenue*

In Scope

Consumer and associated businesses

FOR THE YEAR ENDED 31 JULY 2023

Revenue (NZDb)	Core Operations	Global Markets	Greater China	Total
Ingredients	-	1.0	-	1.0
Foodservice	-	0.8	-	0.8
Consumer	-	3.2	0.4	3.6
Total	-	5.0	0.4	5.4



Out of Scope

Ingredients and Foodservice businesses

FOR THE YEAR ENDED 31 JULY 2023

Revenue (NZDb)	Core Operations	Global Markets	Greater China	Total
Ingredients	1.7	12.8	4.4	18.9
Foodservice	(0.1)	1.0	2.2	3.1
Consumer	(0.1)	-	-	(0.1)
Total	1.5	13.8	6.6	21.9

Eliminations of inter-group transactions

Total Group

Revenue

FOR THE YEAR ENDED 31 JULY 2023

Revenue (NZDb)	Core Operations ¹	Global Markets	Greater China	Total
Ingredients	(0.3)	13.3	4.4	17.4
Foodservice	(0.1)	1.8	2.2	3.9
Consumer	(0.1)	3.0	0.4	3.3
Total	(0.5)	18.1	7.0	24.6

Source: Fonterra 2023 Financial Statements Segment Reporting Note (page19)

* Note:

1. Core Operations for total group shows the FX movements in relation to the long term hedging programme being the difference between the spot and hedged FX rates for that period in relation to revenue. The earnings impact of these movements at the Group level is nil as offset by the equivalent movements in the Milk Price.
2. Refer slide 14 for other notes

FY23 Operating Earnings*

In Scope

Consumer and associated businesses

FOR THE YEAR ENDED JULY 2023

EBIT (NZDm)	Core Operations	Global Markets	Greater China	Total
Ingredients	-	(20)	-	(20)
Foodservice	-	45	-	45
Consumer	-	120	(18)	102
Total	-	145	(18)	127



Out of Scope

Ingredients and Foodservice businesses

FOR THE YEAR ENDED JULY 2023

EBIT (NZDm)	Core Operations	Global Markets	Greater China	Total
Ingredients	831	602	172	1,605
Foodservice	(3)	29	263	289
Consumer	(14)	-	-	(14)
Total	814	631	435	1,880

Total Group

Underlying Operating Earnings¹

FOR THE YEAR ENDED JULY 2023

EBIT (NZDm)	Core Operations	Global Markets	Greater China	Total
Ingredients	831	582	172	1,585
Foodservice	(3)	74	263	334
Consumer	(14)	120	(18)	88
Total	814	776	417	2,007

Source: 2023 Annual Results Presentation (page 46 - 55) adjusted for \$252 million impairments for the corresponding segment and channel.

* Note:

1. Underlying operating earnings represents EBIT contribution from continuing operations after adjusting for \$252 million of impairments (\$244 million in Consumer). This includes ~\$100 million of depreciation and amortization in In Scope business.
2. Refer slide 14 for other notes

Impact on financial targets and measures

Financial measures

- FY24 forecast earnings not impacted by this announcement.
- Due to the significant potential transaction, our 2030 financial targets are being withdrawn.
- Our 2030 sustainability targets (including Scope 1, 2 & 3 emissions reduction targets) and investment plans remain unchanged.
- We remain committed to improving cost efficiency across the Co-op and will continue to report progress against efficiency measures.

Share buyback programme

- It is appropriate to terminate our on-market share buyback programme, which was expected to run until 13 August 2024.