Market Announcement

16 May 2024

Fonterra announces step-change in strategic direction

Fonterra Co-operative Group Ltd has today announced a step-change in its strategic direction, as it commits to deepening its position as a world-leading provider of high-value, innovative dairy ingredients.

As part of this, the Co-op has announced it is exploring full or partial divestment options for some or all of its global Consumer business, as well as its integrated businesses Fonterra Oceania and Fonterra Sri Lanka.

Chairman Peter McBride says this is a significant move for the Co-op which will set it up to grow long-term value for farmer shareholders and unit holders.

"We have conducted a strategic review which has reinforced the role of our core business. This is working alongside farmers to collect a sustainable supply of milk and efficiently manufacture products valued by customers, to deliver strong returns to farmer shareholders and unit holders," says Mr McBride.

CEO Miles Hurrell says the review has also given the Co-op confidence in the role it plays in the dairy nutrition value chain, with one of its greatest strengths being the production of world-class, innovative ingredients for customers to take to consumers.

"We believe we can grow further value for the Co-op 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, a flexible manufacturing and supply chain footprint, deeper partnerships with strategic ingredients customers, further investment in our Foodservice channel, continued delivery on our sustainability commitments and investment in innovation.

"In this context, we are exploring divestment options for our global Consumer business as well as our integrated businesses Fonterra Oceania and Fonterra Sri Lanka," says Mr Hurrell.

Fonterra's Consumer and associated businesses

Fonterra's global Consumer business has grown over the years since Fonterra was formed and is performing well. It includes a portfolio of market leading brands such as Anchor, Mainland, Kāpiti, Anlene, Anmum, Fernleaf, Western Star, Perfect Italiano and others.

Fonterra Oceania is a fully integrated business, recently created through merging Fonterra Brands New Zealand and Fonterra Australia. It comprises Consumer, Foodservice and Ingredients businesses. Fonterra Sri Lanka comprises Consumer and Foodservice businesses.

Collectively, the businesses in scope for potential divestment utilised approximately 15% of the Co-op's total milk solids and represented approximately 19% of Fonterra's group operating earnings in the first half of FY24, with our Consumer businesses delivering strong underlying earnings.

“A divestment of these assets would help create a simpler, higher performing Co-op with our focus on our core Ingredients and Foodservice business and doing what we do best,” says Mr Hurrell.

“While these are great businesses with recent strengthening in performance and potential for more, ownership of these businesses is not required to fulfil Fonterra’s core function of collecting, processing and selling milk. Due to our co-operative structure, we believe prioritising our Ingredients and Foodservice channels and releasing capital in our Consumer and associated businesses would generate more value.

“At the same time, we believe Fonterra is not the highest-value owner of the Consumer and associated businesses in the longer term and a divestment could allow a new owner with the right expertise and resources to unlock their full potential.

“This presents a great opportunity for these brands and businesses. While I recognise there’s a strong connection to brands such as Anchor, a new owner could help these businesses to flourish.

“We have also received unsolicited interest in parts of these businesses, making now a good time to consider their ownership,” says Mr Hurrell.

Next steps

As a next step, Fonterra will appoint advisors to assist with assessing divestment options.

“We recognise a divestment of this scale would be significant for Fonterra. Throughout this process we will be considering how best to maximise overall returns to our farmer shareholders and unit holders.

“The choices we make when considering divestment options will be driven by a clear-eyed view of the best value creating pathway for the Co-op – both in terms of the potential proceeds from a sale and the ability for Fonterra to generate consistent economic returns over the long-term.

“Any decisions about use of net proceeds from a sale will be guided by our Resource Allocation Framework, which allocates funds to debt repayment, investment to support our strategy and distributions to shareholders and unit holders.

“We expect a divestment process to take at least 12 to 18 months. If we were to proceed with a divestment of this size we would seek shareholder support,” says Mr Hurrell.

Fonterra’s long-term strategy

In 2021, Fonterra released its long-term strategy *Our Path to 2030* which included financial targets out to 2030.

These targets were based on a strategy which included the businesses that are now in scope for potential divestment and, in these circumstances, it is appropriate for Fonterra to withdraw these financial targets.

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

“At all times, we remain committed to maximising returns through the Farmgate Milk Price and dividends, and achieving a strong return on capital that is greater than farmers’ cost of capital.

“Fonterra will continue to provide updates on our forecast Farmgate Milk Price and earnings guidance as part of our quarterly reporting process or as required. Our FY24 forecast earnings are not impacted by this announcement.

The Co-op’s sustainability targets and associated investment plans remain unchanged. Fonterra also remains committed to improving cost efficiency across the Co-op and will continue to report progress against efficiency measures annually.

"Through our work to date, Fonterra has strong foundations which puts us in the position to consider where we will next invest for long-term growth.

"We intend to provide a further update on our revised long-term strategy in due course. This will include further detail on our plans to grow the long-term value of Fonterra and the measures through which we will track our progress," says Mr Hurrell.

Notes:

- In FY23, Fonterra's Ingredients business represented ~80% of the Co-op's New Zealand milk solids sold and returned $17.4 billion in revenue by selling a range of products, from high quality powders to premium proteins through GDT, resellers, and direct to strategic customers. It has a global sales footprint and customer base, with growing demand in developed economies such as North America.
- In FY23, Fonterra's Foodservice business represented ~13% of the Co-op's New Zealand milk solids sold and returned $3.9 billion in revenue by selling products such as UHT cream, cream cheese and mozzarella to customers including restaurants, bakeries and hospitality businesses. It has a strong position in Greater China with further growth potential in other markets seeing economic growth, such as in Southeast Asia.
- In FY23, Fonterra's Consumer business represented ~7% of the Co-op's New Zealand milk solids sold and returned $3.3 billion in revenue. It sells everyday dairy products such as fresh milk, cheese and butter enjoyed in homes around the world. It has a global footprint with brands most prominent in New Zealand, Australia, Sri Lanka, China and Southeast Asia.

Please find appended to this announcement an information pack with further detail on the scope, revenue and allocation of milk solids to these businesses.

ENDS

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Non-GAAP financial information

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.

Strategic update

16 May 2024

Fonterra
Dairy for life

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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.

- 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.

- 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™

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™ FP FOOD PROFESSIONALS

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
- Americas[2]
- Middle East
- Africa

Foodservice

Oceania
- FBNZ and Fonterra Australia Foodservice

Sri Lanka

Ingredients

Oceania
- Fonterra Australia Ingredients

Key Consumer brands[1]

Global Consumer brands

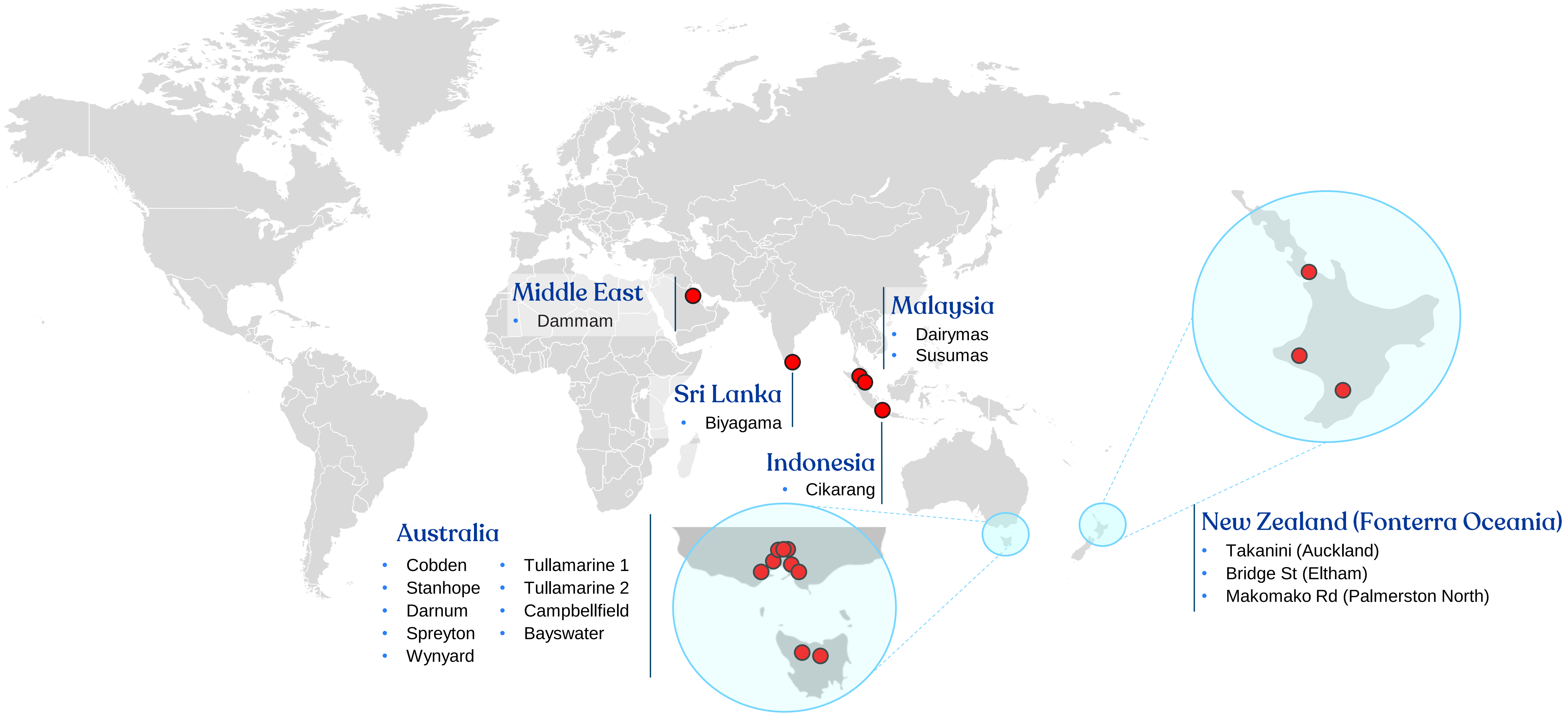
Anmum
Anchor Since 1886
RATTHI
Anlene
Chesdale
Fernleaf Since 1893

Oceania Consumer brands

Premium Mainland Quality
fresh'n fruity
Perfect Italiano
Western Star Est. 1926
Anchor Since 1886
Kāpiti A New Zealand Original
Bega
Galaxy

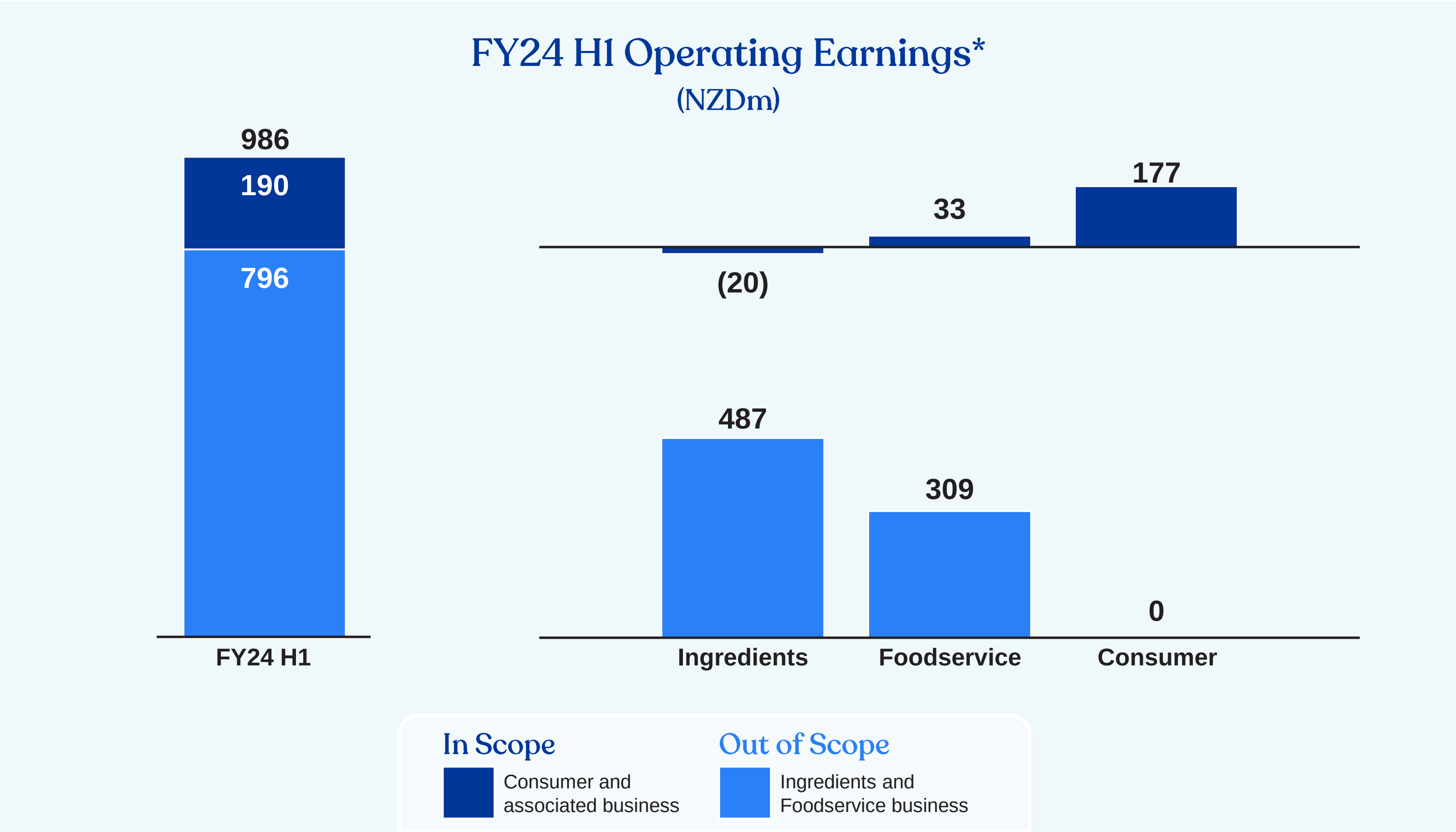
Notes:
1. Key brands only, not exhaustive. 'Anchor Food Professionals' is a Foodservice brand and excluded.
2. Americas includes Mexico and other Caribbean and Central American countries

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



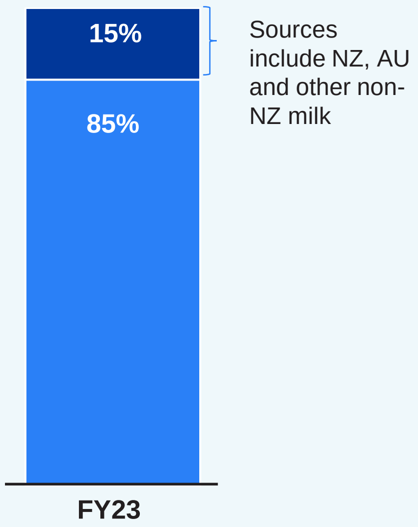
Notes:

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.*

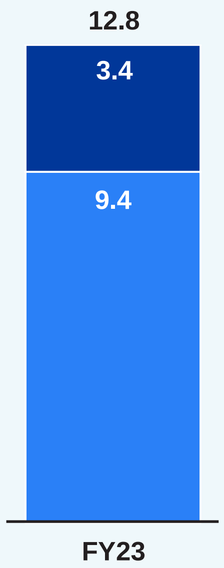
Both In Scope and Out of Scope businesses are substantial

In Scope businesses have capital employed of $3.4 billion

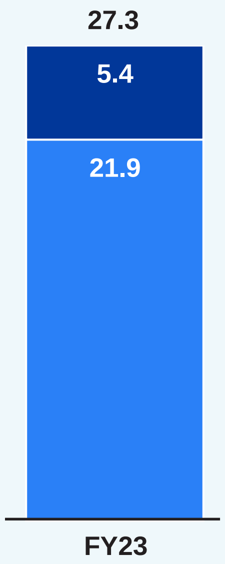
Allocation of milk solids
(sold basis, kgMS)



Capital Employed[1]
(NZDb)



Revenue[2]
(NZDb)



Underlying Operating Earnings[3]
(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.

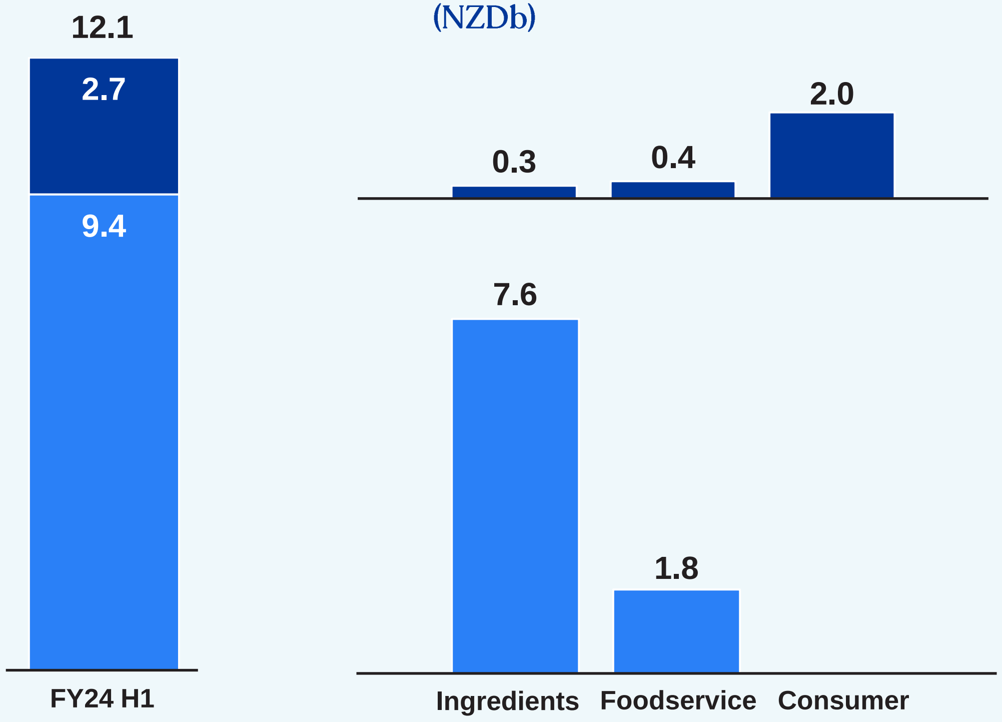
Appendix

An overview of FY24 H1 Revenue and Earnings*

In Scope vs Out of Scope

FY24 H1 Revenue[1]

(NZDb)

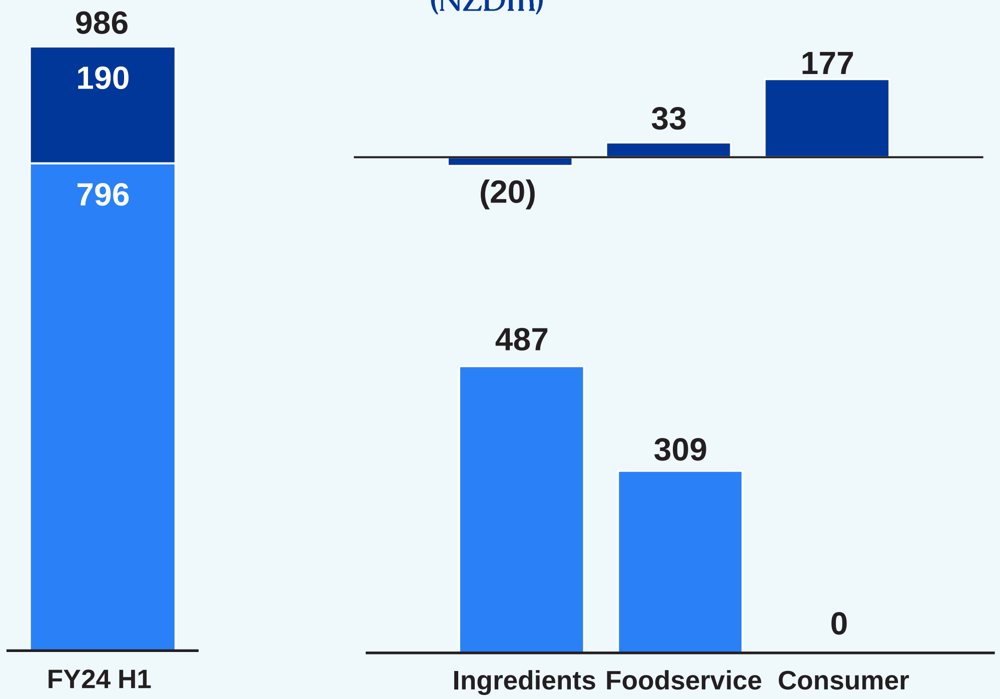


In Scope – Consumer and associated business

Out of Scope – Ingredients and Foodservice business

FY24 H1 Operating Earnings[2]

(NZDm)



In Scope – Consumer and associated business

Out of Scope – Ingredients and Foodservice business

Notes:

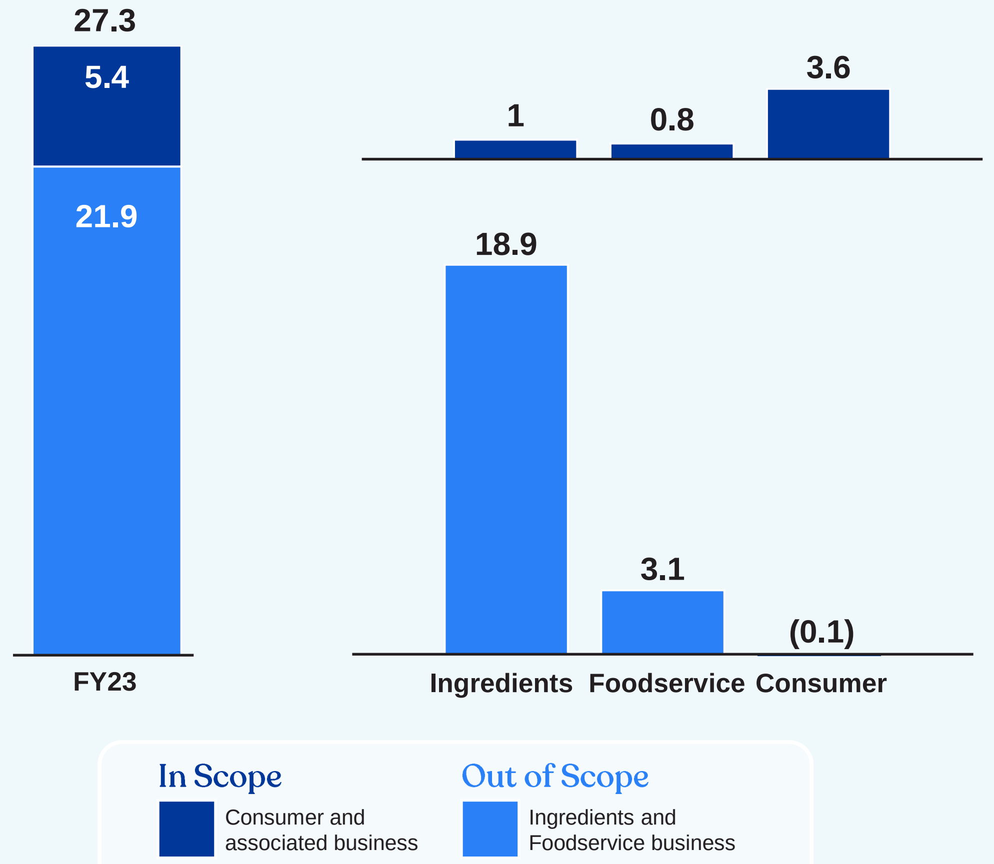
1. *Reported FY24 H1 revenue is $11.1 billion from continuing operations after adjusting for eliminations.*
2. *Operating earnings is EBIT contribution from continuing operations. This includes $45 million of depreciation and amortisation for In Scope business. Total reconciles to FY24 H1 audited financial 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

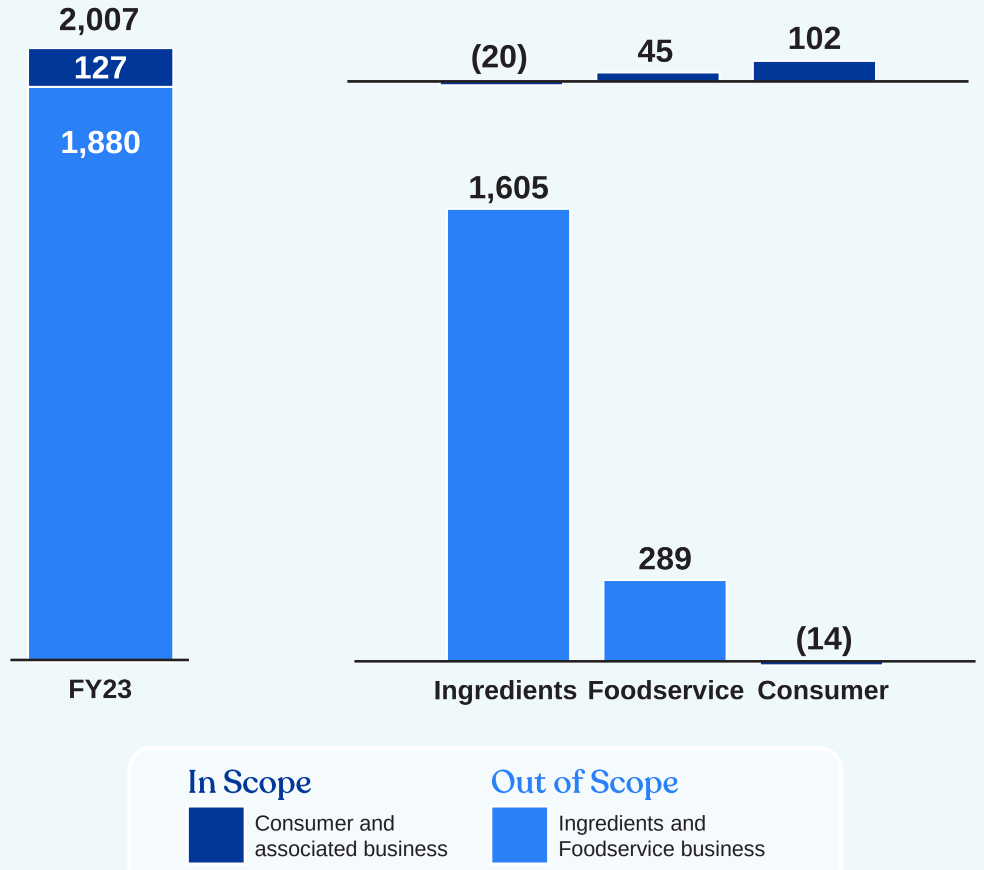
FY23 Revenue[1]

(NZDb)



FY23 Underlying Operating Earnings[2]

(NZDm)



**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*

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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 Earnings[1]

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.