

Fonterra FY24 Quarter One Business Update

7 December 2023



Improved margins delivered higher earnings

Profit after tax¹

\$346 million

↑ from \$214m

Total Group
earnings per share²

20 cents

↑ from 13c

Continuing operations
earnings per share²

24 cents

↑ from 13c

2023/24 forecast Farmgate Milk Price

\$7.00 – \$8.00 per kgMS

↑ midpoint up 25 cents

Full year FY24 forecast Continuing operations

50 – 65 cents per share

↑ midpoint up 5 cents

FY24 Quarter One business update

- Upgraded FY24 farmgate milk price and full year earnings forecasts
 - Farmgate Milk Price: demand improving from key importing regions and well contracted sales book
 - Earnings range: reflects continued improved performance of Foodservice and Consumer margins during first half, with tighter margins in all three channels in the second half
- Foodservice and Consumer channel earnings up, reflecting improved margins and higher volumes
- Continued strong performance in New Zealand Ingredients but lower margins in Australia Ingredients
- Our in-market teams continue to commercialise our innovative expertise by partnering with customers to launch new products
- Introduced a target of 30% reduction in on-farm emissions intensity by 2030
- Completed the sale of DPA Brazil

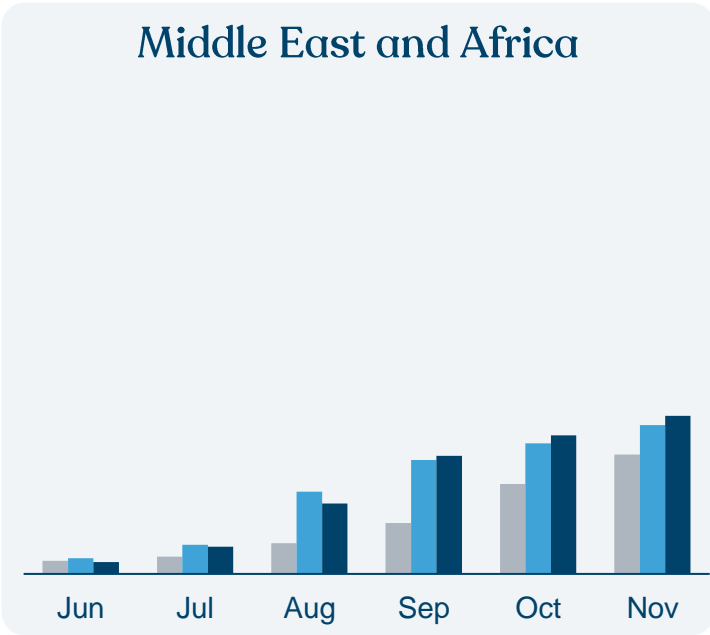
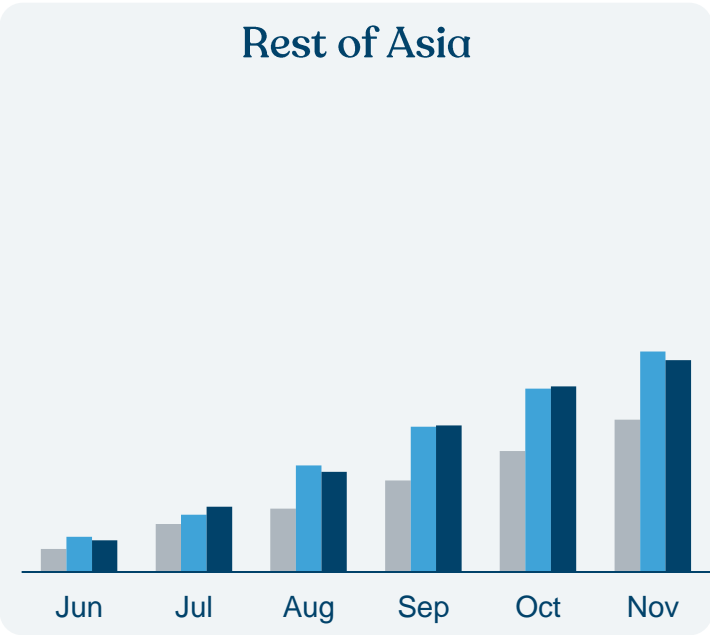
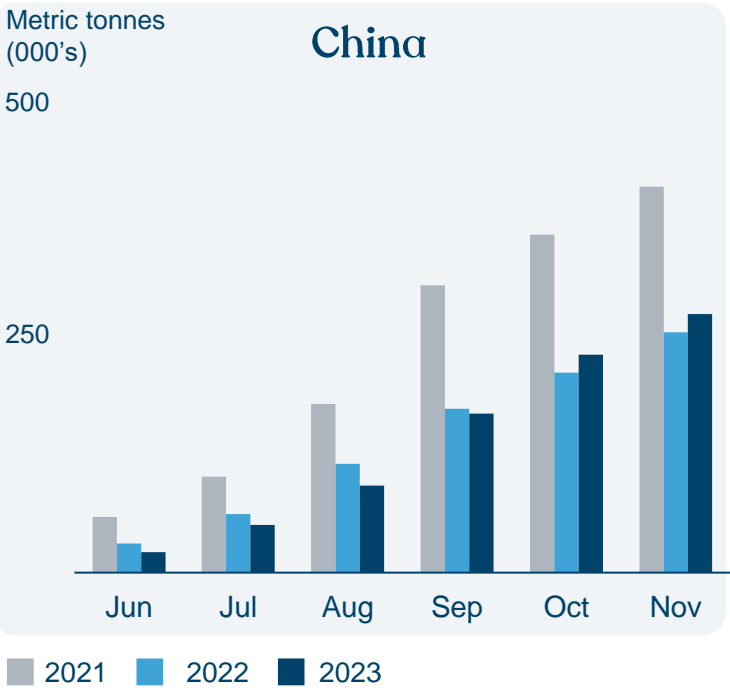




Improved demand from China later in Q1

Demand from China for product that informs the Farmgate Milk Price (Reference Products) has improved towards the end of Q1, from what was a slower start through June – August

Cumulative Reference Product purchased by key importing regions
Cumulative contracted volume

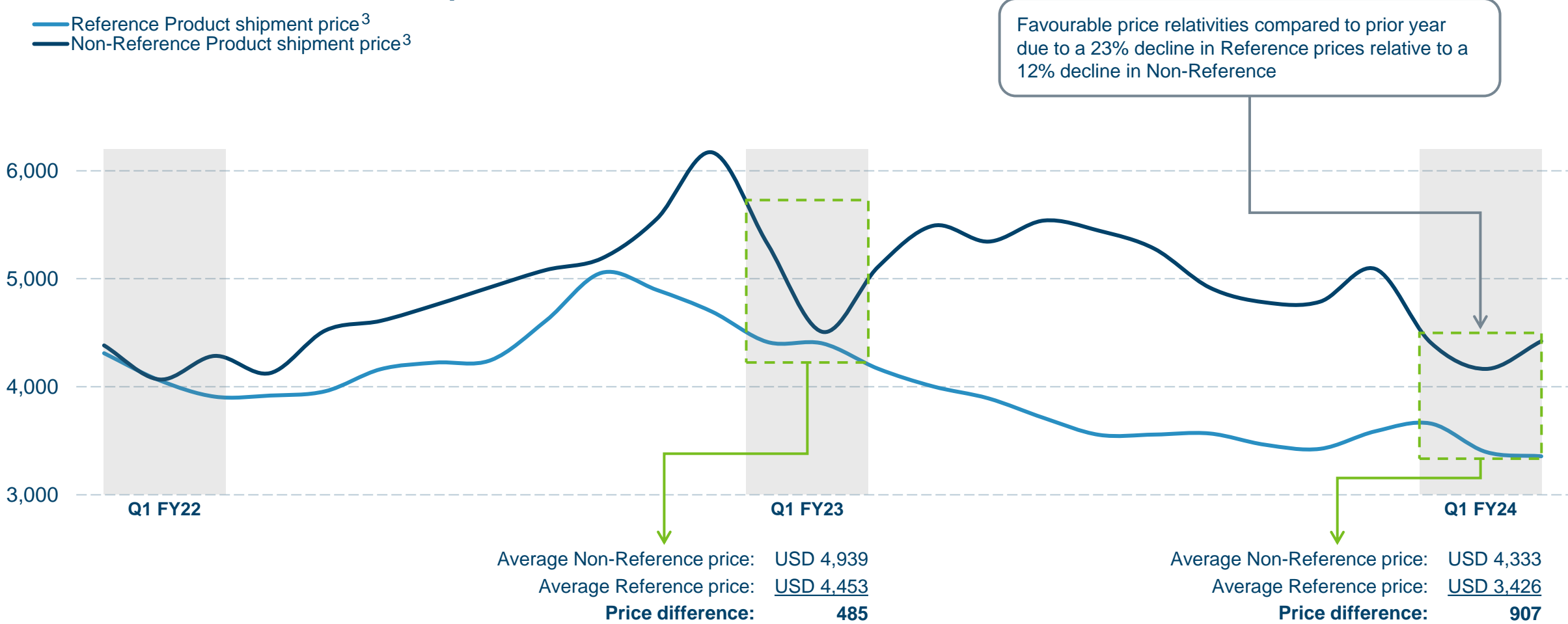




Price relativities favourable compared to prior year

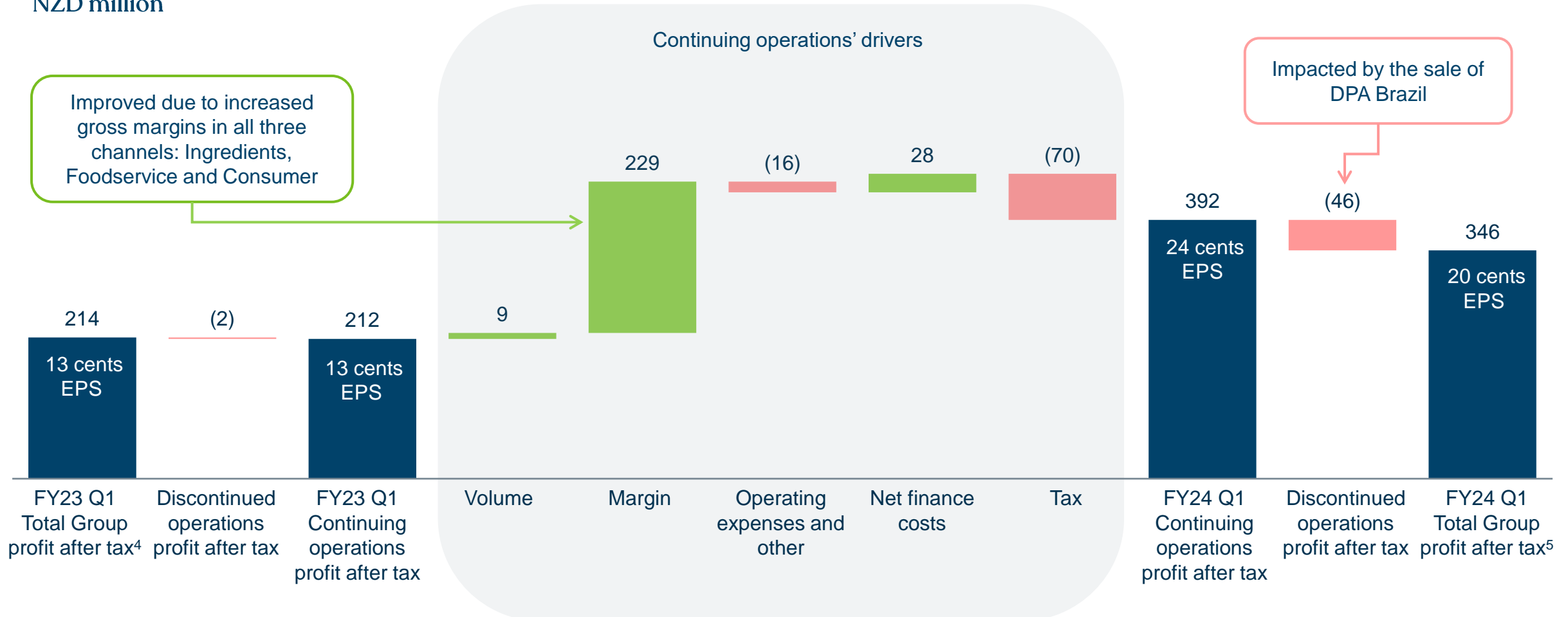
Fonterra Reference and Non-Reference price relativities

— Reference Product shipment price³
— Non-Reference Product shipment price³



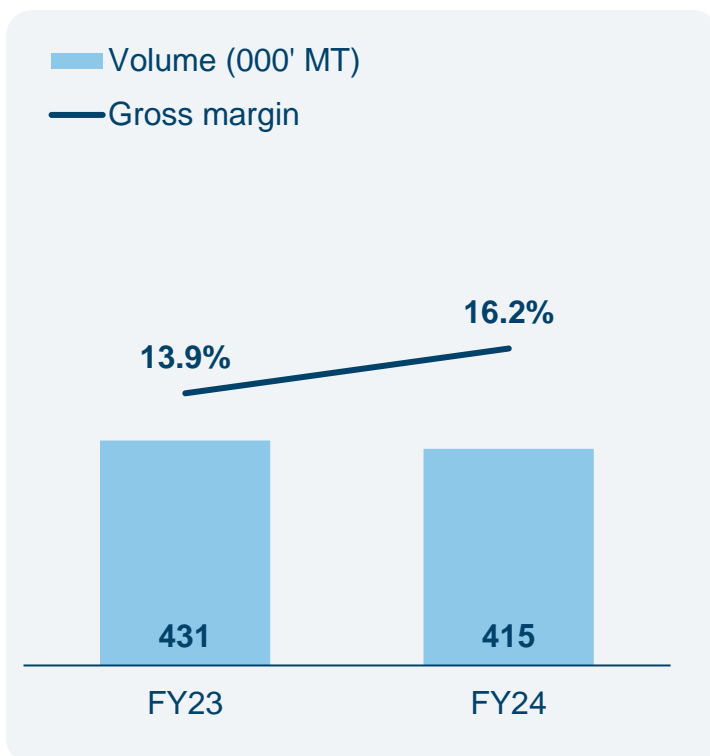
Key performance drivers

NZD million

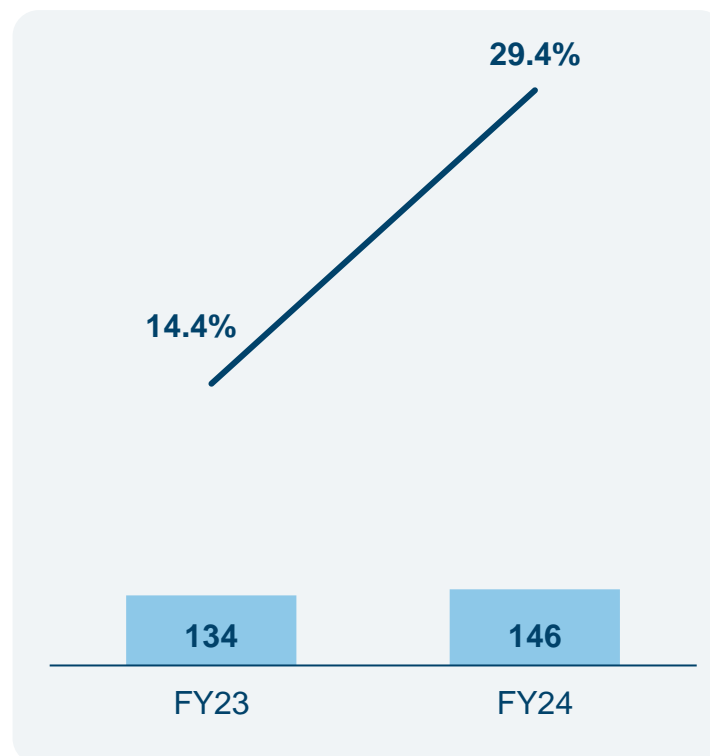


Higher margins across all channels

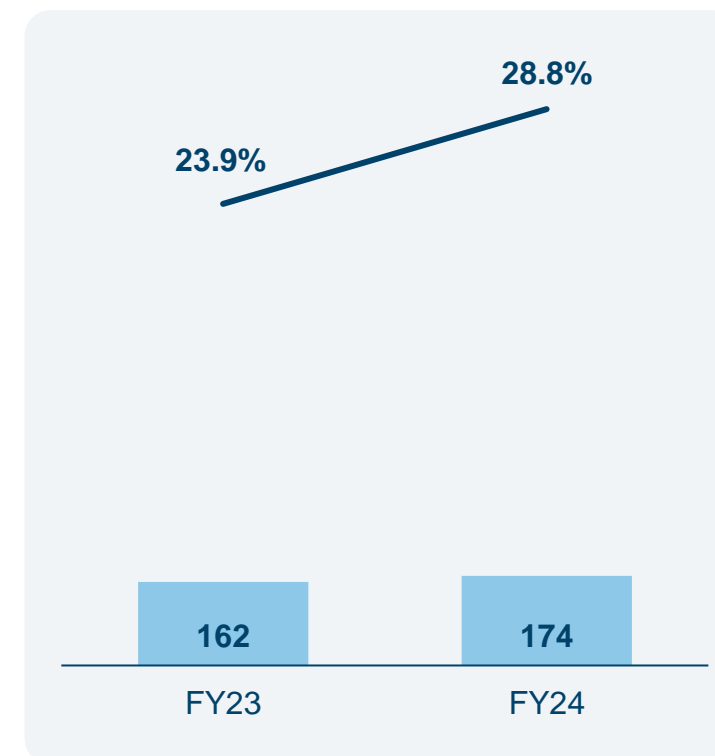
Ingredients



Foodservice



Consumer



Forecast 2023/24 season Farmgate Milk Price

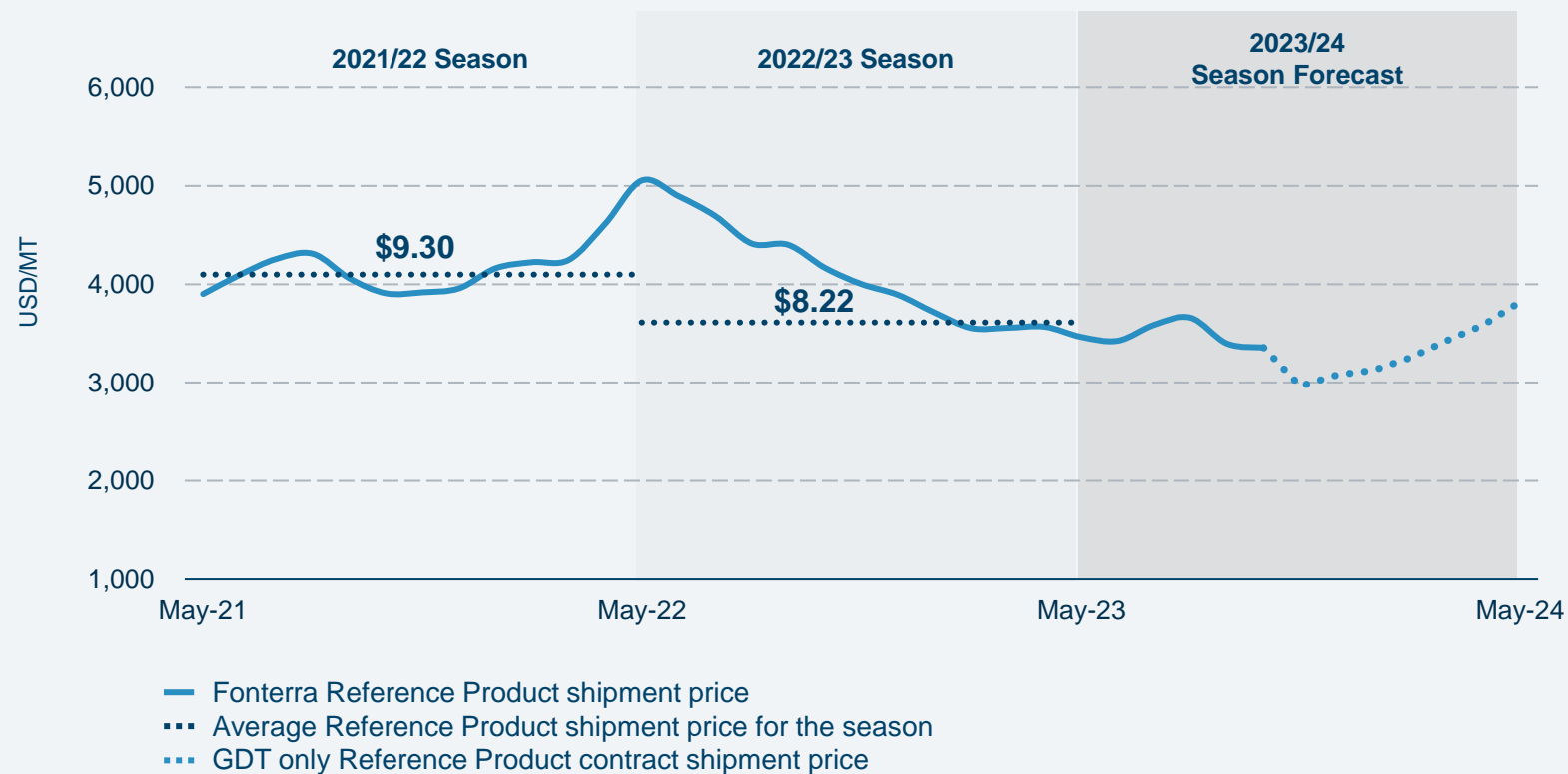
Forecast Farmgate Milk Price

\$7.00–\$8.00
per kgMS

Lifted and narrowed range reflects:

- strengthening demand from key importing regions for Reference Commodity Products
- well contracted sales book

Reference Product Prices



FY24 earnings outlook

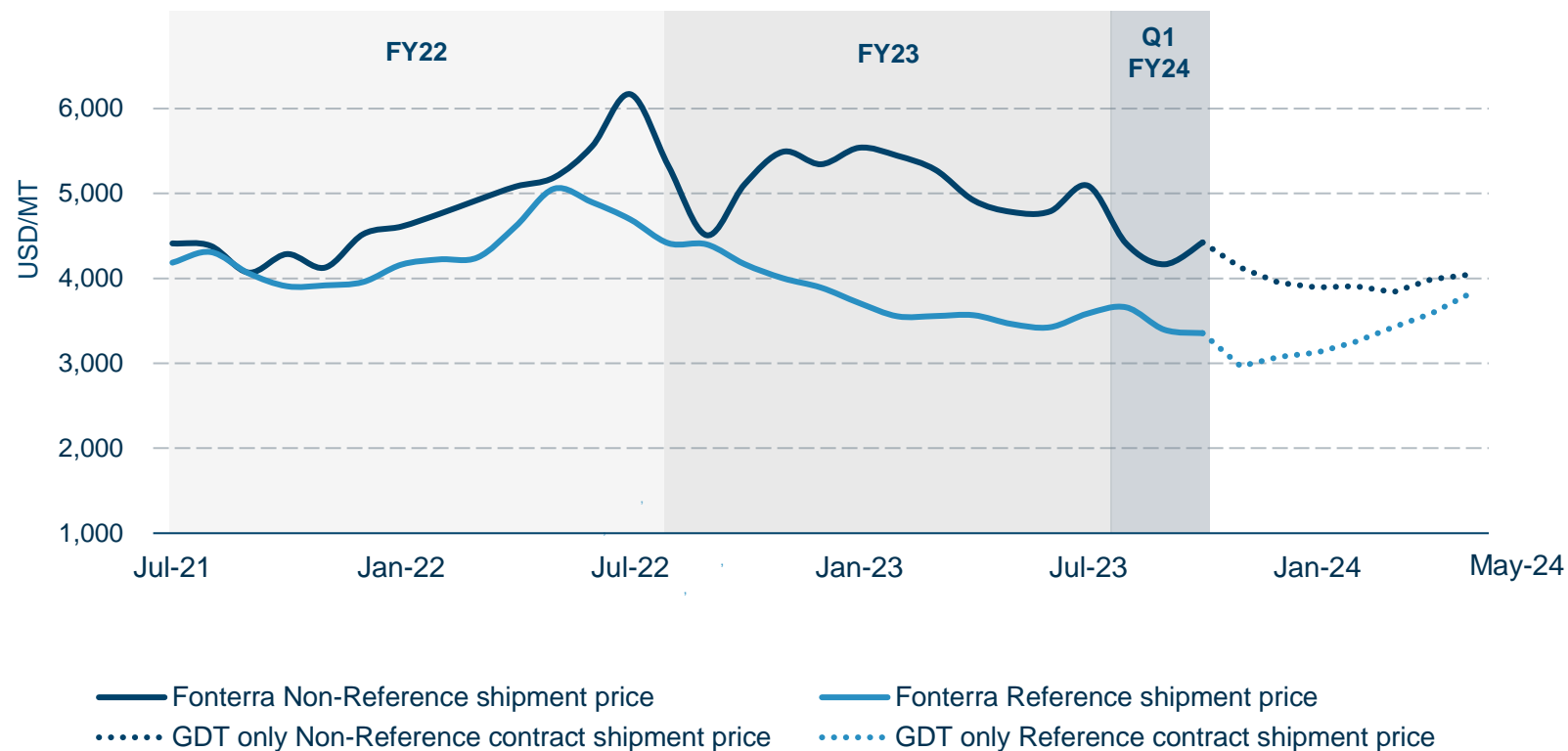
FY24 forecast earnings⁶

50 – 65c
per share

Increased earnings range reflects:

- well contracted sales book, locking in higher margins for the first half of the year
- improved Foodservice and Consumer margins during first half, but tightening in second half
- the impact of narrowing price relativities on Ingredients' margins in the second half

Reference and Non-Reference Product Prices





Footnotes

1. FY24 Q1 includes \$23 million attributable to non-controlling interests. Prior year comparative was \$5 million
2. Excludes amounts attributable to non-controlling interests
3. Source: Fonterra Free Alongside Ship (FAS) prices of the New Zealand Ingredients Portfolio
4. Total Group profit after tax includes \$5 million attributable to non-controlling interests
5. Total Group profit after tax includes \$23 million attributable to non-controlling interests
6. Full year FY24 forecast earnings per share range is based on Continuing operations



Appendix



Continuing and discontinued operations

NZD Million	2023	2024	%Δ ¹
Sales volume ('000 MT)	727	735	1%
Revenue	5,325	4,972	(7)%
Cost of goods sold	(4,499)	(3,908)	13%
Gross profit	826	1,064	29%
Gross margin (%)	15.5%	21.4%	
Operating expenses	(492)	(525)	(7)%
Other ²	19	36	90%
EBIT	353	575	63%
Net finance costs	(64)	(36)	44%
Tax expense	(77)	(147)	(91)%
Profit after tax from continuing operations	212	392	85%
Profit after tax from discontinued operations	2	(46)	
Total Group profit after tax³	214	346	62%
Earnings per share (cents)	13	20	54%

- Gross margin up across all three channels
 - Foodservice and Consumer channels achieved higher sales prices. Foodservice also benefitted from lower input costs
 - Ingredients – New Zealand Ingredients benefitting from more favourable price relativities, partially offset by tighter margins in Australia Ingredients reflecting higher milk prices
- Operating expenses up, reflecting increased storage and distribution costs to facilitate the higher sales volumes in Foodservice and Consumer; and upfront costs of driving efficiency initiatives
- Other up \$17 million due to favourable net foreign exchange movements
- EBIT up 63% driven by improved gross margins and higher sales volumes in Foodservice and Consumer
- Net finance costs decreased 44% due to reduced average borrowings
- Discontinued operations has decreased due to the loss on sale of DPA Brazil (\$72 million) which includes a loss of \$68 million released from the Foreign Currency Translation Reserve, offset by the FY23 divestments of Soprole and the Hangu China Farm

Note: Total Group figures are for the three months ended 31 October

1. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures

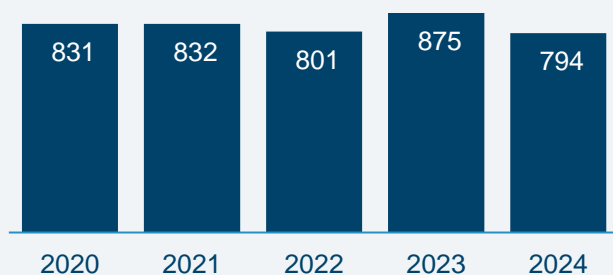
2. Consists of other operating income, net foreign exchange gains/(losses) and share of equity accounted investees

3. Includes amounts attributable to non-controlling interests

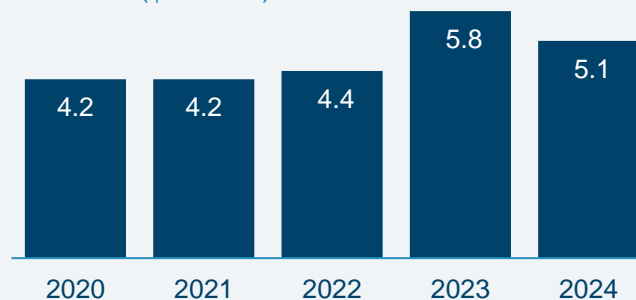


Key financial metrics for Total Group Q1

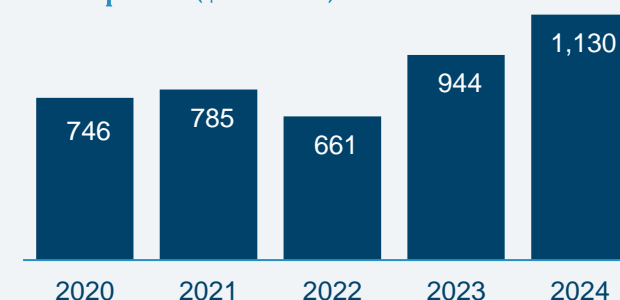
Sales volume (000' MT)



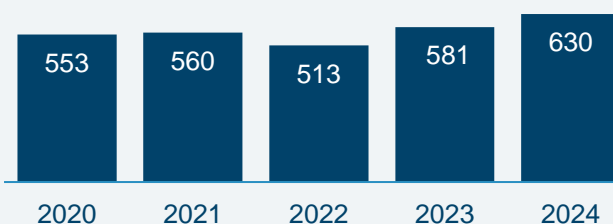
Revenue (\$ billion)



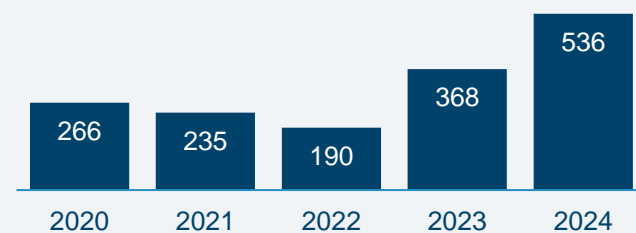
Gross profit (\$ million)



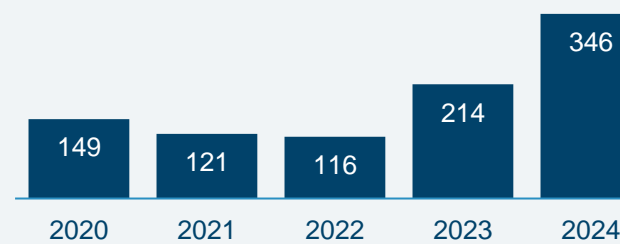
Operating expenses (\$ million)



EBIT (\$ million)



Profit after tax (\$ million)

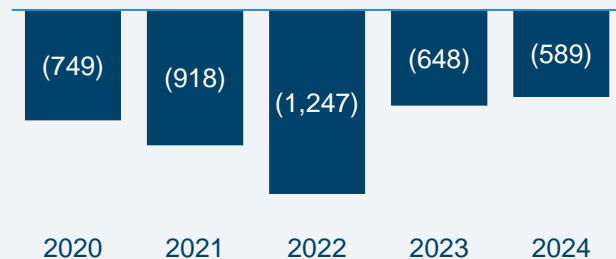


Note: Total Group figures are for the three months ended 31 October. This includes continuing and discontinued operations

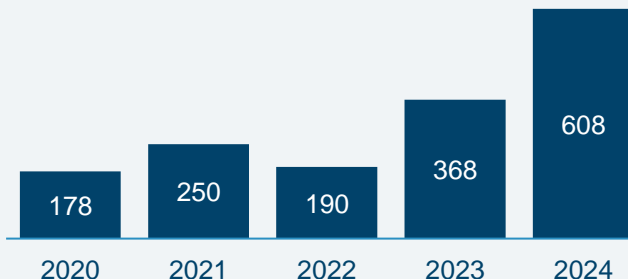


Key financial metrics for Total Group Q1

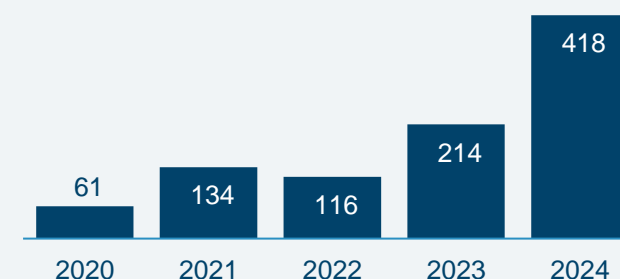
Free cash flow¹ (\$ million)



Normalised EBIT (\$ million)



Normalised profit after tax (\$ million)

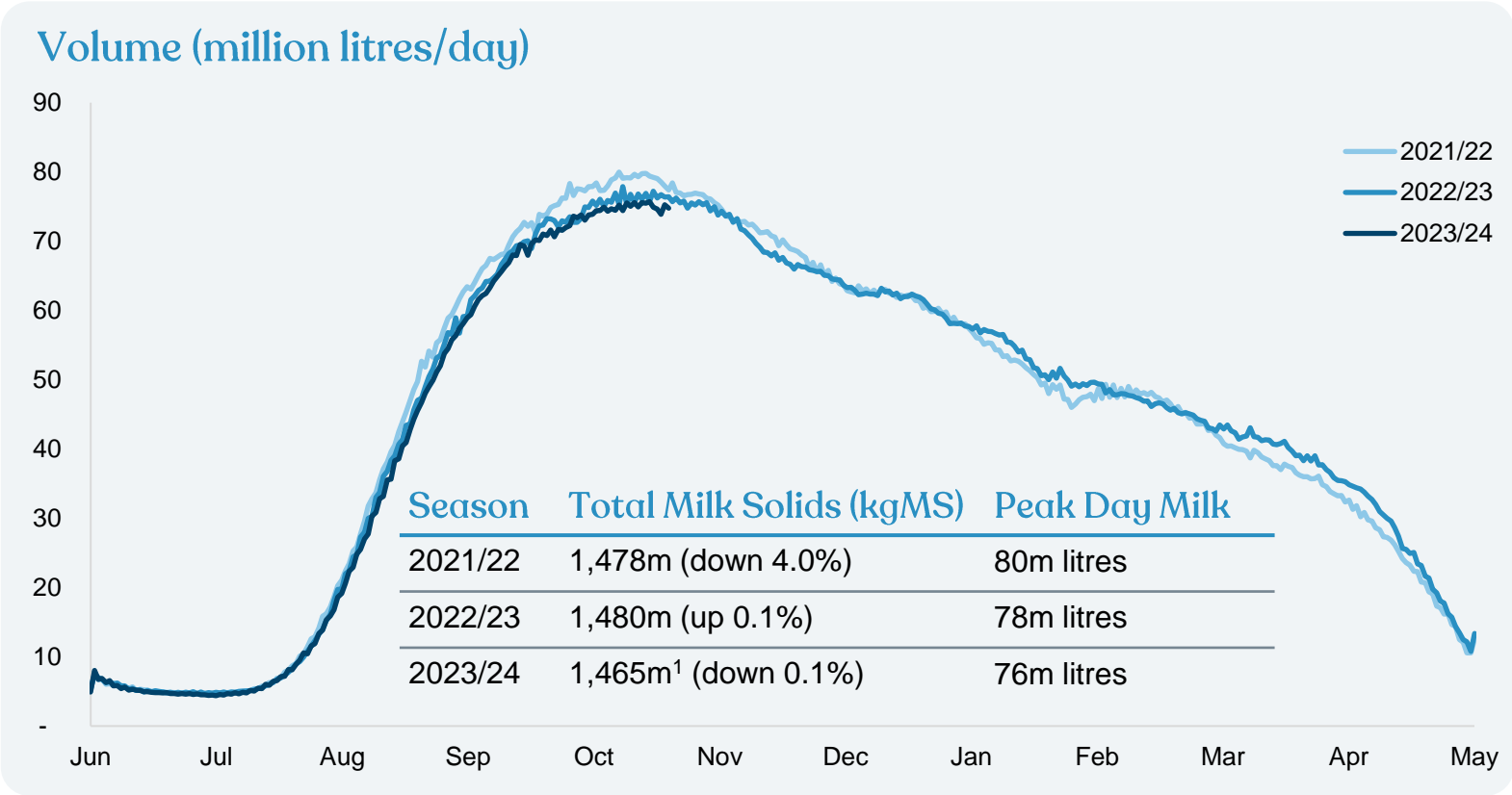


Note: Total Group figures are for the three months ended 31 October. This includes continuing and discontinued operations

1. Refer to glossary for definition



Fonterra’s New Zealand milk collections



- Season to date collections June – October were 489.4 million kgMS, 0.7% behind last season
- The decrease in collections is due to lower collections in the North Island partially offset by improved collections in the South Island
 - Unfavourable weather conditions in the North Island have impacted pasture quality and growth
 - Favourable weather conditions in the South Island have resulted in strong milk flows in the central south
- On-farm costs remain elevated, putting pressure on margins for some farmers and influencing spending decisions

1. Current full season forecast



Glossary

Consumer

Represents 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.

Earnings per share (EPS)

Is calculated as profit after tax attributed to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.

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.

Earnings before interest and tax (EBIT)

Is profit before net finance costs and tax

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.

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 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.



Glossary

Ingredients

Represents the channel comprising bulk and specialty dairy products such as milk powders, dairy fats, cheese and proteins manufactured in New Zealand, Australia, Europe and Latin America, 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.

Non-Reference Products

means all NZ milk solids processed by Core Operations, except for Reference Commodity Products.

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. Normalised is used to indicate that a measure or sub-total has been adjusted for the impacts of normalisation adjustments. E.g. 'Normalised EBIT'.

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.

Reference Commodity Products (or 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.

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.

Total Group

Is used to indicate that a measure or sub-total comprises continuing, discontinued operations and non-controlling interests. E.g. 'Total Group EBIT'.



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