

Fonterra Co-operative Group Limited

Results for Announcement to the Market

Results for announcement to the market		
Name of issuer	Fonterra Co-operative Group Limited	
Reporting Period	12 months to 31 July 2021	
Previous Reporting Period	12 months to 31 July 2020	
Currency	NZD	
	Amount (m's)	Percentage change
Revenue from continuing operations	\$20,565	1%
Total Revenue	\$21,124	1%
Net profit/(loss) from continuing operations	\$532	(34%)
Total net profit/(loss)	\$599	(9%)
Final Dividend		
Amount per Quoted Equity Security	\$0.15	
Imputed amount per Quoted Equity Security	Not Applicable	
Record Date	30/09/2021	
Dividend Payment Date	15/10/2021	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$2.87	\$2.77
A brief explanation of any of the figures above necessary to enable the figures to be understood	Please refer to the audited financial statements for further explanation.	
Authority for this announcement		
Name of person authorised to make this announcement	Anya Wicks	
Contact person for this announcement	Anya Wicks	
Contact phone number	(09) 374 9341	
Contact email address	anya.wicks@fonterra.com	
Date of release through MAP	23/09/2021	

Audited financial statements accompany this announcement.



Market Announcement

23 September 2021

Fonterra completes reset, announces annual results and long-term growth plan out to 2030

Annual Results Summary

- Total pay-out for 2020/21 season: \$7.74 per kgMS
 - Final 2020/21 Farmgate Milk Price: \$7.54 per kgMS
 - 2020/21 dividend: 20 cents per share, comprised of 5 cent interim dividend and 15 cent final dividend
- Reported Profit After Tax: \$599 million, down \$60 million*
- Normalised Profit After Tax: \$588 million, up \$190 million[#]
- Total Group normalised EBIT: \$952 million, up \$73 million[#]
- Net debt¹: \$3.8 billion, down \$872 million
- Debt to EBITDA ratio: 2.7x improved from 3.3x
- Full year normalised earnings per share: 34 cents

* 2020 financial year included the gain from the divestments of DFE Pharma and foodspring®

[#] Normalised numbers reflect the underlying performance of the business.

Fonterra Co-operative Group Limited today announced a strong set of results for the 2021 financial year, reflected in a final Farmgate Milk Price of \$7.54, normalised earnings per share of 34 cents and a final dividend of 15 cents, taking the total dividend for the year to 20 cents per share. The results come as Fonterra moves through its business reset and into a new phase of growing the value of its business.

CEO Miles Hurrell says the last three years have been about resetting the business. “We’ve stuck to our strategy of maximising the value of our New Zealand milk, moved to a customer-led operating model and strengthened our balance sheet.

“The results and total pay-out we’ve announced today show what we can achieve when we focus on quality execution and an aligned Co-op.

“I want to thank our farmer owners and employees for their hard work and commitment over the last few years that has got us to this position. Together, we’ve shored up foundations and done this despite the challenges of operating in a COVID-19 world.

¹ Net debt excludes amounts attributable to disposal groups held for sale.

“Although the higher milk price and tightening margins put pressure on earnings in the final quarter, this is a strong overall business performance, allowing us to deliver \$11.6 billion to the New Zealand economy through the total pay-out to farmers.

“The work we’ve done as part of the 2019 strategic reset means we’re well placed to take advantage of favourable industry dynamics. Growing global demand for dairy coupled with constrained supply has resulted in high prices for our milk. Our resilient supply chain has allowed us to get products to market and the healthy demand for our farmers’ New Zealand milk has seen a record shipping year for the Co-op.

“We’ve continued to reshape our business and the sales of our joint venture farms and wholly-owned farming hubs in China. Our continued focus is to get our New Zealand milk to the world.”

Total Group normalised EBIT, which reflects underlying business performance, was up 8% to \$952 million, with Total Group normalised operating expenditure down 3% to \$2.2 billion.

Mr Hurrell says a focus on financial discipline has paid off. “Net debt is down by \$872 million to \$3.8 billion, cashflow has improved again and at 2.7x, we are now within our long-term target Debt/EBITDA ratio.

“We are pleased with our \$599 million reported profit after tax. While down on last year, the 2020 financial year benefited significantly from the divestments of DFE Pharma and foodspring®. Normalised profit after tax grew by \$190 million to \$588 million, driven by improved earnings and lower interest expense.

“Our sales book is well balanced across the regions and a number of our markets have performed well. In Asia Pacific, significant improvements in our Foodservice and Consumer channels have pushed normalised EBIT up 28% to \$305 million. We’ve expanded our Foodservice footprint in the region and are seeing the benefits of that.

“Here – like in many of our markets – COVID-19 has changed consumer behaviour, with people choosing to cook at home. That’s really benefited our consumer brands and supported upward momentum in our Consumer channel performance, particularly in New Zealand and Australia.

“Greater China continues to be an important market for us, with normalised EBIT up 10% to \$403 million. This speaks to the strength of our Foodservice channel, China’s dynamic economy and its love for dairy.

“Africa, Middle East, Europe, North Asia, Americas’ (AMENA) normalised EBIT was down 28% to \$336 million, reflecting our strategy of redirecting product into higher-margin markets. However, we have seen improvements in our Foodservice and Consumer channels within the region, including a turnaround for our Chilean business.

“Our total dividend for the year is 20 cents per share, which includes an interim dividend of 5 cents per share and a final dividend of 15 cents per share. Three cents of the 15 cents per share reflects the reversal of previous impairment of our China Farms. For a 100% share backed farm, this means a total pay-out of \$7.74 per kgMS.”

Mr Hurrell says that progress isn’t limited to the Co-op’s financial performance. “I’m proud of our efforts to reduce our environmental impact. New Zealand dairy has the lowest carbon footprint in the world, but we also know we need to do much more.

“This year, we reduced our carbon emissions from coal by more than 11%, as Te Awamutu completed its first season using renewable wood pellets. We also recently announced our Stirling site will move to renewable energy from August next year. Our farmer owners are also doing their bit, with record numbers achieving the top level of our Co-operative Difference framework and 53% of supplying farms now having a Farm Environment Plan. That’s good for the environment and it’s also what our customers expect.”

Looking to the current season, Fonterra has announced a 2021/22 earnings guidance range of 25-40 cents per share and has also reaffirmed its 2021/22 forecast Farmgate Milk Price range of \$7.25 - \$8.75 per kgMS, with a midpoint of \$8 per kgMS.

Mr Hurrell says the strong milk price is likely to continue. “A high milk price is good for farmers and good for the New Zealand economy. However, this does have the potential to squeeze our sales margins and impact earnings.”

Mr Hurrell says the impact of COVID-19 continues to be felt, particularly across the supply chain. “We expect competitive tension in the global shipping market to continue this financial year. We have largely been able to mitigate this thanks to the strength of our Kotahi partnership which has allowed us to keep our product moving through the supply chain.”

Long-term strategy

Fonterra is now turning its mind to the next phase of its strategy, as it completes its reset and focuses on value growth. Mr Hurrell says as the Co-op looks out to 2030, the fundamentals of dairy – in particular, New Zealand dairy – look strong.

“Put simply, the world wants what we’ve got – sustainably produced, high-quality, nutritious milk. This comes at a time when we see total milk supply in New Zealand as likely to decline, and flat at best.

“On one hand, this requires the right capital structure to help ensure we don’t lose the benefits of what generations of farmers have built – a New Zealand dairy co-operative of scale.

“But on the other hand, it gives us more options to be selective about what we do with our Co-op’s milk. In doing so, we can increase the value we generate for farmers and New Zealand over the next decade.

“To make this happen we have made three strategic choices – continue to focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science.”

Refine our asset portfolio to focus on New Zealand milk

Fonterra believes it has an opportunity to differentiate New Zealand milk further on the world stage, with the aim of getting more value from the Co-op’s milk.

Mr Hurrell says this requires Fonterra to focus its capital and people on enhancing New Zealand milk and for these reasons the Co-op has reviewed the ownership of its two other milk pools – in Australia and Chile.

“Soprole is a leading Chilean dairy brand, and Prolesur is a subsidiary of Soprole focused on sourcing milk and manufacturing products in Southern Chile. The operations do not require any New Zealand-sourced milk or expertise, and in this context, we are starting the process to divest our integrated investment in Chile.

“Fonterra Australia is on strategy for the Co-op and remains an important export market for our New Zealand milk, especially for Foodservice products and advanced ingredients. We are considering the most appropriate ownership structure for this business, one option is an IPO, with the intention that we retain a significant stake.

“We see both these moves as critical to enabling greater focus on our New Zealand milk and, importantly, allowing us to free up capital, much of which is intended to be returned to shareholders.”

Invest in sustainability and dairy innovation and science

Mr Hurrell says to strengthen the value proposition of its New Zealand milk, the Co-op will increase investment in sustainability and R&D.

“New Zealand has the unique position of being the lowest carbon producing dairy nation on the planet and when you combine this with our pasture-based model, animal welfare standards and scale efficiency, we have something that can’t be replicated.

“But we can’t slow down now. Customers want to know where their food comes from and the environmental impact it leaves, and a farmer’s livelihood relies on a stable climate and healthy ecosystems.

“This is why we have an aspiration for our Co-op to be Net Zero carbon by 2050. Over the next decade we intend to invest around \$1 billion in reducing carbon emissions and improving water efficiency and treatment at our manufacturing sites.

“We also know that to maintain our relative carbon footprint advantage against the northern hemisphere farming system we must solve the methane challenge.

“We are aiming to increase our current total annual R&D investment by over 50% to around \$160 million per annum in 2030, with about \$60 million per annum specifically targeted at growth in Active Living, as we continue to look for solutions for the methane challenge and develop new innovative products to support our value growth plans.

“Our investment in sustainability initiatives across our supply chain, will support our investment in our brands to showcase our New Zealand sustainable nutrition story. This will put us in a position to further grow our Foodservice and Consumer channels across our markets in the Asia Pacific region and gain more value through our Ingredients channel by helping customers meet their own sustainability goals.

“As we move more milk into Foodservice and Consumer, we will direct less through our Ingredients channel and aim to shift more towards higher value ingredients such as in our Active Living business. This will see us focus more of our Ingredients business on solutions for physical, patient, digestive and mental wellness plus immunity where we can make the most of our expertise in dairy innovation,” says Mr Hurrell.

Future growth opportunity – nutrition science solutions

Mr Hurrell says the Co-op’s focus on value creation also opens up choices for investing in new, high value growth opportunities in future.

“We have an ambition to play more boldly in nutrition science solutions, which underpins a \$500 billion slice of the global health and wellness category.

“We have set up a dedicated team to explore what the future of Nutrition Science Solutions looks like for our Co-op, and over the next year we’ll narrow down and prioritise the areas where we can build a competitive advantage,” says Mr Hurrell.

2030 financial targets²

“Our focus on New Zealand milk, sustainability, and innovation and science will see us shift every aspect of our business to create more value. In doing so we aim to continue to improve our financial performance and, as a result, strengthen our ability to repeatedly generate cash and create value for our shareholders and New Zealand,” says Mr Hurrell.

There are four key value targets we’re aiming to achieve by FY30:

- 1. An average Farmgate Milk Price range for the decade of \$6.50-\$7.50 per kgMS**
- 2. A 40-50% increase in operating profit** from FY21 and, with the reduced interest from having less debt, this should translate into an approximately 75% increase in earnings, giving us the ability to steadily increase dividends to around 40-45 cents per share by FY30
- 3. A Group Return on Capital of 9-10%, up from 6.6% in FY21**

² The figures under this heading are targets that we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. They are subject to successfully completing a number of business initiatives and a number of assumptions each of which could materially affect the actual outcomes. The key assumptions and risks relating to these targets are set out in the booklet titled *Our Plans to 2030*. Please refer to the further detail at the end of this announcement.

4. Through planned divestments and improved earnings, **an intended return of about \$1 billion to shareholders by FY24**, and **around \$2 billion of additional capital available** for a mix of investment in further growth and return to shareholders. This is in addition to the approximately \$2 billion expected to be invested in sustainability and moving milk into higher value products.

“We have an incredible natural product made on the pastures of New Zealand farms, a business supported by a talented and committed team, and an exciting opportunity to create value. It’s up to us as a Co-op to work together, make the necessary changes and ensure we’re creating goodness for generations,” says Mr Hurrell.

ENDS

Non-GAAP measures

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised profit after tax, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group’s continuing and discontinued operations. Non-GAAP financial 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 are 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 Financial Statements.

Please refer to the Non-GAAP Measures section in Fonterra’s 2021 Annual Review for further information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures. Definitions of non-GAAP measures used by Fonterra can be found in the Glossary.

Further detail of key assumptions, risks and uncertainties

This announcement refers to, and provides a high-level summary of, matters that are described in more detail in the booklet titled Our Plans to 2030. That booklet should be read in full. The booklet also identifies relevant assumptions, known and unknown risks, uncertainties and other important factors that could materially affect the actual outcomes achieved by Fonterra.

Any forward-looking statements, financial targets and ambitions (“Forward Statements”) in this announcement or the booklet are based on a range of assumptions, including the assumptions noted in the Appendix of the booklet. None of the Forward Statements is intended as a forecast, estimate or projection of the outcome that will, or is likely to, eventuate. They should not be taken as forecasts or a guarantee of returns to shareholders. The Forward Statements were prepared by Fonterra and have not been audited or independently reviewed.

For further information contact:

Fonterra Communications
24-hour media line
Phone: +64 21 507 072



Fonterra Annual Results 2021

23 September 2021

Delivered strong results across the Co-op

Farmgate Milk Price

\$7.54 per kgMS
↑

Earnings and Dividend¹

Dividend **20c** ↑
Normalised EPS **34c**

Resilient supply chain

Record shipping year
2.59
million tonnes from NZ

Stakeholder engagement up

Employee, farmer and customer engagement scores up
↑

Debt down, within target range

Net debt down
\$872m ↓
Gearing ratio² of 36%,
down from 41%

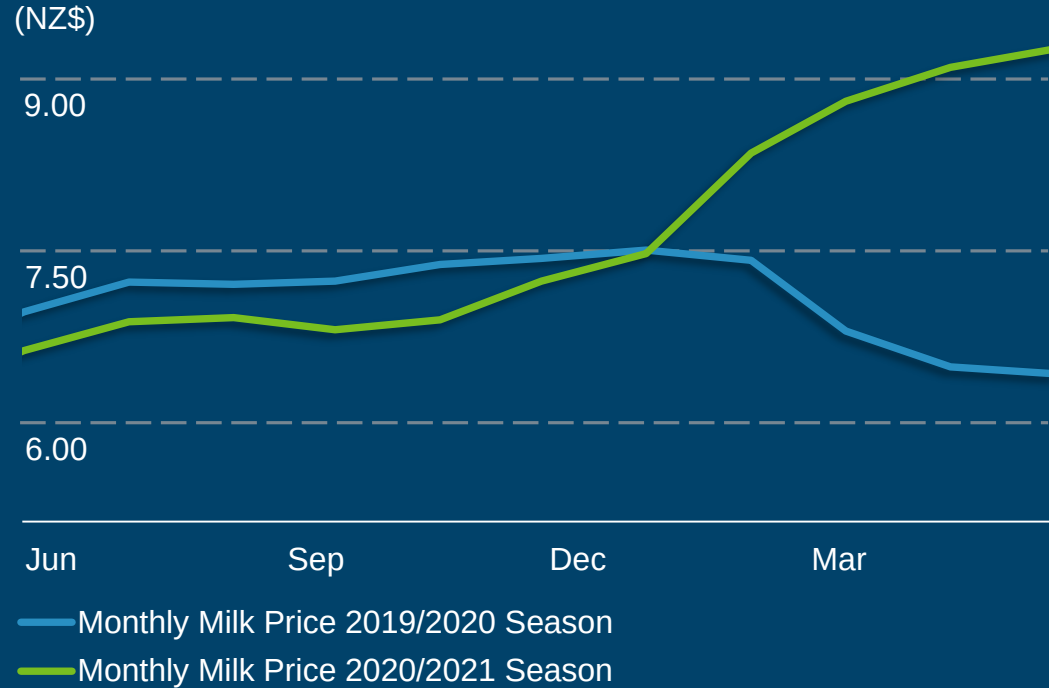
Progress on emissions

Reduced carbon emissions from coal use by more than 11%
↓

1. Attributable to equity holders of the Co-operative, excludes non-controlling interest
2. Economic net interest-bearing debt (ENIBD) gearing ratio, refer to Glossary for definition

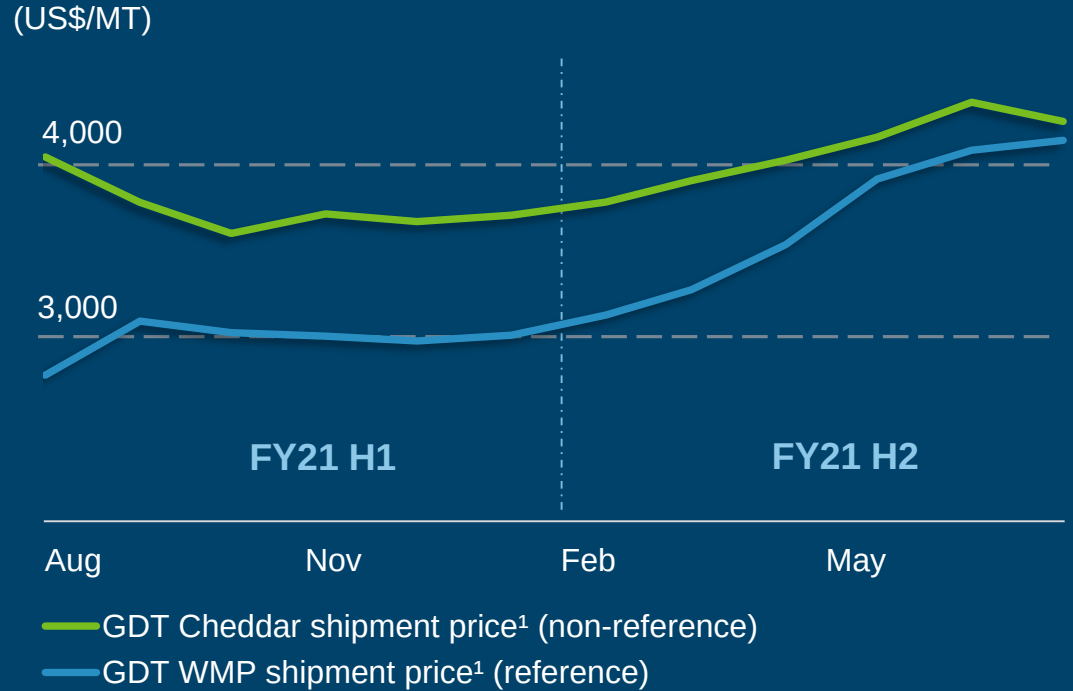
Uplift in milk price in the second half

Monthly Milk Prices



- Strong demand for dairy lifted monthly milk price above \$9.00 towards the end of the 2020/21 Season
- The average of the monthly milk prices are equivalent to \$7.14 and \$7.54 for 2019/20 and the 2020/21 seasons, respectively

Price Relativities



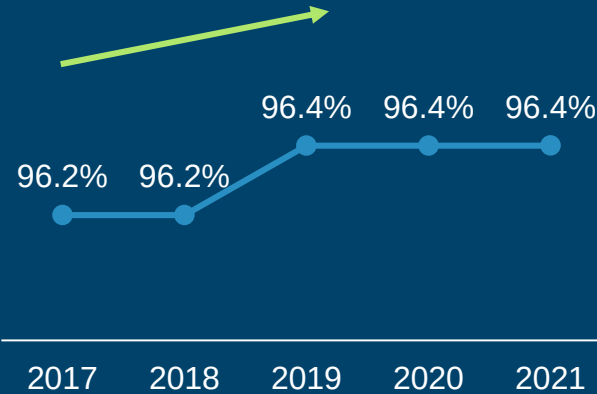
- Favourable and stable price relativities in the first half; strong increase in reference product prices in second half narrowed earnings margins
- Earnings profile weighted to the first half with 25 cents per share, and 9 cents in the second half

Source: GlobalDairyTrade

1. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped

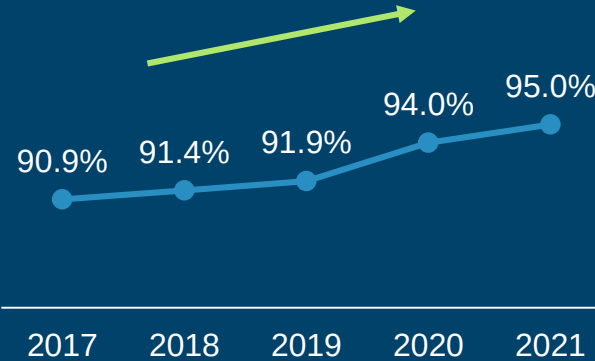
Improved New Zealand manufacturing performance

Milk Utilisation



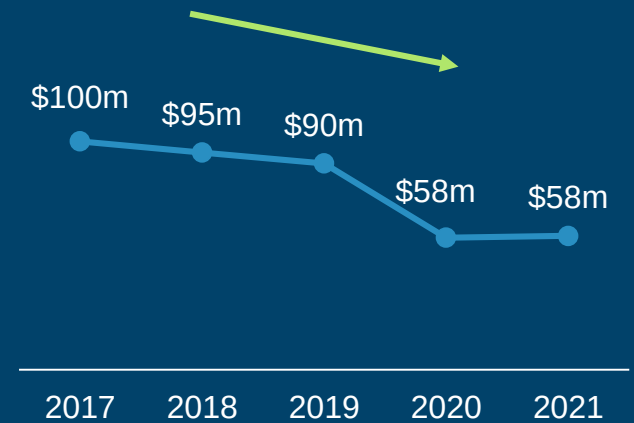
- Maintained utilisation (yield) of milk solids, while increasing complexity of product mix. Improvement of \$18m for 2021 compared to 2017

Made Right First Time



- Consistent improvement in manufacturing performance since 2017 has meant \$35 million less in rework costs

Cost of Quality



- \$42 million improvement over 5 years through a quality improvement programme

Our robust supply chain provides value to customers, farmers and New Zealand



Record shipment year, 2.59 million tonnes shipped from New Zealand, despite pandemic disruptions

More than 50 other exporters shared the benefit of our Kotahi partnership



Team effort and innovation with partners to manage a 350% increase in rework of orders driven by ongoing supply chain disruptions



On a per tonne basis, our non-shipping supply chain costs are 13% lower than 2015

Improving environmental performance



Reduced carbon emissions from coal use by more than 11%, with Te Awamutu moving to renewable wood pellets



Over half of supplying farms in New Zealand now have **Farm Environment Plans**, up from 34% at the beginning of the year



Water usage at sites in water-constrained regions up slightly this year, but still more than 2% lower than FY18 baseline



24% reduction in solid waste to landfill, well ahead of target for the year

Caring for our people



Supported the **wellbeing of our global workforce**, who continue to be affected by COVID-19 lockdowns



Increased our **employee engagement score**, with significantly more teams now in the top quartile



Female representation in senior leadership up to 32%, from 29%, but short of our target



Supported our communities, including donating 800+ tonnes of product to food banks in New Zealand, Australia and Chile

Continued evolution of asset portfolio

NOV 20

Completed sale of
Agrifeeds joint venture

APR 21

Completed sell down of
Beingmate holding

AUG 21

Completed sale of
Agrigate joint venture

OCT 20

Acquired Dairy
Country in Australia

APR 21

Completed sale of
two wholly-owned
China Farming hubs

JUN 21

Completed sale
of China Farms
joint venture

Ongoing

DPA Brazil and Hangu
China Farm sale
process continues

Strong financial performance

**Reported profit
after tax¹**

\$599 million



**Normalised profit
after tax^{1,2}**

\$588 million



**Normalised EPS³
top end of range**

34c



Annual dividend

20c per share



Lower leverage

36%
Debt/EBITDA⁴ Gearing ratio⁵
2.7x



Return on capital⁶

6.6%

no change

1. Total Group figures for the year ended 31 July 2021. This includes Continuing and Discontinued Operations, and includes amounts attributable to non-controlling interests
2. Normalised profit after tax includes \$11million of normalised adjustments resulting from a \$(49) million loss in relation to Beingmate, a \$55 million impact from the gain on sale and impairment reversal on our China Farms, a \$40 million gain on sale on our China Farms joint venture and a \$(35) million impairment on DPA Brazil
3. Attributable to equity holders of the Co-operative, excludes non-controlling interest

4. For the year ended 31 July 2020 debt to EBITDA was 3.3x. This was reported as 3.4x in 2020. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent
5. Economic net interest-bearing debt (ENIBD) gearing ratio, refer to Glossary for definition
6. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior year notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with current period

Improved Total Group business performance

million ¹	2020	2021	%Δ ²
NZ Milk Price ³ (per kgMS)	7.14	7.54	6%
Revenue (\$)	20,975	21,124	1%
Gross profit (\$)	3,208	3,114	(3)%
Gross margin (%)	15.3%	14.7%	
Operating expenses (\$)	(2,323)	(2,242)	3%
Other ⁴ (\$)	(6)	80	–
Normalised EBIT ⁵ (\$)	879	952	8%
Net finance costs and tax (\$)	(481)	(364)	24%
Normalised profit after tax ⁶ (\$)	398	588	48%
Normalised EPS ⁷ (cents)	24	34	42%

- Achieved a gross margin of 14.7%, while increasing milk payments to New Zealand farmers year on year
- Gross margin of 17.4% in first half, second half significantly impacted by rising milk price with margin reduced to 12.4%
- Gross profit reduced \$94 million, due to lower margins across all the regions in the fourth quarter
- ‘Other’ up \$86 million, due to higher other operating income and non-recurrence of adverse one-off items
- Normalised profit after tax improved \$190 million, or 48%, due to improved earnings and lower interest expense

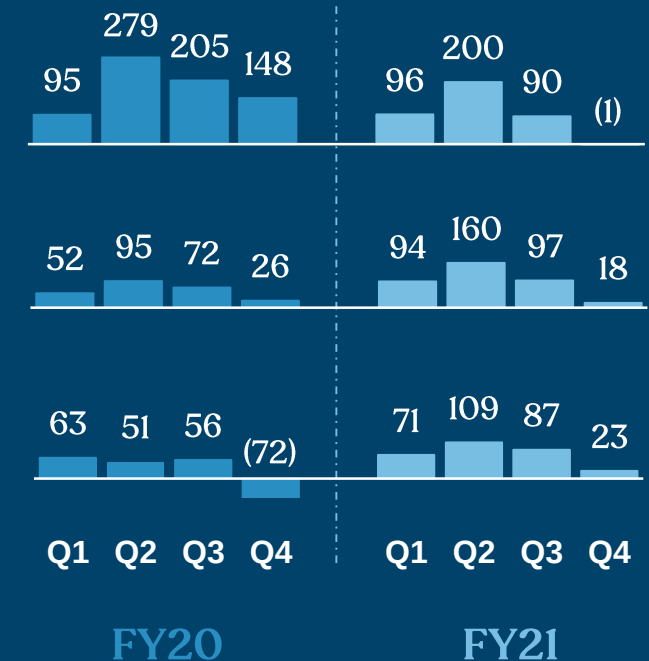
1. Total Group figures for the year ended 31 July. This includes Continuing and Discontinued Operations
2. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
3. New Zealand Farmgate Milk Price
4. Consists of other operating income, net foreign exchange gains/(losses) and share of equity accounted investees

5. Normalised EBIT includes \$7 million of normalised adjustments resulting from a \$(49) million loss in relation to Beingmate, a \$55 million impact from the gain on sale and impairment reversal on our China Farms, a \$40 million gain on sale on our China Farms joint venture and a \$(39) million impairment on DPA Brazil
6. Normalised profit after tax includes \$11million of normalised adjustments resulting from a \$(49) million loss in relation to Beingmate, a \$55 million impact from the gain on sale and impairment reversal on our China Farms, a \$40 million gain on sale on our China Farms joint venture and a \$(35) million impairment on DPA Brazil
7. Attributable to equity holders of the Co-operative, excludes non-controlling interest

Diversified across markets and products

	Asia Pacific	AMENA	Greater China	Total
Volume ('000 MT) ¹	1,386 ↓ 1%	1,352 ↓ 6%	1,176 ↑ 15%	3,914 ↑ 1%
EBIT contribution ^{1,2}				
 Ingredients	\$44m ↓ 70%	\$21m ↓ 47%	\$130m ↓ 27%	\$385m ↓ 47%
 Foodservice	\$79m ↑ 193%	\$15m ↑ -	\$275m ↑ 23%	\$369m ↑ 51%
 Consumer	\$182m ↑ 184%	\$110m ↑ 57%	\$(2)m ↑ 94%	\$290m ↑ 196%
Total	\$305m ↑ 28%	\$336m ↓ 28%	\$403m ↑ 10%	

EBIT by Quarter

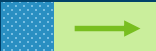


Note: Figures are for the year ended 31 July 2021. Comparative information has been restated for consistency with the current period, and FY21 quarterly breakdown has been restated for increased accuracy of attribution

1. Prepared on a normalised Continuing Operations basis. Normalised EBIT contributions sum to \$1,044 million, and does not align to reported Continuing Operations due to excluding unallocated costs and eliminations

2. Inclusive of Group Operations' EBIT attribution

Diversification contributes to earnings quality

Asia Pacific	2020 EBIT		2021 EBIT	Change
Ingredients	\$148m		\$44m	(70)%
Foodservice	\$27m		\$79m	193%
Consumer	\$64m		\$182m	184%
	\$239m		\$305m	28%

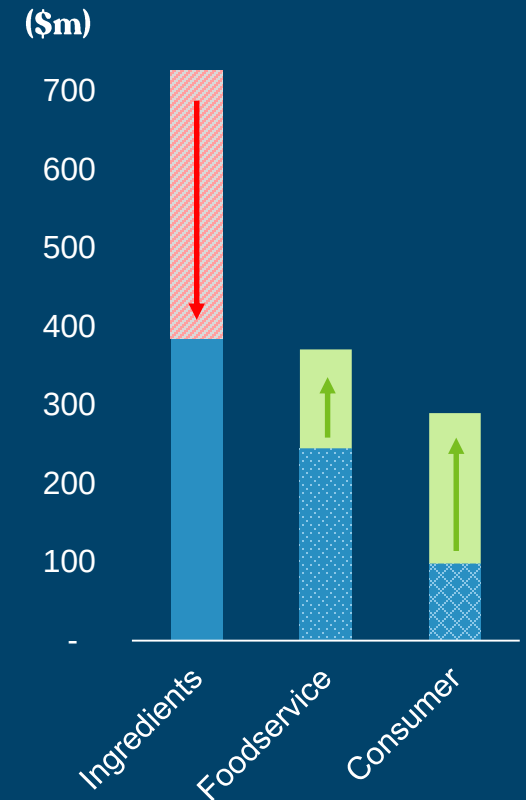
AMENA				
Ingredients	\$400m		\$211m	(47)%
Foodservice	\$(5)m		\$15m	-
Consumer	\$70m		\$110m	57%
	\$465m		\$336m	(28)%

Greater China				
Ingredients	\$179m		\$130m	(27)%
Foodservice	\$223m		\$275m	23%
Consumer	\$(36)m		\$(2)m	94%
	\$366m		\$403m	10%

Eliminations ¹	\$(223)m		\$(148)m	34%
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Total	\$847m		\$896m	6%
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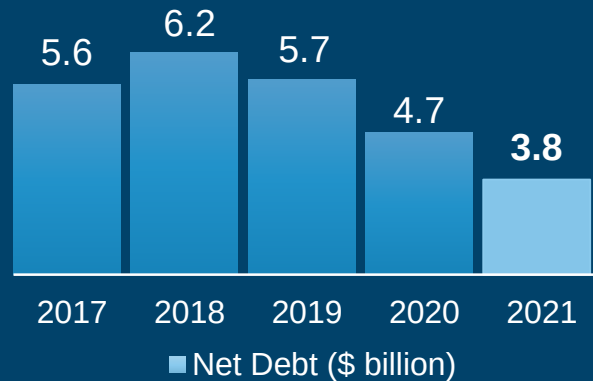
Product channel EBIT



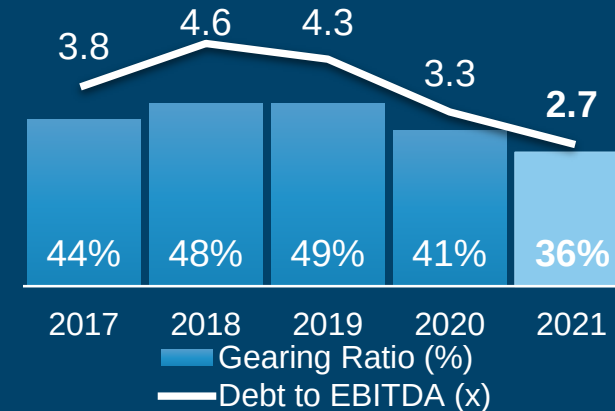
Note: Figures are for the year ended 31 July and prepared on a normalised Continuing Operations basis. Comparative information has been restated for consistency with current period attribution
 1. Eliminations and unallocated costs

Continued strengthening of balance sheet

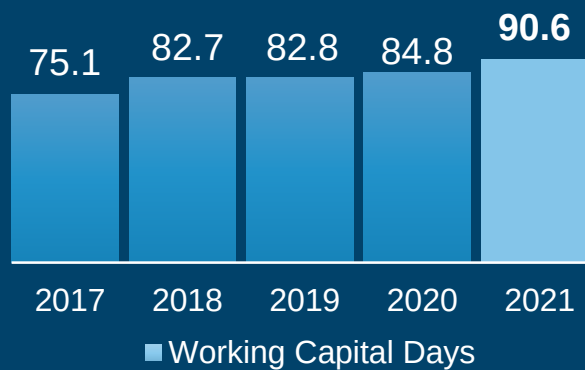
Net Debt^{1,2}



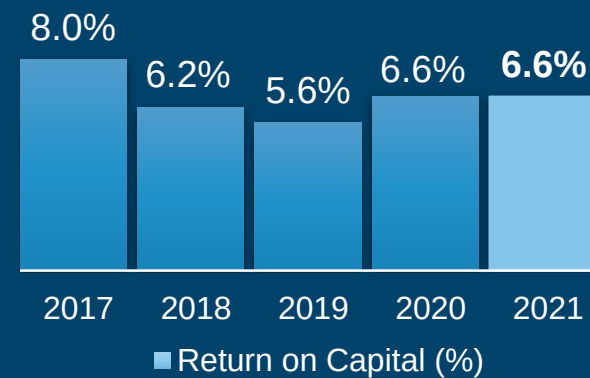
Leverage^{2,3}



Working Capital Days



Return on Capital⁴



- Net debt and leverage down due to divestments and improved earnings from operations
- Both leverage metrics – Debt to EBITDA² and gearing ratio² – are now within our long-term targets of 2.5-3.0x and 30-40%
- Working capital days up due to higher milk price and average inventory held
- Return on capital⁴ unchanged, with increased earnings offset by increase in notional tax rate

Note: Refer to Glossary for definitions of measures

1. Net debt excludes amounts attributable to disposal groups held for sale

2. Going forward, we will change the way we measure net debt so that the net debt included in the gearing ratio and debt to EBITDA will be on the same basis. This aligns with certain credit rating agency methodology. Under the new methodology net debt for the 2021 Financial Year would be \$4.3bn and (adjusted net debt) gearing ratio would be 38.5%

3. Prior years' debt to EBITDA have been restated for consistency with current period. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent

4. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior year notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with current period

Forecast 2021/22 Season Farmgate Milk Price

Forecast Farmgate Milk Price

\$7.25 - \$8.75
per kgMS

- Maintaining the range reflects:
 - Still early in the season with normal levels of high uncontracted volume, product price and FX volatility
 - Ongoing uncertainty associated with COVID-19



Source: GlobalDairyTrade

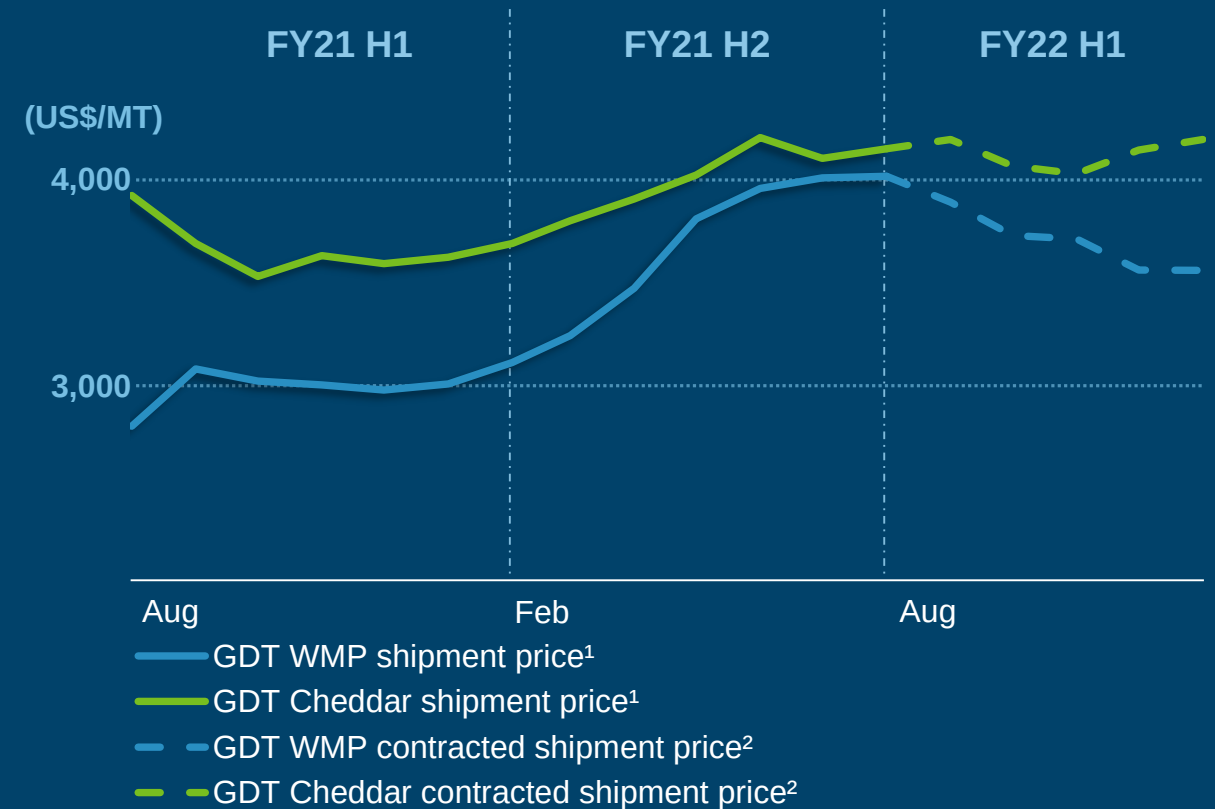
1. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped
2. The contracted shipment price is the weighted average shipment price of New Zealand WMP contracts won 1 – 5 months prior on the GlobalDairyTrade platform. These contracts are yet to be shipped or invoiced and the weighted average price will change closer to the actual shipment date as new contracts are written

2022 earnings outlook

Forecast Earnings

25–40c
per share

- The range reflects:
 - Uncertainty of Ingredient price relativity changes through the season
 - Early season range of Forecast Farmgate Milk Price, which could impact raw milk cost for value-add business
 - Ongoing uncertainty associated with COVID-19 in key markets



Source: GlobalDairyTrade

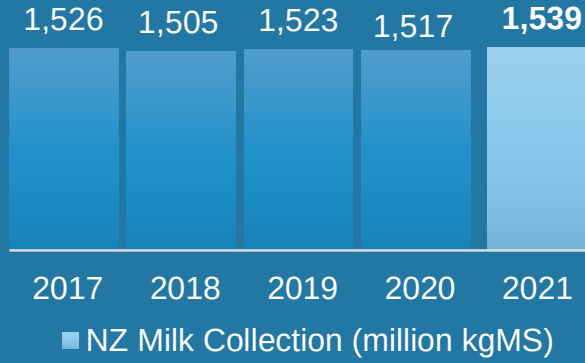
1. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped
2. The contracted shipment price is the weighted average shipment price of New Zealand WMP and Cheddar contracts won 1 – 5 months prior on the GlobalDairyTrade platform. These contracts are yet to be shipped or invoiced and the weighted average price will change closer to the actual shipment date as new contracts are written



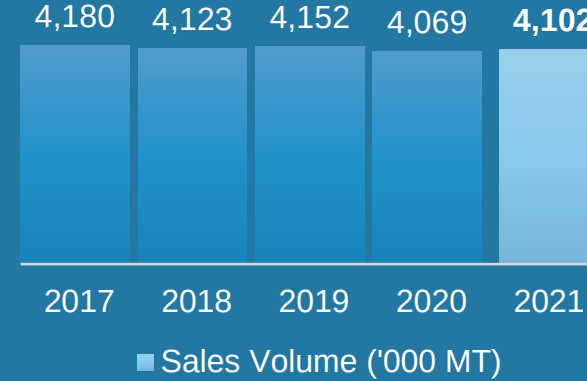
Appendix

Key financial metrics for Total Group FY21¹

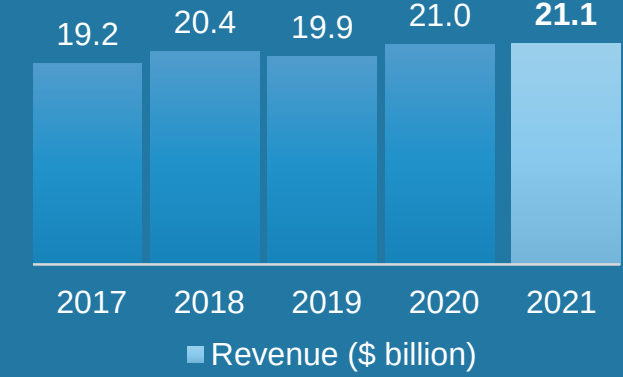
New Zealand Milk Collections



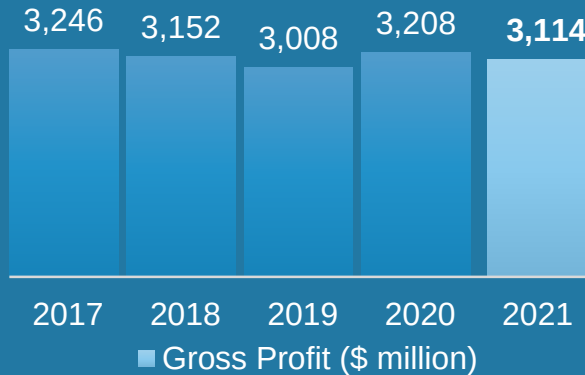
Sales Volume



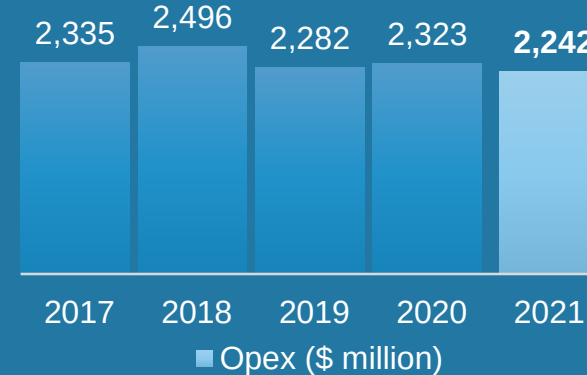
Normalised Revenue



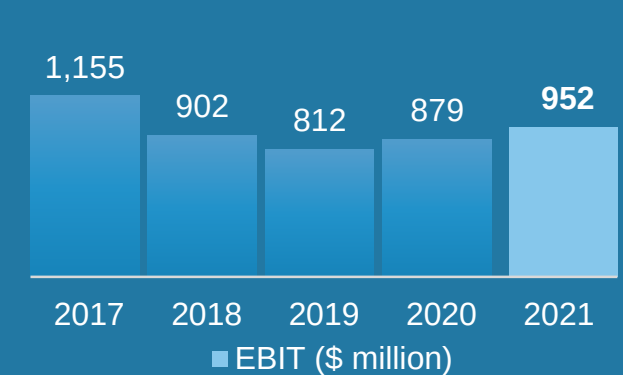
Normalised Gross Profit



Normalised OPEX²



Normalised EBIT

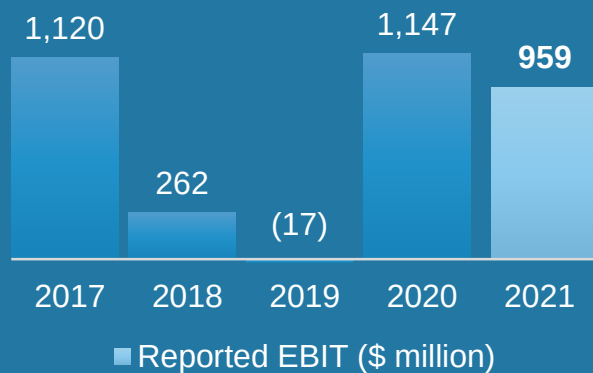


1. Total Group figures for the year ended 31 July 2021. This includes Continuing and Discontinued Operations, and are on a normalised basis unless stated otherwise

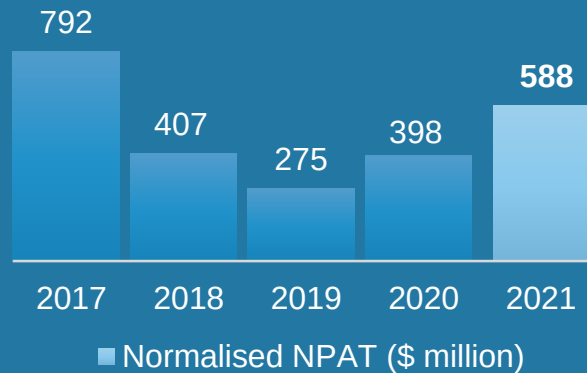
2. 2020 Financial Year Total Group normalised operating expenses has been re-presented from \$2,268 million, due to impairments of intangible assets not included in the strategic review being reclassified from 'other' to operating expenses

Key financial metrics for Total Group FY21¹

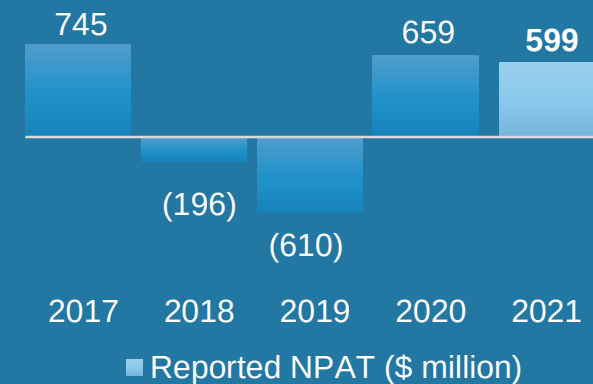
Reported EBIT



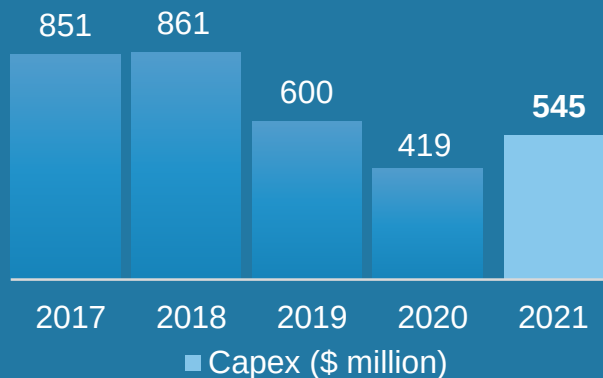
Normalised Profit After Tax²



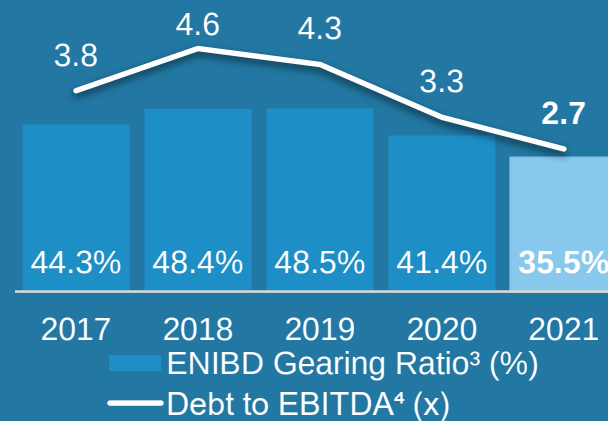
Reported Profit After Tax²



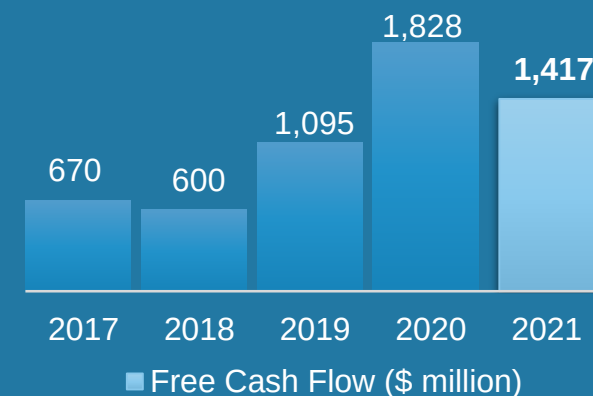
Capital Expenditure³



Leverage



Free Cash Flow³

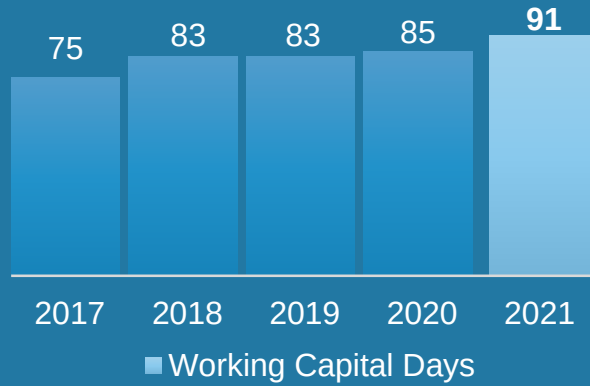


1. Total Group figures for the year ended 31 July 2021. This includes Continuing and Discontinued Operations, and are on a normalised basis unless stated otherwise
2. Includes amounts attributable to non-controlling interests

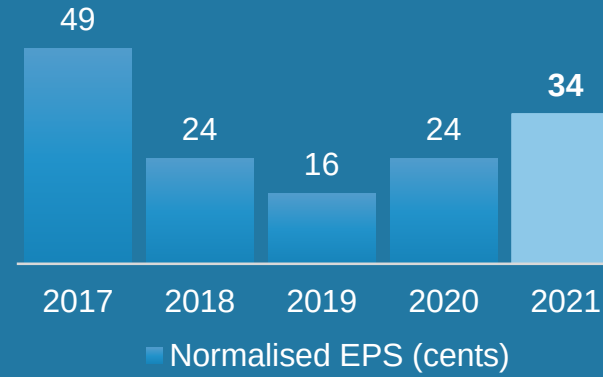
3. Refer to Glossary for definition
4. Prior years' debt to EBITDA have been restated for consistency with the current period. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent

Key financial metrics for Total Group FY21¹

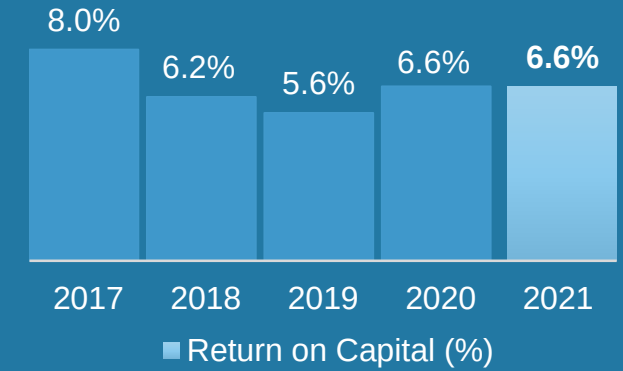
Working Capital Days



Normalised EPS



Return on Capital^{2,3}

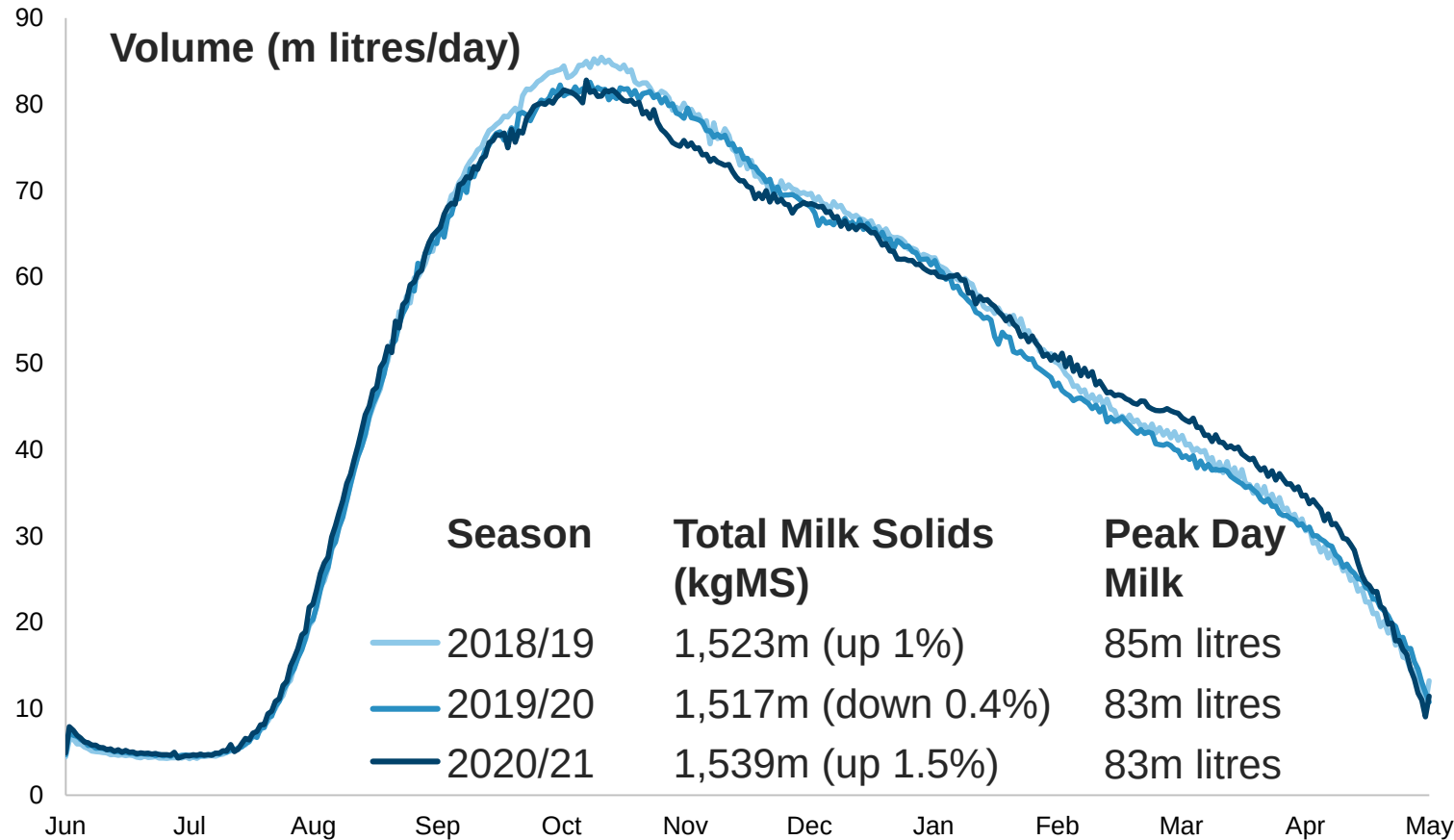


1. Total Group figures for the year ended 31 July 2021. This includes Continuing and Discontinued Operations, and are on a normalised basis unless stated otherwise

2. Refer to Glossary for definition

3. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior year notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with the current period

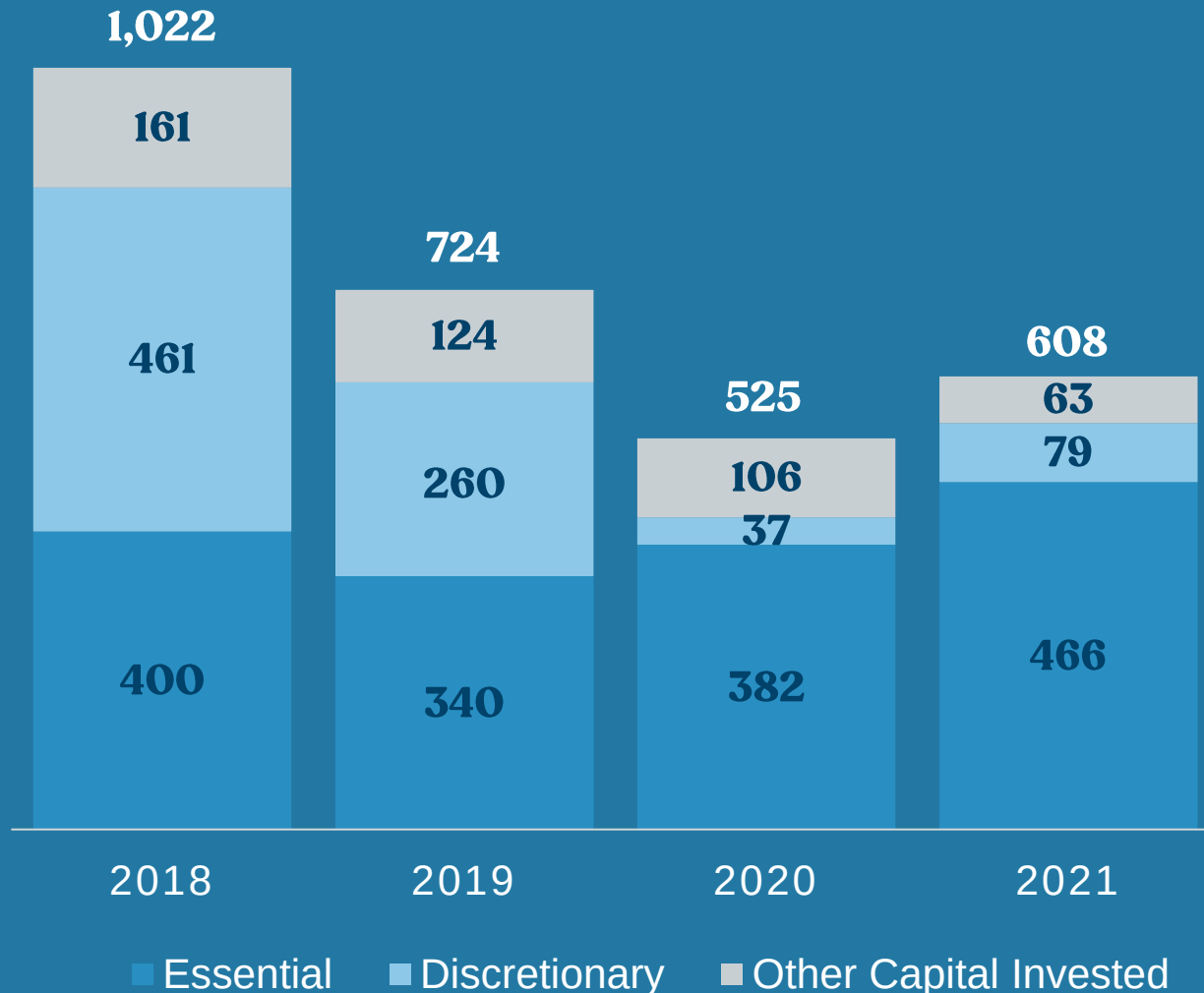
Fonterra's New Zealand milk collections



- Fonterra's NZ milk collections for the 2020/21 season reached 1,539 million kgMS, an increase of 1.5% on last season's collection
- Good start to the season was driven by favourable mild conditions, supporting pasture growth
- From October to January, increasingly dry conditions and poor soil moisture levels impacted peak collections
- A settled end to the summer, with a mix of rainfall and warm weather, saw collections in the North Island increase significantly from February to May

Total capital invested

\$ million



- Total capital invested comprised of \$545 million capital expenditure and \$63 million of other investments
- Capital expenditure increased \$126 million to \$545 million, largely due to projects delayed by COVID-19 in FY20 being completed this year
- Capital expenditure of \$545 million comprised \$466 million essential spend and \$79 million discretionary spend
 - Discretionary capex increased \$42 million
 - Essential capex increased \$84 million
- Other capital invested decreased from \$106 million to \$63 million

Cash flow and change in net debt

NZD million	2020	2021
Cash generated from operations ¹	1,671	1,449
Net change in working capital	(106)	(171)
Net taxes paid	(73)	(84)
A. Net cash flows from operating activities	1,492	1,194
Cash flows from investing activities		
Divestments and asset sales	827	782
Capital expenditure and other ²	(491)	(559)
B. Net cash flows from investing activities	336	223
Free cash flow (A+B)	1,828	1,417
Interest, dividend and other	(444)	(452)
Non-cash changes in net debt and other ³	(294)	(93)
Reduction in net debt⁴	1,090	872

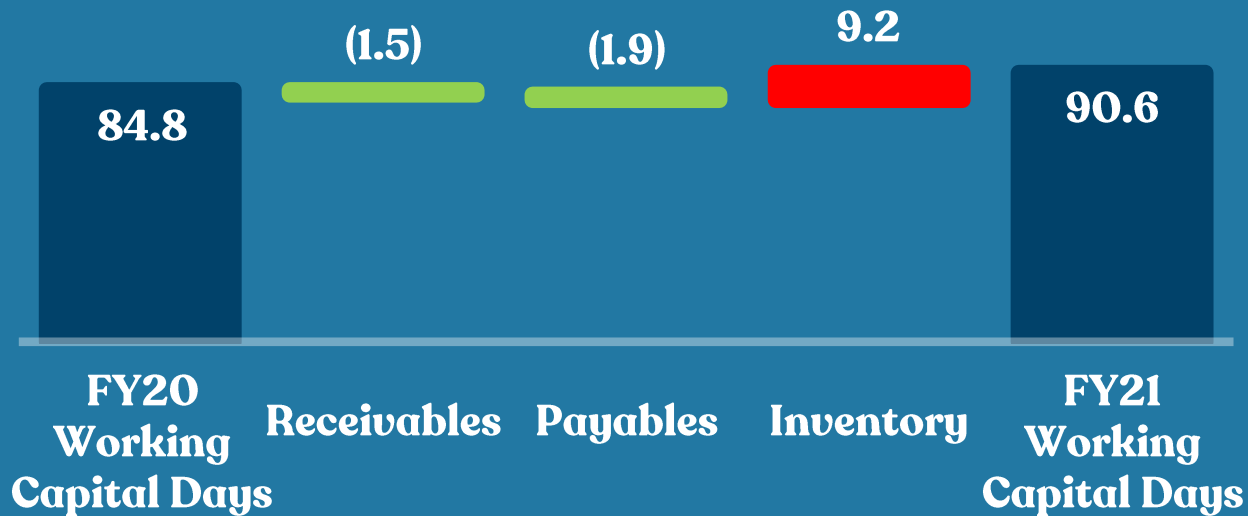
1. Includes EBIT and non-cash and non-operating adjustments made to EBIT to determine cash generated from operations
2. Capital expenditure presented in this table is different to capital expenditure on previous page primarily due to treatment of livestock and accruals

3. Includes adjustment for disposal groups held for sale
4. Net debt excludes amounts attributable to disposal groups held for sale

- Free cash flow of \$1.4 billion reflects strong operating performance and assets sale proceeds:
 - Net cash flows from operating activities of \$1.2 billion
 - Net cash flows from investing activities of \$0.2 billion, with proceeds from divestments of \$0.8 billion, less capital invested of \$0.6 billion
- The \$1.4 billion of free cash flow was used to pay interest of \$0.3 billion, dividends of \$0.2 billion with the balance reducing net debt by \$0.9 billion

Working Capital

Days	2020	2021
Receivables	30.9	29.4
Payables	(28.5)	(30.4)
Inventory	82.4	91.6
Total	84.8	90.6



- Receivable days are favourable due to improved customer collection management and overdue debtors have reduced
- Higher payables days due to increased capital expenditure
- Inventory days are unfavourable due to:
 - Higher than average inventory throughout the year as a result of sales slippage due to port congestion
 - Impact of a higher milk price

Drivers of return on capital

NZD million	2020	2021
Total Group normalised EBIT	879	952
Finance income on long-term advances	7	8
Notional tax charge ¹	(74)	(155)
Total Group normalised EBIT plus finance income on long-term advances less notional tax charge	812	805
Capital employed at year end	11,503	10,863
Impact of seasonal capital employed	810	1,418
Average capital employed	12,313	12,281
Return on capital² (%)	6.6%	6.6%

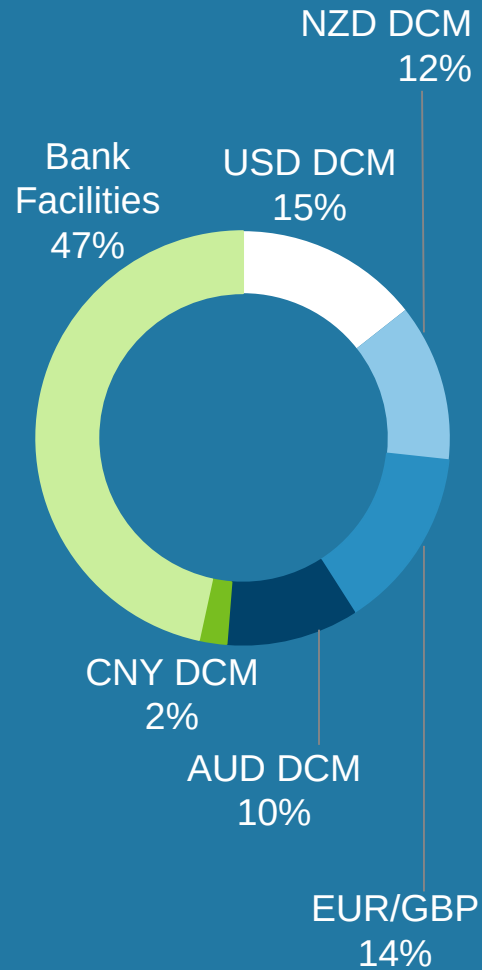
- Increase in normalised EBIT has been offset by increase in notional tax rate used to calculate after tax operating earnings
- Notional tax rate applied increased to 16.1% from 8.4% due to a change in our dividend policy and realised tax rates
- Average capital employed was stable year on year

1. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior year notional tax charge

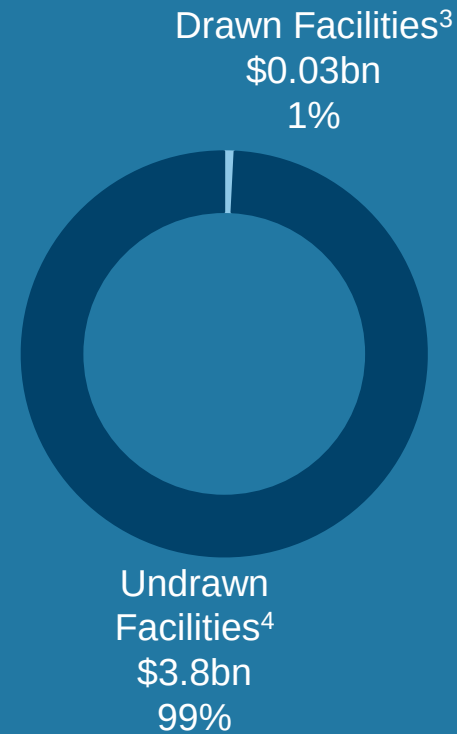
2. Return on capital was reported as 6.7% in 2020. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with the current period. Return on capital is Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed

Diversified and prudent funding position

Diversified Profile¹

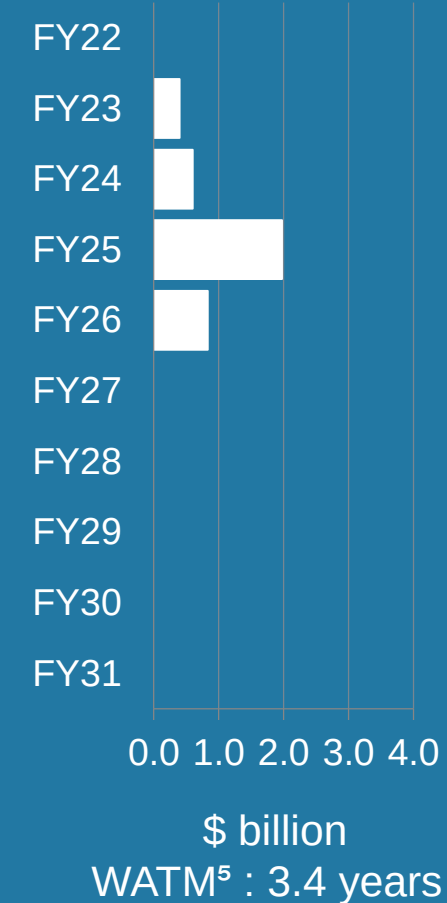


Prudent Liquidity



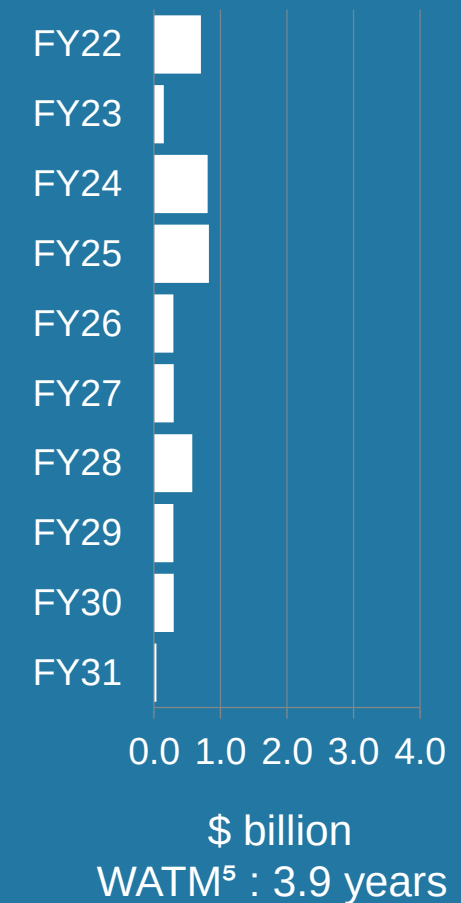
Bank Facilities

Maturity Profile



Debt Capital Markets²

Maturity Profile



1. Includes undrawn facilities and commercial paper. DCM is debt capital markets
2. Excluding commercial paper

3. Drawn facilities relate to subsidiaries
4. Undrawn facilities includes \$0.9bn stepped down during the year, reinstated from 1 Sept 2021

5. WATM is weighted average term to maturity
Note: As at 31 July 2021 and excludes amounts attributable to disposal groups held for sale

Operating expenses

NZD million ¹	2020	2021
Cost allocated to regions		
Selling and marketing	636	656
Distribution and storage	539	543
Administrative expenses	619	574
Research and development	63	82
Other expenses	96	75
Total allocated operating expenses	1,953	1,930
Unallocated costs	241	223
Total operating expenses	2,194	2,153
Discontinued Operations	129	89
Total Group operating expenses ²	2,323	2,242

- Total Group normalised operating expenses decreased \$81 million
 - \$41 million decrease in Continuing Operations
 - \$40 million decrease in Discontinued Operations, predominantly due to lower cost in DPA Brazil, benefiting from a weaker local currency
- Unallocated costs decreased \$18 million mainly due to a reduction in provisions held at Group level
- Increased expenses in key categories to drive earnings – selling and marketing, and research and development

1. Normalised basis. Does not align to FY21 Financial Statements, predominately due to additional categories

2. Impairments of intangible assets not included in the strategic review for the 2020 Financial Year (\$55 million) have been reclassified from 'other' to administrative expenses category within Total Group operating expenses

Unallocated costs¹

NZD million ²	2020	2021
Farmer services	41	44
Communication and community	15	13
Fonterra Board & Co-operative Council	7	7
Governance support	34	34
Group finance, property & support	48	42
People & culture	11	10
Other	85	73
Total	241	223

- Unallocated costs are favourable \$18 million predominantly due to 'Other'
- 'Other' decreased \$12 million, mainly due to a reduction in provisions held at Group level

1. Refer to Glossary for definition
2. Normalised basis

Group performance by product channel

Ingredients

Volume ('000 MT)

2,346 From 2,345 

Revenue (\$ millions)

13,697 From 13,711 

Gross margin

8.1% From 10.7% 

\$ millions ■ 2020 ■ 2021



Foodservice

Volume ('000 MT)

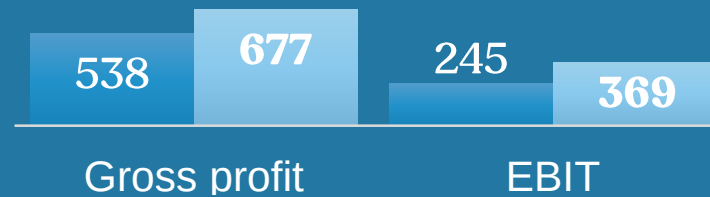
498 From 458 

Revenue (\$ millions)

2,959 From 2,681 

Gross margin

22.9% From 20.1% 



Consumer

Volume ('000 MT)

1,070 From 1,057 

Revenue (\$ millions)

4,070 From 3,930 

Gross margin

28.4% From 26.3% 



Note: Figures are for the year ended 31 July. Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations. Comparative information has been restated for consistency with the current period attribution

Group performance by region

Asia Pacific

Volume ('000 MT)

1,386 From 1,406 ↓

Revenue (\$ millions)

7,110 From 7,074 ↑

Gross margin

16.8% From 17.1% ↓

\$ millions ■ 2020 ■ 2021



AMENA

Volume ('000 MT)

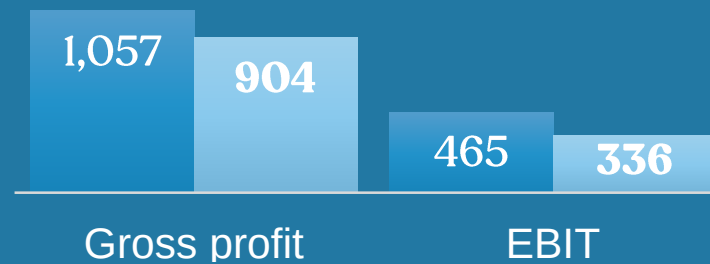
1,352 From 1,433 ↓

Revenue (\$ millions)

7,304 From 7,874 ↓

Gross margin

12.4% From 13.4% ↓



Greater China

Volume ('000 MT)

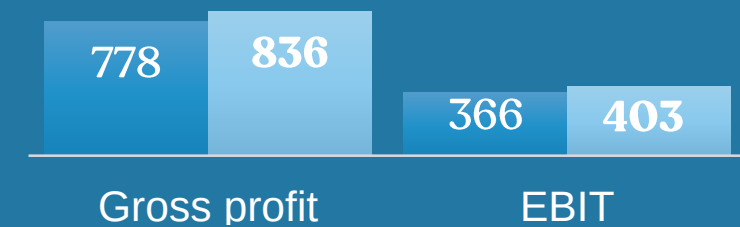
1,176 From 1,021 ↑

Revenue (\$ millions)

6,312 From 5,374 ↑

Gross margin

13.2% From 14.5% ↓

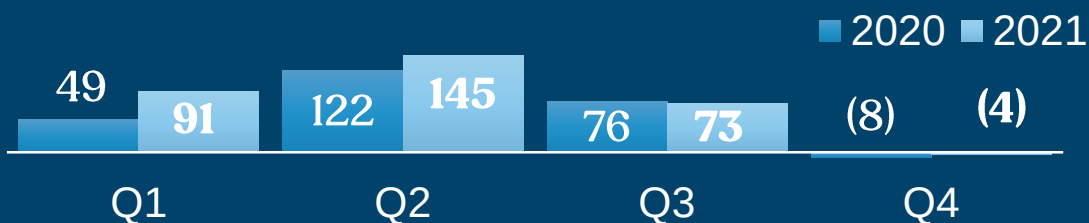


Note: Figures are for the year ended 31 July. Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations. Comparative information has been restated for consistency with the current period attribution

Asia Pacific

million	2020	2021	%Δ ¹
Sales volume ² ('000 MT)	1,406	1,386	(1)%
Revenue (\$)	7,074	7,110	1%
Gross profit (\$)	1,207	1,195	(1)%
Gross margin (%)	17.1%	16.8%	
Operating expenses (\$)	(967)	(889)	8%
Other ³ (\$)	(1)	(1)	-
Normalised EBIT ⁴ (\$)	239	305	28%
Includes EBIT attribution from Group Operations ⁵ (\$)	47	(3)	-

EBIT by Quarter



- EBIT of \$305 million, up \$66 million
- Strong performance in Consumer and Foodservice, partially offset by a decline in Ingredients:
 - Consumer increased gross margins
 - Foodservice increased sales volume and improved gross margins
 - Ingredients margins adversely impacted by pricing arrangements on bulk liquid milk contracts
- Operating expenses reduced to normal levels
- Lower EBIT attributed from Group Operations due to the reduced margins in Ingredients

Note: Figures are for the year ended 31 July and are on a normalised Continuing Operations basis. Comparative information has been restated for consistency with the current period, and FY21 quarterly breakdown has been restated for increased accuracy of cost allocations

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. Includes sales to other segments
3. Consists of other operating income, net foreign exchange gains/(losses) and share of equity accounted investees
4. This includes EBIT attribution from Group Operations
5. This is included in Asia Pacific's EBIT. Refer to Glossary for explanation of Group Operations

Asia Pacific channel performance

Ingredients

Volume ('000 MT)

610 From 623 ↓

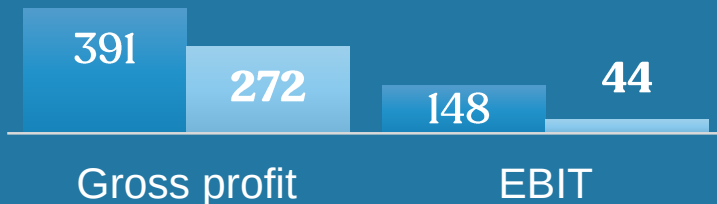
Revenue (\$ millions)

3,654 From 3,692 ↓

Gross margin

7.4% From 10.6% ↓

\$ millions ■ 2020 ■ 2021



Foodservice

Volume ('000 MT)

163 From 154 ↑

Revenue (\$ millions)

930 From 915 ↑

Gross margin

23.4% From 18.3% ↑



Consumer

Volume ('000 MT)

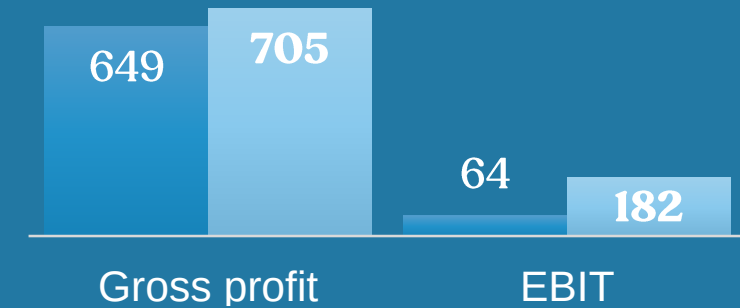
613 From 629 ↓

Revenue (\$ millions)

2,526 From 2,467 ↑

Gross margin

27.9% From 26.3% ↑



Note: Figures are for the year ended 31 July. Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations. Comparative information has been restated for consistency with the current period attribution

Australia

million ¹	2020	2021	%Δ ²
Milk collection (kgMS)	108	106	(2)%
Sales volume ³ ('000 MT)	406	373	(8)%
Revenue (\$)	2,036	1,953	(4)%
Gross profit (\$)	214	243	14%
Gross margin (%)	10.5%	12.4%	
Operating expenses (\$)	(157)	(167)	(6)%
Other ⁴ (\$)	(3)	(2)	33%
Normalised EBIT (\$)	54	74	37%

- EBIT increased \$20 million to \$74 million, due to a strong performance in the Consumer channel
- Lower sales volume due to optimising the portfolio to a higher returning product mix and global shipping delays
- Gross profit increased due to strong margins in the Consumer and Foodservice channel
- Ingredients channel was adversely impacted by high Australian dollar, geo-political impacts and shipping delays
- Operating expenses up 6% due to increased investment in brands

Note: Figures are for the year ended 31 July. This table was prepared exclusive of Group Operations attribution

1. Normalised basis

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

3. Includes sales to other segments

4. Consists of other operating income and net foreign exchange gains/(losses)

million	2020	2021	%Δ ¹
Sales volume ² ('000 MT)	1,433	1,352	(6)%
Revenue (\$)	7,874	7,304	(7)%
Gross profit (\$)	1,057	904	(14)%
Gross margin (%)	13.4%	12.4%	
Operating expenses (\$)	(585)	(605)	(3)%
Other ³ (\$)	(7)	37	-
Normalised EBIT ⁴ (\$)	465	336	(28)%
Includes EBIT attribution from Group Operations ⁵ (\$)	39	(99)	-

EBIT by Quarter



- Lower volumes in Ingredients as sales volume was allocated to higher value markets
- Gross profit reduced due to lower sales volume and lower gross margin in Ingredients channel, impacted by the lag on the sale price on longer dated sales contracts
- Consumer gross margins and EBIT improved substantially as a result of improvements in the Chilean business
- Lower EBIT attributed from Group Operations due to the reduced margins in Ingredients
- Other reflected favourable FX revaluations
- EBIT of \$336 million, down \$129 million

Note: Figures are for the year ended 31 July and are on a normalised Continuing Operations basis. Comparative information has been restated for consistency with the current period, and FY21 quarterly breakdown has been restated for increased accuracy of cost allocations

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. Includes sales to other segments
3. Consists of other operating income, net foreign exchange gains/(losses) and share of equity accounted investees
4. This includes EBIT attribution from Group Operations
5. This is included in AMENA's EBIT. Refer to Glossary for explanation of Group Operations

AMENA channel performance

Ingredients

Volume ('000 MT)

912 From 1,031 ↓

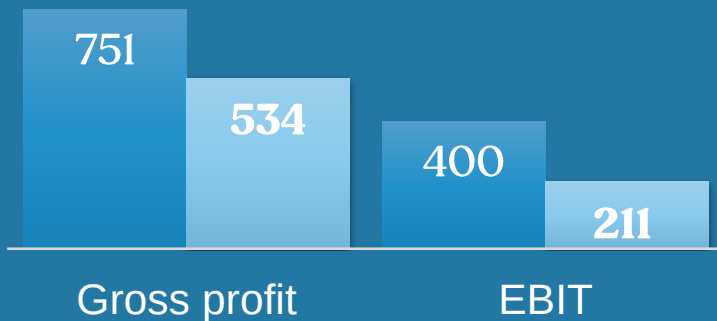
Revenue (\$ millions)

5,784 From 6,506 ↓

Gross margin

9.2% From 11.5% ↓

\$ millions ■ 2020 ■ 2021



Foodservice

Volume ('000 MT)

61 From 47 ↑

Revenue (\$ millions)

338 From 235 ↑

Gross margin

12.4% From 12.8% ↓



Consumer

Volume ('000 MT)

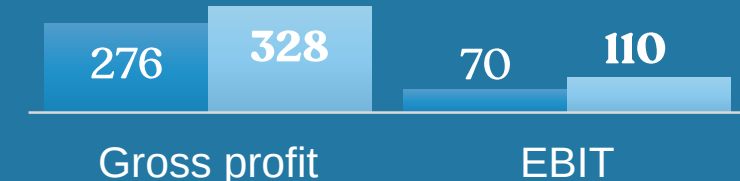
379 From 355 ↑

Revenue (\$ millions)

1,182 From 1,133 ↑

Gross margin

27.7% From 24.4% ↑



Note: Figures are for the year ended 31 July. Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations. Comparative information has been restated for consistency with the current period attribution

Latin America

million	2020	2021	%Δ ¹
Sales volume ² ('000 MT)	346	379	10%
Revenue (\$)	926	1,045	13%
Gross profit (\$)	242	285	18%
Gross margin (%)	26.1%	27.3%	
Operating expenses (\$)	(193)	(211)	(9)%
Other ³ (\$)	(7)	1	–
Normalised EBIT (\$)	42	75	79%

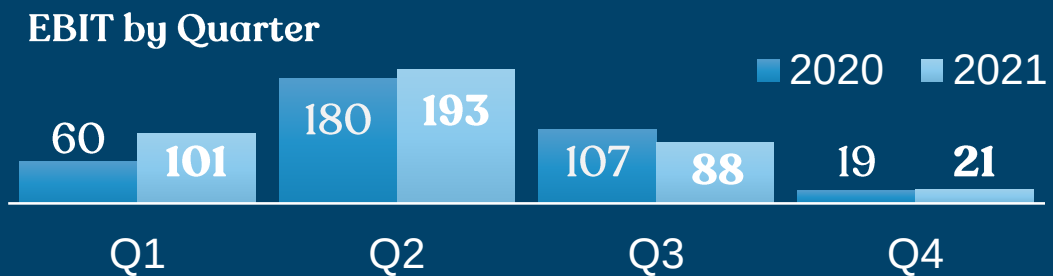
- EBIT up 79% to \$75 million as a result of higher sales volume and gross margins
- Sales volume increased, driven by new product development and government stimulus in Chile
- Gross margin increased due to improved product mix and pricing in our Chilean Consumer channel
- Operating expenses increased due to incurring additional costs related to workforce safety in COVID-19 conditions

Note: Figures are normalised and are for the year ended 31 July. This table was prepared exclusive of Group Operations attribution. Latin America includes Chile, Brazil and Venezuela but excludes DPA Brazil which is classified as Discontinued Operations

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. Includes sales to other segments
3. Consists of other operating income, net foreign exchange gains/(losses) and share of equity accounted investees

Greater China

million	2020	2021	%Δ ¹
Sales volume ² ('000 MT)	1,021	1,176	15%
Revenue (\$)	5,374	6,312	17%
Gross profit (\$)	778	836	7%
Gross margin (%)	14.5%	13.2%	
Operating expenses (\$)	(401)	(436)	(9)%
Other ³ (\$)	(11)	3	–
Normalised EBIT ⁴ (\$)	366	403	10%
Includes EBIT attribution from Group Operations ⁵ (\$)	84	(16)	–



- EBIT increased \$37 million to \$403 million, driven by higher sales volume and improved margin in the Foodservice channel
- Foodservice gross margin increased from 22.3% to 24.7%, as it shifted product into higher value products
- Ingredients' gross margin reduced, impacted by the lag on the sale price on longer dated sales contracts
- Sales volumes increased across all three channels, benefiting from the Chinese Government endorsing dairy
- Operating expenses increased \$35 million, predominantly to support the expansion of the Foodservice business

Note: Figures are for the year ended 31 July and are on a normalised Continuing Operations basis. Comparative information has been restated for consistency with the current period, and FY21 quarterly breakdown has been restated for increased accuracy of cost allocations

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. Includes sales to other segments
3. Consists of other operating income, net foreign exchange gains/(losses) and share of equity accounted investees
4. This includes EBIT attribution from Group Operations
5. This is included in Greater China's EBIT. Refer to Glossary for explanation of Group Operations

Greater China channel performance

Ingredients

Volume ('000 MT)

824 From 691 ↑

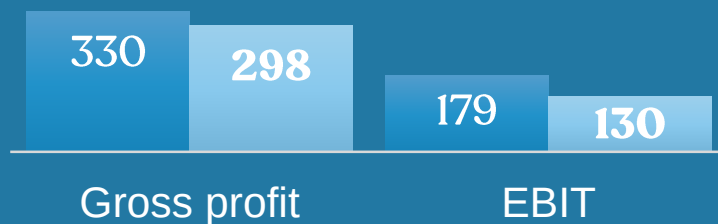
Revenue (\$ millions)

4,259 From 3,513 ↑

Gross margin

7.0% From 9.4% ↓

\$ millions ■ 2020 ■ 2021



Foodservice

Volume ('000 MT)

274 From 257 ↑

Revenue (\$ millions)

1,691 From 1,531 ↑

Gross margin

24.7% From 22.3% ↑



Consumer

Volume ('000 MT)

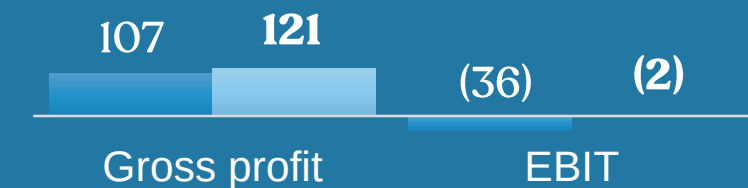
78 From 73 ↑

Revenue (\$ millions)

362 From 330 ↑

Gross margin

33.4% From 32.4% ↑



Note: Figures are for the year ended 31 July. Does not add to Total Group as shown on a normalised Continuing Operations basis and excludes unallocated costs and eliminations. Comparative information has been restated for consistency with the current period attribution

New Zealand sourced Ingredients product mix

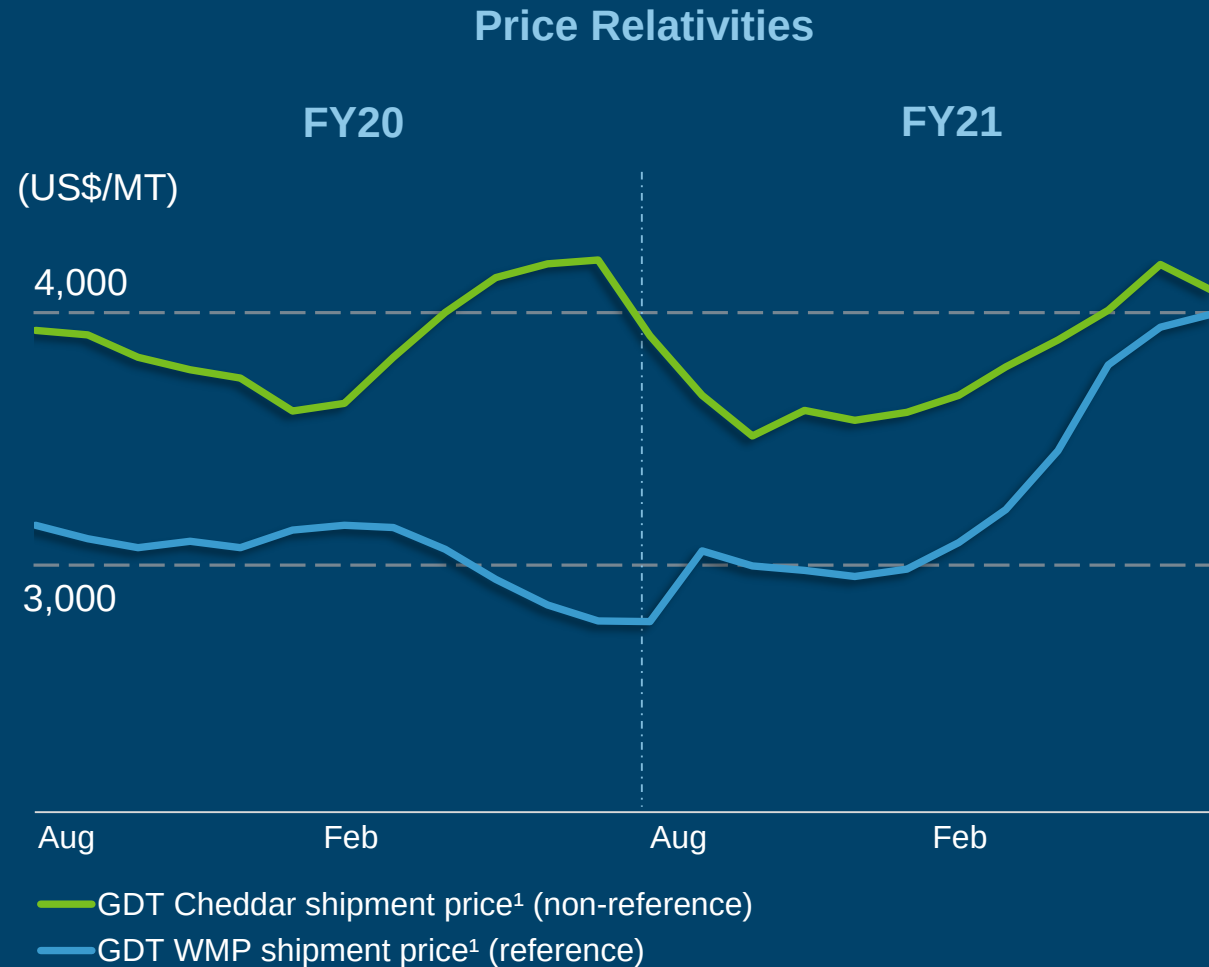
	2020		2021	
Sales Volume ('000 MT) ¹				
Reference products	1,820		1,817	
Non-reference products	794		884	
Revenue ¹				
	\$ billion	\$ per MT	\$ billion	\$ per MT
Reference products	9.5	5,192	9.4	5,162
Non-reference products	4.8	6,006	5.1	5,780
Cost of Milk				
Reference products	(7.2)	(3,959)	(7.4)	(4,069)
Non-reference products	(2.8)	(3,562)	(3.3)	(3,678)

- Shift in sales volume from reference products to non-reference product reflects growing demand in Foodservice and Consumer channels
- Average reference product price declined, despite the Farmgate Milk Price increase, due to:
 - Some longer dated sales contracts are not included in the Farmgate Milk Price
 - The sales prices in these sales contracts lag the change in dairy prices
- Non-reference product price declined more than reference product prices

1. Excludes bulk liquid milk. Bulk liquids for the year ended 31 July 2021 was 72,000 MT of kgMS equivalent (the year end July 2020 was 69,000 MT of kgMS equivalent)

Note: Figures represent Fonterra-sourced New Zealand milk only. Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF. Milk solids used in the products sold were 1,019 million kgMS in reference and 442 million kgMS non-reference (previous comparable period 1,023 million kgMS reference and 404 million non-reference)

Unfavourable price relativities in Ingredients



- Unfavourable Ingredients price relativities between reference and non-reference products during the second half of the year:
 - Illustrated by the relative price movements of WMP (reference product) and Cheddar (non-reference product)
 - Over the second half of the financial year WMP prices increased 30%, whilst Cheddar prices only increased 12%
- The narrowed price relativities adversely impacted earnings in the second half of the year

Source: GlobalDairyTrade

1. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped

Normalised items

NZD million	China Farms Joint Venture	Beingmate	China Farms	DPA Brazil	Total
Impairment	-	-	-	(39)	(39)
Impairment reversal	-	-	23	-	23
Gain on sale	40	-	32	-	72
Loss on sale of investment	-	(49)	-	-	(49)
EBIT	40	(49)	55	(39)	7
Tax impact	-	-	-	4	4
Profit/(loss) after tax	40	(49)	55	(35)	11
Loss attributable to non-controlling interests	-	-	-	17	17
Profit/(loss) after tax attributable to equity holders of the Co-operative	40	(49)	55	(18)	28

Earnings per share reconciliation

NZD million	2020	2021
Reported profit after tax¹	659	599
Add/(less): Share attributable to non-controlling interests	27	(21)
Reported profit after tax attributable to equity holders of the Co-operative ²	686	578
Reported earnings per share (cents)²	43	36
Normalised profit after tax¹	398	588
Add/(less): (Profit)/loss attributable to non-controlling interests	27	(21)
Less: Normalisation adjustments attributable to non-controlling interests	(43)	(17)
Normalised profit after tax attributable to equity holders of the Co-operative ²	382	550
Normalised earnings per share (cents)²	24	34
Weighted average number of Co-operative shares ('000)	1,612,076	1,613,105

1. Includes amount attributable to non-controlling interests
2. Attributable to equity holders of the Co-operative

Dividend Calculation

NZD cents per share	2020	2021
Normalised earnings ¹	24	34
Add: normalisations	19	2
Reported earnings ¹	43	36
Less: abnormal gains	(31)	(6)
Net earnings for dividend payment ²	12	30
Dividend payment percentage (%)	45%	57%
Dividend based on attributable earnings	5	17
Dividend based on abnormal gains ³	–	3
Total dividend	5	20
Interim dividend	–	5
Final dividend	5	15

- Total dividend of 20 cents per share
 - Interim dividend of 5 cents
 - Final dividend of 15 cents
- 3 cents of the 15 cents per share final dividend reflects the addition of abnormal gains³
- Final dividend of 15 cents per share will be paid on 15 October, with interim dividend of 5 cents per share having been paid on 15 April

1. Attributable to equity holders of the Co-operative, excludes non-controlling interest
 2. Represents net earnings as specified in the Dividend Policy and is calculated as reported profit after tax less abnormal gains
 3. Includes the reversal of previous impairment of our China Farms

Reconciliation to Total Group EBIT

NZD million	31 July 2020			31 July 2021		
	Continuing Operations ¹	Discontinued Operations ¹	Total Group	Continuing Operations ¹	Discontinued Operations ¹	Total Group
Revenue	20,282	693	20,975	20,565	559	21,124
Cost of goods sold	(17,236)	(531)	(17,767)	(17,581)	(429)	(18,010)
Gross profit	3,046	162	3,208	2,984	130	3,114
Gross margin	15.0%	23.4%	15.3%	14.5%	23.3%	14.7%
Operating expenses ³	(2,194)	(129)	(2,323)	(2,153)	(89)	(2,242)
Other ^{2, 3}	(5)	(1)	(6)	65	15	80
Normalised EBIT	847	32	879	896	56	952
Normalisations	435	(167)	268	(9)	16	7
EBIT	1,282	(135)	1,147	887	72	959

1. Refer to Note 1a and 2c of the FY21 Financial Statements

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

3. Impairments of intangible assets not included in the strategic review for the 2020 Financial Year (\$55 million) have been reclassified from 'other' to administrative expenses category within Total Group operating expenses

New Zealand and Non-New Zealand Milk

NZD million ¹	31 July 2020			31 July 2021		
	New Zealand Milk	Non-New Zealand Milk	Total	New Zealand Milk	Non-New Zealand Milk	Total
Revenue	17,212	3,070	20,282	17,331	3,234	20,565
Cost of goods sold	(14,615)	(2,621)	(17,236)	(14,844)	(2,737)	(17,581)
Gross profit	2,597	449	3,046	2,487	497	2,984
Gross margin	15.1%	14.6%	15.0%	14.4%	15.4%	14.5%
Operating expenses	(1,813)	(381)	(2,194)	(1,752)	(401)	(2,153)
Other ²	(7)	2	(5)	56	9	65
Normalised EBIT	777	70	847	791	105	896
EBIT margin	4.5%	2.3%	4.2%	4.6%	3.2%	4.4%

1. Figures are prepared on a normalised Continuing Operations basis

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

2021 Board Statement of Intentions



The Board Statement of Intentions sets out the Board's intentions for the performance and operations of Fonterra for FY21. In accordance with the Constitution of Fonterra, Fonterra is required to provide a regular overview to the Fonterra Co-operative Council of actual achievements, compared with the targets set by the Board. The table below provides an update of Fonterra's performance against these targets for the year ended 31 July 2021.

	FY20	FY21 SOI	FY21
Healthy People			
Total recordable injury frequency rate (TRIFR) per million work hours ¹	5.8	5.0	5.7
Female representation in senior leadership ²	29.1%	35.0%	32.4%
Employee engagement	4.07	≥4.11 (Top Quartile)	4.09
Farmer sentiment (Net Promoter Score for Fonterra in New Zealand)	33	10	23
Healthy Environment			
Number of farms with Farm Environment Plans (New Zealand)	34%	45%	53%
Reduction in water used at sites in water-constrained regions versus FY18	(3.1)%	(10)%	(2.3)%
Reduction in greenhouse gas emissions from manufacturing versus FY15	(5.7)%	(10)%	(8.5)% ⁴
Solid waste to landfill (kilotonnes) below FY20	15.9	13.1	12.5
Healthy Business			
Fonterra % kgMS of New Zealand milk collected for the season ended 31 May	80%	80%	79%
New Zealand Farmgate Milk Price (per kgMS)	\$7.14	\$5.90-\$6.90	\$7.54
Return on capital	6.6% ⁵	6% to 7%	6.6%
Debt/EBITDA	3.3x ⁵	3.0-3.5x	2.7x
Gearing Ratio ⁶	41.4%	36 to 40%	35.5%
Normalised earnings per share	24c	20c to 35c	34c

1. Part of zero harm philosophy which also includes target 0 serious harm/0 fatalities.

2. Senior leadership defined as Band 14+.

3. Employee engagement is measured through a company-wide survey.

4. Successful conversion of Te Awamutu to wood pellets, includes a negative impact of the New Zealand grid factor.

5. FY20 ROC and Debt/EBITDA were updated during FY21 and have been restated to align to FY21 Financial.

Statements. Previously these were 6.7% and 3.4x respectively.

6. In July 2021 the Board approved a new basis for calculating gearing ratio to align with the definition of debt used for the debt to EBITDA ratio. Adjusted net debt gearing ratio is calculated as adjusted net debt divided by total capital. This basis will be used to monitor the Group's gearing in the future. FY21 gearing on this basis would be 38.5%.

2022 Board Statement of Intentions



In accordance with the Constitution of Fonterra, the Board Statement of Intentions sets out the Board's intentions for the performance and operations of Fonterra. The table below outlines the targets for the year ended 31 July 2022.

	FY20	FY21	FY22 SOI
Healthy People			
Total recordable injury frequency rate (TRIFR) per million work hours ¹	5.8	5.7	5.6
Female representation in senior leadership ²	29.1%	32.4%	35.8%
Employee engagement	4.07	4.09	Top Quartile ³
Farmer sentiment (Net Promoter Score for Fonterra in New Zealand)	33	23	30
Healthy Environment			
Number of farms with Farm Environment Plans (New Zealand)	34%	53%	67%
Reduction in water used at sites in water-constrained regions versus FY18 ⁴	(2.9)%	(2.6)%	(8.0)%
Reduction in greenhouse gas emissions from manufacturing versus FY18 ⁵	(3.5)%	(6.5)%	(6.5)%
Healthy Business			
Fonterra % kgMS of New Zealand milk collected for the season ended 31 May ⁶	80%	79%	79.3%
New Zealand Farmgate Milk Price (per kgMS)	\$7.14	\$7.54	\$7.25-\$8.75 ⁶
Return on capital	6.6%	6.6%	6.5% to 7.0%
Debt/EBITDA	3.3x	2.7x	2.4x
Adjusted Net Debt Gearing Ratio ⁸	44.2%	38.5%	34.5%
Normalised earnings per share	24c	34c	25c to 40c ⁷

1. Part of zero harm philosophy which also includes target 0 serious harm/0 fatalities.

2. Senior leadership defined as Band 14+.

3. Under ongoing management review of the provider and means of determining engagement, measurement of this metric may not be completed during the FY22 financial year.

4. Constrained regions data updated to reflect Brightwater replaced by Kauri. Other sites are Clandeboye, Darfield, Edendale, Lichfield and Maungaturoto in New Zealand and Stanhope in Australia.

5. FY22 flat reflecting improved efficiencies offset by increased volumes. Figures updated to reflect sale of China Farms

6. % of kgMS collected is only available on an annual basis.

7. As announced 23 September 2021.

8. In July 2021 the Board approved a new basis for calculating gearing ratio to align with the definition of debt used for the debt to EBITDA ratio. The adjusted net debt gearing ratio is calculated as adjusted net debt divided by total capital.

Glossary

Adjusted net debt

Is economic net interest-bearing debt, excluding long-term advances, plus borrowings attributable to disposal groups held for sale, less cash and cash equivalents attributable to disposal groups held for sale, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries (including cash and cash equivalents attributable to disposal groups held for sale)

Adjusted net debt gearing ratio

Is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt. It includes net borrowings attributed to disposal groups held for sale

Asia Pacific

Represents the Ingredients, Foodservice and Consumer channels in New Zealand, Australia, Pacific Islands, South East Asia and South Asia

AMENA

Represents the Ingredients, Foodservice and Consumer channels in Africa, Middle East, Europe, North Asia and Americas

Capital expenditure

Capital expenditure comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets (excluding purchases of emissions units), net purchases of livestock, and includes amounts relating to disposal groups held for sale.

Capital invested

Capital invested comprises capital expenditure plus right of use asset additions and business acquisitions, plus equity contributions and long-term advances provided to, and investments in, entities that are not controlled.

Consumer

Represents the channel of branded consumer products, such as powders, yoghurts, milk, butter, and cheese

Debt/EBITDA

Is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees and net foreign exchange gains/losses

Dividend yield

Is dividends (per share) divided by volume weighted average share price for the period 1 August to 31 July

Earnings before interest and tax (EBIT)

Is profit before net finance costs and tax

Economic net interest-bearing debt (Net debt)

Is total borrowings, plus bank overdraft, less cash and cash equivalents and long-term advances, adjusted for derivatives used to manage changes in hedged risks on debt instruments. It excludes net borrowings amounts attributed to disposal groups held for sale

Economic net interest-bearing debt gearing ratio (ENIBD)

Is economic net interest-bearing debt divided by total capital. Total capital is equity excluding hedge reserves, plus economic net interest-bearing debt. It excludes net borrowings attributed to disposal groups held for sale

Glossary

Farmgate Milk Price

Means the average price that Fonterra pays for milk supplied to it in New Zealand for a season. 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, cafes, airports, catering companies etc. The focus is on customers such as; bakeries, cafes, Italian restaurants, and global quick-service restaurant chains. High performance dairy ingredients including whipping creams, mozzarella, cream cheese and butter sheets, are sold in 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

Greater China

Represents the Ingredients, Foodservice and Consumer channels in Greater China, and the Falcon China Farms JV

Group Operations

Comprises functions under the Chief Operating Office (COO) including New Zealand milk collection and processing operations and assets, supply chain, Group IT, Sustainability and Innovation; Farm Source™ retail stores; and the Central Portfolio Management function (CPM)

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

Normalised earnings per share (EPS)

Normalised earnings per share is calculated as normalised profit after tax attributed to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period

Return on capital

Is Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed

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
China: A period of 12 months from 1 August to 31 July

Unallocated costs and eliminations

Represents corporate costs including Co-operative Affairs and Group Functions; and any other costs that are not directly associated to the reporting segments; and eliminations of inter-segment transactions

Important information

Disclaimer

This presentation may contain forward-looking statements and projections. There can be no certainty of outcome in relation to the matters to which the forward-looking statements and projections relate. These forward-looking statements and projections involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements and projections. Those risks, uncertainties, assumptions and other important factors are not all within the control of Fonterra Co-operative Group Limited (Fonterra) and its subsidiaries (the Fonterra Group) and cannot be predicted by the Fonterra Group.

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Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised profit after tax, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations. Non-GAAP financial 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 are 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 Financial Statements.

Please refer to the Non-GAAP Measures section in Fonterra's 2021 Annual Review for further information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures. Definitions of non-GAAP measures used by Fonterra can be found in the Glossary.



Our Strategy to 2030

**Good
Together**
from one generation
to the next

Important cautions and disclaimer

This presentation may contain forward-looking statements, financial targets and ambitions (“**Forward Statements**”), each of which is based on a range of assumptions, including the assumptions noted in the Appendix of the booklet titled Our Path to 2030 (“**Appendix**”). None of the Forward Statements is intended as a forecast, estimate or projection of the outcome that will, or is likely to, eventuate. They should not be taken as forecasts or a guarantee of returns to shareholders. The Forward Statements were prepared by Fonterra and have not been audited or independently reviewed.

There can be no certainty of outcome in relation to the matters to which the Forward Statements relate. Our ability to achieve the outcomes described in the Forward Statements is subject to a number of assumptions (as described in the Appendix), each of which could cause the actual outcomes to be materially different from the events or results expressed or implied by such Forward Statements. The key dependencies affecting those assumptions are also described in the Appendix.

The Forward Statements also involve known and unknown risks, uncertainties and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such Forward Statements. The key risks and uncertainties that have been taken into account in preparing these materials are set out in the Appendix. Those risks, uncertainties, assumptions and other important factors are not all within the control of Fonterra Co-operative Group Limited (“**Fonterra**”) and its subsidiaries (the “**Fonterra Group**”) and cannot be predicted by the Fonterra Group. The Forward Statements in this presentation reflect views held only at the date of the booklet titled Our Path to 2030.

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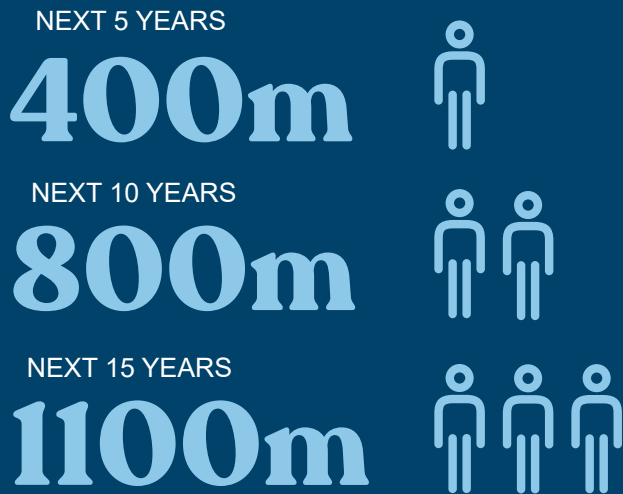
Statements about past performance are not necessarily indicative of future performance.

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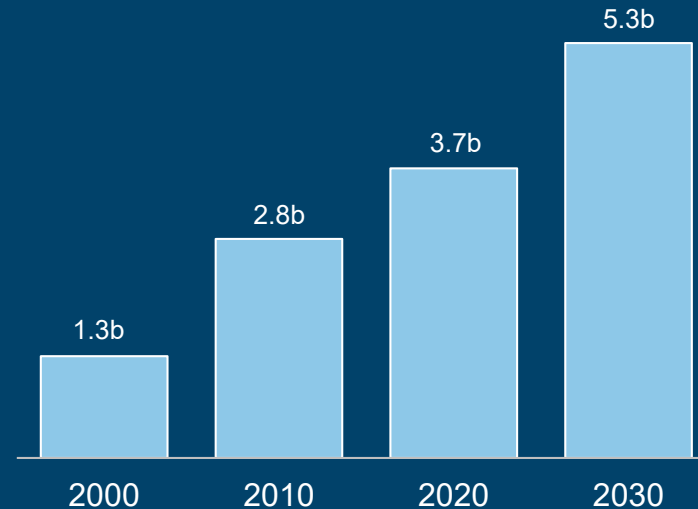
The fundamentals of dairy are strong

The world's population is growing¹



There will be more people needing nutrition.

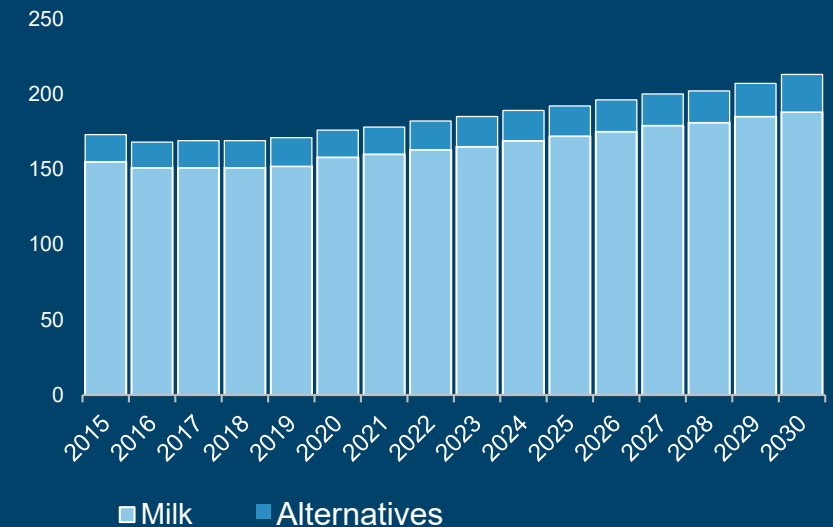
The world's middle class is growing – there will be more people able to afford dairy and wanting to consume it¹



The world wants sustainably produced, high-quality, nutritious milk.

Global market share of retail drinking milk products and alternatives²

By retail value RSP (US\$b)



Global demand for dairy is expected to continue to increase by about 2% per annum out to 2030³.

This comes at a time when we see milk supply in New Zealand as likely to decline, and flat at best.

1. Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021. Estimate based on earning 2X median household income.
2. Euromonitor International (www.euromonitor.com) – Euromonitor Passport, August 2021.
3. IFCN Dairy Research Network (www.ifcndairy.org) – IFCN Annual Dairy Sector Data with Long Term Outlook, September 2021.

To differentiate New Zealand milk, we have made three strategic choices



**Focus on New Zealand
milk**



**Be a leader in
sustainability**



**Be a leader in dairy
innovation and science**

Continue to focus on New Zealand milk



Look to release capital from milk pools outside NZ:

- Divest Chilean business
- Review ownership options for Fonterra Australia

A taste
of home
since
1886



Increase capital investment with the aim to:

- Differentiate New Zealand milk
- Grow Foodservice and Active Living
- Further strengthen Consumer

Be a leader in sustainability



**~\$1 billion
planned investment in
sustainability by 2030**



**Showcase our
brands' New Zealand
sustainable nutrition
story**



**Support our aspiration
to be Net Zero carbon
by 2050**



**Enhance menu of
provenance claims to
our customers**

Be a leader in dairy innovation and science



Dairy for life



Track record of innovation

- Probiotics for digestion, immunity and anxiety
- Lipids for stress management and cognition
- Protein for muscle tone



R&D

- Aim to invest ~50% more in R&D by 2030
- Develop more products to reach new customers and take Active Living opportunities



Nutrition Science Solutions

- Dedicated team narrowing down and prioritising areas where we can build a competitive advantage

The value targets we are aiming to achieve by 2030



\$6.50–\$7.50

per kgMS
Average Farmgate
Milk Price range for the decade

40–50%

Increase in operating
profit from FY21

~9–10%

Group Return on Capital,
up from 6.6% in FY21

~\$1b

Invested in
sustainability

~\$1b

Invested in moving milk to
higher value products

~\$1b

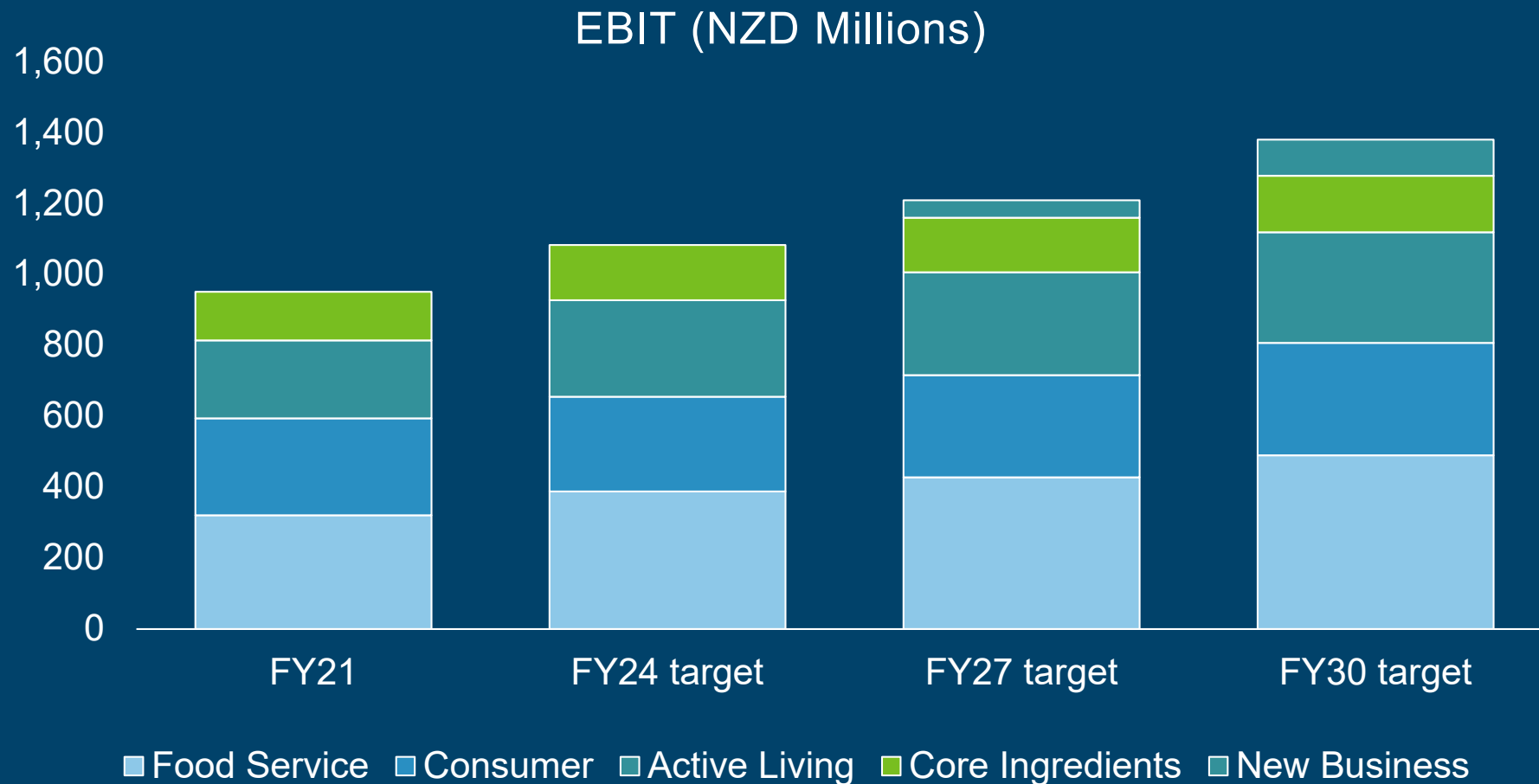
Intended to be distributed to
shareholders by FY24 after
asset sales

~\$2b

Available for investment in
a mix of further growth and
return to shareholders

Note: The figures on this slide are targets that we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. They are subject to successfully completing a number of business initiatives, and assumptions, each of which could materially affect the actual outcomes. The key assumptions and risks relating to these targets are set out in the Appendix of the booklet titled *Our Path to 2030*. Please also refer to the important cautions and disclaimer at the beginning of this presentation.

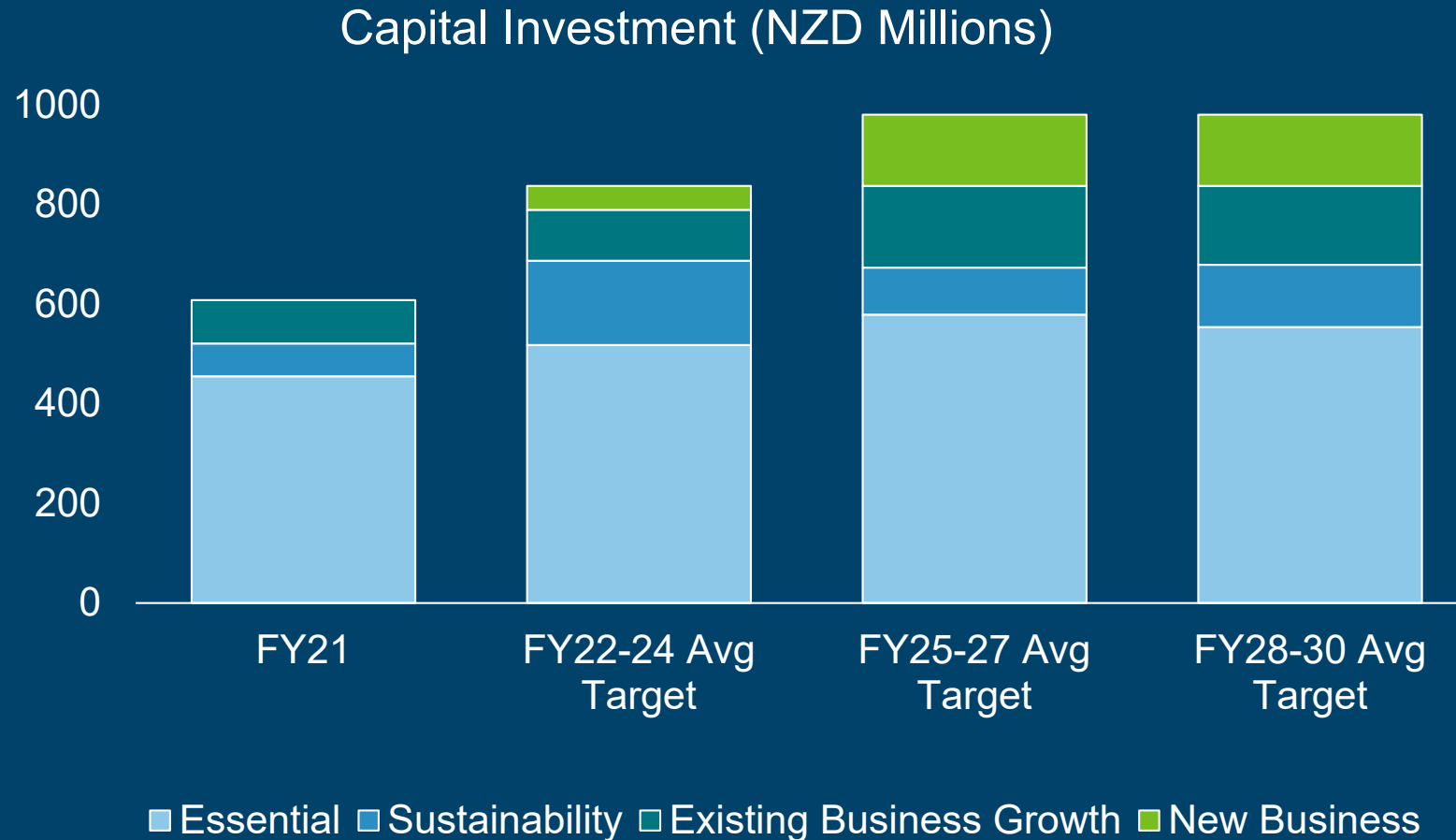
By 2030, we are aiming to improve operating profit by putting more milk into higher value products



We are targeting a 40-50% increase in operating profit from FY21

Note: The figures on this slide which relate to dates in the future are targets we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. The target years assume long-term average levels of price relativity and lag pricing impacts, and individual years are likely to vary from this assumption. Please refer to the important cautions and disclaimer at the beginning of this presentation, and the key assumptions and risks set out in the Appendix of the booklet titled Our Path to 2030 for further detail.

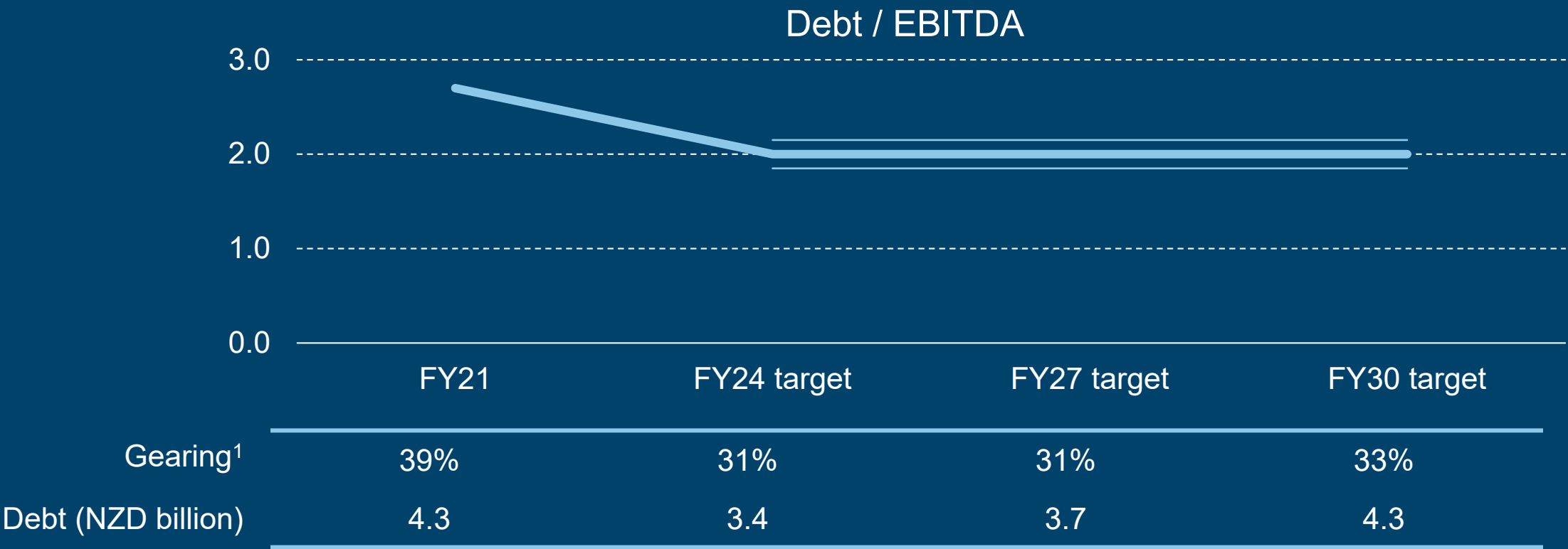
We will need to significantly increase our Capital Investment over the next decade



We believe our strong balance sheet supports investment in a sustainable future for our Co-op.

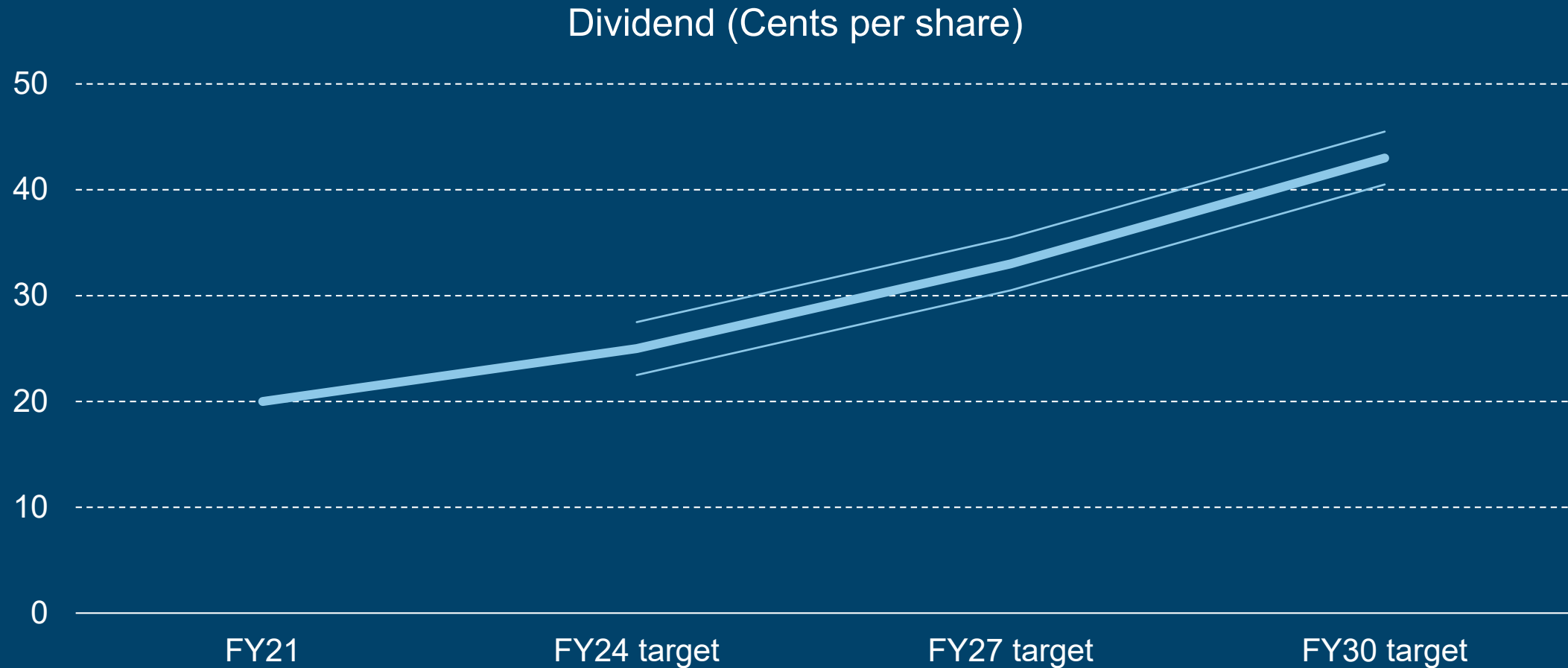
We expect capital investment to increase from ~\$600 million per annum to ~\$980 million by 2030.

We will continue to be financially disciplined, maintaining a conservative balance sheet



1. Updated measure of debt to align with credit rating agency methodology.
Note: The figures on this slide which relate to dates in the future are targets we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. Please refer to the important cautions and disclaimer at the beginning of this presentation and the key assumptions and risks set out in the Appendix of the booklet titled Our Path to 2030 for further detail.

By 2030 we are targeting a dividend of ~40-45 cents per share, up from 20 cents per share in FY21



Note: The figures on this slide which relate to dates in the future are targets we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. Please refer to the important cautions and disclaimer at the beginning of this presentation and the key assumptions and risks set out in the Appendix of the booklet titled Our Path to 2030 for further detail.

In summary



**Exciting
opportunity**



**Clear plan with
deep respect for
capital**



**Progressive steps
over the next
decade**



**Opening up options
for the future and
value for
shareholders**

APPENDIX

Our aspirational financial profile for the next decade

	FY20 Actual	FY21 Actual	FY22 Forecast	FY24 Year 3 Target	FY27 Year 6 Target	FY30 Year 9 Target
Improved performance						
EBIT (\$m)	\$879m	\$952m	\$875- \$975m	\$1,025- \$1,125m	\$1,150- \$1,250m	\$1,325- \$1,425m
Earnings per share (CPS)	24c	34c	25-40c	45-55c	50-60c	55-65c
Return on capital	6.6%	6.6%	6.5-7.0%	7.0-8.0%	7.5-8.5%	9.0-10.0%
Financial position						
Capital investment (\$m)	\$525m	\$608m	\$650m	\$980m	\$980m	\$980m
Debt to EBITDA ratio	3.3x	2.7x	2.4x**	<2.5x	<2.5x	<2.5x
Gearing ratio*	44%	39%	35%**	<35%	<35%	<35%
Dividend to shareholders						
Assumed Payout Ratio				50%	60%	70%
Dividends (CPS)	5c	20c	15-20c	22-27c	30-35c	40-45c

* Updated measure of debt to align with credit rating agency methodology.

** Calculated using an EPS of 35 cents.

Note: The figures in this table which relate to dates in the future are targets we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. The target years assume long-term average levels of price relativity and lag pricing impacts, and individual years are likely to vary from this assumption. Please refer to the important cautions and disclaimer at the beginning of this document and the key assumptions and risks in the Appendix of the booklet titled Our Path to 2030 for further detail.

Our Path to 2030 Te Huanui ki 2030



Dairy for life

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There can be no certainty of outcome in relation to the matters to which the Forward Statements relate. Our ability to achieve the outcomes described in the Forward Statements is subject to a number of assumptions (as described in the Appendix), each of which could cause the actual outcomes to be materially different from the events or results expressed or implied by such Forward Statements. The key dependencies affecting those assumptions are also described in the Appendix.

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This is just the beginning...

Kia ora

When I was asked by the Board to step into the CEO role in 2018, it came with both an element of trepidation and a great sense of responsibility to do what’s right for our farmer shareholders. I knew the next couple of years were going to be tough as we went about resetting the business.

To pen this letter three years on, having completed our reset phase and knowing what it means for our Co-op to have shored up our foundations, is hugely satisfying. I feel proud of what our team has achieved, and want to thank you for giving me your support through this period.

And this is just the beginning...

We know farming is an intergenerational business and it is now the right time for us to shift our focus to the future – and we are excited to share with you our Co-op’s long-term strategy.

We want to give you visibility of what our next decade looks like so you can see how the recommended capital structure changes enable our strategy and the value we are aiming to create for you.

As we look out to 2030, the fundamentals of dairy – in particular, New Zealand dairy – look strong. Put simply, the world wants what we’ve got – sustainably produced, high-quality, nutritious milk. This comes at a time when we see total milk supply in New Zealand as likely to decline, and flat at best.

On one hand, this requires the right capital structure to help ensure we don’t lose the benefits of what generations of farmers have built – a New Zealand dairy co-operative of scale.

But on the other hand, it gives us more options to be selective about what we do with our Co-op’s milk. In doing so, we can increase the value we generate for farmers and New Zealand over the next decade.

To make this happen we have **made three strategic choices** – continue to focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science. We’ve heavily stress tested these choices and know they are the right choices to give us a competitive edge, mitigate risks and position us to have a sustainable future well beyond 2030.



1. Focus on New Zealand milk

We believe New Zealand milk is the most valuable milk in the world due to our grass-fed farming model, which means our milk has a carbon footprint one third the global average for milk production. But we have an opportunity to differentiate our Co-op’s milk further in the global market and earn a premium. This requires us to focus our capital and our people on enhancing the natural goodness of New Zealand milk.

To help make this happen, we are continuing to refine our asset portfolio. We will invest in some of our existing manufacturing sites and businesses to ensure we have the capability to grow our Foodservice channel, continue momentum in our Consumer channel and move towards higher value specialty products in our Ingredients channel. Recently, we reviewed the ownership of our two other milk pools – in Australia and Chile.

We have begun considering the most appropriate ownership structure for **Fonterra Australia**, one option is an IPO, with the intention that our Co-op retains a significant stake. Fonterra Australia has transformed its business over the last three years and now operates efficiently with the leading dairy brands in the Australian market. We believe now is the time to bring in external capital to take this business to the next level but given the strong linkages to New Zealand-sourced milk, maintaining a significant stake remains a priority. As we continue this review and our thinking becomes clearer, we will provide regular updates.



We have also started a process to divest our integrated Chilean investment (**Soprole and Prolesur**). Soprole is a high performing business with a strong market position, including being one of the most recognisable food and beverage brands in Chile, and Prolesur is a subsidiary of Soprole focused on sourcing milk and manufacturing in Southern Chile. Chile is a complete stand-alone business that does not require any New Zealand-sourced milk or expertise and therefore is not the right strategic fit for our Co-op as we look out to the long term.

We see both these moves as critical to enabling greater focus on our New Zealand milk and, importantly, allowing us to free up capital, much of which is intended to be returned to shareholders.

2. Be a leader in sustainability

We're all striving for a better future than the one we have today – and that's particularly the case when we look at the environment.

New Zealand has the unique position of being the most carbon-efficient dairy nation on the planet and when you combine this with our pasture-based model, animal welfare standards and scale efficiency, we have something that can't be replicated.

But we can't slow down now. Customers and consumers want to know where their food comes from and the environmental impact it leaves, which is why it's important we continue to support the hard work our farmer owners have been doing to reduce the environmental impact of their business. A farmer's livelihood depends on producing good quality milk and that relies on a stable climate and healthy ecosystems.

It's for all these reasons, we aspire to be Net Zero carbon by 2050 and intend to invest around \$1 billion in sustainability initiatives over the next decade. Much of this will be required to upgrade our core manufacturing assets as we look to decarbonise our footprint and improve water use and quality. We also know that to maintain our relative carbon footprint advantage against the northern hemisphere farming system, we must solve the methane challenge and will be doubling our innovation efforts to look for solutions.

Doing so will allow us to invest in our brands to showcase our New Zealand sustainable nutrition story. This will put us in a position to further grow our Foodservice and Consumer channels across our markets in the Asia Pacific region and gain more value through our Ingredients channel by helping customers meet their own sustainability goals.

3. Be leader in dairy innovation and science

Our Co-op has a long and proud heritage of dairy innovation, pioneering many world firsts and, increasingly, new solutions which aim to solve problems our customers face in their operations and help people live healthier and longer lives.

When we look to our markets, we know the world's population is growing and getting older. Asia's middle class is rapidly increasing – they want more protein and more convenience in their life. People are more aware than ever of the links between nutrition and health, and they are taking more interest in their immunity, cognition and mental health.

Over the past decade we have developed a world-class Foodservice channel in China. Any dairy company globally can produce a product to sell into this category. But we believe no one can replicate our completely unique offering – the combination of pasture-based taste profile that is heavily sought after, our chef-led go-to-market model, our manufacturing scale, our innovation and our global reach. This sets us apart from our competitors and gives us the confidence to take this proven model to new regions throughout Asia Pacific.

The next phase of the nutrition journey is just being discovered. Food has evolved over many years from a simple energy source towards what consumers seek today – taste, convenience and pleasure. We are now seeing that some types of food, and in particular, dairy, could help with the answer to many of life's current challenges – cognition, immunity and even stress. This is why we will look to understand more of this health and wellness trend and where we can build a competitive advantage.

The value we're aiming to create

Our focus on New Zealand milk, sustainability, and innovation and science will see us shift every aspect of our business to create more value. In doing so we aim to continue to improve our financial performance and, as a result, strengthen our ability to repeatedly generate cash and create value for our shareholders and New Zealand.

There are four key value targets we're aiming to achieve by FY30:

- 1. **An average Farmgate Milk Price range for the decade of \$6.50-\$7.50 per kgMS.**
- 2. **A 40-50% increase in operating profit** from FY21 and, with the reduced interest from having less debt, this should translate into an approximately 75% increase in earnings, giving us the ability to steadily increase dividends to around 40-45 cents per share by FY30.
- 3. **A Group Return on Capital of 9-10%**, up from 6.6% in 2021.
- 4. Through planned divestments and improved earnings, an intended **return of about \$1 billion to shareholders by FY24, and around \$2 billion of additional capital available** for a mix of investment in further growth and return to shareholders. This is in addition to the approximately \$2 billion expected to be invested in sustainability and moving milk into higher value products.

Our strategy and ability to achieve these targets depend on a sustainable supply of New Zealand milk and in turn a capital structure that enables this. This is why the changes to our capital structure that are being recommended by your Board and Management team are so important to our future.

Good Together
from one generation to the next

We have an incredible raw material made on the pastures of New Zealand farms, a business supported by a talented and committed team who want to do right by you and an exciting opportunity to create value. It's up to us as a Co-op to work together, make the necessary changes and ensure we're creating goodness for generations – you, me, us together, tātou, tātou.

Miles Hurrell
Chief Executive Officer



Our strategy and plans

Our Co-operative’s strategy is to enhance people’s lives through convenience, health and wellbeing by unlocking the goodness of NZ milk.

THE VALUE WE’RE AIMING TO CREATE BY 2030

Average Farmgate Milk Price range for the decade
\$6.50–\$7.50
per kgMS

Operating Profit
40–50%
increase from FY21

Group ROC
~9–10%

~\$1b
invested in sustainability

~\$1b
invested in moving milk into higher value products

~\$1b
intended to be distributed to shareholders after asset sale

~\$2b
available for a mix of investment in further growth and return to shareholders

Make progress towards 2050 aspiration to be
Net Zero Carbon

~\$160m
per annum invested in R&D, up ~50% from FY21

Note: The figures in this section are targets that we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. They are subject to successfully completing a number of business initiatives, and assumptions, each of which could materially affect the actual outcomes. The target years assume long-term average levels of price relativity and lag pricing impacts, and individual years are likely to vary from this assumption. The key assumptions and risks relating to these targets are set out in the Appendix to the booklet *Our Path to 2030*. Please also refer to the important cautions and disclaimer at the beginning of the booklet *Our Path to 2030*.

WE AIM TO

Prioritise the Farmgate Milk Price

Grow Foodservice

Strengthen Consumer

Move towards higher value products in ingredients

OUR PLANS

Focus on
NZ Milk

 Sharpen portfolio

- Sell Chile business
- Explore ownership structure of Fonterra Australia, one option is an IPO

 Continue our shift to higher value

Be a leader in
Sustainability

 Make the most of our operational footprint and invest in sustainability

 Support further on-farm change to stay in front of customer expectations

 Bring our NZ dairy story to life

Be a leader in dairy
Innovation & Science

 Prioritise innovation, IP, simplification and digitisation

 Extend further into health and wellbeing

 Embed culture to drive high performance

 Develop our people capabilities for a changing and technological world

 Create competitive advantage through nutrition solutions

The financial value we're aiming to create

Over the next decade we aim to continue to improve our financial performance, align our asset portfolio to our strategy and look for more capital-light ways of doing business.

Our plans are based on a target average Farmgate Milk Price range of \$6.50-7.50 per kgMS.

An improved performance will give us the ability to increase dividends. It will allow us to fund necessary investments which are critical to our aspiration to be Net Zero carbon by 2050 and give us the manufacturing capability to direct our Co-op's milk into the highest value products.

We are starting a divestment process for our integrated investments in Chile (Soprole and Prolesur) and are reviewing ownership options for Fonterra Australia, one option is an IPO, with the intention that the Co-op retains a significant stake. Subject to successfully completing these processes and achieving our ongoing business targets, we intend to return a significant portion of the net sale proceeds from these transactions to our shareholders by FY24. The combination of these divestments and our targeted earnings provides further capacity to return capital to our shareholders and this is assumed to occur from FY25 onwards.

Our focus on value creation also opens up choices for investing in exciting new, high value growth opportunities in nutrition science. However, if we are not confident that we can achieve a double-digit risk adjusted return on capital, there would also be an option to return further capital to shareholders.

Moving milk into the highest-returning products will be key to unlocking our earnings potential. We plan to increase milk solids in our Foodservice channel by around 50% by FY30. We will seek to achieve this by growing our global Foodservice presence across Greater China, South East Asia and the USA.



Note: The figures in this section which relate to dates in the future (including those in the table and graphs which follow) are targets that we are aiming to achieve only. They should not be taken as forecasts or as a guarantee of returns to shareholders. They are subject to successfully completing a number of business initiatives, and assumptions, each of which could materially affect the actual outcomes. The target years assume long-term average levels of price relativity and lag pricing impacts, and individual years are likely to vary from this assumption. The key assumptions and risks relating to these targets are set out in the Appendix. Please also refer to the important cautions and disclaimer at the beginning of this document.

Our aspirational financial profile for the next decade

	FY20 Actual	FY21 Actual	FY22 Forecast	FY24 Year 3 Target	FY27 Year 6 Target	FY30 Year 9 Target
Improved performance						
EBIT (\$m)	\$879m	\$952m	\$875- \$975m	\$1,025- \$1,125m	\$1,150- \$1,250m	\$1,325- \$1,425m
Earnings per share (CPS)	24c	34c	25-40c	45-55c	50-60c	55-65c
Return on capital	6.6%	6.6%	6.5-7.0%	7.0-8.0%	7.5-8.5%	9.0- 10.0%
Financial position						
Capital investment (\$m)	\$525m	\$608m	\$650m	\$980m	\$980m	\$980m
Debt to EBITDA ratio	3.3x	2.7x	2.4x**	<2.5x	<2.5x	<2.5x
Gearing ratio*	44%	39%	35%**	<35%	<35%	<35%
Dividend to shareholders						
Assumed Payout Ratio	–	–	–	50%	60%	70%
Dividends (CPS)	5c	20c	15-20c	22-27c	30-35c	40-45c

* Updated measure of debt to align with credit rating agency methodology.
** Calculated using an earnings per share of 35 cents.

By 2030, we are aiming for our EBIT to increase by about 40-50% and our net earnings to grow by more than 75% to around 60c per share.

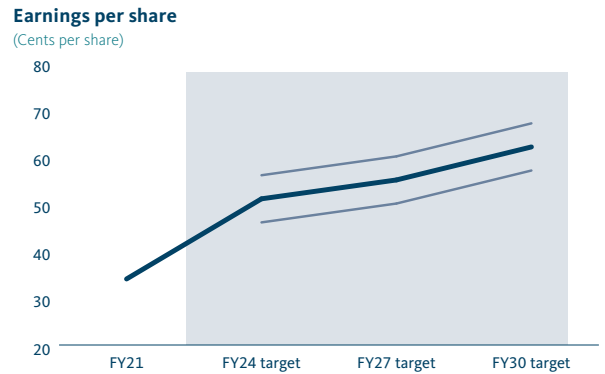
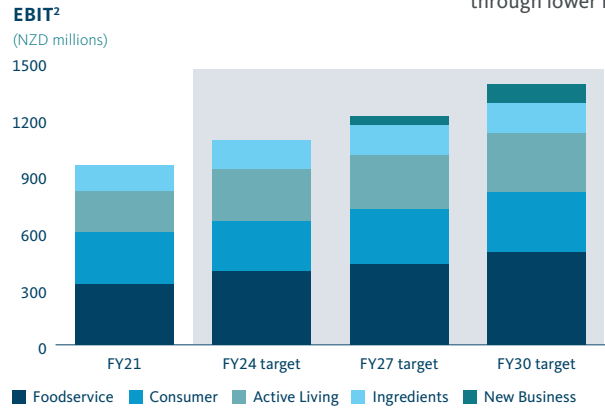
Over the next four years we are aiming to improve our margins in Consumer, using our New Zealand provenance and sustainability credentials to differentiate our brands. This will be supported by our ability to realise e-commerce opportunities.

We believe our ongoing focus on product innovation in the Active Living portfolio¹, which includes advanced sports, active, healthy ageing and medical nutrition ingredients, will help continue improving margins. In addition, we will look to invest about \$1 billion in new growth business opportunities, including nutrition science opportunities to accelerate our growth in Active Living and aim to deliver a total Group return on investment of almost 10% over this period.

Given the constrained milk environment we expect to be operating in and the growth we are targeting for our Consumer, Foodservice and Active Living channels, we expect to reduce the amount of milk solids we direct to our core Ingredients channel from 74% of our portfolio in 2021 to about 64% in 2030.

We are targeting an EBIT improvement of about 40-50% by 2030, taking into account the proposed sale of our investment in Soprole and potential ownership changes to our Australian business over the next two years. In FY21, Soprole contributed around 3 cents to our earnings per share and Australia contributed around 3 cents.

On an earnings per share basis, we expect to see the benefit of reducing interest expense through lower rates and debt levels.



1 Active Living is substantially the same as Speciality Ingredients as reported in our Business Performance Report 2021.
2 These channel EBIT amounts include the allocation of unallocated costs and the breakdown of Ingredients into core Ingredients and Active Living. As a result, the EBIT splits will vary from those summarised in the Annual Review and Business Performance Report.

2030 targets we are aiming to achieve

Average Farmgate Milk Price range for the next decade: \$6.50-\$7.50 per kgMS

40-50% increase in operating profit from FY21

Increase dividends to ~40-45 cents cents per share

Group Return on Capital of ~9-10%

An intended return of about ~\$1 billion to shareholders by FY24

~\$2 billion of additional capital available for a mix of investment in further growth and return to shareholders.

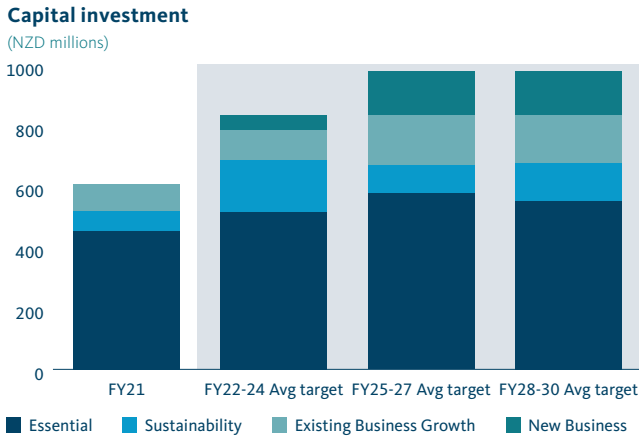
We expect that investing in a sustainable future for our Co-op will require an increase in capital investment from about \$600 million per annum to about \$980 million per annum by 2030.

Our Co-op has invested significantly over the last two decades and it is obviously important we maintain our existing manufacturing sites and business infrastructure in good working condition. Doing this and making necessary ongoing efficiency improvements, requires about \$550 million per year – this is what we call essential capital.

Over the next decade we intend to significantly increase our investment in sustainability related activities throughout our supply chain to both mitigate environmental risks and continue to differentiate our New Zealand milk. By FY30 we intend to invest around \$1 billion in reducing carbon emissions and improving water efficiency and treatment at our manufacturing sites. In doing so, we will be taking significant steps towards our aspiration to be Net Zero carbon by 2050.

Capital investment will also be needed to support growth in our Consumer and Foodservice channels and accelerate the growth of our Active Living channel, particularly in areas underpinned by nutrition science capability. We will support this by increasing our R&D and innovation budget. We are aiming to increase our current total annual R&D investment by over 50% to around \$160 million per annum in 2030, with about \$60 million per annum specifically targeted at growth in Active Living.

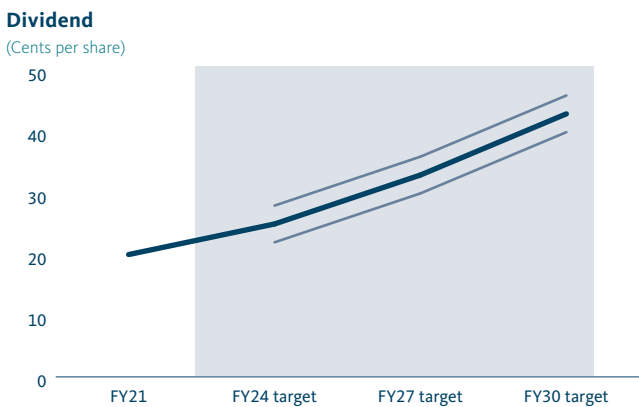
In a constrained milk environment, we expect to have enough capacity across our manufacturing network to process all our farmer owners’ milk and therefore no new investment in processing capacity should be required over the next decade. However, we intend to invest in some of our manufacturing sites so we can move more milk into higher value products.



By 2030 we are targeting a dividend of around 40–45 cents per share, up from 20 cents per share in 2021.

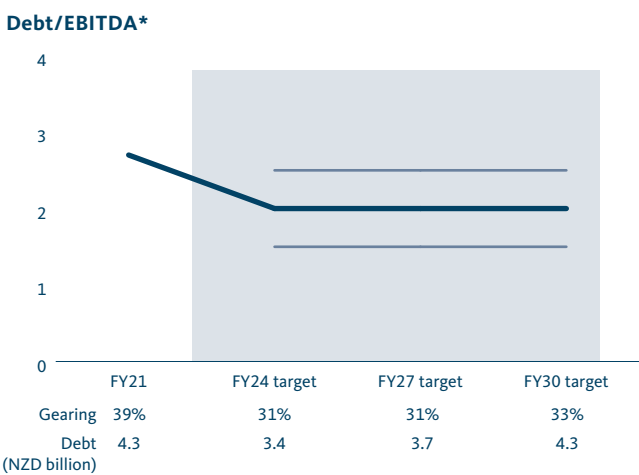
In addition to dividends increasing in line with improving earnings, we intend to return around \$1 billion of capital to our shareholders by FY24 dependent on the proposed divestment of Soprole and ownership changes to our Australian business. Assuming we continue to achieve our financial targets and we maintain a positive outlook for our Co-op, we would have the capacity to make further capital returns to our shareholders and this is assumed to occur from FY25.

We assume a payout ratio at the mid-point of our dividend policy of 40-60% of Reported Net Profit After Tax, excluding abnormal gains, through to FY24. The payout ratio is assumed to increase to the top end of the range in FY25 through to FY27. In FY28, based on achieving our targets, we intend to increase the dividend payout ratio to about 70%.



We will continue to be financially disciplined, aiming to maintain a conservative balance sheet.

Our focus on financial discipline over the last couple of years has helped us strengthen our balance sheet and this focus will continue. We intend to maintain a strong balance sheet and operate within our long-term leverage targets – these are debt/EBITDA of between 2.5 and 3.0x and a gearing ratio of 30-40%. This will give us the ability to deal with the volatilities inherent with our business and take advantage of opportunities as they arise. The expected increasing level of debt after FY24 is enabled by the growing earnings profile.



* Updated measure of debt to align with credit rating agency methodology

The nutritional value we create for people

Dairy is packed with nutrients which are easily absorbed and help people lead a healthy life.

People around the world choose milk as a staple in their diet, with dairy a recommended part of healthy, balanced diets for optimal health.

A glass of milk is a natural source of many of the valuable nutrients people need. It is one of the richest sources of readily available dietary calcium and contributes many other essential nutrients, including protein, phosphorus, potassium, vitamin A, riboflavin (vitamin B2), niacin (vitamin B3) and vitamin B12.

This unique combination of nutrients in dairy plays an important role in growing and maintaining healthy bones, immunity, the functioning of your nervous system (including your brain), helping to prevent tiredness, maintaining healthy eyes, and so much more through all life stages.

Given quality food is one of the best sources of nutrition, we know there's more potential for dairy to play an even greater role in nourishing the world's population.

The bioavailability of the nutrients in milk makes dairy's nutritional value even more powerful. Milk proteins are rich in specific amino acids our bodies need but can't produce. We should not be surprised that the composition of amino acids that mammals require are the very same types found in milk, a food designed by nature for this specific purpose. This nutrient density means milk is significantly superior for nutrition per kilograms of emissions used when compared with other proteins.

People need balanced diets which include a mix of vegetables, fruit and proteins available in convenient formats and plant-based products play a role in meeting these needs. Despite an ever-increasing array of alternatives, global demand for dairy continues to increase by about 2% per annum out to 2030 – that's the same as about 80% of New Zealand's entire dairy production every year.



As a natural product, dairy is an important part of the sustainable food systems of the future. Increasingly, consumers are aware of the sustainability credentials of the products they're consuming.

With our sustainable, nutritious milk and our dairy innovation and science expertise, we believe we can play a unique role in meeting these demands for customers and consumers who value our New Zealand provenance.



Global demand for dairy is expected to continue to increase by about 2% per annum out to 2030 – that's about 80% of New Zealand's entire dairy production every year

As a natural product, dairy is an important part of the sustainable food systems of the future

Given quality food is one of the best sources of nutrition, we know there's more potential for dairy

A glass of milk is a natural source of many of the valuable nutrients people need.

The world we operate in

THE WORLD WE OPERATE IN

The world's population is growing – there will be more people needing nutrition.¹

NEXT 5 YEARS

400m



NEXT 10 YEARS

800m



NEXT 15 YEARS

1100m



1 Source: Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021.



The earth's climate is changing – more and more, customers and trade partners expect their food to be produced in ways that care for the environment and helps them achieve their sustainability targets.

Last year one of our customers stopped doing business with 47 of their suppliers because they did not meet their sustainability standards and couldn't help them achieve their future sustainability targets.

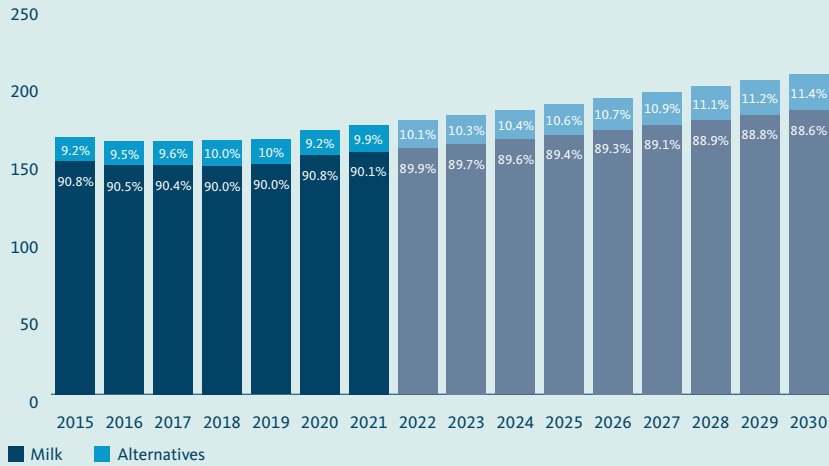


Demand for alternative proteins is growing – we need to be open to them being part of our portfolio.²

When it comes to liquid 'milk' products, dairy is expected to maintain significant market share and we believe it will be dairy businesses that can lead in sustainability and innovation and science that take this market share.

With continued population growth, there will be a role for both dairy and alternatives in feeding the world's population – they can be complementary.

Global market share of retail drinking milk products and alternatives by retail value RSP (US\$b)



2. Source: Euromonitor International (www.euromonitor.com) – Euromonitor Passport, August 2021.



Our plans in more detail

As we put our choices into action, it's important our people have clarity on the path to 2030. By aligning our people behind our Co-op's plans, we are best placed to perform and meet our targets.

Our plans

Prioritise the Farmgate Milk Price.

Invest more in sustainability to do what's right for customers, the planet and our Co-op.

Grow our Foodservice channel.

Continue momentum in our Consumer channel.

Move our Ingredients channel towards higher value products and solutions.

Refine our portfolio of assets with a focus on New Zealand.

Our choices shaping our path to 2030

- Focus on New Zealand milk.
- Be a leader in sustainability.
- Be a leader in innovation and science.

Our people and our culture

Our business strategy directs where we will focus. Our story, through our brands, distinguishes us. But it is our culture – our people – who will deliver, to have us meet our purpose: our Co-operative, empowering people to create goodness for generations - you, me, us together - tātou, tātou.

Top of mind for us as we look out to where we want to be in 2030 is how we elevate and align our culture for high performance. This means that in addition to excelling in operational excellence, we need to really understand our customers and what keeps them awake at night so we can help them solve their problems through our innovative solutions and products. This will require a shift in our mindset and culture.

Making this happen will transform our Co-op for everyone. It will help us attract and retain people who are motivated by our purpose and increase our people's ability to bring their best to enable our Co-op to deliver sustainable high performance and help achieve our targets.



Prioritise the Farmgate Milk Price

Maintaining the highest sustainable Farmgate Milk Price is critical to ensuring our farmer owners and our Co-operative remain financially viable.

On average, milk price payments represent the vast majority of a dairy farmer's revenue and a strong milk price increases our Co-op's contribution to the New Zealand economy. We believe that having a strong Co-operative is the best way to maintain a sustainable milk price for the benefit of all, and that our strategy will support a sustainable milk price.

Our Co-operative's manufacturing capabilities enable us to convert our farmer owners' milk into products that meet the needs of global consumers and customers. At the same time, our skilled marketing and sales teams generate demand for our dairy products, while our resilient supply chain enables us to take our milk to the world.

Through our strategy, our Co-operative aims to further build the reputation of our sustainable New Zealand dairy and generate ongoing demand that, in turn, delivers a higher milk price.

We are also able to harness the benefits of scale in our Co-operative to help minimise manufacturing costs and, in turn, increase milk price. We have demonstrated improvements in our manufacturing performance in recent years, reducing our rework costs by \$35 million and quality related costs by \$42 million in 2021 versus 2017. Meanwhile, we have maintained utilisation of milk solids while increasing the complexity of our product mix, helping to drive an improvement of \$18 million for 2021 compared to 2017.

These savings have been achieved through focused effort by our people and the application of innovative new technologies, such as using artificial intelligence to automatically identify product quality issues at our Darfield plant. In many cases, the changes we are making to improve the sustainability of our manufacturing sites also deliver cost savings. For example, achieving our target to reduce operational emissions by 30% by 2030 could reduce our carbon costs in 2030 by \$71.4 million.¹ We will continue to prioritise continuous improvement across our Co-operative to support a sustainable milk price.

Milk price payments represent the vast majority of an average dairy farmer's revenue

A strong Co-operative is the best way to maintain the highest sustainable Farmgate Milk Price for the benefit of all

Our scale helps minimise operational costs and in turn increase milk price

We will continue to prioritise continuous improvement across our Co-operative to support the highest sustainable Farmgate Milk Price

1. Assumes Fonterra's emissions are 30% lower in 2030 than in 2018 (i.e., a reduction of 510,000 tonnes) and carbon costs \$140/tonne in 2030 (as forecast by the Climate Change Commission in "Ināia tonu nei: a low emissions future for Aotearoa").

Invest more in sustainability to do what's right for customers, the planet and our Co-op

We're all striving for a better future, especially when looking to the environment. Customers and consumers are demanding more information about the sustainability credentials of their food and the impact it has on the planet.

By increasing our activity across our supply chain, we can be on a pathway to Net Zero carbon by 2050. We intend to invest about \$1 billion in sustainability initiatives over the next decade.

Operations

We're targeting a reduction in emissions of 30% by 2030 at our manufacturing sites. We expect to do this through a combination of energy efficiency initiatives and switching fuels at our nine manufacturing sites that still use coal and ultimately stop using coal by 2037.

We are also going further and developing plans to transition our manufacturing sites which use natural gas to other more sustainable energy sources such as biomass, biogas and electricity from renewable sources.

Reducing our water use and improving our water treatment will help improve water quality around our sites.

We are assessing low emission energy options for our milk collection fleet – including electric and hydrogen powered tankers.



Our R&D projects to find a solution to reduce methane and GHG emissions

- 1. With Royal DSM, a global science-based company, we're testing whether DSM's feed additive product Bovaer®, which reduces methane emissions from cows by over 30% in non-pasture-based farming systems, can do the same in New Zealand's pasture-based farming systems.
- 2. With MPI and DairyNZ, we've expanded a promising trial with Nestlé to include plantain in a cow's diet to reduce the amount of nitrogen produced, reducing carbon emissions and improving freshwater quality.
- 3. With Australian organisation Sea Forest, we're trying to understand if we can reduce emissions by incorporating seaweed in cows' feed.
- 4. With AgResearch and the Pastoral Greenhouse Gas Research Consortium, we're working to tap into our large collection of dairy cultures to create new fermentations we're calling Kowbucha, which could inhibit the methanogens that create methane in cows.

On-farm and R&D solutions to reduce methane emissions

The Co-operative Difference will continue to bring our customers' insights and what we know about the world together to help farmers understand what needs to be done on farm. That means asking farmers to focus on the environment, their animals, people and community, and milk quality.

The biggest environmental gains will come from finding ways to reduce our methane emissions. We need to find solutions to this challenge. We don't believe there will be one silver bullet and that is why we have a number of innovation projects underway to find solutions.



Support customers with sustainability propositions

Our investment in sustainability enables us to become an integral part of our customers' future supply chains and intrinsically linked to the success of their public sustainability targets.

It sets us up to push further with our development of sustainability brand claims and positioning, so we can offer a greater selection of sustainability attributes to our customers.

Our goals

Targeting a 30% reduction in emissions by 2030 at our manufacturing sites

Committing to stop using coal by 2037

Aiming to reduce water use and improve water treatment at our manufacturing sites

The Co-operative Difference brings together our customer insights and what we know about the world. Farmers can use this to guide what needs to be done on farm to help ensure continued demand for our products

Grow our Foodservice channel

Foodservice globally is a US\$2.3 trillion industry and is everything we eat made out-of-home – from restaurants, bakeries, quick-service food chains, home-delivery, coffee shops, and even hospitals.

Many of our Foodservice customers are running multiple food outlets or chains across countries or the world. Each of these is serving our products to millions of people every day, without the cost to us of expensive marketing and promotional campaigns.

Foodservice is a high value channel for our product. As part of our plan to direct our Co-op's milk to the highest value product, we are aiming to increase milk solids in our Foodservice channel by approximately 50% by 2030.

We aim to achieve this by growing our global Foodservice presence across Greater China, South East Asia and the USA.

This growth will be led by staying ahead of global trends, and in particular, the increase in the world's middle class and cities which lends itself to more people eating out. This group enjoys experimenting with different

premium foods and our product innovation will play a big role over the next decade.

In Greater China, we are continuing to build on our successful Foodservice channel by expanding into new cities.

In South East Asia, we are applying what we've learned from our Greater China business. This includes building the capability of chefs through our chef development programme. Across the region dairy is seen as a premium food and it also has a strong link to the growth in the consumption of western foods. We are making the most of this growing demand in the region and in particular we are doubling down on **Indonesia and Malaysia** where the evolution of bakeries will see us expanding our reach into more cities. We are also developing new products that work well in recipes chefs can use in the growing number of on-line bakery stores.

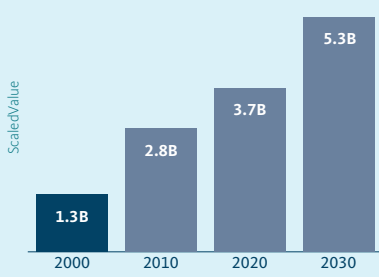
We believe innovation and new products will be key to this growth, helping us build relationships with up to 40,000 new customers over the next five years, and up to 70,000 new customers in the next 10 years.

In other markets like the USA, tariff barriers make it more difficult to maximise value from our Foodservice channel. To open more doors, we intend to partner with our IP, like we have with one of America's dairy co-operatives, Land O'Lakes.



The world's middle class is growing, in particular in Asia – there will be more people able to afford dairy and want to consume it.

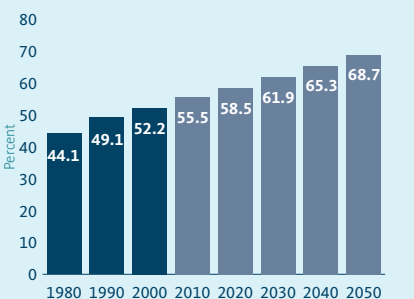
Global Middle Class (billion people)*
Estimate based on earning 2X median household income



* Source: Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021

As the world's middle class grows, cities grow too and with urbanisation comes a mentality of anything, anytime, anywhere. People want food that can be consumed quickly and without hassle, driving demand for eating out-of-home and for convenient snacks that can be consumed on the go.

Share of World Population in Urban Areas (%)*



* Source: Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021

We want to collaborate more with like-minded partners, leveraging our intellectual property and skills, rather than only making significant capital investments of our own.

With 65% of our customers preferring digital over traditional, we will also increasingly use technology to enhance customer experience. It will help strengthen the way we connect with our customers.



Ambient creams opening up new territories across Greater China

As we grow our Foodservice channel, we've launched a new ambient cream which can be stored at up to 40°C outside of a chiller. Our R&D experts designed this cream so shops without fridges could use our product. In doing so, we've opened up new territories in Greater China and are looking at new opportunities in South East Asia.

Target to increase milk solids in our Foodservice channel by ~50% by 2030

Global trends are supporting the growth of Foodservice

Innovation and new products will be key to growth

Make the most of the growing demand for out-of-home consumption across South East Asia – particularly, in Indonesia & Malaysia

Foodservice globally is a \$US2.3 trillion industry

Continue momentum in Consumer

Our Consumer channel represents \$4 billion of revenue for our Co-op and achieves some of our highest gross margins.

To gain more value from this channel, we are evolving our brands to make sustainability an increasingly prominent proposition. By 2030 sustainability will be a key element of value for most of our brands.

Anchor will lead the way in taking our New Zealand sustainability and provenance credentials to the world, with the strong nutritional profile and great taste of our quality dairy being a distinct advantage.

Across the globe our New Zealand provenance is featured strongly in communication and on pack, particularly in markets such as South East Asia (SEA) where New Zealand is often perceived as a marker for superior nutrition and purity.

We're continuing to evolve this story, bringing to life specific elements such as Grass Fed Cows, and in our home market of New Zealand we have recently launched a plant-based bottle, and transitioned some of our specialty milks to be certified carbonzero in the North Island.

We're also leveraging our nutrition and science expertise across our consumer brands, a position typically utilised in our Ingredients channel.

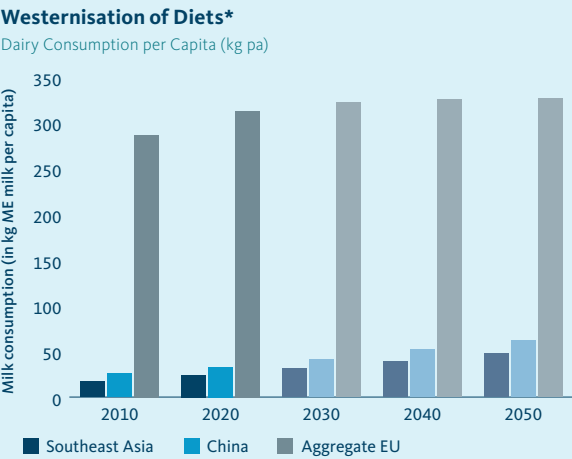
As economies develop, the average life expectancy of adults is steadily rising across Asia. The amount of money invested by consumers in looking after their health and wellness is also increasing with more focus on living longer, healthier lives.

The world's population is getting older* – there will be more people needing to maintain their mobility, strength and energy.



* Source: Oxford Economics (www.oxfordeconomics.com) – Global Economics Databank, August 2021

Demand for convenience is driving a trend towards Western diets across Asia. While dairy consumption remains low across Asia, there is potential for significant growth when comparing per capita consumption with countries like the EU.



* Source: IFCN Dairy Research Network (www.ifcndairy.org) – IFCN Annual Dairy Sector Data with Long Term Outlook, September 2021



We believe Anlene is positioned perfectly to compete in this space. In 2020, we debuted Anlene 5X, the most advanced clinically proven Anlene formulation that provides five key mobility related benefits targeting muscles, joints, and bones. A recent study showed 2 glasses of Anlene Gold 5X, with regular exercises, provided 2X the improvement in flexibility, 3X the improvement in balance and 40% more improvement in muscle mass.

We kicked off the Anlene 5X product in Malaysia, as it is the largest market for Fonterra in SEA. Over the last year sales have increased by 20% over the previous year and as a result we are now moving to roll out Anlene 5X across the rest of SEA – including markets such as Indonesia, Vietnam, Philippines, Thailand and Singapore.

The Westernisation of diets across Asia means consumers right across the region are increasingly using dairy in their cooking and their baking. We see this as a big opportunity for our Dairy Foods portfolio, which includes Anchor, Mainland, Perfect Italiano and Chesdale and our Consumer Powders such as Anchor and Fernleaf have a role to play in making the dairy nutrition more accessible.

With trends in Asia changing often, we are also developing a programme of pilot brands that will extend our portfolio beyond our core brands. This is all about testing the market and developing new solutions to open up opportunities with the potential to generate new revenue streams.

Our connection to consumers is enhanced through our increased presence in e-commerce to meet growing demand from digitally astute consumers. With our sales in e-commerce across South East Asia doubling in the last 12 months, we expect that by 2030 this channel will represent approximately 30% of our total sales revenue for the region.

We are also deepening our customer partnerships with key international retailers to export our premium consumer products, including brands such as Mainland.

By 2030 sustainability will be a key element of value for our Consumer brands

We believe Anlene is positioned perfectly to target the healthy aging market

The Westernisation of diets across Asia means people right across the region are increasingly using dairy in their cooking and baking

By 2030, we expect ~30% of our total sales revenue across Asia Pacific will come from e-commerce

Move our Ingredients channel towards higher value products and solutions

Through our NZMP brand we have one of the broadest ranges of ingredients and solutions in the industry – from high quality base ingredients to highly advanced and specialised ingredients.

As we move more milk into Foodservice and Consumer, we will direct less milk through our Ingredients channel. While we will continue to manufacture Reference Commodity Products which inform the Farmgate Milk Price, we will focus our growth efforts on higher-value ingredients and solutions targeting the areas of physical, patient, digestive and mental wellness plus immunity.

This may mean that we divert some product away from GDT, but we will always seek to ensure there is enough activity on GDT to set a robust Farmgate Milk Price.

As is the case for our Foodservice and Consumer channels, we see opportunities to further differentiate our Ingredients channel on provenance and sustainability. We will also derive value from specific claims and from our overall sustainability position.



Driving value with Daesang

Our collaboration with South Korean food manufacturer Daesang is an early example of the potential of customer collaboration. Daesang was seeking to launch a range of protein products for the medical nutrition category, and saw the potential to differentiate their products on the basis of a connection to grass-fed, natural dairy. We offered Daesang a license agreement covering formulation and processing IP, grass-fed and pasture-raised claims, and imagery and video assets telling our unique New Zealand dairy story.



Dairy lipids helping improve people’s mood

Our Milk Phospholipids have been clinically proven to help manage the effects of stress while also improving mood and focus.

The versatile ingredient can be used in snack bars and ready-to-mix beverages.

These complex lipids are typically used in the infant nutrition space as they play an important role in brain development. We’re now exploring their use in the e-gamer category to improve cognitive function and eye health.

Deepening our relationships with our customers and offering new solutions and service models will be key to achieving our long-term ambitions.

As our product mix changes, so too will our customer mix. We will continue to work with our current customer base, but also expect to work with new customers as we increase our participation in the health and wellness market.

We will focus on partnering with customers to co-design value-added products and solutions.

Our Co-operative brings deep expertise in dairy science and sustainability, including significant intellectual property. Through partnership, we can help our customers bring new products to market that in turn increase the value we create from our farmer owners’ milk.

We are also developing a range of digital tools and services that will offer our customers new ways to engage with our Co-operative. For example, myNZMP gives our Ingredients customers a simple, always-on, self-service option, and we expect it will become a significant part of our Ingredients channel over the next decade.



Protein expertise helping people maintain muscle mass for better quality life

Our protein enriched healthy ageing products are designed to combat malnutrition and muscle loss as we grow older. These include fortified protein beverages, powders and foods providing easily digestible and high protein solutions for the medical nutrition and healthy ageing category.



Direct less milk into the Ingredients channel

But grow sales of higher-value ingredients and solutions

Targeting physical, patient, digestive and mental wellness plus immunity

Co-design with customers value-added products and solutions

myNZMP a simple, always-on, self-service option for customers to buy products, is expected to become a significant part of our Ingredients channel over the next decade

Refine our portfolio of assets with a focus on New Zealand

We have an opportunity to differentiate our New Zealand milk further on the world stage, with the aim of getting more value from our Co-op's milk. This requires us to focus our capital and our people on enhancing our New Zealand milk.

For these reasons we are reviewing our ownership of our two other milk pools – in Australia and Chile.

Soprole is a leading Chilean dairy brand, and Prolesur is a subsidiary of Soprole focused on milk sourcing and primary and secondary manufacturing in Southern Chile. The operations do not require any New Zealand-sourced milk or expertise and, in this context, we are starting the process to divest our integrated investment in Chile.



We need to focus our people and capital on our New Zealand milk

We are reviewing the ownership of our other milk pools – in Australia and Chile

For Australia, we are exploring ownership changes – one option is an IPO, with the intention that we retain a significant stake

We are starting the process to divest our Chile investment

Fonterra Australia is on strategy for the Co-op and remains an important export market for our New Zealand milk, especially for Foodservice products and advanced ingredients. We are considering the most appropriate ownership structure for this business, one option is an IPO, with the intention that we retain a significant stake.

By having access to ongoing external capital, the Australian business can be unlocked to deliver on its strategy and capture its full potential. At the same time, ownership changes such as an IPO could give our Co-op the opportunity to take some capital out, while retaining ownership in this important market.

We see both these moves as critical to enabling greater focus on our New Zealand milk and, importantly, allowing us to free up capital, much of which is intended to be returned to shareholders.

Reimagining milk for future growth: Nutrition science solutions



The way people manage their health and wellness looks set to be revolutionised. As scientists harness the power of big data, biotechnology and genomics, they are building a stronger understanding of human health and wellbeing, connecting the dots between cause and effect. This hints at a future in which some diseases might be prevented or managed through better nutrition and lifestyles.

Already, scientists understand how people's diets impact their body and behaviour and this has given rise to a range of consumer solutions targeting specific health and wellness needs. These solutions are backed by nutrition science and they underpin a \$500 billion slice of the global health and wellness category.

Some of our ingredients already play to these kinds of solutions – including our own complex lipids which help with cognition, proteins which help with mobility and probiotics which support immunity and digestion.



These solutions are backed by nutrition science and they underpin a \$500 billion slice of the global health and wellness category.

But we have an ambition to play more boldly in this category, unlocking the growth potential of our advanced specialty ingredients and going further.

Imagine if there was technology that could assess the health of your muscles every day in just a few minutes and then tailor your exercise and nutrition, in particular, how much protein you should consume, to achieve the optimum muscle health.

Similarly, imagine if there was a way of quickly understanding your gut health and being able to select the probiotic strains that your gut needs.

Or even having snacks, which use specialty dairy ingredients, delivered to your workplace and tailored to your lifestyle, genetics and age, helping you keep your energy levels high and manage stress.

While these examples are not necessarily what we will do, they paint an aspirational picture of the potential for nutrition science solutions.

We know, based on global trends shaping the world we operate in, that the opportunity lies in adult nutrition. If we want to play more boldly, it will also take focused resource, including increasing our R&D, and some new expertise to complement what we already have. There is no doubt that partnerships will be key.

One of the big game changes for leaders in the health and wellness category, is having the ability or the ecosystem to build close relationships with consumers. In many cases, they've been built through technology and data which empowers the consumer to take control of a specific element of their health and wellness and make choices about their nutrition and lifestyle.

We have set up a dedicated team to explore what the future of Nutrition Science Solutions looks like for our Co-op. Over the next year, we'll narrow down and prioritise the areas where we can build a competitive advantage, and understand what it would take to win.



Follow our progress towards 2030

The scale of Fonterra in New Zealand – nearly 9,000 farming families, our network of manufacturing sites, global supply chain and our presence in over 130 countries around the world – makes it hard to remember that we’re just tiny on the world stage.

At just 2% of the total global milk supply – it’s a real case of kiwi farming families taking on the world.

Over the next decade we will share regular progress and stories on how we are going.

You will be able to track our performance via our quarterly, interim and annual results announcements.

And we also invite you to keep up to date with stories from around the Co-op.

You can do this via:

- www.fonterra.com/ourstories
- My Co-op app, if you are a farmer
- MilkyWay, if you are an employee



OUR PURPOSE

Our Co-operative,
Empowering people
To create goodness for generations.
You, me, us together.
Tātou, tātou.

TĀTOU, TĀTOU



GOOD TOGETHER

Appendix

Key assumptions and risks for our aspirational financial profile and targets

This Appendix is intended to support analysis and understanding of the aspirational financial profile and targets in this booklet, and the key risks associated with them.

The cautions and disclaimer set out on the contents page of this booklet apply equally to this Appendix.

Basis of Preparation of our aspirational Financial Profile

We have prepared an aspirational financial profile which sets targets for our future performance on the basis of our strategy and business plan being successfully implemented (“Financial Profile”).

Our Financial Profile is provided to 2030 and is prepared using the assumptions set out below and on the following basis:

- FY22-24: Uses our detailed three-year budget and business plan.
- FY25-30:
 - Earnings performance is modelled (i.e. extrapolated) based on potential market volume growth rates from FY25.
 - The capital investment plan is supported by our detailed long-term asset roadmap
 - EBIT Margins, including Gross Margins and Operating Expenditure levels as a percentage of Revenue are extrapolated from FY24 levels.
- Ranges have been provided to reflect the inherent uncertainty when setting future targets. The ranges are not intended to incorporate all the potential volatility within the business, in particular (but without limitation) ingredients price relativities. No attempt has been made to incorporate in these ranges any impacts from potential sensitivities, including declining or increasing milk collection volumes, ingredients price relativities, geo-political risks, currency movements etc.
- The Financial Profile has been prepared by Fonterra. It has not been subject to audit or independent review. It sets out aspirational targets only and should not be construed as setting forecasts or giving a guarantee of returns to shareholders.

Key Assumptions for our Financial Profile

Assumptions relating to New Zealand Milk

- Our New Zealand milk collections have been assumed at 1,525 million kgMS and held constant through to FY30.
- There is a constant base Milk Price of \$7.00 per kgMS, which reflects the average Milk Price over FY19-21, except FY22 which assumes \$8.00 per kgMS.

Assumptions relating to Business Portfolio

The business portfolio comprises our operations at the end of FY21 and assumes:

- those operations continue on the same footing as at the end of FY21, without material market, regulatory or other changes; and
- the sale of our remaining China Farms business and DPA Brazil in FY22, the divestment of 100% of our Chilean business and a reduction of 49% in ownership of our Australian business in FY24. For modelling purposes, we have assumed these transactions occur at the beginning of FY24, and that Australia remains consolidated.

General Assumptions

- Global dairy consumption grows at 5-year CAGR of 2.7% with a long term growth rate of 1.7%.
- No inflation.
- Base interest rate (BKBM) increases from 0.4% in FY22 to 3% by FY30.
- Exchange rates stay at current levels.
- Tax reflects current tax rates.
- The tax expense reduces from 16% to 11% as the dividend percentage increases, due to the deductibility of dividend payments on supply backed shares. The proportion of supply backed shares stays the same as it currently is to FY30.

Assumptions relating to Volatility

Price relativities and the impact of lag pricing are modelled at long run historical average levels for the period FY22-30. Individual years are likely to differ materially upwards or downwards from this assumption. The Group Operations EBIT that includes this volatility has been modelled assuming \$80 million EBIT, which is attributed to the regional segments. The equivalent EBIT result in FY20 was \$170 million and in FY21 was (\$118 million).

Assumptions relating to Capital Investment

- Essential capital expenditure: Approximately \$550 million per year, with no additional peak milk processing capacity given the constant milk supply assumption.
- Sustainability investment: Capital expenditure is incurred to meet published greenhouse gas emissions and water targets, with spend levels averaging \$130 million per year until FY30.
- Channel growth and new business investment:
 - To support channel growth and our complementary dairy portfolio, capacity in some key categories is expanded with an approximate investment of \$150 million per year.
 - A further \$1 billion is invested in a portfolio of new business opportunities in equal amounts (around \$150 million per year), with a return on capital of 5% in the year following the investment and then 11% per year in subsequent years.

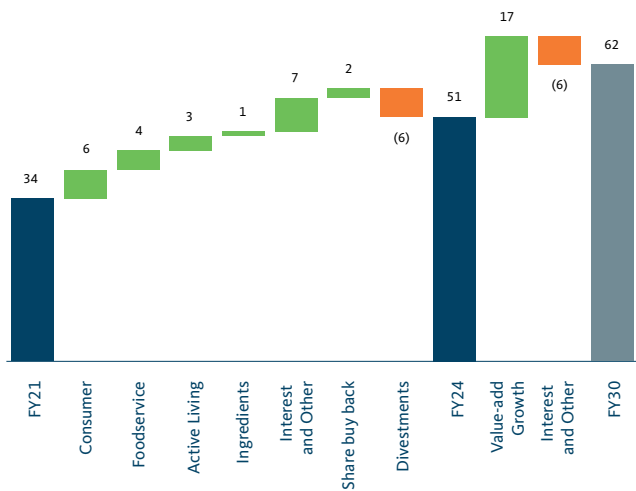
Assumptions relating to Capital Management

- To support liquidity in the Fonterra Shareholders’ Market (FSM) as farmers transition to the proposed new capital structure, up to \$300 million is allowed for on market share buy-backs or other tools. It is assumed to be used in equal amounts in FY22 and FY23 and to reduce shares on issue by approximately 85 million in total.
- There is a capital return to shareholders of \$1 billion in FY24 dependent on the successful divestment of our Chilean business and reduction in ownership of our Australian business, with additional proceeds being used to reduce debt. There are inherent uncertainties and risks in the execution of such processes.
- Subject to not exceeding our long-term target leverage metrics:
 - Dividends have a pay-out dividend to earnings ratio of 50% until FY24, increasing to 60% in FY25 and 70% by FY30.
 - Under an ongoing capital management programme, further capital is returned to shareholders either as a pro rata distribution or by way of share buy-backs. This has been modelled as \$150 million per year, distributed as a pro rata capital return from FY25 onwards.

Appendix

Assumptions relating to Earnings Drivers

- Below is a summary of the key earnings drivers.



- These assume:
 - An increase in milk solids in the Foodservice channel by 50% to FY30. The key driver is China Foodservice with FY21-24 volume growth rates of 10% (compared to 12.5% over FY19-21), with EBIT margins at three-year average rates of 16%. The remaining Foodservice growth is focused across South East Asia.
 - From F21 to F24, margins in Consumer improve using our New Zealand provenance and sustainability credentials and our ability to realise e-commerce opportunities. APAC consumer EBIT margins lifts by 2% (to 10%) by FY24. These EBIT margin levels are maintained through to 2030.
 - Active Living margins grow \$52 million from FY21 to FY24, with volume growth of 7% per year (including New Business) through to FY30 as we continue to invest and support this area.

EBIT Margin ¹	Actuals		Financial Profile Assumption	
	FY19	FY21	FY24	FY30
Consumer	4%	7%	8%	8%
Foodservice	8%	11%	10%	10%
Active Living	15%	12%	13%	13%
Core Ingredients	2%	1%	1%	2%
Total	4%	5%	5%	6%

- Innovation spend increases by 50% from \$100 million in FY20 to \$160 million by FY30.
- Flat milk volumes with growth in the Consumer, Foodservice and Active Living channels, and the amount of milk solids utilised by Core Ingredients reducing from 74% in 2021 to 64% in FY30.

Utilisation of New Zealand Solids	Actuals			Financial Profile Assumption	
	FY19	FY20	FY21	FY24	FY30
Consumer	7%	7%	7%	8%	9%
Foodservice	8%	8%	9%	12%	14%
Active Living	10%	10%	10%	11%	12%
Core Ingredients	76%	75%	74%	70%	64%
Total	100%	100%	100%	100%	100%

- Interest expense reduces (as debt levels and Fonterra interest rates fall) by \$100 million (pre-tax) from FY21 to FY24.
- Interest expense increases (as assumed interest rates rise and debt levels increase from \$3.4 billion to \$4.3 billion within our long-term target metrics) by \$100 million (pre-tax) from FY24 to FY30.

¹ These channel EBIT margins include the allocation of unallocated costs and the breakdown of Ingredients into Core Ingredients and Active Living. As a result, the EBIT splits will vary from those summarised in the Annual Review and Business Performance Report.

Risks and uncertainties

Our aspirational financial profile and targets extend to 2024, 2026 and 2030. There is always going to be considerable uncertainty over such long time horizons. These targets and the assumptions underlying these targets are subject to risk and uncertainties. The more material risks and uncertainties which may impact Fonterra's performance relative to the targets include:

- The risk that the sub-optimal **execution of strategic initiatives, innovation practices, ineffective business partnering, or deficient decision-making** results in failure to realise opportunity, leverage competitive advantage, respond to shifts in consumption trends and achieve strategic targets, leading to value destruction.
- A **material loss in milk supply** as a result of factors affecting Fonterra, its supplying farmers, or the markets in which we operate, such as a **biosecurity** (including animal health) event, climatic or weather impacts, **regulatory change**, change in land use, failure of the **capital structure changes** to achieve the desired effects, changes in dairy farming input costs, or competitor activity could result in sub-optimal asset utilisation and excess capacity, and could generally have a significant impact on Fonterra's ability to deliver on strategy and financial performance.
- Dairy commodity prices are highly volatile with substantial increases and decreases occurring over a relatively short period. The risk that **dairy price volatility** and changes within global markets, including economic volatility, geo-political instability, foreign exchange and interest rates, are not appropriately responded to or managed could adversely impact business operations, profitability, dividends, and milk price.
- Fonterra's farmgate milk price in New Zealand is calculated by assuming that all the milk Fonterra collects is converted into "Reference Commodity Products" (whole milk powder, skim milk powder, anhydrous milk fat, butter, and buttermilk powder). **Fluctuations in the relative prices of Reference Commodity Products and**

the other dairy products manufactured and sold by Fonterra (such as cheese) could therefore have a significant impact on Fonterra's earnings.

- Fonterra's earnings may also be impacted by **changes made to the Farmgate Milk Price Manual** (including changes to the Reference Commodity Products used to calculate the Farmgate Milk Price), which Fonterra's Board considers appropriate based on the milk price principles set out in Fonterra's constitution and obligations under the Dairy Industry Restructuring Act 2001.
- The risk of food safety incidents (including products being contaminated or tampered with, in New Zealand or overseas), resulting in Fonterra supplying **unsafe food** (or food that is **perceived to be unsafe**) to customers and consumers which may result in harm to consumers and/or significant reputational and commercial impacts and the risk that Fonterra manufactures product that is of **sub-standard quality** resulting in financial loss and reputational damage.
- Geo-political** and trade and **market access** factors such as war, economic instability or downturn, deflation or inflation, price controls, political interference, and foreign government action (including trade embargoes and sanctions, tariffs, subsidies, quotas, price controls, and other non-tariff barriers) could impact the sale of Fonterra products internationally, resulting in adverse changes in international dairy market dynamics and affect prices for dairy products.
- The risk that **leadership, organisational culture, behaviour, and people** management practices, including recruitment for and development of capability and accountability, are inadequate or insufficiently agile to adapt to future working environments and to execute strategy.
- The risk that **failure to enact measures to mitigate the impact** (or perceived impact) of Fonterra's **activities on the environment and/or mitigate the effects of climate change** on Fonterra may result in impacts on milk production, operations and sales,

increased costs associated with **emissions unit prices**, a declining perception of Fonterra and the premium character of Fonterra's products, the dairy industry and/or adverse policy settings, including water access, usage and quality, agricultural and operational emissions, discharges to land water and air and animal welfare.

- Changes in or the introduction of new policies, legislation, taxation or regulation** or the way in which existing policies, legislation, taxation or regulation is enforced could adversely affect Fonterra.
- Changing conditions in **global debt markets**, movements in financial instruments including hedging, changes in the positions adopted by credit **ratings agencies** (including the treatment of effective subordination of the Milk Price to Fonterra's debt and other obligations), or the terms on which debt is provided to Fonterra.
- Litigation and **disputes with third parties** in relation to Fonterra's operations.
- The risk that Fonterra's ability to maintain and/or operate the assets within Fonterra's end-to-end **supply chain** is disrupted, delayed, or reduced resulting in increased production costs and other adverse financial impacts.
- The risk that failure to maintain an **appropriate information technology framework** and to proactively safeguard and manage Fonterra's key IT systems and the confidentiality, integrity, and availability of Fonterra's data against threats **including cyber-attacks**, technology failures and other threats, results in lost opportunities, major business interruption, financial loss and/or reputational damage.
- The COVID-19 pandemic** could affect Fonterra's ability to operate its manufacturing facilities or distribution centres and could also disrupt Fonterra's supply chain and could impact the demand for Fonterra's product.
- The success and timing of an IPO or sale** process for investments could be impacted by market, economic or other factors.



Annual Review
2021

**Good
Together**
from one generation
to the next



Dairy for life

We are forged from generations of farming families, passionate about dairy.

Good Together
from one generation to the next

Collaboration, innovation and passion was the cornerstone of our creation and something we continue to value today. Our milk creates goodness through nutritious food with safe, quality ingredients that are loved here in New Zealand and around the world. We are committed to farming in a way that regenerates the land and the environment.

As we look ahead, with the next generation in mind – one thing remains as true now, as it did at our very first farmer meeting in Otago back in 1871:

**We're good together.
Tātou, tātou.**

COVER IMAGE:
Te Kaihou & Alan, Bay of Plenty

IMAGE:
Stu, Rebecca & Jessica, Taranaki

About this report

Welcome to our Annual Review. We know that there are a wide range of people and organisations who are interested in our performance, so this year we've made some changes to how we present our information. We want to make it easier for all stakeholders to understand our business and find the specific details they're interested in.

This Annual Review is a concise summary of our environmental, social and economic activities and performance. It's supported by a suite of supplementary reports where stakeholders can find more detailed information most relevant to them. This represents another step on our journey towards more integrated reporting.

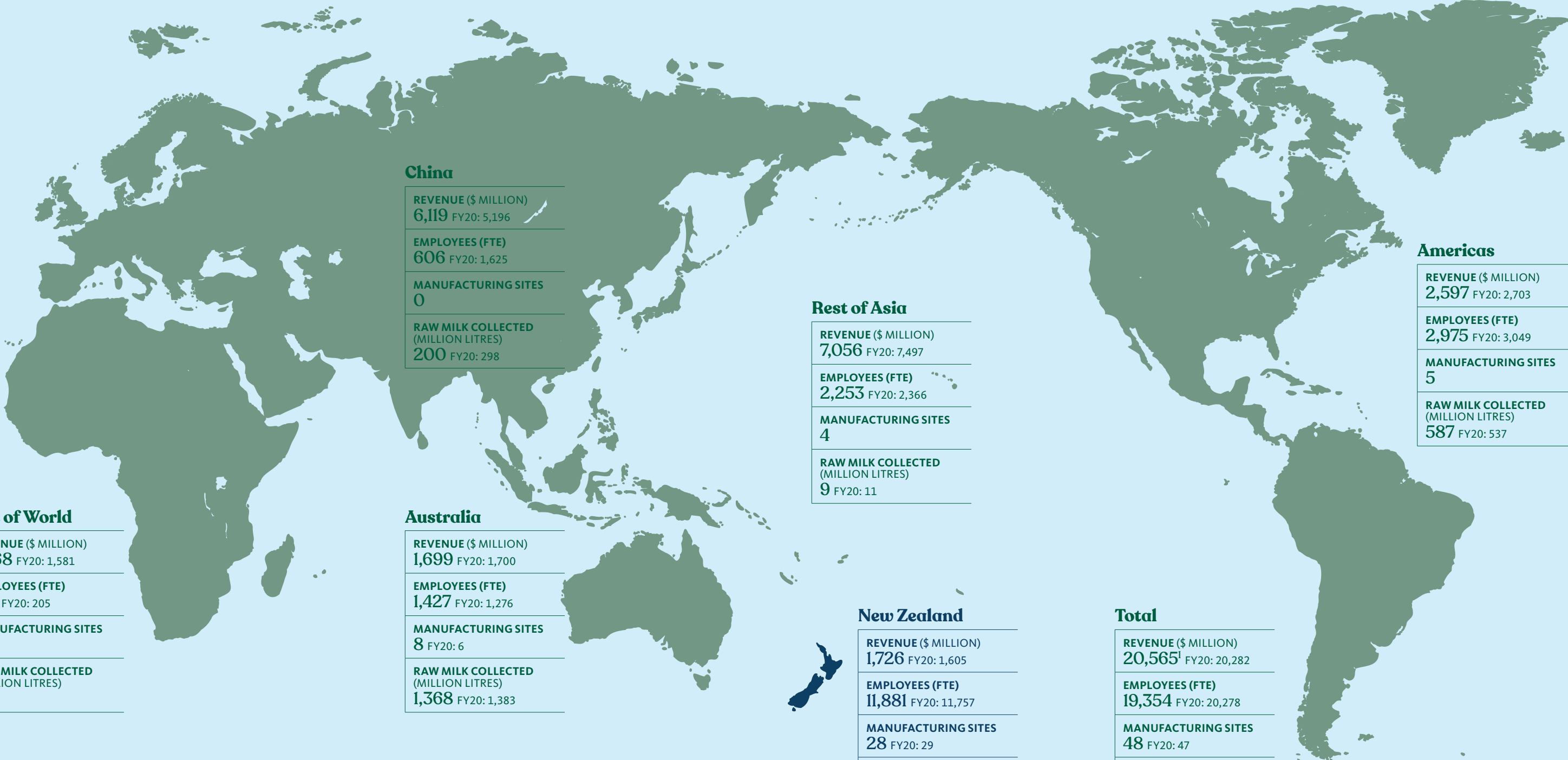
About us

We are a co-operative formed and owned by Aotearoa New Zealand dairy farmers. Our rich history was founded on farming families working together to share the natural goodness of dairy with the world.

We're committed to producing dairy nutrition in a way that cares for people, animals and the environment, and brings value to our communities. Our range of dairy ingredients are sold under our NZMP™ brand and are found in prominent food and nutrition brands around the world.

Under our Anchor™ Food Professionals brand, we create high-quality products and innovative solutions for foodservice professionals in over 50 countries.

We also manufacture, market and distribute our own consumer products. These include branded dairy products sold direct to consumers, such as milk, milk powders, yoghurt, butter and cheese. Our three global consumer brands are Anchor™, Anlene™ and Annum™. Farm Source™ is the Co-op's main farm-facing team, providing guidance and support to farmers, including through a network of stores in New Zealand where farmers can get their rural supplies and technical advice.



Rest of World

REVENUE (\$ MILLION)
1,368 FY20: 1,581
EMPLOYEES (FTE)
212 FY20: 205
MANUFACTURING SITES
3
RAW MILK COLLECTED (MILLION LITRES)
0

China

REVENUE (\$ MILLION)
6,119 FY20: 5,196
EMPLOYEES (FTE)
606 FY20: 1,625
MANUFACTURING SITES
0
RAW MILK COLLECTED (MILLION LITRES)
200 FY20: 298

Australia

REVENUE (\$ MILLION)
1,699 FY20: 1,700
EMPLOYEES (FTE)
1,427 FY20: 1,276
MANUFACTURING SITES
8 FY20: 6
RAW MILK COLLECTED (MILLION LITRES)
1,368 FY20: 1,383

Rest of Asia

REVENUE (\$ MILLION)
7,056 FY20: 7,497
EMPLOYEES (FTE)
2,253 FY20: 2,366
MANUFACTURING SITES
4
RAW MILK COLLECTED (MILLION LITRES)
9 FY20: 11

New Zealand

REVENUE (\$ MILLION)
1,726 FY20: 1,605
EMPLOYEES (FTE)
11,881 FY20: 11,757
MANUFACTURING SITES
28 FY20: 29
RAW MILK COLLECTED (MILLION LITRES)
17,131 FY20: 16,901

Americas

REVENUE (\$ MILLION)
2,597 FY20: 2,703
EMPLOYEES (FTE)
2,975 FY20: 3,049
MANUFACTURING SITES
5
RAW MILK COLLECTED (MILLION LITRES)
587 FY20: 537

Total

REVENUE (\$ MILLION)
20,565 ¹ FY20: 20,282
EMPLOYEES (FTE)
19,354 FY20: 20,278
MANUFACTURING SITES
48 FY20: 47
RAW MILK COLLECTED (MILLION LITRES)
19,295 FY20: 19,130

¹ This geographical breakdown of revenue is for continuing operations only rather than total Group revenue, which was \$21,124 million for FY21.

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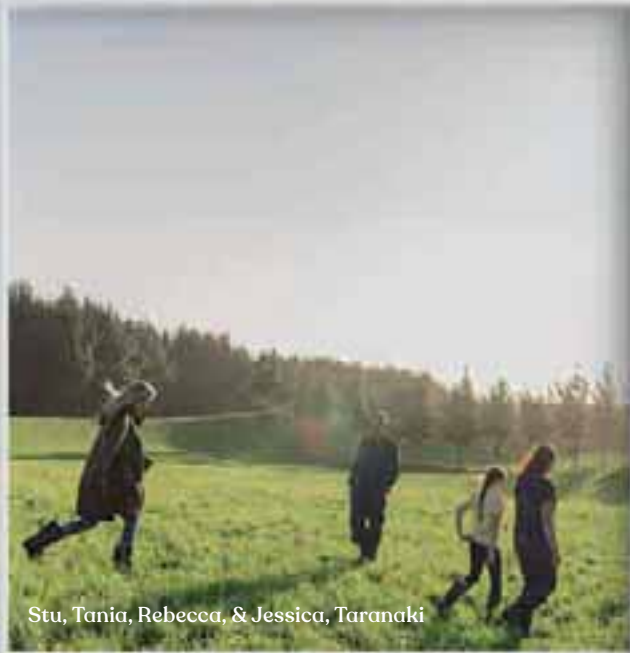
Stu, Rebecca & Jessica, Taranaki



Te Kaihou & Alan, Bay of Plenty



Waitoa



Stu, Tania, Rebecca, & Jessica, Taranaki

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Danielle & Emma, Auckland

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Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised profit after tax, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations. Non-GAAP financial 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 are 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 Financial Statements.

Please refer to the Non-GAAP Measures section in Fonterra's 2021 Annual Review for further information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures. Definitions of non-GAAP measures used by Fonterra can be found in the Glossary in the Business Performance Report.

Building resilience into our business

Dear Farmers and Shareholders,

2021 continued to prove the value of a national co-operative of scale.

Fonterra's scale affords us a level of optionality that is unique in New Zealand dairy, enabling us to manage risk and uncertainty on behalf of our kiwi farming families.

Miles and his team have done a great job of leveraging that strength to deliver a strong financial performance this year, given the difficult COVID-19 operating environment.

We have benefited from our ability to move our milk between our markets, categories and products that deliver the most value.

You see that reflected in our normalised EBIT contribution numbers for our regional segments, with Asia Pacific's \$305 million, up 28% on last year and Greater China at \$403 million, up 10% on last year. This is balanced out by our Africa, Middles East, Europe, North Asia and Americas' (AMENA) result of \$336 million, down 28% on last year, as we sought to optimise value and respond to supply chain dynamics.

Overall, our reported profit after tax was \$599 million, down slightly from last year which benefited from the divestments of DFE Pharma and foodspring®. Our total group normalised EBIT, which is a better reflection of the underlying business performance, was up 8% to \$952 million.

We exceeded our opening forecast Farmgate Milk Price, finishing the season with a final milk price of \$7.54 per kgMS. The milk price has now remained above \$6.30 per kgMS for four consecutive seasons.

We have benefited from our ability to move our milk between our markets, categories and products that deliver the most value.

Our normalised earnings per share were 34 cents, and the Board has approved a final dividend of 15 cents per share. Three cents of the 15 cents per share reflects the reversal of previous impairment of our China Farms.

Combined with the five cent interim dividend paid in March, this brings the total dividend to 20 cents and means a total pay-out for a fully share-backed farmer of \$7.74 per kgMS for the FY21 year.

The Board would like to thank Fonterra's people across all of our international markets. It has been an incredibly challenging period and we want to acknowledge your efforts to deliver for our farmer owners, despite the professional and personal challenges that COVID-19 creates.

We would also like to acknowledge Miles' continued leadership. Miles took on the CEO role at an incredibly difficult time for our Co-operative and has not shied away from making some tough decisions.

Over the past 12 months the Board has continued its work to realign Fonterra's cultural and financial settings to better reflect an enduring farmers' Co-operative.

In recent years we have adjusted our dividend policy, debt targets, and risk appetite statement to be more conservative and strengthen our balance sheet.

The Co-op's rate of debt reduction is encouraging. Net debt is down \$872 million this year to be \$3.8 billion, bringing our gearing ratio down to 35.5%.

That gives us options.

A stronger balance sheet builds the business's resilience against unexpected challenges – whether that be a global pandemic, geo-political tensions, or natural disasters. Just as importantly, it gives us a solid foundation from which we can now look to grow.

That growth will also look different to how our Co-op has operated in the past. In line with our more conservative approach to risk, we intend to approve capital allocation with more rigour, for a series of investments, rather than betting the farm on one or two big plays.

We are aiming to approve capital allocation out to 2030 in four main areas, targeting:

- ~\$1 billion invested in sustainability.
- ~\$1 billion invested in moving milk to higher value products.
- ~\$1 billion intended to be distributed to shareholders after asset sales and dependent on improved earnings.
- ~\$2 billion available for investment in a mix of further growth – including opportunities for nutrition science – and return to shareholders.

We believe innovation, research and development, and collaborations with strategic partners are critical to our strategy. Allocating funding and resources for those initiatives will be a priority for the Board. We intend to increase our current total annual R&D investment by over 50% to around \$160 million per annum in 2030, with about \$60 million per annum specifically targeted at growth in Active Living.



These value targets are subject to successfully completing a number of business initiatives, and a number of assumptions, each of which could materially affect the actual outcomes.

More details of our long-term strategy have been released alongside these results, as has a proposal to change our capital structure.

We would like to thank our farmer owners for their contribution to these pieces of work and for approaching the capital structure conversation with open minds.

Over the course of the year more than 5,000 of our farmer owners directly engaged with the capital structure review. We are a diverse group of people, all with a lot invested in our Co-op. It is not surprising that the views we heard were varied and heartfelt.

We acknowledge the uncertainty that exists as we consider changes to our capital structure and the impact that is having on our farmers in different ways. The best way to give certainty is to have a robust discussion as a Co-op and get to a quality outcome.

Our latest proposal has changed from what we put forward back in May, in response to this farmer feedback and further expert advice.

Changing our Co-op's capital structure is a critical decision and not something the Board has put forward lightly. Ultimately, it is our farmer owners who will make the final decision.

The Board is united in its belief that change to capital structure is needed.

The Co-op's rate of debt reduction is encouraging. Net debt is down \$872 million this year to be \$3.8 billion, bringing our gearing ratio down to 35.5%.

Moving to a new capital structure now, while we are in a strong financial position and have all options available to us, is our best course of action. The solution we are now proposing puts us in the best position to achieve all three of the outcomes the review has focused on:

- 1) **Supporting a sustainable milk supply** by providing farmers with capital flexibility.
- 2) **Protecting farmer ownership and control by capping the Fund.**
- 3) **Maintaining financial sustainability** of our Co-op by supporting our strategy, and protecting against uncertain and recurring risks to our balance sheet.

We are confident that this proposed structure will support the sustainable supply of New Zealand milk that our long-term strategy relies on. Together, structure and strategy give our Co-op the potential to deliver the competitive returns that will continue to support our families' livelihoods from this generation to the next.

Looking ahead to FY22, the Board will continue to focus on building the Co-op's resilience by driving operational performance, supporting value-enhancing investments and seeking a decision on changes to our capital structure, which is a key enabler of our strategy.

Our future is bright, despite the challenges we all have in front of us right now. It's a future in which our Co-op can prosper and deliver for the New Zealand farming families who supply and own it.

Thank you for your continued support,

Peter

The Board is pleased to present Fonterra's 2021 Suite of Reports. Fonterra's Annual Report for the year ended 31 July 2021 comprises this Annual Review, the Financial Statements, Corporate Governance Statement and Statutory Information. The Annual Report was approved by the Board on 22 September 2021 and is signed on its behalf by:

PETER MCBRIDE
Chairman

BRUCE HASSALL
Director

Q&A with our Chief Executive Officer

Miles Hurrell answers questions on the Co-op's 2021 performance and what people can expect from the Co-op over the next decade.

To make sure he was tackling the big, relevant questions, Miles asked employees from around the world what was on their minds. Here are their questions, and Miles' answers.

When you look back on the 2021 financial year, what do you feel most proud of?

I couldn't be prouder of how our team has worked together over the last few years, reset our business and strengthened our balance sheet. For our people to have achieved this at the same time as managing COVID-19 and all its flow on effects, at work and at home, is a testament to their commitment to do what's right for our farmer owners. I would like to thank our employees for this, and our farmer owners for their loyalty and support.



Has the Co-op hit its 2021 financial performance targets?

I'm pleased to say we've hit all our financial targets. We achieved a return on capital of 6.6%, a debt to EBITDA ratio of 2.7x and a gearing ratio of 35.5%. Both our focus on financial discipline and our improved underlying business performance helped us achieve these targets.

What's driven the Co-op's performance?

Our underlying business performance, which can be seen in our Total Group normalised EBIT of \$952 million, was up 8% on last year, and I would say this shows the good balance we have in our sales book.

We achieved a significant improvement in our Asia Pacific Foodservice and Consumer channels, helping to deliver a normalised EBIT of \$305 million, up 28%. We've expanded our Foodservice footprint in the region and are seeing the benefits of that. And like in many of our markets, COVID-19 has changed consumer behaviour, with people choosing to cook at home. That's really benefited our Consumer brands and supported upward momentum in our Consumer channel performance, particularly in New Zealand and Australia.

Greater China continues to be an important market for us, with normalised EBIT up 10% to \$403 million. Africa, Middle East, Europe, North Asia and Americas (AMENA) normalised EBIT was down 28% to \$336 million. While we delivered improvements in our AMENA Foodservice and Consumer channels and worked hard to chase value in the region, we could also see that more value could be achieved by redirecting product into other markets. We're likely to see this again next year.

How has the Co-op contributed to New Zealand in 2021?

One of the big ways our Co-op contributes to New Zealand is through our total pay-out to farmers. With a final Farmgate Milk Price of \$7.54 per kgMS, our Co-op contributed \$11.6 billion to the New Zealand economy in the 2020/21 season with a total dividend of 20 cents per share.

To make the most of the opportunity in front of us, we've made three strategic choices – focus on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science.

MILES HURRELL – CEO

We've also reduced our environmental impact. This year our carbon emissions from coal were down by more than 11%, as Te Awamutu completed its first season using renewable wood pellets. Our farmer owners have also worked hard, with record numbers achieving the top level of The Co-operative Difference and 53% of supplying farms now having a Farm Environment Plan, which is well on the way to our target of 100% by 2025.

What does the future look like for Fonterra?

Dairy is a good business to be in. New Zealand dairy is an even better business to be in. Put quite simply, the world wants what we've got – sustainably produced, high-quality, nutritious milk from cared-for cows. But this demand also comes at a time when we see total New Zealand milk supply as likely to decline, and flat at best.

On the one hand, this requires the right capital structure to help ensure we don't lose the benefits of what generations of farmers have built – a New Zealand dairy co-operative of scale. But on the other hand, it gives us a huge opportunity to differentiate our New Zealand milk even further on the world stage. Ultimately, we see this as a chance to increase the value we generate for farmers and New Zealand over the next decade.

What will it take to generate more value?

To make the most of the opportunity in front of us, we've made three strategic choices – to continue focusing on New Zealand milk, be a leader in sustainability and be a leader in dairy innovation and science.

New Zealand is the most carbon-efficient dairy nation on the planet. But we can't slow down now. Customers want to know where their food comes from and the environmental impact it leaves, and our farmer owners' livelihoods rely on a stable climate and health ecosystems. This is why we have an aspiration for our Co-op to be net zero carbon by 2050. Over the next decade we intend to invest around \$1 billion in reducing carbon emissions and improving water efficiency and treatment at our manufacturing sites.

We are aiming to also increase our innovation budget by over 50% to around \$160 million per annum in 2030, as we continue to look for solutions to reduce on-farm emissions and develop new innovative products to support our value growth plans.

Through these plans we'll move more milk into our Foodservice and Consumer channels and shift towards higher value products in our Ingredients channel.

How do our milk pools in Australia and Chile fit with the focus on New Zealand milk?

We need to focus our people and capital on differentiating our New Zealand milk on the world stage and for these reasons we've reviewed the ownership of our milk pools in Australia and Chile.

Soprole is a leading Chilean dairy brand, and Prolesur is a subsidiary of Soprole focused on sourcing milk and manufacturing products in Southern Chile. The operations do not require any New Zealand-sourced milk or expertise, and, in this context, we are starting the process to divest our integrated investment in Chile. I would like to take the opportunity to thank the Chilean team for their outstanding efforts in turning the business around.

Fonterra Australia is on strategy for the Co-op and remains an important export market for our New Zealand milk, especially for Foodservice products and advanced ingredients. We are considering the most appropriate ownership structure for this business. One option is an Initial Public Offering (IPO), with the intention that we retain a significant stake.

We see both these moves as critical to enabling greater focus on our New Zealand milk and, importantly, allowing us to free up capital, much of which is intended to be returned to shareholders.

Are you looking at growing value outside of the Co-op's core business?

Our focus is on our core business and creating more value from it. But it's also important we don't miss out on future growth opportunities. Nutrition Science is a good example of one of these kinds of opportunities.

It's all about how people's diets impact their body and behaviour and underpins a \$500 billion slice of the global health and wellness category. It's giving rise to a number of new solutions, including highly-personalised nutrition programmes which draw on personal analytics and data.

We have an ambition to play in this area – so we have set up a dedicated team to explore what the future of Nutrition Science Solutions could look like for our Co-op.

What are your priorities for 2022?

Our Co-op is now in a strong position to kick into the next gear, which is all about our future value growth. Our priorities for 2022 are to:

- Make the shift from a reset to value growth, which will require developing our people's capability and our culture to deliver high performance.
- Progress the work to divest our integrated Chilean business and process of deciding the most appropriate ownership model for Fonterra Australia.
- Narrow down and prioritise the areas within Nutrition Science Solutions where we can build a competitive advantage.
- Keep hitting our environment, people and business performance targets.

Honour Roll for On-farm Excellence

Legend

Farming entities that achieved Grade Free for at least the last 10 seasons

A & N Harvey Family Trust	C & H Mabey	Fowler Family Prosperity Trust	J L & M A Cooke	P H S & P C Byford	W J & J G Pile Family Trust
A Holten & N Brown	C J & K L Ladd	G L & G F Bell	K J & H Chalmers Ltd	R & P Woods Farms Ltd	Waicola Holdings Ltd
Ashgrove Dairy Farms Limited	C M & K M O'Donoghue	Glen Eden Otago Ltd	Kemra Farm Ltd	R S & R D Gordon	Waituna Investments Ltd
B L & Estate R J Mohring	Caskey Farms	D C & V F Frew	Lizlyn Dairies Ltd	Rainbowcreek Farms Limited	Whenuakura Farm Limited
Black & White Cow Company Limited	D C & V F Frew	Golden Mile Farms Ltd	Maken Milk Ltd	Schorn Trust	
	F A & R C M Smits Ltd	Hillcrest at Fairfax Ltd	Marua Partnership	Serendipity Trust	
	Farmer Fred Ltd	J & LM Van Burgsteden	Miroc Limited	Shawlink Ltd	
	Farming Tee Jay Ltd	J H & H R Smyth	Owhango Farms Limited		

Te Tihi

Farming entities that achieved The Co-operative Difference Te Tihi (Level 3)

247 Farming Limited	A8 Enterprises Limited	Amlee Farming Partnership	At Last Trust	B P & P N Kennedy	Bibberne Farms Ltd
3 G Dairies Limited	Aaron and Marcia Flay Partnership	Amtink Limited	AUI Farms	B R & D S Gillingham	Bill Hedley Limited
41 Degree South Limited	Amuri Dairying Limited	Amuri Dairying Limited	Avenel Agriculture Ltd	B R & S P Churstain	Birch-holme Holdings Ltd
46 South Limited	Aaron Gopperth Trust	Amuri Hallow Limited	Awa Rua Partnership	B R C & S N Newport	Bish-One Limited
5 M Trust	Abacus Dairy Limited	Amuri Hallow Limited	Awaiiti Trust	B W & C A McNeil	BJ & DM Ahlers
69 on Bedford Partnership	Abbey Farm Partnership	Amuriwai Limited	Awanui Dairy Limited	B W & J E Blackmore	BJ & TJ Bennett Ltd
96South Limited	Abbott Trusts Partnership	Anderson Twin Rivers Limited	Ayrburn Dairy Ltd	BAA Family Trust	BJ Caird Ltd
99 South Limited	Aberavon Farm Limited	Andrew White	Azreel Farm Limited	Bailletresna Limited	BL & MR Davies Partnership
A & A Renes Limited	ABH Trust	Anglesea Farming Limited	B & A Heritage Holdings Ltd	Balcombe Investments	Blandyco Trusts Partnership
A & J Mitchell Partnership	ABR Family Trust	Aniwhenua Farms Limited	B & C Anderton Limited	Balrath Partnership	Blomfield Dairying Ltd
A & L Francis Limited	Acacia Farms Limited	Annandale Farming Limited	B & C McIntosh Ltd	Balwinder Singh-Thandi	Bobcat Trust
A & M de Klerk	ACDC Farming Limited	Annic Dairies Limited	B & D Dodunski	Barcia Dairies Ltd	Bodiam Dairies Ltd
A F & R F Davison	Actus Limited	Anthony & Donna Alcock Partnership	B & G Park Ltd	Barmac Dairies Ltd	Bonezco Farms Ltd
A G & B J Little	AD & HA Foote	Anvo Ag Limited	B & H Knoetze	Barmac Farms Ltd	Barnscroft Dairy Ltd
A G & M F Bowden	Adam Boaz	AP & SJ Watson & Son	B & L Bailey Ltd	Barnsdale Farms 2014 Limited	Bowman Farm Limited
A H & B M Kuttel	Addenbrooke Dairies Limited	AP & TM Davis T/A Bushvalley Farm	B & L Jones Ltd	Barridge Farms	BP & JA Walker
A H Baxter Limited	Adon No 1 & No 2 Trusts	Aparima Farm Limited Partnership	B A & K R Woolhouse	Bartholomew Tulloch Ltd	Bradley Gore Trust
A Holten & N Brown	Adrian Govan	AQA Agriculture	B A M & S M Rolls Partnership	Base Two Holdings Limited	Braeland Partnership
A J & G L Muller	Aerodrome Farm Limited	Arabeth Farms Limited	B A Virbickas & L M Presow	Bashford-Nicholls	Braemar Family Trust
A J & K L Murdoch	AgCulture Limited	Aramaunga Farms Limited	B C & H J McLellan	Chartiable Trust	Breadings Dairies Ltd
A J & N W Logie	Aghapy Ltd	Aranga Farms Limited	B D & C S Morrison	Batchelor Farms Ltd	Brenick Ltd
A J & P T Bryant	Aghern Holdings Limited	Ararata Holdings Limited	B D & K M Sterritt	Baucke Family Trust	Brensan Farm Limited
A J Reid & A L Robinson	AGVenture Farms Limited	Arborland Farm Ltd	B D & M R Gray Trust Partnership	Bayly Dairies Ltd	Brent Wallace Ltd
A L & M B Jumawid Partnership	Ahipene Farming Ltd	Ardmore Farm Trust	B D & N J Clark Trust	Bayly Dairies Ltd	Brimar Trust
A L & W A Mullan	Ahol Trust	Ardoyne Farm Dairies Ltd	B F Stuart & I B C Farms Ltd	BD & JE Matthews	Brodean Farms
A M & H E Kusabs	Airlie Lodge (Orini) Ltd	Arreton Farms Limited	B F Stuart & I B C Farms Ltd	Beardmore Family Trust No 2	Brohen Farms Limited
A M & K G Daines	Airlie Lodge (Walton) Ltd	Arrie Holdings Ltd	B H & L J Bourne	Bebez Partnership	Brookside Farms
A Mackinnon & A L Aitchison	ALD Dairy Ltd	Arrow Dairy Ltd	B J & A L Stokes	Beckett Family Trust	Brookside Holdings Limited
A P & C Knibbs	Alley Farms Ltd	Arthur Farms Ltd	B J & D A Verryt Family Trust	Beechbank Dairies Ltd	Brookside Holdings Limited
A P Griffith & J G James	Allison Family Farms Ltd	Arusha Farming Ltd	B J & J R Goodwin	Bel Group Limited - Cloverlea	Brown Kiwi Farms Limited
A R & M A McPherson	Alpine Farms Ltd	Ashdale Enterprises Ltd	B J & M C Gut	Bel Group Limited - Reigate	Brownsville Farms Ltd
A R & S Main	Altene Partnership	Ashgrove Dairy Farms Limited	B J & S R Morell	Becco Farms Limited	Brydone Downs Ltd
A R Wards	Alton Pastures Limited	Ashleigh Lodge Ltd	B L & D J Haylock	Bellamac Dairies Ltd	Brymac Farms Limited
A T & J L Hughes Trust	Altra Partnership	Ashmore Ltd	B L & Estate R J Mohring	Belrari Farm Ltd	BS Farming Limited
A T & L A Webber	AM Broomfield	Ashvale Jerseys Ltd	B M & A M Thomas	Belvedere Dairies LTD	BTB Farms Ltd
A W & D M Taft	Amazon Limited	Askeaton Farms Ltd	B M & J A Ahlers	Belvue Downs Ltd	Bucman Trust
A W & L J Stuart	Amber Park Family Trust	Askina Farms Ltd	B M & J L Chick Family Trust	Ben & Bev Verhoeven Trust Partnership	Burnell Farms Ltd
A W & M White	Amberhay Limited	Askina Farms Ltd	B M & R J Riley	Ben Callum Dairies Limited	Burnside Farms Ltd
A W & S L Wardlaw	Amco Farms Limited	Askina Plains Dairy	B M & R M Sarten	Berwick Holdings Ltd	Burtlea Limited
A X Planteau de Maroussem					Bushmills Trust
A.F.B Group Limited					

Thank you to all our farmer owners who have worked hard in the 2020/21 season to provide safe, high-quality milk. In addition to the honour roll, we acknowledge the efforts of all our farmer owners for their commitment to on-farm excellence and producing the best possible milk.

Bushwood Farm Ltd	Climie Road Farms Ltd	D P & J H Roper Family Trusts Partnership	Dugald McKenzie Family Trust	FiveBrocks Limited	Glenmarie Dairies Ltd
C & B Sanson Family Trust	Clover Bell Ltd	D P & T G Schumacher	Dunrobin Farm Partnership	Flaxwood South	Glenn Ramel
C & D Padruitt Trust	Cloverdale Dairies Ltd	D P & T M Stephens	Dunsdale Dairies Ltd	Fleming Family Trust	Glennnevis Dairies Ltd
C & H Mabey	Clyde Colin Bishop	D R & E M Henman	E A White Ltd	Flints Bush Dairies Limited	Glenrowan Trust
C & L Shanks Ltd	CM Farming Ltd	D R & G S Sawford	E B & J L Day	Flo New Zealand Limited	Glenspec Holdings Ltd
C & R Ashcroft Partnership	CMC 2000 Limited	D R & J B Wallace	E C Briden & Sons Ltd	Fonterra - Reporoa Farm	Glynn Lea Farming Company Ltd
C & T Dovey	CN Farms Ltd	D R & J E Gilchrist	E F Rose Farm	Forest Hill Downs Limited	GM & AM Woolley
C A & L E Eggleston	Cold Creek Ltd	D R & S K McKay	E G & S H Overdeest & Alvin Simpson Trust P'ship	Four Leaf Farms Limited	GN & LG Burgess
C D & M H Sax	Colebrooke Farm Limited	D W & D L Leslie	E J & B Y Steiner Family Trust	Four Quarters Holdings Limited	Golden Mile Farms Ltd
C D Jacobsen	Coleditch Ltd	D W & K E Ellett	E J Bolt	Fowler Family Prosperity Trust	Goldpark Farming Limited
C D Will & A E Hunter	Colson Family Trust	D W & R A Gerring	E J Ritchie	Fraser Farms	Gopperth Farms Ltd
C F & M T Muller	Conifer Park Partnership	D White	E L & D J Brook	Freely Farms Ltd	Gordham Farms Limited
C F E Limited	Conlan Trust	Dacre Milk Ltd	E O'Brien	Frisia Farm Trust	Gordon Dale Farms (2006) Ltd
C H Land Limited	Copeland Farming 2012 Ltd	Dacre Milk Partnership	E S Dairy 2008 Ltd	Full Jandal Outdoors	Goreland Partnership
C Higgins	Copeman Family Trust	DAGCO Limited	E.K. & M.J. Chisnall Ltd	G & A Parker	Gorge Dairy Ltd Partnership
C J & C J McKenzie Ltd	Copland Dairy Ltd	Dairy Glenn Farm Limited	East Chatton Farms Ltd	G & J Fladgate Limited	GR & KM Scott Partnership & Nalder Holdings Ltd
C J & K L Ladd	Cordylne Farms Limited	Dairy Trust Taranaki Inc	Eastgate Farming Ltd	G & K Kingston Family Trust	Grange Dairying Limited
C J & S J Coll Family Trust	Cornerstone East Limited	Dairytrac Trust	Eastwick Farm Limited	G & K Mathis Ltd	Granite Farms Ltd
C J & V K Taylor	Cornik Farms Limited	Daisy Dairying Ltd	Edale Farms Ltd	G & P Rennie Ltd	Grant and Rachel Phillips
C L N Limited	Corona Farms Ltd	Dajo Trust	Edge Holdings Limited	G & P Russenberger	Grant Gargan Trust
C M & K M O'Donoghue	Cotlands Ltd	Daker Ridge Trusts No.1 & No.2	Eichler Holdings Ltd	G A & J A Wright	Grantley Dairy Ltd
C P Ashby	Cotter Farming Ltd	Dammar Farms Ltd	Elamar Trust	G A & J M Hall Ltd	Grantley Trust
C Singh & Sons Ltd	Cowland Ltd	Danatava Holdings Ltd	Ellis-Lea Farms (2000) Ltd	G A & V M Weir	G A Knight
C T & W L Harper	Cowley Ltd	Dandarrigan Trusts Partnership	Emerald Acres Limited	G B & J S Coulter	G C & A M Williamson
C W & D Shannon	CPX Limited	Daniel & Tracey Ltd	Est of A J Barton	G E Sutherland Trust	G J & A M H Vincent
C W & J Redshaw	Craig Tretheway Ltd	Daniel Cullen Family Trust	Estate John Harold & Muriel Mary Watt	G J & E L Pinny	G J & H Hillier Ltd
C W & M Y Matthews Family Trust	Cravan Farms Limited	Daniel Symons	Estate of A Edwards	G J & J A M Crowhurst	G J & J A M Crowhurst
C&F Farms Limited	Crayfish Trust	Danz Family Trust Partnership	Estate of N R Dilks	G J Farms Ltd	G J Worthy
Cairnbrock Dairies Ltd	CRD Limited	David & Lynley Ecclestone	Estee Holdings Limited	G L & G F Bell	G L & R L Burr
Cairra Farms Limited	Creekside Pastures Ltd	David Fraser Trust	Euan Reeve Ltd	G M & A J Gower	G M & D M Tomsett
Crown Ridge Partnership	Crown Ridge Partnership	David Leng	Evans Farm Trust	G M & D M Tomsett	G M & J M Zydembos
Crowsnest Farming Limited	Croydon Agri Ltd	Davis 5 Limited	Excel Farming Limited	G N & D E Brown	G P & D J Wolvers Family Trust
Culblair Limited	Culblair Limited	Dayvco Ltd	Eyretonlea Partnership	G P & M E J Voogt	G P & W M McDermott
Cutting Edge Dairies Limited	CW Taunt & HM Baldock	DD & MM Russell	F & P Dawson Limited	G P Flynn Ltd	G R Campbell
Canana Dairy Limited	Canana Dairy Limited	Dekker Dairies Ltd	F A & D N Ahlers	G S & J K Hickey Family Trusts Partnership	G R Campbell
Cantley Developments Ltd	Cantley Developments Ltd	Delarbe Farm Ltd	F A & R C M Smits Ltd	G W & J A Hallett Family Trust	G W & J A Hallett Family Trust
T/A Sunrise Properties	Carefarm Limited	Dennis & Donna Gill Family Trust	F L Clifton Farming Limited	Galloway Enterprises Ltd	Garstein Ltd
Careyfarm Limited	Carnarvon Farms Limited	Dennley Farms Ltd	F W G & J P Stanbridge	Gaskell Farming Ltd	Gaskell Pastures Ltd
Carpe Diem Dairies Limited	Carpe Diem Dairies Limited	Department of Corrections	Fairhaven Farms Ltd	Gaskell Pastures Ltd	Gelerosa Farms Trust
Cartref Farms Limited	Cashmore Investments Limited	Des Landes Dairies Ltd	Fairplace Farm Ltd	Gema J Limited	GG Partnership
Cashmore Investments Limited	Caskey Farms	DHT Farms Limited	Falcon Dairy Farm Ltd	G Gillett Farms Ltd	Gilmore Farms Limited
Caskey Farms	Causeway Trust	Diamond Family Trust	Falcon Farms Trust	G J Buhler Farms Trust	GJ Buhler Farms Trust
Cavan Downs Trust	Cave Hill Dairies Limited	Dickinson Farms Ltd	FAM Limited	G K W Farms Ltd	Glasgorton Farm Ltd
Cave Hill Dairies Limited	Cawte Investments Limited	DNR Farms	Far East (1914) Ltd	Glen Eden Otago Ltd	Glendene Dairies Limited
CD Garland & KC Sheely	CB Farming Limited	Dogterom Farming Limited	Far South Farms Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited
Ceylandia Dairies Limited	CBS Dairies Limited	Dogterom Geddes Ltd	Farm Partners Limited	Gleneden Dairies Limited	Gleneden Dairies Limited
CH Dairies Limited	CD Garland & KC Sheely	Dogterom Thomson Limited	Farmbuild Milk Company Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited
Charteris Family Trust	Ceylandia Dairies Limited	Dogterom Thomson Limited	Garstein Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited
Chiswick Farm Ltd	CH Dairies Limited	Donnelly Trust	Gaskell Farming Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited
Christensen Farms Ltd	Charteris Family Trust	Doughty Higgins Ltd	Gaskell Pastures Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited
Clacher Family Trust	Chiswick Farm Ltd	Dovers Run Limited	Gelerosa Farms Trust	Gleneden Dairies Limited	Gleneden Dairies Limited
Clapcott Farms Ltd	Christensen Farms Ltd	DR Warren & RG Schov	Gema J Limited	Gleneden Dairies Limited	Gleneden Dairies Limited
Clarendon Farm Limited Partnership	Clacher Family Trust	Dragon Fern Limited	GG Partnership	Gleneden Dairies Limited	Gleneden Dairies Limited
Clarke Farms (2016) Ltd	Clapcott Farms Ltd	Drakes Hill Farming Ltd	Gillett Farms Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited
Clarke Farms Partnership	Clarendon Farm Limited Partnership	Draw Farming Ltd	Gilmore Farms Limited	Gleneden Dairies Limited	Gleneden Dairies Limited
Clarknic Farms	Clarke Farms (2016) Ltd	Drumblade Farm Limited	Gj & LM Ward Family Trust	Gleneden Dairies Limited	Gleneden Dairies Limited
Clausen Farms Ltd	Clarke Farms Partnership	Drumderg Farm Ltd	G J Buhler Farms Trust	Gleneden Dairies Limited	Gleneden Dairies Limited
Cleaver Farms Limited	Clarknic Farms	Drumlea Farms Limited Partnership	G K W Farms Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited
CLF Dairies Limited	Clausen Farms Ltd	Dry Creek Dairy 2014 Limited	Glasgorton Farm Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited
Clifden Farms Limited	Cleaver Farms Limited	Drylands Trust	Glasha Farming Company Limited	Gleneden Dairies Limited	Gleneden Dairies Limited
Cliff Donald	CLF Dairies Limited	Drysdale Dairies Ltd	Glen Eden Otago Ltd	Gleneden Dairies Limited	Gleneden Dairies Limited

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Haurere Farms Ltd	J & T Leech Farms Partnership	John Finlayson Ltd	Kerr Road Dairies Ltd	Law Family Farms Ltd	M C & M Davey	Matai Trust	MKR Farms	Oberwil Farms Ltd	Pahau Flats Dairy Limited	R & P McIntosh Ltd	RJ Dairies 2018 Ltd
HDJ & RJ Bernhard	J A & S Atkinson	Johnston Family Trust	Keswick Farm Dairies Limited	Lawson Lea Dairies Limited	M C & N J Loe	Matau Farm (2005) Ltd	MNM Farming Limited	O'Connor Dairies Limited	Pakarau Heights Ltd	R & S Gay Limited	RKBS Horne Ltd
Hedgehope Grazing Limited	J A Rhind	JOLO Grace Ltd	Kevin Fleming Ltd	Le Emari Trust - Morven	M C & P J McArley	Mathew & Rose Gordon	Mokka Limited	O'Connor Rural Limited	Palmdale Farms Ltd	R & S Singh	RM & JP Harrison Family Trusts Partnership
Henry de Haas Family Trust	J B & K A Lord	Jomac Ltd	Keystone Dairies Limited	Le Emari Trust T/A Willowbridge Dairies	M C & T P Van Rooijen	Mathieson@Rongomai Limited	Molehill Farm Ltd	Oliver K Limited	Palmer Partnership	R A & F N Davidson	Robert Gibson Trust - Totara Farm
Henton Holdings Ltd	J B & L M Suisted Limited	Jomar Farm Ltd	Kiffs Agventures Limited	Le Wood Downs Ltd	M C & V F McLennan Trust	Matikas Dairies Limited	Montland Limited	Onawhim Trust	Paretai Farms Ltd	R A & P E Adam	Robinson Muller Trust Partnership
Highfield Farm Holdings Ltd	J Buckley & D VanDenBeuken T/A Jaydee Partnership	Jonathan Johnson & Rennie de Jong Partnership	Kilvarock Farming Company Ltd	Legendairy Contracting Ltd	M C Dairying Ltd	Matricsen Ag Holdings Ltd	Moo Juice Limited	Ongaha Farms Ltd	Parkhill Farms Ltd	R B Swney	Robinson Muller Trust Partnership
Highflow Dairies Ltd	J C & C A Rossiter	Jonbay Farm Ltd	Kingsway Farms Limited	Lenek Farms Limited	M E G & D A Polyblank Family Trust	Matthew Shearer Limited	Moo2U Ltd	Oppertunity Farming Ltd	Pastoral Holdings Ltd	R C & K M Ormsby	Rockburn Dairy Ltd
Highpines Ltd	J C & N R Dickinson Ltd	Jones Bros. Ltd	Kinkora Farm Ltd	Leona Green	M F & D C Robinson Trust Partnership	Matthews Family Trust	Moai Dairies Ltd	Oraka Farms Limited	Patrick Milking Ltd	R F & C L Lansdaal Ltd	Rockford Holdings 2015 Ltd
Hillbrook Dairies Limited	J C & V G Wells	JR & L M Stevenson Ltd	Kintore Farm Ltd	Lesdale Friesians Ltd	M J & D R McFetridge	Maunga Views Ltd	Moonlight Farms Trust Ltd	Oreti Plains Agriculture Limited	Patterson Farming Limited	R F Seebeck	Rockhaven Farm Partnership
Hillcrest at Fairfax Ltd	J Duncan Farming Ltd	JS & KJ Lorimer trading as Laurel Hill Farm	Kirk Farming Ltd	Levettt Farming Limited	M G & S A Hughes	Maungatua Dairies Ltd	Moor Farm 2008 Limited	Orongo Meadows Ltd	Patterson Rawson Trusts Partnership	R G & C K Chubb	Rocky Point Enterprises Ltd
Hinemoa Dairying Ltd	J E & A E Watson	JS Peek Ltd	Kirson Farms Ltd	Lillburn Valley Dairies Ltd	M J & M Scarlett	Maxlands Farms Limited	Moorlands Trust Partnership	Otanomomo Station Limited	Paul Turner Farm Trust	R J & C A Stevenson	Rodeo Farm Ltd
Hinewai Dairies Ltd	J E & D L Morell	Juffermans Dairy Company Ltd	KJ&HL Uhlenberg(Waitui) Family Trust Partnership	Limesprings Holdings Limited	M J & T M Davies	Maxnco Farms Limited	Moovin Aherd Ltd	PD Berry	PB & GJ Fladgate Ltd	R J & E F Shaw	Rodgerthat Dairies Ltd
Hitchcox Farming Ltd	J E & S G Pike Family Trust	Junior Turnbull Trust	Klaus Farms Ltd	Lincoln University	M J & T M Lord	Maxwell Farms Limited	Moovie Ltd	Peel View Ltd	PD Berry	R J & K E A Cameron	Rodgerthat Dairies Ltd
HK McKenzie & K List	J E A Gamperle	Jurisich Farms Ltd	KM & BM Muller	Lisdale Dairies Limited	M J & T R Schumacher	Maybrooke Limited	Moorana Farms Ltd	Peel View Ltd	Peebles Siding Dairy Limited	R J Beckett	Rodney G & S J Joblin
HLM Partnership	J F & C G Herbert	JW Pouls Limited	Knightlands Ltd	Lismore Dairy Limited	M J & J Adams Trust	Mayfarm Ltd	Morelands Pastoral Ltd	Penllyn Ltd	Pen-Y Ghent Dairies Limited	R K T Suisted	Rogers Family Trusts Partnership
HN & DM Sadler	J F Pickett	K & A McKenzie Family Trust	Knockinnon Farm Trust	Lister-Springvale Dairy Limited	M J Morrison	Maziwa Safi Farming Ltd	Morlands Limited	Pen-Y Ghent Dairies Limited	Percy Farms Ltd	R L & F M Hurley	Rogers Farming Ltd
Hodder Farms Limited	J H & R M Smyth	K & B Farms Ltd	Knockrobin Family Trust	Livcon Farms Ltd	M J Robertson	MC Hodder Trust	Morrison Farms Limited	Percy Pastures Limited	Percy Pastures Limited	R L & S F Thompson	Rolfe Farms Limited
Hollands Farm Limited	J Haultain & K McCartin Partnership	K & S Richards Limited	Kohi Rose Ltd	Livestock Improvement Corporation Ltd	M K Farms Ltd	MC Holland Farming Ltd	Mosa Farming Ltd	Peter Reeve	Percy Pastures Limited	R M & S A Grayling	Romboats Farm Ltd
Holmridge Limited	J J & K J Cossey	K A & N J Riddington Ltd	Koley Limited Partnership	Living Acts Limited	M L & K I Clark Family Trust	McAtee Miller Partnership	Mountlea Trust	Rory Gibbs	Perks Farm Limited	R S & R D Gordon	Rooney Farms Limited
Homestead Dairies Ltd	J J & T A Hickman Family Trust Partnership	K B & M P Rusk	Koning Dairies Limited	Living Waters Dairy Ltd	M M Brophy Family Trust	McCallbraes Dairy Limited	Murchison Farm Ltd	Rosam Ltd	P & G Mulholland	RT & E A Brown Ltd	Rose Farm Ltd
Hoofprint Dairies Limited	J K & P C Webb	K B Olesen & R J Stephens	Konini Family Trust	Lizlyn Dairies Ltd	M Nesbit & A Absalom	McCheesey Farming Limited	Murphy Farms Limited	Rose Farm Ltd	P & H Connole	R W & F W Muller Trust	Roseneath Dairies Ltd
Hopcroft Farms Ltd	J L Hooper & A L Robertson	K C & D M Gooch	Koputai Farm Ltd	LJB Contracting Ltd	M P & M J Joyce Trusts P/Ship	McConnell Ag Ltd	Murrayfield Dairy Limited	Rosco Farming Ltd	P & J Dickson	R W & M E Gore	Roswin Farm Limited
Hopkins Farming Group Limited	J M & K L Sneddon Partnership	K G Reeve	Korimako Properties Limited	Loch Ness Farm Ltd	M R & K J Luke Ltd	McCullough Family 2008 Ltd	MW & KA Olsen	Roto Farms Ltd	Philip Parry Contracting Ltd	R W & M E Gore Family Trust	Rotongaro Downs Ltd
HS & KM MacPhail	J M & K L Sneddon Partnership	K H & G J Manunui Ltd	Kowhai Bush Family Trust	Lochbuie Limited	M S & M L Vickers	McFarlane Fields Limited	Mycall Holdings Ltd	Rout Dairies Limited	Pidgeon Pastures Ltd	R W & M E Gore Family Trust	R.L. Mathis Ltd
Hua Mahi Ltd	J M & L M North	K J & A M Hull	Kowhai Farms Partnership	Lochle Partnership	M S Dobson	McFetridge Farms Ltd	N & M Paton	Rout Dairies Limited	Pikeowai Transport Ltd	R W & R D Kane	R.L. Mathis Ltd
Hua Nui Ltd	J M & R Reith	K J & H Chalmers Ltd	KP & SP Berge Partnership	Lochle Partnership	M T & A J O'Connor	McGillan Farming Limited	N D & A J Rout	Rosam Ltd	Pinedale Farm Ltd	RA & L Lash	RA & NJ Johnstone Limited
Hunter Farms Ltd	J M & A Conner Ltd	K J & L J Reid	KRTH Limited	Lochle Partnership	M T & D H Simpson	McGillan Farming Limited	N J & M Bleakley	Rose Farm Ltd	Pinefield & Sons Farm Limited	RA & NJ Johnstone Limited	RA Gibbons & EF Uerata Partnership
Hurunui Ltd Partnership	J M Mellow	K J & S R Crowley	KTAC Farms Limited	Lochle Partnership	M T & K J Taylor	McKinnon Dairy Limited	N J & W A Vollebregt	Rosam Ltd	Pinefields Ltd	RA & L Lash	Ra Kanoahi Amuri Limited
Hutchins Farming Ltd	J M Nyssen Family Trust	K R Inger	Kuranui Farm Limited	Lochle Partnership	M Y Williams Limited	McKnight Family Trust	N J & W A Vollebregt	Rosam Ltd	Pineridge Partnership	RA & L Lash	Ra Kanoahi Amuri Limited
Hwtan Tune Holdings Ltd	J R Hooper & R A Candish	K R Vollebregt	Kuriger Farms	Lochle Partnership	Maandonks Farm Limited	McLachlan Farms Ltd	N J & W A Vollebregt	Rosam Ltd	Piriaka Farms Ltd - M & C Ferris	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I & T Megaw Partnership	J W & A M Steeghs	K W & D M Blackstock	Kywaybre Farms Ltd	Lochle Partnership	Maandonks Pastoral Limited	McLean Farms Limited	N J & W A Vollebregt	Rosam Ltd	Piraka Farms Ltd - M & C Ferris	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I Bigham & B LeGros	J W & H M Wech	K W & D R Lowe Family Trust	L & A Verstappen	Lochle Partnership	Maandonks Pastoral Limited	McNab Farms Limited	N J & W A Vollebregt	Rosam Ltd	P D & S F Smith	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I D & J A Armstrong Family Trust Partnership	J W & M J Osborne	K&M C Farms Limited	L A Dairies Ltd	Lochle Partnership	Maandonks Pastoral Limited	MCS Farms Limited	N J & W A Vollebregt	Rosam Ltd	P D & S S Sharpe	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I D & S D Read	J W & T L McElligott	Kahika Farming Limited	L A Ruthe	Lochle Partnership	Maandonks Pastoral Limited	Medbury Farm Ltd	N J & W A Vollebregt	Rosam Ltd	P D & S Wykes Family Trust	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I F & C J Smith Ltd	JA & BE Turnwald Family Trust	Kahurangi Skies Limited	L J & S L Wallace	Lochle Partnership	Maandonks Pastoral Limited	Mecherchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P E & S P Crowe Family Trust	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I G Haigh	Jackel Trust Partnership	Kaimore Farms Ltd	L J Bleakley	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & G Mulholland	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I H & D J Bryant	Jacob Abbott	Kairoa Dairies 2016 Ltd	L J Hollyman	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & H Connole	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I H Allison & L J Poki	Jacob Olsson	Kaitiaki Whenua Farming Limited	L P & C L McClintock Limited	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & J Dickson	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I J Oliver	James Brown	Kaituna Dairies Ltd	L R & S M Williamson	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & J Harrison Ltd	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I J Sutherland Partnership	James Lyttle	Kaiwhio Dairies Limited Partnership	L Ross & A Parry	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & S Bryan Limited	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I R & L G Diack	Jamze Trust	Kanadale Limited	L S & K A Phipps	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P A & J M Schumacher Trust	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I R & V E Wilcox	Jareem Trust	Kanuka Syndicate Ltd	L.G. & J.M. Morris Limited	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P A & K L Leslie	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
I.Guy Ltd	Jasas Trust	Kaponga Consultancy Ltd	Lacmor Dairies 2013 Limited	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P B & C A Sandford	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
Ian & Joyce Noble Limited	Jaska Farm Trust	Kashmir Trust	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P B & D P White	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
IM & RV Glenn Ltd	JAVAN Cream Company Ltd	Kauri Hiwi Ltd	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P B & E J Chick	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
Incline Farm Ltd	Jayland Partnership	Kauri Karaka Ltd	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P C & R A Grey	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
Inglenook Farms Limited	JC Beattie Trust	Kauri Moor Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P D & S F Smith	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
Intensive Agriculture Ltd	JDAF Dairy Farms Ltd	Kavanagh Trust Partnership	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P D & S S Sharpe	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
Inveraray Dairy Ltd	JD & RD Wallace Limited Partnership	Kaybert Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P D & S Wykes Family Trust	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & A Higgins Family Trust	J & C Anderson	KC Cows Ltd	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P E & S P Crowe Family Trust	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & C Kennedy	J & C Gray Family Trust	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & G Mulholland	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & C Kennedy	Jersey Oaks Farm Ltd	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & H Connole	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & C Kuwilsky	JF & LM Le Fleming Family Trust	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & J Harrison Ltd	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & D Reynolds	JL & NA Wolff Partnership	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P & S Bryan Limited	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & E Dairies Limited	Johan Van Vliet	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P A & J M Schumacher Trust	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & J Van Polanen Family Trust	JL & NA Wolff Partnership	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P A & K L Leslie	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & LM Van Burgsteden	JL & NA Wolff Partnership	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P B & C A Sandford	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & P S Malcolm	JL & NA Wolff Partnership	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P B & D P White	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited
J & R Ferguson Ltd	JL & NA Wolff Partnership	Keelinn Farms Limited	Lalbroch Trust	Lochle Partnership	Maandonks Pastoral Limited	McKerchar Investments Ltd	N J & W A Vollebregt	Rosam Ltd	P B & E J Chick	RA & NJ Johnstone Limited	Ra Kanoahi Amuri Limited

Te Tihi Continued...

S Mostert & A Leahy
S R & C J Baucke
S W & F M Settle
S.V. & M.L. Helms
Sailing Away Family Trust
Sandow Farming Ltd
Sanson Farms
Saunders Family Trust
SB & AM Gold Limited
Scarlett-Brown Partnership
Schayes Enterprises Ltd
Schorn Trust
Schouten Dairies Ltd
Scott Evans Sharemilking Limited
Scott Mark & Rachel May Ireland
Scotts Plateau Limited
Serpentine Farms Limited
Settler's Inn Trust
Seven Mile Farms Limited
Shady Farming Limited
Shaftesbury Soup Holdings Ltd
Shailer Trading Trust
Shawlink Ltd
Shearer Family Farms Ltd
Sheenfield Farms Ltd
Shepherd Dairy Farming Partnership
Sherwood Farming Co Limited
Sidewayz Farming Limited
Silvacrest Farms Ltd
Silverbank Enterprises Limited
Sisley Farms Ltd
SJ Pastures Limited
SK Holdings (2017) Limited
Skippers Dairy
Smiling Dairies Limited
Smit Dairies Ltd
Smith & Calderwood Limited
Smithetal Ltd
Smithill Ltd
Snow View Dairy Ltd
Sole Farm Trust
Sole Farms Ltd
Solid Ground Agribusiness Ltd
Somerset Dairy Farming Limited
Somerset Trust
Sounds Like Home Limited
South Dairy Limited
South Hilton Ltd
Southern Meadows 2011 Ltd
Tatiara Ltd
Southern Pastures (Manako Farm) Ltd Partnership
Southern Pastures (Mauri Farm) Ltd Partnership
Southern Pastures (Tatua Farm) Ltd Partnership

Southern View Limited
Southgate Farms Limited
SP & KP Van Burgsteden
Spark Brothers Ltd
Spring Peak Ltd
Springdale Farms Trust
Springfield Partnership Ltd
Springpark Farms 2008 Ltd
Springsafe Ltd
SS & C J M Partnership
Station Road Farms Ltd
Stevenson S R & J A Trust
Steward Dairy Ltd
Stichbury Farms Limited
Stone Country Dairies Ltd
Stornaway Farm Ltd
Stralough Ltd
Streamline Limited Partnership
Strowger Enterprises Limited
Stumc Limited
Sturgeon Family Trust Partnership
Suffolk North Farm Trust
Summerlands Limited
Sursum Farms Ltd
Sveka Farming Limited
Swim Farms Ltd
Sybton Farm Limited Partnership
Syme Ag Ltd
T & C Brown Limited
T & J Managh
T & V Rawlinson
T and M Wrigley Ltd
T E & K A Olson Partnership
T E & V L Herbert
T G & L J Goodhue
T J & K K Rigter Ltd
T J & L E Luond
T M & H D Green
T M Mcdowall
T P Payton
T S Curtis
T Van Woerden & Estate of H Van Woerden
T W H Edwards
Tablelands Dairy Limited
Taihoa Family Trust
Taikatu Plains Limited
Tainui Group Holdings Limited
Tamatea Farms Ltd
Tanks Road Dairy Ltd
Tanner Dairies Trust
Taradise Farm
Taranga Town Supply
Tatiara Ltd
Tauhara North Farming & Co LP
Tauhei Farms Ltd
Tavuna Farm Limited
Tawa Ridge Farms Ltd
Tawanda Nhemachena

Tayco Farm Limited
Taylor Family Enterprises Ltd
Taylor Farming Trust
Te Awa Farms Limited
Te Awa Land Co Limited
Te Awa Pararahi Limited
Te Ngawai Dairies Ltd
Te Pohutukawa Farm Limited
Te Puna Wai Dairy Farm Limited
Te Repo Farms Limited
Te Uku Farms Limited
Te Waiu Ltd
Te Whanake Enterprises Ltd
Te Whanake Joint Venture
Telesis Trust
Tennant Farms Ltd
Ternstone Ltd
Terpstra Farming Limited
Terrace Farm Holdings Limited
Terrace Farms 2016 Limited
Terrace Top Dairy Ltd
Terrace View Partnership
The Adare Company Limited
The Aspins Ltd
The Bush Trust
The D & A Roberts Family Trust
The Flavall Trust
The Goble 2000 Trust
The Harkaway Trust
The Hendriks Family Trust
The Herewahine Trust
The Holding Barn Ltd
The Len Day Family Trust
The Ridges Limited
The Taieri Dairy Company Ltd
The Toms Joint Venture
Tiger Hill Farm Ltd
Tihiroa Dairies Ltd Partnership
Tihiroa Farms Ltd
Tiro Roa Ltd
TJS Farms Limited
TL & SL Taylor Ltd
TN & GL Gray Ltd
Toa Farms Ltd
Todd Agri Ltd
Todd Bavin
Toey Farms Ltd
Tokama Limited
Tokerau A5 Incorporation
Tokoroa Pastoral Ltd
Tomara Dairies Ltd
Toner Trading Ltd
Torrans Moor Ltd
Totara Dale Farm Ltd
Totara Grove Farms (2007) Ltd
Townsend & Sons Ltd

Trenberth Family Trust
Trillo Farming
Trinity Lands Limited
Tripark Farms Limited
Tronnoco Farming Co Ltd
Tuck Dairy Limited
Tui Company Limited
Tui Glen Nikau Farm Limited
Tuikonga Farms Ltd
Tuki Tuki Awa Ltd
Turnbull Family Trust
Turney Farms Limited
Turney Farms Ltd - 2
Turpin Dairies Limited
Tussock Creek Dairies Limited
Tussock Creek Farming Trust
Tussocky Road Dairy Farm Limited
Tyndale Family Trust
Udderfield Ltd
Udderly Excellent Farms Limited
Udderly Harvey
Udders and Us Ltd
Umuwhawha Land Company Limited
Underwood Enterprises Ltd
Unity Farm Ltd
Upper Balmoral Ltd
Upson Downs Limited
V & J Ralph Ltd
V A & J J Nicholls
V B Durham Farm Limited
V E & D M Grant
V J & C E Stevenson
V M Beckett
V P Farming Limited
V Villiger and Estate of J Villiger
Valley Road Farm Ltd
Van De Pas Trading Ltd
Van Der Salm Farming Limited
Van Rossum Ltd
Van Terover Farms Limited
Van Tweeling Ltd
Vanderweg Farming Ltd
Vansco JV Limited
Vaughan Ardern
VBI Ltd
Ventsha Farms Ltd
Verdie Farms Ltd
Vervet Holdings Limited
T/A Taggart Dairy
Vervet Holdings Ltd
Voorend Agriculture Ltd
Vos Farms Ltd
W & C Candy Trust
W & C Gibberd
W & G Burke Ltd
W & H Villiger Farm Ltd
W & K Rolton
W A & E J Beaumont

W E & M L Gerring
W G & L A Matthews
W G & M D Orr
W J & V M Donald
W J A & L J West
W J C & B Y Godfrey
W M & K B Bolt
W M & S R Fisher
W R & D J Little
W R & Z W Kite
W S & K M Fleck
W T J Waetford & H M Wallace Ptnshp
W W Olsen
W.E. & G.J. Bonnar Ltd
Wacvac Farms Ltd
Wade Industries Ltd
Wagon Track Farm Limited
Waiari Dairies Ltd Partnership
Waihau Farming Trust
Wai-iti Dairy Farm Ltd
Waikato Dairy Limited
Waikirikiri Farm Partners LP
Waikorire Farms Ltd
Waimacher Farms Ltd
Waimanu Dairy Ltd
Waimarama Farming Ltd
Waimarie Holdings Ltd
Waimeamea Holdings
Wainono Dairy Ltd
Waiotu Farms Ltd
Waiparu Farm Ltd
Waiparu Holdings Limited
Wairio Farm Company Ltd
Waitaki Partners
Waitoru Farm Limited
Waituna Investments Ltd
Waiwhakaata Trust
Waka Tropics Limited
Wakapatu Dairy Farming Ltd
Walker & McLean Partnership
Walker Holdings Taupiri Ltd
Wallace Corporation Ltd
Wallace Johnstone Ltd
Walter Gold Ltd
Walters Holdings (2008) Ltd
Washer & Co Ltd
Watershed Ventures Ltd
Waterstone Farm Limited
Watford Trust
Way Farming Ltd
Waytemore Farms Ltd
Webber Farm Ltd
Wekanui Farming Ltd
Wekanui Farming Ltd (No. 2)
Wellpark Dairyng Ltd
Welsh Family Farms Limited
Welvarrt Farming Company Ltd

Wendon Dairies Ltd
West Mains Farm Ltd
Westhaven 2019 Limited Partnership
Westmere Co (2007) Ltd
Westmere Farm Ltd
Westmere Holdings
Westmorland Estate Ltd
Westmorland Farms Ltd
Westridge Farm Ltd
Weta Farms Limited
Wharepapa Trust
Wheyland Farms Limited
White Gold Ltd
Whitecliff Jerseys Limited
Whitefield Partnership
Willans Holdings Ltd
Willcox Farms Ltd
Williamson Trust Partnership
Willmor Pastures Ltd
Willowbank Dairies Limited
Willowbrook Farms Ltd
Willowburn Farm 2007 Ltd
Willowcreek Trust
Willowfields Ltd
Willowhaugh Enterprises Limited
Willowview Limited
Willowview Pastures Limited
Wilriskit Limited
Windwhistle Pastoral Ltd
Winter Farms (2004) Ltd
Wintersun Farming Ltd
Wiremu Trusts
Woldwide Five Ltd
Woldwide Four Ltd
Wolff Farms Ltd
Wonderland Pastures Ltd
Woodneys Farm Limited
WTF Partners
Wycombe Trust
Wyllies Farm Partnership
Wynyard Dairies Ltd
Wynyard Family Trust
Wynyard Limited
Y.O.T. Farms Ltd
Yalumba Farm Trust
Yaxleys Yard Ltd
Yeroc Farm Trust
YTT Farms Ltd
Zeeland Dairies Limited
Zeldon View Limited
Zenzele Farm Ltd
Ziang Farm Ltd
Zoetermeer Agriculture Ltd
Zonneveld Farms Ltd
Zug Farms Limited

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In another year
impacted by COVID-19,
we thank our farmer
owners and our people
around the world
for their continued
dedication and
their remarkable
achievements.



He aha te mea nui o te ao?
He tāngata, he tāngata,
he tāngata.

What is the most important
thing in the world?
It is people, it is people,
it is people.

Our year in review



Our Te Awamutu site moves away from coal, firing up on wood pellets

We expand our involvement in KickStart Breakfast and the NZ Food Network

Our first innovation application centre in China opens in Shanghai, dedicated to developing new ways of using our products



On-farm greenhouse gas (GHG) emission profiles are introduced, helping farmers identify opportunities for improvements on farm

We announce a partnership with US dairy co-operative Land O'Lakes to expand the reach of our Foodservice products in the country

Anchor™ launches New Zealand's first plant-based milk bottle



Peter McBride starts as Board Chair. He takes over from John Monaghan, who steps down from the Board after 11 years as a Director

Cathy Quinn ONZM is elected to the Fonterra Board

NZMP™ launches Milk Phospholipids into the global active lifestyle market. Naturally present in milk, these complex lipids are clinically proven to help manage the effects of stress



Global demand for cream cheese sees us bring on a full shift of new recruits at our Darfield site



We announce we will stop using coal by 2037

NZMP™ launches carbonzero™ certified Organic Butter, the first product in a portfolio of carbonzero™ certified ingredients

NZMP™ butter wins five gold medals and NZMP cream cheese wins three gold medals at the 2021 NZ Champion of the Cheese Awards



We complete the sale of our wholly-owned China Farms, resulting in cash proceeds of \$552 million

We start a consultation process with our farmer-owners on potential options to change our capital structure

Our Emergency Response Teams are mobilised to help farmers hit by flooding in Canterbury

NZMP™ picks up two awards for its world-class probiotic strains at the annual China Gut Conference



We complete the sale of our two joint venture farms in China, further underlining our strategy of prioritising New Zealand milk

The Co-operative Difference payment of up to 10 cents per kgMS for farms that meet sustainability and value targets comes into effect

We join with Dairy NZ, PGG Wrightson Seeds and the Government to get the Plantain Potency & Practice programme underway. The project seeks to substantially reduce nitrate leaching to freshwater

We announce that our Stirling manufacturing site in Otago will make the switch from coal to renewable energy

We team up with the Ministry of Health to offer all New Zealand employees COVID-19 vaccinations at our manufacturing sites and offices

We launch our Anchor™ Wellness range in the Middle East



Our context

Despite the ongoing pandemic, we have continued to deliver. This is thanks to our employees, farmers, the resilience of our supply chain, our customer relationships and a strong global demand for dairy.

“ Want Want Group was founded in Taiwan in 1962, and today operates in 61 countries and regions across Asia, Africa, North America, South America, Oceania and Europe.

We’re known for our popular snack products – dairy products, beverages, rice crackers and candy. The success of these products could not be achieved without Fonterra’s high-quality dairy ingredients. We’ve worked with Fonterra for several years and we consider them to be one of our most important strategic partners.

New Zealand enjoys unique advantages in its natural environment with high-quality cows that roam freely. This makes Fonterra’s ingredients irreplaceable to us. Its concept of grass fed, cared for cows, and milk that is sustainably sourced brings added value to customers.

But it’s not just about the ingredients – we also appreciate the additional services Fonterra provides, such as technical expertise, market insights and brand collaboration.

We’re seeing a growing demand for dairy products as disposable incomes increase. At the same time, people recognise the link between protein and immunity. Working with Fonterra, we recently launched a yoghurt with lactoferrin to tap into this trend.

Want Want Group is always actively exploring new growth opportunities. We are currently looking at how other dairy ingredients like whey protein, milk protein concentrates, cheeses and new cheese powders can give us new value propositions. We look forward to working with Fonterra and using their advantage in dairy products to further our success.”

– Yvonne Cao Yongmei, General Director of Manufacturing and R&D, Want Want



“ We’ve been farming for more than 30 years and have seen changes over that time. We are excited and positive about the future of dairy farming in New Zealand.

People want New Zealand milk because they know it’s nutritious, produced from cows grazed on grass and has a great reputation. We’re really proud of that. The challenge for the future is to stay ahead of trends and to make sure that, as an industry, we’re farming sustainably.

Being part of Fonterra is important to us because it is the whole business. It means our milk is picked up every day, processed and sold, doing the right thing for the customer and the farmer investor and maximising returns to farmers. We’re all in it together - from the farm, through the supply chain, to the customer.

There’s a lot of work involved in compliance and things like the Farm Environment Plans are a really practical way that Fonterra helps us. We are part of the Fonterra community and connected to what’s happening in our Co-op. We’re delighted that two of our four sons are dairy farming independently and are also Fonterra suppliers. For dairy farming to thrive, Fonterra needs to keep leading the industry and being a co-operative that people are proud of and want to be part of.”

– Jim & Mary Grayling, Ohaupo



“ I’ve been at Fonterra for nearly five years, and during this time I’ve been fortunate to have worked in various areas of the business. This has allowed me to expand my skillset and my network. Fonterra is full of opportunities and you can continue to develop if you show a willingness to step out of your comfort zone.

Fonterra is more than just a workplace for me. It’s my second home and a place where I feel able to not only bring my whole self to work, but also make a difference. At the heart of our Co-op is a group of amazing and talented people.

When I see our customers’ products on the supermarket shelf, I get a really clear sense of the contribution my wider team and I make to our Co-op’s strategy, knowing that I was able to play a small part in getting it there. At the end of the day, it’s our responsibility to create meaning out of what we do. For me, it’s being able to come into work knowing that I play an important role in creating goodness for generations through the supply of world-class ingredients. But I also get a sense of purpose through the mental health advocacy work I perform outside my day-to-day role, which Fonterra has encouraged and supported.

We’re a global organisation and many of our colleagues continue to be affected by COVID-19 lockdowns. As a passionate advocate for mental health and as someone who has openly shared their own experiences with this, I’ve been incredibly proud and grateful for how Fonterra has demonstrated care by putting wellbeing at the forefront of its response to COVID-19.

There is a real sense of compassion for what others are going through and a deeper appreciation for being together, regardless of where we are across the world.”

– Michelle Ortega, Supply Planning Manager

Our approach

A sustainable future for our Co-operative is core to our strategy – it’s how we create long-term value for future generations.



Laura & Ben, Auckland

Healthy People

We’re working together to care for people and make a positive social impact



*He aha te mea nui o te ao?
He tāngata, he tāngata, he tāngata.*
What is the most important thing in the world?
It is people, it is people, it is people.

- ✔ **Addressing public health challenges** by improving the nutritional profile of our products and promoting healthy diets.
- ✔ **Providing positive employment for our people** by promoting a healthy and safe working environment and developing a diverse, skilled and agile workforce.
- ✔ **Improving the health of our communities** by doing business in the right way, sharing what we do best and playing our part to build resilient, sustainable communities.

Long-term contribution



Stephanie & Keeley, Auckland

Healthy Environment

We’re working together to achieve a healthy environment for farming and society



*Tiakina te whenua i tēnei rā, hei oranga tangata
mō ngā rā e heke mai nei.*
Caring for the land today, so that the land
cares for us tomorrow.

- ✔ **Improving the health and biodiversity of our land and waters** by having a regenerative mindset, reducing the impacts of farming and manufacturing, and working in partnership with others.
- ✔ **Leading the transition to a low-carbon future** by investing in innovation and infrastructure to remove greenhouse gas emissions from our supply chain.
- ✔ **Helping meet the growing nutritional demand** through improvements in productivity and minimising waste from farm to consumer.

Long-term contribution



Farmer, Waikato

Healthy Business

We’re working together to deliver a sustainable business



Nā tō rourou, nā taku rourou ka ora ai te iwi.
With your contribution and my contribution,
we'll all thrive together.

- ✔ **Supporting healthy, sustainable livelihoods for our farmer owners** by returning the most value from every drop of milk.
- ✔ **Building a strong co-operative** by ensuring our business, including investments, delivers long-term value.
- ✔ **Meeting the changing needs of customers and consumers** by leveraging our unique strengths and innovating to create sustainable value for them and us.

Long-term contribution



How we create value

The resources we rely on (our inputs)

OUR RELATIONSHIPS

- With farmers, governments and regulators, unions, employees, customers, iwi and communities

INTELLECTUAL CAPITAL

- Our know-how, systems and intellectual property
- Our strong global brands
- 230 patents across 46 families of patents

FINANCIAL CAPITAL

- A strong financial base, capital from our farmer shareholders, unit holders and debt (\$12,281 million average capital employed)

ASSETS AND INFRASTRUCTURE

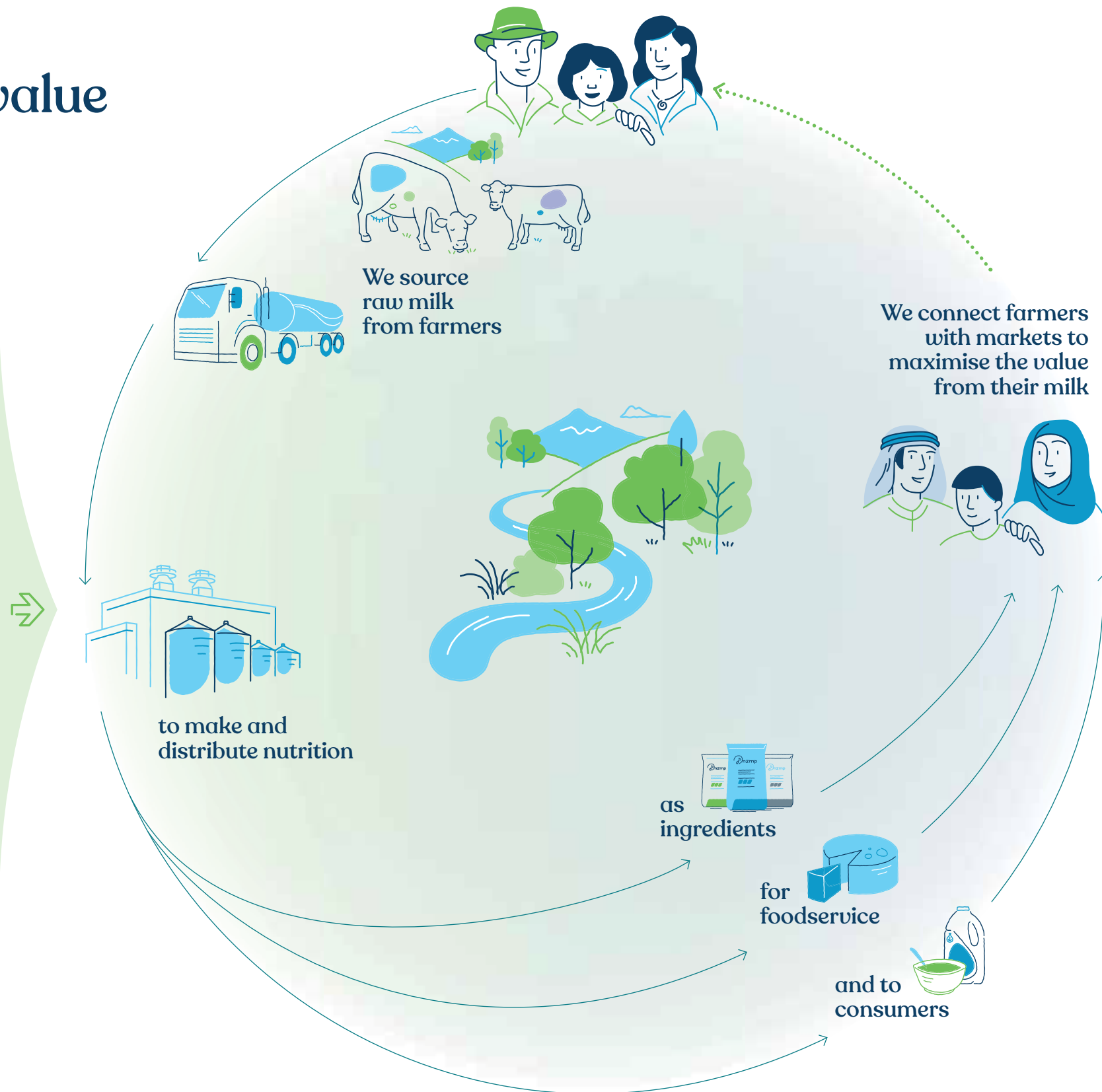
- Our portfolio of property, plant and equipment including right of use assets (\$6,465 million total net book value)

PEOPLE AND CULTURE

- 19,000+ skilled and motivated employees led by a board and management team with diverse skills and experience
- 25,000+ dedicated farmers and farm workers
- Thousands more people in our supply chain

NATURAL ENVIRONMENT

- 4.1 million milking cows grazing on 1.5 million hectares of pastoral land
- Some fertiliser, irrigated water and supplementary animal nutrition
- Energy (28.6PJ) and freshwater (50.8 million cubic metres) for our manufacturing sites



Our outputs (FY21)

OUR RELATIONSHIPS

- Farmer sentiment = 23
- Employee engagement = 4.09
- We exported to over 140 countries

INTELLECTUAL CAPITAL

- More than 95% of our manufacturing sites are certified to leading food safety standards
- 6 new patents granted
- 10 other applications filed

FINANCIAL CAPITAL

- Farmgate Milk Price \$7.54 per kgMS
- Total dividend \$0.20
- Revenue \$20,565 million¹
- Normalised earnings per share \$0.34
- Debt/EBITDA 2.7x
- Return on capital 6.6%

ASSETS AND INFRASTRUCTURE

- We manufactured 4 million tonnes of finished goods
- 500+ milk collection tankers
- 48 manufacturing sites

PEOPLE AND CULTURE

- 2,269 wellbeing scorecards completed
- 345,000+ hours of skills training in New Zealand

NATURAL ENVIRONMENT

- Our supplying farms emit 21.8 million tonnes CO₂-e producing 19.3 billion litres of milk
- Our manufacturing sites emit 2.0 million tonnes CO₂-e and discharged 61 million cubic metres of water

¹ This breakdown of revenue is for continuing operations only, rather than total Group revenue, which was \$21,124 million for FY21.

Guiding Principles:



Manaakitanga is the care we show for others



Whanaungatanga is how we connect with each other



Kaitiakitanga is how we care for our environment

Creating value for our stakeholders

Farmers

Governments & regulators



WE CREATE VALUE BY

- Delivering a strong total pay-out – *Ref. AR-53*
- Reliably collecting their perishable product and providing efficient access to valuable international markets – *Ref. AR-39, AR-41*
- Adding value to their milk through innovation and a flexible product portfolio – *Ref. AR-44*
- Providing resilience to operating volatilities such as price, energy, foreign exchange rates and ocean freight – *Ref. BP-17*
- Providing access to technology and services that help meet regulatory requirements and

continues to improve farming practices – *Ref. AR-32*

HOW WE ENGAGE

- At meetings and roadshows, and through our formal governance processes
- On an ongoing basis led by our Area Managers and Sustainable Dairying Advisors or equivalent



WE CREATE VALUE BY

- Complying with regulatory requirements, including food safety, milk price, marketing and environmental – *Ref. SP-46*
- Reducing our environmental footprint including GHG emissions, water consumption and solid waste to landfill – *Ref. SP-22*
- Contributing to the development of policy and responding to crises – *Ref. AR-36*
- Collaborating with industry partners to achieve international commitments – *Ref. SP-28*
- Taking a responsible approach to tax – *Ref. SP-46*

- Supporting international relations through our presence in global markets – *Ref. AR-53*

HOW WE ENGAGE

- On an ongoing basis through our Government and Stakeholders Affairs team
- Through formal consultation on important issues such as climate change
- Through partnerships on initiatives such as Living Water with the New Zealand Department of Conservation

Customers & consumers



WE CREATE VALUE BY

- Delivering nutrition products that are high-quality, low carbon and responsibly produced – *Ref. SP-12, SP-28, SP-43*
- Providing access to nutrition products that include healthier options and linked to sustainability credentials – *Ref. SP-9*
- Using responsible procurement to influence our supply chain – *Ref. SP-44*
- Responding quickly to changing needs and customer demand for innovative new products and ingredients – *Ref. AR-46*

HOW WE ENGAGE

- On an ongoing basis through our account management teams
- By sharing information through programmes such as SEDEX and the Carbon Disclosure Project (CDP)
- With our own direct consumers through our service teams, email and social media, and consumer research

Investors



WE CREATE VALUE BY

- Providing sustainable returns via earnings per share, dividends, and interest paid – *Ref. SP-40*
- Reducing investment risk through transparency and independent assessment – *Ref. SP-38*
- Providing opportunities to invest in New Zealand dairy nutrition – *Ref. BP-12*

HOW WE ENGAGE

- On a regular basis through updates, formal reporting and meetings coordinated by our Capital Markets team

Employees



WE CREATE VALUE BY

- Providing a safe workplace – *Ref. SP-14*
- Supporting health and wellbeing – *Ref. SP-14, SP-15*
- Providing good learning and development opportunities – *Ref. SP-16*
- Building an inclusive culture where everyone contributes and feels supported – *Ref. SP-18*

HOW WE ENGAGE

- On an ongoing basis through our everyday interactions, regular engagement surveys and engagement with unions

Society



WE CREATE VALUE BY

- Providing direct and indirect, rural and urban employment – *Ref. SP-40*
- Lowering our environmental footprint – *Ref. SP-22*
- Supporting communities through natural disasters and crises such as floods – *Ref. AR-36*
- Providing access to nutrition through in-school nutrition and food bank donations – *Ref. SP-20*
- Strengthening and enhancing our relationships with tangata whenua – *Ref. SP-18*

HOW WE ENGAGE

- With interested groups such as NGOs through collaboration and consultation on specific topics
- On an ongoing basis with iwi around Aotearoa New Zealand through our Matakahi – Māori business development team
- Through public events, the media and our own social media channels



Pei Luk & Claire, Auckland

AR-XX = page in Annual Review
BP-XX = page in Business Performance Report
SP-XX = page in Sustainability Performance Report

Our progress

CORE INDICATORS ¹		TARGET ²	PERFORMANCE			TARGET FY22		SEE PAGE
			FY19	FY20	FY21 (target in brackets)			
Healthy People								
	Total recordable injury frequency rate (TRIFR) per million work hours	Less than 5	4.9	5.8	5.7 (5.0)	5.6		SP-15
	Employee engagement ⁵	World-class (Top quartile)	4.00 ⁵ 2nd highest quartile	4.07 2nd highest quartile	4.09 2nd highest quartile (Top quartile)	Top quartile		AR-39
	Female representation in senior leadership	50% by 2022 ⁶	28.6%	29.1%	32.4% (35%)	35.8%		SP-18
	Farmer sentiment (Net Promoter Score for Fonterra)(NZ)	>10 by 2030	-19	33	23 (>10)	30		
Healthy Environment								
	Farm Environment Plans (FEPs) (NZ)	100% by 2025	23%	34%	53% (45%)	67%		SP-26
	Water reduction at manufacturing sites in water-constrained regions from FY18 baseline ³	30% reduction by 2030	3.9% increase on FY18	2.9% reduction on FY18	2.6% reduction on FY18 (10%)	8% reduction on FY18		SP-23
	Reduction in absolute Scope 1 & 2 GHG emissions from FY18 baseline ⁴	30% reduction by 2030	1.7% reduction on FY18	3.5% reduction on FY18	6.5% reduction on FY18 (8%)	6.5% reduction on FY18		SP-30
Healthy Business								
	Fonterra %kgMS of New Zealand milk collected for season ending 31 May	–	81%	80%	79% (80%)	79%	–	BP-05
	New Zealand Farmgate Milk Price (per kgMS)	–	\$6.35	\$7.14	\$7.54 (\$5.90-\$6.90)	\$7.25-\$8.75	–	AR-50
	Return on capital ⁷	7% - 8% by end FY24 ⁷ 9% - 10% by end FY30 ⁷	5.6%	6.6%	6.6% (6% to 7%)	6.5% - 7.0%		AR-55
	Debt/EBITDA	2.5x - 3.0x ⁷	4.3x	3.3x	2.7x (3.0x to 3.5x)	2.4x		AR-55
	ENIBD gearing ratio	–	48.5%	41.4%	35.5%	–		AR-55
	Adjusted net debt gearing ratio ⁸	30%-40%	–	44.2%	38.5% (36 to 40%)	34.5%		
	Normalised earnings per share ⁷	45c - 55c by end FY24 ⁷ 55c - 65c by end FY30 ⁷	16c	24c	34c (20c to 35c)	25c - 40c		

1 All targets are global unless stated otherwise (e.g. NZ).

2 All targets are by the end of the year stated.

3 Sites in water-constrained regions updated to add Kauri and remove Brightwater where regional water availability is being significantly improved by the construction of a dam.

4 This target is now expressed as full Scope 1 and 2 emissions relative to FY18 baseline and this has been approved by the Science-Based Target Initiative. The China farms sold during FY21 have been excluded for all years so the underlying progress can be demonstrated.

5 Engagement results reported in the FY in which they were taken.

6 Our original timeline is unlikely to be achieved but we remain committed to the intent.

7 Target updated to reflect strategy to 2030.

8 In July 2021 the Board approved a new basis for calculating the Group's gearing ratio to align with the definition of debt used for the debt to EBITDA ratio. This basis will be used to monitor the Group's gearing in the future. The adjusted net debt gearing ratio is calculated as adjusted net debt divided by total capital.

FY21 progress is evaluated against stated targets:

Progressing well or target achieved

Progressing but not as strongly as we'd like

Not progressing well or original timeline significantly delayed

On Farm

We believe having a strong dairy co-operative makes a real difference to our farmer owners, and to the country.

Being an owner of our Co-operative gives farmers control of their destiny. It also gives them the confidence to invest and innovate in their own businesses because they have the certainty that we'll always pick up their milk and we're motivated to work hard to get them the best possible price for it.

Our scale and diversity allow us to move our farmer owners' milk into the most valuable products and markets. This helps mitigate some of the risk for farmers that comes when demand for certain products or markets softens.

We're also focused on working with farmers to ensure there is continued demand for their milk for generations to come and, in doing so, support them by sharing useful insights, tools and advice to help them reduce on-farm emissions and improve water quality.

The value we create is returned to regional New Zealand with almost 50 cents of every dollar earned by a farmer spent in their local community. This helps sustain local communities and enhance their wellbeing.

Final Farmgate Milk Price of

\$7.54

per kgMS

Total dividend of

20 cents

per share

53%

of supplying farms in New Zealand now have Farm Environment Plans, up from 34% at the start of the year. Well on the way to achieving 100% by 2025

53%

of supplying farms in New Zealand now have Animal Health Plans

3,246

farms achieved one of the recognition levels in our Co-operative Difference framework

Stu, Tania, Rebecca, & Jessica, Taranaki



Our Co-op’s strategy is about prioritising New Zealand’s milk and making sure we’re sharing it with those who value its uniqueness.

The Co-operative Difference

Our Co-op’s strategy is about prioritising New Zealand’s milk and making sure we’re sharing it with those who value its uniqueness.

The Co-operative Difference is part of this. It takes our customer insights and global consumer trends and brings them together to help farmers understand what needs to be done on farm to help ensure there is continued demand for our products.

That means asking farmers to focus on five key areas – the Environment, Co-op & Prosperity, Animals, People & Community and Milk Quality. And The Co-operative Difference provides direction for priority improvements within each of these areas and longer-term guidance on likely requirements and trends. This gives farmers confidence to invest in the things that will add value to their milk.

Our farmer owners’ progress is measured through three levels of achievement. Each level brings additional recognition.

Since 1 June 2021, a farm can earn up to 10 cents per kgMS on top of the Farmgate Milk Price if they meet sustainability and value targets under The Co-operative Difference.

Emissions

This year an independent report from AgResearch, commissioned by DairyNZ, showed New Zealand dairy farms have the lowest carbon footprint per kgMS in the world. Our farmer owners have achieved this by harnessing New Zealand’s natural resources through their pasture-based farming.

But we know biological emissions produced by cows are a major contributor to New Zealand’s overall emissions and we’re working to do whatever we can to find ways to reduce them.

Until you understand where your emissions come from, it’s difficult to know where to start. So, this year we took a very practical step and gave all our farmer owners access to personalised Greenhouse Gas (GHG) emissions profiles for their farms. This was the first time such a tool has been introduced in New Zealand at scale.

These reports are designed to provide useful insights for farmers to help identify opportunities for improvements on farm – providing indicators

such as the estimated level of biological methane and nitrous oxide emissions per hectare, and the amount of emissions per kgMS.

However, achieving a significant reduction requires more than just on-farm changes. We need to find breakthroughs in reducing emissions from cows and that’s why we’ve teamed up with industry partners on a range of research and development projects.

Initial results look promising.

- With Royal DSM, a global science-based company, we’re testing if DSM’s feed additive product Bovaer®, which reduces methane emissions from cows by about 30% in non-pasture-based farming systems, can do the same in New Zealand’s pasture-based farming systems.
- With MPI and DairyNZ, we’ve expanded a promising trial with Nestlé to see if including plantain in a cow’s diet can reduce the amount of nitrogen produced, reducing emissions and improving freshwater quality.
- With Australian organisation Sea Forest, we’re trying to understand if we can reduce emissions by incorporating seaweed in cows’ feed.
- We’re also exploring whether our expertise in dairy fermentation can be used to target methanogens, the microorganisms found in cows’ stomachs that produces methane.

Every year we commission AgResearch to understand the full carbon life cycle of our milk-producing regions. This allows us to estimate our absolute GHG emissions related to farming and to identify opportunities for reduction. We report the findings one year in arrears due to the complexity of compiling and analysing the information. In New Zealand, our profile for the 2019/20 season shows a slight increase in the average carbon footprint on-farm, due in large part to a change in the composition of imported feed.

Dave & Gareth, Taranaki

In order to produce safe, sustainable dairy products there are some things that we can never afford to compromise on.

That’s why we’ll always:

- Meet the requirements of our regulators
- Comply with all market access requirements overseas
- Produce safe, high-quality milk
- Look after our people, animals and the environment

We call this “Our Core”

Once the Core foundations are met, our farmer owners can grow further through three levels of achievement. To make it simple, we use the analogy of a journey up the mountain to reach greater things. Each level brings additional recognition

1201
ACHIEVED
LEVEL 3

Te Tihi
“THE SUMMIT OF THE MOUNTAIN”
FOR THE ENTIRE SEASON

1065
FARMERS
ACHIEVED LEVEL 2

Te Puku
“THE MID POINT”
SIX MONTHS

980
FARMS
ACHIEVED LEVEL 1

Te Pūtake
“THE START OF THE JOURNEY”
THREE MONTHS



The
Co-operative
Difference

One of the special things about being part of a co-operative is that we're there for each other when times are tough.

Water quality

Improving water quality is important to our Co-op. Farm Environment Plans (FEPs) are a key part of The Co-operative Difference and one of the main tools we offer farmers to help improve water quality.

Compiled by our Sustainable Dairying Advisors, FEPs give a tailored overview of a farm soil health, water quality and freshwater biodiversity. They enable farmers to focus on the areas where they can make the biggest positive impact.

FEPs help farmers take targeted actions, but we're also looking to accelerate additional solutions. Working in partnership with the Department of Conservation, our Living Water programme is trialling tools that show dairying and freshwater can thrive together.

In Waikato, Living Water is trialling floating wetlands as a way of improving freshwater quality. Early indications show that introducing floating wetlands to farm drains that flow into Lake Areare has reduced nitrogen and phosphorus entering the lake.

With DairyNZ and PGG Wrightson Seeds, Fonterra is exploring how the use of plantain within pasture could reduce the amount of nitrogen produced by cows, improving freshwater quality. The Plantain Potency and Practice Programme, which is supported by Government funding, aims to reduce nitrate leaching on farm.

Animal wellbeing

Our farmer owners care for their animals and for many, their cows are part of the family. They know that healthy cows produce the high-quality, nutritious milk our customers want and 53% of our supplying farms now have Animal Health Plans in place.

This year our Cared for Cows Standard achieved independent certification so we can give customers substantiated claims about the provenance of our milk.

We were also one of only 12 global food producers and manufacturers to be recognised for farm animal welfare leadership in the Business Benchmark on Farm Animal Welfare (BBFAW) and the only New Zealand organisation included in the line-up.

Responding to extreme weather

One of the special things about being part of a co-operative is that we're there for each other when times are tough. We've seen that this year with COVID-19, but also with our Emergency Response Teams (ERTs) lending a hand when wild weather hits.

In late May, parts of Canterbury experienced some of the worst flooding the region has seen in a century. A number of farmers faced significant stock, feed and equipment losses with debris spread right across their properties. Our Co-op's local ERT members, as well as those from other parts of the country, arrived to pitch in on the worst-affected farms.



Pete Morgan & Ann Bouma



Sticking together will always be stronger

“Ann and I are in our 21st year of owning our Pokuru farm which we have grown from 120 ha in 1999 when we bought it from Ann's parents, to the current 265 ha. In that time, we've seen huge advances in benchmarking and performance modelling, streamlined accounting, farm record-keeping and communication tools.

However, the fundamental drivers of the business - pasture first, good care of our animals and land, tight cost control and embracing the challenges and richness of farming life - are still the same.

We think the premium our milk commands is linked to how much our consumers trust it. They care that we care; that our milk is nutritious and safe and that we love and look after our cows.

We are part of a wider farming community that cares for each other and is working together to get better at managing our beautiful environment.

Our approach is driven by some simple principles centred around feeding excellent pasture to well-cared-for cows to make high

quality milk we can be proud of. To us, being sustainable addresses both the need to be resilient enough to sustain a strong business into the future and to do it in a way that takes into account the impact we have on our people, animals and environment.

We need to take full responsibility for our impact on soil, water and in particular our emissions. Addressing these issues while producing a highly valued food the world wants is a good place to be.

It was really special to have continuity during the COVID-19 lockdown, both for our farm business and personally for our family. It is a wonder that our milk got picked up, supply chains managed to keep our markets serviced under unimaginable disruption and we got paid while the world got fed.

Communal agriculture has sustained people since societies first formed. Our Co-operative has always made sense to us; sticking together will always be stronger. It means we need to be involved and have a say in our direction. It's not always easy to agree, but it's a healthy test we are going the right way.”

– Pete Morgan & Ann Bouma

Off Farm

From the tanker driver who collects the milk, to our cheese makers and packers and everyone in between, our people are focused on one thing – creating value from every single drop of milk we collect.

And in another year disrupted by COVID-19, our people worked tirelessly to keep our supply chain running smoothly, meet customer demand and deliver for our farmer owners.

More than ever we're focused on the safety, health and wellbeing of our people and continuing our commitment to employee development, engagement and building an inclusive workforce.

We're closer to our goal of exiting coal by 2037 and made our biggest reduction in carbon emissions from coal in a single year. The boiler at our Te Awamutu site completed its first season firing on renewable wood pellets and in July, we announced our Stirling manufacturing site is next to go coal-free.

Employee engagement up, close to achieving our target of top quartile 

ZERO
fatalities

28.1%
increase in the hours of skills-related training

Serious harm injuries and recordable injuries both down 

32.4% 
female representation in senior leadership

6.5%
reduction in our scope 1 & 2 greenhouse gas emissions since FY18

0.3%
increase in water use at our manufacturing sites in water-constrained regions

It was the strength of Kotahi, our supply chain partnership with Silver Fern Farms, Maersk Line and the Port of Tauranga, that meant we were able to get our products to market and in record numbers, with 2.59 million metric tonnes shipped.

Health, safety & wellbeing

We want all our people to get home safe, every day. That’s why we put safety first and support the mental and physical wellbeing of our people.

This year, our total recordable injury frequency rate has reduced slightly from last year, with the number of serious harm injuries also down. We also recorded zero fatalities. While these are encouraging trends, every event is one too many.

Many of our global teams continue to be affected by ongoing lockdowns that have tested our usual ways of working. We have leaned into digital tools like Microsoft Teams, which have allowed us to stay connected and accelerate flexible working options.

We have stepped up our wellbeing game. More than 5,000 people have taken part in a series of employee-led webinars that have turned the spotlight on mental health. And our ‘Better You’ app is just one of our increasing range of virtual wellbeing tools to support our people wherever they are in the world.

We have expanded the reach of our Good Yarn workshops at manufacturing sites and offices across New Zealand. The workshops provide tools to help improve mental health and personal resilience along with practical ways of supporting those who may need it. We have also established a network of trained wellbeing staff who can provide assistance and where needed, help with access to professional support.



Crawford Street

Our people

Building a culture of inclusion and connection enables us to deliver our purpose, empowering people to create goodness for generations – You, me, us together, Tātou, tātou.

Last year, we appointed a new Head of Diversity and Inclusion and launched a Global Diversity and Inclusion network. One of our priorities is to retain a greater proportion of women and increase the number of experienced women hired.

We made progress on female representation in senior leadership roles this year, which is up to 32.4%. Achieving greater gender diversity across our leadership teams remains a priority.



Whareroa

We know people need to feel engaged and inspired to be at their best. We measure employee engagement using a Co-operative wide survey administered by Gallup. Despite the challenges of COVID-19, employee engagement was up this year, with more teams in the top quartile and almost achieving our target of top quartile overall.

We’re focused on the development of our people, supporting leadership and emerging talent. In 2019, we signed the Aotearoa New Zealand Skills Pledge to help employees grow core skills. As part of the Pledge, we have committed to doubling on-the-job training and reskilling hours in New Zealand by 2025. Over the last 12 months, we’ve seen a 28.1% increase in the hours our New Zealand employees spent upskilling.

We have several programmes in place to make this happen, including early-in-career offerings for apprentices, trainees and graduates, with training that results in independently recognised qualifications.

Resilient supply chains

Global supply chain disruptions have been ever-present since the emergence of COVID-19. At the onset of the pandemic, our China team provided updates on the developing situation. This helped us to react and adapt early, keeping our products moving through the supply chain.

We really started to feel the pinch in September 2020, as government stimulus packages began to kick in and lockdowns prompted a surge in online shopping. This, combined with limited airfreight options and global port congestion, brought a perfect storm – just in time for our peak export period.

Previous investment in digitising many processes and the resilience of our logistics team were very important. It was the strength of Kotahi, our supply chain partnership with Silver Fern Farms, Maersk Line and the Port of Tauranga, that meant we were able to get our products to market and in record quantities, with 2.59 million metric tonnes shipped. Our Kotahi partnership means freight is pooled with 50 other New Zealand exporters, minimising our exposure to events like COVID-19.

2.59 million
metric tonnes shipped from New Zealand.



Renewable wood pellets

Climate change

We are working to reduce our impact on the environment at every point across our supply chain. Our manufacturing activities account for about 9% of our reported GHG emissions, mostly from energy use. For our manufacturing operations, our approach is simple - use less and emit less. We will use less by continuing to improve our energy efficiency. Last year, we achieved our target of a 20% reduction in energy intensity from our 2003 baseline.

We plan to convert our remaining nine coal-burning sites to renewable energy by 2037. The transition of our Te Awamutu site from coal to wood pellets this year has resulted in a significant reduction in the total quantity of coal we use. We recently announced that our Stirling site will join Te Awamutu in making the transition away from coal and, in August 2022, will become our first site where 100% of thermal energy is renewable.

Elsewhere, we are transitioning a third of our light vehicle fleet to EVs and installing more charging stations at our sites. The recent roll out of Milk Vat Monitoring Systems on farms has created opportunities to optimise our tanker pick-up schedules and means we'll have fewer tankers on the road from next year.

Water

Responsible use of water is important for our manufacturing sites, particularly those in water-constrained regions.

Water use increased at these sites by 0.3% this year due to increased production, challenges commissioning new equipment and some other one-off events. We are still using 2.6% less water at these sites compared to 2018 and water-efficiency continued to improve at other sites.

In many instances, we can use the treated water from our factories to help grow grass and other crops such as hemp. These crops can then be used to produce animal feed, creating a circular model for nutrient management.

Packaging

Packaging is needed to prevent food waste, so we like to make it easy for customers to recycle. In 2019, we established a Sustainable Packaging Programme to help us deliver our target of 100% reusable, recyclable or compostable packaging by 2025. We've worked with experts to assess local recycling infrastructures and standards and will influence improvements where possible.

Packaging has also been a focus for our network of 66 Farm Source™ stores. The team has removed packaging altogether on about a third of its Country Mile range and replaced plastic with recyclable options where removal isn't possible. In the last year, Farm Source™ has also introduced the 360 REPREVE® workwear range, made from recycled plastic bottles.



Last year, we achieved our target of a 20% reduction in energy intensity.

For the last 18 months, work and personal life have basically sat in the same space. Our homes have been our gyms, our schools, our everything.

JASMIN MAGSAJO – MARKETING DIRECTOR, FONTERRA PHILIPPINES



Our people: professional, dedicated, resilient and agile

“Prioritising the health of our team and allowing us to work from home is huge. Not all companies here have committed to that and I am truly grateful. It is a load off my mind not having to worry about my personal safety and that of my team on a daily basis.

For the last 18 months, work and personal life have basically sat in the same space. Our homes have been our gyms, our schools, our everything.

Lockdown has given me time to reflect on the things that really matter – my family and my belief in the power of teamwork. I have gotten through these challenging times with the help of people around me, my family and my teams within Fonterra whether here in the Philippines, regionally or globally. Everyone has been so supportive and strong for each other.

It's been really motivating to see how resilient our people have been. We work for a company and a category that's very relevant for people and I know that we're making a difference in people's lives, their health and their wellbeing. So that keeps me motivated.”

– Jasmin Magsajo, Marketing Director, Fonterra Philippines



Jasmin Magsajo



Cynthia Ferrer

“Here in the Philippines, we are experiencing a third wave of COVID-19 transmissions and the current case numbers far exceed the records from last year. Everyone in the team knows a family member, neighbour or friend who has been affected by the virus. Our people are dealing with this every day, so we need to make sure that they are well supported.

For the most part, our people have been working from home since 16 March 2020. Our people are very professional, dedicated, resilient and agile. Amidst adversity, they have remained relentless in pursuit of their targets. They have adapted well and have put processes in place to meet the demands of the new normal. Despite the challenges over the last 18 months, our workforce has strongly demonstrated that we are ‘Good Together’ and we recently achieved the highest ever MySay engagement scores here in the Philippines.”

– Cynthia Ferrer, HR Director Fonterra Philippines

Products & Customers

We believe there is so much goodness in milk that it's a true superfood.

Our farmer owners produce top quality milk that comes from grass-fed, cared for animals and as a result, New Zealand's on-farm carbon footprint is among the lowest in the world. Studies show that there's a world of difference between dairy products from pasture-raised, grass-fed cows like those in New Zealand and those from housed systems and fed grain-based diets.

While our sustainability credentials create demand for our milk, we recognise that different customers are looking for different things from our products and ingredients.

Our people are experts at unlocking the science of milk, but we believe we've only just scratched the surface. Tapping into our experience and IP, we're delivering on the growing customer demand for products that harness the benefits of dairy in new and innovative ways.

Having a presence in our global markets means we can respond quickly to customer demand, local dynamics and trends. Drawing on our rich heritage of innovation, we are using customer insights to bring new products and ingredients to market, unlocking increased value for customers and our farmer owners.

Customer expectations around food transparency are also driving innovation. With restrictions on international travel, we've used live streaming as a way for customers to connect with our farmer-owners, food technologists and chefs. We are growing value for our Co-op by staying in-tune with customers and matching our dairy expertise with their evolving tastes.



Anlene



84%

portfolio compliant with
endorsed guidelines

2

new ingredients launched to
support mental wellness

6

new patents granted

7

the number of markets where
consumers are able to track
the provenance of a product
using QR codes

For 94 years, our Research and Development Centre (FRDC) in Palmerston North has been at the cutting edge of dairy innovation. It is the home of spreadable butter, cheese lollipops and this year, ambient cream made from fresh milk.

Innovation

The FRDC is supported by Application Centres in a number of our major markets, connecting the best of Fonterra with our global customers. This year we revamped our Guangzhou Application Centre as we continue to grow our Foodservice business in Southern China. This allows us to work alongside customers to develop and test new products for the local market. Products already launched include a single-serve probiotic sachet which can be added to water and salty egg yolk ice cream.

In the US, Fonterra has teamed up with dairy co-operative, Land O'Lakes, to open more doors for our Foodservice business. Our reputation for developing innovative dairy products, along with our commitment to food safety and quality, gives customers confidence to choose our products. Leveraging our intellectual property and skills is an approach we are looking to apply in other markets.



Cheese Lollipops

Our strategy of focusing on New Zealand milk and growing its value through innovation means we're well placed to respond to the global demand for products that help people lead healthier lives.

This allows us to get value from every single drop of milk that we collect.

Whey, once a low value by-product from cheesemaking, is now a valuable source of protein that can improve muscle strength and resilience in elderly people. We're using this and other dairy ingredients to create a range of nutrition products for people recovering from disease and illness, and those who are looking for products that will help them live longer.



Responding to customer demand

COVID-19 has generated awareness about general health and products that support immunity. While dairy products are a good source of high-quality protein to help fight infections, those with probiotic bacteria offer an added boost.

In the US, we recently expanded the application of our unique probiotic strains to include snack bars, ice cream, cheese and even chocolate. Our single-shot probiotic sachets give customers a quick and easy way of boosting immunity and we worked with Costa Coffee in China to launch a peach probiotics latte.

Sports and lifestyle nutrition is also a growing market for us. While it's traditionally been dominated by products for athletes or gym goers, the market has grown to include holistic wellbeing supplements. With customers looking for innovative dairy solutions, we see potential for growth in this space.

We recently launched NZMP™ Milk Phospholipids to support adult mental wellness. These complex lipids are used in the infant nutrition space because they play an important role in brain development. They have also now been clinically proven to help manage the effects of stress while also improving mood and focus. The versatile ingredient can be used in snack bars and ready-to-mix beverages.

We recently launched NZMP™ Milk Phospholipids to support adult mental wellness.

We've also been using our know-how to add value to existing products. For our China customers, this includes two new ambient cream products which can be stored at up to 35°C outside of a chiller without compromising quality.

Food safety and quality

Our reputation is built on the trust of our customers which is why we are uncompromising in our approach to food safety and quality. This extends through every step of our supply chain – from farm to final product. Our Food Safety and Quality System ensures that wherever we are in the world, we have a clear, consistent framework to deliver safe, quality products and services.

Provenance

Increasingly, customers want to know where their food comes from, how it is made, and its impact on the environment, animals and communities. The Co-operative Difference is our way of connecting farmers with customers and giving them guidance that ensures our milk is backed by the sustainability credentials customers want.

New products are giving customers greater choice. Working in partnership with Foodstuffs North Island, we launched Simply Milk, the first carbonzero™ milk in the Southern Hemisphere, and one of just a handful in the world. A range of our Anchor™ specialty milks in New Zealand are now also carbonzero™.

Building on this, NZMP™ launched carbonzero™ Organic Butter, helping NZMP™’s customers achieve their own sustainability goals and capitalising on consumer demand for more sustainable products.

Using our electronic traceability systems, we can track the origins of products we make in minutes. This is important for food safety

A range of our Anchor™ speciality milks in New Zealand are now also carbonzero™



For us, Fonterra’s provenance story is really important.

CHANG-WOO CHOI – CEO DAESANG

reasons, but the technology also brings our customers closer to our farmer owners.

For example, consumers can check a pack of Annum™ is authentic and access additional information about its provenance, by scanning a QR code with their phone. We are also using QR codes on our new, plant-based milk bottle made from sugar cane. As well as giving customers a different packaging option, it also enables us to tell our supply chain story.

Technology is helping us bridge the gap between farmers and customer in other ways. In the run-up to China’s annual Singles Day shopping bonanza on 11 November, our research and development partner BY-HEALTH hosted a livestream on two of China’s largest E-commerce platforms, directly connecting customers with one of our farming families.

With the help of a translator, Waikato farmers Colm and Gaynor Tierney gave viewers a tour of their Ngāruawāhia farm and answered questions about dairy farming. A similar event hosted by Annum™ attracted more than 10,000 customers for a live chat, taking viewers on a journey from the farm to Fonterra’s HQ.

We’re also using Microsoft’s HoloLens technology to bring customers closer to our researchers and food technologists. The mixed reality smart glasses give customers the chance to virtually step into our labs where they can watch the manufacturing process in real time and ask questions. We’re also exploring how we can use this technology for virtual quality control testing.



Chang-Woo Choi, CEO Daesang



Flawless Ingredients

“ Daesang is South Korea’s second largest FMCG with an annual turnover in 2020 of NZD\$3.73 billion. We started working with Fonterra three years ago when we were developing premium medical and nutrition products for our local market.

We’re seeing high demand for premium products in the Korean market and a trend for nutritional foods that support health. As the market grows with new products seemingly released daily, we needed a point of difference. We wanted a product that would support healthy ageing and specifically address muscle loss associated with old age. We also wanted to get our product to market quickly.

For us, Fonterra’s provenance story is really important. That’s why we made it the hero of our premium dairy nutrition range – Grass-Fed Protein, a ready-to-mix powdered beverage. We know the dairy is high-quality and sustainably sourced but more than that, Fonterra brings technical expertise and marketing support on top of flawless ingredients.

We launched our product on Lotte, a home shopping TV channel. It made US\$1 million in 60 minutes, breaking TV sales records. We sold out of all 50,000 cans at a rate of around US\$17,000 a minute. Earlier this year, we expanded the range to include a beverage format.

We believe the market for dairy protein is in its infancy here in Korea and will continue to grow, not only in older demographics but also for millennials. Our Grass-Fed brand is important for us as consumers look for products that are different and innovative. That’s why we’ve partnered with Fonterra – we know their milk is high-quality and sustainably-sourced and they have the technical expertise to maximise the value from that.”



Business Performance

Against the backdrop of COVID-19, market uncertainty and global supply chain disruption, we've built on last year's performance to deliver another strong set of results for the 2021 Financial Year. This has been underpinned by a focus on getting our New Zealand milk into the products that generate the best overall returns to Fonterra and our farmer owners.

FOR MORE DETAIL ON OUR BUSINESS PERFORMANCE FOR THE YEAR REFER TO OUR BUSINESS PERFORMANCE REPORT

New Zealand milk solids collected

1,539 [↑]
(million kgMS)
Up from 1,517

Farmgate Milk Price of

\$7.54 [↑]
per kgMS
Up from \$7.14

Total Dividend

20 cents [↑]
per share
Up from 5 cents

Reported profit after tax

\$599m [↓]
down from \$659m

Normalised profit after tax

\$588m [↑]
up from \$398m

ENIBD gearing ratio

35.5% [↓]
down from 41.4%

We collected 17,121 million litres of milk, which equates to 1,539 million kgMS. At \$7.54 for every kilogram of milk solids, this means the Co-operative contributed \$11.6 billion into the New Zealand economy in milk price payments alone.



Our reported profit after tax of \$599 million is \$60 million lower than last year, with the 2020 Financial Year benefiting from larger gains from the sale of non-core assets. After removing the impact of these gains, our underlying performance has improved \$190 million on last year, with normalised profit after tax of \$588 million.

The results have been driven by good growth in several areas, particularly in our Foodservice and Consumer channels within Asia Pacific and our Greater China Foodservice channel.

We’ve also delivered on the first stage of our long-term strategy - embedding a new customer-led operating model and strengthening our balance sheet. This places us in a good position as we focus our energy on adding greater value to our business.

Key metrics¹

	For the year ended	
NZD	31 JULY 2020	31 JULY 2021
Total number of New Zealand farms	9,011	8,827
New Zealand milk solids collected (million kgMS) ²	1,517	1,539
Total Pay-out	7.19	7.74
Farmgate Milk Price (per kgMS)	7.14	7.54
Dividend (per share)	0.05	0.20
Return on capital ^{3,4} (%)	6.6%	6.6%
Debt to EBITDA ^{3,5}	3.3x	2.7x
ENIBD gearing ratio ⁶ (%)	41.4%	35.5%
Adjusted net debt gearing ratio ^{3,7} (%)	44.2%	38.5%

1. Refer to the Glossary in the Business Performance Report for definition of the metrics displayed in the table.

2. Based on the 12-month milk season of 1 June – 31 May.

3. Calculation of metric includes amounts relating to Continuing and Discontinued Operations.

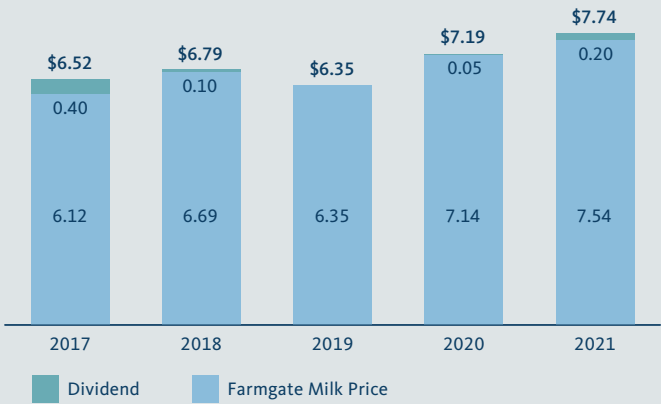
4. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior year notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the adjusted net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years’ have been restated for consistency with the current period.

5. Prior years’ debt to EBITDA have been restated for consistency with current period. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent.

6. Economic net interest-bearing debt gearing ratio. Excludes amounts attributed to disposal groups held for sale.

7. Going forward, we will change the way we measure net debt so that the net debt (adjusted net debt) included in the gearing ratio and debt to EBITDA will be on the same basis. This aligns with certain credit rating agency methodology. Under the new methodology net debt for the 2021 Financial Year would be \$4.3bn.

Total Pay-out¹

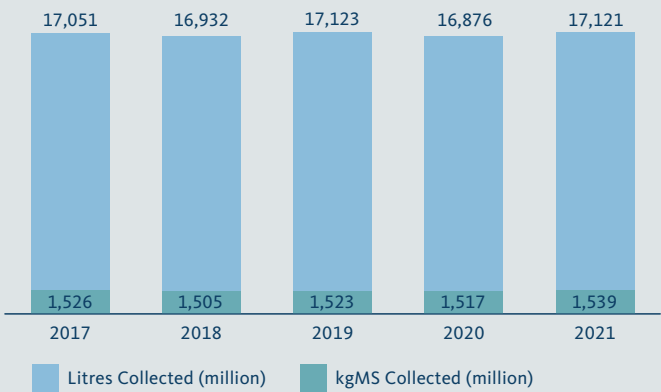


1. Refer to the Glossary in the Business Performance Report for definition.

On average, we returned \$7.54 for every kilogram of milk solids our farmer owners supplied to us. Combined with an increased dividend of 20 cents per share, we have delivered a Total Pay-out of \$7.74 per kgMS.

Milk Collection

Litres and milk solids collected



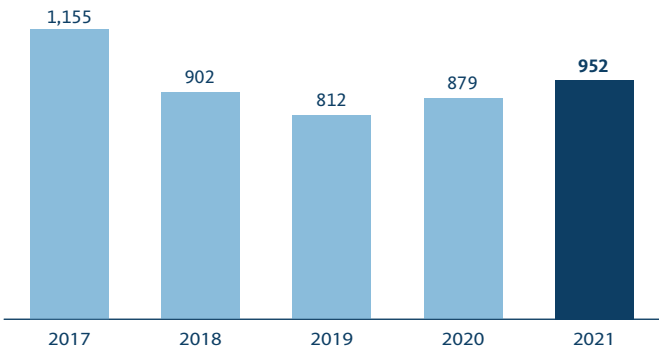
Fonterra milk collections (kgMS) for the season were up in New Zealand by 1.5%, reflecting the overall good growing conditions across New Zealand in the second half of the season.

Moving milk into the most profitable products

The higher milk price does put pressure on our gross margin, and we saw this play out over the last half of the financial year, particularly in the final quarter. Our Total Group normalised gross margin in the first half of the year was 17.4% and this reduced to 12.4% in the second half, resulting in a final Total Group normalised gross margin of 14.7%.

This has in turn impacted Total Group normalised gross profit which declined \$94 million to \$3.1 billion. Despite the higher milk price, EBIT is up, helped by lower operating expenses and an increase in ‘Other’. Throughout the year we have remained focused on allocating milk into the products that generate the best overall returns to Fonterra and our farmer owners.

Normalised EBIT (\$ million)



Total Group normalised EBIT, which reflects underlying business performance, was up 8% to \$952 million. This comprised \$896 million from our Continuing Operations and \$56 million from Discontinued Operations – which are DPA Brazil and our China Farms.

Breakdown of Total Group Performance

FOR THE YEAR ENDED	31 JULY 2020			31 JULY 2021		
NORMALISED BASIS NZD MILLION	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP
Sales volume ('000 MT)	3,842	227	4,069	3,874	228	4,102
Revenue	20,282	693	20,975	20,565	559	21,124
Cost of goods sold	(17,236)	(531)	(17,767)	(17,581)	(429)	(18,010)
Gross profit	3,046	162	3,208	2,984	130	3,114
Gross margin (%)	15.0%	23.4%	15.3%	14.5%	23.3%	14.7%
Operating expenses ²	(2,194)	(129)	(2,323)	(2,153)	(89)	(2,242)
Other ^{2,3}	(5)	(1)	(6)	65	15	80
Normalised EBIT	847	32	879	896	56	952
Normalisations ⁴	435	(167)	268	(9)	16	7
EBIT	1,282	(135)	1,147	887	72	959

1. Refer to Note 1a and 2c of the FY21 Financial Statements.
2. Impairments of intangible assets not included in the strategic review for the 2020 Financial Year (\$55 million) has been reclassified from other to operating expenses.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
4. Refer to the Non-GAAP section of the report.



Throughout the year we have remained focused on allocating milk into the products that generate the best overall returns to Fonterra and our farmer owners.

On a continuing operations basis, our Consumer channel normalised EBIT increased 196% to \$290 million and Foodservice channel normalised EBIT increased 51% to \$369 million. The improved performance in the

Consumer and Foodservice channels was partially offset by the tighter margins in our Ingredients channel, which had lower normalised EBIT of \$385 million, down 47%.

	Asia Pacific	AMENA	Greater China	Total
VOLUME ('000) MT ¹	1,386 ↓ 1%	1,352 ↓ 6%	1,176 ↑ 15%	3,914 ↑ 1%
EBIT contribution ^{1,2}				
INGREDIENTS	\$44m ↓ 70%	\$211m ↓ 47%	\$130m ↓ 27%	\$385m ↓ 47%
FOODSERVICE	\$79m ↑ 193%	\$15m –	\$275m ↑ 23%	\$369m ↑ 51%
CONSUMER	\$182m ↑ 184%	\$110m ↑ 57%	\$(2)m ↑ 94%	\$290m ↑ 196%
TOTAL	305m ↑ 28%	\$336m ↓ 28%	\$403m ↑ 10%	

1. Prepared on a normalised Continuing Operations basis. Normalised EBIT contributions sum to \$1,044 million, and does not align to reported Continuing Operations due to excluding unallocated costs and eliminations.
2. Inclusive of Group Operations EBIT attribution.

Looking at our continuing operations by region:

- **Asia Pacific normalised EBIT increased 28% to \$305 million**, due to significant improvements in our Foodservice and Consumer channels. The results here reflect the impact of COVID-19 on consumer behaviour. We’re seeing people cooking at home more regularly and choosing our consumer brands to do this. This has created good momentum for our Consumer business in Asia Pacific, particularly in New Zealand and Australia.
- **Greater China normalised EBIT increased 10% to \$403 million**. This has been driven primarily by the strength of our Foodservice channel, China’s continued economic recovery from the impact of COVID-19 and a strong in-country demand for our New Zealand dairy.

- **AMENA normalised EBIT was down 28% to \$336 million**, due to lower sales volumes and the impact of sale prices on longer-term contracts lagging increased milk costs. Lower sales volumes were a result of milk being allocated to Greater China and parts of Asia Pacific where demand was the strongest. However, we have seen improvements in our AMENA Foodservice and Consumer channels, including a turnaround for our Chilean business.

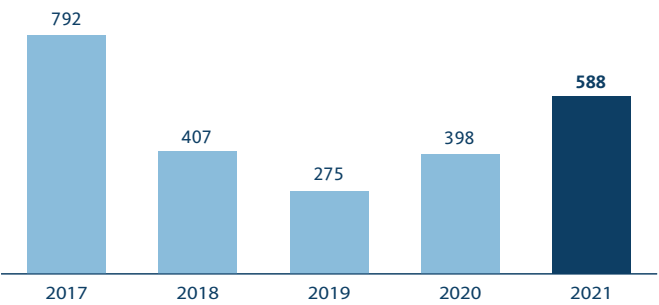


Mira & Parehuia, Auckland

Reported profit after tax is down \$60m to \$599 million. This reflects the significant benefit last financial year received from the divestments of DFE Pharma and foodspring™. After removing the impact of the gains from asset sales and other normalisations, our underlying performance has improved \$190 million on last year, with normalised profit after tax of \$588 million.

The difference of \$11 million between our normalised and reported profit this year is due to the sale of the Ying and Yutian China farming hubs, the Falcon China Farms joint venture, realised losses on the sale of Beingmate shares and a further impairment of the carrying value of DPA Brazil being included in our reported profit.

Normalised Profit After Tax¹

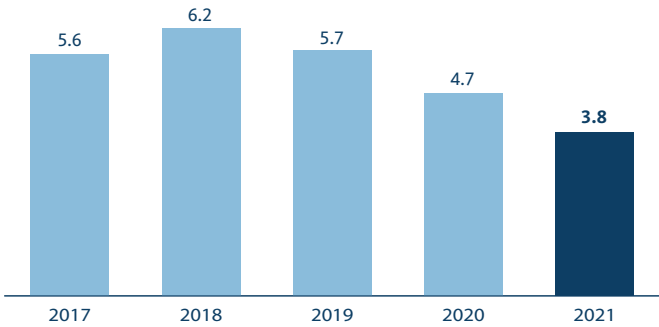


1. Includes amounts attributable to non-controlling interests.

A focus on financial discipline

We’ve continued to strengthen our balance sheet. The focus on financial discipline, alongside strong earnings and proceeds from divestments, has seen a reduction in our net debt and improved our key leverage metrics.

Net Debt¹ (\$ billion)



1. Net debt excludes amounts attributed to disposal groups held for sale. Refer to Glossary in the Business Performance Report for definition.

Net debt is down by \$872 million to \$3.8 billion. We are also within both of our long-term leverage targets, with a debt to EBITDA ratio of 2.7x, and gearing at 35.5%.

Free cash flow for the year was \$1.4 billion, reflecting the strong underlying business performance combined with the proceeds of asset sales. This comprises \$1.2 billion from operating activities and \$0.2 billion from investing activities. Of this, \$0.8 billion comes from assets sales and divestments minus \$0.6 billion of capital invested. The free cash flow of \$1.4 billion has been used to pay interest of \$0.3 billion, dividends of \$0.2 billion (5 cents from last year’s final dividend and an interim dividend of 5 cents), and to repay \$0.9 billion of debt.

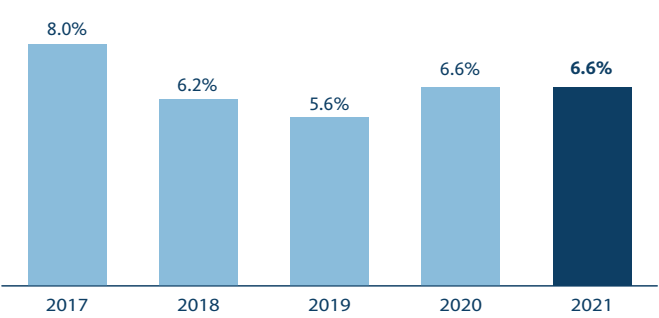
A focus on financial discipline has paid off, with a reduction in net debt and gearing levels.

Return on capital is unchanged

Our average capital employed was stable year on year. The impact of divestments in the current and prior year reduced our average capital employed, but this was offset by the increase in average working capital in the current year.

The increase in our normalised earnings has been offset by an increase in the notional tax rate applied to normalised EBIT.

Return on Capital^{1,2} (%)



1. Refer to Glossary for definition in the Business Performance Report.
2. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with the current period.



Non-GAAP measures

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.

Information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures, can be found in Fonterra's audited Financial Statements for the year ended 31 July 2021. Relevant note references are presented in the table on the right.

Definitions of non-GAAP measures and other measures (such as free cash flow, total pay-out and working capital days) used by Fonterra can be found in the Glossary of the Business Performance Report.

NON-GAAP MEASURE	NOTE REFERENCE
Non-GAAP profit measures	
Normalised earnings per share	5
Normalised profit after tax attributable to equity holders of the Co-operative	5
Normalised EBIT	1a)
Total Group EBIT	11a)
Total Group normalised EBIT	11c)
Total Group EBITDA	11a)
Total Group normalised EBITDA	11a)
Normalised gross profit	1a)
Non-GAAP debt measures	
Economic net interest-bearing debt (net debt)	9b)
Adjusted net debt	9b)
Other non-GAAP measures	
Debt to EBITDA	11a)
Gearing ratio (economic net interest-bearing debt)	11b)
Gearing ratio (adjusted net debt)	11b)
Return on capital	11c)
In addition to the non-GAAP measures set out in the table above, Fonterra uses normalised profit after tax and Total Group normalised gross profit.	

A reconciliation between profit after tax to normalised profit after tax is presented in the table below.

	\$ MILLION	
	31 JULY 2020	31 JULY 2021
Profit after tax	659	599
Gain on sale of Ying and Yutian China farms	–	(32)
China Farms (impairment reversal)/ impairment	63	(23)
Gain on sale of Falcon China Farms JV	–	(40)
Falcon China Farms JV impairment	65	–
Income Statement impact of Beingmate investment	(50)	49
Brazil consumer and foodservice business impairment	104	39
Gain on sale and dividends received from DFE Pharma	(427)	–
Gain on sale of Goodminton	(66)	–
Other	43	–
Total normalisation adjustments¹	(268)	(7)
Tax on normalisation adjustments ¹	7	(4)
Normalised profit after tax	398	588

¹ Normalisation adjustments are also detailed in Note 5 *Earnings per share* of Fonterra's Financial Statements for the year ended 31 July 2021

A reconciliation between gross profit to Total Group normalised gross profit is presented in the table below.

	\$ MILLION	
	31 JULY 2020	31 JULY 2021
Gross profit from continuing operations	3,062	2,984
Gross profit from discontinued operations	99	153
China Farms (impairment reversal)/ impairment	63	(23)
Other normalisation adjustments	(16)	–
Total Group normalised gross profit	3,208	3,114



Directory

FONTERRA BOARD OF DIRECTORS

Peter McBride
Clinton Dines
Brent Goldsack
Leonie Guiney
Bruce Hassall
Holly Kramer
Andrew Macfarlane
John Nicholls
Cathy Quinn
Donna Smit
Scott St John

FONTERRA MANAGEMENT TEAM

Miles Hurrell
Marc Rivers
Judith Swales
Mike Cronin
Fraser Whineray
Kelvin Wickham
Teh-han Chow
Carly Robinson

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Our 2021 Suite of Reports

Our Annual Review is a concise summary of our environmental, social and economic activities and performance. It is supported by a suite of supplementary reports where stakeholders can find more detailed information most relevant to them. This represents another step on our journey towards more integrated reporting.



OUR REPORTS ARE AVAILABLE FROM
[FONTERRA.COM/NZ/EN/INVESTORS.HTML](https://www.fonterra.com/nz/en/investors.html)

Annual Review
2021



Sustainability Performance
Report 2021



Financial Statements
2021



Corporate Governance
Statement 2021



Farmgate Milk Price
Statement 2021



Statutory Information
2021



Business Performance
Report 2021



Financial Statements

FOR THE YEAR ENDED 31 JULY 2021
FONTERRA CO-OPERATIVE GROUP LIMITED

**Good
Together**
from one generation
to the next



Dairy for life



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COVER IMAGE:
Adrian & Ian, Northland

Income Statement
FOR THE YEAR ENDED 31 JULY 2021

	NOTES	GROUP \$ MILLION	
		31 JULY 2021	31 JULY 2020 ¹
Continuing operations			
Revenue from sale of goods	3	20,565	20,282
Cost of goods sold	4	(17,581)	(17,236)
Impact of strategy review		–	16
Gross profit		2,984	3,062
Other operating income		84	62
Selling and marketing expenses		(574)	(551)
Distribution expenses		(476)	(482)
Administrative expenses		(811)	(835)
Other operating expenses		(316)	(377)
Impairment of intangible assets	18	–	(55)
Share of profit/(loss) of equity accounted investees		5	(6)
Impact of strategy review	2	(9)	464
Profit before net finance costs and tax from continuing operations	6	887	1,282
Finance income		9	13
Finance costs		(261)	(317)
Net finance costs	10	(252)	(304)
Profit before tax from continuing operations		635	978
Tax expense	21	(103)	(175)
Profit after tax from continuing operations		532	803
Discontinued operations			
Profit/(loss) after tax from discontinued operations	2	67	(144)
Profit after tax		599	659
Profit after tax is attributable to:			
Profit attributable to equity holders of the Co-operative		578	686
Profit/(loss) attributable to non-controlling interests		21	(27)
Profit after tax		599	659

	NOTES	GROUP \$	
		31 JULY 2021	31 JULY 2020
Earnings per share:			
Basic and diluted earnings per share from continuing operations	5	0.31	0.48
Basic and diluted earnings/(loss) per share from discontinued operations	5	0.05	(0.05)
Basic and diluted earnings per share	5	0.36	0.43

1 Comparative information includes re-presentations for consistency with the current period. Re-presentations have had no impact on the totals or sub-totals presented in the Income Statement.

Statement of Comprehensive Income
FOR THE YEAR ENDED 31 JULY 2021

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Profit after tax	599	659
Items that may be reclassified subsequently to the Income Statement:		
Cash flow hedges and other costs of hedging, net of tax	(127)	354
Net investment hedges and translation of foreign operations, net of tax	(112)	(67)
Foreign currency translation reserve (gains)/losses transferred to the Income Statement	(14)	21
Other movements in reserves	(3)	(41)
Total items that may be reclassified subsequently to the Income Statement	(256)	267
Items that will not be reclassified subsequently to the Income Statement:		
Net fair value gains on investments in shares	5	2
Movement in reserves attributable to non-controlling interests	(2)	(10)
Total items that will not be reclassified subsequently to the Income Statement	3	(8)
Total other comprehensive (expense)/income	(253)	259
Total comprehensive income	346	918
Total comprehensive income is attributable to:		
Equity holders of the Co-operative	327	955
Non-controlling interests	19	(37)
Total comprehensive income	346	918
Total comprehensive income arises from:		
Continuing operations	297	1,054
Discontinued operations	49	(136)
Total comprehensive income	346	918

Statement of Financial Position

AS AT 31 JULY 2021

	NOTES	GROUP \$ MILLION	
		31 JULY 2021	31 JULY 2020
ASSETS			
Current assets			
Cash and cash equivalents		985	788
Trade and other receivables	12	1,802	1,832
Inventories	13	3,766	3,268
Tax receivable		31	44
Derivative financial instruments		249	452
Investment in Beingmate	2	–	157
Other current assets		95	73
Assets held for sale	2	462	1,005
Total current assets		7,390	7,619
Non-current assets			
Property, plant and equipment	16	5,979	6,006
Right-of-use assets	17	486	569
Equity accounted investments		91	96
Intangible assets	18	2,242	2,240
Deferred tax assets	21	460	421
Derivative financial instruments		437	664
Long-term advances		163	220
Other non-current assets		93	81
Total non-current assets		9,951	10,297
Total assets		17,341	17,916
LIABILITIES			
Current liabilities			
Bank overdraft		20	31
Borrowings	9	818	764
Trade and other payables	14	2,208	2,004
Owing to suppliers	15	1,825	1,588
Tax payable		87	88
Derivative financial instruments		84	113
Provisions	22	72	68
Other current liabilities		57	54
Liabilities held for sale	2	542	603
Total current liabilities		5,713	5,313
Non-current liabilities			
Borrowings	9	4,254	5,277
Derivative financial instruments		359	483
Provisions	22	82	64
Deferred tax liabilities	21	25	20
Other non-current liabilities		39	56
Total non-current liabilities		4,759	5,900
Total liabilities		10,472	11,213
Net assets		6,869	6,703

Statement of Financial Position (CONTINUED)

AS AT 31 JULY 2021

	NOTES	GROUP \$ MILLION	
		31 JULY 2021	31 JULY 2020
EQUITY			
Subscribed equity	7	5,892	5,887
Retained earnings		1,350	933
Foreign currency translation reserve	20	(355)	(229)
Hedge reserves	20	(26)	101
Other reserves		2	–
Total equity attributable to equity holders of the Co-operative		6,863	6,692
Non-controlling interests		6	11
Total equity		6,869	6,703

The Board approved and authorised for issue these Financial Statements on 22 September 2021.

For and on behalf of the Board:



PETER MCBRIDE
Chairman



BRUCE HASSALL
Director

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2021

	GROUP \$ MILLION							
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							
	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL	NON- CONTROLLING INTERESTS	TOTAL EQUITY
As at 1 August 2020	5,887	933	(229)	101	–	6,692	11	6,703
Profit after tax	–	578	–	–	–	578	21	599
Other comprehensive (expense)/income	–	–	(126)	(127)	2	(251)	(2)	(253)
Total comprehensive income/(expense)	–	578	(126)	(127)	2	327	19	346
Transactions with equity holders in their capacity as equity holders:								
Dividends paid to equity holders of the Co-operative (refer to Note 8)	–	(161)	–	–	–	(161)	–	(161)
Equity instruments issued (refer to Note 7)	5	–	–	–	–	5	–	5
Dividends paid to non-controlling interests	–	–	–	–	–	–	(24)	(24)
As at 31 July 2021	5,892	1,350	(355)	(26)	2	6,863	6	6,869
As at 1 August 2019	5,887	313	(183)	(268)	8	5,757	77	5,834
NZ IFRS 16 transition adjustment	–	(20)	–	–	–	(20)	–	(20)
As at 1 August 2019 adjusted	5,887	293	(183)	(268)	8	5,737	77	5,814
Profit/(loss) after tax	–	686	–	–	–	686	(27)	659
Transferred between reserves	–	(15)	–	15	–	–	–	–
Other comprehensive (expense)/income	–	(31)	(46)	354	(8)	269	(10)	259
Total comprehensive income/(expense)	–	640	(46)	369	(8)	955	(37)	918
Transactions with equity holders in their capacity as equity holders:								
Dividends paid to non-controlling interests	–	–	–	–	–	–	(29)	(29)
As at 31 July 2020	5,887	933	(229)	101	–	6,692	11	6,703

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2021

The Cash Flow Statement presents total Group cash flows including continuing and discontinued operations.

	NOTES	GROUP \$ MILLION	
		31 JULY 2021	31 JULY 2020 ¹
Cash flows from operating activities			
Profit before net finance costs and tax from continuing operations		887	1,282
Profit/(loss) before net finance costs and tax from discontinued operations		72	(135)
Total Group profit before net finance costs and tax		959	1,147
Adjustments for:			
– Depreciation and amortisation		642	627
– Foreign exchange (gains)/losses		(136)	37
– Gain on sale of Ying and Yutian China farms	2	(32)	–
– Gain on sale of investment in Falcon China Farms JV	2	(40)	–
– Loss/(gain) on sale of investment in Beingmate	2	49	(50)
– Gain on sale of investment in DFE Pharma		–	(401)
– Gain on sale of investment in Goodminton		–	(66)
– China Farms (impairment reversal)/impairment	2	(23)	63
– Falcon China Farms JV impairment		–	65
– Brazil consumer and foodservice business impairment	2	39	104
– Other		(9)	145
Total adjustments		490	524
(Increase)/decrease in working capital:			
– Trade and other receivables		11	(105)
– Inventories		(556)	(180)
– Trade and other payables		199	100
– Owing to suppliers		238	54
– Other movements		(63)	25
Total increase in working capital		(171)	(106)
Net cash flows from operations		1,278	1,565
Net taxes paid		(84)	(73)
Net cash flows from operating activities		1,194	1,492
Cash flows from investing activities			
Cash was provided from:			
– Proceeds from sale of businesses		638	624
– Proceeds from disposal of property, plant and equipment		9	36
– Proceeds from sale of livestock		25	40
– Proceeds from sale of investments		110	127
Cash was applied to:			
– Acquisition of property, plant and equipment		(441)	(355)
– Acquisition of livestock (including rearing costs)		(28)	(36)
– Acquisition of intangible assets		(80)	(49)
– Other cash outflows		(10)	(51)
Net cash flows from investing activities		223	336

1 Comparative information includes re-presentations for consistency with the current period. Re-presentations have had no impact on the totals or sub-totals presented in the Cash Flow Statement.

Cash Flow Statement (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

	NOTES	GROUP \$ MILLION	
		31 JULY 2021	31 JULY 2020 ¹
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from borrowings		2,402	2,286
– Interest received		10	11
– Other cash inflows		27	–
Cash was applied to:			
– Interest paid		(308)	(395)
– Repayment of borrowings		(3,142)	(3,381)
– Dividends paid to equity holders of the Co-operative		(157)	–
– Dividends paid to non-controlling interests		(24)	(29)
– Other cash outflows		–	(31)
Net cash flows from financing activities		(1,192)	(1,539)
Net increase in cash		225	289
Opening cash		780	516
Effect of exchange rate changes		(23)	(25)
Closing cash		982	780
Reconciliation of closing cash to the Statement of Financial Position:			
Cash and cash equivalents		985	788
Bank overdraft		(20)	(31)
Cash balances included in assets and liabilities held for sale	2	17	23
Closing cash		982	780

Basis of Preparation
FOR THE YEAR ENDED 31 JULY 2021

a) About Fonterra

Fonterra Co-operative Group Limited (Fonterra, the Company or the Co-operative) is a multinational dairy co-operative. Fonterra is primarily involved in the collection, manufacture and sale of milk and milk-derived products through its Ingredients, Consumer and Foodservice channels.

Fonterra is incorporated and domiciled in New Zealand. Fonterra is registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. Fonterra is also required to comply with the Dairy Industry Restructuring Act 2001.

b) Basis of preparation

These Financial Statements comprise Fonterra and its subsidiaries (together referred to as the Group) and the Group’s interests in its equity accounted investments.

These Financial Statements:

- comply with International Financial Reporting Standards (IFRS);
- comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS);
- have been prepared in accordance with Generally Accepted Accounting Practice applicable to for-profit entities;
- have been prepared on a historical cost basis except where otherwise stated. Assets and liabilities measured at fair value are summarised in Note 25 *Fair value measurement*; and
- are presented in New Zealand dollars (\$ or NZD), which is Fonterra’s functional currency, and rounded to the nearest million, except where otherwise stated.

c) Basis of consolidation

In preparing these Financial Statements, subsidiaries are consolidated from the date the Group gains control until the date on which control ceases. The Group’s share of results of equity accounted investments are included in the Financial Statements from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. All intercompany transactions are eliminated.

Translation of the Financial Statements into NZD

The assets and liabilities of Group companies whose functional currency is not NZD are translated into NZD at the year-end exchange rate. The revenue and expenses of these companies are translated into NZD at rates approximating those at the dates of the transactions. Exchange differences arising on this translation are recognised in the foreign currency translation reserve (FCTR). On disposal or partial disposal of an entity, the related exchange differences that were recorded in equity are recognised in the Income Statement as part of the gain or loss on disposal.

d) Material accounting policies

Accounting policies which are considered material to an understanding of the Financial Statements are provided throughout the notes in green shading.

New and amended International Financial Reporting Standards

No new or amended standards and interpretations that became effective for the year ended 31 July 2021 have had a material impact to the Group.

In April 2021, the IFRS Interpretation Committee published a final agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38 Intangible Assets)*. The Group has assessed the impact of the agenda decision, and no adjustment was required. The Group’s accounting policies are consistent with the agenda decision.

Accounting standards issued but not yet effective

There are no new or amended standards that are issued but not yet effective that are expected to have a material impact to the Group.

e) Significant judgements and estimates

In the preparation of these Financial Statements, a number of judgements and estimates have been made. Accordingly, actual outcomes may differ to these estimates.

Information about judgements, estimates and assumptions which are considered material to an understanding of the Financial Statements are provided in the following notes in grey shading.

NOTE	ITEM INVOLVING SIGNIFICANT JUDGEMENT OR ESTIMATION
Note 2	<i>Strategy review update</i> – Determining if a disposal group is held for sale – Fair value measurement of assets and liabilities held for sale
Note 3	<i>Revenue from sale of goods</i> – Revenue recognition for transactions involving distributors
Note 18	<i>Intangible assets</i> – Assumptions used in the impairment tests
Note 21	<i>Taxation</i> – Utilisation of tax losses – Uncertain tax positions
Note 22	<i>Contingent liabilities, provisions and commitments</i> – Measurement of provisions and contingent liabilities
Note 25	<i>Fair value measurement</i> – Fair value measurement

f) COVID-19 pandemic

To ensure the ongoing impact of COVID-19 has been appropriately reflected in the Financial Statements, the Group has assessed the impact on its assets and liabilities.

- Debtor collectability has been closely monitored. No material change in the provision for impairment of trade receivables as a result of COVID-19 has been identified.
- The Group’s global supply chain has been carefully managed. During the year ended 31 July 2021, the Group has been impacted by global shipping delays. Inventory obsolescence has been closely monitored. No material changes in the provision for impairment of inventories has been identified.
- Forecasts and budgets used for impairment testing include the Group’s best estimates of the ongoing impact of COVID-19.
- No onerous contracts or additional provisions have been recognised as a direct impact of COVID-19.

1 Comparative information includes re-presentations for consistency with the current period. Re-presentations have had no impact on the totals or sub-totals presented in the Cash Flow Statement.

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FOR THE YEAR ENDED 31 JULY 2021

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27 Net tangible assets per quoted equity security	59

Performance

This section focuses on the Group’s financial performance and the returns provided to equity holders. This section includes the following notes:

- Note 1:Segment reporting
- Note 2:Strategy review update
- Note 3:Revenue from sale of goods
- Note 4:Cost of goods sold
- Note 5:Earnings per share
- Note 6:Profit before net finance costs and tax

1. Segment reporting

Segment information provided in this note reflects the Group’s performance from continuing operations only. The China Farms and Brazil consumer and foodservice businesses are considered discontinued operations and have been excluded from the disclosures in this note. Please see Note 2 *Strategy review update* for further information about the Group’s discontinued operations.

a) Reportable segments

Operating segments reflect the way financial information is regularly reviewed by the Fonterra Management Team (FMT). The FMT is considered to be the Chief Operating Decision Maker. During the year ended 31 July 2021, the FMT consisted of the Group CEO, CFO and Chief Operating Officer, the CEOs of the three customer-facing regional business units (Asia Pacific, AMENA and Greater China), the Director Office of the CEO and the Managing Director Co-operative Affairs.

The measure of profit or loss used by the FMT to evaluate the underlying performance of operating segments is normalised earnings before interest and tax (normalised EBIT).

The Group’s operating model is based around the three regional business units, supported by a shared infrastructure, referred to as Group Operations which comprises:

- the functions under the Chief Operating Office (COO) and includes New Zealand milk collection and processing operations and assets, supply chain, Group IT, Sustainability and Innovation;
- Fonterra Farm Source™ retail stores; and
- the Central Portfolio Management function (CPM).

The operating model forms the basis for the Group’s operating segments. Under the operating model, the business is managed as a matrix form organisation, whereby regional business unit CEOs and the FMT members that have responsibility for COO and CPM have overlapping responsibility for performance. Information about the performance of Group Operations is reported to the FMT both separately and attributed to each of the regional business units.

The Group has determined that its reportable segments are Asia Pacific, AMENA and Greater China, inclusive of their respective attribution of Group Operations. This presentation provides a full end-to-end view of performance for each of the customer facing regional business units.

REPORTABLE SEGMENTS	DESCRIPTION
Asia Pacific	Represents the Ingredients, Foodservice and Consumer channels in New Zealand, Australia, Pacific Islands, South East Asia and South Asia.
AMENA	Represents the Ingredients, Foodservice and Consumer channels in Africa, Middle East, Europe, North Asia and Americas.
Greater China	Represents the Ingredients, Foodservice and Consumer channels in Greater China, and the Falcon China Farms joint venture (Falcon China Farms JV).

The performance of large multi-national customers are reported within the reportable segment that they are managed by. This can differ from the geographical region of the destination of goods sold.

The attribution of Group Operations to reportable segments and transactions between reportable segments follow underlying business rules. These rules have been designed to reflect the end-to-end contribution of each reportable segment.

Where there is common activity amongst segments and there is an attribution of those revenues and costs across segments, the attribution is based on a number of principles. These principles include:

- activity based allocation where appropriate;
- volumes of product sold/manufactured in the segment; and
- the segment’s proportion of New Zealand sourced milk sales.

The performance of Fonterra Farm Source™ retail stores are attributed to the Asia Pacific reportable segment.

The Group regularly reviews the application of these principles to ensure they continue to remain appropriate. Where appropriate, comparative information may be restated for consistency with the current period attribution.

For the year ended 31 July 2021, the Group has continued to refine its approach to attributing the change in the cost of milk across the season. Comparative information has been restated for consistency with the current period.

Unallocated costs represent corporate costs including Co-operative Affairs and Group Functions.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

a) Reportable segments CONTINUED

CONTINUING OPERATIONS	GROUP \$ MILLION									
	ASIA PACIFIC		AMENA		GREATER CHINA		UNALLOCATED COSTS AND ELIMINATIONS		TOTAL	
	31 JULY 2021	31 JULY 2020 RESTATED ¹	31 JULY 2021	31 JULY 2020 RESTATED ¹	31 JULY 2021	31 JULY 2020 RESTATED ¹	31 JULY 2021	31 JULY 2020 RESTATED ¹	31 JULY 2021	31 JULY 2020
Sales volume (metric tonnes, thousands)	1,386	1,406	1,352	1,433	1,176	1,021	(40)	(18)	3,874	3,842
Revenue from sale of goods	7,110	7,074	7,304	7,874	6,312	5,374	(161)	(40)	20,565	20,282
Cost of goods sold	(5,915)	(5,867)	(6,400)	(6,817)	(5,476)	(4,596)	210	44	(17,581)	(17,236)
Normalised gross profit	1,195	1,207	904	1,057	836	778	49	4	2,984	3,046
Operating expenses	(889)	(967)	(605)	(585)	(436)	(401)	(223)	(241)	(2,153)	(2,194)
Other ²	(1)	(1)	37	(7)	3	(11)	26	14	65	(5)
Normalised EBIT	305	239	336	465	403	366	(148)	(223)	896	847
Normalisation adjustments:										
– Falcon China Farms JV gain on sale/ (impairment)	–	–	–	–	40	(65)	–	–	40	(65)
– Income Statement impact of Beingmate investment	–	–	–	–	(49)	50	–	–	(49)	50
– Gain on sale and dividends received from DFE Pharma	–	–	–	427	–	–	–	–	–	427
– Gain on sale of Goodminton	–	–	–	60	–	–	–	6	–	66
– Other normalisations	–	5	–	(13)	–	(22)	–	(13)	–	(43)
Profit before net finance costs and tax	305	244	336	939	394	329	(148)	(230)	887	1,282
Other segment information:										
– Inter-segment revenue	155	39	6	1	–	–	(161)	(40)	–	–
– Depreciation and amortisation	(242)	(235)	(196)	(222)	(182)	(133)	(22)	(23)	(642)	(613)
– Share of profit/(loss) of equity accounted investments	(3)	(3)	6	6	–	(12)	2	3	5	(6)

1 Comparative information includes restatements for consistency with the current period attribution.

2 Comprises other operating income, net foreign exchange gains/(losses) and share of profit/(loss) of equity accounted investments.

There were no normalisation adjustments to gross profit for the year ended 31 July 2021. A reconciliation of normalised gross profit to reported gross profit for the year ended 31 July 2020 is presented in the following table.

	GROUP \$ MILLION
	31 JULY 2020
Normalised gross profit	3,046
Normalisation adjustments:	
– DFE Pharma dividend received	26
– Other impact of strategy review	(10)
Gross profit	3,062

b) Geographical analysis of revenue

Revenue is analysed by geography on the basis of the destination of the goods sold. Geographical groupings in the following table are not aligned with the Group's reportable segments.

	GROUP \$ MILLION						
	NEW ZEALAND	AUSTRALIA	CHINA	REST OF ASIA	AMERICAS	REST OF WORLD	TOTAL
Geographical external revenue							
Year ended 31 July 2021	1,726	1,699	6,119	7,056	2,597	1,368	20,565
Year ended 31 July 2020 ¹	1,605	1,700	5,196	7,497	2,703	1,581	20,282

1 Comparative information includes re-presentations for consistency with the current period.

c) Geographical analysis of non-current assets

Geographical groupings in the following table are not aligned with the Group's reportable segments.

	GROUP \$ MILLION						
	NEW ZEALAND	AUSTRALIA	CHINA	REST OF ASIA	AMERICAS	REST OF WORLD	TOTAL
Non-current assets							
As at 31 July 2021	6,649	970	17	777	388	253	9,054
As at 31 July 2020 ¹	6,626	997	63	815	428	283	9,212

1 Comparative information includes re-presentations for consistency with the current period.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Reconciliation of geographical non-current assets to total non-current assets		
Geographical non-current assets	9,054	9,212
Deferred tax assets	460	421
Derivative financial instruments	437	664
Total non-current assets	9,951	10,297

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

2. Strategy review update

During the year ended 31 July 2019 the Group announced and began the implementation of a Group-wide strategy review.

During the year ended 31 July 2021 progress of the strategic review includes completion of the sale of the Ying and Yutian China farms and the Falcon China Farms JV, and completion of selling the Group's holdings in Beingmate Baby & Child Food Co., Ltd (Beingmate).

At 31 July 2021, the Hangu China farm and the Brazil consumer and foodservice business continued to meet the definition of held for sale and a discontinued operation.

This note provides information about the Group's divestments, disposal groups held for sale and discontinued operations for the year ended 31 July 2021.

a) Divestments

Upon sale of an asset, investment or group of assets and liabilities (e.g. a business), those assets and liabilities are derecognised when the Group loses control. A gain or loss on sale is recognised as the difference between:

- the total sale proceeds; and
- the carrying amount of the assets and liabilities at the date of sale.

Any related foreign exchange differences recorded in equity are reclassified to the Income Statement as part of the gain or loss on sale.

Sale of Ying and Yutian China farms

On 1 April 2021 the Group completed the sale of its two wholly owned China farms in Ying and Yutian, and a gain of \$32 million was recognised in the Income Statement. The gain on sale includes a credit balance of \$29 million that was reclassified from the foreign currency translation reserve (FCTR).

The gain on sale has been recognised in profit/(loss) after tax from discontinued operations in the Income Statement.

	\$ MILLION
Sales proceeds received in cash	552
Total sale proceeds	552
Less: Net assets disposed of	(535)
Less: Transaction and other associated costs	(14)
Gain on sale before reclassification of FCTR	3
Reclassification of FCTR	29
Gain on sale	32

In addition to the gain on sale described above, the Group recognised an impairment reversal of \$23 million during the year.

A breakdown of net assets disposed of is presented in the following table.

	\$ MILLION
Cash and cash equivalents	33
Trade receivables	37
Inventory	36
Property, plant and equipment	238
Livestock	241
Other assets	2
Trade and other payables	(43)
Other liabilities	(9)
Net assets disposed	535

The Ying and Yutian farms were part of the Group's China Farms business. The China Farms business is considered a discontinued operation and its performance has not been included in a reportable segment.

a) Divestments (CONTINUED)

Sale of investment in Falcon China Farms JV

On 30 June 2021 the Group completed the sale of its equity accounted investment in Falcon China Farms JV, and a gain of \$40 million was recognised in the Income Statement. The gain on sale includes a credit balance of \$6 million that was reclassified from the FCTR.

The gain on sale has been recognised in the impact of strategy review line item in the Income Statement.

	\$ MILLION
Sales proceeds received in cash	88
Total sale proceeds	88
Less: Net investment disposed of	(49)
Less: Transaction and other associated costs	(5)
Gain on sale before reclassification of FCTR	34
Reclassification of FCTR	6
Gain on sale	40

Included in the gain on sale described above, the Group recognised an impairment reversal of \$15 million during the year relating to its investment in Falcon China Farms JV.

The Group's investment in Falcon China Farms JV was included in the Greater China reportable segment.

Sale of investment in Beingmate

During the year ended 31 July 2021, the Group completed the sale of its remaining investment in Beingmate Baby & Child Food Co., Ltd (Beingmate), marking a full exit of its investment in the company.

	% SHARES	PRICE CNY	\$ MILLION
As at 31 July 2020	9.11	7.92	157
Sales for the year	9.11	4.35-9.05	110
As at 31 July 2021	–	–	–

A loss of \$49 million has been recognised in relation to Beingmate for the year ended 31 July 2021. The loss has been recognised in the impact of strategy review line item in the Income Statement (31 July 2020: gain of \$50 million).

The Group's investment in Beingmate was included in the Greater China reportable segment.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

b) Disposal groups held for sale

A disposal group is a group of assets and liabilities to be disposed of (by sale or otherwise) in a single transaction. A disposal group is classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable.

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Immediately prior to being classified as held for sale, the carrying amounts of assets and liabilities in the disposal group are measured in accordance with the applicable accounting policy. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the Income Statement.

Once classified as held for sale assets are no longer depreciated or amortised, and equity accounted investments are no longer equity accounted.

Assets of disposal groups held for sale are presented in a single line item within current assets, and liabilities of disposal groups held for sale are presented in a single line item within current liabilities. Comparative period information for assets and liabilities held for sale is not re-presented in the Statement of Financial Position.

Judgement is involved in determining whether a disposal group is held for sale at balance date.

Uncertainty is involved in estimating fair value less costs to sell. The fair value less costs to sell for assets and liabilities held for sale has been estimated based on information received through the sales process.

The major classes of assets and liabilities held for sale are presented in the following table.

	\$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
ASSETS AND LIABILITIES HELD FOR SALE		
Cash and cash equivalents	17	23
Trade receivables	39	73
Inventory	37	47
Property, plant and equipment	79	279
Livestock	25	253
Intangible assets	122	140
Other assets	143	190
Total assets held for sale	462	1,005
Borrowings	282	289
Trade and other payables	150	197
Provisions	54	55
Other liabilities	56	62
Total liabilities held for sale	542	603
Net (liabilities)/assets held for sale	(80)	402

Hangu China farm

As at 31 July 2021 the Hangu China farm continued to meet the requirements to be classified as held for sale (31 July 2020: held for sale). In October 2020, the Group announced it had agreed to sell its interest in the Hangu China farm to Beijing Sanyuan Venture Capital Co., Ltd. (Sanyuan). The minority shareholder of the Hangu China farm, Sanyuan, exercised their right of first refusal to purchase the Group's interest. However, due to lack of progress in agreeing the specific terms of the sale, the right of first refusal was terminated by the Group in May 2021. As a result, the farm was not sold within the initial one-year period from being classified as held for sale.

At 31 July 2021 the Group remains committed to the sale and the farm continues to be actively marketed. The Group expects the sale to be completed within one year of balance date.

At 31 July 2021 the Group reassessed the fair value less costs to sell of the Hangu China farm and no further adjustment has been recognised.

At 31 July 2021 the FCTR balance attributable to the Hangu China farm was a debit balance of \$1 million (31 July 2020: credit balance of \$2 million).

b) Disposal groups held for sale CONTINUED

Brazil consumer and foodservice business

As at 31 July 2021 the Brazil consumer and foodservice business continued to meet the requirements to be classified as held for sale (31 July 2020: held for sale).

Market conditions that existed at the date the business was initially classified as held for sale deteriorated due to COVID-19 and, as a result, the business was not sold within the initial one-year period from being classified as held for sale.

At 31 July 2021 the Group remains committed to the sale and the business continues to be actively marketed. The Group expects the sale to be completed within one year of balance date.

The Group has reassessed the fair value less costs to sell at 31 July 2021 and recognised a further write-down of \$39 million (\$35 million after tax), of which \$18 million after tax is attributable to the Group's equity holders.

At 31 July 2021 the FCTR balance attributable to the Brazil consumer and foodservice business was a debit balance of \$63 million (31 July 2020: debit balance of \$66 million).

c) Discontinued operations

A disposal group that meets the criterion to be classified as held for sale (or has been sold) is a discontinued operation if it 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.

Profit/(loss) after tax from discontinued operations is presented in a single line item in the Income Statement for both the current and comparative year.

The China Farms business and Brazil consumer and foodservice business both meet the definition of a discontinued operation. The Falcon China Farms JV does not meet the definition of a discontinued operation.

The China Farms business comprises its 85 per cent owned farm in Hangu and, up to the date of sale, its Ying and Yutian farms.

The financial performance of the Ying and Yutian farms up to the date the Group ceased to have control over the farms, has been recognised in profit/(loss) after tax from discontinued operations.

The summarised financial performance of the China Farms business and Brazil consumer and foodservice business, recognised in profit/(loss) after tax from discontinued operations in the Income Statement, is presented in the following table.

	\$ MILLION	
	31 JULY 2021	31 JULY 2020
DISCONTINUED OPERATIONS		
Revenue from sale of goods	559	693
Cost of goods sold	(429)	(531)
China Farms impairment reversal/(impairment)	23	(63)
Gross profit	153	99
Other operating income	18	3
Other operating expenses	(92)	(133)
Gain on sale of Ying and Yutian China farms	32	–
Brazil consumer and foodservice impairment	(39)	(104)
Profit/(loss) before net finance costs and tax	72	(135)
Net finance costs	(10)	(28)
Profit/(loss) before tax	62	(163)
Tax credit	5	19
Profit/(loss) after tax from discontinued operations	67	(144)
Share of loss attributable to non-controlling interests	13	52
Profit/(loss) after tax attributable to equity holders of the Co-operative	80	(92)
Movement in exchange differences on translation of discontinued operations	2	25
Foreign currency translation reserve gains transferred to the Income Statement	(19)	–
Other reserve movements	(1)	(17)
Total comprehensive income/(expense) from discontinued operations	49	(136)
Net cash (outflow)/inflow from operating activities	(8)	77
Net cash inflow/(outflow) from investing activities	510	(6)
Net cash outflow from financing activities	(6)	(1)
Net increase in cash generated by the discontinued operations	496	70

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

3. Revenue from sale of goods

The Group recognises revenue from the sale of products when control of the products transfers to the customer. The transfer of control of products typically occurs at the following times.

- Ingredient products (export sales) – once the products are loaded onto the ship.
- Ingredient products (domestic sales) – on delivery of the products to the customer’s designated location.
- Consumer and foodservice products – on delivery of the products to the customer’s designated location.

The amount of revenue recognised reflects the consideration that the Group expects to be entitled to for providing the products to the customer. Revenue is measured as the sales price specified in the contract adjusted for pricing adjustments, trade spend and rebates. Pricing adjustments, trade spend and rebates are recognised as deductions from revenue at the time that the related sale is recognised. The estimated amount of the deduction from revenue is based on historical experience and the specific terms of the contracts with customers so that it is highly probable that a significant reversal of revenue recognised will not occur.

For export sales the Group sells a significant proportion of its products on terms that include freight and insurance to the destination port. For these sales the Group has a separate performance obligation to arrange freight and insurance services for the customers after the date at which control of the products passes to the customer. As the Group does not control the freight and insurance services before those services are transferred to the customer, the Group is acting as an agent. Therefore, the Group recognises the net agency fee as revenue when freight and insurance services are made available to customers, usually this is when the products are loaded onto the ship.

The Group offers credit terms which are short-term in nature. In addition, as part of its normal trade terms, the Group receives payments in advance from certain customers. Contracts with customers do not contain significant financing components.

The Group sells products either directly to customers or through distributors. For transactions involving distributors, judgement is required to assess whether:

- control of the products passes and therefore revenue is recognised when the products are transferred to the distributor, in which case the distributor is the Group’s customer; or
- the Group retains control of the products after transfer to the distributor, in which case control of the products does not pass until the products reach the customer in the supply chain who does obtain control of the product. In this situation the customer, referred to as the ‘end customer’ may be a retailer, reseller or food manufacturer. Revenue is not recognised until the products are transferred to the end customer.

The assessment of whether control of the products passes to the distributor can involve significant judgement. In assessing control, the following indicators are considered.

- The ability to direct the use of the product. This includes consideration of who has the primary responsibility for providing the products to the end customer and whether the Group can restrict who the distributor sells the product to.
- The transfer of inventory risk and demand risk. This includes consideration of the level of, or allowance for, product returns and who bears the residual risk of product expiry.
- The level of support provided by the Group to assist the distributor to on-sell the product. This includes consideration of collaboration on marketing plans, financial support provided by the Group through pricing discounts or funding of promotional activity.

Sales to distributors where significant judgement is involved in determining the timing of revenue recognition are primarily in the Foodservice channel.

Contractual terms vary across markets and sales channels. In most arrangements the contractual terms indicate that the distributor is responsible for providing the products to the end customer and has assumed the inventory risk. The Group often retains price risk through the provision of price discounts, funding promotional activity or influence over price setting. In general, these pricing mechanisms impact the amount of revenue recognised by the Group rather than indicating control of the products is retained.

In order to conclude on the transfer of control of the products the contract must be assessed in its entirety, along with implied contractual terms based on commercial customary practices.

Revenue is disaggregated by Ingredients, Foodservice and Consumer channels across the Group’s reportable segments in the following table.

	GROUP \$ MILLION							
	ASIA PACIFIC		AMENA		GREATER CHINA		TOTAL	
	31 JULY 2021	31 JULY 2020 RESTATED ¹	31 JULY 2021	31 JULY 2020 RESTATED ¹	31 JULY 2021	31 JULY 2020 RESTATED ¹	31 JULY 2021	31 JULY 2020
Ingredients channel revenue	3,521	3,673	5,783	6,505	4,259	3,513	13,563	13,691
Foodservice channel revenue	928	915	333	235	1,691	1,531	2,952	2,681
Consumer channel revenue	2,506	2,447	1,182	1,133	362	330	4,050	3,910
Revenue from sale of goods	6,955	7,035	7,298	7,873	6,312	5,374	20,565	20,282

1 Comparative information includes restatements for consistency with the current period.

Revenue is disaggregated by geography on the basis of the destination of the goods sold in Note 1 *Segment reporting*.

4. Cost of goods sold

Cost of goods sold is primarily made up of New Zealand sourced cost of milk.

New Zealand sourced cost of milk includes the cost of milk supplied by farmer shareholders, supplier premiums paid, and the cost of milk purchased from contract milk suppliers during the financial year.

New Zealand sourced cost of milk supplied by farmer shareholders comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board for the relevant season. In making that determination the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual, which is independently assured. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price, and how it is calculated. It can be found in the ‘Investors/Farmgate Milk Prices/Milk Price Methodology’ section of Fonterra’s website.

Other costs include purchases of other products, raw materials and packing, direct labour costs, depreciation and other costs directly incurred to bring inventory to its final point of sale location.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Opening inventory	3,268	3,165
Cost of milk:		
– New Zealand sourced	11,660	10,888
– Non-New Zealand sourced	994	1,007
Other costs	5,425	5,444
Closing inventory	(3,766)	(3,268)
Total cost of goods sold	17,581	17,236

5. Earnings per share

Basic earnings per share is calculated as profit after tax attributable to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.

Diluted earnings per share is determined by adjusting profit after tax attributable to equity holders of the Co-operative and the weighted average number of shares on issue for the effects of all shares with dilutive potential. There were no shares on issue with dilutive potential for either of the years presented.

	GROUP	
	31 JULY 2021	31 JULY 2020
Basic and diluted earnings per share from continuing operations (\$)	0.31	0.48
Basic and diluted earnings/(loss) per share from discontinued operations (\$)	0.05	(0.05)
Basic and diluted earnings per share (\$)	0.36	0.43
Profit attributable to equity holders of the Co-operative (\$ million)	578	686
Weighted average number of shares (thousands of shares)	1,613,105	1,612,076

Normalised earnings per share

Normalised earnings per share is calculated as normalised profit after tax attributable to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.

	GROUP	
	31 JULY 2021	31 JULY 2020
Normalised basic and diluted earnings per share (\$)	0.34	0.24
Normalised profit after tax attributable to equity holders of the Co-operative (\$ million)	550	382
Weighted average number of shares (thousands of shares)	1,613,105	1,612,076

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2021

5. Earnings per share CONTINUED

A reconciliation of profit after tax attributable to equity holders of the Co-operative to normalised profit after tax attributable to equity holders of the Co-operative is presented in the following table.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Profit after tax attributable to equity holders of the Co-operative	578	686
Less: Gain on sale of Ying and Yutian China farms	(32)	–
(Less)/add: China Farms (impairment reversal)/impairment	(23)	63
Less: Gain on sale of Falcon China Farms JV	(40)	–
Add: Falcon China Farms JV impairment	–	65
Add/(less): Income Statement impact of Beingmate investment	49	(50)
Add: Brazil consumer and foodservice business impairment	39	104
Less: Gain on sale and dividends received from DFE Pharma	–	(427)
Less: Gain on sale of Goodminton	–	(66)
Add: Other	–	43
Total normalisation adjustments	(7)	(268)
(Less)/add: Tax on normalisation adjustments	(4)	7
Less: Normalisation adjustments attributable to non-controlling interests	(17)	(43)
Normalised profit after tax attributable to equity holders of the Co-operative	550	382

6. Profit before net finance costs and tax

a) Additional information about items included in profit before net finance costs and tax

The following items have been included in profit before net finance costs and tax in the Income Statement.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Total employee benefits expense	2,117	2,074
Depreciation and amortisation expense	642	613
Research and development costs	110	98
Contributions to defined contribution plans included in employee benefits expense	83	79
Net foreign exchange losses	26	64

b) Fees paid to the auditor and network firms

KPMG has been appointed the Group's external auditor for two consecutive years. The lead audit partner has served for two consecutive years. The Board has overseen compliance with the Group's Audit Independence Policy. KPMG has not provided any services during the year other than audit and audit-related services.

A breakdown of fees paid to the auditor and network firms which are included in the Income Statement is presented in the following table. Fees are inclusive of any disbursements.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Audit and review of the Financial Statements of the Group and its subsidiaries:		
– New Zealand	6.2	6.7
– Network firms of the auditor	2.4	2.1
Total fees for the audit and review of the Financial Statements	8.6	8.8
Audit-related services:		
– Assurance services in respect of the Farmgate Milk Price Statement	0.1	0.1
– Other audit-related services	0.1	0.1
Total fees for audit-related services	0.2	0.2
Total fees paid to auditor	8.8	9.0

Debt and equity

This section outlines the Group's capital structure and the related financing costs. It also provides information on how the funds that finance current and future activities are raised and how the Group manages capital.

This section includes the following notes:

Note 7: *Subscribed equity instruments*

Note 8: *Dividends*

Note 9: *Borrowings*

Note 10: *Net finance costs*

Note 11: *Capital management*

7. Subscribed equity instruments

Subscribed equity instruments comprise Co-operative shares and units in the Fonterra Shareholders' Fund (the Fund). Incremental costs directly attributable to equity transactions are recognised as a deduction from subscribed equity.

a) Co-operative shares, including shares held within the Group

Co-operative shares may only be held by a shareholder supplying milk to Fonterra (farmer shareholder), by former farmer shareholders for up to three seasons after cessation of milk supply, or by Fonterra Farmer Custodian Limited (the Custodian). Voting rights in Fonterra are dependent on milk supply supported by Co-operative shares, these rights are also attached to vouchers when backed by milk supply (subject to limits).

The rights attaching to Co-operative shares are set out in Fonterra's Constitution, available in the 'Our Co-operative/Governance and Management' section of Fonterra's website.

At 31 July 2021 there were 1,613,357,879 Co-operative shares on issue (31 July 2020: 1,612,097,067 shares).

During the year ended 31 July 2021, Fonterra issued:

- 1,138,230 shares under the Dividend Reinvestment Plan (31 July 2020: nil); and
- 122,582 shares under the Farm Source Rewards scheme (31 July 2020: 105,345 shares).

Co-operative shares can be traded between farmer shareholders on the Fonterra Shareholders' Market (a private market operated by NZX Limited). On 6 May 2021 the Group commenced a consultation process to seek feedback on potential options to change its capital structure. From that date the ability for farmer shareholders to exchange Co-operative shares into units in the Fund was suspended and the Fund size was temporarily capped. The temporary cap is expected to remain in effect until the Group completes its consultation on its capital structure options.

Information about the Group's capital structure review is available in the 'Investors/Capital Structure' section of Fonterra's website.

b) Units in the Fonterra Shareholders' Fund

The Custodian holds legal title of Co-operative shares of which the Economic Rights have been sold to the Fund on trust for the benefit of the Fund. At 31 July 2021 107,420,162 Co-operative shares (31 July 2020: 104,581,516) were legally owned by the Custodian, on trust for the benefit of the Fund.

Units in the Fund are traded on the New Zealand Stock Exchange (NZX) and Australian Securities Exchange (ASX).

During the year ended 31 July 2021, the Fund issued 11,794,492 units (31 July 2020: 17,298,927 units) and redeemed 8,955,846 units (31 July 2020: 15,651,993 units).

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2021 Annual Report, available in the 'Investors/Fonterra Shareholder's Fund' section of Fonterra's website.

c) Market capitalisation

At 31 July 2021, the Group's market capitalisation was below the carrying amount of the Group's net assets. The Group has performed an impairment test to assess the recoverable amount of the Group's net assets. No impairment has been identified.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

8. Dividends

All Co-operative shares, including those held by the Custodian, are eligible to receive dividends if declared by the Board. As set out in Fonterra's constitution, dividends on Co-operative shares held by farmer shareholders in excess of the maximum number of Co-operative shares that the shareholder is permitted to hold at compliance date, shall be forfeited by the shareholder and retained by the Group. This will apply to Co-operative shares that are held by farmer shareholders in excess of the maximum number that they were permitted to hold for the 2020/21 season.

Dividends are recognised as a liability in the Group's Financial Statements in the period in which they are declared by the Board. The Group's Dividend Policy can be found in the 'Investors/Results & Reporting/Dividends & Reinvestment Plan' section of Fonterra's website.

The Group has a Dividend Reinvestment Plan, where eligible shareholders can choose to reinvest all or part of their future dividend in additional Co-operative shares. The Group's Dividend Reinvestment Plan can be found in the 'Investors/Results & Reporting/Dividends & Reinvestment Plan' section of Fonterra's website.

	\$ MILLION	
	31 JULY 2021	31 JULY 2020
DIVIDENDS		
2020 Final dividend – 5 cents per share ¹	80	–
2021 Interim dividend – 5 cents per share ²	81	–

- 1 Declared on 17 September 2020 and paid on 15 October 2020 to all Co-operative shares on issue at 25 September 2020. The Dividend Reinvestment Plan applied to this dividend.
2 Declared on 16 March 2021 and paid on 15 April 2021 to all Co-operative shares on issue at 24 March 2021. The Dividend Reinvestment Plan did not apply to this dividend.

No dividend was paid during the year ended 31 July 2020.

Dividend declared after balance date

On 22 September 2021, the Board declared a final dividend of 15 cents per share, to be paid on 15 October 2021 to all Co-operative shares on issue at 30 September 2021.

The Dividend Reinvestment Plan does not apply to this dividend.

9. Borrowings

The Group borrows in the form of bonds, bank facilities and other financial instruments. The Group also recognises lease liabilities within borrowings. Refer to Note 17 *Leases* for further information about the Group's lease liabilities and related right-of-use assets.

The interest expense incurred on the Group's borrowings is presented in Note 10 *Net finance costs*.

Borrowings (excluding lease liabilities) are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with the hedged risks on certain debt instruments measured at fair value.

a) Total borrowings

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Total current borrowings	818	764
Total non-current borrowings	4,254	5,277
Total borrowings¹	5,072	6,041

- 1 Borrowings of \$282 million attributable to disposal groups held for sale are not included in the table above (31 July 2020: \$289 million).

A breakdown of total borrowings is presented in the following tables.

	GROUP \$ MILLION								
	BALANCE AS AT 1 AUGUST 2020	PROCEEDS	NEW LEASE LIABILITIES	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	TRANSFERRED TO LIABILITIES HELD FOR SALE	OTHER	BALANCE AS AT 31 JULY 2021
Commercial paper	–	444	–	(444)	–	–	–	–	–
Bank loans	20	1,882	–	(1,888)	(3)	–	–	–	11
Lease liabilities ¹	604	–	34	(109)	(6)	–	–	–	523
Capital notes ²	35	–	–	–	–	–	–	–	35
NZX-listed bonds	600	–	–	–	–	–	–	–	600
Medium-term notes	4,782	–	–	(633)	(97)	(151)	–	2	3,903
Total borrowings³	6,041	2,326	34	(3,074)	(106)	(151)	–	2	5,072

	GROUP \$ MILLION								
	BALANCE AS AT 1 AUGUST 2019	PROCEEDS	NEW LEASE LIABILITIES	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	TRANSFERRED TO LIABILITIES HELD FOR SALE	OTHER	BALANCE AS AT 31 JULY 2020
Commercial paper	259	333	–	(594)	–	–	–	2	–
Bank loans	619	1,953	–	(2,186)	(88)	–	(278)	–	20
Lease liabilities ¹	652	–	123	(161)	–	–	(11)	1	604
Capital notes ²	35	–	–	–	–	–	–	–	35
NZX-listed bonds	600	–	–	–	–	–	–	–	600
Medium-term notes	4,971	–	–	(440)	87	165	–	(1)	4,782
Total borrowings³	7,136	2,286	123	(3,381)	(1)	165	(289)	2	6,041

- 1 Refer to Note 17 *Leases* for further information about lease liabilities.
2 Capital notes are unsecured subordinated borrowings.
3 All borrowings other than lease liabilities and capital notes are unsecured and unsubordinated.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

9. Borrowings CONTINUED

b) Non-GAAP debt measures

The Group uses the following non-GAAP debt measures in monitoring its net debt position and in calculating the Group's debt to EBITDA ratio, gearing ratios, and return on capital. Refer to Note 11 *Capital management* for further information about these ratios.

Economic net interest-bearing debt

Economic net interest-bearing debt is total borrowings, plus bank overdraft, less cash and cash equivalents and long-term advances, adjusted for derivatives used to manage changes in hedged risks on debt instruments. Economic net interest-bearing debt excludes amounts attributable to disposal groups held for sale.

The Group believes that economic net interest-bearing debt provides useful information as it reflects the Group's net debt position after incorporating the effect of debt hedging in place at balance date.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Total borrowings	5,072	6,041
Plus: Bank overdraft	20	31
Less: Cash and cash equivalents	(985)	(788)
Less: Long-term advances	(163)	(220)
Less: Value of derivatives used to manage changes in hedged risks on debt instruments	(157)	(405)
Economic net interest-bearing debt	3,787	4,659

Adjusted net debt

Adjusted net debt is economic net interest-bearing debt, excluding long-term advances, plus borrowings attributable to disposal groups held for sale, less cash and cash equivalents attributable to disposal groups held for sale, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries (including cash and cash equivalents attributable to disposal groups held for sale).

The Group believes that adjusted net debt provides useful information as it is aligned with how certain rating agencies calculate the Group's debt to EBITDA and gearing ratios.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Economic net interest-bearing debt	3,787	4,659
Plus: Long-term advances	163	220
Plus: Borrowings attributable to disposal groups held for sale	282	289
Less: Cash and cash equivalents attributable to disposal groups held for sale	(17)	(23)
Plus: Cash adjustment	110	93
Adjusted net debt	4,325	5,238

10. Net finance costs

Interest income and expense is recognised on an accrual basis in the Income Statement, using the effective interest method.

Finance costs also include the changes in fair value relating to derivatives used to manage interest rate risk, and the associated changes in fair value of the borrowings designated in a hedge relationship attributable to the hedged risk. Information about the Group's hedge accounting policies are included in Note 20 *Hedge accounting*.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Finance income	9	13
Interest expense ^{1,2}	(299)	(354)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	151	(158)
– Derivatives designated in a hedge relationship	(107)	199
– Derivatives where hedge accounting has not been applied	(6)	(4)
Total interest income from fair value movements	38	37
Finance costs	(261)	(317)
Net finance costs	(252)	(304)

1 Includes interest expense of \$2 million (31 July 2020: \$4 million) relating to derivatives where hedge accounting has not been applied.
2 Includes interest expense of \$17 million (31 July 2020: \$23 million) relating to lease liabilities.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

11. Capital management

The Group is not subject to debt covenants or any other externally imposed capital requirements. The Board closely monitors the debt to EBITDA ratio, gearing ratios and return on capital.

a) Debt to EBITDA ratio

Debt to EBITDA is calculated as adjusted net debt divided by total Group normalised earnings before interest, tax, depreciation and amortisation (total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees and net foreign exchange gains/losses.

Total Group normalised EBITDA includes amounts relating to discontinued operations.

Debt to EBITDA is a key ratio considered by the credit rating agencies when determining Fonterra's credit rating. The Board approved Debt Policy establishes a maximum debt to EBITDA of 3.75x, with a long-term target range of 2.5 to 3.0x.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Adjusted net debt ¹	4,325	5,238
Profit after tax	599	659
Add: Net finance costs from continuing operations	252	304
Add: Net finance costs from discontinued operations	10	28
Add: Tax expense from continuing operations	103	175
Less: Tax credit from discontinued operations	(5)	(19)
Total Group EBIT	959	1,147
Add: Depreciation and amortisation from continuing operations	642	613
Add: Depreciation and amortisation from discontinued operations	–	14
Total Group EBITDA	1,601	1,774
Less: Normalisation adjustments ²	(7)	(268)
Total Group normalised EBITDA	1,594	1,506
(Less)/add: Share of (profit)/loss of equity accounted investments	(5)	6
Add: Net foreign exchange losses from continuing operations	26	64
Less: Net foreign exchange losses included in normalisation adjustments	(2)	(9)
(Less)/add: Net foreign exchange (gains)/losses from discontinued operations	(7)	4
Total Group normalised EBITDA excluding share of profit/loss of equity accounted investees and net foreign exchange gains/losses	1,606	1,571
Debt to EBITDA ratio ³	2.7x	3.3x

1 Refer to Note 9 *Borrowings* for further information about adjusted net debt.

2 Refer to Note 5 *Earnings per share* for further information about normalisation adjustments.

3 The debt to EBITDA ratio reported in the 2020 Annual Report was 3.4x. Subsequently, the Group changed the method of calculating adjusted net debt to align with how certain rating agencies calculate the Group's debt to EBITDA ratio. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent.

b) Gearing ratios

Economic net interest-bearing debt gearing ratio (ENIBD gearing ratio)

During the year ended 31 July 2021, the Board used the ENIBD gearing ratio to monitor the Group's gearing.

The ENIBD gearing ratio is calculated as economic net interest-bearing debt divided by total capital as calculated under the ENIBD gearing ratio.

Total capital calculated under the ENIBD gearing ratio is equity excluding hedge reserves, plus economic net interest-bearing debt.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Economic net interest-bearing debt ¹	3,787	4,659
Total equity	6,869	6,703
Plus/(less): Hedging reserves	26	(101)
Equity excluding hedge reserves	6,895	6,602
Total capital as calculated under the ENIBD gearing ratio	10,682	11,261
ENIBD Gearing ratio (%)	35.5%	41.4%

1 Refer to Note 9 *Borrowings* for further information about economic net interest-bearing debt.

b) Gearing ratios CONTINUED

Adjusted net debt gearing ratio

In July 2021 the Board approved a new basis for calculating the Group's gearing ratio to align with the definition of debt used for the debt to EBITDA ratio. This basis will be used to monitor the Group's gearing in the future. The adjusted net debt gearing ratio is calculated as adjusted net debt divided by total capital.

Total capital is equity excluding hedge reserves, plus adjusted net debt.

The Board approved Gearing Policy establishes a maximum adjusted net debt gearing ratio of 45%, with a long-term target range of 30% to 40%.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Adjusted net debt ¹	4,325	5,238
Equity excluding hedge reserves	6,895	6,602
Total Capital	11,220	11,840
Adjusted net debt gearing ratio (%)	38.5%	44.2%

1 Refer to Note 9 *Borrowings* for further information about adjusted net debt.

c) Return on capital

Return on capital is calculated as total Group normalised earnings before interest and tax (total Group normalised EBIT) plus finance income on long-term advances less a notional tax charge, divided by average capital employed.

Total Group normalised EBIT includes both continuing operations and discontinued operations.

Capital employed is adjusted net debt, less the cash adjustment (used in calculating adjusted net debt), plus cash and cash equivalents held by subsidiaries for working capital purposes, plus equity excluding hedge reserves and net deferred tax assets. Average capital employed is calculated as a 13-month rolling average of capital employed.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Total Group EBIT	959	1,147
Less: Normalisation adjustments ¹	(7)	(268)
Total Group normalised EBIT	952	879
Plus: Finance income on long-term advances	8	7
Less: notional tax charge ²	(155)	(74)
Total Group normalised EBIT including finance income on long-term advances less notional tax charge	805	812
Adjusted net debt ³	4,325	5,238
Less: Cash adjustment ³	(110)	(93)
Plus: Cash and cash equivalents held by subsidiaries for working capital purposes	188	157
Plus: Total equity	6,869	6,703
Plus/(less): Hedge reserves	26	(101)
Less: Net deferred tax assets	(435)	(401)
Capital employed	10,863	11,503
Impact of seasonal variation in capital employed	1,418	810
Average capital employed	12,281	12,313
Return on capital ⁴	6.6%	6.6%

1 Refer to Note 5 *Earnings per share* for further information about normalisation adjustments.

2 The notional tax charge is calculated as 16.1% of total group normalised EBIT plus finance income on long-term advances (31 July 2020: 8.4%) to reflect the change in dividend policy and realised tax rates.

3 Refer to Note 9 *Borrowings* for further information about adjusted net debt.

4 Return on capital reported in the Group's 2020 Annual Report was 6.7%. Subsequently, the Group changed its method for calculating return on capital. The key changes are to: align the definition of debt with adjusted net debt used in the debt to EBITDA ratio; and exclude hedge reserves from total equity.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

Working capital

This section provides information about the primary elements of the Group's working capital. Working capital represents the short-term operating assets and liabilities generated by the Group. Movements in these items have a direct impact on the net cash flows generated from operating activities.

This section includes the following notes:

- Note 12: Trade and other receivables
- Note 13: Inventories
- Note 14: Trade and other payables
- Note 15: Owing to suppliers

12. Trade and other receivables

Trade receivables are amounts due from customers for products sold and services provided. Trade receivables are recognised initially at their transaction price and subsequently measured at the amount expected to be collected. Due to their short-term nature trade receivables are not discounted. The Group recognises a provision for impairment on trade receivables based on the lifetime expected credit loss at balance date.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Trade receivables	1,673	1,623
Less: provision for impairment of trade receivables	(18)	(12)
Trade receivables net of provision for impairment	1,655	1,611
Receivables from related parties ¹	25	24
Other receivables	67	140
Total trade and other receivables (excluding prepayments)	1,747	1,775
Prepayments	55	57
Total trade and other receivables	1,802	1,832

1 Refer to Note 23 *Related party transactions* for further information about receivables from related parties.

Amounts received in advance from customers of \$17 million (31 July 2020: \$32 million) have been recognised in trade and other payables.

The Group has a receivables management programme. At 31 July 2021 the Group's exposure was \$17 million, which reflects the first loss component of amounts managed at balance date (31 July 2020: \$18 million).

The ageing profile of the Group's trade and other receivables (excluding prepayments) is presented in the following table.

	GROUP \$ MILLION				
	CURRENT	LESS THAN 1 MONTH PAST DUE	MORE THAN 1 MONTH BUT LESS THAN 3 MONTHS PAST DUE	MORE THAN 3 MONTHS PAST DUE	TOTAL
As at 31 July 2021	1,579	114	32	22	1,747
As at 31 July 2020	1,557	100	46	72	1,775

13. Inventories

Raw materials and finished goods

Raw materials and finished goods are measured at the lower of cost or net realisable value on a first-in-first-out basis.

In the case of manufactured inventories, cost includes all direct costs plus the portion of fixed and variable production overheads incurred in bringing inventories to their present location and condition.

Net realisable value is the estimated selling price, less the costs of completion and selling expenses.

Emissions units held for trading

The Group holds emissions units for trading and compliance purposes.

Emissions units held for trading purposes are accounted for as inventories and measured at fair value. Refer to Note 18 *Intangible assets* for further information about emissions units held for compliance purposes.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020 ¹
Raw materials	678	606
Finished goods	3,133	2,693
Less: provision for impairment of raw materials and finished goods	(69)	(51)
Total raw materials and finished goods	3,742	3,248
Emissions units held for trading	24	20
Total inventories	3,766	3,268

1 Comparative information includes re-presentations for consistency with the current period.

14. Trade and other payables

Trade and other payables are recognised at the amount invoiced by the supplier. Due to their short-term nature, they are not discounted. Amounts owing to farmer shareholders and New Zealand contract milk suppliers are recognised in owing to suppliers (refer to Note 15 *Owing to suppliers*).

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Trade payables	1,677	1,526
Amounts due to related parties ¹	9	29
Other payables	190	128
Total trade and other payables (excluding employee entitlements)	1,876	1,683
Employee entitlements	332	321
Total trade and other payables	2,208	2,004

1 Refer to Note 23 *Related party transactions* for further information about payables to related parties.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

15. Owing to suppliers

Amounts owing to suppliers are amounts the Group owes to farmer shareholders and New Zealand contract milk suppliers for the collection of milk, which includes end of season adjustments, offset by amounts owing from farmer shareholders for goods and services provided to them by the Group.

These amounts are recognised at the net amount due to the supplier for the milk provided. Due to their short-term nature, they are not discounted.

The Board uses its discretion in establishing the rate at which the Group will pay suppliers for the milk supplied over the season. This is referred to as the advance rate. A breakdown of the advance payments made to suppliers is presented in the following table.

	GROUP	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Owing to suppliers (\$ million)	1,825	1,588
Details relating to the season ended 31 May:		
Farmgate Milk Price ¹ (per kg/MS)	\$7.54	\$7.14
Total advance payments made during the year	\$6.41	\$6.15
Total owing as at 31 July	\$1.13	\$0.99
Amount advanced during the year as a percentage of the milk price	85%	86%

1 Represents the average price for milk supplied on standard terms of supply. The Fonterra Farmgate Milk Price Statement sets out information about the Farmgate Milk Price as calculated in accordance with the Farmgate Milk Price Manual. It can be found in the 'Investors/Farmgate Milk Prices/Milk Price Methodology' section of Fonterra's website.

Long-term assets

This section provides information about the investments the Group has made in long-term assets to operate the business and generate returns to equity holders. These assets include physical assets such as land and buildings, and non-physical assets such as right-of-use assets, brands and goodwill.

This section includes the following notes:

Note 16: *Property, plant and equipment*

Note 17: *Leases*

Note 18: *Intangible assets*

16. Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. It also includes financing costs directly attributable to the acquisition, production or construction of the asset. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance costs are charged to the Income Statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed and adjusted, where required, each financial year.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are recognised in the Income Statement.

Depreciation

Depreciation is calculated on a straight-line basis to allocate the cost of the asset, less any residual value, over its estimated useful life. The range of estimated useful lives for each class of property, plant and equipment is as follows.

– Land	Indefinite
– Buildings and leasehold improvements	2–55 years
– Plant, vehicles and equipment	2–50 years

16. Property, plant and equipment (CONTINUED)

	GROUP \$ MILLION				
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
As at 31 July 2021					
Cost	350	2,670	8,170	371	11,561
Accumulated depreciation and impairment	–	(1,118)	(4,464)	–	(5,582)
Net book value at 31 July 2021	350	1,552	3,706	371	5,979

As at 31 July 2020

Cost	357	2,576	8,145	316	11,394
Accumulated depreciation and impairment	–	(1,053)	(4,335)	–	(5,388)
Net book value at 31 July 2020	357	1,523	3,810	316	6,006

	GROUP \$ MILLION				
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
Net book value					
As at 1 August 2020	357	1,523	3,810	316	6,006
Additions ¹	14	6	2	427	449
Transferred from capital work in progress	–	109	261	(370)	–
Transferred to buildings and leasehold improvements	(19)	19	–	–	–
Acquisition from business combination	–	–	16	–	16
Depreciation charge	–	(86)	(350)	–	(436)
Impairment	–	–	(5)	–	(5)
Disposals	(1)	(5)	(9)	(1)	(16)
Foreign currency translation	(1)	(14)	(19)	(1)	(35)
As at 31 July 2021	350	1,552	3,706	371	5,979

Net book value

As at 1 August 2019	354	1,765	4,098	295	6,512
Finance leases transferred to Right-of-use assets	(5)	(42)	(9)	–	(56)
Adjusted balance as at 1 August 2019	349	1,723	4,089	295	6,456
Additions ¹	–	–	6	364	370
Transferred from right-of-use assets	5	38	4	–	47
Transferred from capital work in progress	7	55	274	(336)	–
Depreciation charge	–	(92)	(330)	–	(422)
Impairment	–	(46)	(50)	–	(96)
Disposals	(3)	(3)	(28)	(1)	(35)
Transferred to assets held for sale	(1)	(135)	(138)	(5)	(279)
Foreign currency translation	–	(17)	(17)	(1)	(35)
As at 31 July 2020	357	1,523	3,810	316	6,006

1 Additions include borrowing costs of \$5 million (31 July 2020: \$3 million) capitalised using a weighted average interest rate of 4.94% (31 July 2020: 5.24%).

New Zealand ingredients manufacturing assets

The Group's New Zealand ingredients manufacturing sites are utilised as a single network for processing raw milk supply, including meeting peak milk processing requirements. The Group considers there are no indicators of impairment for its New Zealand ingredients manufacturing sites. The Group has considered the impact of its decarbonisation plan in estimating the useful lives of its New Zealand ingredients manufacturing assets.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

17. Leases

The Group is a lessee of various types of assets, including buildings, plant, vehicles and equipment. Right-of-use assets reflect the Group's right to use leased assets. Corresponding lease liabilities reflect the present value of the related future lease payments.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. These lease costs are recognised as an expense in the Income Statement as incurred.

a) Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses. Cost is calculated as the initial amount of the lease liability plus any initial direct costs incurred and an estimate of costs required to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right-of-use assets are depreciated on a straight-line basis over the lease term, unless the useful life of the asset is less than the lease term or if the Group will own the asset at the end of the lease term. In these situations, the right-of-use asset is depreciated over the useful life of the asset, which is determined on the same basis as those of property, plant and equipment. Right-of-use assets are also adjusted for any impairment losses and certain remeasurements of the lease liability.

The Group enters into lease arrangements for land and buildings with options for renewal that typically run for a period of three to ten years, however some property leases can run up to a period of 50 years. Lease payment changes are renegotiated at periods specified in the lease contracts and are usually based on local price indices or market rental rates.

Leases for plant, vehicles and equipment typically run for a period of two to five years.

Information about right-of-use assets from leases for which the Group is a lessee is presented in the following table.

	GROUP \$ MILLION			
	NET BOOK VALUE		DEPRECIATION CHARGE	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020	YEAR ENDED 31 JULY 2021	YEAR ENDED 31 JULY 2020
Land	9	24	8	2
Buildings	344	383	58	62
Plant, vehicles and equipment	133	162	42	42
Total	486	569	108	106

Additions to right-of-use assets during the year were \$32 million (31 July 2020: \$114 million).

b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease as the present value of the lease payments over the lease term. The lease payments include the exercise price of a purchase option where the Group is reasonably certain to exercise the option.

The lease payments are discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease term is the non-cancellable period, plus renewal options if they are reasonably certain to be exercised. Once a lease has commenced, the Group will only reassess the lease term on the occurrence of a significant event or change in circumstance that is within its control and affects its ability to exercise, or not exercise, an option not previously included in the lease term.

Total lease liabilities included within borrowings in the Statement of Financial Position are presented in the following table.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Current lease liabilities	99	104
Non-current lease liabilities	424	500
Total lease liabilities	523	604

During the year ended 31 July 2021 total cash payments for leases were \$145 million (31 July 2020: \$201 million).

b) Lease liabilities CONTINUED

In addition to the lease liability recognised, the Group's lease arrangements include renewal options, termination options and residual guarantees that have been assessed as unlikely to result in cash payments.

As at 31 July 2021, the Group has entered into a number of lease arrangements that have not yet commenced. The total lease liability that will be recognised on commencement of these leases in the next 12 months is \$2 million (31 July 2020: \$3 million).

c) Other lease-related expenses recognised in the Income Statement

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Interest on lease liabilities	17	23
Variable lease payments not included in the measurement of lease liabilities	5	6
Expenses relating to short-term leases	8	11
Expenses relating to low value leases	10	4

18. Intangible assets

The significant intangible assets recognised by the Group are goodwill, brands, software assets, and emissions units.

Goodwill

Goodwill represents the premium paid by the Group over the fair value of the Group's share of the net identifiable assets of an acquired business at the date of acquisition. Goodwill is initially recognised at cost and subsequently measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually and is not amortised.

Brands

Brands that are purchased by the Group are initially recognised at cost, or at their fair value if acquired as part of a business combination, and subsequently measured at cost less any impairment losses. A brand is determined to have an indefinite life where there is an intention to maintain and support the brand for an indefinite period.

Indefinite life brands are tested for impairment annually and are not amortised.

Indefinite life brands that have been impaired are reviewed for possible reversal of impairment annually. A reversal of an impairment loss shall not exceed the carrying amount that would have been recognised had no impairment loss occurred in prior years.

Software assets

Software assets, both purchased and internally developed, are capitalised provided there is an identifiable asset that will generate future economic benefits through cost savings or supporting revenue generation. Subsequent costs are capitalised if they extend the useful life or enhance the functionality of the asset.

Software assets are amortised on a straight-line basis over their estimated useful lives (two to 13 years). Software assets are tested for impairment when an indicator of impairment exists.

Emissions units held for compliance purposes

Emissions units held for compliance purposes are accounted for as intangible assets with an indefinite life and measured at cost less any impairment losses. Emissions units are not amortised.

Refer to Note 13 *Inventories* for further information about emissions units held for trading.

The Group's obligation to surrender emissions units is included in other current liabilities. Emissions units held for compliance purposes are derecognised as they are surrendered to settle the Group's emissions obligation.

Impairment testing

A cash-generating unit (CGU) is tested for impairment when there are indicators of impairment. An impairment test is also completed on an annual basis when a CGU has goodwill or indefinite life intangibles allocated to it. To determine if an asset or CGU is impaired, the carrying amount of the asset or CGU is compared to its recoverable amount, being the higher of its value in use and fair value less costs to dispose. If the carrying amount is higher than the recoverable amount, the CGU is impaired to its recoverable amount.

Uncertainty is involved in estimating value in use and fair value less costs to dispose.

Value in use is determined as the present value of the future cash flows expected to be derived from the CGU. The value in use calculation requires the Group to estimate future cash flows, discount rates and terminal growth rates. Cash flows are based on approved forecasts which are consistent with the Board approved strategy. Cash flows do not exceed five years. Discount rates are based on external data where possible.

Where the Group has applied the relief from royalty method for valuing its brands, judgement is involved in estimating royalty rates.

Fair value less costs to dispose reflects the price that would be received to sell the CGU in an orderly transaction between market participants at the measurement date less the costs of disposal.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2021

18. Intangible assets CONTINUED

	GROUP \$ MILLION ¹						
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	EMISSIONS UNITS	OTHER	TOTAL INTANGIBLES
As at 31 July 2021							
Cost	839	1,399	1,493	80	97	28	3,936
Accumulated amortisation and impairment	(310)	(175)	(1,191)	–	–	(18)	(1,694)
Net book value at 31 July 2021	529	1,224	302	80	97	10	2,242
As at 31 July 2020							
Cost	854	1,424	1,527	40	50	28	3,923
Accumulated amortisation and impairment	(317)	(177)	(1,173)	–	–	(16)	(1,683)
Net book value at 31 July 2020	537	1,247	354	40	50	12	2,240

¹ Comparative information includes re-presentations for consistency with the current period.

	GROUP \$ MILLION ¹						
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	EMISSIONS UNITS	OTHER	TOTAL INTANGIBLES
Net book value							
As at 1 August 2020	537	1,247	354	40	50	12	2,240
Additions	–	–	4	84	96	–	184
Transferred from work in progress	–	–	44	(44)	–	–	–
Amortisation	–	–	(96)	–	–	(2)	(98)
Disposals/surrender of units	–	(2)	(3)	–	(49)	–	(54)
Foreign currency translation	(8)	(21)	(1)	–	–	–	(30)
As at 31 July 2021	529	1,224	302	80	97	10	2,242
Net book value							
As at 1 August 2019	561	1,544	402	36	37	17	2,597
Additions	–	–	1	51	50	–	102
Transferred from work in progress	–	–	44	(44)	–	–	–
Amortisation	–	–	(97)	–	–	(2)	(99)
Impairment	(21)	(85)	–	–	–	–	(106)
Impairment reversal	–	–	3	–	–	–	3
Disposals/surrender of units	–	–	(1)	(3)	(37)	(3)	(44)
Transferred to assets held for sale	–	(140)	–	–	–	–	(140)
Foreign currency translation	(3)	(72)	2	–	–	–	(73)
As at 31 July 2020	537	1,247	354	40	50	12	2,240

¹ Comparative information includes re-presentations for consistency with the current period.

Amortisation is recognised in cost of goods sold and other operating expenses in the Income Statement.

There was no impairment or impairment reversal in continuing operations for the year ended 31 July 2021. A reconciliation of impairment of intangible assets for the year ended 31 July 2020 presented in the table above to the amount reported in the Income Statement is presented in the following table.

	GROUP \$ MILLION
	31 JULY 2020
Impairment of intangible assets	106
Less: Impairment reversal	(3)
Less: Brazil consumer and foodservice business brand impairment included in profit after tax from discontinued operations	(48)
Impairment of intangible assets included in continuing operations	55

18. Intangible assets CONTINUED

Goodwill and indefinite life brands

The allocation of goodwill and brands across the Group's reportable segments is presented in the following table. All brands presented in the following table have indefinite lives.

	GROUP \$ MILLION					
	AS AT 31 JULY 2021			AS AT 31 JULY 2020		
	GOODWILL	BRANDS	TOTAL	GOODWILL	BRANDS	TOTAL
Asia Pacific reportable segment						
– New Zealand consumer and foodservice CGU	229	282	511	229	283	512
– Australia CGU	131	148	279	134	148	282
– Asia brands	–	653	653	–	674	674
– NZMP brand	–	120	120	–	120	120
AMENA reportable segment						
– Chile CGU	97	21	118	101	22	123
Other CGUs	72	–	72	73	–	73
Total	529	1,224	1,753	537	1,247	1,784

Impairment testing of goodwill and indefinite life brands

The Group has performed impairment tests for CGUs with goodwill or intangible assets with indefinite useful lives and no impairment was identified.

Further information about impairment tests performed for CGUs (or groups of CGUs) with significant goodwill or indefinite life brands is provided below.

a) New Zealand consumer and foodservice CGU

The recoverable amount of the business was determined on a value in use basis using a discounted cash flow methodology.

The model uses a five-year cash flow forecast based on the three-year business plan approved by the Board. Cash flows for years four and five have been prepared based on growth expectations for the business.

The key drivers for the business to achieve its performance targets are to continue to deliver productivity gains and to effectively manage operational costs.

The long-term growth rate applied to the future cash flows after year five of the forecast was 2.0% (31 July 2020: 1.5%). This reflects the expected long-term economic growth rate for New Zealand.

The post-tax discount rate was 7.5% (31 July 2020: 7.4%). The pre-tax discount rate was 9.8% (31 July 2020: 9.8%).

The recoverable amount of the business exceeds its carrying amount by \$86 million. The impact of changes in key assumptions on the recoverable amount are shown in the following table. The sensitivities shown assume the specific assumption changes in isolation, while all other assumptions are held constant.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	IMPACT ON THE RECOVERABLE AMOUNT
Volume growth	2.3%	An increase/(decrease) in volume growth of 0.1% results in an increase/(decrease) in the recoverable amount of \$12 million.
Revenue and margin growth	2.6%	An increase/(decrease) in revenue and margin growth of 0.1% results in an increase/(decrease) in the recoverable amount of \$12 million.

b) Asia brands

Asia brands represent the Group's trademarks and other intellectual property in territories outside of New Zealand and Australia, relating to the Anchor, Annum, Anlene and Chesdale brands.

The relief from royalty method has been used to calculate the recoverable amounts of these Asia brands. The relief from royalty methodology is a value in use calculation which determines the recoverable amount by calculating the present value of what a licensee would theoretically pay as a royalty to use the brands. The royalty rates applied in the calculation are determined based on comparable market data and range from 3% to 7% (31 July 2020: 3% to 7%). The key assumption used in the relief from royalty method is forecast sales growth. The value attributed to the assumption is based on the business forecasts over the five-year period.

For these brands, the long-term growth rates applied to the future sales revenue used in the valuation model range from 2% to 6.5% (31 July 2020: 0.5% to 7.5%) and the range of discount rates (post-tax) that have been applied in the valuation model range from 7% to 18% (31 July 2020: 5% to 22%), country dependent.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

Financial Risk Management

This section outlines the key risk management activities undertaken to manage the Group's exposure to financial risk.

This section includes the following notes:

Note 19: Financial risk management

Note 20: Hedge accounting

19. Financial risk management

The Group has exposure to the following financial risks:

- market risk;
- liquidity risk; and
- credit risk.

The Group's overall financial risk management programme focuses primarily on maintaining a financial risk profile that provides flexibility to implement the Group's strategies, while optimising return on assets. Financial risk management is centralised, which supports compliance with the financial risk management policies and procedures set by the Board.

The Group uses derivatives, such as forwards, futures, options and swaps to manage its exposure to certain risks as described in this section. Derivatives are measured at fair value.

Measurement differences between derivatives and the associated item being hedged can present volatility in the Income Statement. To reduce this volatility the Group applies hedge accounting. Refer to Note 20 *Hedge accounting* for further information.

Market risk

a) Foreign exchange risk

Nature and exposure of risk

Foreign exchange risk is the risk that changes in foreign exchange rates will affect the Group's future cash flows or fair value of financial instruments.

The Group is exposed to movements in foreign exchange rates through transactions and balances denominated in foreign currencies. The Group's exposure to foreign currency before applying risk management strategies are as follows.

- Forecast foreign currency transactions, which predominately includes the Group's forecast sales transactions which are mainly denominated in United States Dollars.
- Net investments in foreign operations of \$3,729 million (31 July 2020: \$4,620 million). This amount excludes net investments in foreign operations held for sale and borrowings held by the Group in the same currency as the investment.
- Borrowings denominated in foreign currency of \$3,780 million (31 July 2020: \$4,615 million).
- Foreign currency receivables of \$1,459 million (31 July 2020: \$1,461 million) and payables of \$991 million (31 July 2020: \$932 million).

How foreign exchange risk is managed

Forecast foreign currency transactions

The Group enters into foreign currency forward contracts and foreign currency options to manage foreign exchange risk on the following forecast foreign currency transactions:

- forecast cash receipts from foreign currency sales for a period of up to 18 months within decreasing limits approved by the Board; and
- up to 100% of other forecast foreign currency transactions.

Foreign operations

The Group uses foreign currency denominated borrowings and foreign currency swaps to manage foreign exchange risk on net investments in foreign operations.

Foreign currency denominated borrowings

To the extent the Group has monetary assets in the same foreign currency as the borrowing, the Group has a reduced exposure to foreign exchange risk. Foreign currency gains and losses relating to these balances are offset in the Income Statement.

The Group uses cross-currency interest rate swaps (CCIRS) to manage residual foreign exchange and interest rate risk on foreign currency denominated borrowings. CCIRS exchange fixed rate foreign currency borrowings and interest payments into equivalent New Zealand Dollar-denominated amounts of principal with floating interest rates. The Group's policy is to maintain its net exposure to a foreign currency within predefined limits.

a) Foreign exchange risk CONTINUED

Receivables and payables denominated in foreign currency

The Group enters into foreign currency forward contracts and foreign currency options for 100% of its net foreign currency receivables and payables which generate foreign exchange risk within the Income Statement.

Derivatives used to hedge the changes in the value of foreign currency receivables and payables are not hedge accounted. Changes in the fair value of these derivatives provide an offset to the changes in the value of foreign currency receivables and payables recognised in the Income Statement. These are recognised within other operating expenses in the Income Statement.

Sensitivity analysis

The following table presents the Group's sensitivity, after taking into consideration the impact of hedge accounting, from a reasonably possible strengthening or weakening NZD against foreign currencies, with all other variables held constant.

Assets and liabilities held for sale have been excluded from the sensitivity analysis in the following table.

	GROUP \$ MILLION			
	31 JULY 2021		31 JULY 2020	
	EQUITY	PROFIT	EQUITY	PROFIT
10% strengthening of the NZD	351	16	189	(5)
10% weakening of the NZD	(366)	(17)	(189)	16

b) Interest rate risk

Nature and exposure of risk

Interest rate risk is the risk that changes in interest rates will affect the Group's future cash flows or fair value of financial instruments.

Changes in interest rates expose the Group to changes in the fair value of borrowings subject to fixed interest rates (fair value risk), and changes in future interest payments on borrowings subject to floating interest rates (cash flow risk).

The Group is exposed to movements in interest rates on its interest-bearing borrowings. The Group's exposure before applying risk management strategies is \$3,944 million (31 July 2020: \$5,064 million).

How interest rate risk is managed

The Group issues fixed rate debt and uses interest rate swaps (IRS) to manage interest rate exposure on its borrowings within a Board approved target ratio of fixed and floating rate exposure.

Sensitivity analysis

The following table presents the Group's sensitivity, after taking into consideration the impact of hedge accounting, from a reasonably possible increase or decrease in interest rates, with all other variables held constant. Hedge ineffectiveness relating to interest rate swaps that have been designated into hedge relationships after their initial recognition contributes to \$20 million of the impact on profit from a 100 basis point movement (31 July 2020: \$23 million).

Assets and liabilities held for sale have been excluded from the sensitivity analysis in the following table.

	GROUP \$ MILLION			
	31 JULY 2021		31 JULY 2020 RESTATED ¹	
	EQUITY	PROFIT	EQUITY	PROFIT
100 basis point increase	48	21	50	23
100 basis point decrease	(55)	(17)	(54)	(22)

1 Comparative information includes restatements for consistency with the current period.

A change in interest rates would also impact floating rate interest payments and receipts on the Group's borrowing and derivatives held at balance date. The impact of a change in interest rates on one-year contracted cash flows is presented in the following table.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
100 basis point increase	(1)	(4)
100 basis point decrease	1	4

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2021

c) Commodity price risk

Nature and exposure of risk

Commodity price risk is the risk that changes in commodity prices will affect the Group's future cash flows or fair value of financial instruments.

The Group is exposed to dairy commodity price risk through changes in selling prices and the cost of milk. In addition, the Group is a large purchaser of electricity and diesel and is exposed to changes in the cost of these commodities.

How commodity price risk is managed

Dairy commodity price risk

The Group manages its exposure to dairy commodity price risk by:

- determining the most appropriate mix of products to manufacture based on expected milk supply and global demand for dairy products;
- governing the length and terms of sales contracts, so that sales revenue is reflective of current market prices and is, where possible, linked to Global Dairy Trade (GDT) prices; and
- using dairy commodity derivative contracts to obtain an optimal price for future sales, or the cost of milk, to manage margin risk. The markets for dairy commodity derivatives are relatively limited, which reduces the ability to manage earnings volatility. As markets for these derivatives grow, the use of dairy commodity derivatives to manage dairy commodity price risk may increase.

Other commodity price risk

The Group manages its exposure to other commodity price risk through the use of derivative contracts, which are transacted at Board approved levels, to hedge the cost of electricity and diesel.

Sensitivity analysis

The following table presents the Group's sensitivity on its commodity derivatives, after taking into consideration the impact of hedge accounting, from a reasonably possible increase or decrease in commodity prices, with all other variables held constant. Commodity price sensitivity arises from the revaluation of derivative assets and liabilities in the Statement of Financial Position at balance date.

	GROUP \$ MILLION			
	31 JULY 2021		31 JULY 2020	
	EQUITY	PROFIT	EQUITY	PROFIT
10% increase in commodity prices	40	31	33	10
10% decrease in commodity prices	(40)	(31)	(33)	(11)

Liquidity risk

Nature and exposure of risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Timings of the gross contractual cash flows for the Group's financial instruments are presented in the following tables.

	GROUP \$ MILLION					
	AS AT 31 JULY 2021					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Bank loans	(11)	(11)	(6)	(5)	–	–
– Lease liabilities	(523)	(528)	(27)	(74)	(252)	(175)
– Capital notes	(35)	(40)	–	(1)	(4)	(35)
– NZX-listed bonds	(600)	(639)	(361)	(7)	(271)	–
– Medium-term notes	(3,903)	(4,344)	(126)	(383)	(2,116)	(1,719)
Bank overdraft	(20)	(20)	(20)	–	–	–
Owing to suppliers	(1,825)	(1,825)	(1,825)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,876)	(1,876)	(1,876)	–	–	–
Other financial liabilities	(60)	(60)	(15)	(6)	(38)	(1)
Financial guarantees issued ¹	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(8,853)	(9,344)	(4,257)	(476)	(2,681)	(1,930)
Derivative financial instruments						
Gross settled derivatives						
Inflow		18,662	6,850	7,577	2,731	1,504
Outflow		(18,524)	(6,776)	(7,562)	(2,833)	(1,353)
Total gross settled derivative financial instruments	142	138	74	15	(102)	151
Net settled derivatives	101	120	28	13	70	9
Total financial liabilities and derivatives	(8,610)	(9,086)	(4,155)	(448)	(2,713)	(1,770)

¹ Maximum cash flows under guarantees provided by the Group.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

Liquidity risk CONTINUED

	GROUP \$ MILLION					
	AS AT 31 JULY 2020					
	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	3 MONTHS OR LESS	3-12 MONTHS	1-5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities						
Borrowings						
– Bank loans	(20)	(21)	(4)	(10)	(7)	–
– Lease liabilities	(604)	(611)	(27)	(79)	(292)	(213)
– Capital notes	(35)	(39)	–	(1)	(3)	(35)
– NZX-listed bonds	(600)	(665)	(11)	(15)	(537)	(102)
– Medium-term notes	(4,782)	(5,253)	(27)	(792)	(2,386)	(2,048)
Bank overdraft	(31)	(31)	(31)	–	–	–
Owing to suppliers	(1,588)	(1,588)	(1,588)	–	–	–
Trade and other payables (excluding employee entitlements)	(1,683)	(1,683)	(1,683)	–	–	–
Other financial liabilities	(80)	(80)	(8)	(16)	(55)	(1)
Financial guarantees issued ¹	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(9,423)	(9,972)	(3,380)	(913)	(3,280)	(2,399)
Derivative financial instruments						
Gross settled derivatives						
Inflow		20,938	9,667	7,368	2,290	1,613
Outflow		(20,334)	(9,600)	(7,106)	(2,286)	(1,342)
Total gross settled derivative financial instruments	636	604	67	262	4	271
Net settled derivatives	(116)	(81)	(23)	(36)	(47)	25
Total financial liabilities and derivatives	(8,903)	(9,449)	(3,336)	(687)	(3,323)	(2,103)

1 Maximum cash flows under guarantees provided by the Group.

How liquidity risk is managed

The Group’s approach to managing liquidity risk is to ensure that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group has a Board approved policy in place to ensure that it has sufficient cash or facilities on demand to meet expected operational expenses for a period of at least 80 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In such situations back-up funding lines are maintained and as set out in Fonterra’s constitution, the Group can defer payments to farmer shareholders if necessary.

The Group manages its liquidity by retaining cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group’s funding facilities are reviewed at least annually, which is one of the key financial risk management activities undertaken by the Group to ensure an appropriate maturity profile given the nature of the Group’s business. At balance date the Group had undrawn lines of committed credit totalling \$2,905 million (31 July 2020: \$3,210 million).

Liquidity and refinancing risks are also managed by ensuring that the Group can maintain access to funding markets throughout the world. To that end, the Group maintains debt issuance programmes in a number of key markets and manages relationships with international investors.

The concentration of NZX-listed bonds and medium-term notes by currency is presented in the following table.

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
New Zealand Dollar	908	1,020
Australian Dollar	894	1,359
United States Dollar	1,432	1,699
British Pound	488	502
European Euro	603	632
Chinese Renminbi	178	170
Total	4,503	5,382

Credit risk

Nature and exposure of risk

Credit risk is the risk of loss to the Group due to customer or counterparty default on the Group’s receivable balances. The Group’s maximum exposure to credit risk is represented by the carrying amounts of cash and cash equivalents, trade and other receivables, long-term advances and derivative assets.

The Group has no significant concentrations of credit risk.

How credit risk is managed

The Group sets minimum credit quality requirements, credit limits and uses other credit mitigation tools to manage its credit risk. The Group’s Board approved policy is to actively manage its exposure to credit risk through the following actions.

Derivative contracts, cash and cash equivalents and other balances

- Use of financial counterparties that have a credit rating of at least ‘A-’ from Standard & Poor’s (or equivalent);
- Use of commodity counterparties that have a credit rating of at least ‘BBB-’ from Standard & Poor’s (or equivalent) for commodity derivative contracts; and
- Posting or receiving margin in respect of derivative contracts transacted on exchanges. As at 31 July 2021 the Group received \$14 million (31 July 2020: posted \$69 million) of margin as collateral for derivative financial instruments.

The Group further manages its credit risk through the following.

Trade and other receivables

- Application of credit limits, and credit mitigation tools, such as letters of credit.

Long-term advances

- Counterparty creditworthiness is assessed before the commencement of any long-term advances. Depending on the nature and amount of the advance, they are subject to Board approval. The collectability of long-term advances is monitored on a regular basis.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

20. Hedge accounting

Derivatives are measured at fair value. Refer to Note 25 *Fair value measurement* for information on how fair value is determined.

The resulting gain or loss on re-measurement is recognised immediately in the Income Statement, unless the derivative is designated into an effective hedge relationship as a hedging instrument, in which case the timing of recognition in the Income Statement depends on the nature of the designated hedge relationship.

The Group may designate derivatives as:

- fair value hedges (where the derivative is used to manage the variability in the fair value of recognised assets and liabilities);
- cash flow hedges (where the derivative is used to manage the variability in cash flows relating to recognised liabilities or forecast transactions); or
- net investment hedges (where borrowings or derivatives are used to manage the risk of fluctuation in the translated value of its foreign operations).

Hedge accounting is discontinued when the hedging instrument expires, is terminated, is exercised, or no longer qualifies for hedge accounting.

Fair value hedges

For fair value hedges the following are recognised in the Income Statement:

- the change in fair value of the hedging instruments; and
- the change in the fair value of the underlying hedged item attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The fair value adjustment to the carrying amount of the hedged item upon discontinuance is amortised and recognised in the Income Statement over the remaining term of the original hedge. If the hedged item is sold or extinguished any unamortised fair value adjustment is immediately recognised in the Income Statement.

Cash flow hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in other comprehensive income in the Statement of Comprehensive Income and accumulated in a separate reserve in equity. Subsequently the cumulative amount is transferred to the Income Statement when the underlying transactions are recognised in the Income Statement.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the Income Statement.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. The cumulative gain or loss recognised in other comprehensive income remains in the hedge reserve until the forecast transaction occurs, or it is immediately recognised in the Income Statement if the transaction is no longer expected to occur.

Net investment hedges

The effective portion of changes in the fair value of the hedging instruments are recognised in the Statement of Comprehensive Income and transferred to the Income Statement when the foreign operation is disposed of or sold.

The ineffective portion of changes in the fair value of the hedging instruments are recognised immediately in the Income Statement.

Costs of hedging

The change in fair value of a hedging instrument relating to the time-value of foreign currency options, and the foreign currency basis component of cross-currency interest rate swaps are recognised in other comprehensive income and accumulated within hedge reserves in the Statement of Financial Position. Subsequently, the cumulative amount is transferred to the Income Statement at the same time as the hedged item impacts the Income Statement.

The Group's risk management activities described in Note 19 *Financial risk management* result in volatility to the Income Statement caused by timing and measurement differences between hedging instruments and the associated item being hedged. Where a hedge relationship between a hedged item and the hedging instrument (e.g. a derivative) qualifies for hedge accounting, and the Group applies hedge accounting, the volatility in the Income Statement caused by the timing and measurement differences between hedging instruments and the associated hedged item is reduced. The Group applies the following hedge accounting activities.

Foreign exchange risk

Forecast foreign currency transactions

The Group applies cash flow hedge accounting where derivatives are used to manage foreign exchange risk on forecast foreign currency transactions. The amount and maturity of the derivative and the forecast transaction is aligned to ensure that the hedge relationship remains effective, with any undesignated costs of hedging accounted for separately.

Hedge ineffectiveness arises if the amount of the forecast transactions falls below the amount of the designated hedging instruments.

The Income Statement impact of hedge accounting effectiveness and ineffectiveness is recognised in revenue from sale of goods.

20. Hedge accounting (CONTINUED)

Foreign operations

The Group's net investments are designated in hedge relationships to the extent borrowings denominated in the same foreign currency and foreign currency swaps are directly attributed to the net investment.

Hedge ineffectiveness arises if the carrying amount of the net investment falls below the amount of the designated hedging instruments.

The Income Statement impact of hedge accounting effectiveness and ineffectiveness is recognised in other operating expenses.

Foreign currency denominated borrowings

The Group applies hedge accounting to foreign currency denominated borrowings that are managed by CCIRS. The amount and maturity of the CCIRS and the hedged debt is aligned to ensure that the hedge relationship remains effective, with any undesignated costs of hedging accounted for separately.

The hedge relationship may be designated into separate cash flow hedges and fair value hedges to manage the different components of foreign currency and interest rate risk.

- Fair value hedge relationship where CCIRS are used to manage the interest rate and foreign currency risk in relation to foreign currency denominated borrowings with fixed interest rates.
- Cash flow hedge relationship where CCIRS are used to manage the variability in cash flows arising from interest rate movements on floating interest rate payments and foreign exchange movements on payments of principal and interest.

Hedge ineffectiveness arises in relation to CCIRS that have been designated in hedge relationships after their initial recognition, or from changes in counterparty credit risk and cross currency basis spreads.

The Income Statement impact of hedge accounting effectiveness and ineffectiveness is recognised in net finance costs and other operating expenses.

Interest rate risk

The Group applies hedge accounting to the borrowings and the associated IRS, for movements in benchmark market interest rates (i.e. excluding any margin component).

Hedge ineffectiveness arises in relation to IRS that have been designated to hedge relationships after their initial recognition or from changes in counterparty credit risk.

In specific situations, where changes in the fair value of fixed to floating IRS provide an offset to the changes in the fair value of other associated floating-to-fixed IRS, hedge accounting is not applied. The changes in fair values of these IRS offset each other and are recognised within net finance costs in the Income Statement.

The Income Statement impact of hedge accounting effectiveness and ineffectiveness is recognised in net finance costs.

Commodity price risk

The Group applies cash flow hedge accounting where derivatives are used to manage commodity price risk on certain forecast transactions. The amount and maturity of the derivative and the forecast transaction is aligned to ensure that the hedge relationship remains effective.

Hedge ineffectiveness arises if the amount of the forecast transactions falls below the amount of the designated hedging instruments.

The Income Statement impact of hedge accounting effectiveness and ineffectiveness is recognised in cost of goods sold and other operating expenses.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

a) Hedging instruments designated in a hedge accounting relationship

Information about hedging instruments that the Group has designated in a hedge accounting relationship is presented in the following tables.

RISK AND HEDGING INSTRUMENTS	AS AT 31 JULY 2021					
	GROUP \$ MILLION					
	CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION					
	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT ¹	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Foreign exchange risk – Forecast foreign currency transactions						
<i>Cash flow hedges</i>						
NZD:USD forwards and options	1-18	0.707	11,205	152	(98)	–
USD:CNY forwards and options	1-12	6.672	1,117	3	(18)	–
AUD:USD forwards	2-13	0.776	72	1	(4)	–
Total			12,394	156	(120)	–
Foreign exchange risk – Foreign operations						
<i>Net investment hedges</i>						
AUD borrowings	76	–	84	–	–	(84)
EUR borrowings	40	–	164	–	–	(164)
NZD:CNY forwards	11	4.603	18	–	–	–
Total			266	–	–	(248)
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
<i>Cash flow and fair value hedges</i>						
NZD:USD CCIRS	62-109	0.760/floating	1,184	227	–	–
NZD:GBP CCIRS	29	0.361/floating	623	40	(211)	–
NZD:EUR CCIRS	40	0.656/floating	386	39	–	–
NZD:CNY CCIRS	48	4.669/floating	171	5	–	–
Total			2,364	311	(211)	–
Interest rate risk – Borrowings						
<i>Cash flow hedges</i>						
NZD IRS	3-60	2.39%	4,018	22	(103)	–
AUD IRS	35-37	3.34%	169	–	(14)	–
Total			4,187	22	(117)	–
<i>Fair value hedges</i>						
NZD IRS	20-52	floating	250	10	–	–
AUD IRS	10-76	floating	559	46	–	–
Total			809	56	–	–
Commodity price risk – Forecast transactions						
<i>Cash flow hedges</i>						
Fuel futures	1-18	\$65.38	13	3	–	–
Milk Price futures and options	3-27	\$6.95	707	83	–	–
Electricity futures	1-30	\$100.15	109	21	–	–
Total			829	107	–	–

1 Nominal amount is the face value converted into New Zealand Dollars using the exchange rate at year-end, except for CCIRS which are converted using the weighted average contracted foreign exchange rate.

a) Hedging instruments designated in a hedge accounting relationship CONTINUED

RISK AND HEDGING INSTRUMENTS	AS AT 31 JULY 2020					
	GROUP \$ MILLION					
	CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION					
	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	NOMINAL AMOUNT ¹	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Foreign exchange risk – Forecast foreign currency transactions						
<i>Cash flow hedges</i>						
NZD:USD forwards and options	0-18	0.643	8,000	429	(45)	–
USD:CNY forwards and options	0-12	7.115	798	2	(2)	–
Total			8,798	431	(47)	–
Foreign exchange risk – Foreign operations						
<i>Net investment hedges</i>						
USD borrowings	11	–	75	–	–	(75)
AUD borrowings	11-88	–	516	–	–	(516)
EUR borrowings	52	–	171	–	–	(171)
CNY borrowings	60	–	170	–	–	(170)
NZD:CNY forwards	3	4.617	59	1	–	–
Total			991	1	–	(932)
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
<i>Cash flow and fair value hedges</i>						
NZD:USD CCIRS	74-121	0.760/floating	1,184	380	–	–
NZD:GBP CCIRS	41	0.361/floating	623	61	(232)	–
NZD:EUR CCIRS	52	0.656/floating	386	61	–	–
Total			2,193	502	(232)	–
<i>Fair value hedge</i>						
NZD:USD CCIRS	11	0.816/floating	31	8	–	–
Total			31	8	–	–
Interest rate risk – Borrowings						
<i>Cash flow hedges</i>						
NZD IRS	1-64	3.51%	3,296	–	(241)	–
AUD IRS	47-49	3.34%	172	–	(16)	–
Total			3,468	–	(257)	–
<i>Fair value hedges</i>						
NZD IRS	32-64	floating	250	23	–	–
AUD IRS	71-88	floating	516	65	–	–
Total			766	88	–	–
Commodity price risk – Forecast transactions						
<i>Cash flow hedges</i>						
Fuel futures	1-18	\$54.73	13	–	(1)	–
Milk Price futures and options	3-27	\$6.68	318	2	(1)	–
Electricity futures	1-27	\$91.61	69	–	(6)	–
Total			400	2	(8)	–

1 Nominal amount is the face value converted into New Zealand Dollars using the exchange rate at year-end, except for CCIRS which are converted using the weighted average foreign exchange rate.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

b) Impact of hedge accounting

Information about the impact of hedge accounting on the Group’s Financial Statements is presented in the following tables.

RISK AND HEDGING INSTRUMENTS USED	GROUP \$ MILLION					
	AS AT 31 JULY 2021		YEAR ENDED 31 JULY 2021			
	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS ¹	CHANGE IN VALUE OF HEDGING INSTRUMENT RECOGNISED IN OCI	AMOUNT RECLASSIFIED FROM HEDGING RESERVE TO INCOME STATEMENT	FAIR VALUE HEDGE ADJUSTMENTS RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS) ²	HEDGE INEFFECTIVENESS RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS)
Foreign exchange risk – Forecast foreign currency transactions						
Cash flow hedges	(24)	19	323	(664)	–	–
Foreign exchange risk – Foreign operations						
Net investment hedges	–	10	10	–	–	–
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
Cash flow and fair value hedges	(14)	189	(42)	57	(152)	(1)
Interest rate risk – Borrowings						
Cash flow hedges	–	3	70	51	–	45
Fair value hedges	–	54	–	–	(31)	–
Commodity price risk – Forecast transactions						
Cash flow hedges	–	107	154	(95)	–	–
Total	(38)	N/A	515	(651)	(183)	44

1 For those borrowings in a net investment hedge, the change in value to calculate hedge effectiveness is for the year ended 2021.

2 For those borrowings in fair value hedges, life-to-date fair value hedge adjustments increase the carrying amount of borrowings by \$260 million.

RISK AND HEDGING INSTRUMENTS USED	GROUP \$ MILLION					
	AS AT 31 JULY 2020		YEAR ENDED 31 JULY 2020			
	ACCUMULATED COST OF HEDGING	CHANGE IN VALUE USED TO CALCULATE HEDGE EFFECTIVENESS ¹	CHANGE IN VALUE OF HEDGING INSTRUMENT RECOGNISED IN OCI	AMOUNT RECLASSIFIED FROM HEDGING RESERVE TO INCOME STATEMENT	FAIR VALUE HEDGE ADJUSTMENTS RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS) ²	HEDGE INEFFECTIVENESS RECOGNISED IN THE INCOME STATEMENT GAIN/(LOSS)
Foreign exchange risk – Forecast foreign currency transactions						
Cash flow hedges	5	359	(12)	455	–	(61)
Foreign exchange risk – Foreign operations						
Net investment hedges	–	(28)	(28)	–	–	–
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
Cash flow and fair value hedges	(12)	364	56	(36)	156	1
Fair value hedges	–	8	–	–	–	–
Interest rate risk – Borrowings						
Cash flow hedges	–	(96)	(66)	29	–	34
Fair value hedges	–	87	–	–	29	2
Commodity price risk – Forecast transactions						
Cash flow hedges	–	(6)	(18)	10	–	–
Total	(7)	N/A	(68)	458	185	(24)

1 For those borrowings in a net investment hedge, the change in value to calculate hedge effectiveness is for the year ended 2020.

2 For those borrowings in fair value hedges, life-to-date fair value hedge adjustments increase the carrying amount of borrowings by \$412 million.

c) Impact to reserves in equity

Hedge reserves

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Opening balance	101	(268)
<i>Movements attributable to cash flow hedges</i>		
Change in value of effective derivative hedging instruments	505	(43)
Reclassifications to the Income Statement:		
– As hedged transactions occurred	(651)	518
Net change in the cost of hedging reserve	(30)	17
Tax credit/(expense)	49	(138)
Transferred between reserves	–	15
Total movement	(127)	369
Closing balance¹	(26)	101

1 Included in the closing balance of the hedge reserves is a credit balance of \$1 million (31 July 2020: credit balance of \$1 million) relating to hedge relationships for which hedge accounting is no longer applied.

Foreign currency translation reserve

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Opening balance	(229)	(183)
<i>Movements attributable to net investments in foreign operations and net investment hedges</i>		
Net translation loss on:		
– Borrowings and derivative hedging instruments	(67)	(36)
– Net investments in foreign operations	(42)	(39)
Reclassifications to the Income Statement:		
– Disposals of foreign operations	(14)	21
Tax (expense)/credit	(3)	8
Total movement	(126)	(46)
Closing balance¹	(355)	(229)

1 Included in the closing balance of the foreign currency translation reserve is \$4 million (31 July 2020: \$15 million) relating to hedge relationships for which hedge accounting is no longer applied.

d) Income Statement impact from derivatives not designated in a hedge relationship

In addition to derivatives that are designated and qualify for hedge accounting, the Group also holds certain derivatives as economic hedges of foreign currency, commodity and interest rate exposure.

The impact of derivatives not designated in a hedging relationship is presented in the following table.

DERIVATIVES NOT DESIGNATED IN A HEDGING RELATIONSHIP	LOCATION OF GAIN/(LOSS) IN INCOME STATEMENT	GROUP \$ MILLION	
		31 JULY 2021	31 JULY 2020
Foreign currency contracts	Revenue from sale of goods ¹	4	(53)
Foreign currency contracts	Other operating expenses	25	(8)
Commodity contracts	Cost of goods sold	14	(21)
Commodity contracts	Other operating expenses	(1)	(2)
Interest rate contracts	Finance costs	(2)	(8)
Total		40	(92)

1 Foreign exchange contracts recognised within revenue from sale of goods relating to cash flow hedges where the forecast sales transactions are no longer expected to occur are nil (31 July 2020: losses of \$61 million).

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

Other

This section contains additional notes and disclosures that aid in understanding the Group’s position and performance but do not form part of the primary sections.

This section includes the following notes:

- Note 21: Taxation
- Note 22: Contingent liabilities, provisions and commitments
- Note 23: Related party transactions
- Note 24: Subsidiaries
- Note 25: Fair value measurement
- Note 26: Offsetting of financial assets and liabilities
- Note 27: Net tangible assets per quoted equity security

21. Taxation

Tax expense comprises current and deferred tax. Tax expense, including the tax consequences of distributions to farmer shareholders, is recognised in the Income Statement. The tax consequences of distributions to farmer shareholders are recognised in the year to which the distribution relates. Other than distributions to farmer shareholders, tax consequences of items recognised directly in equity are also recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. Deferred tax is measured at the tax rate that is expected to apply to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted at balance date.

Deferred tax is not recognised on the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries and equity accounted investees to the extent that the timing of the reversal is controlled by the Group and it is probable that they will not reverse in the foreseeable future.

In determining the probability of reversal, consideration is taken of whether the related assets are held for sale, future expectations of exiting, and if applicable, the impact any exit would have on the crystallisation of the deferred tax.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

a) Taxation – Income Statement

The total tax expense in the Income Statement is summarised in the following table.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Current tax expense	83	90
Prior period adjustments to current tax	11	8
Deferred tax movements:		
– Origination and reversal of temporary differences	9	77
Tax expense	103	175

a) Taxation – Income Statement CONTINUED

The taxation charge that would arise at the standard rate of corporation tax in New Zealand is reconciled to the tax expense as follows:

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Profit before tax from continuing operations	635	978
Prima facie tax expense at 28%	178	274
(Deduct)/add tax effect of:		
– Effect of tax rates in foreign jurisdictions	(9)	(11)
– Non-deductible expenses/additional assessable income	85	104
– Non-assessable income/additional deductible expenses	(85)	(183)
– Prior year under provision	11	8
Tax expense before distributions and deferred tax	180	192
Effective tax rate before distributions and deferred tax	28.3%	19.6%
Tax effect of distributions to farmer shareholders	(77)	(19)
Tax expense before deferred tax	103	173
Effective tax rate before deferred tax	16.2%	17.7%
(Deduct)/add tax effect of:		
– Origination and reversal of other temporary differences	(2)	(1)
– Losses of overseas Group entities not recognised	2	3
Tax expense from continuing operations	103	175
Effective tax rate	16.2%	17.9%
Imputation credits		
Imputation credits available for use in subsequent reporting periods	20	20
Tax losses		
Gross tax losses available for which no deferred tax asset has been recognised	45	48

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

b) Taxation – Statement of Financial Position

Deferred tax assets and deferred tax liabilities relate to the following:

	GROUP \$ MILLION					
	AS AT 31 JULY 2021			AS AT 31 JULY 2020		
	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY	NET	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY	NET
Deferred tax						
Property, plant and equipment	1,589	(1,637)	(48)	1,596	(1,650)	(54)
Intangible assets	–	(380)	(380)	–	(388)	(388)
Right-of-use assets	142	(134)	8	162	(155)	7
Derivative financial instruments	17	–	17	–	(30)	(30)
Employee entitlements	85	–	85	80	–	80
Inventories	45	–	45	65	–	65
Receivables, payables and provisions	82	–	82	75	–	75
New Zealand tax losses	434	–	434	428	–	428
Offshore tax losses	215	–	215	241	–	241
Other	7	(30)	(23)	7	(30)	(23)
Total before offsetting	2,616	(2,181)	435	2,654	(2,253)	401
Offset adjustment	(2,156)	2,156	–	(2,233)	2,233	–
Total	460	(25)	435	421	(20)	401

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Movements for the year		
Opening balance	401	511
Recognised in the Income Statement	(4)	(58)
Recognised directly in other comprehensive income	46	(133)
Implementation of NZ IFRS 16	–	7
Transferred to Liabilities held for sale	(5)	47
Foreign currency translation	(3)	27
Closing balance	435	401

Tax losses

Judgement is involved in assessing the availability of future taxable income against which tax losses carried forward can be utilised.

New Zealand tax losses

The New Zealand tax consolidated group generated a taxable loss in the current year. The deferred tax asset relating to New Zealand tax losses of \$434 million (31 July 2020: \$428 million) has been recognised on the basis that taxable income will be generated in the future against which the tax losses can be utilised.

The key assumptions in the assessment of future taxable income are New Zealand earnings, and the tax-deductible dividend. The estimate of New Zealand earnings is based on performance of the New Zealand tax consolidated group relative to the overall Group. This ratio has been applied to the profit before tax forecast in the Group's three-year business plan. The tax-deductible dividend assumption is based on the Group's Dividend Policy. The Group determines its Dividend Policy and therefore has the ability to influence utilisation of the losses.

The time horizon for utilising these losses is estimated at seven years. Changes in the key assumptions used could impact the expected time horizon for utilisation of the tax losses, for example higher dividends would extend the utilisation horizon and could impact the carrying amount of deferred tax assets available to be utilised against future taxable profits. A reasonably possible change in the key assumptions does not change the carrying amount of the deferred tax asset recognised.

Offshore tax losses

Gross tax losses of \$45 million reflecting a deferred tax asset of \$14 million (31 July 2020: \$48 million gross, deferred tax asset of \$14 million) relating to offshore entities have not been recognised as they may not be utilised.

b) Taxation – Statement of Financial Position CONTINUED

Deferred tax liabilities

Earnings made by foreign subsidiaries could be subject to withholding and other taxes on remittance. Deferred tax liabilities are not recognised in respect of unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries. The Group has assessed the likelihood of earnings being remitted to New Zealand and at 31 July 2021 a deferred tax liability of \$30 million was recognised relating to unremitted earnings not previously considered to be indefinitely reinvested (31 July 2020: \$30 million).

As at 31 July 2021, unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries amount to \$128 million (31 July 2020: \$131 million). The Group has not recognised deferred tax liabilities in respect of these amounts because it can control the timing and the manner in which the associated temporary difference will reverse.

Uncertain Tax Positions

In determining the amount of current and deferred tax, the Group takes into account the effect of uncertain tax positions and whether additional taxes, penalties and interest may be due. The Group operates in several different tax jurisdictions. This leads to complex tax issues. The ultimate decision regarding these complex tax issues is often outside the control of the Group and depends on the efficiency of the legal processes in the relevant tax jurisdiction. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will affect tax expense in the period that such determination is made.

22. Contingent liabilities, provisions and commitments

Provisions are recognised in the Statement of Financial Position only where the Group has a present legal or constructive obligation. This obligation must be the result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Estimates and assumptions are made in determining the likelihood, amount and timing of cash outflows when the outcome is uncertain. Legal counsel or other experts are consulted on matters that may give rise to a provision or a contingent liability.

a) Contingent liabilities

In the normal course of business, the Group is exposed to claims and legal proceedings that may in some cases result in costs.

In June 2020 a class action was filed in the Supreme Court of Victoria against Fonterra Australia Pty. Ltd., Fonterra Milk Australia Pty. Ltd. and Fonterra Brands (Australia) Pty. Ltd. (collectively, Fonterra Australia) by Geoffrey and Lynden Iddles on behalf of farmers who supplied milk to Fonterra Australia during the 2015/2016 season. The class action relates to actions taken by Fonterra Australia in connection with its milk price in the 2015/2016 season including the manner in which Fonterra Australia set its opening milk price and forecast closing milk price at the outset of that season, its communications with suppliers about the milk price throughout the season; and its reduction of the milk price in May 2016. The plaintiffs are alleging that Fonterra Australia breached its contracts with suppliers, engaged in misleading and deceptive conduct and engaged in unconscionable conduct in connection with these matters. Fonterra is vigorously defending these claims. Given the early stage of the litigation (discovery is still ongoing) and that the plaintiffs have not yet quantified their claim, it is not currently possible to reliably estimate the amount of any potential exposure in connection with this class action.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2021

b) Provisions

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Current provisions	72	68
Non-current provisions	82	64
Total provisions	154	132

A breakdown of total provisions is presented in the following table.

	GROUP \$ MILLION				
	EMPLOYEE RELATED PROVISIONS	LEGAL CLAIMS PROVISIONS	RESTRUCTURING PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2020	96	2	3	31	132
Additional provisions	18	9	3	32	62
Unused amounts reversed	(2)	(2)	(1)	(11)	(16)
Charged to Income Statement	16	7	2	21	46
Charged to equity	3	–	–	–	3
Utilised during the year	(4)	–	(2)	(18)	(24)
Foreign currency translation	(3)	–	–	–	(3)
As at 31 July 2021	108	9	3	34	154

Employee related provisions include defined benefit scheme obligations, other obligations that fall due on termination of employment, and long-term employee benefits. Certain employee related provisions are subject to the outcome of judicial proceedings.

Legal claims provisions include obligations relating to customs and duties and legal matters arising in the normal course of business. The timing and amount of settlement is uncertain as it depends on the outcome of a number of judicial proceedings.

Other provisions relate to product quality claims and other claims arising in the normal course of business. The timing and amount of settlement is uncertain as it depends on the outcome of the commercial negotiations relating to each individual claim.

c) Commitments

At year end the Group was committed to future capital expenditure for:

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Buildings	19	34
Plant, vehicles and equipment	92	75
Software	2	2
Total commitments	113	111

The above table does not include lease commitments. Refer to Note 17 *Leases* for information about the Group's lease commitments.

23. Related party transactions

Information about transactions with related parties and year end balances that arose from those transactions are presented within this note.

a) Key management personnel remuneration

Key management personnel comprise members of the Board and members of the Fonterra Management Team.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Short-term employee benefits ¹	21	20
Long-term employee benefits	1	3
Termination benefits	–	1
Directors' remuneration	2	2
Total key management personnel remuneration	24	26

1 In addition to the amount disclosed in the table above, during the year ended 31 July 2020 the Group recognised a provision of \$2 million for former key management personnel in relation to pending judicial interpretation of the requirements of legislation in New Zealand.

b) Transactions with related parties during the year

Transactions with related parties are on normal trade terms and no balances are secured.

	GROUP \$ MILLION	
	31 JULY 2021	31 JULY 2020
Equity accounted investees		
Revenue from the sale of goods ¹	83	104
Sale of services ²	7	10
Royalty and other income	1	2
Dividends received	8	33
Interest income from financing arrangements	1	1
Purchases of goods ³	(61)	(57)
Purchases of services ⁴	(171)	(162)
Key management personnel		
Purchases of goods ⁵	(135)	(154)
Sale of goods ⁶	8	4
Dividends paid	2	–

1 Goods sold are primarily commodity products.

2 Services provided include management fees.

3 Goods purchased are primarily commodity products.

4 Services provided are primarily freight services.

5 Purchases from key management personnel primarily relate to milk supplied by farmer shareholder Directors.

6 Sales to key management personnel primarily related to sales through Farm Source™ retail stores.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

c) Outstanding balances with related parties

	GROUP \$ MILLION	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Equity accounted investees		
Total receivables arising from the sale of goods or services ¹	25	24
Total receivables arising from financing arrangements ²	–	55
Total payables arising from the purchase of goods or services	(9)	(29)
Total payables arising from financing arrangements	–	(1)
Key management personnel		
Total payables and provisions arising from remuneration ³	(16)	(12)
Total payables arising from the sale or purchase of goods or services ⁴	(21)	(22)

1 As at 31 July 2021, there was no provision for impairment of receivables from equity accounted investees (31 July 2020: \$7 million).
2 Loans to equity accounted investees are unsecured and repayable over varying terms of between four years and nine years.
3 In addition to the amount disclosed in the table above, during the year ended 31 July 2020 the Group recognised a provision of \$2 million for former key management personnel in relation to pending judicial interpretation of the requirements of legislation in New Zealand.
4 Payables to key management personnel relate to amounts owing for milk supplied by farmer shareholder Directors and are recognised in owing to suppliers.

d) Financial guarantees

The Group provides financial guarantees for certain equity accounted investees. At 31 July 2021, the aggregate drawn down amount of equity accounted investees’ liabilities for which the Group is jointly and severally liable is \$1 million (31 July 2020: \$1 million).

e) Transactions with related entities

As part of the administration of Trading Among Farmers, the Group entered into an Authorised Fund Contract to provide administrative services in relation to the Fund and meet the operating expenses of the Fund. In addition, the Group has agreed to provide corporate facilities, support functions and other services at no cost to the Fund.

f) Commitments

In addition to the transactions disclosed above, the Group has prospective commitments with related parties including contracts with equity accounted investments for the supply of dairy products, energy and the provision of various management services.

24. Subsidiaries

Subsidiaries are entities controlled by the Group. Subsidiaries are consolidated from the date the Group gains control until the date on which control ceases.

Non-controlling interests are allocated their share of profit after tax in the Income Statement and are presented within equity in the Statement of Financial Position separately from equity attributable to equity holders of the Co-operative. The effect of all transactions with non-controlling interests that change the Group’s ownership interest but do not result in a change in control are recorded in equity. Where control is lost, the remaining interest in the investment is remeasured to fair value and any surplus or deficit arising from that remeasurement is recognised in the Income Statement.

The Group’s subsidiaries are involved in the marketing, distribution, processing and financing of dairy products. All Group subsidiaries have a balance date of 31 July unless otherwise indicated. Subsidiaries with different balance dates from that of the Group are due to legislative requirements in the country the entities are domiciled.

The Group holds investments in certain countries that have restrictions on the repatriation of funds back to New Zealand. This does not result in any significant restriction on the flow of funds for the Group.

The significant subsidiaries of the Group are presented in the following table.

SUBSIDIARY NAME	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2021	AS AT 31 JULY 2020
New Zealand Milk (Australasia) Pty Limited	Australia	100	100
Fonterra Australia Pty Limited ¹	Australia	100	100
Fonterra Brands (Australia) Pty Limited ¹	Australia	100	100
Dairy Partners Americas Brasil Limitada ²	Brazil	51	51
Soprole Inversiones S.A. ²	Chile	99.9	99.9
Comercial Santa Elena S.A. ³	Chile	99.9	99.9
Soprole S.A. ³	Chile	99.9	99.9
Sociedad Procesadora de Leche del Sur S.A. ^{3, 4}	Chile	–	99.94
Fonterra Commercial Trading (Shanghai) Company Limited ²	China	100	100
Fonterra (Yutian) Dairy Farm Co. Limited ^{2, 5}	China	–	100
Fonterra (Ying) Dairy Company Limited ^{2, 5}	China	–	100
Tangshan Fonterra Dairy Farm Limited ²	China	85	85
Fonterra Brands (Hong Kong) Limited	Hong Kong	100	100
Fonterra Brands Indonesia, PT	Indonesia	100	100
Fonterra Brands (Malaysia) Sdn Bhd	Malaysia	100	100
Fonterra (Europe) Coöperatie U.A.	Netherlands	100	100
Fonterra Europe Manufacturing B.V.	Netherlands	100	100
Fonterra (New Zealand) Limited	New Zealand	100	100
Fonterra Brands (New Zealand) Limited	New Zealand	100	100
Fonterra Dairy Solutions Limited	New Zealand	100	100
Fonterra Ingredients Limited	New Zealand	100	100
Fonterra Limited	New Zealand	100	100
New Zealand Milk Brands Limited	New Zealand	100	100
RD1 Limited	New Zealand	100	100
Kotahi Logistics LP	New Zealand	91	90
Fonterra Brands (Singapore) Pte Limited	Singapore	100	100
Fonterra Brands Lanka (Private) Limited	Sri Lanka	100	100
Fonterra (USA) Inc.	United States	100	100

1 These entities are subsidiaries of New Zealand Milk (Australasia) Pty Limited.
2 Balance date 31 December.
3 Balance date 31 December and these entities are subsidiaries of Soprole Inversiones S.A.
4 This subsidiary was amalgamated into Soprole Inversiones S.A. during the year ended 31 July 2021.
5 These subsidiaries were disposed as part of the sale of Ying and Yutian China farms. Refer to Note 2 *Strategy review update* for further information.

Notes to the Financial Statements (CONTINUED)
FOR THE YEAR ENDED 31 JULY 2021

24. Subsidiaries CONTINUED

The Group's ownership interest of the following entities is 50% or less. However, they have been consolidated on the basis that the Group controls them through its exposure or rights to variable returns and the power to affect those returns.

OVERSEAS SUBSIDIARIES 50% OR LESS OWNERSHIP	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTERESTS (%)	
		AS AT 31 JULY 2021	AS AT 31 JULY 2020
Fonterra (Japan) Limited	Japan	50	50
Fonterra Brands (Middle East) L.L.C.	UAE	49	49

In addition to the entities above, the Group controls the Fonterra Shareholders' Fund and Fonterra Farmer Custodian Limited and consolidates these two entities. The trustees of the Fonterra Farmer Custodian Trust own the legal title to all of the shares of the Custodian. The Fund is a managed investment scheme with an independent trustee. In concluding that the Group controls the Fund and the Custodian, the Directors took into consideration that they form an integral part of the structure and operation of Trading Among Farmers.

25. Fair value measurement

The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and liabilities are calculated by reference to quoted market prices where that is possible. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If quoted market prices are not available, the methodology used to calculate the fair values of financial assets and liabilities is to identify the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use as their basis independently sourced market data where it is available and rely as little as possible on entity-specific estimates.

The calculation of the fair value of financial instruments reflects the impact of credit risk where applicable.

Specific valuation techniques used to value financial instruments include:

- the fair value of foreign exchange contracts is determined using observable currency exchange rates, option volatilities and interest rate yield curves;
- the fair value of interest rate contracts is calculated as the present value of the estimated future cash flows based on observable interest rate yield curves;
- the fair value of commodity contracts that are not exchange traded is determined by calculating the present value of estimated future cash flows based on observable quoted prices for similar instruments; and
- the fair value on the hedged risks of borrowings and long-term advances that are not exchange traded is calculated as the present value of the estimated future cash flows based on observable currency exchange rates and interest rate yield curves.

Fair value hierarchy

The fair value hierarchy described below is used to provide an indication of the level of estimation or judgement required in determining fair value.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The fair value hierarchy for assets and liabilities measured at fair value are presented in the following table.

	GROUP \$ MILLION					
	LEVEL 1		LEVEL 2		LEVEL 3	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020	AS AT 31 JULY 2021	AS AT 31 JULY 2020	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Measured at fair value on a recurring basis						
Derivative assets						
– Commodity derivatives	107	19	4	2	–	–
– Foreign exchange derivatives	–	–	185	493	–	–
– Interest rate derivatives ¹	–	–	390	602	–	–
Derivative liabilities						
– Commodity derivatives	(2)	(23)	–	(2)	–	–
– Foreign exchange derivatives	–	–	(102)	(72)	–	–
– Interest rate derivatives ¹	–	–	(339)	(499)	–	–
Emissions units held for trading	24	20	–	–	–	–
Investment in Beingmate	–	157	–	–	–	–
Investments in shares	20	17	18	23	22	11
Measured at fair value on a non-recurring basis						
Net (liabilities)/assets held for sale	–	–	–	–	(80)	402
Fair value	149	190	156	547	(58)	413

1 Includes cross-currency interest rate swaps.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2021

25. Fair value measurement CONTINUED

The fair value hierarchy for each class of financial asset and liability where the carrying amount differs from the fair value is presented in the following table.

	GROUP \$ MILLION					
	CARRYING AMOUNT		FAIR VALUE			
			LEVEL 1		LEVEL 2	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020	AS AT 31 JULY 2021	AS AT 31 JULY 2020	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Financial assets						
Long-term advances	163	220	–	–	182	235
Financial liabilities						
Borrowings						
– NZX-listed bonds	(600)	(600)	(611)	(633)	–	–
– Capital notes	(35)	(35)	(35)	(32)	–	–
– Bank loans	(11)	(20)	–	–	(11)	(20)
– Medium-term notes	(3,903)	(4,782)	–	–	(4,056)	(4,996)

26. Offsetting of financial assets and liabilities

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position where there currently is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Group enters into various master netting arrangements or similar agreements that do not meet the criteria for offsetting in the Statement of Financial Position but still allow for the related amounts to be offset in certain circumstances. These principally relate to derivative transactions under ISDA (International Swap and Derivative Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and other agreements are presented in the following table.

	GROUP \$ MILLION ¹				
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION				NET
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED	AMOUNTS NOT OFFSET	
Derivative financial assets	851	(165)	686	(337)	349
Trade and other receivables (excluding prepayments)	1,841	(94)	1,747	–	1,747
	2,692	(259)	2,433	(337)	2,096
Derivative financial liabilities	(608)	165	(443)	292	(151)
Total trade and other payables (excluding employee entitlements)	(1,876)	–	(1,876)	45	(1,831)
Owing to suppliers	(1,919)	94	(1,825)	–	(1,825)
	(4,403)	259	(4,144)	337	(3,807)
As at 31 July 2021	(1,711)	–	(1,711)	–	(1,711)
Derivative financial assets	1,203	(87)	1,116	(447)	669
Trade and other receivables (excluding prepayments)	1,861	(86)	1,775	(20)	1,755
	3,064	(173)	2,891	(467)	2,424
Derivative financial liabilities	(683)	87	(596)	467	(129)
Total trade and other payables (excluding employee entitlements)	(1,683)	–	(1,683)	–	(1,683)
Owing to suppliers	(1,674)	86	(1,588)	–	(1,588)
	(4,040)	173	(3,867)	467	(3,400)
As at 31 July 2020	(976)	–	(976)	–	(976)

1 Comparative information includes re-presentations for consistency with the current period.

27. Net tangible assets per quoted equity security

Net tangible assets is calculated as net assets less intangible assets.

	GROUP	
	AS AT 31 JULY 2021	AS AT 31 JULY 2020
Net tangible assets per security		
\$ per equity instrument on issue	2.87	2.77
Equity instruments on issue (million)	1,613	1,612

Independent Auditor’s Report



To the shareholders of Fonterra Co-operative Group Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Fonterra Co-operative Group Limited (the ‘Company’) and its subsidiaries (the ‘Group’) on pages 2 to 59:

- i. present fairly in all material respects the Group’s financial position as at 31 July 2021 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 July 2021;
- the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (‘ISAs (NZ)’). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (‘IESBA Code’), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor’s responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group that are related to our role as the Group’s auditor, such as assurance and agreed upon procedures services. This includes an engagement to provide a separate reasonable assurance report in connection with the Farmgate Milk Price. A copy of this assurance report is attached as an appendix to Fonterra’s Farmgate Milk Price Statement. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$50m determined with reference to a benchmark of the cost of New Zealand sourced milk. We chose the benchmark because, in our view, this is a key measure of the Group’s performance.

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

In establishing the overall approach to our audit, we considered the centralised nature of the Group’s operations, the risk profile of countries where the Group operates, and changes taking place within the business. We also considered the financial significance of each business unit together with any local statutory audit requirements.

The Group financial statements are a consolidation of over 100 individual subsidiaries and equity accounted investees. We scoped in 12 subsidiaries in New Zealand, Australia, Chile, Japan and the USA to be subject to audit due to their financial significance and risk profile. We undertook audits of these subsidiaries ourselves, or by instructing participating overseas KPMG audit teams. In addition, we performed specified risk-focused audit procedures on certain transactions and balances in respect of a further 13 subsidiaries in Brazil, Chile, China, Hong Kong, Indonesia, Malaysia, the Netherlands, New Zealand, Singapore, Sri Lanka and the USA.

Taken together, the subsidiaries in scope for the Group audit accounted for 90% of the Group’s revenue and 88% of the Group’s total assets. For the remaining subsidiaries, we performed analysis at an aggregated Group level to confirm our assessment that there were no significant risks of material misstatement associated with them.

We assigned materiality levels to in scope subsidiaries for performance of audits and specified audit procedures. These were lower than the materiality level for the Group as a whole, ranging from \$5 million to \$35 million, and determined with reference to the size and risk profile of the subsidiary.

We visited subsidiary locations in New Zealand and Australia but were unable to visit other locations due to travel restrictions imposed by Covid-19. We held meetings with management responsible for the financial information of all in scope subsidiaries.

We led the participation of overseas KPMG audit teams in the Group audit. We issued detailed audit instructions to auditors of in-scope subsidiaries. These instructions set out the significant audit areas that we required audit teams to consider, and the information required to be reported back to the Group audit team. We held audit planning meetings with overseas KPMG audit teams subject to both audit and specified audit procedures to explain our audit instructions and discuss their audit plans. In addition, we held meetings to discuss the findings they reported to us in more detail.

We audited the Group consolidation, financial statement disclosures and a number of complex items centrally in New Zealand. These included general IT controls, controls operated through Fonterra’s shared service centre environment, revenue recognition, the cost of New Zealand sourced milk, impairment, accounting for divestments and assets held for sale, taxation and financial instruments.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Revenue recognition	
Refer to Note 3 to the financial statements.	The procedures we performed to evaluate whether revenue had been recognised appropriately included:
We considered the recognition of revenue from contracts with key customers and distributors to be a key audit matter due to:	— identifying and testing relevant controls over revenue recognition, and using data analytics routines to evaluate 100% of sales transactions undertaken through the Group’s two core ERP systems (representing 85% of Group revenue);
— the significance of the Group’s \$20.6 billion of revenue to the financial statements as a whole;	— assessing the Group’s revenue recognition accounting policies, and evaluating the application of these policies to actual contracts with customers as noted below;
— the level of judgement involved in establishing the timing and amount of revenue recognised for certain customers and distributors;	— evaluating contractual arrangements with key customers and distributors through discussion with management and inspection of the underlying documentation, as well as sample testing other sales arrangements; and
— adjustments recorded by the Group in the prior year financial statements related to agent versus principal considerations; and	— performing other audit procedures specifically designed to address the risk of management override of controls including journal entry testing, applying particular focus to the timing of revenue transactions.
— the extent of audit effort required to examine the Group’s contracts with customers in the context of the size and complexity of this area, and the requirement under auditing standards for us to consider fraud risk associated with revenue recognition.	We completed these procedures and have no matters to report.

Independent Auditor’s Report (CONTINUED)



THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Goodwill and brands	
Refer to Note 18 to the financial statements.	The procedures we performed to evaluate the impairment assessments included:
We considered the Group’s annual impairment testing of goodwill and brands to be a key audit matter due to the significance of the balance of \$1.8 billion to the Financial Statements as a whole and the level of judgement involved in determining the methodology and assumptions used in the testing.	— assessing whether the methodology adopted was consistent with accepted valuation approaches of IAS 36 <i>Impairment of Assets</i> ;
\$0.9 billion of goodwill and brands is included within three cash generating units (‘CGUs’), which are tested using discounted cash flow models:	— evaluating the significant assumptions by comparing to historical trends, approved budgets, business plans and external market data;
— Fonterra Brands New Zealand (‘FBNZ’) (\$511 million of goodwill and brands);	— comparing the discount rates and terminal growth rates applied to the estimated future cash flows to relevant benchmarks using KPMG valuation specialists;
— Fonterra Australia (‘FAU’) (\$279 million of goodwill and brands); and	— challenging the above assumptions and judgements by performing sensitivity analysis, considering a range of likely outcomes based on various scenarios;
— Soprole (\$118 million of goodwill and brands).	— considering the impact of the Capital Structure review on the price of Fonterra Co-operative Group Limited shares by comparing share price behaviour before and after the Group’s announcements on 6 May 2021;
The Group’s portfolio of consumer & foodservice brands within the Asia Pacific segment of \$0.7 billion are tested using the relief from royalty valuation method.	— evaluating the estimate of the recoverable amount of the Group as a whole, which included the use of an external valuation specialist, by comparing to broker target valuation ranges and other data sources; and
We focussed on the significant forward-looking assumptions the Group applied in their impairment testing, including:	— considering the appropriateness of the disclosures in the financial statements.
— forecast cash flows, taking into account the Group’s profit improvement plans for FBNZ and FAU, and uncertainty surrounding the impact of constitutional reform in Chile;	No impairment of goodwill or brands was recognised.
— branded consumer & foodservice sales forecasts and market royalty rates appropriate to each brand; and	We found the impairment testing methodologies to be consistent with IAS 36. We found the discount and terminal growth rates were in an acceptable range, and that the significant assumptions were supported by comparison to the sources we considered.
— terminal growth rates and discount rates, as the Group’s models are highly sensitive to small changes in these assumptions.	For FBNZ, FAU, Soprole, and the Group’s consumer & foodservice brands, our scenario analysis indicated that the recoverable amount of each of these assets exceeded its carrying value.
In addition to the above, the carrying amount of the Group’s net assets at 31 July 2021 was \$6.9 billion whilst the market capitalisation of Fonterra Co-operative Group Limited was \$4.6 billion. This increases the possibility of goodwill and brands being impaired, and required additional analysis and interpretation.	The estimate of the recoverable amount for the Group as a whole exceeded the carrying amount of the Group’s net assets. The evidence we obtained in respect of valuation ranges for the Group as a whole did not indicate that further impairment of goodwill and brands was necessary.
	We consider the impairment disclosures to be a fair reflection of the underlying impairment tests.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
The cost of New Zealand sourced milk	
Refer to Notes 4 and 13 to the financial statements.	The procedures we performed to evaluate the impact of the Farmgate Milk Price calculation on the cost of New Zealand sourced milk included:
The cost of New Zealand sourced milk supplied by farmer shareholders amounted to \$11.7 billion and comprises the volume of milk solids supplied at the Farmgate Milk Price as determined by the Board of Directors for the relevant season.	— examining minutes of Milk Price Panel meetings and confirming with the Company Secretary that the Board considered the recommended Farmgate Milk Price from the Milk Price Panel and approved the payment of \$7.54 per kgMS for New Zealand sourced milk for the season ended 31 May 2021; and
In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual.	— examining the application of the Board approved Farmgate Milk Price to cost of goods sold and inventory. This involved understanding and evaluating relevant controls to ensure that the latest milk price forecast series has been applied to cost of goods sold and inventory.
We considered the cost of New Zealand sourced milk to be a key audit matter due to its significance to the financial statements as a whole.	— at season end we checked that the cost of New Zealand sourced milk reflected the Board approved Farmgate Milk Price for the season, particularly where there has been a dynamic monthly milk price and how that should be correctly applied to the month of collection.
The cost of New Zealand sourced milk is a key component of the Group’s cost of goods sold of \$17.6 billion and the carrying value of the Group’s inventory of \$3.8 billion. Significant audit effort was required to audit the cost of New Zealand sourced milk due to the complexity of applying the Board approved milk price to cost of goods sold and inventory.	We completed these procedures and have no matters to report.
	The Farmgate Milk Price calculation prepared by the Milk Price Group amounted to \$7.54 per kgMS (which equates to \$11.6 billion in total) and we confirmed with the Company Secretary that the Board of Directors approved a payment of \$7.54 per kgMS for New Zealand sourced milk for the season ended 31 May 2021 at their meeting on 22 September 2021.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity’s Annual Review and supporting reports. Other information includes:

- the Annual Review;
- the Corporate Governance Statement;
- the Statutory Information; and
- the Business Performance Report.

Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor’s report

This independent auditor’s report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor’s report, or any of the opinions we have formed.

Independent Auditor's Report (CONTINUED)



Responsibilities of the Directors for the consolidated financial statements

- The Directors, on behalf of the Company, are responsible for:
- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
 - implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
 - assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

- Our objective is:
- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
 - to issue an independent auditor's report that includes our opinion.
- Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.
- Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
- A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at: <http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>
- This description forms part of our independent auditor's report.
- The engagement partner on the audit resulting in this independent auditor's report is Matthew Diprose.
- For and on behalf of

KPMG

KPMG
Auckland
22 September 2021

Our 2021 Suite of Reports

Our Annual Review is a concise summary of our environmental, social and economic activities and performance. It is supported by a suite of supplementary reports where stakeholders can find more detailed information most relevant to them. This represents another step on our journey towards more integrated reporting.



OUR REPORTS ARE AVAILABLE FROM
[FONTERRA.COM/NZ/EN/INVESTORS.HTML](https://fonterra.com/nz/en/investors.html)

Annual Review
2021



Sustainability Performance
Report 2021



Financial Statements
2021



Corporate Governance
Statement 2021



Farmgate Milk Price
Statement 2021



Statutory Information
2021



Business Performance
Report 2021



Business
Performance
Report 2021



**Good
Together**
from one generation
to the next





Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised profit after tax, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations. Non-GAAP financial 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 are 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 Financial Statements. Please refer to the Non-GAAP Measures section in Fonterra's 2021 Annual Review for further information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures. Definitions of non-GAAP measures used by Fonterra can be found in the Glossary in the Business Performance Report.

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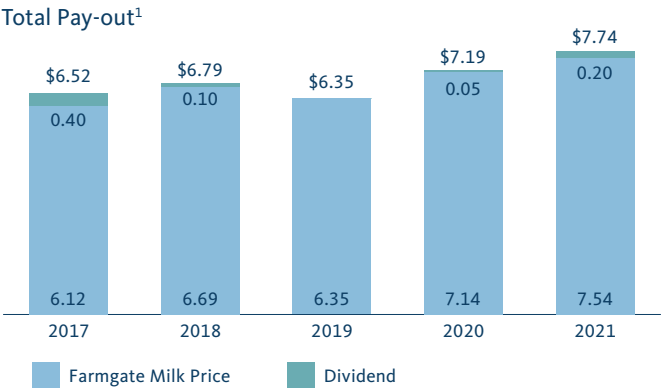
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IMAGE:
Aiesha, Bay of Plenty

COVER IMAGE:
Harepaora, Lana & Greg, Bay of Plenty

Total Group Performance

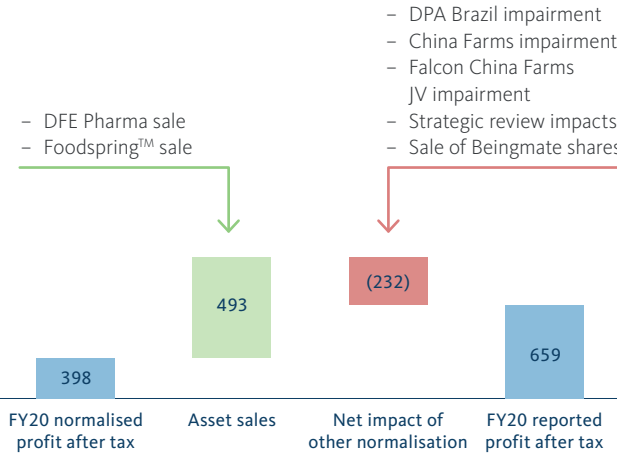
We have continued to build on last year’s solid performance with another strong result in the 2021 Financial Year. On average we returned \$7.54 for every kilogram of milk solids our farmer owners supplied us. Combined with an increased dividend of 20 cents per share, we have delivered a Total Pay-out of \$7.74 per kgMS. We have continued to improve our operating performance and underlying earnings, which combined with our continued focus on financial discipline and the divestment of non-core assets, has seen our net debt reduce by a further \$872 million and our key leverage metrics improve.



1. Refer to the Glossary for definition.

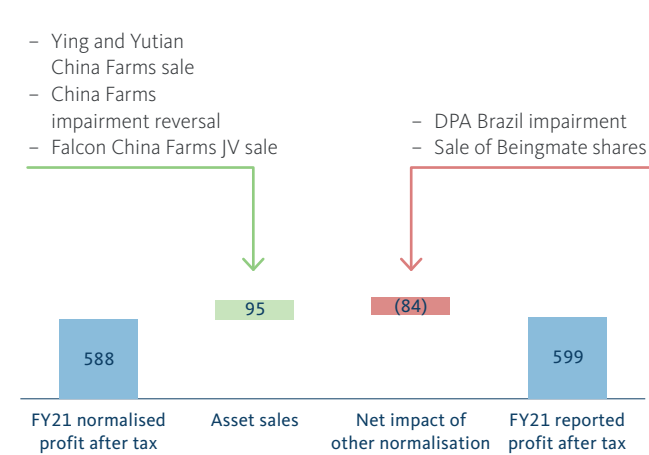
Our reported profit after tax of \$599 million is \$60 million lower than last year, with the prior year benefiting from larger gains from the sale of non-core assets.

2020 Financial Year (FY20)
Normalised to Reported Profit After Tax¹



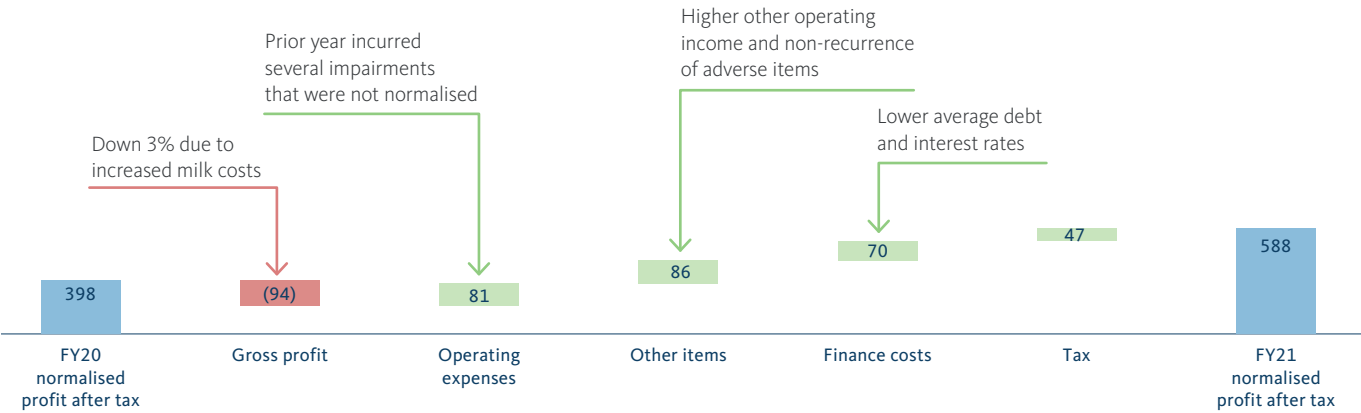
1. Normalised and reported profit after tax includes amounts attributable to non-controlling interests.

2021 Financial Year (FY21)
Normalised to Reported Profit After Tax¹



Our normalised profit after tax of \$588 million increased \$190 million on last year - after removing the impact of the gains on asset sales and other normalisations, our underlying performance has improved on last year.

FY20 to FY21 Normalised Profit After Tax¹



1. Normalised profit after tax includes amounts attributable to non-controlling interests.

The higher milk price tightened our gross margin over the last half of the financial year, particularly in the final quarter. However, throughout the year we have remained focused on allocating milk into products that generate the best overall returns to Fonterra and our farmer owners. This can be seen in our results with the improvement in our underlying earnings driven by our diversified portfolio across our three channels and regions, coupled with lower interest expense from lower average debt and interest rates.

On a continuing operations basis, our Consumer channel normalised EBIT increased 196% to \$290 million and our Foodservice channel normalised EBIT increased 51% to \$369 million. The improved performances in the Consumer and Foodservice channels were offset by the tighter margins in our Ingredients channel, which had lower normalised EBIT of \$385 million, down 47%.

Looking at our continuing operations by region:

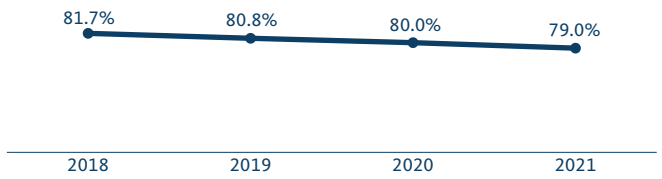
- **Asia Pacific normalised EBIT increased 28% to \$305 million**, due to significant improvements in our Foodservice and Consumer channels
- **Greater China normalised EBIT increased 10% to \$403 million**, driven by the strength of the Foodservice channel, China's continued economic recovery from the impact of COVID-19 and its increasing demand for dairy
- **AMENA normalised EBIT was down 28% to \$336 million**, due to lower sales volumes and the impact of pricing lags on longer-term contracts. Lower sales volumes were a result of milk being allocated to Greater China and parts of Asia Pacific where demand was the strongest. However, we have seen improvements in our AMENA Foodservice and Consumer channels, including a turnaround for our Chilean business

Overall, Fonterra milk collections are up.

Our milk collections are dominated by our New Zealand sourced milk.

MILK COLLECTIONS FROM MAIN REGIONS (LITRES, MILLION)	2020	2021	Change
Fonterra New Zealand ¹	16,876	17,121	1.5%
Fonterra Australia ²	1,393	1,362	(2.2)%
Fonterra Chile ³	448	483	7.8%
Total	18,717	18,966	1.3%

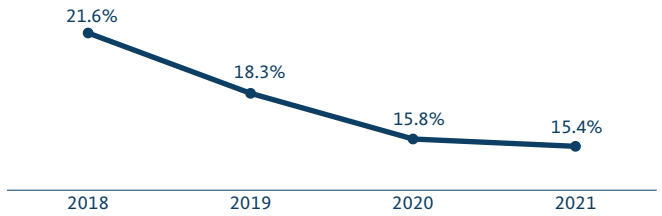
Fonterra milk collection market share in New Zealand¹



Fonterra milk collections for the season were up in New Zealand by 1.5%, reflecting the overall good growing conditions across New Zealand in the second half of the season.

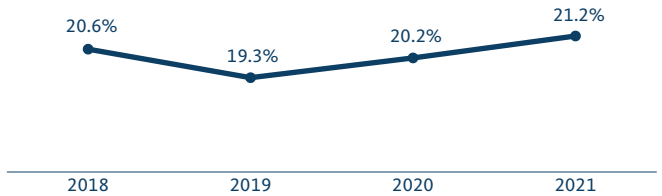
Our market share in New Zealand has continued to decline as other processors have built additional processing capacity.

Fonterra milk collection market share in Australia²



Our Australian milk collections were down slightly despite favourable on-farm conditions stabilising milk production in Australia. This was due to a conscious decision to optimise milk purchases focused on higher value returns.

Fonterra milk collection market share in Chile³



We continued to regain market share in Chile, with milk collections up 7.8% on the prior year. This was achieved through increased farmer engagement and a competitive and consistent milk price policy. The increased collections have supported the strong demand in our Chile Consumer business this year, covered in more detail in the AMENA section.

1. Fonterra New Zealand market share and collections are for the period 1 June - 31 May.
2. Fonterra Australia market share and collections are for the period 1 July - 30 June.
3. Fonterra Chile market share and collections are for the period 1 August - 31 July.

Breakdown of Total Group Performance

FOR THE YEAR ENDED	31 JULY 2020			31 JULY 2021		
NORMALISED BASIS NZD MILLION	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	CONTINUING OPERATIONS ²	DISCONTINUED OPERATIONS ²	TOTAL GROUP
Sales volume ('000 MT)	3,842	227	4,069	3,874	228	4,102
Revenue	20,282	693	20,975	20,565	559	21,124
Cost of goods sold	(17,236)	(531)	(17,767)	(17,581)	(429)	(18,010)
Gross profit	3,046	162	3,208	2,984	130	3,114
Gross margin (%)	15.0%	23.4%	15.3%	14.5%	23.3%	14.7%
Operating expenses ²	(2,194)	(129)	(2,323)	(2,153)	(89)	(2,242)
Other ^{2,3}	(5)	(1)	(6)	65	15	80
Normalised EBIT	847	32	879	896	56	952
Normalisations ⁴	435	(167)	268	(9)	16	7
EBIT	1,282	(135)	1,147	887	72	959

1. Refer to Note 1a and 2c of the FY21 Financial Statements.
2. Impairments of intangible assets not included in the strategic review for the 2020 Financial Year (\$55 million) have been reclassified from 'other' to operating expenses.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
4. Refer to the Non-GAAP Measures section of the Annual Review 2021.



Despite challenges created by COVID-19, we have been successful in selling and shipping our products to our customers. Sales volume for the year was up 33,000 metric tonnes on the previous year to 4.1 million metric tonnes. Furthermore, it was our highest shipping volume on record out of New Zealand, with a total of 2.59 million tonnes shipped.

Gross Profit - Product Channel

FOR THE YEAR ENDED 31 JULY			
NORMALISED BASIS (NZD MILLIONS)	2020	2021	CHANGE ¹
Ingredients	1,472	1,104	(25)%
Foodservice	538	677	26%
Consumer	1,032	1,154	12%
Unallocated costs and eliminations	4	49	1,125%
Continuing Operations	3,046	2,984	(2)%
Discontinued Operations	162	130	(20)%
Total Group gross profit	3,208	3,114	(3)%

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

Gross Margin - Product Channel

FOR THE YEAR ENDED 31 JULY	2020	2021
Ingredients	10.7%	8.1%
Foodservice	20.1%	22.9%
Consumer	26.3%	28.4%
Continuing Operations	15.0%	14.5%
Discontinued Operations	23.4%	23.3%
Total Group gross margin	15.3%	14.7%

Our Total Group gross profit reduced \$94 million relative to last year, due to lower gross margins in the second half, in particular in the fourth quarter, across all regions - AMENA, Asia Pacific and Greater China. Our Total Group gross margin was impacted in the second half of the financial year due to our in-market pricing not increasing as quickly as the cost of milk. The impact can be seen between the two periods, with gross margin of 17.4% in first half and 12.4% in the second half.

Our Foodservice and Consumer channels had improved performances in all three regions, predominantly driven by changing consumption trends during COVID-19.

The Ingredients channel was adversely impacted across all three regions mainly due to the use of longer-term pricing contracts increasing the impact the quickly rising cost of milk had on our gross margin.

Our business is diversified across regions and product channels. This allowed us to reduce the impact of the higher milk cost by continuing to allocate milk into the products that generate the best overall returns.

- **Greater China normalised gross profit increased 7% to \$836 million**
- **Asia Pacific normalised gross profit decreased 1% to \$1,195 million**
- **AMENA normalised gross profit decreased 14% to \$904 million**

Total Group normalised operating expenses are \$81 million, or 3%, lower than last year.

Of this decrease, \$41 million relates to the Group's Continuing Operations. The prior year's operating expenses for Continuing Operations included \$55 million of impairments.

Globally we invested \$110 million in research and development this year, up from \$98 million the prior year. The majority is reported in our operating expenses which increased 30% relative to the comparative period, and the remainder is within our cost of goods sold.

Operating Expenses¹

FOR THE YEAR ENDED		
NORMALISED BASIS NZD MILLION	31 JULY 2020	31 JULY 2021
Costs allocated to regions		
Selling & marketing	636	656
Distribution & storage	539	543
Administrative expenses	619	574
Research & development	63	82
Other expenses	96	75
Total allocated operating expenses	1,953	1,930
Unallocated costs	241	223
Operating expenses from Continuing Operations	2,194	2,153
Operating expenses from Discontinued Operations	129	89
Total Group operating expenses ²	2,323	2,242

1. Does not align to FY21 Financial Statements, predominately due to additional categories.
2. Impairments of intangible assets not included in the strategic review for the 2020 Financial Year (\$55 million) have been reclassified from 'other' to administrative expenses category within Total Group operating expenses.

Innovation is a key part to our strategy. Our central research and development facility, based in Palmerston North, is supported by eight in-market application centres which together deliver new products for customers, consumers and chefs around the world.

Even with the in-market challenges from COVID-19, it has been a good year for new product launches:

- The launch of seven new cream products for Foodservice through Anchor™ Food Professionals that includes two new ambient creams and the launch of Cheese-Pro Cream™, a deliciously rich and smooth cream with more than 18% natural cheese, delivering a premium tea macchiato topping. Tea macchiatos are well established in China and growing in popularity across South East Asia
- A new range of Individually Quick Frozen (IQF) Mozzarella with enhanced functional performance for at-home delivery, leveraging continued high demand globally
- The ongoing roll-out of Fonterra's premium probiotic ingredients continues to generate value and investment is targeted at unlocking the next generation of "better for you" probiotics as we continue our focus on wellness and nutrition

- New launches across our Anlene range, including Anlene 5X™, a functional nutrition product providing benefits across five key areas – strong bones, energy, strong muscles, flexibility and movement
- Our core Ingredients channel has seen continued success with NZMP™ NutriWhite, a fortified dairy blend powder that delivers to the ever-increasing need for accessible nutrition, driven by strong market demand across the Middle East, Africa and South East Asia
- In China we also continued to launch novel new consumer products, like cheese lollipops, a cream cheese-based snack that is growing in popularity across Asia

We have also focused on commercialisation of our intellectual property with some significant opportunities confirmed during the year through our AMENA region. One example of this is our arrangement with Land O'Lakes in the USA to leverage Fonterra's intellectual property in Foodservice products alongside Land O'Lakes' excellent sales and distribution network to sell, distribute and promote UHT creams into the USA Foodservice channel.



The \$86 million improvement in 'Other' relative to last year, was largely due to higher other operating income and the non-recurrence of adverse items in the previous period. **Total Group normalised EBIT increased 8%, or \$73 million, to \$952 million**, due to the reduction in operating expenses and increase in 'Other'. Total Group EBIT decreased 16%, or \$188 million, to \$959 million. Normalisation adjustments for the year were \$7 million, a reduction of \$261 million on the prior year which included gains on sale from DFE Pharma and foodspring™. The normalised items in 2021 Financial Year reflect gains from the sale of the Ying and Yutian China farming hubs and the Falcon China Farms joint venture but offset by realised losses on the sale of Beingmate shares and a further impairment of the carrying value of DPA Brazil.

- The sale of the China farming hubs, in Ying and Yutian, was completed during the year and resulted in a gain on sale of \$32 million. This gain is in addition to an impairment reversal of \$23 million. The total impact to our Total Group EBIT was \$55 million

- The sale of our investment in the Falcon China Farms joint venture was also completed during the year with \$88 million of cash received from the sale. A gain on sale of \$40 million, including an impairment reversal of \$15 million, was included in Total Group EBIT
- During the year we completed the sale of the remaining shareholding in Beingmate, marking a full exit of our investment in the company. The impact of selling the shares in the year ended 31 July 2021 was a loss of \$49 million. We received cash proceeds of \$110 million from the sale of the shares in the year ended 31 July 2021 and total cash received from the sale of all shares was \$241 million
- A further impairment of \$39 million pre-tax, \$35 million post-tax, was recognised for DPA Brazil based on an assessment of the fair value of the business. The sale of DPA Brazil is progressing but has been made challenging by the impacts of COVID-19

Our Total Group net finance costs reduced \$70 million, or 21%, due to lower levels of debt and reductions in global interest rates.

Total Group Performance¹

FOR THE YEAR ENDED			
NZD MILLION	31 JULY 2020	31 JULY 2021	CHANGE ²
EBIT	1,147	959	(16)%
Net finance costs	(332)	(262)	21%
Tax expenses	(156)	(98)	(37)%
Reported profit after tax	659	599	(9)%
Normalisation adjustments ³	(268)	(7)	(97)%
Tax on normalisation adjustments	7	(4)	-
Total normalised profit after tax	398	588	48%
(Profit)/loss attributable to non-controlling interests	27	(21)	-
Normalisation adjustments attributable to non-controlling interests	(43)	(17)	(60)%
Normalised profit after tax attributable to equity holders of the Co-operative	382	550	44%
Normalised earnings per share (cents)	24	34	42%
Full Year dividend per share (cents)	5	20	300%

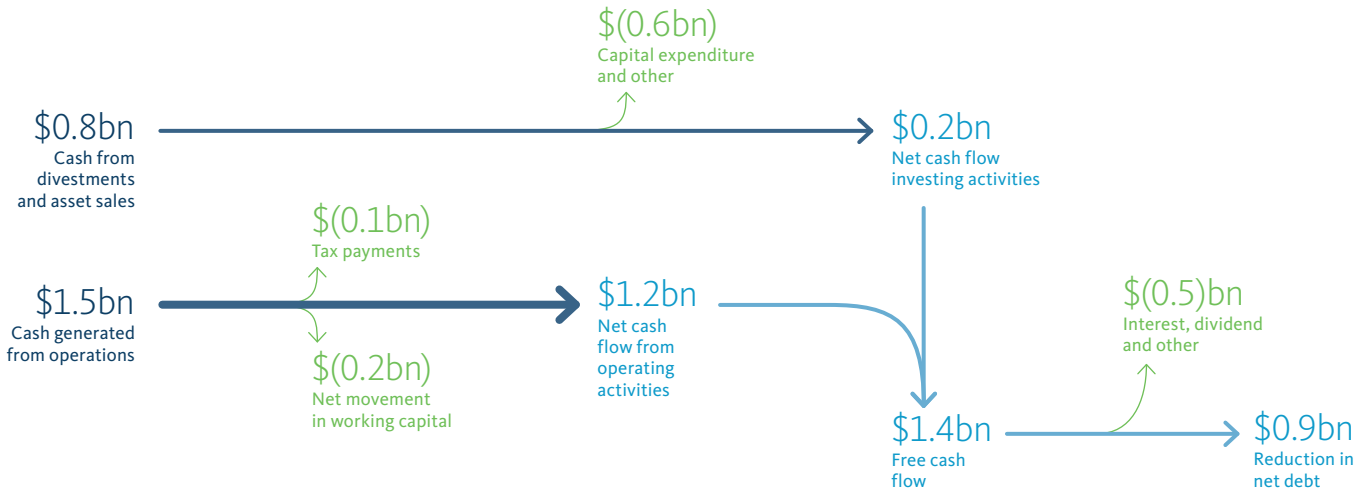
1. Includes Continuing and Discontinued Operations.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Refer to the Non-GAAP Measures section in the Annual Review 2021.

Our sources and uses of cash

Total Group free cash flow for the year was \$1.4 billion, reflecting the strong underlying performance for the year combined with the proceeds of asset sales. It is made up of \$1.2 billion from operating activities and \$0.2 billion from investing activities – which comprised \$0.8 billion from divestments

less \$0.6 million of capital invested. The free cash flow of \$1.4 billion has been used to pay interest of \$0.3 billion, dividends of \$0.2 billion (5 cents from last year's final dividend and this year's interim dividend of 5 cents) and reduce debt by \$0.9 billion.

Cash flow and change in net debt¹



Free cash flow for the year of \$1.4 billion was \$0.4 billion lower than last year which reflects:

- A \$298 million reduction in cash flow from operating activities which included an increase in the working capital funding as a result of the higher milk price and higher milk collections for the year, and lower gross profit for the year

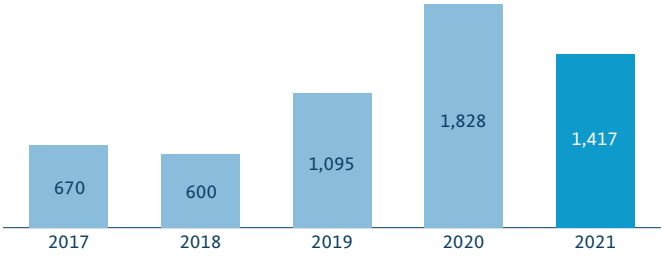
- An increase in cash spent on the acquisition of property, plant and equipment. Significant projects are included below under Capital Invested
- \$31 million increase in intangible asset spend to enhance the Group's security systems and customer facing capability technology

Cash flow and change in net debt

FOR THE YEAR ENDED		
NZD MILLION	31 JULY 2020	31 JULY 2021
Cash generated from operations ¹	1,671	1,449
Net change in working capital	(106)	(171)
Net tax paid	(73)	(84)
A. Net cash flows from operating activities	1,492	1,194
Cash flows from investing activities		
Divestments and asset sales	827	782
Capital expenditure and other ²	(491)	(559)
B. Net cash flows from investing activities	336	223
Free cash flow (A+B)	1,828	1,417
Interest, dividend and other	(444)	(452)
Non-cash changes in net debt and other ³	(294)	(93)
Reduction in net debt ⁴	1,090	872

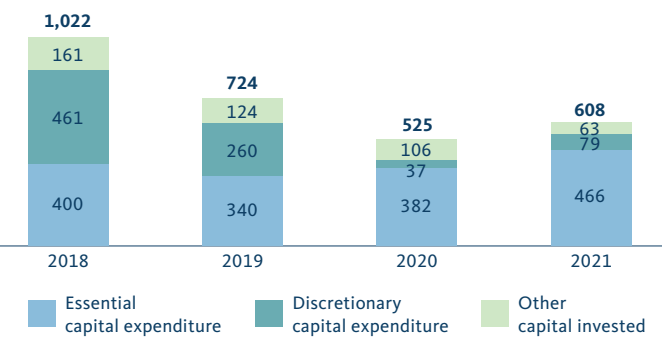
1. Includes EBIT and non-cash and non-operating adjustments made to EBIT to determine cash generated from operations.
2. Capital expenditure presented in this table is different to capital expenditure reported primarily due to treatment of livestock and accruals.
3. Includes adjustment for disposal groups held for sale.
4. Net debt excludes amounts attributable to disposal groups held for sale.

Free Cash Flow¹ (\$ million)



1. Refer to the Glossary for definition.

Capital Invested¹ (\$ million)



1. Refer to the Glossary for definition of capital invested and capital expenditure

Working capital days throughout the year have increased by 5.8 days compared to the previous year.

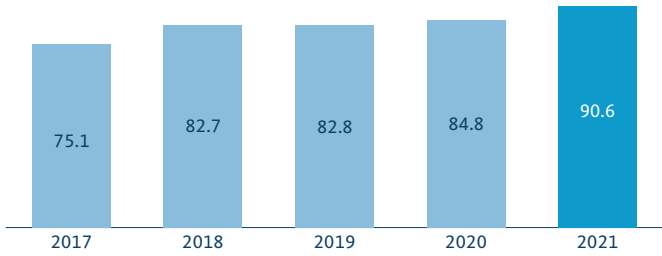
The key drivers of this were:

- The increase in inventory is a result of the higher cost of milk and higher average inventory volume throughout the year as a result of supply chain challenges
- Receivable days are favourable and the reduction in average receivable days is due to improved customer collection management. Overdue debtors have also reduced
- Higher average payables days due to increased capital expenditure

Working Capital Days Drivers

DAYS	2020	2021
Receivables	30.9	29.4
Payables	(28.5)	(30.4)
Inventory	82.4	91.6
Total	84.8	90.6

Working Capital Days¹



1. Refer to the Glossary for definition.

Our net debt levels have continued to decrease year-on-year, down \$872 million.

Strong operational earnings combined with the \$748 million in proceeds from the sale of the two China farming hubs, Ying and Yutian, the Falcon China Farms joint venture, the Agrifeeds joint venture and the remaining Beingmate shares allowed us to reduce net debt by \$872 million during the year.

The reduction in net debt was achieved despite the increased working capital requirements resulting from the higher milk price and the additional volume in inventory.

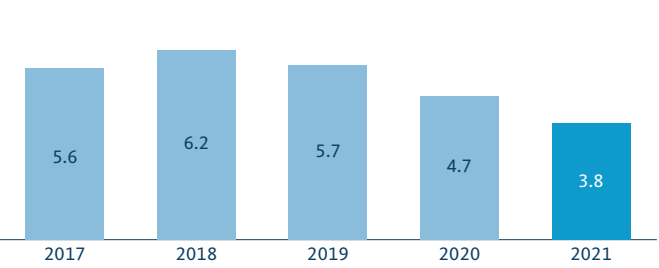
Both leverage metrics have also improved as a result of the lower net debt and higher earnings and are within our long-term target ranges. The gearing ratio is within the 30-40% target range and the debt to earnings ratio of 2.7x is within the 2.5 to 3.0x target range.

Return on capital is unchanged

Our average capital employed was stable year-on-year. The impact of divestments in the current and prior year reduced our average capital employed, but this was offset by the increase in average working capital in the current year.

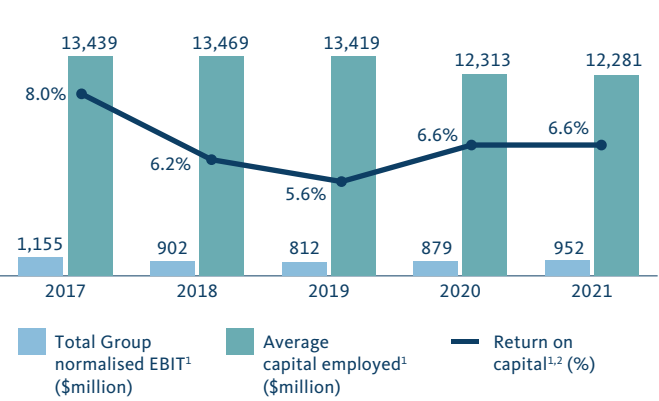
The increase in our normalised EBIT has been offset by an increase in the notional tax rate applied to normalised EBIT.

Net Debt¹ (\$ billion)



1. Net debt excludes amounts attributed to disposal groups held for sale. Refer to Glossary for definition.

Return on Capital (%)



1. Refer to the Glossary for definition.
2. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with the current period.

A summary of our key metrics shows that we have improved in many areas that are important to us. It shows the benefit of the focus we have put in over the last three years to reset the business – by focusing our strategy of maximising the value of our New Zealand milk, moving to a customer-led operating model and strengthening our balance sheet.

Key metrics¹

NZD	2020	2021
Total number of New Zealand farms	9,011	8,827
New Zealand milk solids collected (million kgMS) ²	1,517	1,539
Total Pay-out	7.19	7.74
Farmgate Milk Price (per kgMS)	7.14	7.54
Dividend (per share)	0.05	0.20
Return on capital ^{3,4} (%)	6.6%	6.6%
Debt to EBITDA ^{3,5}	3.3x	2.7x
ENIBD gearing ratio ⁶ (%)	41.4%	35.5%
Adjusted net debt gearing ratio ⁷ (%)	44.2%	38.5%

1. Refer to the Glossary for definition of the metrics displayed in the table.
2. Based on the 12-month milk season of 1 June – 31 May.
3. Calculation of metric includes amounts relating to Continuing and Discontinued Operations.
4. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior year notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the adjusted net debt used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with current period.
5. Prior years' debt to EBITDA have been restated for consistency with the current period. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent.
6. Economic net interest-bearing debt gearing ratio. Excludes amounts attributed to disposal groups held for sale.
7. Going forward, we will change the way we measure net debt so that the net debt (adjusted net debt) included in the gearing ratio and debt to EBITDA will be on the same basis. This aligns with certain credit rating agency methodology. Under the new methodology net debt for the 2021 Financial Year would be \$4.3bn.

The strong result for the year and Fonterra's strengthened balance sheet have put us in a position to return an increased dividend to shareholders and unit holders. Fonterra's dividend policy is a payout ratio of 40 to 60% of reported profit after tax, excluding abnormal gains. Distributions of any abnormal gains are considered separately. For the year ended 31 July 2021 abnormal gains included the normalised gains from the sale of China Farms and the China Farms joint venture, and totalled six cents per share.

Our total dividend for the year of 20 cents per share includes an interim dividend of 5 cents per share and a final dividend of 15 cents per share. 3 cents of the final dividend of 15 cents per share reflects the addition of abnormal gains, including the reversal of previous impairment of our China Farms.

Dividend Calculation

NZD CENTS PER SHARE	2020	2021
Normalised earnings ¹	24	34
Add: normalisations	19	2
Reported earnings ¹	43	36
Less: abnormal gains	(32)	(6)
Net earnings for dividend payment ²	11	30
Dividend payment percentage (%)	45%	57%
Dividend based on attributable earnings	5	17
Dividend based on abnormal gains ³	-	3
Total dividend	5	20
Interim dividend	-	5
Final dividend	5	15

1. Attributable to equity holders of the Co-operative, excludes non-controlling interest.
2. Represents net earnings as specified in the Dividend Policy and is calculated as reported profit after tax less abnormal gains.
3. Includes the reversal of previous impairment of our China Farms.

On Farm

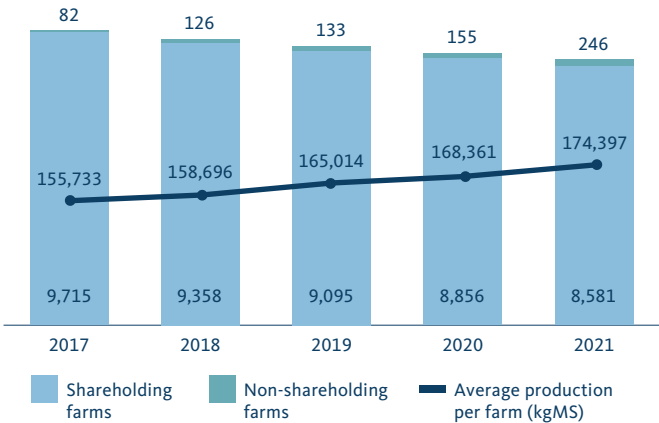
We believe having a strong dairy co-operative makes a real difference to our farmer owners, and to New Zealand. Our scale and diversity allow us to move our farmer owners' milk into the most valuable products and markets. This helps mitigate some of the risk for farmers that comes when demand for certain products or markets softens.



Lana & Harepaora, Bay of Plenty

Our New Zealand supplier base and owners

Composition of our supplier base



As at 31 July, the Co-operative collected milk from 8,581 shareholding farms and 246 non-shareholding supplying farms around New Zealand.

The decline in supplying farms over time has been due to increased competition from other processors, consolidation of farm ownership and changes in land uses.

The increase in non-shareholding farms is due to the growth in new farms opting to supply MyMilk as part of their pathway to becoming a Fonterra shareholding supplier. The 59% increase in non-shareholding farms from 2020 to 2021 was driven by MyMilk becoming available to eligible suppliers in the North Island.

While the trend of increasing production per farm over time has generally been driven by the increasing size of supplying farms, herd genetics and the advancements in farm management – this year's growth has also been driven by higher milk prices supporting milking later in the season.

Share Capital

As at 31 July, the Co-operative had 1,613 million shares on issue, with 1.1 million shares being issued in October 2020 as part of Fonterra's Dividend Reinvestment Plan.

At 31 July, supplying farmers were required to hold 1,403 million shares in aggregate to meet their Share Standard compliance obligations. Farmers used 41 million vouchers to meet their shareholding requirement.

Therefore, there are 251 million shares that are considered tradeable Dry Shares, of which 107 million are currently held by the Custodian. For every Dry Share the Custodian holds, there is a corresponding unit in the Fonterra Shareholders' Fund (the Fund).

On 6 May 2021 the Fund was temporarily capped by suspending shares in the Fonterra Shareholders' Market being exchanged into units in the Fund while Fonterra consults with its shareholders on the capital structure of the Co-operative. At the same time, Share Standard compliance obligations for the 2021/22 Season were put temporarily on hold for all supplying farmers holding a minimum of 1,000 shares and for exiting farmers that are selling

shares over three seasons in accordance with Fonterra's constitution. Share Standard compliance obligations were also put temporarily on hold for those farmers who have not yet met their compliance obligations for the current 2020/21 Season. This is so that no farmers are required to trade for compliance purposes during the temporary cap and until a date that is to be advised.

The increase in the aggregate minimum shareholding requirement was primarily due to the lift in the three season rolling average production, with the 2020/21 total production of 1,539 million kgMS, being 34 million kgMS more than the season it is replacing in the three season average – this being the 2017/18 total production of 1,505 million kgMS.

Vouchers have reduced over time due to not being transferable between shareholders. As shareholding farmers cease supplying milk to Fonterra any vouchers held by the farmer are cancelled. The reduction in vouchers does not impact total shares on issue or directly impact the Fund size.

SHARE CAPITAL (MILLION)	2017	2018	2019	2020	2021
Total Shares on Issue	1,607	1,612	1,612	1,612	1,613
Aggregate Minimum Shareholding Requirement	1,419	1,391	1,391	1,392	1,403
Dry Shares	188	221	221	220	210
Vouchers counting to Aggregate Minimum Shareholding Requirement	47	45	43	43	41
Total Dry Shares	235	266	264	263	251
Dry Shares held by Shareholding Farms	109	155	161	158	144
Dry Shares held by Custodian (equal to units in Fund)	126	111	103	105	107

Dry Shares = Total Shares on Issue less Minimum Aggregate Shareholding Requirement plus vouchers
1,613 million less 1,403 million plus 41 million = 251 million

Dry Shares = Dry Shares held by Shareholding Farms plus Dry Shares held by Custodian
144 million plus 107 million = 251 million

Fonterra’s New Zealand Milk Production

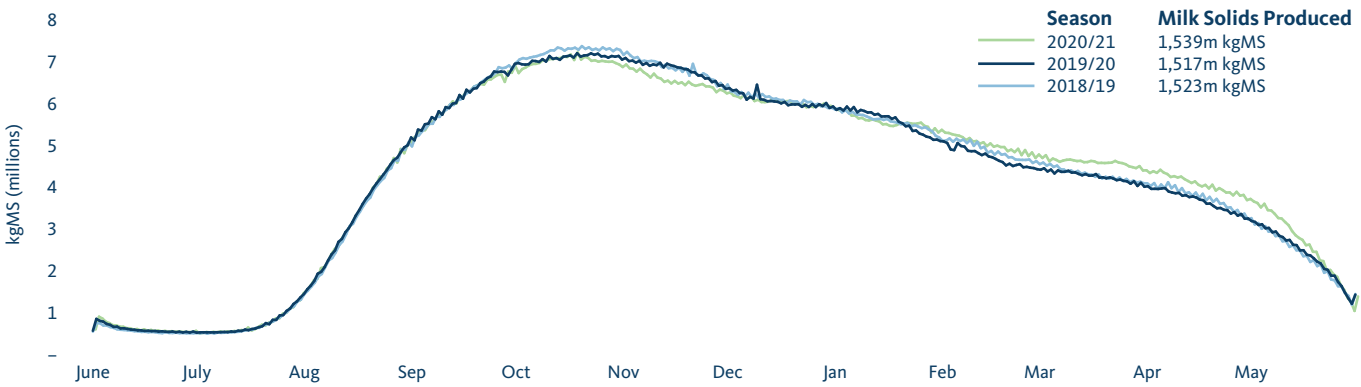
For the 2020/21 season production from Fonterra farmers in New Zealand increased to 1,539 million kgMS, up 1.5% compared to the prior season.

The 2020/21 season had a good start, driven by favourable mild conditions that supported good pasture growth.

From October through to January, increasingly dry conditions and poor soil moisture levels across the country impacted peak collections.

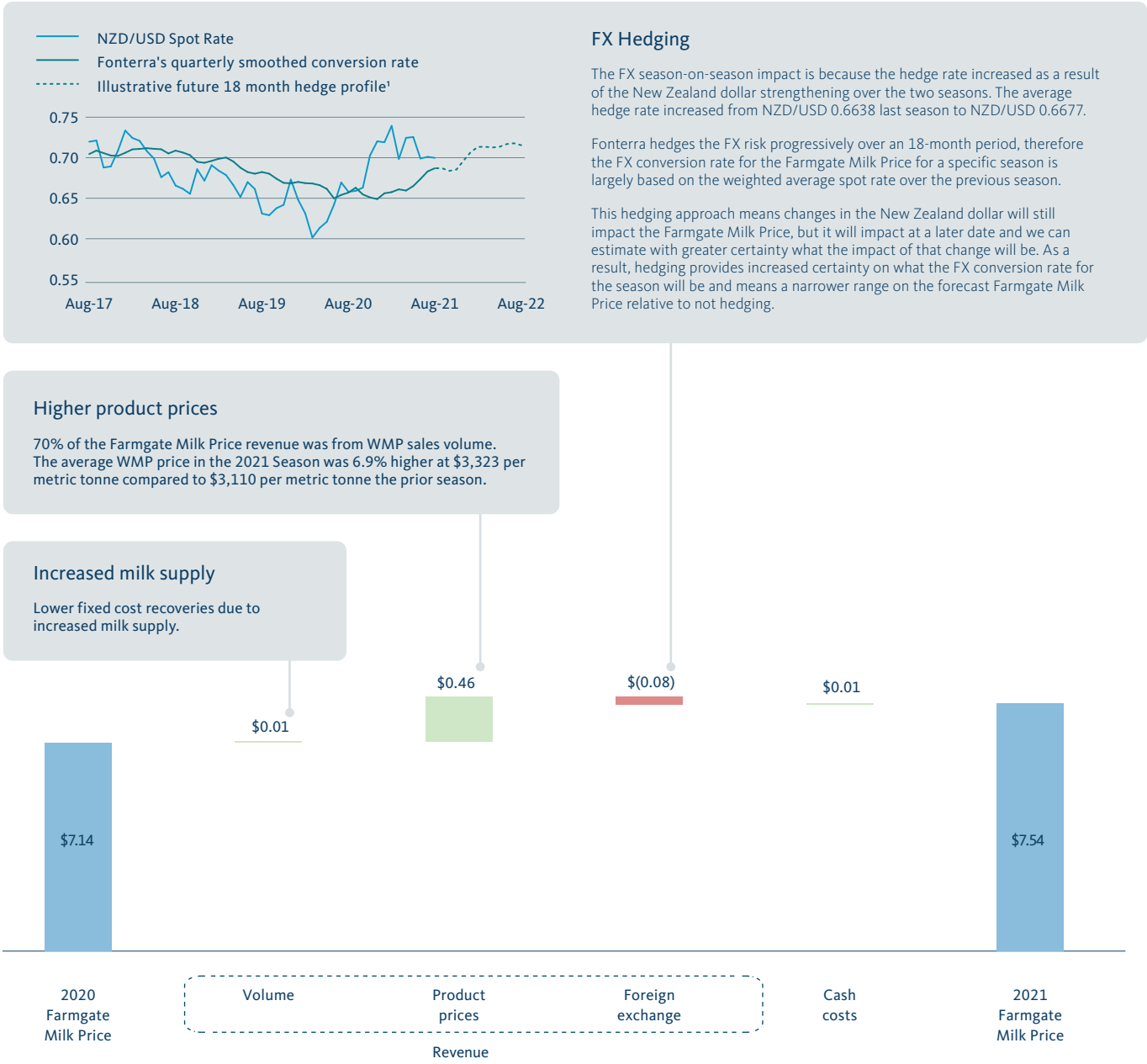
However, a more settled end to the summer, with a mix of rainfall and warm weather, meant improved pasture quality. This drove a strong recovery in North Island production from February to May.

The stronger production later in the season was also supported by increased use of supplementary feed due to the rising milk price over the course of the season.



Karla, Taranaki

New Zealand Farmgate Milk Price (per kgMS)



1. The future conversion rate is only an estimate because forecast USD receivables are only partially hedged over the forecast 18 month period and the hedges include options so the final conversion rate can vary.

Group Operations

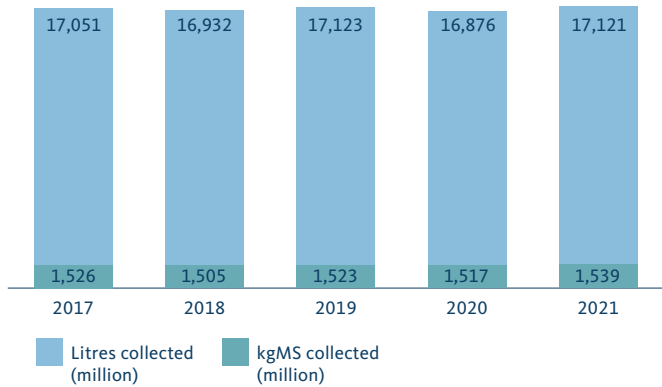
Group Operations is comprised of the functions that the Chief Operating Officer (COO) has responsibility for (including New Zealand milk collection and processing operations and assets, global supply chain, digital and information technology, sustainability and innovation); Farm Source™ retail stores; and the Central Portfolio Management (CPM) function. CPM's goal is to

optimise our business by connecting customers with our assets, farmers and markets to make our New Zealand milk into the most valuable products. It includes optimising the New Zealand milk pool, in-market product pricing support for the regions, managing Fonterra's dairy and non-dairy product price risk, as well as providing customer and farmer price risk management tools.



Milk Collection Summary

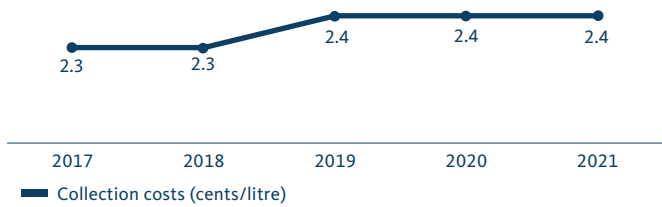
Litres and milk solids collected



This season we collected 17,121 million litres of milk from the Co-operative's farmer owners, which equated to 1,539 million kgMS.
Around 11 litres of milk produces 1kg of milk solids, or about 9% of milk collected is solids, the rest is fluid.

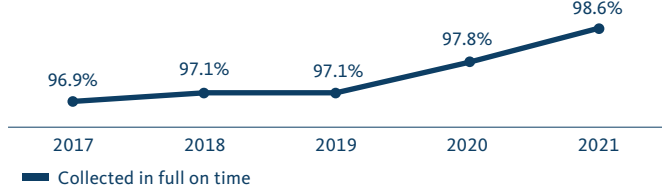
On-farm we have rolled out milk vat monitoring technology. This has improved the quality of milk supplied to our processing sites through better temperature management and assessment of milk quality to product specification requirements.
This also has enabled efficiencies in milk collection scheduling through visibility of on-farm milk conditions and volumes.

Cost of collecting milk



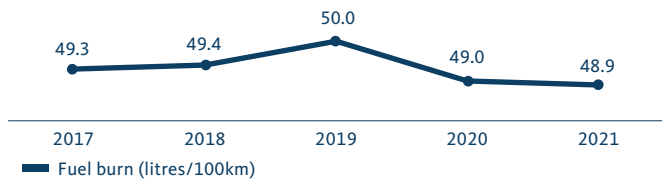
Collection 'in full on time' measures how well we have performed in collecting our farmer owners' milk within our planned collection windows and is important for farmer engagement and milk processing. Performance has continued to improve year-on-year with reliable pick-up on-farm, despite unplanned weather events including South Island flooding, while also improving milk collection costs.

Timeliness of collecting milk



A critical enabler of improving fuel efficiency is transparency of metrics and benchmarking tools. As an example, the use of data analytics to provide a view of fuel efficiency by tanker and driver against targets and the prior year has seen a continued improvement over the past couple of seasons.

Fuel efficiency when collecting milk



Milk solids available to process and where we allocated them

We process around 98% of all the milk we collect in New Zealand.

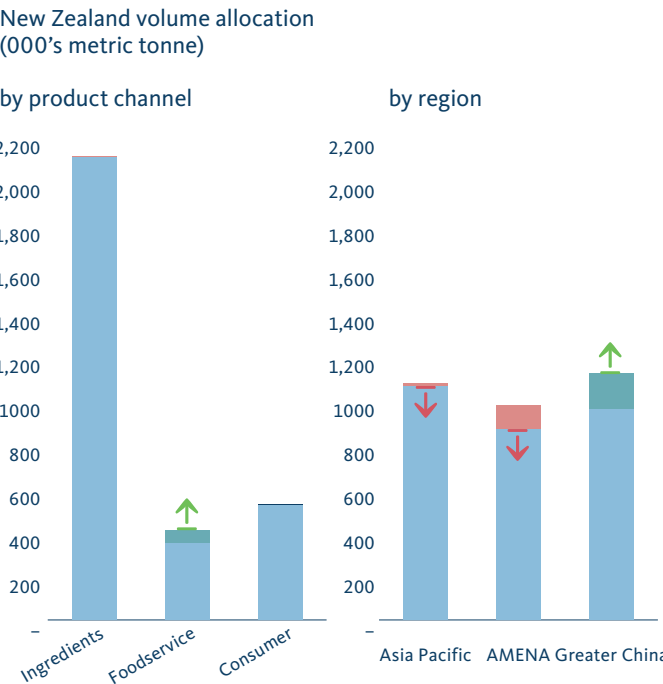
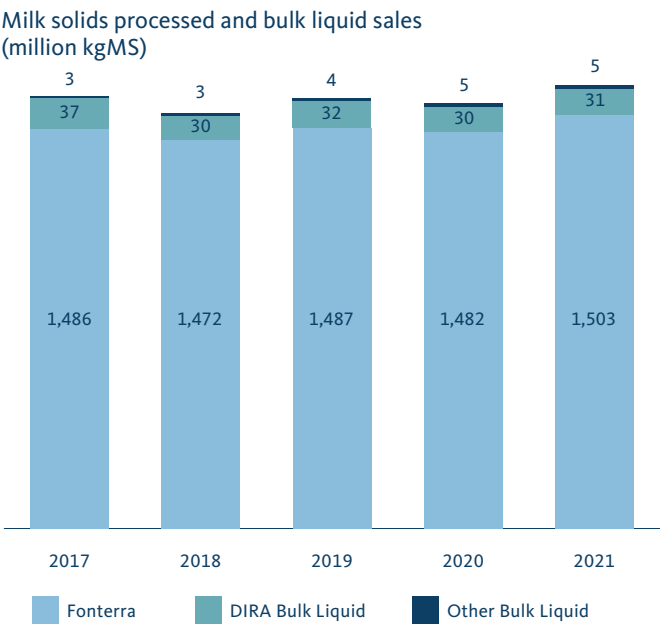
In some instances, we choose to enter into commercial agreements to provide bulk liquids to other processors in New Zealand and under the DIRA raw milk regulations (effective as of 1 June 2021) we are required to provide up to 600 million litres of milk each season to eligible independent third-party processors (including Goodman Fielder) at the regulated price. Goodman Fielder is entitled to buy up to 350 million litres of the overall eligible independent processor entitlement.

The regulated price for eligible processors (other than Goodman Fielder) is Fonterra's Farmgate Milk Price plus the reasonable costs of transporting the milk to the processor. The regulated price for Goodman Fielder is Fonterra's Farmgate Milk Price plus reasonable costs of transporting the milk to Goodman Fielder and, for supply on or after 1 June 2021, an additional charge of 10 cents per kgMS. Prior to 1 June 2021, Fonterra did not have the right to recover additional costs over and above transport costs. The additional charge enables Fonterra to recover a contribution to the overall costs of milk sourcing and the costs of providing Goodman Fielder with a "flat supply curve" of milk across the season.

With the 1,503 million kgMS we processed, we continue to focus on allocating milk into the products that generate the best overall returns to Fonterra and our farmer owners. We do this through our Central Portfolio Management (CPM) function. CPM's goal is to optimise our business by connecting customers with our assets, farmers and markets.

Sales volumes in the Ingredients channel were flat year-on-year overall. However, due to rising prices and continuing strong demand out of Greater China for WMP, there was a shift in volume of Ingredients from AMENA to Greater China. Our Foodservice channel sales volume grew the most, largely driven by the demand out of Greater China and Asia Pacific.

Regionally, Greater China had the largest increase in sales volume, predominantly due to increases in WMP and UHT milk and cream as our Foodservice channel continues to grow. Fonterra has a large global sales network, which enables it to take advantage of demand and pricing opportunities that change from year-to-year.



The 2020/21 Season started with the overhang of global economic concerns driven by the ongoing impact of the COVID-19 pandemic, along with the global supply chain issues impacting pricing and supply to customers. At the same time, farmers also faced revenue uncertainty due to potential movements in the Farmgate Milk Price.

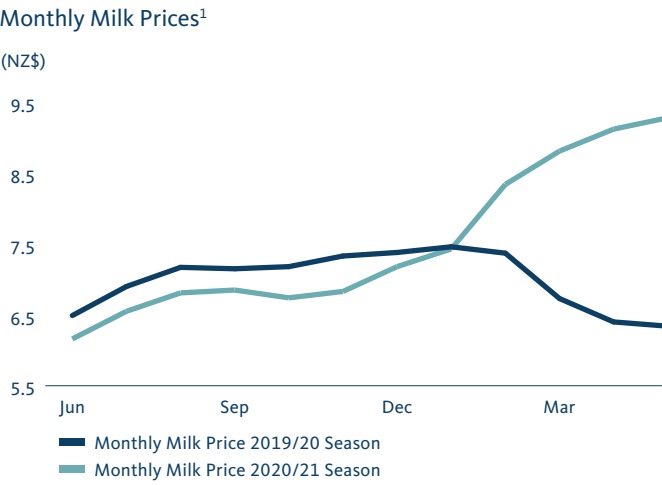
This market uncertainty led to strong customer demand for both security of supply and price certainty. During the first half of the season, non-reference product prices (cheese and proteins) were selling at favourable prices relative to reference products (powders and cream). Early season trading conditions of reference products suggested a milk price mid-point in the low \$6.00 per kgMS range, as reflected by our opening Farmgate Milk Price range.

By selling long dated fixed price sales to customers and then matching these sales with Fixed Milk Price contracts and NZX Milk Price futures, we successfully met customer and farmer demand for increased certainty, by locking in favourable margins for non-reference products and reducing Fonterra's exposure to future ingredient price volatility.

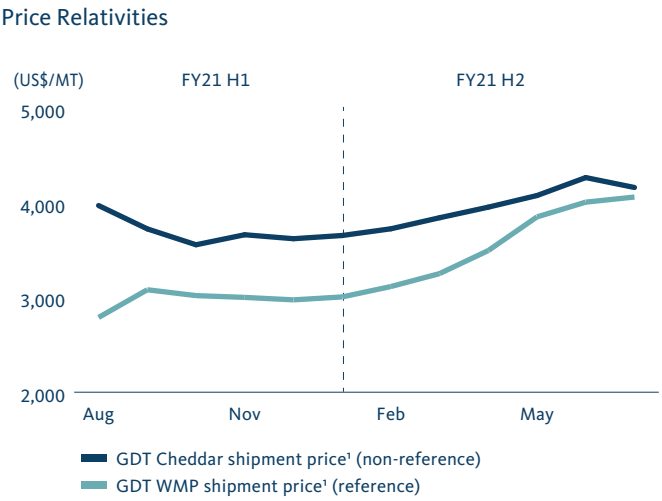
As the season progressed, reference product prices firmed at a faster rate than non-reference prices which adversely impacted price relativities. However by selling forward to customers and hedging our input prices, we reduced the impact on Ingredients' margins.

The strong increase in reference prices from January 2021 pushed the cost of milk above \$9.00 per kgMS on a monthly basis, and significantly impacted our Ingredients and Foodservice product margins and bulk liquid milk margins in the last quarter of the financial year. The strong demand for dairy over the last half of the year lifted the Farmgate Milk Price from its initial low \$6.00 per kgMS forecast to a final price of \$7.54 per kgMS.

Relative to the prior year, the lower reference and higher non-reference product sales volumes reflect growing demand in our Foodservice and Consumer channels, with increased sales volume predominantly driven by Cheese, UHT Cream and Cream Cheese products.



1. The weighted average of the monthly milk prices are equivalent to \$7.14 and \$7.54 for 2019/20 and the 2020/21 season, respectively.



1. The shipment price for the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped. The shipment prices presented are a weighted average of GDT contracts 1-5 months prior to the date of shipment.

New Zealand sourced Ingredients’ product mix

	2020		2021	
Sales Volume (‘000 MT)¹				
Reference products	1,820		1,817	
Non-reference products	794		884	
Revenue¹	\$ billion	\$ per MT	\$ billion	\$ per MT
Reference products	9.5	5,192	9.4	5,162
Non-reference products	4.8	6,006	5.1	5,780
Cost of Milk				
Reference products	(7.2)	(3,959)	(7.4)	(4,069)
Non-reference products	(2.8)	(3,562)	(3.3)	(3,678)

1 Excludes bulk liquid milk. Bulk liquids for the year ended 31 July 2021 was 72,000 MT of kgMS equivalent (the year ended 31 July 2020 was 69,000 MT of kgMS equivalent).
Note: Figures represent Fonterra-sourced New Zealand milk only. Reference products are products used in the calculation of the Farmgate Milk Price – WMP, SMP, BMP, Butter and AMF. Milk solids used in the products sold were 1,019 million kgMS in reference and 442 million kgMS non-reference (previous comparable period 1,023 million kgMS reference and 404 million non-reference).

Our average, reference product sale price declined year-on-year, despite the Farmgate Milk Price increasing from \$7.14 to \$7.54 per kgMS. This is because not all of our reference product sales inform the Farmgate Milk Price, most notably our quarterly priced contracts and longer dated contracts that are not considered standard contracts at the prevailing market price. Therefore, our reference product sale prices in longer dated contracts lagged the strong increase in the market prices of reference products in the second half of the financial year.

Our average non-reference product sale price per metric tonne declined slightly more than the average reference product sale price year-on-year, due to the price for non-reference products declining more during the peak period of contracting sales, being September to December.



Milk processing performance

Within our New Zealand Manufacturing operation, milk utilisation (the proportion of milk solids made into product) improved from 96.2% to 96.4% over the past five years; this improvement represents an \$18 million lift in value to the business. This year our processing efficiency maintained a good level of performance, especially as our manufacturing mix was directed into higher value products, which are typically more complex to manufacture. This outcome was delivered by improving process control and plant stability. A focus on scheduling and optimal use of by-product streams also helped utilisation.

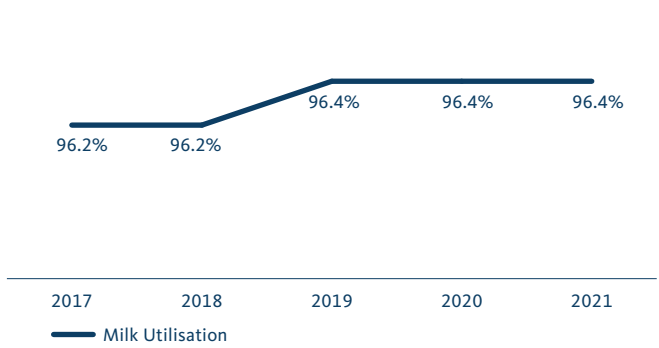
This year also saw an improvement in the rate of product made ‘right first time’ from 94.0% to 95.0%. This measure tracks the product that passes grading tests once the product is manufactured. A lift of 1.0% from an already high base reflects the ongoing focus on quality, improved use of data and

operational stability. This continues a positive trend over the last five years, where this measure has gone from 90.9% to 95.0%, which is equivalent to a \$35 million improvement over the period.

Similarly, our cost of quality measure, one of the key indicators of the effectiveness of our manufacturing activity, has maintained the trend of improvement seen over previous years. This year saw stable performance on the previous year, however over five years the measure has improved by \$42 million from \$100 million. This is reflected in reduced product rework, complaints and exception stock holding costs.

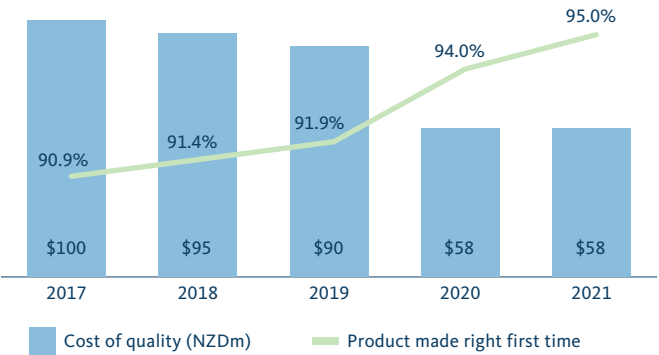
Improvements across these areas have been made using a risk-based quality management programme, better process control and plant stability supported by capital investment.

Portion of milk solids made into product



Note: Product mix may impact this measure as product groups have different utilisation factors

Product made right first time



Supply Chain and Logistics

Over this last financial year, we faced immense challenges in our global supply chain, including for Kotahi (our ocean freight partnership with Silver Fern Farms) and Coda (New Zealand domestic land freight partnership with Port of Tauranga). Despite these challenges, Fonterra was able to ship a record 2.59 million tonnes of nutrition, at a ‘cost to serve’ in line with the prior year.

The key challenges faced during the year included disruption of global shipping and severe international port congestion, driven largely by COVID-19, together with port strikes in Australia impacting container supply to New Zealand. This resulted in a reduction in shipping schedule integrity from a long-term average of 80% to below 35%, and a 350% increase in the number of sales and shipping orders that required rework.

In response, we were able to leverage both our strategic relationship with our logistics partners to secure additional shipping capacity and the commitment, adaptability and deep operational understanding of our people to deliver this record result.

The cost to serve, excluding ocean freight, was in line with the prior year. This was achieved by rationalising the distribution centre network with an exit from the aged Mount Maunganui coolstore, reduction in land freight costs driven by road and rail routing and load optimisation, as well as increased productivity with the application of digital tools and automation.

Capital Expenditure

Capital expenditure in Group Operations increased on the prior year in response to increasing regulatory requirements on wastewater treatment, reducing emissions from thermal fuel sources and also maintaining integrity and reliability across the network of processing assets. Across New Zealand, we continue to progress our annual truck and trailer replacement programme and on-farm milk vat replacement programme. In addition to these annual programmes, the roll out of our milk vat telemetry technology was largely implemented this year and will be completed next year. We are also continuously working through a capital expenditure programme to keep our processing sites fit for purpose and below is a sample of such projects across the country.

Sites displayed are not a full representation of all Fonterra factories

Central North Island

- **Tirau and Edgecumbe**
 - Invested in whey permeate concentration related assets to remove managing process risk of ethanol
- **Te Awamutu**
 - Upgrades to our infrastructure to better manage our wastewater
- **Waitoa**
 - Improved asset capability on specialty ingredient products

Upper North Island

- **Kauri**
 - Invested in our powder packing line assets

Lower North Island

- **Whareroa**
 - Improved our supply chain facilities to maintain product integrity
 - Invested in milk evaporation efficiency and reducing energy and carbon emissions
 - Improved powder dryer building integrity to manage product quality risk

South Island

- **Stirling**
 - Commencement of works on biomass boiler to replace coal
- **Clandeboyne**
 - Invested in additional capacity for specialty ingredients, to allow greater optionality in optimising our product mix
- **Clandeboyne and Darfield**
 - Invested in water management capability across multiple sites

Group Operations’ Attribution to Regional Segments

In broad terms, Group Operations collects and processes New Zealand milk into the optimal products that are then sold to our customers by the regional business units. The segment reporting, within the Financial Statements, is prepared based on the regional business units, with the income statement of Group Operations attributed between the three regional business units. This attribution enables the results of both the regional business and product channels to be presented on an end-to-end basis.

When products are transferred between Group Operations and the regions, the internal prices are determined by market-based commodity reference prices (e.g. GDT and other external benchmarks) and include charges where appropriate to reflect the additional costs of producing non-commoditised products. The internal pricing is reviewed weekly for Ingredients products and either quarterly or monthly for Consumer and Foodservice products.

The Group Operations performance (that is attributed to the three regions) includes movements in the capital charge on the notional Milk Price asset

base, the impact of longer-term pricing commitments, product mix and the impact of price relativities between reference and non-reference ingredient products.

When attributing the results of Group Operations to the regions, the principle is for the end-to-end margin to reflect the underlying transaction between Fonterra and the customer where possible. If costs are not directly linked to transactions, such as overheads, attributions are activity based where appropriate e.g. Information Technology and Research and Development. If none of these principles applies, the attribution uses a volume-based allocation.

Overall, the Group Operations’ EBIT has reduced \$288 million compared to last year. Key drivers of this are an adverse movement in the gross margin on bulk liquids and the lagged impact of longer-term pricing arrangements in sales contracts. In addition, there were some changes in the internal pricing principles as the new operating model was implemented and refined.

Group Operations’ Attribution

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS EBIT NZD MILLION	TOTAL		ASIA PACIFIC		AMENA		GREATER CHINA	
	2020	2021	2020	2021	2020	2021	2020	2021
Group Operations’ attribution to regional segments	170	(118)	47	(3)	39	(99)	84	(16)

Summary of Regions

The Group's reportable segments are the three regional business units; Asia Pacific, AMENA and Greater China, and are inclusive of their respective attribution of Group Operations. This provides a full end-to-end view of the performance for each customer-facing regional business unit. Additionally, insights are provided by showing a breakdown of the three main product channels – Ingredients, Foodservice and Consumer.

Our regional performance and commentary in this section and the subsequent sections on individual regions are prepared on a normalised Continuing Operations basis unless stated otherwise.

Our business is diversified across both regions and product channels, allowing us to allocate our milk into the products that generate the best overall returns to Fonterra and our farmer owners.

Our Asia Pacific region contributed to our improved Group earnings with a 28% increase in EBIT to \$305 million. The Asia Pacific region has a strong Consumer channel, which accounted for 60% of its EBIT and 63% of our overall Consumer channel EBIT. The Consumer channel is supported by a strong brand presence across our key markets and have benefited from the COVID-19 initiated stay-at-home culinary trend. Gross margin growth within the Consumer channel was a significant contributor to Asia Pacific's earnings performance. The Ingredients channel was impacted by reduced bulk liquid margins, offsetting gross margin growth in both the Consumer and Foodservice channel.

Our AMENA region has a large Ingredients channel, which accounted for 63% of AMENA's EBIT and 55% of our overall Ingredients channel EBIT. AMENA's EBIT decreased \$129 million to \$336 million, due to reduced gross margins and lower sales volume in the Ingredients channel. AMENA's Foodservice and Consumer channels' EBIT increased, with a particularly strong performance by our Consumer business in Chile. Our Consumer business in Chile increased both value and volume share, contributing to the gross margin and sales volume growth in the Consumer channel.

Our Greater China region contributed to our improved earnings with a 10% increase in EBIT to \$403 million. The Greater China region has a strong Foodservice channel, which accounted for 68% of its EBIT and 75% of our overall Foodservice channel EBIT. The increase in Greater China's EBIT was predominantly due to the strong performance of the Foodservice channel, driven by continuous innovation and a customer centric approach which has shifted sales volume into higher margin products. Gross margin growth within the Foodservice and Consumer channels was offset by reduced gross margins in the Ingredients channel. Overall, demand for dairy has been strong across all three channels in the Greater China region is supported by the Chinese Government endorsing consumption of dairy during COVID-19.

Summary of Regional Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL		ASIA PACIFIC		AMENA		GREATER CHINA		UNALLOCATED COSTS AND ELIMINATIONS	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Sales volume ('000 MT) ²	3,842	3,874	1,406	1,386	1,433	1,352	1,021	1,176	(18)	(40)
Revenue	20,282	20,565	7,074	7,110	7,874	7,304	5,374	6,312	(40)	(161)
Costs of goods sold	(17,236)	(17,581)	(5,867)	(5,915)	(6,817)	(6,400)	(4,596)	(5,476)	44	210
Gross profit	3,046	2,984	1,207	1,195	1,057	904	778	836	4	49
Gross margin	15.0%	14.5%	17.1%	16.8%	13.4%	12.4%	14.5%	13.2%	–	–
Operating expenses	(2,194)	(2,153)	(967)	(889)	(585)	(605)	(401)	(436)	(241)	(223)
Other ³	(5)	65	(1)	(1)	(7)	37	(11)	3	14	26
EBIT ⁴	847	896	239	305	465	336	366	403	(223)	(148)
Includes EBIT attribution from Group Operations ⁵	170	(118)	47	(3)	39	(99)	84	(16)	–	–
EBIT excludes Discontinued Operations	32	56	–	–	21	22	11	34	–	–

1. Regional performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.

2. Includes sales to other segments.

3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

4. This includes EBIT attribution from Group Operations.

5. Drivers of movements in the Group Operations attribution is detailed further in each region's performance section.

EBIT Contribution of Regions and Product Channels¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS EBIT (NZD MILLIONS)	TOTAL			ASIA PACIFIC			AMENA			GREATER CHINA			UNALLOCATED COSTS AND ELIMINATIONS	
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021
Ingredients	727	385	(47)%	148	44	(70)%	400	211	(47)%	179	130	(27)%	–	–
Foodservice	245	369	51%	27	79	193%	(5)	15	–	223	275	23%	–	–
Consumer	98	290	196%	64	182	184%	70	110	57%	(36)	(2)	94%	–	–
Unallocated costs and eliminations	(223)	(148)	34%	–	–	–	–	–	–	–	–	–	(223)	(148)
Continuing Operations	847	896	6%	239	305	28%	465	336	(28)%	366	403	10%	(223)	(148)
Discontinued Operations	32	56	75%	–	–	–	21	22	5%	11	34	209%	–	–
Total Group EBIT	879	952	8%											

1. Regional performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.

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

As a key part of our strategy, all three regions are prioritising growing our portfolio of specialty ingredients and solutions. We see plenty of growth opportunities in this portfolio going forward, and will be focused on the areas

that support our strategy of prioritising New Zealand milk and allocating it into higher margin products.

Specialty Ingredients¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			PAEDIATRICS			SPORTS AND ACTIVE			MEDICAL AGEING		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT)	237	226	(5)%	124	103	(17)%	54	61	13%	59	62	5%
Revenue	1,798	1,786	(1)%	760	611	(20)%	593	674	14%	445	501	13%

1. Specialty Ingredients performance is prepared on a Continuing Operations basis.

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

COVID-19 has driven changing consumption trends and accelerated consumer demand for more proactive nutrition offerings, supporting immunity and healthy ageing growth. We have seen the benefit of this in our Medical Ageing and Sports and Active categories.

We have seen particularly strong growth in Korea where we have cemented our position as a leading supplier of dairy ingredients into medical and healthy ageing products. The New Zealand provenance story has also resonated strongly in this market, highlighting the value of New Zealand sourced milk solids.

Other highlights include:

- We launched our New Zealand Milk Products (NZMP™) Milk Phospholipids range that helps with stress management. This is Fonterra's first foray into mental health propositions for adult nutrition
- New launches across our Anlene™ range, including Anlene GOLD 5X™, a functional nutrition product providing benefits across five key areas – strong bones, energy, strong muscles, flexibility and movement
- The ongoing roll-out of Fonterra's premium probiotic ingredients continues. Supported by our cross functional teams in China and New Zealand, we were able to add a line of probiotic enhanced and lactoferrin enhanced milk powders within 12-months

Asia Pacific

Asia Pacific’s EBIT increased \$66 million, or 28%, to \$305 million, mainly due to an increase in Consumer gross margin, Foodservice sales volume growth and strong gross margin improvement, and reduced operating expenses. This was partially offset by the reduced bulk liquid margins in the Ingredients channel.

Asia Pacific Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT) ³	1,406	1,386	(1)%	623	610	(2)%	154	163	6%	629	613	(3)%
Revenue	7,074	7,110	1%	3,692	3,654	(1)%	915	930	2%	2,467	2,526	2%
Cost of goods sold	(5,867)	(5,915)	(1)%	(3,301)	(3,382)	(2)%	(748)	(712)	5%	(1,818)	(1,821)	(0)%
Gross profit	1,207	1,195	(1)%	391	272	(30)%	167	218	31%	649	705	9%
Operating expenses	(967)	(889)	8%	(248)	(234)	6%	(143)	(139)	3%	(576)	(516)	10%
Other ⁴	(1)	(1)	0%	5	6	20%	3	-	-	(9)	(7)	22%
EBIT ⁵	239	305	28%	148	44	(70)%	27	79	193%	64	182	184%
Includes EBIT attribution from Group Operations	47	(3)	-									
Gross margin	17.1%	16.8%		10.6%	7.4%		18.3%	23.4%		26.3%	27.9%	

1. Asia Pacific performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
5. This includes EBIT attribution from Group Operations.



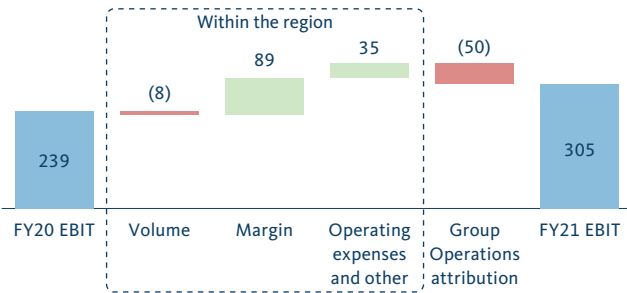
Our Asia Pacific business covers New Zealand, Australia, Pacific Islands, South East Asia, and South Asia. The Consumer channel contributes around 60% of Asia Pacific’s EBIT; the channel is supported by our strong brand presence across our key markets.

The Asia Pacific Performance table on the prior page has the region’s allocation of the Group Operations’ performance allocated through each line item of the table. Whereas, the Asia Pacific Key EBIT Performance Drivers graph separates the EBIT generated from the region and its attribution from Group Operations.

Within the region, the gross margin from the Consumer channel was a significant contributor to Asia Pacific’s improved earnings performance, contributing \$81 million. The most significant reduction in EBIT was from the Group Operations attribution within the Ingredients channel, down \$81 million, due to reduced gross margins from bulk liquid sales.

Asia Pacific Key EBIT Performance Drivers¹

Normalised EBIT (\$millions)



1. Asia Pacific performance is prepared on a Continuing Operations basis.

Asia Pacific Key EBIT Performance Drivers¹

FOR THE YEAR ENDED 31 JULY 2021

NORMALISED BASIS NZD MILLION	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT Financial Year 2020	239	148	27	64
Volume	(8)	(3)	10	(15)
Margin (price, cost and product mix)	89	(18)	26	81
Operating expenses and other	35	(2)	(4)	41
Group Operations attribution	(50)	(81)	20	11
EBIT Financial Year 2021	305	44	79	182

1. Asia Pacific performance is prepared on a Continuing Operations basis.

Asia Pacific’s Consumer channel

Consumer behaviour has changed with COVID-19 and a trend that has become increasingly prominent over the past 18 months has been the stay-at-home culinary trend. This has had a favourable impact on our Consumer channel performance. Our product mix has shifted away from lower margin products, such as UHT milk, with increased sales volume of higher margin products, such as butter, cheese and dairy foods to support this trend. Overall, our sales volume is slightly lower, but this has been more than offset with an increase in our Consumer channel gross margin.

The decline in sales volume has mostly come from New Zealand, due to several strategic initiatives. As an example, we have shifted our product mix in cheese to align with customer demand for smaller blocks of cheese, away from the larger 1kg blocks. The turnaround of our New Zealand business has progressed quicker than planned, and in part this has been helped by the strength of our brands. Anchor™ was recently named by Nielsen as the number one retail brand in New Zealand grocery, and Mainland™ was named the sixth. Mainland™ had another good year off the back of a new advertising campaign continuing to celebrate its long-standing message of ‘Good Things Take Time’. Already the leading cheese brand in the category, Mainland™ grew ahead of the market this financial year with volume and value growth of 11% and 16%¹ respectively.

South East Asia was another region that experienced increased at-home consumption, including consumers expanding their cooking to more western dishes. Our butter and cheese products were well placed to take advantage of this trend, and our team further accelerated this through expanding our portfolio of chilled brands, entering new channels and inspiring product usage through digital and social platforms.

Highlights include:

- Our butter portfolio growing sales volume by more than 15% across the key markets of Malaysia, Philippines and Indonesia
- Expansion of Perfect Italiano™ in Malaysia, where consumers turned to Italian inspired dishes. Perfect Italiano Mozzarella Cheese grew 55% year-on-year in revenue in Malaysia and 39% year-on-year revenue growth across the South East Asia region as a whole
- Extensive use of social media platforms to provide meal ideas across Anchor™, Mainland™, Perfect Italiano™ and Chesdale™

1. Nielsen, MAT as at July 31.



RANK	RETAIL BRAND IN NEW ZEALAND
1	Anchor
2	Watties
3	Tip Top
4	Coca-Cola
5	Hellers
6	Mainland
7	Cadbury
8	Meadow Fresh
9	Tegel
10	Griffin’s
11	Whittaker’s
12	Arnotts
13	Bluebird
14	Huggies
15	Sealord
16	Heineken
17	NESCAFÉ
18	Colgate
19	Beehive
20	Sanitarium

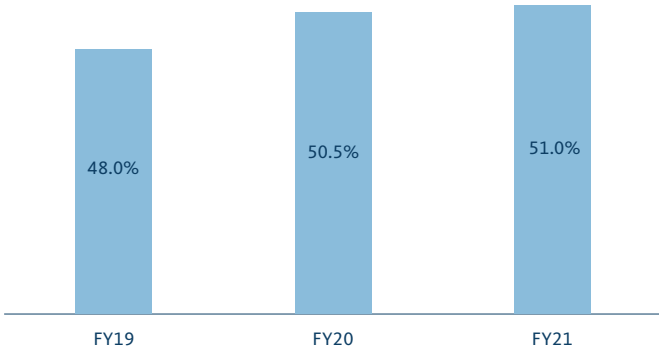
*Source: #1 FMCG brand in NZ Grocery. NielsenIQScan, Total Supermarkets -Value Sales, MAT to 1st August 2021. Excludes Private Label



Malaysia is one of our strongest consumer markets globally, with leading positions in milk powders, butter, cheese and yoghurt. Our flagship brand in that market, Fernleaf™, had a strong year, widening its leadership position with market share growing by 50 basis points, from 50.5% to 51.0%¹. Well known among local consumers for its New Zealand provenance, it was buoyed by a campaign tapping into a desire for natural goodness during the pandemic. Supporting this were ‘influencer’ initiatives on digital platforms where they spoke highly of the benefits of our products, with Fernleaf™ being noted in the Kantar Brand Footprint Report Asia 2021 as one of the fastest growing brands in Malaysian consumer packaged goods in the 2020 calendar year.

Within the Asia Pacific region some new product launches have been postponed due to COVID-19 restrictions, which has delayed some of the expected growth in our global brands, but it has also reduced operating expenses. Overall, operating expenses are down on the prior year, primarily due to last year’s performance, including several impairments that did not recur in the 2021 Financial Year.

Fernleaf™ Family Milk Powder Volume Share¹



1. Nielsen, MAT as at July 31.



Asia Pacific’s Foodservice channel

Our Asia Pacific Foodservice channel’s EBIT increased 193% to \$79 million. With many of our markets continuing to be impacted by COVID-19, this is a strong result. It also reflects how challenging the trading environment in the second half of the prior year was, and how quickly our Foodservice teams adapted to the rapidly changing trends within the channel over the last 18 months.

We have moved milk into higher margin products such as cream cheese, where bakery and beverage outlets continue to find customer demand for cream cheese applications, particularly in South East Asia. For example, in Malaysia, our team focused on helping home bakers set up online stores and expand their recipe portfolio, resulting in increased sales of our Anchor™ Food Professional products.

We are also seeing more at-home consumption, less out-of-home consumption, and a back-to-basics approach with consumers purchasing less pre-made baked goods and instead opting to bake their own goods with trusted ingredients.

Our sales volume growth was in part driven by our Global Quick Service Restaurant performance which is included in our Asia Pacific Foodservice channel. We won new business in Hong Kong and Malaysia as well as increasing our market share by being able to meet existing customers’ demand for product while our competitors were not able to – demonstrating the value our customers place in our robust supply chain.

Asia Pacific’s Ingredients channel

Our Asia Pacific Ingredient channel’s EBIT declined \$104 million to \$44 million due to reduced gross margins on our bulk liquid milk sales in New Zealand and challenges in Australia - mentioned on the next page in the Australia Performance section.

Despite the impact of reduced bulk liquid margins within the New Zealand Ingredients channel, we have continued to focus on shifting milk to higher margin Ingredients’ products, namely dairy food products – this demand was driven from the Consumer channel to support the stay-at-home culinary trend.

Australia Performance¹

NORMALISED BASIS NZD MILLION	FOR THE YEAR ENDED		
	31 JULY 2020	31 JULY 2021	CHANGE ²
Milk collection (million kgMS)	108	106	(2)%
Sales volume ('000 MT) ³	406	373	(8)%
Revenue	2,036	1,953	(4)%
Cost of goods sold	(1,822)	(1,710)	6%
Gross profit	214	243	14%
Operating expenses	(157)	(167)	(6)%
Other ⁴	(3)	(2)	33%
EBIT	54	74	37%
Gross margin	10.5%	12.4%	

- 1. Australia’s performance is prepared on a Continuing Operations basis and is prior to Group Operations attribution.
- 2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
- 3. Includes sales to other segments.
- 4. Consists of other operating income and net foreign exchange gains/(losses).

The Australian business continued its improved earnings momentum from the prior year, driven by a strong performance in its Consumer channel.

Overall sales volume was down as the business optimised its portfolio. A slight reduction in milk collection volumes and global shipping delays also contributed to the lower sales volume.

Despite the drop in sales volume, revenue only declined 4%, largely due to improvements in product mix driven by a conscious decision to exit lower returning products and to allocate milk solids to higher returning products. Product mix benefits were offset by lower volumes, commodity prices and the higher Australian dollar.

The Consumer channel continued its strong momentum in revenue and earnings growth, maintaining market leadership in both the Cheese and Spreads categories. All four brands in the portfolio demonstrated value growth across the period with Western Star™ and Perfect Italiano™ the standout performers and benefiting from the culinary trend. The brands benefited from increased investment during this period, including new on-air campaigns for Bega™ and Perfect Italiano™. Even with ongoing

COVID-19 challenges facing the out-of-home sector, the Foodservice channel rebounded strongly in both volume and revenue.

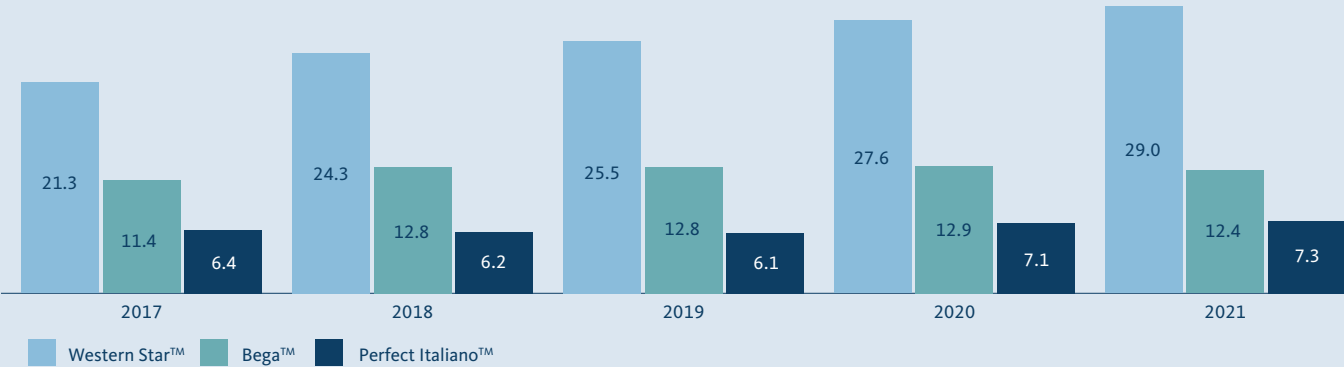
The business continues to benefit from strong customer relationships, achieving number one ranking in the Advantage Survey in Foodservice and number two ranking in Consumer.

The Ingredients channel was challenged during the period by a high Australian dollar, geo-political impacts and global shipping delays. Border closures due to COVID-19 continue to materially impact both domestic and export customers, particularly in the nutritional category.

Operating expenses increased on the prior year, partly driven by increased advertising and promotion spend. However, our working capital and operating cash flows within the overall Australian business benefited from strong cost control and disciplines across the year, combined with the successful integration of the Dairy Country secondary cheese processing assets into the network. The strategic changes that have been implemented position the business well to continue the trajectory in earnings experienced in the second half.

Fonterra Australia value market share by brand

MAT Aug-17 to MAT Aug 21, percentage share of category
Source, IRI



AMENA

AMENA's EBIT was \$336 million, down \$129 million, or 28%, on the prior year, primarily due to reduced margins and lower volumes in its Ingredients channel. This was partially offset by increased sales volumes in its Consumer and Foodservice channels, with Consumer also improving its gross margin due to a strong performance by our Consumer business in Chile.

AMENA Performance¹

FOR THE YEAR ENDED 31 JULY

TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER			
NORMALISED BASIS NZD MILLION	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT) ³	1,433	1,352	(6)%	1,031	912	(12)%	47	61	30%	355	379	7%
Revenue	7,874	7,304	(7)%	6,506	5,784	(11)%	235	338	44%	1,133	1,182	4%
Cost of goods sold	(6,817)	(6,400)	6%	(5,755)	(5,250)	9%	(205)	(296)	(44)%	(857)	(854)	0%
Gross profit	1,057	904	(14)%	751	534	(29)%	30	42	40%	276	328	19%
Operating expenses	(585)	(605)	(3)%	(346)	(354)	(2)%	(38)	(28)	26%	(201)	(223)	(11)%
Other ⁴	(7)	37	-	(5)	31	-	3	1	(67)%	(5)	5	-
EBIT ⁵	465	336	(28)%	400	211	(47)%	(5)	15	-	70	110	57%
Includes EBIT attribution from Group Operations	39	(99)	-									
Gross margin	13.4%	12.4%		11.5%	9.2%	12.8%	12.4%		24.4%	27.7%		

1. AMENA performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
5. This includes EBIT attribution from Group Operations.

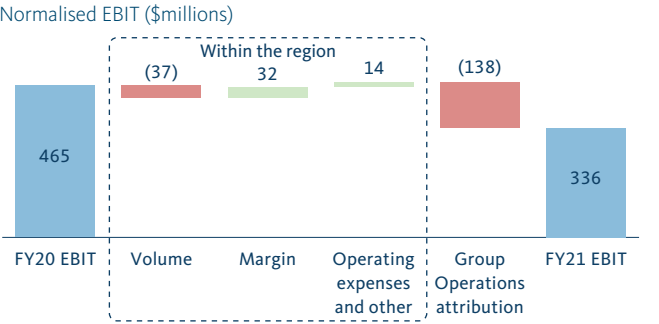


Our AMENA business covers Africa, Middle East, Europe, North Asia and the Americas. AMENA's performance is heavily influenced by its Ingredients channel across these sub-regions, as well as its strong Consumer business in Chile.

The AMENA Performance table above has the region's allocation of the Group Operations' performance allocated through each line item of the table. Whereas, the AMENA Key EBIT Performance Drivers graph separates the EBIT generated from the region and its attribution from Group Operations.

Within the region, the gross margin from the Consumer channel was a significant contributor to AMENA's earnings performance, contributing \$31 million. However, this was offset by a significant reduction in EBIT from the Group Operations attribution within the Ingredients channel, down \$151 million, mainly due to the use of longer-term pricing contracts increasing the impact the quickly rising cost of milk has on our gross margin.

AMENA Key EBIT Performance Drivers¹



1. AMENA performance is prepared on a Continuing Operations basis.

AMENA Key EBIT Performance Drivers¹

FOR THE YEAR ENDED 31 JULY 2021

NORMALISED BASIS NZD MILLION	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT Financial Year 2020	465	400	(5)	70
Volume	(37)	(64)	9	18
Margin (price, cost and product mix)	32	(3)	4	31
Operating expenses and other	14	29	5	(20)
Group Operations attribution	(138)	(151)	2	11
EBIT Financial Year 2021	336	211	15	110

1. AMENA performance is prepared on a Continuing Operations basis.

AMENA's Ingredients channel

AMENA has shifted its focus to value added products and functional nutrition, the benefits to its gross margin have only partially compensated for the impact of pricing lags on longer-term contracts and reduced sales volume in the Ingredients channel, which have resulted in reduced EBIT.

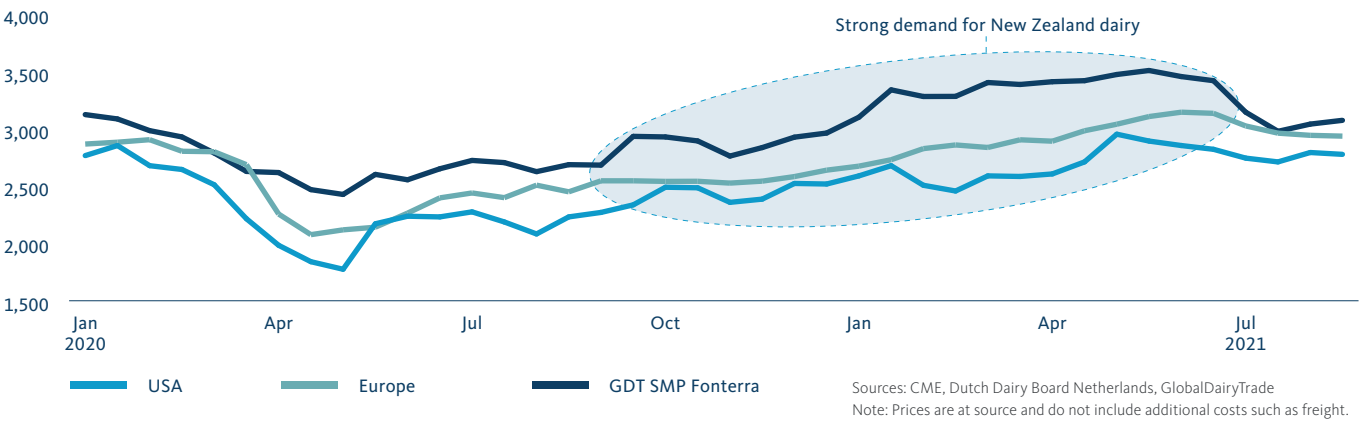
1. Pricing lags on longer-term contracts

Our AMENA Ingredients channel has large global customers and to support them and manage the volatility in dairy product prices, we use longer-term pricing contracts where the sale price for product is the average price over several prior months, of price indices, such as GDT. Due to the strong rise in dairy product prices over the course of this year, the margins on these sales reduced relative to the prior year, due to the lag in the pricing profile of these contracts versus the rising cost of milk. The impact of the pricing lag is captured in the EBIT attribution from Group Operations.

2. Reduced sales volume

The strong demand for our New Zealand sourced product in both Greater China and parts of Asia Pacific created more opportunities for us to allocate a greater volume of milk to take advantage of higher prices in these regions. This meant lower allocations of product to AMENA, particularly to the AMENA Ingredients channel for standard commoditised products that customers could source elsewhere at a price point below the sale prices that we can achieve in our other regional markets.

The AMENA Ingredients market is very competitive with USA and Europe producers selling below a sale price that we can achieve in other regions (the SMP Price graph illustrates the price difference we observed). There is also increasing competition from South American producers.



AMENA's Consumer channel

AMENA's Consumer channel performed strongly with both gross margin and volume growth. A significant portion of this was driven by the performance of our Consumer business in Chile, and this is covered in more detail below in the section on Latin America.

Other parts of the Americas also performed well with increased sales of cheese from our Australian business. When we allocated New Zealand sourced

- This is most notable in Africa where we did not sell product into government tenders this year. In recent years, the Latin American producers, mostly from Argentina, have supplied government tenders in Africa at a price point below GDT prices which have reflected strong demand from China
 - Our sales volume into Europe, as well as to some of our key global accounts, have been impacted by strong sales volumes from the Northern Hemisphere at competitive pricing levels, most notably in skim milk powder (SMP). Strong demand from Asia for New Zealand sourced product has meant New Zealand products, such as SMP, have traded at a premium to Northern Hemisphere product in those markets
 - Sales volumes into the USA were lower due to North American producers willing to sell fat-based products, such as AMF and butter, at lower prices than the sales prices we could achieve in other markets. Sales volume in our sports and 'on-the-go' product categories also reduced as a result of COVID-19 impacting consumer lifestyles
- The other sub-regions also had challenges impacting sales volume:
- Sales volume in the Middle East were down on the prior year, with prior year sales impacted by increased demand as customers stockpiled product due to the initial uncertainty of COVID-19
 - In North Asia, higher in-market inventory, due to an increase of domestic milk production and decrease of consumption due to COVID-19, has impacted sales volumes of cream products (such as butter and mascarpone)

milk to our other regions, we successfully switched the sale of consumer cheeses to Australian sourced product, reducing our input costs and increasing our gross margin.

The improved performance in the Americas was partially offset by the Middle East, which had lower sales volume relative to the prior year.

Latin America

Our Latin America's business predominantly comprises our Consumer business in Chile. The performance improved significantly on the prior year with EBIT increasing 79% to \$75 million.

- In Chile we have increased our market share of milk collections as we improved our engagement with farmers, allowing for increased sales volume
- The Chilean milk market is competitive, and our cost of goods sold increased due to higher raw milk costs as we competed for more milk
- Improved product mix and pricing in our Chilean Consumer channel more than offset the increased milk costs
- Our value and volume share in the Chilean Consumer channel increased 1.5% and 0.5% to 30.5% and 31.6%, respectively

This improvement was predominantly due to new product launches and increased demand generated by three government-initiated pension fund releases during the year:

- 19 new product launches, such as our 1+1 Single Yoghurt and Manjarate 3D. Both products won 'Product of the Year' as voted by Chilean consumers, in their respective yoghurt and desserts categories. They also received Effie Awards, given by communication specialists to those products with the best communication efficiency in their categories
- To support citizens and the economy through COVID-19, on three separate occasions the Chilean Government allowed citizens to withdraw a portion of their private pension funds and this contributed to increased demand for dairy products as consumers spent more
- Operating expenses increased as we incurred additional costs related to keeping the workforce safe while operating under COVID-19 conditions. Costs were also impacted by the higher sales volumes, but these increased costs were more than covered by the higher gross profits

Latin America Performance¹

FOR THE YEAR ENDED			
NORMALISED BASIS NZD MILLION	31 JULY 2020	31 JULY 2021	CHANGE ²
Sales volume ('000 MT) ³	346	379	10%
Revenue	926	1,045	13%
Cost of goods sold	(684)	(760)	(11)%
Gross profit	242	285	18%
Operating expenses	(193)	(211)	(9)%
Other ⁴	(7)	1	-
EBIT	42	75	79%
Gross margin	26.1%	27.3%	

1. Latin America performance is prepared on a Continuing Operations basis and is prior to Group Operations attribution. Latin America includes Chile, Brazil and Venezuela but excludes DPA Brazil which is classified as Discontinued Operations.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

AMENA's Foodservice channel

AMENA's Foodservice channel has improved its earnings predominantly through increased sales volume and reduced costs. However, the channel remains relatively small compared to AMENA's Ingredients and Consumer channels.

Volume growth was in part due to our North Asia business, driven by the ongoing development of our third-party manufacturing business in Korea, which supported strong sales of our Anchor™ slice-on-slice cheese sales in the Quick Service Restaurant category.

Our A-ware sourcing relationship also contributed to improved sales volume in the AMENA Foodservice channel, with the manufacture and sale of UHT cream. The sourcing relationship also contributed volume into the Ingredients channel with the sale of mozzarella. The A-ware sourcing relationship is covered in more detail below.

Lower operating expenses were predominantly driven by the Americas, following the successful transition of our USA Foodservice business to a new operating model in an arrangement with Land O'Lakes. This provided us access to Land O'Lakes well-established distribution and customer base while keeping a lean internal structure. The new operating model started in late December 2020, and Land O'Lakes has begun selling our UHT cream.

A-ware Sourcing Relationship

Our sourcing relationship with A-ware in the Netherlands, where they manufacture mozzarella and UHT cream for us, has taken some important steps during the 2021 Financial Year to set us up for the future, despite incurring further losses this year.

The A-ware loss of \$32 million in the prior year was largely driven by start-up costs. This year, the loss has increased to \$36m as a result of building up operations in a challenging environment, with pricing challenges for mozzarella and the slow build of UHT cream demand, driving underutilisation of the facility. The loss is allocated across AMENA, Asia Pacific and Greater China as all three regions collectively work to grow demand.

Despite the current market challenges, we have begun exporting our mozzarella and UHT cream:

- We are developing a market for our mozzarella in North Asia, with product sold to customers in Korea and Japan this year
- We have commercialised a new UHT cream product range targeting various applications and are now selling this European-style product in key markets, including China. This new ex-Europe offering complements our wider Anchor™ Food Professional product range in these key markets and supports our global foodservice strategy

The steps taken this year have been important to enable further growth for the years ahead, where we will extend our range by entering new markets as well as introducing new types of products and further leveraging our mozzarella and UHT cream sourcing relationship in Europe.

Greater China

Greater China's EBIT increased \$37 million, or 10%, to \$403 million, mainly due to increased gross margin and sales volume in its Foodservice channel and a decrease in operating expenses in the Consumer channel. Its Ingredients' channel had strong sales volume growth, but this was offset by lower gross margin.

Greater China Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT) ³	1,021	1,176	15%	691	824	19%	257	274	7%	73	78	7%
Revenue	5,374	6,312	17%	3,513	4,259	21%	1,531	1,691	10%	330	362	10%
Cost of goods sold	(4,596)	(5,476)	(19)%	(3,183)	(3,961)	(24)%	(1,190)	(1,274)	(7)%	(223)	(241)	(8)%
Gross profit	778	836	7%	330	298	(10)%	341	417	22%	107	121	13%
Operating expenses	(401)	(436)	(9)%	(141)	(164)	(16)%	(117)	(148)	(26)%	(143)	(124)	13%
Other ⁴	(11)	3	–	(10)	(4)	60%	(1)	6	–	–	1	–
EBIT ⁵	366	403	10%	179	130	(27)%	223	275	23%	(36)	(2)	94%
Includes EBIT attribution from Group Operations	84	(16)	–									
Gross margin	14.5%	13.2%		9.4%	7.0%		22.3%	24.7%		32.4%	33.4%	

1. Greater China performance is prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Includes sales to other segments.
4. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
5. This includes EBIT attribution from Group Operations.



Our Greater China business covers Mainland China, Taiwan and Hong Kong. The Foodservice channel contributed 68% of Greater China's EBIT, up from 61% last year.

The Greater China Performance table on the previous page has the region's allocation of the Group Operations' performance allocated through each line item of the table. Whereas, the Greater China Key EBIT Performance Drivers graph separates the EBIT generated from the region and its attribution from Group Operations.

Within the region, the gross margin from the Foodservice channel was a significant contributor to Greater China's earnings performance, contributing \$73 million of improvement. The second largest contributor to our improved performance was higher sales volume across all three channels – this was due to strong demand for dairy, supported by the Chinese Government endorsing consumption of dairy during COVID-19. The impact was particularly notable in the Ingredients channel, with strong demand for WMP and SMP, both on and off GDT. The most significant reduction in EBIT was from the Group Operations attribution within the Ingredients channel, down \$75 million, due to lower margin from the increased cost of milk.

Greater China Key EBIT Performance Drivers¹

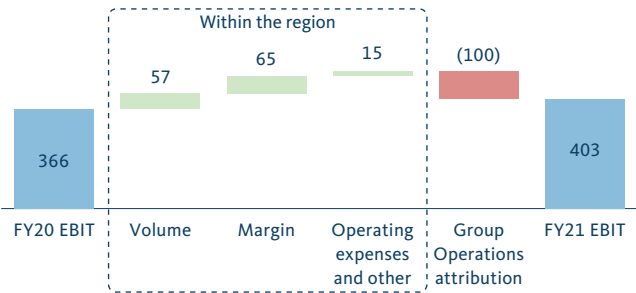
FOR THE YEAR ENDED 31 JULY 2021

NORMALISED BASIS NZD MILLION				
	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT Financial Year 2020	366	179	223	(36)
Volume	57	31	18	8
Margin (price, cost and product mix)	65	(11)	73	3
Operating expenses and other	15	6	(9)	18
Group Operations attribution	(100)	(75)	(30)	5
EBIT Financial Year 2021	403	130	275	(2)

1. Greater China performance is prepared on a Continuing Operations basis.

Greater China Key EBIT Performance Drivers¹

Normalised EBIT (\$millions)



1. Greater China performance is prepared on a Continuing Operations basis.

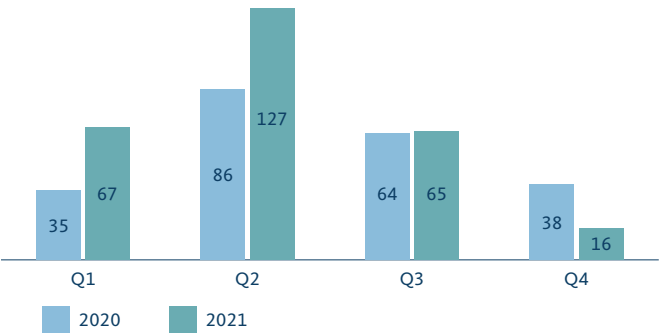
Greater China’s Foodservice channel

Our Greater China Foodservice channel continued the strong performance and growth it has experienced over the last couple of years, with EBIT up \$52 million, to \$275 million. EBIT was split \$194 million in the first half and \$81 million in the second half. Greater China’s sales profile is weighted to the first half of the year due to several major national events occurring in that period of the year, which drive sales. The second half was also impacted by the rising cost of milk over the course of the year, most notably impacting our Foodservice gross margins in the last quarter.

The success of our Greater China Foodservice channel is driven by continuous innovation and a customer centric approach which has shifted sales volume into higher margin products. To support the expansion and sustainable growth of our Foodservice channel, operating expenses have increased. We continue to invest in people, tools and the expansion of our supply chain network as we meet customer needs.

Our chef-led approach continues to be successful and to support this we opened our upgraded application centre in Guangzhou in April 2021. This application centre, and others throughout the country, allow customers to interact with our Anchor™ Food Professional chefs face to face. Our chefs showcase the functionality of our products and help to adapt them to our customers’ needs. During the 2021 Financial Year, 272 new applications were launched, all designed to showcase products within our portfolio. For example, we launched three new creams; Anchor™ Easy Topping Cream, Anchor™ Cheese-Pro Cream and Anchor™ Chef’s Classic Whipping Cream - all with unique functionality. For each cream we developed a suite of applications that are tailored to demonstrate the functionality these products provide, which has subsequently grown demand for these higher margin products. Also, a key aspect of our long-term growth strategy is to move beyond traditional ‘Western’ uses of dairy and increase dairy incorporation into traditional Chinese cuisine such as Chinese pastries, hot pots and mooncakes. For example, during the year we launched an Anchor™ Cheese Mooncake campaign, which resulted in over 50 customers launching cheese mooncakes.

Foodservice EBIT by Quarter (\$ million)



As COVID-19 has impacted consumer behaviour, the line between in-home and out-of-home categories continues to blur. To benefit from this trend, Foodservice and retail operators are increasingly launching semi-finished or ready-to-cook meals with simple preparation requirements. For example, we have partnered with a large supermarket chain to produce packaged ready-to-cook cheese shrimp paste, with our mozzarella cheese inside. This was launched during ‘Double 11’ (a major Chinese shopping festival) for in-home consumption of hot pots. Also, one of the leading casual-dining pizza chains in China is selling a frozen beef steak family pack featuring our mini-dish butter, and a Chinese ‘Steam’ Pizza which is a ‘1 minute in the microwave ready-to-eat meal’, featuring our Clandeboyne mozzarella cheese.

Greater China’s Consumer channel

Greater China’s Consumer channel EBIT improved due to continued focus on high value categories, lower operating expenses and sales volume growth. However, ongoing challenging trading conditions have resulted in a \$2 million loss for our Consumer channel this year. Most notably, the Hong Kong-China border has remained closed and the Mainland Chinese tourism that drove our highly profitable cross-border trade business is yet to resume.

The improved sales volume growth has predominately been in our Anchor™ branded UHT milk, the number one imported milk brand in China. This year, our China Brands team launched a range of innovative UHT milk products to help drive incremental sales, including Anchor™ High Calcium Low Fat UHT milk and Anchor™ DHA Kids Milk.

The year-on-year reduction in operating expenses was largely due to being allocated half of the \$36 million brand impairment on Chesdale™, which was not repeated this year. Removing the impact of the brand impairment, operating expenses were stable.

Greater China’s Ingredients channel

The Chinese dairy market is becoming increasingly competitive, and to protect our core Ingredients channel, provenance has become an increasingly important part of our brands. To differentiate ourselves, our New Zealand Milk Products (NZMP™) brand has focused on our ‘grass-fed’ claims and a sustainability proposition. NZMP™ worked with customers to help them leverage our grass-fed claims. The strength of the New Zealand story has allowed us to secure business in a competitive market.

Our NZMP™ brand is not only important to protecting our core Ingredients channel, but also to growing our advanced and functional ingredients. Cheese consumption in China has seen significant growth in the past years, with imported cheese increasing by 13% in the 2020 calendar year. To tap into this trend and appeal to the Chinese consumer, who have unique preferences, we have developed cheese lollipops. Cheese lollipops are cheese on a stick with a fruit flavoured coating. The cheese lollipops have been a huge success and are a popular snack food for children across China. The cheese lollipops have driven incremental demand for cream cheese from key customers and helped to increase utilisation in our Darfield processing site.

Focusing further on our customers’ needs, we have adapted ingredients to enable customers to make health claims. For example, demand has grown for our low-salt cheddar because it has proven popular with customers looking to have low-salt claims on their cheese lollipops.

Despite increased sales volume, EBIT in the Ingredients channel has reduced \$49 million on last year, due to the strong rise in dairy product prices over the course of this year. The gross margin on these sales has reduced due to the lag in the pricing profile of the contracts compared to the rising cost of milk. The impact of the pricing lag is captured in the EBIT attribution from Group Operations.



New Zealand Milk

Our strategy prioritises using New Zealand milk to meet customer needs and sustainably creating value for the Co-operative and our customers.

The following tables provide a breakdown of our earnings performance between our New Zealand and non-New Zealand sourced milk, over and above the milk price paid to our milk suppliers.

We continue to focus on allocating New Zealand milk into the products that generate the best overall returns to Fonterra and our farmer owners. Sales volume in the Ingredients channel was flat year-on-year overall. However, due to rising prices and continuing strong demand out of Greater China for WMP, there was a shift in volume within Ingredients from AMENA to Greater China. Our Foodservice channel sales volume from New Zealand sourced milk grew the most, largely driven by the demand out of Greater China and Asia Pacific.

Regionally, Greater China had the largest increase in sales volume, predominantly due to increases in demand in WMP and UHT milk and cream as our Ingredients and Foodservice channel continues to grow.

Gross margin for New Zealand sourced milk was slightly lower despite our Foodservice and Consumer channels benefiting from the stay-at-home

culinary trend. The improved performance in these channels was offset by the impact of reduced margins on bulk liquid milk sales and the pricing lag of longer-term contracts in the Ingredients channel. Our earnings from New Zealand sourced milk improved due to reduced operating expenses, higher other operating income and adverse items last year not recurring this year, with EBIT increasing 2%, or \$14 million to \$791 million.

Our non-New Zealand sourced milk performance has improved significantly, with EBIT up 50% or \$35 million to \$105 million. The main contributors to our improved performance in our non-New Zealand sourced milk are our Consumer channel in Australia and our Consumer business in Chile; both increased market share in key categories and improved gross margins.

Our non-New Zealand sourced milk gross margin was higher than our New Zealand sourced milk in the current year due to the impact of the reduced gross margins in the Ingredients channel for New Zealand sourced milk. However, at an EBIT margin level, New Zealand sourced milk has a higher earnings margin relative to non-New Zealand sourced milk due to our non-New Zealand sourced milk being predominantly sold in the Consumer channel, which is a more cost-intensive channel.



New Zealand Milk by Product Channel - Sales Volume¹

FOR THE YEAR ENDED 31 JULY

('000 MT)	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER			UNALLOCATED COSTS & ELIMINATIONS ³	
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021
Asia Pacific	1,079	1,065	(1)%	518	502	(3)%	127	136	7%	434	427	(2)%	-	-
AMENA	981	868	(12)%	912	801	(12)%	45	40	(11)%	24	27	13%	-	-
Greater China	961	1,123	17%	676	800	18%	220	253	15%	65	70	8%	-	-
Eliminations ³	(18)	(40)	(122)%	-	-	-	-	-	-	-	-	-	(18)	(40)
Total	3,003	3,016	0%	2,106	2,103	(0)%	392	429	9%	523	524	0%	(18)	(40)

1. Prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Unallocated costs and eliminations. Refer to Glossary for definition.

New Zealand Milk by Product Channel - Revenue¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER			UNALLOCATED COSTS & ELIMINATIONS ³	
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021
Asia Pacific	5,608	5,634	0%	3,134	3,111	(1)%	703	714	2%	1,771	1,809	2%	-	-
AMENA	6,414	5,706	(11)%	5,943	5,269	(11)%	156	186	19%	315	251	(20)%	-	-
Greater China	5,230	6,152	18%	3,451	4,162	21%	1,471	1,648	12%	308	342	11%	-	-
Eliminations ³	(40)	(161)	(303)%	-	-	-	-	-	-	-	-	-	(40)	(161)
Total	17,212	17,331	1%	12,528	12,542	0%	2,330	2,548	9%	2,394	2,402	0%	(40)	(161)

1. Prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Unallocated costs and eliminations. Refer to Glossary for definition.

New Zealand and Non-New Zealand Sourced Milk¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			NEW ZEALAND MILK			NON-NEW ZEALAND MILK		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT)	3,842	3,874	1%	3,003	3,016	0%	839	858	2%
Revenue	20,282	20,565	1%	17,212	17,331	1%	3,070	3,234	5%
Cost of goods sold	(17,236)	(17,581)	(2)%	(14,615)	(14,844)	(2)%	(2,621)	(2,737)	(4)%
Gross profit	3,046	2,984	(2)%	2,597	2,487	(4)%	449	497	11%
Operating expenses	(2,194)	(2,153)	2%	(1,813)	(1,752)	3%	(381)	(401)	(5)%
Other ³	(5)	65	-	(7)	56	-	2	9	350%
EBIT	847	896	6%	777	791	2%	70	105	50%
Discontinued Operations EBIT	32	56	75%	-	-	-	32	56	75%
Gross margin	15.0%	14.5%		15.1%	14.4%		14.6%	15.4%	
EBIT margin	4.2%	4.4%		4.5%	4.6%		2.3%	3.2%	

1. New Zealand and non-New Zealand Sourced milk is prepared on a Continuing Operations basis.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

New Zealand Milk by Product Channel - Gross Margin¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS	TOTAL		INGREDIENTS		FOODSERVICE		CONSUMER	
	2020	2021	2020	2021	2020	2021	2020	2021
Asia Pacific	18.1%	18.3%	11.5%	9.2%	18.8%	25.8%	29.5%	31.0%
AMENA	12.5%	10.2%	12.0%	9.5%	20.5%	17.2%	18.4%	19.9%
Greater China	14.8%	13.4%	9.5%	7.0%	23.1%	25.0%	34.7%	35.7%
Total	15.1%	14.4%	11.2%	8.6%	21.6%	24.6%	28.7%	30.5%

1. Prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period attribution.

New Zealand Milk by Product Channel – EBIT¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER			UNALLOCATED COSTS & ELIMINATIONS ³	
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021
Asia Pacific	197	297	51%	170	107	(37)%	13	68	423%	14	122	771%	-	-
AMENA	419	249	(41)%	379	204	(46)%	17	24	41%	23	21	(9)%	-	-
Greater China	384	393	2%	178	124	(30)%	233	277	19%	(27)	(8)	70%	-	-
Eliminations ³	(223)	(148)	34%	-	-	-	-	-	-	-	-	-	(223)	(148)
Total	777	791	2%	727	435	(40)%	263	369	40%	10	135	1,250%	(223)	(148)

1. Prepared on a Continuing Operations basis. Comparative information has been restated for consistency with the current period.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Unallocated costs and eliminations. Refer to Glossary for definition.

Discontinued Operations

We continue to make progress on the divestments of our China Farms and DPA Brazil.

China Farms

In the second half of the 2021 Financial Year we completed the sale of our wholly-owned China farms in Ying and Yutian. We expect to complete the sale of our 85% interest in the remaining Hangu China farm within the 2022 Financial Year.

China Farms normalised EBIT increased \$23 million despite the financial performance of the Ying and Yutian farms only being included for the eight-months up to the date of sale, compared to the full 12 months in the comparative period. The increase in normalised EBIT is primarily attributable to lower input costs, livestock sales and no depreciation being recognised in the 2021 Financial Year. In the comparative period \$6 million of depreciation costs were recognised up to the point the China Farms were classified as held for sale. For accounting purposes depreciation ceases upon classification as held for sale.

DPA Brazil

Due to deteriorations in market conditions from COVID-19, the sale process of DPA Brazil was not completed during the 2021 Financial Year. We remain committed to the sale and expect the sale to be completed within the 2022 Financial Year.

DPA Brazil's sales volume increased 4% due to more consumption at home as a response to COVID-19. Gross profit declined 22% due to a weaker local currency. At a normalised EBIT level, the decline in gross profit was offset by a 26% decrease in operating expenses due to favourable impacts on costs as a result of the weaker local currency and no depreciation costs being recognised in the 2021 Financial Year. In the comparative period, \$8 million of depreciation costs were recognised up to the point DPA Brazil was classified as held for sale.

Discontinued Operations Performance

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			CHINA FARMS ¹			DPA BRAZIL		
	2020	2021	CHANGE ²	2020	2021	CHANGE ²	2020	2021	CHANGE ²
Sales volume ('000 MT)	227	228	0%	22	15	(32)%	205	213	4%
Revenue	693	559	(19)%	282	195	(31)%	411	364	(11)%
Cost of goods sold	(531)	(429)	19%	(248)	(165)	33%	(283)	(264)	7%
Gross profit	162	130	(20)%	34	30	(12)%	128	100	(22)%
Operating expenses	(129)	(89)	31%	(24)	(11)	54%	(105)	(78)	26%
Other ³	(1)	15	-	1	15	1,400%	(2)	-	-
EBIT	32	56	75%	11	34	209%	21	22	5%
Gross margin	23.4%	23.3%		12.1%	15.4%		31.1%	27.5%	

1. Prior year numbers have been restated for rounding.
2. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
3. Consists of other operating income and net foreign exchange gains/(losses).

Historical Summary

Market Statistics

	MAY 2017	MAY 2018	MAY 2019	MAY 2020	MAY 2021
Fonterra Milk Collection Statistics¹					
Total New Zealand milk collected (million litres)	17,051	16,932	17,123	16,876	17,121
Highest daily volume collected (million litres)	80.1	82.0	85.4	82.6	82.8
New Zealand shareholding farms milk solids collected (million kgMS)	1,517	1,489	1,495	1,486	1,505
New Zealand non-shareholding farms milk solids collected (million kgMS)	9	16	28	31	34
New Zealand milk solids collected (million kgMS)	1,526	1,505	1,523	1,517	1,539
	JULY 2017	JULY 2018	JULY 2019	JULY 2020	JULY 2021
Fonterra Supply Base					
Total number of shareholding farms ²	9,715	9,358	9,095	8,856	8,581
Total number of non-shareholding farms ²	82	126	133	155	246
Aggregate minimum shareholding requirement (million) ²	1,419	1,391	1,391	1,392	1,403
Dry shares held by shareholding farms (million) ²	109	155	161	158	144
Dry Shares held by custodian ² (equal to units in Fund) (million)	126	111	103	105	107
Total number of shares on issue (million)	1,607	1,612	1,612	1,612	1,613
Vouchers counting to aggregate minimum shareholding requirement (million) ²	47	45	43	43	41
Shareholder Supplier Returns					
Farmgate Milk Price (per kgMS) ²	6.12	6.69	6.35	7.14	7.54
Dividend (per share)	0.40	0.10	-	0.05	0.20
Dividend yield (%) ²	6.7%	1.7%	-	1.3%	4.6%
Total Pay-out ²	6.52	6.79	6.35	7.19	7.74
Retentions (per share) ²	0.06	-	-	0.38	0.16
Weighted average share price (\$ NZD) ²	5.96	5.84	4.63	3.79	4.32
Weighted Average Commodity Prices (\$ USD per MT FOB)					
Whole Milk Powder ³	2,855	3,091	2,907	3,110	3,323
Skim Milk Powder ³	2,216	1,968	2,216	2,755	3,012
Butter ³	4,221	5,575	4,448	4,140	4,117
Cheese ⁴	3,763	3,853	3,772	4,011	4,060
Fonterra's average NZD/USD conversion rate²	0.70	0.71	0.69	0.66	0.67
Staff Employed					
Total staff employed (000's permanent full-time equivalents)	21.4	21.5	20.0	19.6	18.7
New Zealand	11.7	11.9	11.4	11.5	11.5
Overseas	9.7	9.6	8.6	8.1	7.1

Total Group Overview (Continuing and Discontinued Operations)

	JULY 2017	JULY 2018	JULY 2019	JULY 2020	JULY 2021
Income Statement Measures					
Sales volumes ('000 MT)	4,180	4,123	4,152	4,069	4,102
Normalised revenue (\$ million)	19,214	20,431	19,920	20,975	21,124
Normalised EBITDA (\$ million) ²	1,681	1,446	1,373	1,506	1,594
Normalised EBIT (\$ million) ²	1,155	902	812	879	952
Normalised profit after tax attributable to equity holders of the Co-operative (\$ million)	781	382	264	382	550
Reported earnings per share	0.46	(0.14)	(0.35)	0.43	0.36
Normalised earnings per share	0.49	0.24	0.16	0.24	0.34
Revenue Margin Analysis					
EBITDA margin (%) ²	8.7%	7.1%	6.9%	7.2%	7.5%
EBIT margin (%) ²	6.0%	4.4%	4.1%	4.2%	4.5%
Profit after tax margin (%) ²	4.1%	1.9%	1.3%	1.8%	2.6%
Cash Flow (\$ million)					
Operating cash flow	1,376	1,548	1,123	1,492	1,194
Free cash flow ²	670	600	1,095	1,828	1,417
Net working capital ²	3,055	3,432	3,122	3,417	3,692
Capital Measures					
Equity excluding hedge reserves (\$ million)	7,056	6,616	6,102	6,602	6,895
Economic net interest-bearing debt (\$ million) ²	5,601	6,199	5,749	4,659	3,787
ENIBD gearing ratio (%) ^{2,5}	44.3%	48.4%	48.5%	41.4%	35.5%
Adjusted net debt gearing ratio (%) ^{2,5}	-	-	-	44.2%	38.5%
Debt to EBITDA ^{2,6}	3.8x	4.6x	4.3x	3.3x	2.7x
Average capital employed (\$ million) ²	13,439	13,469	13,419	12,313	12,281
Capital expenditure (\$ million) ²	851	861	600	419	545
Return on capital (%) ^{2,7}	8.0%	6.2%	5.6%	6.6%	6.6%

Asia Pacific^{8,9}

	JULY 2020	JULY 2021
Ingredients		
Sales volume ('000 MT) ¹⁰	623	610
Normalised revenue (\$ million)	3,692	3,654
Normalised gross profit (\$ million)	391	272
Normalised gross margin (%) ²	10.6%	7.4%
Normalised EBIT (\$ million)	148	44
Normalised EBIT margin (%) ²	4.0%	1.2%
Foodservice		
Sales volume ('000 MT) ¹⁰	154	163
Normalised revenue (\$ million)	915	930
Normalised gross profit (\$ million)	167	218
Normalised gross margin (%) ²	18.3%	23.4%
Normalised EBIT (\$ million)	27	79
Normalised EBIT margin (%) ²	3.0%	8.5%
Consumer		
Sales volume ('000 MT) ¹⁰	629	613
Normalised revenue (\$ million)	2,467	2,526
Normalised gross profit (\$ million)	649	705
Normalised gross margin (%) ²	26.3%	27.9%
Normalised EBIT (\$ million)	64	182
Normalised EBIT margin (%) ²	2.6%	7.2%
Total		
Sales volume ('000 MT) ¹⁰	1,406	1,386
Normalised revenue (\$ million)	7,074	7,110
Normalised gross profit (\$ million)	1,207	1,195
Normalised gross margin (%) ²	17.1%	16.8%
Normalised EBIT (\$ million)	239	305
Normalised EBIT margin (%) ²	3.4%	4.3%

Asia Pacific -Australia^{8,9,11}

	JULY 2020	JULY 2021
Total		
Milk collection (millions kgMS)	108	106
Sales volume ('000 MT) ¹⁰	406	373
Normalised revenue (\$ million)	2,036	1,953
Normalised gross profit (\$ million)	214	243
Normalised gross margin (%) ²	10.5%	12.4%
Normalised EBIT (\$ million)	54	74
Normalised EBIT margin (%) ²	2.7%	3.8%

AMENA^{8,9}

	JULY 2020	JULY 2021
Ingredients		
Sales volume ('000 MT) ¹⁰	1,031	912
Normalised revenue (\$ million)	6,506	5,784
Normalised gross profit (\$ million)	751	534
Normalised gross margin (%) ²	11.5%	9.2%
Normalised EBIT (\$ million)	400	211
Normalised EBIT margin (%) ²	6.1%	3.6%
Foodservice		
Sales volume ('000 MT) ¹⁰	47	61
Normalised revenue (\$ million)	235	338
Normalised gross profit (\$ million)	30	42
Normalised gross margin (%) ²	12.8%	12.4%
Normalised EBIT (\$ million)	(5)	15
Normalised EBIT margin (%) ²	(2.1)%	4.4%
Consumer		
Sales volume ('000 MT) ¹⁰	355	379
Normalised revenue (\$ million)	1,133	1,182
Normalised gross profit (\$ million)	276	328
Normalised gross margin (%) ²	24.4%	27.7%
Normalised EBIT (\$ million)	70	110
Normalised EBIT margin (%) ²	6.2%	9.3%
Total		
Sales volume ('000 MT) ¹⁰	1,433	1,352
Normalised revenue (\$ million)	7,874	7,304
Normalised gross profit (\$ million)	1,057	904
Normalised gross margin (%) ²	13.4%	12.4%
Normalised EBIT (\$ million)	465	336
Normalised EBIT margin (%) ²	5.9%	4.6%

AMENA -Latin America^{8,9,11}

	JULY 2020	JULY 2021
Total		
Sales volume ('000 MT) ¹⁰	346	379
Normalised revenue (\$ million)	926	1,045
Normalised gross profit (\$ million)	242	285
Normalised gross margin (%) ²	26.1%	27.3%
Normalised EBIT (\$ million)	42	75
Normalised EBIT margin (%) ²	4.5%	7.2%

Greater China^{8,9}

	JULY 2020	JULY 2021
Ingredients		
Sales volume ('000 MT) ¹⁰	691	824
Normalised revenue (\$ million)	3,513	4,259
Normalised gross profit (\$ million)	330	298
Normalised gross margin (%) ²	9.4%	7.0%
Normalised EBIT (\$ million)	179	130
Normalised EBIT margin (%) ²	5.1%	3.1%
Foodservice		
Sales volume ('000 MT) ¹⁰	257	274
Normalised revenue (\$ million)	1,531	1,691
Normalised gross profit (\$ million)	341	417
Normalised gross margin (%) ²	22.3%	24.7%
Normalised EBIT (\$ million)	223	275
Normalised EBIT margin (%) ²	14.6%	16.3%
Consumer		
Sales volume ('000 MT) ¹⁰	73	78
Normalised revenue (\$ million)	330	362
Normalised gross profit (\$ million)	107	121
Normalised gross margin (%) ²	32.4%	33.4%
Normalised EBIT (\$ million)	(36)	(2)
Normalised EBIT margin (%) ²	(10.9)%	(0.6)%
Total		
Sales volume ('000 MT) ¹⁰	1,021	1,176
Normalised revenue (\$ million)	5,374	6,312
Normalised gross profit (\$ million)	778	836
Normalised gross margin (%) ²	14.5%	13.2%
Normalised EBIT (\$ million)	366	403
Normalised EBIT margin (%) ²	6.8%	6.4%

New Zealand and Non-New Zealand Milk^{8,9}

	JULY 2020	JULY 2021
New Zealand Milk		
Sales volume ('000 MT) ¹⁰	3,003	3,016
Normalised revenue (\$ million)	17,212	17,331
Normalised gross profit (\$ million)	2,597	2,487
Normalised gross margin (%) ²	15.1%	14.4%
Normalised EBIT (\$ million)	777	791
Normalised EBIT margin (%) ²	4.5%	4.6%
Non-New Zealand Milk		
Sales volume ('000 MT) ¹⁰	839	858
Normalised revenue (\$ million)	3,070	3,234
Normalised gross profit (\$ million)	449	497
Normalised gross margin (%) ²	14.6%	15.4%
Normalised EBIT (\$ million)	70	105
Normalised EBIT margin (%) ²	2.3%	3.2%
Total		
Sales volume ('000 MT) ¹⁰	3,842	3,874
Normalised revenue (\$ million)	20,282	20,565
Normalised gross profit (\$ million)	3,046	2,984
Normalised gross margin (%) ²	15.0%	14.5%
Normalised EBIT (\$ million)	847	896
Normalised EBIT margin (%) ²	4.2%	4.4%

Discontinued Operations^{8,12}

	JULY 2018	JULY 2019	JULY 2020	JULY 2021
China Farms¹³				
Sales volume ('000 MT) ¹⁰	22	20	22	15
Normalised revenue (\$ million)	248	247	282	195
Normalised gross profit (\$ million)	(23)	(14)	34	30
Normalised gross margin (%) ²	(9.5)%	(5.7)%	12.1%	15.4%
Normalised EBIT (\$ million)	(33)	(14)	11	34
DPA Brazil				
Sales volume ('000 MT) ¹⁰	191	194	205	213
Normalised revenue (\$ million)	435	419	411	364
Normalised gross profit (\$ million)	132	116	128	100
Normalised gross margin (%) ²	30.3%	27.7%	31.1%	27.5%
Normalised EBIT (\$ million)	1	(8)	21	22

Notes to the Historical Summary

1. Fonterra Seasonal Statistics are based on the 12-month New Zealand milk season of 1 June – 31 May.

2. Refer to Glossary for definition.

3. Source: Fonterra Farmgate Milk Price Statement representing the weighted-average United States Dollar contract prices of Reference Commodity Products.

4. Source: Oceania Export Series, Agricultural Marketing Service, US Department of Agriculture.

5. During the 2021 Financial Year, the Board used the ENIBD gearing ratio to monitor the Group's gearing. In July 2021 the Board approved a new basis for calculating the Group's gearing ratio to align with the definition of debt used for the debt to EBITDA ratio, the adjusted net debt gearing ratio. This basis will be used to monitor the Group's gearing in the future.

6. Prior years' debt to EBITDA have been restated. Group changed the method of calculating adjusted net debt to align with how certain rating agencies calculate the Group's debt to EBITDA ratio. Previously, adjusted net debt included a further cash adjustment for 25% of cash and cash equivalents held by the parent.

7. For the 2021 Financial Year the notional tax charge was set to 16.1% (2020 Financial Year: 8.4%). The 2021 return on capital would be 7.2% if calculated with the prior notional tax charge. In 2021 the methodology to calculate return on capital was updated to align the definition of debt with the net debt (adjusted net debt) used in the debt to EBITDA ratio and exclude hedge reserves from total equity. The prior years have been restated for consistency with the current period attribution.
8. Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.

9. Prepared on a Continuing Operations basis and includes normalisation adjustments. Comparative information has been restated for consistency with the current period attribution.

10. Includes sales to other segments.

11. Exclusive of Group Operations' attribution.

12. The China Farms business and DPA Brazil consumer and foodservice businesses both meet the definition of a Discontinued Operation. The Group's China Farms business comprises its 85% owned farm in Hangu and, up to the date of sale, its two-wholly owned farming hubs in Ying and Yutian. The financial performance of the Ying and Yutian farms up to the date the Group ceased to have control over the farms (1 April 2021), has been recognised as part of profit/(loss) after tax from discontinued operations in the Income Statement.

13. Prior year numbers have been restated for rounding.

Glossary

TERMS	DEFINITION FOR ANNUAL RESULTS
Adjusted net debt	is economic net interest-bearing debt, excluding long-term advances, plus borrowings attributable to disposal groups held for sale, less cash and cash equivalents attributable to disposal groups held for sale, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries (including cash and cash equivalents attributable to disposal groups held for sale).
Aggregate Minimum Shareholding Requirement	means the total amount of shares required to be held by farmer shareholders to meet the Share Standard.
AMENA	represents the Ingredients, Foodservice and Consumer channels in Africa, Middle East, Europe, North Asia and Americas.
Asia Pacific	represents the Ingredients, Foodservice and Consumer channels in New Zealand, Australia, Pacific Islands, South East Asia and South Asia.
Attributable to equity holders of the Co-operative	is used to indicate that a measure or sub-total excludes amounts attributable to non-controlling interests.
Bulk liquids	means bulk raw milk that has not been processed and bulk separated cream.
Average capital employed	is a 13-month rolling average of capital employed.
Capital employed	is adjusted net debt less the cash adjustment (used in calculating adjusted net debt), plus cash and cash equivalents held by subsidiaries for working capital purposes, plus equity excluding hedge reserves and net deferred tax assets.
Capital expenditure	comprises purchases of property (less specific disposals where there is an obligation to repurchase), plant and equipment and intangible assets (excluding purchases of emissions units), net purchases of livestock, and includes amounts relating to disposal groups held for sale.
Capital invested	comprises capital expenditure plus right of use asset additions and business acquisitions, plus equity contributions and long-term advances provided to, and investments in, entities that are not controlled.
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.
Voucher	means a voucher provided to a farmer shareholder who transferred the Economic Rights of a Wet Share to the Fund, and which can be used to count towards a farmer shareholder's Share Standard.
Custodian	means the Fonterra Farmer Custodian, which is the legal holder of the shares in respect of which Economic Rights are held for the Fund.
Debt to EBITDA	is adjusted net debt divided by Total Group normalised earnings before interest, tax, depreciation and amortisation (Total Group normalised EBITDA) excluding share of profit/loss of equity accounted investees and net foreign exchange gains/ losses.
DIRA	means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities, subsequent amendments to the Act, and the Dairy Industry Restructuring (Raw Milk) Regulations 2012.
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.
Dividend yield	is dividends (per share) divided by volume weighted average share price for the period 1 August to 31 July.
Dry Shares	means any shares held by a farmer shareholder in excess of the number of shares required to be held by that farmer shareholder in accordance with the Share Standard for a season.
Earnings before interest and tax (EBIT)	is profit before net finance costs and tax.
Earnings before interest, tax, depreciation and amortisation (EBITDA)	is profit before net finance costs, tax, depreciation and amortisation.

GLOSSARY CONT.

TERMS	DEFINITION FOR ANNUAL RESULTS
Earnings per share (EPS)	is profit after tax attributable to equity holders of the Co-operative divided by the weighted average number of shares on issue for the period.
EBIT margin	is EBIT divided by revenue from sale of goods.
EBITDA margin	is EBITDA divided by revenue from sale of goods.
Economic net interest-bearing debt	is total borrowings, plus bank overdraft, less cash and cash equivalents and long-term advances, adjusted for derivatives used to manage changes in hedged risks on debt instruments. It excludes net borrowings amounts attributed to disposal groups held for sale.
Economic Rights	means the rights to receive dividends and other economic benefits derived from a share, as well as other rights derived from owning a share.
Farmgate Milk Price	means the average price that Fonterra pays for milk supplied to it in New Zealand for a season. 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.
Fonterra's average NZD/USD conversion rate	is the rate that Fonterra has converted net United States Dollar receipts into New Zealand Dollars including hedge cover in place.
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 in 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.
Gearing ratio (adjusted net debt)	is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt. It includes net borrowings attributed to disposal groups held for sale.
Gearing ratio (economic net interest-bearing debt)	is economic net interest-bearing debt divided by total capital. Total capital is equity excluding hedge reserves, plus economic net interest-bearing debt. It excludes net borrowings attributed to disposal groups held for sale.
Global Accounts	means large scale, multi-national/multi-region customers.
Global Dairy Trade (GDT)	means the electronic auction platform that is used to sell commodity dairy products.
Greater China	represents the Ingredients, Foodservice and Consumer channels in Greater China, and the Falcon China Farms JV.
Gross margin	is gross profit divided by revenue from sale of goods.
Group Operations	comprises functions under the Chief Operating Office (COO) including New Zealand milk collection and processing operations and assets, supply chain, Group IT, Sustainability and Innovation; Farm Source™ retail stores; and the Central Portfolio Management function (CPM).
Held for sale	an asset or disposal group is classified as held for sale if it is available for immediate sale in its present condition and its sale is highly probable. A disposal group is a group of assets and liabilities to be disposed of (by sale or otherwise) in a single transaction.
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.
Net debt	means economic net interest-bearing debt.
Net tangible assets per security	is net tangible assets divided by the number of equity instruments on issue. Net tangible assets is calculated as net assets less intangible assets.
Non-reference products	means all dairy products, except for reference commodity products manufactured in NZ.

TERMS	DEFINITION FOR ANNUAL RESULTS
Non-Shareholding Farm	means a farm where the owning entity is not entitled to hold shares in the Co-operative. As an example, farms supplying MyMilk.
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. Normalisation adjustments are set out in the Non-GAAP Measures section.
Normalised	is used to indicate that a measure or sub-total has been adjusted for the impacts of normalisation adjustments. E.g. 'Normalised EBIT'.
Product channel	Fonterra has three product channels, Ingredients, Foodservice and Consumer.
Profit after tax margin	is profit after tax attributable to equity holders of the Co-operative, divided by revenue from sale of goods.
Reference commodity products (also referred to as reference products)	means the commodity products used to calculate the Farmgate Milk Price, comprising Whole Milk Powder, Skim Milk Powder, Butter Milk Powder, Anhydrous Milk Fat and Butter.
Reported	is used to indicate a sub-total or total is reported in the Group's Financial Statements before normalisation adjustments. E.g. 'Reported profit after tax'.
Retentions	means profit after tax attributable to equity holders of the Co-operative, divided by the number of Co-operative shares on issue, less dividend per share. Retentions are reported as nil where Fonterra has reported a net loss after tax.
Return on capital	is Total Group normalised EBIT including finance income on long-term advances less a notional tax charge, divided by average capital employed.
Shareholding Farm	means a farm where the owning entity of the farm has a minimum required shareholding of at least 1,000 shares in the Co-operative. This includes farms where the owning entity is in the process of sharing up on a share up over time contract.
Share Standard	means the number of shares a farmer shareholder is required from time to time to hold as determined in accordance with the Constitution, currently being one share for each kilogram of milk solids obtainable from milk supplied (excluding milk supplied on contract supply) to Fonterra. For these purposes milk supplied is based on a three season rolling average of a farm's production.
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 China: A period of 12 months from 1 August to 31 July
Total Group	is used to indicate that a measure or sub-total comprises continuing operations, discontinued operations and non-controlling interests. E.g. 'Total Group EBIT'.
Total Pay-out	means the total cash payment to a 100% share backed farmer shareholder, being the sum of the Farmgate Milk Price (kgMS) for every milk solid supplied and the dividend for every share held.
Unallocated costs and eliminations	represents corporate costs including Co-operative Affairs and Group Functions; and any other costs that are not directly associated to the reporting segments; and eliminations of inter-segment transactions.
WACC	means weighted average cost of capital.
Weighted average share price	represents the average price Fonterra Co-operative Group Limited shares traded at, weighted against the trading volume at each price over the reporting period.
Wet Shares	means any shares held by a farmer shareholder in accordance with the Share Standard for a season.
Working capital	is total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements.
Working capital days	is average working capital divided by revenue from sale of goods, multiplied by the number of days in the period.

Our 2021 Suite of Reports

Our Annual Review is a concise summary of our environmental, social and economic activities and performance. It is supported by a suite of supplementary reports where stakeholders can find more detailed information most relevant to them. This represents another step on our journey towards more integrated reporting.



OUR REPORTS ARE AVAILABLE FROM
[FONTERRA.COM/NZ/EN/INVESTORS.HTML](https://fonterra.com/nz/en/investors.html)

Annual Review
2021



Sustainability Performance
Report 2021



Financial Statements
2021



Corporate Governance
Statement 2021



Farmgate Milk Price
Statement 2021



Statutory Information
2021



Business Performance
Report 2021



Sustainability
Performance
Report 2021

**Good
Together**
from one generation
to the next



Stephanie, Auckland

FRONT COVER:
Stephanie, Teagan & Keeley, Auckland

About this report

This report covers the activities of Fonterra Co-operative Group Limited and of joint ventures under Fonterra’s management control. It covers year ending 31 July 2021 – ‘FY21’ and is one supporting document to the Annual Review 2021, forming an integrated suite of reports.

www.fonterra.com/annualreview2021

In certain sections throughout the report, we have included data relating to periods prior to FY21 where such data is relevant to, or useful context for the reader. Where we have done so, we have made it clear which year(s) the data relates to.

This is our fifth sustainability performance report (our first was in 2017) and we intend to continue this reporting on an annual basis. This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option (see page SP-65 for an index of disclosures).

Independent assurance of the report has been completed by Bureau Veritas. This provides assurance that the report complies with GRI Standards and provides an accurate and fair representation of Fonterra’s sustainability performance. Refer to the Assurance Statement on page SP-67.

We know the importance of understanding stakeholder perspectives, so we’d appreciate your feedback on this report and our performance. Please email us at sustainability@fonterra.com

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Our approach

A sustainable future for our Co-operative is core to our strategy – it’s how we create long-term value for future generations.



Laura & Ben, Auckland

Healthy People

We are working together to care for people and make a positive social impact



**He aha te mea nui o te ao?
He tāngata, he tāngata, he tāngata.**

**What is the most important thing in the world?
It is people, it is people, it is people.**

- ✔ Addressing public health challenges by improving the nutritional profile of our products and promoting healthy diets.
- ✔ Providing positive employment for our people by promoting a healthy and safe working environment and developing a diverse, skilled and agile workforce.
- ✔ Improving the health of our communities by doing business in the right way, sharing what we do best and playing our part to build resilient, sustainable communities.

Long-term contribution



Stephanie & Keeley, Auckland

Healthy Environment

We are working together to achieve a healthy environment for farming and society



**Tiakina te whenua i tēnei rā, hei oranga tangata
mō ngā rā e heke mai nei.**

**Caring for the land today, so that the land cares
for us tomorrow.**

- ✔ Improving the health and biodiversity of our land and waters by having a regenerative mindset, reducing the impacts of farming and manufacturing, and working in partnership with others.
- ✔ Leading the transition to a low-carbon future by investing in innovation and infrastructure to remove greenhouse gas emissions from our supply chain.
- ✔ Helping meet the growing nutritional demand through improvements in productivity and minimising waste from farm to consumer.

Long-term contribution



Farmer, Waikato

Healthy Business

We are working together to deliver a sustainable business



Nā tō rourou, nā taku rourou ka ora ai te iwi.

**With your contribution and my contribution,
we'll all thrive together.**

- ✔ Supporting healthy, sustainable livelihoods for our shareholder farmers by returning the most value from every drop of milk.
- ✔ Building a strong co-operative by ensuring our business, including investments, delivers long-term value.
- ✔ Meeting the changing needs of customers and consumers by leveraging our unique strengths and innovating to create sustainable value for them and us.

Long-term contribution



Our progress



Healthy People



9 ↓

serious harms, continued improvement on 10 in FY20 but our focus remains on achieving zero harm (see page SP-14).

3.8% ↓

gender pay gap in New Zealand, narrower than FY20 and gap closing across all job categories globally (see page SP-19).

28.1% ↑

increase in on-the-job training and reskilling hours, ahead of plan to deliver our Aotearoa New Zealand Skills Pledge (see page SP-16).

32.4% ↑

female representation in senior leadership is improving but slower than target (see page SP-18).



Healthy Environment



53% ↑

of farms supplying us milk in New Zealand now have detailed farm-specific Farm Environment Plans (see page SP-26)

11% ↓

reduction in our carbon emissions from coal use with Te Awamutu moving to renewable wood pellets (see page SP-30)

0.6% ↑

increase in total reported overall (Scope 1, 2 and 3) emissions (see page SP-32)

360 REPREVE®

Farm Source™ launched a range of farm workwear made from recycled plastic bottles (see page SP-34)



Healthy Business



\$11.6 billion ↑

paid to farmers in New Zealand for the 2020/21 season (see page SP-41).

2.7x ↓

debt levels continue to reduce with debt/EBITDA down to 2.7x (see Business Performance Report page BP-13).

34c ↑

normalised earnings per share up to 34c (see Business Performance Report page BP-47).

3,246 ↑

farms in New Zealand achieved one of the recognition levels in our Co-operative Difference framework (see page SP-43).

Message from the Sustainability Advisory Panel



Bridget Coates
CHAIR



Paul Gilding



Aroha Mead



Dr. J Morgan Williams QSO



Corrigan Sowman

As an independent Advisory Panel, our primary role is one as ‘honest critic’, bringing independent challenge and advice to management and Board, on a wide range of issues. The context around the company and the global dairy industry has continued to evolve during the year, and the scale of the challenge has increased as the pressures of climate change intensify.

Our work this year has centred around the wider themes of Fonterra’s leadership through change, with farmers and across the wider Aotearoa New Zealand community. We have been evaluating latest thinking on the future for dairy and farming, considering how to celebrate and strengthen the Co-operative culture, examining ways of creating value from sustainability initiatives with global customers and consumers, and addressing material risks for Fonterra and its farmer shareholders. We have reviewed the “Net Zero” undertakings by some of Fonterra’s major global customers (such as Nestlé) and considered the scale of change for New Zealand dairy that is indicated by those plans.

Critical priorities such as climate action, improving environmental outcomes (including water quality), framing the narrative around dairy and farming, and building social license in NZ have woven through all of these themes. We have also focused on te ao Māori and the company’s engagement with tangata whenua.

During our tenure as a Panel, we are honoured to have helped accelerate the embedding of a sustainability mindset across the company as a whole, and to have assisted with the Co-operative’s wider sustainability change journey. We are pleased to see increasingly clear strategies and leadership from Fonterra which will help New Zealand dairy and its wider eco-system adjust to the new realities of the global industry, as they emerge.

Bridget Coates
Chair, Fonterra Sustainability Panel

Panel members:
Paul Gilding
Aroha Mead
Dr. J Morgan Williams QSO
Corrigan Sowman

 [Read full biographies online](#)



Role of the panel:

The Fonterra Sustainability Advisory Panel was established in 2018, with the first meeting in October 2018. The role of the Panel is to:

- 1 Review and provide feedback and advice to the Board on Fonterra’s strategy, targets and initiatives as they relate to economic, social and environmental sustainability;
- 2 Provide credible, independent expertise and guidance to the Board to improve performance and outcomes in relation to sustainability; and
- 3 Present to the Board on advice and/or issues that relate to sustainability and affect Fonterra.

Responding to what's important

Engaging with our stakeholders

Taking into account the views and perspectives of our stakeholders, and building relationships, is critical to the long-term success of our Co-operative.

We consider our stakeholders to be those individuals or entities that are significantly impacted by our products and the activities required to source, make and distribute these or whose actions affect our ability to deliver our strategy (see Annual Review page AR-26).

Determining what's important

Using a combination of the relative importance to our stakeholder groups and the significance of our impacts, this year we have refreshed our list of most material topics. This is used to help us prioritise areas for improvements and the importance of disclosure in this report.

The table on the right lists the most important topics, in order, and identifies where we cover our response in our reporting. For further details on the process and findings see page SP-62.

Topic	Reporting on our response
Ensuring the <i>food safety and quality</i> of the products we deliver.	See Food safety and quality on page SP-12
<i>Adapting to the effects of climate change</i> , while mitigating our impacts.	See Climate change on page SP-27
Using <i>water</i> responsibly, including water quality, availability and disposal.	See Land and water on page SP-23
<i>Protecting the health and safety of people at work</i> , including their wellbeing.	See Health, safety and wellbeing on page SP-14
<i>Protecting animal health and welfare</i> within our supply chain, including caring for our cows and responsible use of antibiotics.	See Animal wellbeing on page SP-36
Supporting the livelihood of thousands of people through meaningful <i>employment and sustainable income creation</i> , including the milk price for our shareholder farmers.	See Employment and sustainable income creation on page SP-40
Protecting <i>soil health</i> which is essential for sustainable food production, including nutrient management.	See Land and water on page SP-23
Contributing to <i>nutrition and health</i> through the products and information we deliver, including reducing obesity and under-nutrition.	See Nutrition and health on page SP-08
<i>Maintaining ethical business practices</i> fundamental to the way we work, including anti-corruption and fair competition.	See Ethical business practices on page SP-46
Using <i>responsible procurement</i> to influence environmental, social and economic performance along our supply chain.	See Responsible procurement on page SP-44
<i>Protecting and enhancing biodiversity</i> and the underlying ecosystem services we rely upon, including the impact of deforestation.	See Land and water on page SP-23 See Responsible procurement on page SP-44
Protecting the <i>employment rights and working conditions</i> of our people, including diversity and inclusion, women's empowerment and learning and development.	See Employment rights on page SP-16
Minimising <i>post-consumption waste</i> , including product packaging and food waste.	See Packaging and waste on page SP-33



Laura & Ben, Auckland

Healthy People

We are working together to care for people and make a positive social impact.

He aha te mea nui o te ao?
He tāngata, he tāngata, he tāngata.
What is the most important thing in the world? It is people, it is people, it is people.

To do this we are:

- Addressing public health challenges by improving the nutritional profile of our products and promoting healthy diets.
- Providing positive employment for our people by promoting a healthy and safe working environment and developing a diverse, skilled and agile workforce.
- Improving the health of our communities by doing business in the right way, sharing what we do best and playing our part to build resilient, sustainable communities.

Our products help people eat balanced diets and we are using our scale and know-how to respond to people’s changing needs, attitudes and lifestyles.

We are looking after people’s safety and wellbeing, providing employees with development opportunities and supporting the communities we live and work in.

It’s all part of making sure dairy plays its part in a sustainable food system.

IN THIS SECTION	
Nutrition and health	SP-08
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Employment rights	SP-16
Supporting communities	SP-20

84% ↑
of our everyday and advanced nutrition products now meet our independently endorsed nutritional guidelines – see page SP-09

5.7 ↓
Injury rate and serious harm both reduced but our focus remains on achieving zero harm – see page SP-15

28.1% ↑
increase in on-the-job training and reskilling hours, ahead of plan to deliver our Aotearoa New Zealand Skills Pledge – see page SP-16

KickStart Breakfast grew to over **1,300 schools** across New Zealand, serving more than 180,000 breakfasts per week – see page SP-20

Nutrition and health

Good nutrition is essential for people to lead healthy and fulfilling lives.

Unhealthy diets and poor nutrition are among the top risk factors for non-communicable diseases (those that do not transmit from person to person) such as heart attacks, strokes, certain cancers, and diabetes.



Milk provides protein and a wide range of vitamins and minerals for relatively low calories, which makes it both nutrient-rich and nutrient-dense. The proteins found in dairy products have essential amino acids that are both easy to digest and in proportions that meet human needs. Many nutrients (especially calcium) are also in an easily absorbed form.

As a food company, we recognise the valuable role dairy products can play in addressing deficiencies in diets and improving health and wellbeing for people around the world. We see a vital role for dairy in a globally sustainable food system. This section covers our global approach to nutrition and its contribution to health and wellbeing.

Our approach

The Fonterra Group Nutrition Policy sets out our overarching commitments including delivering science-based nutrition and health benefits, products tailored to specific nutritional needs and marketing these in a responsible manner. Supporting the policy are detailed guidelines that define nutrition criteria and principles for the composition and marketing of our consumer products and ingredients.

The New Zealand Nutrition Foundation has independently reviewed and endorsed these guidelines as evidence-based, founded in robust nutritional science and reflecting international

directives on nutrition and health. These guidelines complement national food standards and regulations, as well as our own educational and advocacy activities to raise awareness of the value of dairy nutrition in healthy, balanced diets.

We market our products responsibly and take particular care when marketing to vulnerable populations – for example, children. We are committed to promoting responsible consumption of our products at all life stages in line with national dietary guidelines.

We support and promote the aim and intent of the World Health Organisation (WHO) Code for the Marketing of Breast Milk Substitutes. This includes the recommendation for six months of exclusive breastfeeding and continued breastfeeding, with suitable nutritious complementary feeding, up to two years of age and beyond. We are committed to complying with the relevant industry codes and legislation in all countries where our products targeting infants and young children are sold.

We have established an internal Global Nutrition Council, including senior leaders, that is responsible for governing our nutrition policy, standards and guidelines and overseeing the nutrition performance of our portfolio.

What we've been doing

Investing in innovation

The Fonterra Research and Development Centre (FRDC) is one of the largest of its kind in the world, with more than 300 science and technical experts, including approximately 100 with PhDs. We invest significantly in innovation to deliver benefits from dairy that are supported by science and meet the nutritional needs and expectations of society.

Human milk is the gold standard for feeding infants. However, when breastfeeding is not possible, infant formula is the only suitable alternative and an area of ongoing research. Human milk fat globule membrane (MFGM) has multifunctional health benefits and this year a Fonterra supported study, evaluating the neurodevelopment and growth of infants fed a formula enriched with bovine milk-derived MFGM, was accepted for publication. The study found that, compared to standard formula, MFGM-enriched formula supported adequate growth, increased serum gangliosides concentration and improved some measures of cognitive development in Chinese infants including social, emotional and adaptive behaviour and short-term memory.



"We work very closely with the global application centres and in-market sales teams to understand what customers want and then focus our research and development to deliver products that meet these emerging needs."

MARK PIPER – DIRECTOR OF CATEGORY, STRATEGY AND INNOVATION

Market-led innovation

To support our growing foodservice business in Southern China, we have revamped our application centre in Guangzhou. It now features different zones for various products, including a new area dedicated to beverages. Recognising that consumer preferences in different markets can be very different, our application centres provide an important link between our customers and our research and development teams.

Fonterra's Guangzhou Application Centre serves customers across nine provinces, with ten chefs able to host more than 70 large and 150 small demonstrations each year. We have other application centres located in Beijing, Shanghai, and Chengdu, and plans to open more.

Improving the nutritional profile of our consumer products

We are continuing to improve the formulation of our consumer products, taking into consideration the levels of dairy protein and calcium, while also minimising the addition of sugars, refined carbohydrates, non-nutritive sweeteners, sodium and saturated fat. Our nutrition guidelines also reflect our support for the global public health objective to reduce the intake of industrially-produced trans fats from partially hydrogenated oils.

This year we updated our nutrition guidelines to further align with international health authorities and regulatory recommendations, and to simplify the definitions. These have been re-endorsed by the New Zealand Nutritional Foundation and we have made them [publicly available](#) on our website.

Our target is for 100% of our everyday and advanced nutrition consumer products, such as yoghurt and fortified milk powders, to meet our independently endorsed nutrition guidelines by 2025. This year, on a volume sold basis and using the new guidelines, we improved from 82¹ to 84%.

Healthier options for women in the Philippines



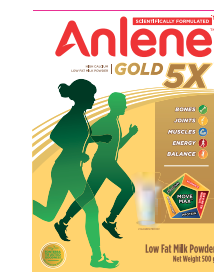
Annum™ Materna is specially formulated to meet the nutritional needs of pregnant women or women planning to have children. This year we launched a no added sugars formulation in the Philippines for pregnant women who are at risk of, or suffering from, Gestational Diabetes.

Fonterra Brands Sri Lanka – extends options at home and abroad



This year in Sri Lanka, we launched Anchor™ PediaPro, our first ever toddler cereal intended for children aged one-three years. Aligned with Anchor Pedia's product portfolio, this toddler cereal is fortified with Iron and Omega 3 to support cognitive development while adding five different grains and two fruits to the core goodness of milk.

We also reformulated our Anlene™ product extending its benefit from 'Bone Health' to bring in additional benefits in the form of 'Muscles, Joints, Energy & Immunity'. At the same time we have also improved the taste according to trials completed with potential consumers.



Looking beyond Sri Lanka's domestic value we also launched Anlene Gold 5X™ for neighbouring emerging markets. In Sri Lanka, Anlene Gold 5X™ was made and customised for export to Mauritius in FY21 and this will be extended to the Maldives in FY22. As we age, our bones, joints and muscles start deteriorating and affect our mobility, flexibility and energy to perform daily activities. Based on the findings of our 'LET's Move' study, women aged 45-65 who consumed two glasses of fortified milk along with regular exercise, experienced two times the improvement in flexibility, three times the improvement in balance and 40% more improvement in muscle mass compared to the control group².

¹ Using the newly endorsed guidelines, the result for FY20 improves from 73% as reported last year, to 82%.

² Am J Clin Nutr 2020; 112:427 – 446.

Probiotics

Probiotics are living organisms that provide proven health benefits. Including them in our diet can support immunity and digestion by improving gut integrity and barrier function. Probiotics can help improve digestion process time, protect against tummy upsets and reduce the risk of certain types of infections.

Fonterra began this research programme over 20 years ago, screening more than 2,000 bacterial strains to identify potential probiotics. This led to the discovery of LactoB HN001™ isolated from a New Zealand cheddar cheese culture, and BifidoB HN019™ from a yoghurt culture. This research is ongoing, tapping into Fonterra's extensive culture collection, as we look for improved strains.

This year, there has been a global surge in interest for ingredients that support immune function. The clinically-proven benefits of our premium probiotic ingredients mean we have continued to gain market share with sales growth particularly strong in China.

Innovating to support customer formulation decisions

The health and wellness nutrition market is growing quickly. More people are looking for nutrition products to support their focus on a healthy, active lifestyle. Many of our NZMP™ food and beverage customers are developing new consumer ready-to-drink beverages or snack bar products to satisfy this demand. These need to be in formats that appeal to consumers and let them access the nutrition. To help these customers understand options and make ingredients and formulation decisions in these COVID-affected times of restricted travel, our Active Living team innovated to provide digital solutions.

Hosted on the NZMP website, the team built two digital tools: 'Build My Bar' launched in July 2020 and 'Build Your Beverage' launched in October 2020. These tools are available to all markets and they guide the customer through a series of steps to define the key attributes of their new or refined product and then help them select the best combination of NZMP dairy ingredients to meet them.

The 'Build My Bar' tool helps customers select suitable ingredients for nutritional snack bars considering attributes such as bar type, protein content and texture. The 'Build Your Beverage' tool helps customers in a similar way for ready-to-drink beverages, considering attributes such as sugar content, heat stability and viscosity. During FY21, the primary markets for bar products were USA and Europe and for beverages were USA, Japan, China and Europe.

These digital tools not only help our customers to understand options and investigate ways of refining formulations, it also allows our sales and innovation teams to connect with current and prospective customers in the new restricted travel and socially-distanced world. We are able to talk through our wide portfolio of ingredients, and how different options and combinations can meet specific functional attributes and benefits.

For the nutrition bar market, the team also hosted educational webinars to provide additional insights and even sent out samples to attendees in advance to allow remote guided tastings.

Lipids ingredients for adult mental wellbeing

Psychological stress is a serious and growing health concern across generations, impacting day-to-day performance.

In a market first, our Active Living team launched two new ingredients this year that include milk phospholipids to support mental wellness. One is ideal for protein fortified food and ready-to-mix applications. The other is ideal in standalone products and ready-to-drink applications.

Naturally present in milk, milk phospholipids are complex lipids that are clinically proven to manage the effects of stress, helping to maintain performance by staying focused and positive. Independent clinical trials have shown that phospholipids may help adult mental wellbeing by supporting better mental performance during a

stressful event, such as a test or an examination. The initial launch is for consumers in the USA and Europe with plans for further expansion into other regions.



According to the United Nations, sustainable healthy diets are

“dietary patterns that promote all dimensions of individuals’ health and wellbeing; have low environmental pressure and impact; are accessible, affordable, safe and equitable; and are culturally acceptable”¹

Sustainable Nutrition Initiative

The Sustainable Nutrition Initiative (SNI) is an international collaboration led by food science research centre, The Riddet Institute at Massey University. The SNI was created to improve understanding about sustainable food systems and identify opportunities for improvement. Fonterra Research and Development employees provide support to the initiative, including our Chief Science and Technology Officer in his capacity as Professor of Sustainable Nutrition at the Riddet Institute.

The global food system is under justified scrutiny from an environmental sustainability perspective. However, it is essential the nutritional implications of any change are not forgotten. The DELTA model enables future food system scenarios to be investigated from a nutrition perspective, so this can be considered alongside the other aspects of sustainability.

The DELTA model has several aspects that make it novel compared to other existing models for global nutrition. First, it is openly available for use to gain a better understanding of the problem and explore scenarios for themselves. Second, it takes into account the bioavailability of nutrients – the ability of the body to obtain and use the nutrients according to the nutrient source. Third, it includes upper and lower levels for safe intake of nutrients rather than just the recommended target.

This year, details of the DELTA model and some key results were published in the [Journal of Nutrition](#)². One of the key insights from the model is that the food system needs to be plant-based and animal-optimised, complemented by agri-tech-based production of nutrients. To a great extent this is already the situation with plant-based food accounting for 8.6 billion out of the 10.1 billion tonnes of global food that leaves the world’s farms and oceans. The model also highlights the important role that milk plays in providing many of the nutrients.

Based on 2018 data, there is enough food energy, carbohydrate, protein and fat (i.e. macronutrients) produced to feed more than 8.5 billion people. Undernourishment results from other factors such as the unequal distribution of food, affordability, geo-politics and poor personal choices. A bigger problem is the supply of micronutrients and trace elements such as Calcium, Iron, Potassium and Vitamins. A diet lacking these can have serious implications for the individual’s health and their children. Called “hidden hunger” this currently affects more than two billion people.

Expanding food production at current levels of efficiency will not be practical within environmental constraints. To close this gap, developments in technology are required to find new ways of producing nutrients, such as fermentation-produced nutrition, alongside traditional food production.

Investigating complementary nutrition

Dairy is recognised by governments and health experts around the world as a unique source of nutrition with the flexibility to play an important role in healthy, balanced diets. We are confident consumers will continue to value the natural goodness of dairy, especially our pasture-based dairy from New Zealand. We also support consumer choice and we are open-minded to this.

Complementary nutrition – where plant, insect, algae and fermentation-produced nutrition co-exist alongside animal-sourced foods – is a relatively new but fast evolving area. Being involved gives us the opportunity to learn and evaluate longer-term opportunities. In early in 2019, we made a minority investment in Motif™. Motif is a Boston-based start-up that is using biotechnology and fermentation to improve the taste, texture and nutrition of plant-based foods.

Our performance

84% 

of our everyday and advanced nutrition products now meet our independently endorsed nutritional guidelines³.

Compliance with regulations

In the past year, we received no fines, penalties or market bans for breaches of marketing regulations.

What’s next

We will continue to improve the nutritional value of our consumer branded products, minimising added sugars and salt, and eliminating industrially-produced trans fats.

We will continue to invest in research and development and new innovations for our entire product range.

1 FAO and WHO. 2019. Sustainable healthy diets – Guiding principles. Rome.
2 Nick W Smith, Andrew J Fletcher, Lakshmi A Dave, Jeremy P Hill, Warren C McNabb, Use of the DELTA Model to Understand the Food System and Global Nutrition, The Journal of Nutrition, 2021.
3 Assessment of products is based on protein, calcium and added sugars. Everyday nutrition products are intended to deliver a daily source of dairy nutrition. Advanced nutrition products provide a source of dairy nutrition and are fortified for advanced nutrition and health benefits.

Food safety and quality

Safe food. Safe people. World class quality. It's our promise.

Our approach

At Fonterra, food safety and quality is everyone's responsibility - from our farms all the way to our customers around the world. Accountability extends from the Board of Directors, through to the Fonterra Management Team, to individual managers, workers, contractors working on Fonterra sites and providers of goods and services. To ensure consistency of approach and continuous improvement, the Global Safety, Quality and Regulatory (GSQR) organisation and operating model, including the Food Safety and Quality Council, is embedded across Fonterra.

Our Food Safety and Quality System ensures that, wherever we are in the world, we have a clear, consistent framework to deliver safe, quality products and services. It is made up of four key components: our Food Safety Policy, business unit requirements, partner requirements, and our food safety and quality behaviours.

All our food products are assessed for health and food safety impacts prior to initial launch and on an ongoing basis. This includes detailed processes for new product development, manufacturing and product sampling and testing, including shelf life studies. To evaluate our performance, manufacturing sites are subject to an internal audit programme and regular scrutiny from third-party audits by regulators, key account customers and certification bodies. Where areas are identified for improvement, these are acted upon.

We are guided on best-practice by multiple international food safety and quality standards and more than 95% of our manufacturing sites are independently certified to a leading food safety management system (e.g. FSSC22000, BRC).



What we've been doing

Product traceability

Having full traceability of the products we deliver back to the farms where we collected the milk, including the food-contact packaging and other ingredients, is a vital part of our food safety system. It also allows us to demonstrate the provenance of the product from a social and environmental perspective. For many years we have been able to trace our product reliably but some of the manual steps involved took significant time.

After years of innovation, design and significant investment, 93% of our global manufacturing plants are electronically connected to our integrated Global Traceability System. For these plants we have 100% electronic traceability from the farm vat or milk

collection centre to the first sale to the customer. This means we can track the origins of nearly any product and more than 99% of our New Zealand milk supply within minutes. For the remaining 7% of our global manufacturing plants, all have some electronic trace capability within their own local systems and some manual steps are required to complete the analysis.

This underlying technology lets us provide innovative new services for our customers and our teams around the world. For example, our Product Authentication service, which allows a consumer to scan a QR code with their mobile phone at point of sale or thereafter, to uniquely identify the pack in their hand and access specific information about its authenticity and provenance. This service is available in seven markets and this year we extended it to cover all Annum™ products in Malaysia and new products in China. We have also deployed product authentication with our third-party manufacturers.



Milk samples taken at each farm collection, ready for testing.

Trust in Source

This year we continued to focus on building food safety and quality (FSQ) as a core part of our organisational culture. Covid-19 restrictions mean we no longer have a small team of experts who can travel, so we are now focused on establishing local teams with the correct capabilities and tools to add further value to this essential function.

This also requires a cultural change, safely empowering the local experts and providing opportunities for them to grow. This year we've rolled out a learning programme developed in FY20 to cohorts in Europe, Sri Lanka and Middle East.

We also completed the rollout of our remote auditing approach for new and existing third-party manufacturers (TPMs). An initial risk-based assessment determines the approach to the auditing. We will continue to monitor and improve this process, recognising that it's the new operating model for the post-pandemic world.

Working to leading standards

With more than 95% of our manufacturing sites already certified to a leading food safety management system (e.g. FSSC22000 or BRC), this year we commenced our transition of FSSC22000 sites from version 5 to version 5.1. More than 13% of our manufacturing sites have now achieved certification at this new level. The enhanced requirements include expectations on culture that are well-aligned with the work we have been progressing under Trust in Source.

In line with this, when we're engaging new TPMs, we're setting the expectation that they too should be progressing towards leading standards certification, including GFSI and FSSC22000.

Our performance

During the year, there were no consumer recalls of product for safety reasons and no legal or regulatory non-compliances related to FSQ.

What's next

We will maintain our certification to leading food safety management systems by continuing our transition to the latest version of FSSC22000 and using the lessons we've learned to broaden our influence on the supply chain.

We will continue to deploy and improve our remote global assurance process to support our risk management across the full product lifecycle.

We will commence the next phase of our digital platform development to capture, manage and report food safety and quality information. It will rationalise the number of systems our teams need to use and allow them to efficiently make decisions based on reliable data.

We will continue to proactively manage the risk of food crime by further integrating food crime prevention as a core outcome, primarily through the protection of our sites and the support of our people.

We will continue to review opportunities for further automation in milk collection, manufacturing and distribution to improve the efficiency and reliability of data collection to give us even more real-time access to information.

Health, safety and wellbeing

Our ambition is for all our people to return home safely every day, everywhere. That’s why continuously improving health, safety and wellbeing is fundamental to our business.

Our approach

Fonterra operates a global health and safety management system. The Fonterra Global Health, Safety and Wellbeing Policy defines our commitment to providing a safe and healthy work environment where our employees, contractors and visitors can return home from work safely, every day, everywhere. Implementation of, and compliance with, the policy is overseen by our Director Global Quality and Safety.

We are committed to delivering on our health, safety and wellbeing commitments through:

- People who believe harm is avoidable and who support a safe and healthy work environment.
- Processes that always prioritise safe work practices, proactively identifying and managing exposure to risk and ensuring that our business activities comply with all statutory and legal requirements specific to the regions in which we operate.
- Plant and equipment that considers design, operation, management and maintenance that creates a safe and healthy work environment.

Accountability for performance extends from the Board of Directors, through the Fonterra Management Team, to individual managers, employees and contractors working on Fonterra sites.

We monitor our performance using a number of reactive and preventative, lead and lag indicators. These include injury rates and findings from self-assurance, internal audits and event investigations. We use this information to seek improvements, identifying and controlling risk from credible hazards and maintaining a strong safety culture with regular training and employee engagement.

What we’ve been doing

Caring for our whānau (extended family) during COVID-19

Around the world COVID-19 has affected our people in different ways and to differing levels throughout the year and it continues to do so. Ensuring our employees remain healthy and safe has been our priority and we have continued to build on and improve the processes and systems we introduced in FY20, embracing new ways of healthy working into our everyday systems.

For example, recognising the increased amount of working from home, we have provided guidance on safe working at home and, more recently in New Zealand, we have worked with the Ministry of Health to make COVID-19 vaccinations available to employees at our workplaces and sites.

Our new digitalised health record system from Cority went live in March 2021, bringing our people’s health data into a secure, centralised system. Not only does this system provide employees with easy access to their own health test results and demonstrate compliance with Health and Safety and Food Safety requirements, it also helps us shape our strategic approach to improved health and wellbeing. An early win has been the use of Cority for employees around the world to register their COVID-19 vaccination status, helping in our efforts to manage our response.

Supporting the health of employees and their whānau

Through our ‘Better You’ digital platform we provide wellbeing tools and resources for our employees and whānau (up to five additional family members or friends per employee). By completing a wellbeing questionnaire the user gets an overall ‘Healthy Habits Score’ and a personal report that provides links to relevant material, which can help them enhance their scores by making improvements across a range of topics including healthy eating, sleeping, exercise and mental wellbeing. 7,333 participants have logged into the platform this year, including 5,386 new users, and 2,269 wellbeing scorecards have been completed. This platform also allows us to organise self-starter and global team challenges.

Self-starter challenges allow employees to take on a challenge, on their own or with their whānau (extended family), at any time. Our library of challenges includes topics such as Sleep Smarter, Mind Health, Resilience and Immunity Booster.

Global team challenges are designed to encourage teamwork and competition, providing our employees with valuable information and motivating them to implement new behaviours that promote improved health and wellbeing. We ran four challenges this year. The recent 21-day ‘Eat Well, Feel Well Challenge’ was created by our own Fonterra nutrition experts to encourage healthy eating, empowering our

employees with the knowledge to make positive choices with foods and drinks they consume. A total of 936 employees participated in this challenge and learned about the importance of hydration, whole food, gut health, sugar reduction, dairy nutrition and mindful eating.



Claire, Auckland

GoodYarn workshops – Enabling our people to talk about mental health

GoodYarn workshops are all about helping our employees understand mental wellbeing, building their confidence to talk about mental health and knowing how and when to get more support for themselves or others if needed. These workshops are facilitated by our very own team of ‘GoodSorts’ – colleagues who have volunteered to be trained to be people employees can reach out to at work to talk about mental health and how to get support. We have continued to expand the reach of this programme and, in addition to regular workshops, this year we also held special live webinars called GoodChats where famous New Zealanders, including John Kirwan and Mike King, talked about their personal experiences with mental health and shared their learnings with employees from around the world.

Improving critical risk management

Manufacturing processes and technology used at scale can attract unique hazards that pose a risk of serious injury or damage to the environment. Over the past two years we have significantly improved our critical risk assessment methodologies, drawing on global references (e.g. The Centre for Chemical Process Safety) and as a result incorporated 14 elements of process safety management into our Process Safety Management (PSM) System (see graphic to the right).

Working with our partners we have developed a rigorous Process Safety Assessment (PSA) methodology to ensure we have a strong understanding of significant hazards, their credible risks, and how best to control them. Using the methodology our site teams work with experts to identify and assess technology risks that might lead to a major incident and cause serious harm. We seek to understand where risk can be eliminated or more reasonably controlled and put agreed rolling action plans in place.

The concept of Safety-Critical Elements (SCEs) has been adopted to identify equipment or technology that form our last lines of defence against a major incident. These items are vital to ongoing safety assurance and need to be well looked after. So far, teams across 13 sites have identified over 700 SCEs. These are now progressing through independent verification and we are keeping them well-maintained. We plan to deploy this concept to another 10 sites in New Zealand and initiate Australia during FY22.

We have also made significant improvements to other key processes including Management of Change, Emergency Response and Preparedness, and our Asset Integrity programme. Together the 14 PSM elements and related operational process improvements help to reduce potential harm and look after the environment.

Our performance



For more detailed information on our performance please see page SP-50.



1 Serious harm injuries are injuries that cause temporary or permanent loss of body function and include those to both employees and contractors.

Safeguard Awards Winner

Our Health and Wellbeing Team was honoured to win the ‘work-related health’ award at the Safeguard New Zealand Workplace Health and Safety Awards 2020. This award recognised our shift from compliance health testing to a stronger focus on ‘whole person’ health risks from workplace exposures and individual perspective. Tailoring our workplace support and building new tools to meet the health and wellbeing needs of our people means we can keep our people safe, productive and engaged.

Regulatory compliance

With designated Major Hazard Facilities and an asset intensive manufacturing footprint, Fonterra will from time to time receive regulatory notices. We work collaboratively with all of our regulators to support risk management and each finding is treated as an opportunity for us to improve what we do. There have been no health and safety prosecutions in connection with Fonterra’s operations since 2014.

What’s next

We will continue to develop and deploy process safety improvements for chemical and energy hazards, improve related safety programmes (e.g. dust safety) and apply process safety thinking beyond manufacturing sites.

We will continue to seek further improvements in our injury performance by focusing on the actions arising from our investigations into actual or potential high-severity incidents, eliminating root causes, and moving towards doing work that is safe rather than doing safety work.

We will continue to improve key measures and safety assurance visibility from the frontline to the boardroom and report meaningful safety assurance in action.

Employment rights

Our success is a direct reflection of the skill and commitment of our people, so we invest in them. We are committed to creating a culture where we care about each other, encourage different views and perspectives and treat each other with respect.

We are focused on building a diverse and inclusive workforce that is highly-engaged and effective, and this involves developing our employees to help them respond to the ever-changing nature of work.

Our approach

Our Code of Business Conduct and global policies, including ethical behaviour and diversity and inclusion, set clear expectations for how our people need to act and behave. These policies are supported by local guidance to reflect relevant regulations and norms.

As part of our customer-led operating model, understanding and connecting with local markets is vital to our success. By hiring and developing local talent, we contribute towards the shared success of our Co-operative and the countries where we operate. Throughout the world, we are committed to identifying and unlocking our people's potential by developing capability, leadership and talent through

coaching, learning, and regular feedback. We respect and support everyone's uniqueness, regardless of sexual orientation, gender identity or gender expression and recognise that diversity contributes to a stronger, more successful and sustainable Co-operative.

We fund an independently administered whistle-blowing hotline (The Way We Work Hotline), facilitated by Deloitte. It's available to all employees globally to raise concerns about behaviour not aligned with our Code of Business Conduct and we provide an Employee Assistance Programme (EAP) where employees can seek advice and counselling.

Fonterra has a long-standing agreement with the International Union of Food and the New Zealand Dairy Workers Union that recognises our commitment to the Conventions of the International Labour Organisation for all Fonterra employees and is built into our Code of Business Conduct. In New Zealand, 61% of all full-time equivalent Fonterra employees are covered by collective bargaining agreements and we have union agreements and relationships in many other markets.

This section covers all people who we employ directly around the world.



Emma & Danielle, Auckland

What we've been doing

Learning and development

In 2019, we signed the Aotearoa New Zealand Skills Pledge and by 2025, we are committed to doubling on-the-job training and reskilling hours in New Zealand from a 2020 baseline. The Skills Pledge aligns with our focus on building the right capabilities, preparing employees for their roles today and for their future careers, in New Zealand and globally.

In the past year, our New Zealand employees spent more than 346,417 hours upskilling, an increase of 28.1% on FY20, and an average of 31.6 hours per learner¹. The main areas of growth have come from technical programmes such as DAIRYCRAFT and a new Dairy Diploma offering, as well as the scaled-up deployment of our new leadership development programme.

For our New Zealand manufacturing sites and distribution centres we continue to offer our 18-month DAIRYCRAFT programme which allows employees to develop relevant technical skills and gain independently recognised qualifications². This year, 164 employees completed level 3 and 43 completed level 4.

We also responded to the New Zealand government's call to grow training through apprenticeships and committed to recruiting an extra 44 apprentices by the end of 2022. The first 13 joined us in January, in trades including electrical and mechanical engineering (see case study on next page). We receive government funding for these extra apprentices to help with the first two years of their training. Apprenticeships can take up to four years to complete so we expect to have over 80 active apprentices by the end of FY24.

1 These figures cover New Zealand based employees only. The reporting systems for training elsewhere in the world currently do not allow us to report globally in a consistent manner.
2 The DAIRYCRAFT training is recognised by the New Zealand Qualifications Authority (NZQA).



Will, Tupu Toa Graduate



Tupu Toa interns

Tupu Toa is a not for profit organisation that helps tertiary students from Māori and Pasifika backgrounds enter the corporate world.

Fonterra became a Tupu Toa partner in 2018 to help build the diversity of our early careers talent pipeline through the inclusion of Māori and Pasifika young people. The 12-week paid summer internship programme creates a pathway for students to enter a professional career once they graduate. There is also extra support for the interns, including pastoral care and coaching and Fonterra managers are offered cultural competence training.

So far, we have had seven students complete their Tupu Toa internship, with five going on to join our two-year Business Graduate programme and one gaining direct entry into an IT role.



Sparking off a bright career

While her friends enjoy their school holidays, Kendyll Blissett is hard at work at our Lichfield site in Waikato. But the 17-year-old electrical apprentice wouldn't have it any other way.

"I left school after Year 12 because I knew what I wanted to do" says Kendyll. "My friends had plans for university, but I knew I wanted to start my career doing an electrical apprenticeship."

Kendyll started in January this year and says so far, she's "loving it".

"I really enjoy the mix of theory and practical, knowing the 'what' you are doing and the 'why' you are doing it a certain way. It's quite a big workshop at Lichfield so I am learning so much from a range of different people who are mentoring me, instead of just one person."

Kendyll is one of 13 apprentices who started with Fonterra in January this year, part of the Co-op's commitment to expand its apprenticeship programme by developing an additional 44 apprentices over two years.



Apprentice Kendyll Blissett working with Lee Clark



Learning and development (continued)

For our Farm Source™ retail teams, we launched a new retail training programme and development pathway called Kura Hokohoko. This has three pillars – Retail and Sales Skills, Technical Capability and Retail Leadership.

For employees, we launched a new self-managed learning opportunity through the LinkedIn online platform. This has been rolled out to targeted groups around the world and covers a wide range of topics.

Recognising the importance of growing leadership capability, we launched our Leadership Essentials programme in FY20, for front line leaders. This year, 61 participants completed the course and we have a further 23 cohorts lined-up for FY22. We also offer, Future Leaders, for early career professionals with aspirations to accelerate their leadership development, and Supercharge, for people leaders with aspirations to move to larger leadership roles.

Culturing high performance

When we reset our strategy in FY19 we identified the importance of building a high-performing team and in FY20 we started the first phase of that by shifting to our new operating model. We know that strategy on its own is simply an intention – it needs committed, high performing people to make it happen and it is the culture of the organisation that delivers performance.

For that reason, we are continuing to invest significant time and energy in our culture to ensure alignment with our strategic aspirations. This year, we have started the next phase, with a global and cross-functional team who are empowered to lead this work for the Co-operative and, recognising the importance of this work, several members of the Fonterra Management Team are directly involved.

Through this work we will create an environment that allows our people to be their best, so they can, in turn, deliver their best performance. It will help our people understand different perspectives and be more adaptable to change. Our people will more clearly understand how their contribution impacts the Co-operative's goals and, collectively, we will deliver consistently high performance and progress. Ultimately, our culture will enhance our competitive advantage – from improved innovation, decision-making and collaboration, to sense of belonging and wellbeing – and it will increase our ability to foster sustainable relationships with all our stakeholders.

Diversity targets

We made progress on female representation in senior leadership this year, which is up to 32.4%. Privacy concerns and the voluntary nature of reporting ethnicity information mean understanding the diversity of our employees remains challenging, but data quality is improving. Within senior leadership, 59% identify themselves as European/Caucasian; 9% identify themselves as other and 32% have not provided information. Realistically, we know we will not achieve the aspirations we set ourselves for diversity within the timeframe we originally envisaged, but we remain committed to the intent.

Nationality information is available for our people around the world and gives a much richer picture of our diversity. For example, in New Zealand we employ 78 different nationalities, in Australia 40 different nationalities and in Chile 11 different nationalities.

We launched two new online learning courses this year, Unconscious Bias in Workplaces and Mitigating Unconscious Bias in Recruitment. These have been assigned to all global People Leaders and Hiring Managers must complete both.

Embedding our Māori strategy

Over the last three years our Māori Development Team members have engaged widely with Māori farmers, iwi (tribe) partners and stakeholders, customers and employees. They're working to understand how we can best recognise and acknowledge the importance of having a connection with our tangata whenua (people of the land) for the benefit of everyone in Aotearoa New Zealand and for the world.

Published this year, our Māori Strategy, called Haea te ata (to draw a new day), is based on three pillars designed to introduce and weave te ao Māori (the Māori world view) through the Co-op in a genuine and authentic way. Tāngata (people and relationships) – recognising the unique contribution of te ao Māori in how we interact with people; Taiao (natural environment) – recognising the unique contribution of te ao Māori in how we interact with our natural environment; and Tuakiri (pride and identity) – how we tell our unique Aotearoa New Zealand provenance story.

Building and maintaining positive relationships with tangata whenua is a fundamental goal of Haea te Ata and for Fonterra. To help us achieve this we have defined an Iwi Māori Engagement Standard to guide our employees. This builds on the Te Reo Māori Global Standard that we issued in FY20 to ensure the correct approach and guidance is sought when we use te reo Māori within Fonterra.

We have also introduced a formal Māori representative role within our Co-operative Relations Committee and, in June, Warwick Tauwhare-George became the first person to hold this position. Warwick is the Chief Executive of Fonterra's largest Māori shareholder, Parininihi ki Waitotara (PKW), has an MBA in Finance & Marketing, extensive Executive Management experience and is a Chartered Member of the Institute of Directors.

Supporting growing families and careers

Following our principles of whanaungatanga and manaakitanga, we are extending our care for employees through one of the most important times of their lives – when they become parents.

For primary carers who have been employed for at least 12 months, we will top up their government parental leave payments to 100% of base salary or wages for 26 weeks. An increase from the current 16 weeks at 80%.

We have also started building a community of parental support. This starts with ‘Te Hokinga Mai: Returning to work with Confidence’ where a dedicated coach works with a small group of employees to help them navigate their new normal as a working parent. Returning to work can be a rollercoaster of emotions and these workshops provide our parents with tips and tricks for confidence building, helping to play to their strengths and learning from others.

Initially this will be offered to New Zealand-based employees, but we are looking at ways we can support our people in our other markets too.

Closing our gender pay gap

We believe that, after considering factors such as tenure, qualification levels or experience there should be no gender pay gap for any employees.

We believe this is a complex topic and cannot be accurately summarised by a single aggregated number. Instead we believe transparency is important, including consideration of both mean and median calculations of the pay gaps and providing a breakdown by geographies and job categories.¹

Overall, the ratio of female to male base salary narrowed from 1.08 to 1.07 on a mean basis but

widened from 0.95 to 0.93 on a median basis. This result continues to be influenced by factors such as the different proportions of men and women in lower paid and higher paid levels around the world and exchange rates when converting for comparison and illustrates the importance of tracking different breakdowns.

The gap has narrowed across all job categories and in all significant locations except Latin America. Australia has been a focus for us and it has made significant progress on both a mean and median basis. There has been a large swing and improvement for China, arising from the sale of our direct farming operations there. For New Zealand, the gap on a mean basis closed (0.96 to 0.97) and remained the same on a median basis, 0.96 which is equivalent to a 3.8% pay gap and continues to compare very favourably with the most recent national median of 9.1% at August 2021.

Our performance

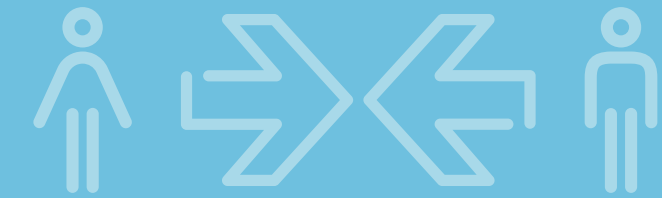
4.09 ↑
2nd highest quartile
Employee engagement

32.4% ↑
female representation in senior leadership

9% ↑
ethnic representation in senior leadership

346,417 ↑
training skills hours (NZ)

For more detail on our performance see page SP-51 and SP-56.



Gender pay gap by job category

Job category	MEAN		MEDIAN	
Senior Leaders	0.88 -> 0.90	↓ ↑	0.96 -> 0.94	↓ ↑
Manager	0.96 -> 0.97	↓ ↑	0.96 -> 0.96	↓ ↑
Professionals	1.06 -> 1.05	↓ ↑	1.14 -> 1.10	↓ ↑
Waged	0.88 -> 0.89	↓ ↑	0.82 -> 0.83	↓ ↑

Gender pay gap by location

Location	MEAN		MEDIAN	
New Zealand	0.96 -> 0.97	↓ ↑	0.96 -> 0.96	↓ ↑
Australia	0.95 -> 0.99	↓ ↑	0.96 -> 0.97	↓ ↑
Brazil	1.09 -> 1.11	↑ ↓	1.08 -> 0.96	↓ ↑
Chile	1.32 -> 1.36	↑ ↓	1.29 -> 1.31	↑ ↓
Greater China	1.60 -> 0.89	↓ ↑	3.90 -> 0.97	↓ ↑

Gap narrowed ↓

Gap widened ↑

1 Where a breakdown of information represents a small number of employees we omit this detail to protect the privacy of individuals.

Non-discrimination

Through our independently administered whistle-blowing hotline (see The Way We Work Hotline in Corporate Governance Statement page CG-02), there were five disclosures made this year related to discrimination including harassment. Following investigation, none were substantiated. In addition to concerns raised through The Way We Work Hotline, some discrimination and other employment issues are raised every year with local human resource or management teams. These are investigated and reviewed in a similar manner.

In New Zealand there were seven formal discrimination or discrimination-related harassment complaints raised (five were substantiated and resulted in disciplinary processes, one was unsubstantiated, and one remains under investigation). One complaint was raised in Australia and resolved between the parties, and one complaint was raised in Sri Lanka, which was unsubstantiated. No complaints of discrimination or discrimination-related harassment were reported in other countries.

What’s next

We will enhance the support we provide for employees returning from parental leave and introduce a diversity and inclusion aspect to our short-term incentive scheme to improve gender and ethnicity representation in global leadership.

We will continue to ramp up our on-the-job skills training, including scaling up Leadership Essentials and offering our operations staff in New Zealand a version of this programme that results in an accredited qualification (NZQA level 4).

Supporting our communities

We support our local communities in a wide range of ways, including support at times of need, long-term in-school nutrition, donations to foodbanks, international dairy development and community investment.

In-school nutrition

A nutritious breakfast and nurturing environment can help kids reach their full potential. The KickStart Breakfast programme, which we deliver in partnership with Sanitarium and the New Zealand Government, has been operational for more than 10 years and this year grew to over 1,300 schools across Aotearoa New Zealand, serving more than 180,000 breakfasts per week.

Through the programme we provide Anchor™ milk, Sanitarium provides Weet-Bix™ and the Government assists with funding. The clubs are run by adult or student volunteers, and they continue to evolve the way they deliver the programme to suit their specific needs and its intent.

For example, at Motueka High School in the Tasman region, a long-standing club that is currently attended by about 90 students each morning, they introduced a smoothie option so breakfast can be taken as a ‘grab & go’.

At Park Estate School in Auckland, they have adapted their recycling approach to work for them. A roster of dedicated students rinse all milk cartons as they are used and then, once a week they are re-washed, dried out, and packed flat for storage until they are collected.

During the 2020 lockdowns, we saw the difference diverting the milk earmarked for school programmes to our communities made. We therefore decided to take a more holistic approach to our provision of dairy nutrition, growing the KickStart Breakfast programme and partnering with the New Zealand Food Network to distribute dairy to communities who need it the most. This means, nine years after it was first piloted in Northland, we wrapped up Fonterra Milk for Schools at the end of the 2020 school year. To avoid waste, surplus stock at the end of the programme was diverted to the New Zealand Food Network (see next page).

\$3.1m / 11m portions¹

providing dairy nutrition through our in-school programmes

¹ A portion is 200ml of milk for Fonterra Milk for Schools and an estimated 140ml of milk for KickStart Breakfast.



Students at Bruce McLaren Intermediate School serving KickStart breakfast



Supporting food banks

Around the world, we support many food bank initiatives, helping to provide good nutrition for those who need it most and reducing food waste.

During FY20, we became one of the founding food donors for the New Zealand Food Network, a not-for-profit founded to provide people in need with healthy food, through sharing bulk surplus and donated food. This year, we donated more than 290 tonnes of food via this channel.

In Australia, we continued to support Foodbank, Australia's largest hunger relief organisation, donating the equivalent of 214,900 meals and 103,500 litres of fresh milk for Victorians in 2020. In Chile, we continued to support Red Alimentos, donating more than 400 tonnes of product this year.



Dairy development

By working with local stakeholders in key markets and sharing what we continue to learn, we support the sustainable development of local dairy farming. This is an area that has continued to be significantly impacted by Covid-19, including travel restrictions and social distancing.

In Sri Lanka, we re-purposed our Pannala Training Farm as a 'Dairy Hub', providing small-scale farmers with training and other support. More than 250 farmers were trained this year and the feedback was very positive.

For the Fonterra Dairy Cluster Partnership in West Sumatra, Indonesia, we are working with other dairy stakeholders including government officials. This year we switched to holding online webinars, issuing guidance podcasts for farmers and improving post-harvest processing using a semi-automatic filling machine.

Our 12-month exchange programme for young farmers from Chile is currently on hold. From the cohort who were in New Zealand during the last year, some chose to remain and are still working in the dairy industry. The remainder have safely returned to Chile.

Community investment

Fonterra Doing Good Together

Donations of product, equipment or finance, including to foodbanks but excluding other investments such as Living Water, Sustainable Catchments and In-school Nutrition.

FY21

\$2.5+ million

FY20

\$3+ million

Covid-19 has continued to be felt by communities around the world with different countries and regions being impacted in different ways at different times.

In Sri Lanka, we provided financial support to the Government-led Covid-19 task force, to help with the response in areas such as medical equipment, supplies and personal protective equipment for frontline health workers.

Elsewhere, we donated dairy products to help those working at hospitals in countries including the Philippines, Thailand, Malaysia and Vietnam.

Beyond special investments to help the Covid-19 response, we have also continued to invest in our communities through our community programme, which is administered by local committees of employees in the regions.

In New Zealand, we supported a wide range of community groups including donations of hi-vis vests for primary school children and fire brigades and support for a training manikin for the St John's Ambulance Station in Culverdon. We also donated funds to support a number of technical education events in the Bay of Plenty and Taranaki regions, to encourage interest in science and technology.

In Australia, we provided funding to emergency services and community groups, including for equipment at the Nilma, Warragul, Darnum and Yarragon Fire Brigades, and to support a new community trailer at Stanhope.

Healthy Environment

We are working together to achieve a healthy environment for farming and society.

Tiakina te whenua i tēnei rā, hei oranga tangata mō ngā rā e heke mai nei.

Caring for the land today, so that the land cares for us tomorrow.

To do this we are:

- Improving the health and biodiversity of our land and water by having a regenerative mindset, reducing the impacts of farming and manufacturing, and working in partnership with others.
- Leading the transition to a low-carbon future by investing in innovation and infrastructure to remove greenhouse gas (GHG) emissions from our supply chain.
- Helping meet the growing nutritional demand through improvements in productivity and minimising waste from farm to consumer.

By looking after land, water and animals, and using resources wisely, we are finding a path to regenerate the environment. It's all part of our transition to a more sustainable way of dairying.

IN THIS SECTION

Land and water	SP-23
Climate change	SP-27
Packaging and waste	SP-33
Animal wellbeing	SP-36
Managing our operations	SP-38

53% ↑

of our farmer owners in New Zealand have a Farm Environment Plan tailored to their specific farm – see page SP-26

6.5% ↓

reduction in our greenhouse gas emissions (Scope 1 & 2) since FY18, well on way to 30% by 2030 – see page SP-30

0.3%* ↑

increase in water use at our manufacturing sites in water-constrained regions – see page SP-23

53% ↑

of our farmer owners in New Zealand have an Animal Health Plan prepared with their vet – see page SP-36

* Compared to last year.

Stephanie & Keeley, Auckland

Land and water

Healthy freshwater, soil and ecosystems are essential to the long-term success of our business, farmers' businesses, and to communities.

We believe protecting and restoring the environment is critical to safeguard opportunities for future generations. To achieve this, we are working to develop the skills, knowledge and systems to regenerate the environment throughout our global value chain. As part of this we are committed to working proactively with local stakeholders on catchment-wide solutions.

This section covers our impact on land and water from the manufacturing operations we manage globally and the farms we collect milk from.

Our approach

When our manufacturing sites take in water to use and discharge wastewater this can impact a resource we share with others. The care of water is important to our stakeholders and their expectations around sustainable practices are changing. When setting goals and planning improvement actions we use a collaborative approach, assessing aspects such as the needs of other water users, biodiversity and risks, to establish our priorities for enhanced water security. Recovering water from milk when we make powder products means that most of our sites discharge more water than they take in. By improving processes and adopting new technologies we aim to improve water quality treatment and become even more resource-efficient.

We support farmers to ensure they meet increasing regulatory requirements, identify environmental impact risks and prioritise improvement actions specific to their situation. This includes encouraging and supporting the adoption of recognised good farming practices related to water, soil health and biodiversity, including exclusion of stock from waterways, riparian management, nutrient management and land management that minimises soil disturbance.

Please refer to 'Working with farmers' on page SP-42 and 'Managing operations' on page SP-38 for more information on our general approach to improving our performance.

What we've been doing

Using less water

Water is precious and as such, it is treated responsibly at all sites and, aligned with best-practice thinking, we prioritise our efforts to improve water efficiency in water-constrained regions¹. Our objective is to maintain access to the water we require while ensuring water security for related communities. To support this we have a target to reduce water use across these sites by 30% by 2030.

Water use increased at these sites by 0.3%, taking us to a 2.6% reduction against our 2018 baseline. Having made a significant reduction in FY20, we did not make the progress we planned for this year due to increased production and other factors. The commissioning of the new reverse osmosis plant at our Darfield site has proven challenging due to a variety of issues. This means the large reduction planned for the site was only partly delivered. Our Stanhope site in Australia that delivered a large improvement last year was negatively impacted this year by increased water use for wastewater irrigation purposes. We also encountered several abnormal events at other key sites, resulting in one-off large water usage.



During FY21, we have made a range of improvements at different sites and expect these to deliver good water reduction savings during FY22. For example, we are re-using more of the water captured from the milk drying processes at our Kauri and Maungatūroto sites. At Maungatūroto, for the first time, we are using a natural wetland process to pre-treat the water captured from the evaporation process before returning it to the factory for final treatment.

¹ We determine whether a site is in a water-constrained region using a combination of independent water-stress information (e.g. WRI Aqueduct) and local information (e.g. water allocation). In FY21, six New Zealand sites: Edendale, Clandeboye, Darfield, Lichfield, Kauri and Maungatūroto; and one Australian site: Stanhope, were identified as in water-constrained regions. Brightwater has been removed from the list because regional water availability is being significantly improved by the construction of a dam.



Improving wastewater treatment

We have recently commissioned a biological digester at our Darfield site to process wastewater. This gives us the opportunity to recover a much greater amount of residual nutrients in the wastewater before being discharged, so the water entering the environment is of very high quality. As a by-product of the process, biogas can also be captured, and we are investigating its potential use to help reduce our greenhouse gas emissions.

At our Whareroa site, we have installed a dissolved air flotation (DAF) system to treat wastewater before we discharge it to ocean. DAFs are particularly effective at removing substances common in dairy wastewater, such as fats, and the system is expected to significantly improve the quality of the water discharged.

Our target is to have all our manufacturing sites treating wastewater to leading industry standards. In previous years we have tracked our progress based on internal guidelines taking a numerical, parameter-based approach aligned to the type of discharge and the receiving environment. Recognising that stakeholders have different views and values when it comes to improving water quality, we now believe that a leading industry approach to wastewater quality requires a truly collaborative approach. This means actively engaging with stakeholders when planning new wastewater treatment facilities or upgrades, especially community and indigenous groups, to understand their concerns and plan approaches that satisfy their expectations as far as possible. Going forward we will continue to have internal standards but we will judge our success based on a combination of these and satisfying the expectations of key stakeholders at a catchment level. Using this method to assess our performance,

our progress improves from 29% as reported in FY20 to 53% at the end of FY21. By 2030, we are planning to upgrade wastewater treatment facilities at 15 sites, investing more than \$400 million and we estimate this will take us to at least 80%. We have therefore restated our target on this basis.

Our Nutrient Management team continues to innovate and improve the way we treat excess nutrients retrieved from wastewater treatment at some of our sites. This team manages 29 farms close to our factories and, while we graze some animals on this land, we continually assess the most appropriate way to use the land for the uptake of nutrients. Aligned with circular thinking, rather than the nutrients being considered waste, we use them to improve soil health on these farms. This helps with growing feed, such as grass and maize silage, which can be fed to cows to help them produce quality milk to process at our sites.

Biological digester

at our Darfield site allows us to discharge very high quality wastewater.

\$400+ million

investment to upgrade wastewater treatment at 15 more sites by 2030.

Sustainable catchments

To achieve sustainable water catchments where we operate, we know we can achieve more by working with others to help protect and regenerate waterways and biodiversity. We are connecting and empowering farmers, sites and local communities to get them involved and help accelerate progress towards local community environmental goals.

Established in 2013, our Living Water partnership with the New Zealand Department of Conservation is working with farmers, scientists, councils, mana whenua and local communities in five catchments across 35,000 hectares to identify game-changing and scalable solutions that show dairying and freshwater can thrive together. To date, we have initiated 36 trials of different tools and solutions and nine solutions have been scaled or are being used by others. Of those Fonterra farmers operating in the catchments, 72% have engaged with the partnership (up from 68%) and 48% are implementing freshwater improvement actions above regulation (up from 40%). Twelve projects have directly integrated Mātauranga Māori¹ alongside western science (up from seven in 2020).

Beyond the five Living Water catchments, we are using the lessons we have learned to support farmer and community action in other catchments across New Zealand. Working alongside local stakeholders such as regional councils, the Department of Conservation, iwi, farming leaders and other industry members, our aim is to build on existing community efforts to help them achieve their priorities. In the first three years, we have delivered 48% of the 128 agreed partnership actions.

1 An indigenous Māori worldview and knowledge perspective.

Sustainable Catchments Partnerships

Northland – Ruakākā River

Supported the Whitebait Connection who are working with local farmers and landowners to identify and protect inanga spawning habitat. We have also supported their application to Government to expand this work across further catchments in Northland.

Waikato – Mangaone wetland restoration

Partnered with Waikato Regional Council to protect and enhance a privately-owned wetland on a Fonterra farm within the Mangaone catchment, where natural wetlands are scarce. An area of 10.4 hectares has been retired and planted with 39,200 native plants to improve inflows, wetland bird habitat and local biodiversity.



Mangaone wetland

Hawkes Bay – Tukipo wetland

Supported Hawkes Bay Regional Council and NIWA to complete construction of a large wetland that can treat high levels of contamination while also improving biodiversity values. This wetland will be used as a regional reference site to check and model wetland risks and benefits to water quality.



Tukipo wetland

Canterbury – Kaikōura

In partnership with Environment Canterbury and local farmers, we supported the protection and enhancement of one of the last remaining coastal wetlands of its kind in the South Island. The Haupuku wetland forms part of a 25 hectare QEII covenant that provides a patch of high-quality, culturally significant wetland and forest habitat.



Haupuku wetland

Canterbury – Ararira-LII River (Living Water)

In early 2021, we embarked on a project with Te Taumutu Rūnanga, Selwyn District Council, LII Drainage Committee and Environment Canterbury to take a catchment scale approach to the Ararira-LII drainage network. By making the redesign more friendly for freshwater life and by monitoring the outcomes, we hope the approach can be a blueprint for drainage network managers across New Zealand.

Southland – Awarua-Waituna (Living Water)

After the seventh year of fish monitoring in Waituna Creek, we can safely conclude the restoration trial has been a success. Within three years of installing instream habitat structures (logs) the diversity, abundance and biomass of fish was significantly higher around the structures. Having permanent places for fish to hide is vital to retain them in our rural streams.



Kōuru (crayfish) in Waituna Creek

Northland - Wairua (Living Water)

A trial of two sediment detention bunds constructed in 2018 has now been completed. One of the bunds has proven to be a cost-effective solution to retaining floodwater during intense rainfall and has significantly reduced sediment and nutrients entering the downstream waterway. The second bund was found to be too small to operate effectively for the catchment area served. This has highlighted the importance of understanding the catchment characteristics before designing and installing these types of solutions.



Karla, Northland

Prioritising on-farm improvements

Helping farmers understand their current areas of strength and opportunities for improvement is a priority for us. It is where we can add value not only to the farmers but also to our customers and communities.

In New Zealand, our team of 40 Sustainable Dairying Advisors (SDA) are working with our farmer owners to establish Farm Environment Plans (FEPs). Each FEP is unique to the specific farm and since we launched the service in 2018, we have continued to develop it, listening to feedback from farmers and ensuring they can remain a step ahead of future regulations and the requirements of our customers (see also The Co-operative Difference on page SP-43).

Guided by industry-defined Good Farming Practices and considering a broad range of topics, improvement actions are identified and prioritised with the farmer. Topics covered include water, soil health, biodiversity, greenhouse gas emissions, mahinga kai (the value of natural resources), and whakapapa (recognising the people and their connection to the land over multiple generations). For the farms with irrigation systems (about 18%), our FEPs also build on regulatory requirements for metering and support water efficiency

improvements. From this year, farmers using our Dairy Diary digital application can also record their progress on improvement actions in real time rather than waiting on follow-up visits by an SDA.

We delivered more new FEPs than planned, increasing coverage from 34% to 53% of supplying farms in New Zealand, well on track for 100% by 2025.

We already provide a Nitrogen Risk Scorecard and Greenhouse Gas Report annually to all farmers in New Zealand who complete our Farm Dairy Records update. This year we piloted an extension, called our Farm Insights Report, providing the farmer with detailed information on their performance relative to the average farm in their region and nationally. It also identifies the potential financial benefits that could be achieved by making certain improvements.

In Australia, we have built on the Farm Environment Plan framework developed for New Zealand and tailored it for the slightly different needs of the Australian farming environment. These are now ready for deployment and the rollout to farmers commences in FY22.

Trialling plantain to improve freshwater quality

Plantain is a nutritious herb (*Plantago lanceolata*) that is highly palatable to animals and can be used as a component of pasture, usually with perennial ryegrass and clover or on its own as a special-purpose feed. Research has already shown that incorporating plantain into the cow's diet can reduce the concentration of nitrogen in the animal's urine, which in turn significantly reduces the leaching of nitrogen through the soil. For dairy farms it is estimated reductions of between 5% and 30% are possible, depending on soil type and proportion of plantain in the diet. The research also suggests that plantain pasture exhibits a nitrification inhibitor effect. Nitrification inhibitors prevent bacteria in the soil from converting the ammonium portion of nitrogen into nitrate. This reduces the risk of the nitrate leaching. This combination of effects can help to significantly improve freshwater quality and help reduce greenhouse gas emissions¹.

Building on a large-scale research programme led by DairyNZ, we teamed up with our customer Nestlé in FY20 to expand the promising plantain trial in the Tararua District. This year, we are also partnering with DairyNZ, PGG Wrightson Seeds in the Plantain Potency and Practice programme, which will also receive funding from the Ministry of Primary Industries over the next seven years.

The programme includes large-scale farm experiments to confirm the benefits and practical trials with farmers to co-develop the best approaches for successful incorporation into pasture-based dairy systems. Our goal is to develop a quality solution that can be demonstrated and applied at scale across farms nationwide.

¹ Nitrous oxide (N₂O) is a greenhouse gas arising from the application of nitrogen to pasture such as via synthetic fertiliser, urine and manure. Reducing nitrogen applied in turn reduces the N₂O emitted.

Our performance

53% $\uparrow$

of our farmer owners in New Zealand now have tailored Farm Environment Plans

2.6% $\uparrow$

reduction in water use since FY18 at manufacturing sites in water-constrained regions

2.5% $\downarrow$

improvement in water efficiency compared to FY18 on milk processed basis.

For more detail on our performance see page SP-51

What's next

- We will continue to support our New Zealand farmer owners as they establish Farm Environment Plans, focusing on the specific priorities for their farm.
- We will use this approach to drive improvements that positively impact water quality, water use, soil health and biodiversity.
- We will continue to focus on reducing our water use and to invest in wastewater treatment at our manufacturing sites.

Climate change

We support a transition to a resilient, low-emissions economy. We are committed to playing a leading role, working with others, to ensure the New Zealand dairy industry remains at the forefront of low-emissions food production.

Global food production accounts for 20-30% of global greenhouse gas (GHG) emissions with dairy accounting for 2-3% of global GHG emissions. However, dairy delivers a significant amount of the world's total nutrients, including 12% of protein, 24% of vitamin B2 and 49% of calcium.

New Zealand's total GHG emissions represent 0.16% of global GHG emissions but its profile is very different from most developed nations. Nearly half comes from agriculture and that means, in addition to transitioning to renewable energy, New Zealand must also find ways to manage our animals' natural emissions.

Pre-farmgate, the GHG emissions associated with dairy products mostly come from the methane cows produce, with total farm-related activities accounting for about 90% of Fonterra's reported GHG emissions. The carbon footprint of New Zealand's on-farm milk supply is already one of the lowest in the world but as our business accounts for about 20% of New Zealand's greenhouse gas emissions, we are committed to helping reduce this further.

Milk is highly nutritious but very perishable and our natural pasture-based farming system means the volumes produced are highly seasonal. Pasteurising milk and drying it into powders adds significant value to the raw milk, producing safe, long-life nutrition that is efficient to store and transport, but it does require significant amounts of reliable energy. Currently a lot of that energy comes from fossil fuels and our manufacturing activities account for about 9% of our reported emissions.

Despite being located a long way from many of our markets, our efficient transportation of finished goods, primarily by ocean freight, means only about 1% of our reported emissions are associated with distribution to destination countries.

Agriculture is facing significant disruption from changes to climate and increased variability in weather patterns. Based on climate change scenario work we have completed, most of our milk comes from regions where impacts may be less severe. With some adaptation there is a great opportunity for us to continue to produce safe, world-class quality food products.

This section covers our impact on, and our response to, climate change across our supply chain.



Alan & Michael, Bay of Plenty

Our approach

We are committed to the Paris Agreement target to keep warming below 2 degrees and to pursue efforts to limit the temperature increase to 1.5 degrees. This commitment reflects the latest science and is aligned with the New Zealand Government's ambitions in the Zero Carbon Act.

We have science-based targets for reducing our Scope 1 and 2 GHG emissions, which arise primarily from our manufacturing activities, and for engaging with our farmer owners to help reduce the GHG emissions in our supply chain.

For on-farm, we regularly commission carbon lifecycle assessments (see page SP-28) and, in New Zealand, we provide farm-specific GHG reports (see page SP-28) so farmers can understand their current performance and can prioritise improvements. In FY20, we introduced a GHG module to our Farm Environment Planning service (see page SP-26) and we are investigating a wide range of potential breakthrough technologies to help reduce on-farm GHG emissions (see page SP-29).

For our manufacturing operations our approach is to use less and emit less. Improving energy efficiency (see page SP-30) not only uses less energy, it directly reduces emissions, reduces costs and will help with our transition to lower carbon energy sources. We also emit less by continuing to transition to lower carbon energy sources (see page SP-30).

For distribution, our approach is to partner with transportation organisations and other import/exporters to continuously improve resilience and efficiency and to pursue low-carbon options for heavy goods transportation (see page SP-31).

Please refer to 'Working with farmers' on page SP-42 and 'Managing operations' on page SP-38 for further details of our approach.

What we've been doing

Understanding our on-farm emissions

To understand the full carbon life cycle of the milk we collect in different regions of the world we regularly commission analysis by AgResearch, an independent New Zealand Government research agency, using internationally recognised methodologies and tools. The approach considers the full life cycle from feed production (including purchased supplementary feed), to the milk leaving the farm gate. We use this information to estimate our absolute GHG emissions related to farming (see graphs on page SP-32), to identify opportunities for further reduction and to support new service offerings to customers (see Annual Review page AR-46).

In New Zealand, for the 2019/20 milk season, the estimated cradle-to-farm-gate carbon intensity, including land use change (LUC) is 0.95 kilograms of carbon dioxide equivalent per kilogram of fat-and-protein-corrected milk (kg CO₂-e/kg FPCM). Excluding land use change this is 0.80 kg CO₂-e/kg FPCM, which is up slightly on 0.78 kg CO₂-e/kg FPCM for the 2018/19 season, corresponding primarily to an increase in the proportion of PKE within brought-in feeds.

Our most recent assessments for other regions are: Australia 2017/18 season at 0.99 kg CO₂-e/kg FPCM; China 2016/17 season at 1.40 kg CO₂-e/kg FPCM; Soprole our subsidiary in Northern Chile 2017/18 season at 1.34 CO₂-e/kg FPCM; and Prolesur our subsidiary in Southern Chile 2017/18 season at 2.33 CO₂-e/kg FPCM.

Reducing on-farm emissions

For farmers, understanding the amount of emissions produced on their farm and how they are performing relative to their peers, is a key step to identifying and prioritising improvement opportunities.

For the second season, in October 2021, we will issue farm-specific reports in New Zealand. Each report has a breakdown of the estimated GHG emissions for the specific farm by the source of those emissions so farmers can understand their current performance and prioritise improvements. The calculation method we use and the contents of these GHG reports have been independently assessed as meeting the requirements for the Climate Change Response Act milestones. While our shareholder farmers have been making gains in on-farm efficiency, the total on-farm emissions intensity has remained relatively flat since 2010 (accounting for land use changes and increases in brought-in supplementary feeds).

For now, the main improvements farmers can deliver will continue to come from adopting good management practices on-farm. This includes being efficient with feed and fertiliser, having the right number of cows for the specific areas of land, improving animal husbandry and genetics, and ensuring good animal health. There are also opportunities to optimise pasture quality and use of supplements to meet feed demand, use alternative forages to reduce protein in the cow's diet, improve manure storage and spreading, and reduce on-farm energy use.

0.95 kgCO₂-e/kg FPCM

Cradle-to-farm-gate carbon intensity of our New Zealand milk including land use change.



Andrew & Karla, Northland

Delivering continued productivity gains will be challenging. This is because, to reduce GHG, productivity gains need to be achieved without increasing farming inputs. Achieving this type of change at scale and within relatively short timeframes will require partnerships between the Government and industry to support farmers. We are pleased that the Government has chosen to partner with the Primary Sector and Māori through the He Waka Eke Noa joint action climate partnership, to find practical ways to support farmers with emission reductions.

To help our shareholder farmers we are continuing to update the reporting we provide. This year the reports will contain insights on opportunities for improved productivity related to milk quality, animal welfare and milking efficiency, including the potential financial paybacks of doing so. Farm Environment Plans now contain a specific GHG emissions module and farmers can also access additional guidance from our Sustainable Dairying Advisors and a network of farmer ambassadors, who understand the sources of GHG emissions and the management practices that can reduce these.

In addition to continued productivity gains we also need a range of approaches to solving the methane challenge, that when combined, make a significant difference.

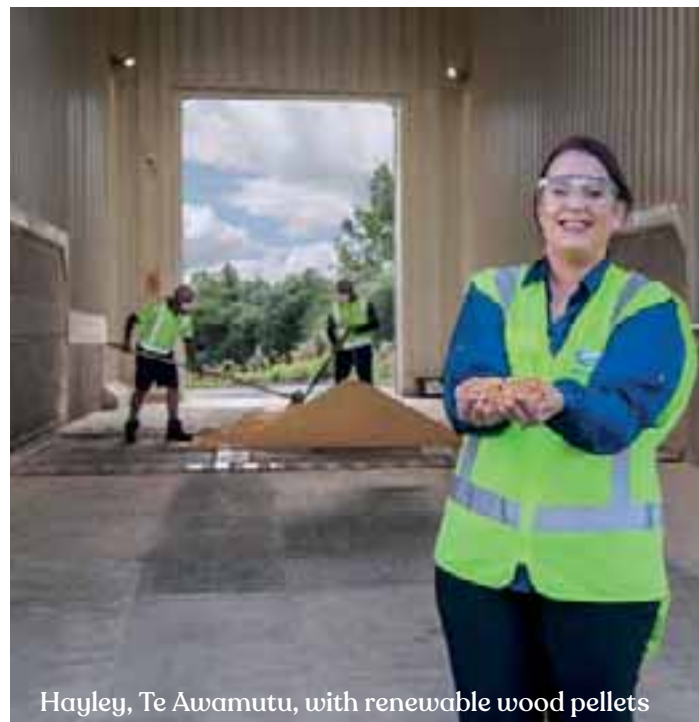
Game-changing solutions for methane

For New Zealand farmers to meet expectations for methane reduction by 2030 and 2050, significant investment is required from both Government and industry in research and development to create practical steps that farmers can take.

Fonterra is working with partners and other stakeholders on a wide range of potential solutions to help reduce the biological emissions for dairy farmers and the wider global agricultural sector. This, in turn, will help our customers further reduce the footprint of their products too. For any game-changing solution to be successful it needs to be good for the environment (GHG reduction), good for the farmer (practical and cost-effective), good for the cow (her health and performance) and good for the milk (composition and food safety). We are dealing with a complex system that has an animal at its centre. This animal has a rumen to process what it eats, and in the rumen, there is complex ecosystem. There is unlikely to be a single silver bullet here, so we are pursuing a wide range of potential options (see next page).



1 Pastoral Greenhouse Gas Research Consortium.



Hayley, Te Awamutu, with renewable wood pellets

Energy efficiency

Improving energy efficiency in our manufacturing operations has been a long-term focus for us and it remains a vital part of our GHG reduction strategy. In FY20, we delivered our target of a 20% reduction at our New Zealand ingredients and foodservice manufacturing sites from our 2003 baseline. Cumulatively since 2003, that was equivalent to saving enough energy to power all the households in New Zealand for 1.5 years.

We have continued to make improvements, including at Whareroa, where upgrading to equipment that very efficiently removes water from whey permeate, will allow us to retire ageing and inefficient evaporator assets. This project reduces thermal energy use and therefore carbon emissions, and it also improves water recovery, chemical safety and lactose yield.

This year, our manufacturing energy efficiency improved in nine out of 10 countries, giving an overall improvement of almost 2% to 7.1 GJ/tonne of finished goods.



Renewable wood pellets

Transitioning to renewable energy sources

During the 2020 winter shutdown we converted the boiler at our Te Awamutu site from coal to wood pellets. This helped us reduce our carbon emissions from coal use by more than 11% this year, a reduction of more than 98,000 tonnes CO₂-e. Taupo-based Nature's Flame supply the renewable wood pellets, made from sawdust and shavings from nearby sawmill operations, and produced using geothermal energy.

Recognising the significance of this project, at New Zealand's 2021 Energy Excellence Awards, Fonterra and Nature's Flame won the 'Low Carbon Future Award'.

We are now working on the transition of our Stirling cheese plant in Otago. In the 2022/23 season, Stirling will be our first site to use 100% wood biomass as renewable thermal energy, reducing our annual emissions by a further 18,500 tCO₂-e. When transitioning to wood biomass it is important that a

reliable and renewable source can be obtained locally and, in this case, we are pleased to be working with locally-owned Pioneer Energy. Installation of the new infrastructure is expected to contribute more than \$10 million to the local region and support an estimated 10 jobs in the wood biomass industry.

Our goal is to transition our remaining nine sites that still use coal to renewable energy by 2037. This aligns with the New Zealand Climate Commission's recommended pathway for coal, but is ambitious and will be challenging to achieve. The pace at which we can replace coal boilers is also constrained. While we're working on this transition, we must make sure we can process our farmer owners' milk every day and meet our customers' needs. This means we need a secure energy supply and very high availability of our manufacturing facilities. Each milking season there is only a short window of time during the winter period when we can complete major changes to factories and the current capacity of boiler vendors to deliver equipment upgrades is limited due to growing global demand.

In other parts of our business we have also made changes to emit less, including the use of solar. Installations of solar at our manufacturing sites in Indonesia and Malaysia last year have helped deliver a combined reduction of almost 1,400 tCO₂-e and five of our Farm Source™ stores have installed solar, generating more than 100% of their energy requirements at times this year.

Collaborating to investigate options

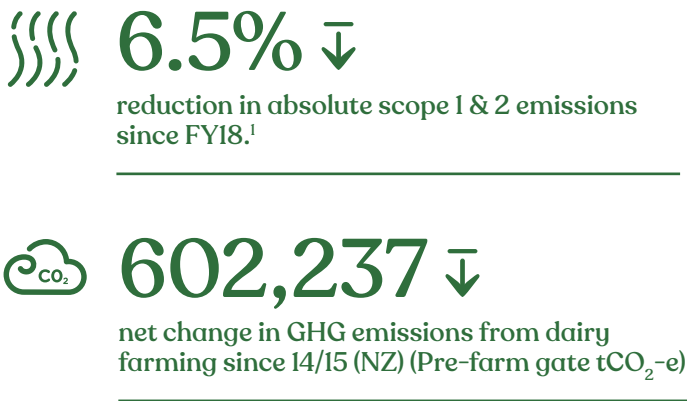
The transition to a low carbon future is a complex problem, there are going to be lots of pieces involved in solving the puzzle and collaboration is vital to making progress efficiently.

This year we undertook a study with Beca, Firstgas Group, and the Energy Efficiency Conservation Authority (EECA) to evaluate the potential of locally produced biomethane as a possible substitute for natural gas. The report, published in July 2021, concluded that by 2050, biomethane from the anaerobic digestion of organic waste in New Zealand could replace 7-8% of natural gas consumption. This would reduce New Zealand's gross GHG emissions by 2% and dairy manure was one of the most significant potential sources of organic waste identified.

We have also partnered with other Major Electricity Users' Group members to stimulate the development of renewable generation in New Zealand. The project aims to accelerate progress by providing a stable commercial platform from which to launch projects. New Zealand's electricity already has a high percentage of renewable generation (more than 80% for the last five years) but we would like to see this expanded and avoid situations like this year, where the emissions factor for grid electricity was significantly impacted by increased coal usage at the Huntly Power Station.



Our performance



For more detail on our performance see next page and SP-54

Electric vehicles

In New Zealand, one of the fastest growing sources of GHG emissions is road transport and it is now at the same level as methane from dairy cows. With solutions already available to reduce the emissions from transport it is important that we leverage these.

With our heavy transport fleet we invest and seek practical ways to reduce the carbon footprint through driver training focused on fuel efficiency, optimising the routes tankers travel, and moving our fleet to lower emissions vehicles.

We have been piloting the use of electric vehicles (EVs) in our fleet of pool cars and have some fast charging stations at our main offices in Auckland and Hamilton. We have now implemented a new policy that all light vehicles that can be electric should be, when they are next replaced. Our aim is to transition more than 300 light vehicles (about one third of our light vehicle fleet) to EVs by the end of 2023 and, with some co-funding from EECA, expand our network of charging stations, including to four regional hubs in the South Island.

Milk vat monitoring system

We have almost completed the installation of electronic monitoring systems on the milk vats at supplying farms in New Zealand. This technology not only helps our shareholder farmers ensure they supply high quality milk, it also improves the efficiency of our milk collection. To date, our computer system has sought to optimise the milk collection based on estimated volumes of milk in the vats and fixed milking times. This new system gives us more precise information about actual volumes and milking times, allowing us to further improve collection efficiency and reduce the number of milk tankers we need.

Partnering on ocean freight

Our supply chain partner, Kotahi, has worked collaboratively with Maersk to launch a new coastal freight service in FY21. As well as reducing emissions by taking freight off road, it has improved transit times to many key markets and improved the distribution of containers around New Zealand at a time of severe global supply chain disruption.

Like Fonterra, Maersk and other carrier partners working with Kotahi, are committed to the Science-Based Targets Initiative (SBTi) and they are in the target-setting phase. Earlier in 2021, SBTi issued draft target-setting guidance specifically for the maritime industry. Recognising that there is likely to be a significant increase in maritime shipping due to its better climate performance, there is a strong focus on continuing to improve emissions intensity within shipping.

This will require fuel switching by our carrier partners. CMA Group is supporting the production of biomethane and Maersk has accelerated its plans for container shipping powered by carbon-neutral fuels, now expecting the first vessel in 2023, seven years ahead of its original plan.

What's next

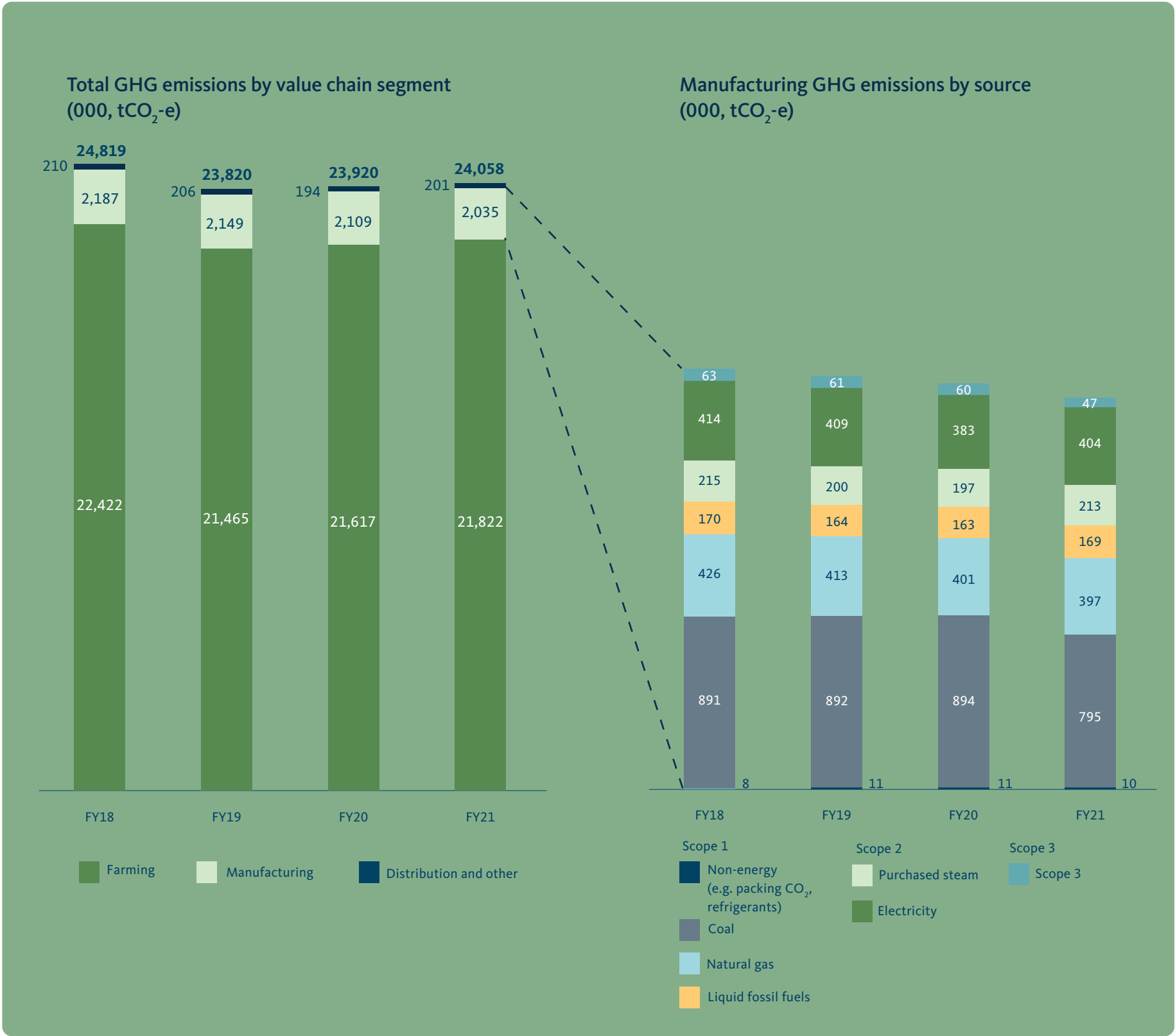
We will continue to use farm-specific GHG emission reports and Farm Environment Plans to help our shareholder farmers understand their on-farm footprint and prioritise improvements.

We will continue to invest in research and development to investigate breakthrough mitigation technologies for animal emissions.

We will continue to focus on energy efficiency to deliver direct emission reductions, cost savings and help prepare for the transition to low carbon energy sources.

We will continue to develop and deliver our decarbonisation plan, starting with our Stirling site during FY22.

¹ The China farms that we sold during FY21 have been excluded for all years so the underlying progress can be demonstrated.



Adding the individual numbers together may not add up to the totals due to rounding.

The CO₂ emissions from biofuels are not shown as protocol excludes them from the total. Biofuels emissions in FY21 rose dramatically to 82,155 tCO₂-e due to the wood pellets being used at Te Awamutu. For further detail see page SP-54 and for supporting information on the scope, methodology and assumptions, including restatements of prior years, see page SP-59.

Packaging and waste

Packaging is vital for delivering safe and quality nutrition, it is also a large part of our direct and indirect waste.

The packaging we use is just one component of our Food Safety and Quality System. It's important we understand the source, make-up and quality of the materials we use for our packaging and that it protects the nutrition we produce, all the way to usage.

We want to play our part in achieving 'zero waste' and that means considering what happens to the packaging we use and how we eliminate waste across our value chain.

This section covers the packaging we use to protect and transport our finished goods, both at the sites we directly manage and at the third-party sites we use. Most of our finished goods are bulk ingredients for use by business customers but we also produce packaged goods for foodservice and consumers. It also covers the solid waste from sites we directly manage, including manufacturing sites, offices, retail stores and farms.

Our approach

We want to maximise the nutritional value delivered from every drop of milk by minimising food loss across our supply chain, keeping it safe and high-quality from the farm to the consumer. This helps us deliver the maximum return to farmers while also delivering better outcomes for people, communities and the environment.

Our Group Environment Policy and supporting standards, requires all our sites to: manage hazardous substances responsibly; reduce waste, including packaging; maximise manufacturing yield and support local waste solutions. For packaging, we have design guidelines and a group of experts from across the business to set the direction and support progress towards our targets.

Our aim is to deliver products right-first-time and capture by-products previously considered waste, such as the whey from making cheese, and make them into new, valuable products. We regularly monitor yield and our Process Excellence team provides support to manufacturing sites where the performance is falling behind the best or there are new opportunities.

What we've been doing

Our Sustainable Packaging Programme

In 2019, we set a target of making Fonterra's packaging 100% reusable, recyclable or compostable by 2025, not knowing if this was possible, or how we would get there. Over the past two years, we've audited our products to understand the materials used and the recycling infrastructure available in the markets we sell to.

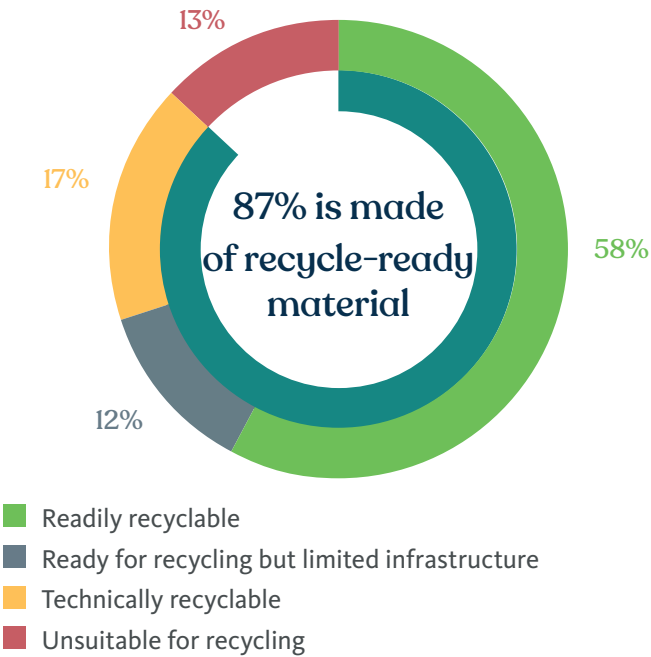
We believe it is important to track our progress based on the tonnes of packaging material associated with our finished goods because this better represents our impact on communities and the environment. Our current global data systems limit the accuracy of our assessment but this year we have integrated data from systems representing over 60% of our packaging designs into a single reporting system and improved the quality of our master data. This makes it more efficient and accurate to assess our full portfolio and further improvements are being planned.

Using material recyclability status at end of FY21 and sales volumes during FY20¹, on a total tonnage of packaging basis: 58% is readily recyclable (e.g. cardboard), 12% is ready for recycling but limited infrastructure (e.g. rigid plastic) and 17% is technically recyclable (e.g. liquid carton board). This leaves 13% that is unsuitable for recycling (e.g. foil-based sachets).

We have developed tools to help our teams analyse our packaging and the markets where it is used. This allows us to prioritise the improvements to deliver the biggest positive impacts.

Where new materials are being used with food products the evaluation of these materials and the quality assurance testing takes a long time. This is because testing needs to be completed across the full shelf-life of the product. For this reason, while we expect to demonstrate some steady progress for the next few years, our more significant gains will occur towards 2025.

Recyclability assessment



¹ This applies to all items except tertiary packaging and some third party manufactured items, representing about 10% of tonnage, where we have used the same data as for baseline reporting in FY20.



Farm Source™ Stores



Fonterra operates a network of 66 Farm Source™ stores throughout New Zealand retailing farm supplies. As part of their continued work supporting the sustainability commitments of our farmer owners and those of the wider rural community, this year the stores have been helping reduce waste by eliminating non-recyclable packaging, facilitating recycling and using recycled materials.

Eliminating non-recyclable packaging

Using guidance from our sustainable packaging programme, our Farm Source™ team has carefully reviewed the specification of each product in our house brand Country Mile range with the goal of reducing on-farm waste.

The first preference is to eliminate the packaging completely, for example, by displaying the items loose in display bins or hanging from hooks rather than in bags or boxes. This reduces material use and avoids the need to recycle it. At the end of FY21, about 33% of our Country Mile product range achieved this.

Where elimination is not possible, the next preference is to use the minimum amount of a material that is already or soon to be readily recyclable. For example, this year plastic blister packs made from PVC or mixed plastics have been replaced with either cardboard backings printed using water-based ink or PET plastic.

Some of our Country Mile product lines still need plastic, for example to maintain the sterility of needles, but 56% of the range now has no plastic

packaging. The plastic packaging has either been eliminated completely or replaced with a recyclable paper-based alternative.

Facilitating recycling

AgRecovery, run by a not-for-profit charitable trust, provides recycling and chemical recovery services for New Zealand's farmers and growers. The recovery rates it achieves are already high but there is still opportunity for improvement.

Partnering with AgRecovery, Farm Source™ is making it easier for farmers to recycle by increasing the number of stores that are approved collection points for rigid plastic (HDPE 2) containers. During FY21 we extended this to 12 stores and plan to make this available at all stores during FY22.

Using recycled materials

This year we were also excited to launch our new 360 REPREVE® range. This is the first range of farm workwear in the world to use the REPREVE® fibre, which is made from recycled plastic bottles, without compromising on performance. This is part of our programme to replace virgin polyester with recycled materials that can be verified as such. This helps drive demand for recycled materials. For example, about 74 500ml PET bottles are recycled to produce each 360 REPREVE® mens' long sleeve bush shirt.



Sustainable packaging in Australia

Achieving sustainable packaging is about transitioning packaging to materials that are reusable, recyclable or compostable and using less material where possible. In all cases we need to progress carefully, so we do not compromise on food safety or increase food waste.

Every year in Australia we sell more than 25 million packs of Bega™ and Mainland™ natural cheese slices in re-closable plastic containers called clamshells. The clamshells were moulded from non-recyclable PVC, which is used in a wide range of consumer packaging. By working closely with our suppliers, and conducting production trials, we have transitioned these to a clamshell that is moulded from PET. This is recyclable in Australia as indicated by the Australian Recycling Label printed on pack. Globally, PVC accounts for about 0.5% of the packaging materials we use, and we are actively working on alternatives so we can phase this out completely as we know it causes contamination of PET recycling streams.

At our Bayswater site we also changed the packing line for part of our range of Mainland™ snack products to remove the single use cardboard sleeves. This will reduce annual cardboard consumption by over 75 tonnes and deliver a cost savings of over \$400,000 each year.

Australia has made good progress towards our 100% recyclable target and, based on careful analysis we know that 94% of packaging on products sold in Australia is now made from recycle-ready¹ materials.

Analysing soft plastics

In prior reporting we had assumed that most of the soft plastics we used for packing cheese and milk powders were non-recyclable. This year, working with our suppliers, we have tested some of these packaging materials against international standards for recyclability using protocols for benchmark testing published by both the Plastics Recyclers Europe (PRE) and the Association of Plastics Recyclers (APR). These protocols assess the compatibility of packaging materials to be mechanically recycled in the soft plastic polyethylene stream (marked number 4). We are pleased to report that the testing demonstrated acceptability, and based on FY21 volumes, a further 2,203 tonnes of our packaging has been proven to be recycle-ready¹. This allows us to communicate appropriate recycling pathways to our customers and consumers which in turn should lead to increased recycling. We are continuing to test other packaging materials in our portfolio.

¹ The exact level of recyclability achieved will vary depending on the scope and availability of collection, sorting and recycling in the given market.



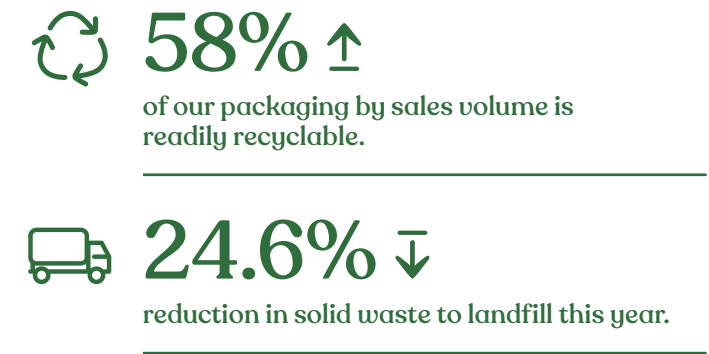
Collaborating on waste reduction

We continue to identify opportunities to reduce solid waste to landfill by analysing our waste streams and by working with our waste management vendors. Our largest reductions this year have come from programmes of work at our South American and Australian manufacturing sites.

In New Zealand, we are also collaborating with several companies to find new technologies and solutions to divert waste streams from landfill. For example, Tetra Pak packaging is being upcycled into low carbon building materials by saveBOARD and used process filters from our manufacturing sites are now being incorporated into fenceposts through our partnership with Future Post.

We also support food bank initiatives around the world (see page SP-21).

Our performance



For more detail on our performance see page SP-55.

What's next

We will continue to transition our finished goods into packaging that is more readily recyclable.

We will continue to decrease the amount of solid waste we send to landfill from all our operational sites.

Animal wellbeing

We want all animals to be valued and treated with respect and care throughout their lives.

Having healthy cows is not only good for the cow, it is good for farmers and it lowers our environmental footprint. It’s also important for our customers, consumers and communities when they consider where their food is coming from.

We also want farm environments to be free from infectious diseases and pests that can affect animal, plant and human health.

This section covers animal wellbeing and biosecurity for farms we manage and farms that supply us with raw milk around the world.

Our approach

Fonterra farmers are required to uphold high standards of animal welfare and comply fully with the latest regulations and codes of welfare. These requirements are set out in the Fonterra Farmers’ Terms of Supply and are guided by our overarching Group Animal Welfare and Biosecurity Policy and supporting standards.

We are guided by globally recognised standards as set by the World Organisation for Animal Health. We work with farmers to continuously improve animal health and welfare outcomes, implement practices that provide positive experiences as described by the

Five Domains¹, and eliminate practices that contravene the Five Freedoms.

We work with industry bodies and training organisations to ensure farmers have access to high-quality information and tools that support best practice and facilitate access to training where required. We work with industry partners such as meat processors, transportation companies and regulators to ensure best practice controls are in place.

The development of strategy, policy and standards for the global management of farm animal welfare is the responsibility of Fonterra’s General Manager On-Farm Excellence – Animals. The management and implementation of Fonterra’s animal wellbeing policies and strategies are undertaken at a local level, supported by our centralised Veterinary and Animals team.

Globally, our international audit and compliance team assesses animal welfare as part of its milk sourcing audits in all markets outside of New Zealand where we collect milk. This enables us to identify any issues and recommend improvements to farmers. Many markets also have local veterinary and milk quality support teams to manage this work. See 'Working with Farmers' on page SP-42.

What we’ve been doing

Animal Health Plans

Ultimately, we want to see these on every farm that supplies milk to Fonterra, but our initial focus is New Zealand, where this season, the percentage of farms with an established Animal Health Plan increased from 50% to 53%.

Experience has shown that those farmers who actively focus on animal wellbeing and who have a good relationship with their vet will usually achieve better outcomes. Therefore, these plans are developed with, and signed-off by, a registered vet. As a minimum, each plan for the 20/21 season covered rates of mastitis and lameness, mortality, body condition scoring and prudent use of antibiotics.

For the 21/22 season, achieving recognition levels within The Co-operative Difference framework (see page SP-43) is linked with increased payments to farmers. Developing and implementing an Animal Wellbeing Plan with a vet is one of the minimum criteria. We continue to further embed the Five Domains model of animal welfare, changing the plan name to an 'Animal Wellbeing Plan'. We’ve also expanded the required coverage of the plan to include mitigation options for heat stress and other extreme weather events, and ways that animal wellbeing can be enhanced through genetic improvement strategies. As part of our continuous improvement process, this is expected to drive even more conversations around the importance of high-quality animal care and practical steps to achieve it.

Cared for Cows

When consumers are purchasing food from livestock, they are increasingly looking for assurance that those animals are well cared for. To help meet this need we have developed our Cared for Cows Standard to formalise our process for assessing and managing animal wellbeing on farms supplying Fonterra New Zealand. This year we achieved independent certification that means we can provide our ingredients to customers with substantiated claims for their products, adding further value to the milk from our New Zealand farms.

New Zealand’s Animal Welfare regulations and supporting codes define minimum standards along with recommended best practices relating to animal care. These are set by the New Zealand Government and enforced by the Ministry for Primary Industries (MPI) and New Zealand Society for the Prevention of Cruelty of Animals.

Our Cared for Cows Standard goes beyond regulatory compliance. We use key on-farm indicators to identify farms with the potential for animal wellbeing issues so they can be proactively investigated and provided with additional support. AsureQuality, an independent Conformity Assessment Body, performs a management system audit and a data compliance audit annually, to ensure the integrity of our Cared for Cows claims. In addition, anyone internal or external to Fonterra can notify issues of concern for follow-up with urgency. We work closely with DairyNZ’s Early Response Service, a network of animal care specialists around New Zealand who can provide farmers with independent advice on good farming practices and will involve MPI when appropriate.

1 The Five Domains recognise that both positive and negative experiences in each of the four physical domains (nutrition, environment, health, behaviour) contribute to the overall mental state of an animal.

Supporting the Biosecurity Business Pledge

Covid-19 has provided businesses around the world with a demonstration of the impacts that can arise from unwanted pests and diseases and the need for effective biosecurity.

In 2020, Fonterra became a founding member of The Biosecurity Business Pledge, a partnership aiming to help all Aotearoa New Zealand companies. Developed by businesses in partnership with Biosecurity New Zealand, the Pledge provides a framework for managing the risk of unwanted pests and diseases (plant or animal) disrupting individual businesses and sectors.

By building a collaborative forum to raise awareness and equip businesses with information and practical tools, the Pledge enables a proactive approach to biosecurity risk management that will lead to better biosecurity outcomes for all.

Activity is organised in two layers – an engagement programme that encourages the free flow of information, insights and perspectives, and a project-based programme to address gaps in the toolbox to support businesses. This year, we have supported the engagement programme by sharing content via our website and a biosecurity fact plinth at our stand at the three-day National Fieldays event. We are also participating in projects to enhance the resources available to other members, which support the integration of biosecurity thinking into governance and procurement.

Our performance

Somatic cell count (SCC) is not only an indicator of milk quality, a low SCC also gives an indication of good animal husbandry. Farmers have continued to deliver excellent results in this area this year, with small improvements in all countries except Australia and China. The overall global result remains the same and well below the European Union import/export standard of 400,000 cells/ml, which is a widely quoted standard. We will continue to work towards lower counts.

We are pleased to have our work with farmers on animal wellbeing over recent years acknowledged by the Business Benchmark on Farm Animal Welfare (BBFAW). Now in its ninth year and covering 150 of the largest food companies in the world, BBFAW is a leading global measure of farm animal welfare management, policy commitment, performance and disclosure by food companies. This year our progress was recognised by our ranking improving from Tier three to Tier two.

53% 

of farms in New Zealand established an Animal Health Plan with their vet.

175,000 

Global weighted average somatic cell count (cells/ml)

What's next

Our dedicated team will continue to work with farmers, veterinarians and regulators to support strong biosecurity and work towards optimising animal health and welfare practices.

We will continue to encourage the adoption of Animal Wellbeing Plans as part of the Co-operative Difference.

We will extend the Farm Insights Report that we provide to farmers in New Zealand (see page SP-26) to include benchmarking of key animal wellbeing metrics such as mastitis rates, lameness, heat stress and milking efficiency.



Craig, Auckland

Managing operations

We are committed to taking a leading industry approach to environmental management for our manufacturing operations.

Our Global Environmental Policy defines our approach to the management of all environmental aspects relevant to our activities including, but not limited to, water, climate and energy, waste and pollution prevention across our global value chain. This includes assessing and managing environmental risks, taking a precautionary approach to decision-making to prevent damage to the environment or human health where serious threats may exist and implementing best-practice environmental management systems. We set aspirations, objectives and targets that drive environmental performance, and continuously improving towards these.

The policy is published on our web site:
www.fonterra.com/environmentalpolicy

We expect all our people to demonstrate a commitment to environmental management, including in their strategic planning and the way they run the business, such as developing innovative approaches for managing and restoring the environment.

All sites have a manager specifically responsible for environmental compliance. At most sites, this is a dedicated Environmental Manager and they are often supported by a site Environmental Management team. Their focus is on managing site-wide environmental performance and compliance with local environmental requirements.

We share some manufacturing sites, which are operated by joint-venture partners and we make use of some third-party manufacturing. These sites are excluded from our performance reporting.

Independent evaluation and certification of sites

Our manufacturing sites are subject to regular internal and third-party audits. Internal audits are conducted by staff independent of the site and are used to identify areas for improvement. Third-party audits give regulatory authorities and our customers independent assessments of our performance.

For example, independent audits against the Sedex Member Ethical Trade Audit (SMETA) standard for labour practices, environment, health and safety and business practices are required by some of our customers. Other customers require us to undertake an annual assessment by EcoVadis. This year we retained a Gold rating.

Other third-party audits are part of independent certification of site Environmental Management Systems (EMS) to international standards, such as ISO14001. Independent certification to ISO14001, or an equivalent such as EnviroMark Diamond, provides a third-party evaluation of the performance of our EMS.



This year, our Studholme site achieved certification for the first time. Globally, 69% of our manufacturing sites are certified to this level or equivalent. This is down slightly from 70% in FY20, due to the closure of our Te Roto site which had certification and the acquisition of two new sites in Australia which are not currently certified.

Environmental compliance

In New Zealand, our Whareroa site had two incidents of non-compliance with environmental regulations that resulted in a \$750 fine and one abatement notice. One was for unauthorised discharge of skim milk via ocean outfall (see Significant Spills) and the other for exceeding a consent limit. Our Tirau site incurred \$1,750 in fines for two incidents of non-compliance, one for odour from wastewater system and the other for exceeding consent limits. At Pahiatua, a spill of about 50 litres of thermal transfer fluid incurred a fine of \$750.

We also experienced some trade waste non-compliances at our production sites in Takanini, Palmerston North and Eltham. The situation has improved during the year but there are still operating conditions where the pre-treatment on-site does not meet our trade waste agreement levels. At our Palmerston North site, over the year we incurred a total of \$56,857 in penalty charges.

In all cases we have taken action to improve processes and minimise the risk of further non-compliances.



Significant spills

In New Zealand, there were a total of 19 significant spills. At our Whareroa site, 170,000 litres of skim milk was released to ocean via the site wastewater system when a valve failed (see Environmental Compliance). At our Takanini site, 7,000 litres of milk and 600 litres of glucose were released to trade waste. While irrigating wastewater on-farm there were two spills, totalling about 11,500 litres, primarily to the farm roadway.

There were also 14 spills of milk, cream or permeate associated with tanker events either on-farm or on a highway and totalling about 70,000 litres.



Healthy Business

We are working together to deliver a sustainable business.

Nā tō rourou, nā taku rourou ka ora ai te iwi.

With your contribution and my contribution, we'll all thrive together.

To do this we are:

- Supporting healthy, sustainable livelihoods for our farmers by returning the most value from every drop of milk.
- Building a strong co-operative by ensuring our business, including investments, delivers long-term value.
- Meeting the changing needs of customers and consumers by leveraging our unique strengths and innovating to create sustainable value for them and us.

Through science and innovation, we can respond to people's changing needs, attitudes and lifestyles to deliver a strong and stable pay-out to our farmers and a good return on capital for our investors. It's all part of ensuring our Co-operative is here for generations to come.

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Working with farmers	SP-42
Responsible procurement	SP-44
Ethical business practices	SP-46

\$11.6 billion ↑

paid to farmers in New Zealand for the 2020/21 season (see page SP-41).

2.7x ↓

debt levels continue to reduce with debt/EBITDA down to 2.7x (see Business Performance Report page BP-13).

34c ↑

normalised earnings per share up to 34c (see Business Performance Report page BP-47).

3,246 ↑

farms in New Zealand achieved a recognition level in The Co-operative Difference framework, up from 2,685 (see page SP-43).

SP/

39

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Employment and income creation

Our Co-operative supports the livelihoods of many thousands of people.

Delivering sustainable returns to our farmer owners is at the core of our Co-op's purpose. By supporting the success of their farming businesses, the people they employ and the vendors they rely on, we contribute significantly to regional economic development. This year through the milk price we returned more than \$11.6 billion to regional New Zealand.

We also support the livelihoods of our employees. On a full-time equivalent basis, Fonterra directly employs 19,354 people, with over 60% of those based in New Zealand (see Annual Review page AR-4 for the distribution of our people around the world).

In New Zealand, industry-wide figures from 2017¹ showed that, in addition to those working in dairy processing the dairy sector employed 26,500 on farm and thousands more in jobs supporting the local industry.



Neil & Tupaea, Te Rapa

Our approach

Being a farmer owned co-operative gives farmers control of their own destiny. Because they own Fonterra, they know the Co-op will always collect their milk and work hard to ensure the best price for it. We believe that the scale efficiencies that come with that provide our Co-op with an important advantage that enables us to compete against some of the largest and most efficient companies in our industry in the world.

Maintaining a strong national dairy co-operative supports all dairy farmers in New Zealand by setting a Farmgate Milk Price which acts as a benchmark.

New Zealand is unique in that 95% of milk production is exported and Fonterra collects a large proportion of this milk. As a result, there is no 'market price' set through competition for supply. We calculate a Farmgate Milk Price using an independently approved methodology. This enables total returns to be allocated between payments for milk and returns on the share capital invested by farmer shareholders and unit holders in the Co-operative (see Farmgate Milk Price Statement).

A well-designed remuneration framework helps the Co-operative attract and retain talent, and both motivates and recognises the role our people play in the success of the Co-op. For our direct workforce

we take a 'total remuneration' approach for our salaried employees. This means we generally aim to pay at the median rate in the markets in which we operate. For roles that are deemed critical or have a significant impact on business performance we may choose to benchmark at the upper quartile rate.

Many of our waged employees are covered by collective agreements. New Zealand industry data¹ shows that the average dairy processing wage of \$85,510, is well above all other forms of food product manufacturing.

1 Source: How does the dairy sector share its growth. NZIER report to DCANZ October 2018. Data from 2017

What we’ve been doing

Easing cashflow for existing and new suppliers

We understand the importance of cashflow on farm. Unlike some agricultural products, milk production provides a regular income and we pay farmers monthly for their milk. In New Zealand, the price paid is based on an advanced rate that is adjusted during the season and with any shortfall in payment paid at the end of the season.

Last year, we changed our Advance Rate policy to pay farmers five days earlier each month, to pay the final settlement payment for the season no later than five working days after the Annual Results are published and to start the Advance Rate at 65% of the mid-range of the forecast Farmgate Milk Price range.

This year, we improved our credit approval process for new suppliers. Rather than waiting until they’ve started supplying milk, new suppliers are now allocated an account and a default credit limit once they’ve completed their application to supply, up to four months before the start of the season. This makes it easier to prepare for the start of the new season and earn Farm Source™ Reward Dollars at the same time.



Adrian & Ian, Northland

Our performance

ECONOMIC VALUE DISTRIBUTED	FY20	FY21
Payment to suppliers (farmers) for NZ-sourced milk	\$10,888 million	\$11,660 million
New Zealand Farmgate Milk Price	\$7.14 per kgMS	\$7.54 per kgMS
Payment to suppliers (farmers) for non-NZ sourced milk	\$1,007 million	\$994 million
Profit after tax attributable to equity holders of the Co-operative	\$686 million profit – (earnings of \$0.43 per share)	\$578 million profit – (earnings of \$0.36 per share)
Dividend payment to equity holders of the Co-operative	5 cents	5 cents interim dividend and 15 cents final dividend
Employees (FTE)	20,278	19,354 ¹

Detailed commentary on our financial performance is included in our Annual Review, see -> www.fonterra.com/annualreview2021 and our detailed Financial Statement, see -> www.fonterra.com/financialstatement2021.

What’s next

We will continue to support regional New Zealand by paying a competitive milk price to farmers.

We will deliver on our financial commitments for FY22 (see Annual Review page AR-18).

1 Our reduction in full-time equivalent (FTE) employees is primarily due to the divestment of our farming operations in China.

Working with farmers

Farmers are at the heart of our Co-operative and we add value to their milk and businesses by supporting continued innovation. This helps them prepare for changing regulations and meet expectations that are valued by our customers and communities, so they can continue to farm for generations to come.

About 90% of the milk we collect comes from our farmer owners in New Zealand. We also collect milk in other countries to help meet the needs of our customers and generate the greatest value from our New Zealand milk (see map in Annual Review page AR-04).

In this section, we explain our approach to working with farmers to ensure minimum standards are met and how we encourage and support the continuous improvement of good farming practices on farms supplying milk directly to our manufacturing sites.

Farms we manage

We directly manage a small number of farms around the world. In New Zealand, we manage 29 farms that neighbour our manufacturing sites. We use these farms to manage excess water and nutrients from our manufacturing operations. The water and nutrients improve soil health and support pasture growth, that then allows us to grow and supply supplementary animal feeds for our farmers.

In China, we did operate seven large-scale dairy farms to produce raw milk for use in local products but during this year we completed the sale of six of these and we plan to sell the seventh. Previously we also managed the operations of two farms for training and demonstration purposes – one in Sri Lanka and one in Chile – but for FY21 that is no longer the case.

Setting expectations for supplying farms

Our Terms of Supply and *Farmer Handbooks* set expectations for farmers when it comes to people, the environment, animal health and welfare, biosecurity, and food safety and quality.

Our Raw Milk Harvesting Standard sets out the minimum requirements that all farmers must meet. It applies across all markets where we collect milk, building on compliance with local regulations and forms the basis for our on-farm audits.

Through a combination of our own staff and third parties, we regularly assess farms supplying us:

- In New Zealand, in addition to visits by our own team, every supplying farm is visited each year by an independent farm assessor. A more-detailed assessment is also completed for each farm, around once every five years. This year a total of 19% of farms were placed into our performance management process at some point



during the season to address an identified area of concern. There was an increase this year arising from bringing milking shed structural items into this process and most were resolved after the first warning.

- In Australia, farms are visited multiple times each year by our own staff and independent assessments are scheduled based on prior compliance levels. Every farm is assessed at least once every two years. In FY21, 45% of farmers were assessed and 22% of the assessed farms were referred for follow-up and resolution, one for a critical non-compliance and the remainder for major.
- In Latin America, each farm is assessed by a combination of our own staff and third parties.

In addition, our New Zealand-based team visits and audits a random selection of farms once every three years.

- In China, our farms are under our direct control. These farms are subject to assessments by our New Zealand On-Farm Excellence team and Internal Audit team.

Where we find mandatory requirements are not being met, our On-Farm Advisors, or equivalent, develop an action plan with the farmer, including target completion dates. We may also suspend the collection of milk until we are satisfied that all minimum requirements are being met and that any actions required to avoid a repeat of the issue have been completed.



Milk collection suspension notices were issued for three farms in New Zealand this year: one related to milk quality, one related to effluent management and one related to riparian management.

The Co-operative Difference

We have farmer engagement and support programmes in every country where we collect milk from farms. These help us build relationships with farmers, set expectations and support them to improve their farming practices. This is especially important for our farmer owners in New Zealand and why we launched The Co-operative Difference in FY19.

The Co-operative Difference makes Good Together ‘real’ on the farm. It pulls the best of what we do into five focus areas, bringing together what our farmers need to know, for today (‘Our Core’), recognising farms who go above and beyond (‘Our Next Steps’) and providing guidance on things to consider in future planning (‘Our Future’).

‘Our Core’ covers the things we can never afford to compromise on, such a regulatory compliance, producing safe, high-quality milk and looking after people, animals and environment.

Beyond this, ‘Our Next Steps’ allows farmers to grow through three levels of achievement, using the analogy of a journey up a mountain, to reach greater things. To be recognised for the 2020/2021 season, the farm had to meet pre-defined criteria including: having a farm-specific Farm Environment Plan (see page SP-26); having an Animal Health Plan developed

with a veterinarian (see page SP-36); having a Health and Safety Plan; and delivering safe, high quality milk.

The level achieved was determined by elapsed time with:

- 1,201 achieved Te Tihi – ‘the summit of the mountain’ for entire season
- 1,065 achieved Te Puku – ‘the mid poin’ for six months
- 980 achieved Te Pūtake – ‘the start of the journey’ for three months

From the start of the 2021/2022 season, farms meeting the specific on-farm targets will be eligible for The Co-operative Difference payment of up to 10 cents per kg of milk solids, with 7 cents for reaching Te Pūtake and a further 3 cents for reaching Te Puku. Reaching Te Tihi is about celebrating the farmer leaders in our Co-operative through recognition, and is not linked to payments. The specific criteria for this season builds further on the last season. For Te Pūtake, these include: accurate and timely completion of Farm Dairy Records; completing a DairyNZ Workplace 360 assessment; having a Farm Environment Plan and achieving certain key practices and standards related to topics such as nitrogen surplus, dairy shed effluent, on-farm plastics and farm-grown feed. Te Puku, is then based on providing milk that achieves a milk quality excellence rating.

‘Our future’ ensures that we can also help farmers future proof decisions being made on farm today by giving them guidance on likely requirements and trends.

Responsible procurement

We have the opportunity to use our influence for good.

When it comes to procurement, this means promoting the adoption of responsible practices within our supply chain and working to source goods and services produced in an environmentally and socially responsible way.

By far the largest single input to our business is raw milk, collected directly from farmers. For more information on how we work with our farmers in New Zealand and around the world, see page SP-42.

This section covers our non-milk supply chain, including capital projects.



Fonterra Electric Vehicle fleet

Our approach

Our Global Procurement Policy and Procurement Standard set out our requirements for the procurement of non-milk goods and services, including capital projects. We are committed to purchasing decisions that set us up for a sustainable future and these requirements apply to all purchasing. For significant items our specialist procurement team must be involved in the purchasing decisions and ongoing management of the vendors.

The Global Policy is approved by the Board of Directors and the COO is accountable for ensuring the Global Standard is fully implemented across the organisation. Business Unit procurement leads are accountable for guiding and approving major procurement activities, ensuring procurement

control activities are operating effectively and addressing any actual or potential non-compliant behaviours. All employees are responsible for complying with the standard.

Vendors are assessed against a range of criteria, during initial selection and on an ongoing basis. This includes food safety and quality, financial stability and cyber risk, where relevant. Suppliers of any material or services that may impact our sustainability commitments must be approved by the Group Sustainability team.

The Fonterra Supplier Sustainability Code of Practice sets our expectations of vendors including upholding standards related to human rights, fair working conditions and environmental protection.

www.fonterra.com/sustainabilitycop

What we've been doing

Embedding social and environmental criteria

We continue to further integrate social and environmental criteria into our procurement processes. This year, we updated our Group Procurement Policy and Procurement Standard to ensure we are adopting a consistent approach to vendor due-diligence and vendor performance evaluation now we have de-centralised procurement teams.

Sustainability is now one of the key pillars considered when we refresh our category strategies, when building vendor strategy plans and is a fixed item on the agenda in our vendor meetings for providers of ingredients, packaging and engineering categories.

We have also continued to develop the capabilities of our procurement team, holding five specific training workshops on Human Rights and Modern Slavery this year with 70 employees from around the world attending including 48 from our procurement teams.

Vendor assessments

Building on the vendor risk assessment that we completed in the past, this year we undertook a detailed assessment with our top 50 strategic vendors. None of these vendors were identified as high risk of non-compliance with our standards but it allowed us to develop a two-phase approach for targeting our assessment of vendors. Phase one comprises of a standard online questionnaire. Based on the findings of phase one, a detailed discussion is undertaken with vendors around any areas of risk identified. We expect to grow the coverage of these detailed assessments as a percentage of global procurement spend in the coming years.

Social procurement

We are a member of the ‘Fwd: platform’ – a marketplace website that connects buyers like ourselves with organisations that have been certified by the Ākina Foundation as social enterprises, trading to deliver positive social and environmental impact.

We used the platform this year to check for alternative suppliers across 12 sub-categories. While we identified some coverage in food and beverage,

facilities management and waste management, in all cases the available solutions were very localised and will require further investigation to assess their capability and capacity. We continue to spend about \$1.5m per year with Kilmarnock, a provider of high-quality food packing services who have been certified as a social enterprise by Ākina. We also hosted four Buyer Networking events with other like-minded organisations to share understanding about integrating social enterprise into procurement processes and the associated challenges.

Forest products

Palm products are one of the highest-profile raw materials in our supply chain. The production of palm products has been linked to unsustainable practices, including deforestation, habitat destruction and poor human rights. We therefore have a specific focus on this area but we also consider the risk of deforestation more widely in our supply chain and completed our fourth response to CDP on forests this year.

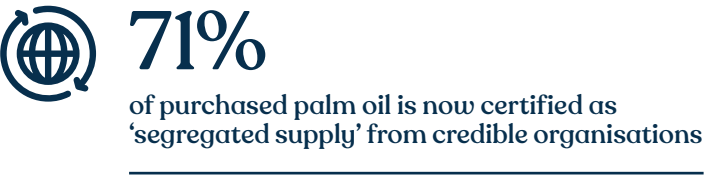
We have been a member of the Roundtable for Sustainable Palm Oil (RSPO) since 2010 and since 2015, all our palm oil purchases have been certified

by RSPO. In 2016, we launched our Palm Product Standard. This requires palm product vendors within our supply chain to publicly commit to “No Deforestation, No Peatland Development, and No Exploitation” and have processes to meet these commitments. We had planned to publish a new version of this in FY21 but that has been delayed until FY22.

During the 2020 calendar year, we purchased 27,487 tonnes of palm-related products as an ingredient with 71% RSPO certified as segregated supply and 22% certified as mass balance. While we missed our original deadline of 2018, we made good progress in CY2020 and expect that to continue.

Early in FY21 we divested of our interest in Agrifeeds, a joint venture between Fonterra and Wilmar. The Agrifeeds joint venture was formed in 2008 to secure the competitive supply of palm kernel expeller (PKE) and other imported feed ingredients for New Zealand farmers. As part of our ongoing review of investments it was concluded that a competitive animal feeds market had been established and investment in Agrifeeds was no longer required to ensure farmers have access to responsibly sourced and competitively priced feed.

Our performance



What's next

We will continue to expand our assessment and engagement with vendors to better understand the practices in their supply chains, including establishing a new online portal for use with new vendors and as contracts are renewed.

We had planned to update our Sustainability Code of Practice and Palm Products Standard this year, but this will now be completed in FY22.

Working with our chemical partner Ecolab we will audit our manufacturing sites in New Zealand to identify opportunities to recycle chemical waste and regenerate it for reuse.

We will continue to work with suppliers of direct and indirect palm oil ingredients to work towards 100% certified segregated supply.

Ethical business practices

So that we live up to the intent of our Purpose, the experiences and interactions that our customers, farmers, business partners and communities have with our people must foster trust and credibility. We earn that trust by acting ethically and living our Values every day.

Our approach

The Board, Co-operative Council and Management of Fonterra consider that strong governance plays a critical role in the success of our Co-operative and are committed to achieving the highest standard of corporate governance, representation and leadership (for details see Corporate Governance Statement page CG-02).

Our Group Legal and Compliance Policy requires all of Fonterra’s business units to clearly assign roles and responsibilities for compliance, with all applicable laws and regulations applying to our operations. We are committed to embedding compliance with all applicable laws, regulations and Fonterra Global Policies into our operations and creating a culture of compliance, including appropriate monitoring, assurance, reporting and continuous improvement.

We are committed to operating in a manner that builds trust and lasting relationships through behaving with honesty, integrity and transparency. We protect the reputation of our business by ensuring robust practices in the areas of actual or potential conflict of interest, gifts and corporate hospitality, bribery and corruption, and the disclosure of fraudulent and unlawful activity.

For more information on our Code of Ethical Behaviour, see Corporate Governance Statement page CG-02.

Our performance

Legal compliance

We have not identified any incidents of non-compliance with laws and regulations in the social and economic area in the past year. There were also no fines or non-financial sanctions related to anti-competitive behaviour, anti-trust, and monopoly practices over this period.

Fonterra is currently a defendant in climate change litigation commenced by Mr Mike Smith, a Māori climate change representative, which was commenced in the Auckland High Court. Fonterra is a co-defendant along with six other major New Zealand corporates. In basic terms, Mr Smith is claiming that the defendants undertake or enable emitting activities that release greenhouse gases into the atmosphere, that these actions have contributed to climate change, and that Mr Smith has suffered, or will in the future suffer, losses as a result of climate change. Fonterra and the other defendants are vigorously defending these proceedings and the High Court has already struck out two of the plaintiff’s three specific claims. The decision of the High Court to strike out the two claims was appealed by Mr Smith in the Court of Appeal (and Fonterra cross-appealed the decision of the High Court not to strike

out the third claim). The parties are awaiting the Court of Appeal’s judgement in the appeal.

For further details on environmental compliance see page SP-38, for healthy and safety compliance see page SP-15 and for product marketing compliance see page SP-11.

Anti-corruption

Each year our Internal Audit team assesses all Fonterra businesses for the risk of potential fraud. This risk assessment helps determine the priorities for audits across our global business. During FY21, over 80% of the internal audits completed across our global business included an assessment of the risks related to corruption, including five manufacturing sites where we have management control. Particular areas of focus include segregation of duties, delegated authorities, procurement practices, and sensitive inventory management. This year, following further investigation, one case resulted in an individual’s employment being terminated after a conflict of interest with a customer was discovered.

Responsible political behaviour

Fonterra does not allow corporate contributions of any kind to a candidate or political party in connection with political elections. No political contributions were made in the past year. We do not offer money or anything of material value to government officials, parties or candidates for the purposes of influencing the acts or decisions of officials.

Principled approach to tax

Fonterra has a clear set of principles that guide how we manage our tax obligations in New Zealand and around the world. We pay our fair share of tax in all jurisdictions, and do not use tax havens to avoid our tax responsibilities. We are transparent and work with tax authorities to ensure we continue to act responsibly.

In New Zealand co-operatives and corporates are treated differently in tax law. Rather than being taxed directly, Fonterra passes our income on to our farmer shareholders, who pay the tax at their level.

Our Values

Developed collaboratively with employees, our values guide our behaviour every day:



Do what’s right
We act with care, empathy and respect and we hold ourselves and others to high standards.



Co-operative spirit
We pitch in and work as one connected team to create goodness together.



Challenge boundaries
We are progressive, open-minded and always eager to uncover new ways of working to benefit everyone in our Co-op.



Make it happen
We are progressive, open-minded and always eager to uncover new ways of working to benefit everyone in our Co-op.

Appendices

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Our contribution to United Nations’ Sustainable Development Goals

Fonterra supports the United Nations’ Sustainable Development Goals (SDGs) and we are committed to playing our part, by working collaboratively to deliver change at scale.

The Dairy Declaration of Rotterdam¹ recognises the SDGs as the overarching framework for achieving sustainable development to 2030 and the critical contribution the dairy sector will play.

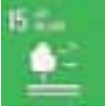
We understand that the SDGs and their underlying targets can help us refine our sustainability approach, not only to reduce risks, but also to identify opportunities for growth that contribute positively to their achievement.

We have analysed our business activities, material topics and value chain against the SDGs and their underlying 169 targets. Here we identify the specific goals where we can make the most material contribution, the objectives we have prioritised for specific indicators and where this occurs in our value chain.

The dairy sector’s global approach to sustainable development is represented by the Dairy Sustainability Framework (DSF). Fonterra is a founding and implementing member of the DSF. We are committed to addressing all 11 DSF criteria within our supply chain, through a process of continuous improvement prioritised in conjunction with the findings of our materiality assessment. Whenever we refresh our materiality assessment we ensure that the 11 DSF criteria plus human rights and deforestation are always considered as potential topics in the process.

For more information, see:
www.dairysustainabilityframework.org

¹ A joint declaration of the UN Food and Agriculture Organisation and the International Dairy Federation signed in 2016.

SDG		OUR CONTRIBUTION	INDICATORS	DAIRYING	OPERATIONS	CONSUMPTION
	No Poverty	Create positive employment opportunities along our value chain	1.2	●	●	
	Zero Hunger	Provide access to safe, affordable nutrition	2.1			●
		Address malnutrition through products tailored to specific health needs	2.2			●
		Lift dairy productivity to meet growing nutritional needs	2.4	●	●	●
	Good health & wellbeing	Responsibly provide products to support wellbeing of mothers and infants	3.1 3.2			●
		Continue to improve the nutritional profile of our products	3.4			●
		Promote healthy and informed consumer choices	3.4			●
		Provide a safe working environment	3.9	●	●	
	Gender Equality	Ensure equal participation and opportunities for women in the workforce	5.5	●	●	
	Clean water and sanitation	Reduce the impact of farming and manufacturing on water quality and ecosystems	6.3 14.1 15.1 15.2	●	●	
	Life below water	Increase water efficiency in areas of constrained supply	6.4	●	●	
	Life on land	Protect and restore freshwater ecosystems	6.6	●	●	
	Decent work and economic growth	Provide positive and inclusive employment for all groups	8.5	●	●	
		Address labour and human rights issues in our supply chain	8.7 8.8	●	●	
		Provide a safe and secure working environment	8.8	●	●	
	Responsible consumption & production	Reduce food waste throughout our supply chain	12.3	●	●	●
		Reduce waste generation through our operations and product packaging	12.5		●	●
	Climate change	Support farmers to build resilience to climate change	13.1	●		
		Reduced emissions across our supply chain		●	●	

Governance of sustainability

The Board, Co-operative Council and the Fonterra Management Team (FMT) consider that strong governance plays a critical role in the success of our Co-operative and are committed to achieving the highest standard of corporate governance, representation and leadership. For details of our principles and approach see Corporate Governance Statement page CG-02.



The Board Charter is available at www.fonterra.com. Its responsibilities include:

- Overseeing Fonterra's accountability, decision-making and compliance procedures.
- Ensuring that Fonterra's goals are clearly established and that strategies are in place for achieving them.
- Overseeing progress towards objectives including engagement with those managers responsible for championing imperatives around social and environmental sustainability.
- Establishing Fonterra's risk profile and ensuring that Fonterra has appropriate risk management and regulatory compliance policies in place and that they are monitored on a regular basis.

The Board has formed a Sustainability Advisory Panel, made up of five external experts who provide independent guidance on the Co-operative's strategy from a sustainability perspective.

Accountability for sustainability rests with the Fonterra Board, our Chief Executive Officer and the FMT. Regular performance updates are provided at this governance level. Accountability for individual elements of sustainability performance cascades through the organisation and from FY20 has been integrated into our Group Short-Term Incentive scheme for permanent employees. The related Key Performance Indicators cover our environmental, economic and social performance.

Oversight of sustainability issues by the Board includes reviewing and guiding strategy and risk management policies (including approval of the Group Environmental Policy), public policy positions, specific sustainability commitments and targets and major investment plans required to support achievement of these goals.

Two sub-committees of the Board, that assist the Board in fulfilling its corporate governance responsibilities related to sustainability, are the Co-operative Relations Committee and the Safety and Risk Committee.

The Chief Operating Officer and Managing Director of Co-operative Affairs report directly to the Chief Executive Officer and sit on the FMT.

Responsibilities of the Chief Operating Officer include oversight of sustainability, innovation and the safety, quality and regulatory teams. This includes responsibility for integrating sustainability into strategy and business planning and ensuring sustainability-related issues are monitored and reported to the FMT.

Responsibilities of the Managing Director of Co-operative Affairs include oversight of governance, risk and audit, Farm Source (our farmer-facing services), global stakeholder affairs, communications, legal, inclusion and Māori strategy.

Our performance

		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Healthy People - Nutrition and health							
Percentage of everyday and advanced nutrition products that meet endorsed nutritional guidelines ¹ Fonterra consumer branded products (Global)	100% by 2025			82%	84%	We are continuing to improve the formulation of our consumer products. On a volume sold basis, we improved from 82% to 84% this year. This year we updated our nutrition guidelines to further align with international health authorities and regulatory recommendations, and to simplify the definitions. These have been re-endorsed by the New Zealand Nutritional Foundation and we have made them <u>publicly available</u> on our web site. To be transparent on the scale of change we have re-assessed FY20 using the new guidelines. This resulted in an increase from 73% to 82%.	SP-08
Healthy People - Health safety and wellbeing							
Work-related fatalities (attributable to Fonterra – staff, contractors, on-site public)	Zero harm	0	1	0	0		SP-16
Number of serious harm injuries ² (attributable to Fonterra – employees, contractors, on-site public)	Zero harm	14	18	10	9	We have achieved a further reduction in the number of serious harm injuries this year. Our goal remains to eliminate serious harm so we will continue to seek further improvements. Four of these injuries resulted from contact with moving equipment/vehicles, while another three injuries were the result of slips/trips and falls. We continue to work on our vehicle safety and traffic management across the business.	SP-14
Number of recordable injuries (employees – work-related)	Measure and report	284	222	247	230	230 injuries required medical treatment, restricted work duties or time away from work, so we will continue to seek further improvements in both rate and severity. Manual handling, slips, trips and falls continue to be the main cause of recordable injuries.	SP-14
Total recordable injury frequency rate (TRIFR per million work hours) (employees – work-related)	Less than 5	6.1	4.9	5.8	5.7	This year we have succeeded in reducing our injury rate again but not back to the lowest level that we achieved in FY19. The total hours worked covered by this injury rate was 40 million hours.	SP-14
Healthy People - Employment rights and working conditions							
Employee engagement	World-class (Top quartile)	4.00 (2nd highest quartile)	4.07 (2nd highest quartile)	N/A ³	4.09 (2nd highest quartile)	Engagement has continued to improve and the result almost achieved the top quartile threshold.	SP-16

1 Assessment of products is based on protein, calcium and added sugars. Everyday nutrition products are intended to deliver a daily source of dairy nutrition. Advanced nutrition products provide a source of dairy nutrition and are fortified for advanced nutrition and health benefits.

2 Serious harm injuries are injuries that cause temporary or permanent loss of body function and include those to/involving both employees and contractors.

3 Prior to FY21 engagement surveys were completed early the financial year and reported as the result for the prior FY (e.g. early FY20 survey reported as FY19 result). In FY21 the Co-operative wide survey was completed mid-year and is considered to represent FY21. This means there is no result reported for FY20.

FY21 progress is evaluated against stated targets:

Progressing well or target achieved.

Progressing but not as strongly as we'd like.

Not progressing well or original timeline significantly delayed.

PERFORMANCE							
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Healthy People - Employment rights and working conditions (continued)							
Training skills hours (NZ)	Double by 2025 from FY20 baseline	-	-	270,355	346,417	We have made good progress this year, increasing the hours of skills training by 28.1% compared to FY20, with the average hours per learner being 31.6 hours. In addition to skills-related training there were an additional 194,085 hours of onboarding and compliance learning in New Zealand, covering things such as safety and environmental management.	SP-16
Female representation in senior leadership	50% by 2022	30.1%	28.6%	29.1%	32.4%	For the first time since we set this aspirational target, we made some progress. Realistically we know we will not be able to achieve our aspiration within the timeframe originally envisaged but we remain committed to the intent.	SP-18
Ethnic representation in senior leadership	20% by 2022	9%	9%	8%	9%	Privacy concerns and the voluntary nature of reporting ethnicity information continue to limit our understanding and ability to improve. Within senior leadership, 59% identify themselves as European/Caucasian; 9% identify themselves as other and 32% have not provided the information. Realistically we know we will not be able to achieve our aspiration within the timeframe originally envisaged. Therefore, in the short-term we intend to focus in New Zealand.	SP-18
Healthy Environment – Land and water, on-farm New Zealand							
Farms with Farm Environment Plans (FEPs)	100% by end 2025	12%	23%	34%	53%	Our goal for FY21 was to reach 45% and this has been exceeded.	SP-26
Farms with waterways have documented riparian management plan	100% by end 2025	25%	37%	46%	58%	This is now being progressed with Farm Environment Plans (see above) and due to prior work completed, overall progress remains more advanced.	SP-26
Healthy Environment – Land and water, manufacturing							
Water reduction at manufacturing sites in water-constrained regions	30% reduction by 2030 from FY18 baseline	–	3.9% Increase from FY18	2.9% Reduction from FY18	2.6% Reduction from FY18	We did not make as much progress as we planned this year. The commissioning of the new reverse osmosis plant at our Darfield site has proven difficult due to a variety of factors including the distances involved. This means the large reductions planned there were only partly delivered. Our Stanhope site in Australia which delivered a large improvement last year through process improvements was negatively impacted this year by water consumption for wastewater irrigation purposes. All progress has been restated to reflect the latest set of sites considered in water-constrained regions.	SP-23
Improvement in water efficiency (water used per cubic metre of milk processed)	Measure and report (global)	–	0.4% Improvement from FY18	1.9% Improvement from FY18	2.5% Improvement from FY18	While our main focus is on reducing our water use at sites in water-constrained regions, we have delivered significant improvements at other sites too. This is reflected in water efficiency based on milk processed and finished goods produced.	
Improvement in water efficiency (water used per tonne finished goods)	Measure and report (global)	–	1.3% Improvement from FY18	4.7% Improvement from FY18	5.5% Improvement from FY18		

FY21 progress is evaluated against stated targets:

- Progressing well or target achieved.
- Progressing but not as strongly as we'd like.
- Not progressing well or original timeline significantly delayed.

		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Percentage of manufacturing sites treating wastewater to leading industry standards	>80% of sites by 2030 (global)				53%	We have reviewed our approach and restated our target on this basis. Recognising that stakeholders have different views and values when it comes to improving water quality, we now believe that a leading industry approach to wastewater quality requires a truly collaborative approach. We will judge our success based on a combination of internal guidelines and satisfying the expectations of key stakeholders at a catchment level. By 2030, we are planning to upgrade wastewater treatment facilities at 15 sites, investing more than \$400 million and we estimate this will take us to at least 80%.	SP-24
Water withdrawal by source overall - Volume (000 m³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water (water that occurs naturally on the Earth’s surface)		25,842	24,918	25,726	Includes Indonesia rainwater harvesting.	
	Ground water (water that is in an underground formation)		16,256	16,086	15,613		
	Seawater (sea or ocean)		0	0	0		
	Produced water (through the extraction, processing or use of any raw material)		0	0	0		
	Third-party water (municipal water supplies or other public or private water utilities)		9,288	8,476	8,541		
Total withdrawal from freshwater			51,386	49,481	49,881		
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0		
	Ground water		903	875	871		
	Seawater		0	0	0		
	Produced water		10,865	11,253	11,929	Water is extracted from milk during some processing. The volume is a conservative estimate of produced water, for sites where discharge volumes exceed withdrawal.	
	Third-party water		15	13	4		
Total withdrawal from other water			11,783	12,141	12,804		
Grand Total			63,169	61,622	62,685		
Water discharge by destination overall - Volume (000 m³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water		24,993	24,980	25,528		
	Ground water		5,564	5,465	5,612		
	Seawater		0	0	0		
	Third-party water (total)		0	0	0		
	Third-party water - for use by other parties		0	0	0	By agreement or for emergency community support we provide some water to third parties. Theses volumes are included elsewhere. They are not easy to separate and deemed immaterial compared to total volume.	
Total discharged to freshwater			30,557	30,444	31,140		

FY21 progress is evaluated against stated targets:

- Progressing well or target achieved.
- Progressing but not as strongly as we'd like.
- Not progressing well or original timeline significantly delayed.

		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water		62	160	121		
	Ground water		12,226	11,002	11,066		
	Seawater		13,241	12,936	13,265		
	Third-party water (total)		5,026	5,226	5,390		
	Third-party water - for use by other parties		0	0	0		
Total discharged to other water			30,556	29,323	29,843		
Grand Total			61,113	59,768	60,983		
Water discharge overall – Quality (COD ¹ mg/L)							
Discharged to surface water			74	69	59		
Discharged to ground water			1,220	1,208	1,084		
Discharged to seawater			2,105	2,062	2,264		
Discharged to third-party water			1,874	1,703	1,531		
Water withdrawal by source from areas with water stress - Volume (000 m³)							
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0		
	Ground water		2,023	1,996	1,862		
	Seawater		0	0	0		
	Produced water		0	0	0		
	Third-party water		2,525	1,839	2,051		
Total withdrawal from freshwater			4,547	3,835	3,913		
Other water (≤1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0		
	Ground water		0	0	0		
	Seawater		0	0	0		
	Produced water		54	125	117		
	Third-party water		0	0	0		
Total withdrawal from other water			54	125	117		
Total sourced from areas with water stress			4,601	3,959	4,030		
Water discharge by destination to areas with water stress - Volume (000 m³)							
Discharged as freshwater (≤1,000 mg/L Total Dissolved Solids)			2,578	1,964	2,168		
Discharged as other water (>1,000 mg/L Total Dissolved Solids)			1,358	1,422	1,495		
Total discharged to areas with water stress			3,936	3,386	3,663		
Water consumption - Volume (000 m³)							
Total consumption from all areas			2,056	1,854	1,702		
Total consumption from areas with water stress			665	574	366		

1 Chemical Oxygen Demand – an indicator of water quality measuring chemicals in water that can be oxidized.

FY21 progress is evaluated against stated targets:



Progressing well or target achieved.



Progressing but not as strongly as we'd like.



Not progressing well or original timeline significantly delayed.



		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Healthy Environment – Climate change							
Reduction in absolute Scope 1 & 2 emissions ¹	30% reduction by 2030 from FY18 baseline (Global)	–	1.7% reduction from FY18	3.5% reduction from FY18	6.5% reduction from FY18	The conversion of the coal boiler at our Te Awamutu site delivered the largest reduction by a single project and this was also supported by a significant reduction in Australia. Some of this improvement was negated by the New Zealand grid electricity having a lower renewable content than in recent years but we remain on track to achieve our science-based target.	 SP-30
Net change in GHG emissions from dairy farming since 14/15 (NZ) (Pre-farm gate tCO ₂ -e)	Neutral to 2030	720,339 reduction on 14/15 (3.7%)	1,113,088 reduction on 14/15 (5.7%)	870,957 reduction on 14/15 (4.5%)	602,237 reduction on 14/15 (3.1%)	Our estimated absolute GHG emissions remain well below the baseline season. Emissions intensity on farm for 19/20 season (including LUC) is 1.57% higher than the 14/15 baseline. The increase from FY20 to FY21 is based on increased milk volume. The lifecycle assessment for 19/20 is the most recent available and is applied to both seasons.	 SP-28
Total energy used by manufacturing							
Fuel consumption	Energy (PJ)	20.0	19.8	19.5	19.3		
	Renewable energy (%)	0%	0%	0%	5%		
Steam consumption	Energy (PJ)	4.2	4.1	4.0	4.1		
	Renewable energy (%)	4%	6%	6%	6%		
Electricity consumption	Energy (PJ)	5.2	5.1	5.0	5.1		
	Renewable energy (%)	53%	55%	55%	56%		
Energy used	Energy (PJ)	29.5	29	28.5	28.6		
	Renewable energy (%)	10%	11%	11%	14%		
	Non-renewable energy (%)	90%	89%	89%	86%		
Global consolidated emissions (000 tCO₂-e)							
Scope 1	Scope 1	1,716	1,690	1,696	1,534		
	On-farm	221	210	227	164		
	Manufacturing	1,495	1,480	1,469	1,371		
	Distribution and other	0	0	0			
Scope 2	Scope 2	692	659	632	652		
	On-farm	64	51	52	35		
	Manufacturing	628	608	580	617		
	Distribution and other	0	0	0	0		
Scope 3	Scope 3	22,411	21,471	21,592	21,872		
	On-farm	22,138	21,204	21,338	21,623		
	Manufacturing	63	61	60	47		
	Distribution and other	210	206	194	201		
Total Scope 1,2, & 3	Total Scope 1,2, & 3	24,819	23,820	23,920	24,058		
	On-farm	22,422	21,465	21,617	21,822		
	Manufacturing	2,187	2,149	2,109	2,035		
	Distribution and other	210	206	194	201		

¹ The China farms that we sold during FY21 have been excluded for all years so the underlying progress can be demonstrated. This results in a re-statement of FY19 and FY20.

FY21 progress is evaluated against stated targets:

 Progressing well or target achieved.

 Progressing but not as strongly as we'd like.

 Not progressing well or original timeline significantly delayed.

		PERFORMANCE					
INDICATOR	TARGET	FY18	FY19	FY20	FY21	COMMENTARY	SEE PAGE
Global consolidated emissions intensity							
Scope 1 & 2	Emissions intensity by finished goods (000 tCO ₂ -e)	0.60	0.59	0.59	0.55		
	Emissions intensity by revenue (tCO ₂ -e /million NZ\$)	118	118	111	103		
Scope 1, 2 & 3	Emissions intensity by revenue (000 tCO ₂ -e)	6.2	6.0	6.1	6.0		
	Emissions intensity by revenue (tCO ₂ -e /million NZ\$)	1,215	1,196	1,140	1,139		
Healthy Environment – Solid waste and packaging							
Solid waste sent to landfill (tonnes)	Zero by 2025		17,491	16,577	12,492	Solid waste to landfill reduced by over 4,000 tonnes (24.6%), through a combination of activities across our manufacturing sites. See page SP-35 for some examples. Prior years have been restated to include previously unidentified waste streams.	SP-35
100% reusable, recyclable or compostable packaging	100% by 2025	-	-	50%	58%	Using material recyclability status per market at end FY21 and sales volumes during FY20 ¹ , on a total tonnage of packaging basis: 58% is readily recyclable (e.g. cardboard); 12% is ready for recycling but there is limited infrastructure (e.g. rigid plastic); 17% is technically recyclable (e.g. liquid carton board). This leaves 13% that is unsuitable for recycling (e.g. foil-based sachets).	SP-33
Healthy Environment – Animal health and biosecurity							
Somatic cell count average (mean) (000 cells/ml)		2017/18	2018/19	2019/20	2020/21		
New Zealand		180	168	171	170	Farmers have continued to deliver excellent results in this area this year, with small improvements in all countries except Australia and China. The overall global result remains the same and well below the European Union import/export standard of 400,000 cells/ml, which is a widely quoted standard.	SP-36
Australia		178	171	172	173		
China		168	183	160	167		
Chile		319	312	317	309		
Brazil		533	467	395	342		
Sri Lanka		634	599	662	629		
Global weighted average (by volume)		184	173	175	175		
Healthy Business – Employment and income creation							
For full information about our Financial Performance please refer to the Financial Statements.							
Healthy Business – Responsible procurement							
Palm products		(CY 2017)	(CY 2018)	(CY 2019)	(CY 2020)		
Sourcing ‘segregated supply’ palm oil from credible organisations.		7%	23%	55%	71%	We missed our original target date, but we have continued to make good progress during CY2020. In addition to the 71% ‘segregated supply’, 22% was certified by mass balance and the remaining 7% was certified using RSPO credits. By volume, 96% of all palm oil being purchased by our New Zealand business and 100% of all palm oil being purchased by our Australian business is certified as segregated supply.	SP-45

1 This applies to all items except tertiary packaging and some third party manufactured items, where we have used the same data as for baseline reporting in FY20. These represent about 10% of total tonnage.

FY21 progress is evaluated against stated targets:

- Progressing well or target achieved.
- Progressing but not as strongly as we'd like.
- Not progressing well or original timeline significantly delayed.

Employee data¹

Full-time equivalent employees by employment contract by gender

		PERCENTAGE PER CONTRACT TYPE	
CONTRACT TYPE BY GENDER		FY20 (%)	FY21(%)
Male	Permanent	96.6%	96.8%
	Fixed-term	3.4%	3.2%
Female	Permanent	96.7%	95.6%
	Fixed-term	3.3%	4.4%
Gender diverse	Permanent	100.0%	100.0%
	Fixed-term	0.0%	0.0%
Undeclared	Permanent	100.0%	100.0%
	Fixed-term	0.0%	0.0%

Full-time equivalent employees by region

		FTE (PERMANENT & FIXED TERM)	
GLOBAL EMPLOYEE NUMBERS		FY20	FY21
New Zealand		11,757	11,881
Australia		1,276	1,427
Greater China		1,774	753
Brazil		1,350	1,306
Chile		1,596	1,570
Rest of Asia		2,014	1,914
Rest of World		511	503
Global Total		20,278	19,354

Employment type by gender

		PERCENTAGE PER EMPLOYMENT TYPE	
EMPLOYMENT TYPE BY GENDER		FY20 (%)	FY21(%)
Male	Full-time	99.5%	99.4%
	Part-time	0.5%	0.6%
Female	Full-time	96.2%	95.9%
	Part-time	3.8%	4.1%
Gender diverse	Full-time	100.0%	100.0%
	Part-time	0.0%	0.0%
Undeclared	Full-time	100.0%	100.0%
	Part-time	0.0%	0.0%

Employment contract by region

		PERCENTAGE PER EMPLOYMENT TYPE	
CONTRACT TYPE BY REGION		FY20 (%)	FY21(%)
New Zealand	Permanent	97.6%	97.1%
	Fixed-term	2.4%	2.9%
Australia	Permanent	95.5%	94.8%
	Fixed-term	4.5%	5.2%
Greater China	Permanent	97.1%	99.1%
	Fixed-term	2.9%	0.9%
Brazil	Permanent	100.0%	100.0%
	Fixed-term	0.0%	0.0%
Chile	Permanent	100.0%	100.0%
	Fixed-term	0.0%	0.0%
Rest of Asia	Permanent	88.4%	89.0%
	Fixed-term	11.6%	11.0%
Rest of World	Permanent	88.7%	89.5%
	Fixed-term	11.3%	10.5%

1 Some percentages shown in tables may not sum to 100% due to rounding.

Diversity of governance bodies and employees by age

		PERCENTAGE PER CONTRACT TYPE	
	AGE	FY20 (%)	FY21(%)
All employees	<30	14%	13%
	30-50	57%	56%
	>50	26%	28%
	Unknown	4%	3%
Fonterra Management Team (FMT)	<30	0%	0%
	30-50	50%	25%
	>50	50%	75%
	Unknown	0%	0%
Fonterra Board	<30	0%	0%
	30-50	9%	9%
	>50	91%	91%
	Unknown	0%	0%

Diversity of employee categories by age

		PERCENTAGE PER CONTRACT TYPE	
	AGE	FY20 (%)	FY21(%)
Senior Leaders	<30	0.3%	0.0%
	30-50	63.3%	57.2%
	>50	31.8%	37.9%
	Unknown	4.6%	4.9%
Managers	<30	7.3%	5.7%
	30-50	68.9%	66.4%
	>50	20.4%	24.7%
	Unknown	3.4%	3.1%
Supervisory & Professional	<30	22.3%	18.1%
	30-50	57.4%	58.3%
	>50	16.9%	20.6%
	Unknown	3.5%	2.9%
Operators, Techs, Drivers, Farm Workers	<30	15.8%	13.7%
	30-50	49.3%	47.0%
	>50	31.0%	36.1%
	Unknown	3.9%	3.1%

Diversity of governance bodies and employees by gender

		PERCENTAGE BY GENDER	
	GENDER	FY20 (%)	FY21(%)
All employees	Male	72%	72%
	Female	27%	28%
	Gender diverse	0%	0%
	Undeclared	0%	0%
Fonterra Management Team (FMT)	Male	75%	75%
	Female	25%	25%
Fonterra Board	Male	73%	64%
	Female	27%	36%

Diversity of employee category by gender

		PERCENTAGE BY GENDER	
	GENDER	FY20 (%)	FY21(%)
Senior Leaders	Male	71%	68%
	Female	29%	32%
Managers	Male	63%	62%
	Female	37%	38%
Supervisory & Professional	Male	52%	50%
	Female	48%	50%
Operators, Techs, Drivers, Farm Workers	Male	84%	83%
	Female	16%	17%

Hiring from Local Communities

		PERCENTAGE OF SENIOR MANAGEMENT	
GLOBAL EMPLOYEE NUMBERS		FY20	FY21
New Zealand		97%	100%
Australia		90%	92%
Brazil		100%	100%
Chile		100%	100%
Greater China		69%	89%

New hires and leavers by age and gender ¹								
AGE AND GENDER	NEW HIRES BY AGE AND GENDER				LEAVERS BY AGE AND GENDER			
	FY20 (#/%)		FY21 (#/%)		FY20 (#/%)		FY21 (#/%)	
Aged <30	435	32.5%	501	31.6%	369	18.0%	314	17.3%
Aged 30-50	662	49.5%	893	56.3%	1020	49.8%	917	50.5%
Age 50 +	96	7.2%	169	10.7%	366	17.9%	495	27.2%
Age unknown	145	10.8%	22	1.4%	292	14.3%	91	5.0%
Male	789	59.0%	1005	63.4%	1323	64.6%	1194	65.7%
Female	549	41.0%	579	36.5%	723	35.3%	623	34.3%
Gender unknown	0	0.0%	1	0.1%	1	0.0%	0	0.0%
Total new employees	1338	7.3%	1585	9.0%	2047	11.1%	1817	10.3%

New hires and leavers by region								
REGION	NEW HIRES BY REGION				LEAVERS BY REGION			
	FY20 (#/%)		FY21 (#/%)		FY20 (#/%)		FY21 (#/%)	
New Zealand	725	54.2%	866	54.6%	1023	50.0%	1050	57.8%
Australia	69	5.2%	251	15.8%	183	8.9%	120	6.6%
Greater China	235	17.6%	180	11.4%	334	16.3%	234	12.9%
Brazil ²	0	0.0%	0	0.0%	10	0.5%	0	0.0%
Chile	87	6.5%	94	5.9%	145	7.1%	119	6.5%
Rest of Asia	161	12.0%	153	9.7%	267	13.0%	243	13.4%
Rest of World	61	4.6%	41	2.6%	85	4.2%	51	2.8%
Overall	1338	7.3%	1585	9.0%	2047	11.1%	1817	10.3%

Turnover by reason			
PERCENTAGE TURNOVER BY REASON			
TURN OVER REASON	FY20 (%)	FY21 (%)	
Voluntary	1255 (6.7%)	1168 (6.6%)	
Involuntary	610 (3.2%)	389 (2.2%)	
Other (Contract end, Legal Retirement, or deceased)	182 (1.0%)	260 (1.5%)	
Total Turnover Rate	2047 (11.1%)	1817 (10.3%)	

GENDER PAY GAP BY COUNTRY AND BY EMPLOYEE CATEGORY – BASIC SALARY					
REGION	EMPLOYEE CATEGORY	MEAN		MEDIAN	
		FY20	FY21	FY20	FY21
New Zealand	Senior Leaders	0.86	0.85	0.95	0.93
	Managers	0.96	0.96	0.95	0.96
	Supervisory & Professional	0.88	0.90	0.84	0.87
	Operators, Techs, Drivers, Farm Workers	0.84	0.84	0.85	0.85
	Overall	0.96	0.97	0.96	0.96
Australia	Senior Leaders	0.97	0.98	0.79	0.78
	Managers	0.95	0.98	0.95	0.96
	Supervisory & Professional	0.84	0.85	0.85	0.86
	Operators, Techs, Drivers, Farm Workers	0.78	0.80	0.74	0.78
	Overall	0.95	0.99	0.96	0.97
Greater China	Senior Leaders	0.94	1.03	1.13	1.17
	Managers	1.10	1.04	1.26	1.11
	Supervisory & Professional	1.27	1.03	1.39	1.03
	Operators, Techs, Drivers, Farm Workers	0.95	1.05	0.90	1.09
	Overall	1.60	0.89	3.90	0.97
Brazil	Senior Leaders ³	-	-	-	-
	Managers	0.90	1.03	0.93	1.08
	Supervisory & Professional	1.15	1.04	1.06	0.98
	Operators, Techs, Drivers, Farm Workers	0.97	0.89	1.01	0.95
	Overall	1.09	1.11	1.08	0.96
Chile	Senior Leaders	-	-	-	-
	Managers	0.86	0.86	0.90	0.85
	Supervisory & Professional	0.98	1.03	0.99	1.06
	Operators, Techs, Drivers, Farm Workers	0.98	1.00	0.98	1.02
	Overall	1.32	1.36	1.29	1.31
Rest of Asia	Overall	1.67	1.84	3.69	4.10
Rest of the World	Overall	1.23	1.38	1.63	1.89
Overall	Senior Leaders	0.88	0.90	0.96	0.94
	Managers	0.96	0.97	0.96	0.96
	Supervisory & Professional	1.06	1.05	1.14	1.10
	Operators, Techs, Drivers, Farm Workers	0.88	0.89	0.82	0.83
	Overall	1.08	1.07	0.95	0.93

1 A small number of new hire and leaver events are backdated after year end reporting has been completed. Analysing for FY20 there were 39 leavers and 37 new hires not included in the analysis. This is considered immaterial and FY20 has not been restated. This allows FY20 and FY21 to be considered on a like-for-like basis

2 Our JV in Brazil is excluded from new hires and leavers analysis but we did have some directly employed staff in Brazil during FY20.

3 Where a breakdown of information represents a small number of employees, we omit this detail to protect the privacy of individuals.

Data reporting notes

This section provides supporting guidance on the scope, definitions and approach used for the people and environmental data presented in this report.

In general, reporting covers the activities of Fonterra Co-operative Group Limited and joint ventures under Fonterra’s management control. The following sections identify the specific exceptions where data availability prevents this.

People data reporting

Scope
Our employee data is drawn from our global SAP-based employee data systems, primarily our MY FONTERRA system and from remuneration systems.

Numbers are generally reported for all fixed-term and permanent employees on a full-time equivalent (FTE) basis.

Gender pay gap is on headcount basis with pay compared on an FTE basis.

Turnover and new hires cover permanent employees on a headcount basis but exclude employees in our Brazilian joint venture.

There are no significant seasonal variations in the employee data reported. Casual staff contracted by Fonterra are excluded from these figures as this represents only a very small proportion of the regular workforce. Employees on leave of absence are also excluded.

All analysis, other than turnover and new hires, is as at 31st July 2021.

Definitions	
TERM	DEFINITION
Significant locations of operation	Countries where more than 5% of our employees are located. Some items are reported for significant locations of operation only.
Employee categories	Our organisation has a banded approach to remuneration based on business roles.
• Senior Leaders	Bands 14 and above
• Managers	Bands 10-13
• Supervisory & Professional	Bands 3 ¹ -9
• Operators, Techs, Drivers, Farm Workers	Waged or equivalent workforce
Locally hired employees	Citizens or permanent residents of the given country.

1 Threshold varies according to country.

Hiring from local communities
To support the recruitment of senior management roles we run talent forums across the different disciplines.

One of the aspects assessed when appointing senior management roles into countries where we have significant operations, is the composition of employees from local communities versus employees on international assignments. We recognise the value of a high representation from local communities but balance that with the opportunity for talent development from other countries. We review the composition and effectiveness of senior management teams on a regular basis.

‘Senior Management’ is defined as the most senior employee working in a country, plus all direct reports to the senior manager, but excluding employees working in a different country and non-management staff (e.g. Personal Assistants, Technical Assistants, other admin staff). The CEO and members of the Fonterra Management Team who have regional responsibilities are excluded. For New Zealand, this means the multiple New Zealand-based managers reporting to the CEO and their direct reports are assessed.

New employee hires and employee turnover
The analysis of new employee hires and turnover is used to inform decision-making within our People and Culture team. For example, for diversity and inclusion, statistics are used on a 12-month rolling basis to assess implications to the make-up of the organisation and the achievement of specific targets.

During FY21 we divested six of our seven farms in China. Due to the large number of employees, they have been excluded from the turnover analysis.

Environmental data reporting

Reporting Period
The primary reporting period is for the Financial Year 2021 (FY21), 1 August 2020 – 31 July 2021.

To align with Australian regulatory reporting (NGERS), Australian data is reported for period 1 July 2020 – 30 June 2021.

Common principles

Baseline years
For our science-based global Scope 1 and Scope 2 emissions reduction target of 30% by 2030, our baseline year is FY18 (1 August 2017 – 31 July 2018).

For our water reduction target at sites in water-constrained regions of 30% by 2030, our baseline year is FY18 (1 August 2017 – 31 July 2018) to align with our science-based emissions reduction target.

Data collection and aggregation
Wherever possible, data is sourced from a verifiable source. For energy this is usually records from supplier invoicing. For water this is from supplier invoicing where relevant or from metering used to satisfy environmental resource permits. Data is aggregated and analysed via Excel.

Missing or delayed data
Where measured data is normally available for a given item in a given region, but it is not available for a given time period (e.g. one particular month), it is estimated based on the specific circumstances.

Where there is uncertainty about fuel sources and emissions factors, a conservative approach has been taken. For example, where a site purchases steam from a third party that generally uses biomass but relies on LPG as the back-up energy source, we have assumed that 20% of the input energy comes from the LPG.

If the data subsequently becomes available, the estimated value will be replaced with the actual and totals recalculated. If this difference is significant, prior year data will be restated in the next public reporting period.

Finished goods

Where an output from any factory is then subject to secondary processing, we only count the finished goods once for intensity purposes.

Greenhouse gas (GHG) emissions

Scope

For our GHG reporting we have chosen to report on Scope 1, 2 where we have operational control and also our main Scope 3 emissions. Farms supplying milk to us account for the largest portion of our emissions and fall within our sphere of influence so we believe it is important to report these under Scope 3 emissions.

Fonterra directly operates a small number of farms in New Zealand and China. For these farms we have adopted the same approach as for other farms but allocated the emissions to Scope 1 and 2 where required.

Our GHG reporting applies the principles of the GHG Protocol. We also report our GHG emissions via the Carbon Disclosure Project (CDP), with our first submission completed in 2015.

Energy

Our use of energy dominates our Scope 1 and Scope 2 reporting. These figures include energy used by our manufacturing sites, main research centre, large corporate sites and our own milk collection transport fleet in New Zealand and Australia. It excludes energy used by some smaller offices and support facilities which are considered immaterial.

Energy used on the farms where we have operational control is excluded from our energy reporting because it is immaterial to our overall energy usage. The associated emissions from this energy use are already captured in our on-farm GHG emissions reporting based on the full lifecycle analysis.

Energy used is sourced from electricity, purchased steam and purchased fuels. Fuels used include coal, natural gas, diesel, liquid petroleum gas (LPG), furnace oil, petrol and biofuels. Coal and natural gas are primarily used for process heating while liquid fossil fuels are primarily used for vehicles.

Based on the proportion of renewables used to generate the electricity and steam we purchase, and including the biofuels we directly use, we estimate that 14% of our total energy comes from renewable sources.

Our co-generation facilities in New Zealand generated excess electricity which was sold. The total sold during FY21 was 883GJ.

We are unable to report energy used for heating separate to that used for cooling but heating dominates our energy use.

Methodologies

On farm

For on-farm information, the estimated emissions are reported using a lifecycle analysis (LCA) methodology which considers the full on-farm carbon lifecycle, from ‘cradle-to-farm gate’ and provides an estimated kgCO₂-e/kg fat-and-protein-corrected milk (FPCM) factor for the given country. For each country where we collect milk, the total quantity of milk collected during the financial year is multiplied by the most recently available factor.

The extent of analysis required to complete an LCA means these cannot be completed for the current season within the reporting timetable. We complete an analysis for New Zealand milk each year because it dominates our on-farm emissions. For other countries we do this less frequently.

For this report, the most recently available LCA results are as follows: 2019/20 season for New Zealand; 2017/18 for Australia and Chile; and 2016/17 for our China farms.

For New Zealand LCA, we commissioned AgResearch to complete this analysis based on regional data from DairyNZ/ LIC statistics, a DairyNZ DairyBase survey of 352 farms and Fonterra milk production data.

For Australia LCA, this has been calculated based on data drawn from the 17/18 Dairy Farm Monitor Project Annual reports for Tasmania and Victoria. The data are reported for Tasmania and for all three Victorian dairy regions (Northern Victoria, South West Victoria and Gippsland) which covers Fonterra’s Australian milk pool.

For our China farms, we commissioned AgResearch to complete this analysis based on detailed data for all seven farms from our farm management systems.

For Chile LCA, we commissioned AgResearch to complete this analysis based on data from a sample of farms from the northern region supplying Soprole and the southern region supplying Prolesur.

For the smaller milk volumes purchased in Brazil and Venezuela we have used the average of the two lifecycle factors determined for Chile.

For the very small volumes sourced in Sri Lanka, the emission factor has been taken as the average for South Asia in 2015 from the UN FAO/GDP GHG emissions fact sheet.

The main methodology used is common across all LCA and conforms to IDF (2015) and LEAP (2015) guidelines. It considers Methane (CH₄), Nitrous oxide (N₂O) and Carbon dioxide (CO₂) arising from feed sources, animals, fertilisers, energy and land use change. For supplying farms, emissions

are split between the milk and meat co-products, with only the milk component being counted. For the few farms that we manage, full emissions are allocated here. The LCA methodology includes emissions related to all on-farm activities and emissions related to supplementary feed, including emissions related to overseas production for PKE.

We have adopted IPCC AR5, with GWP factors of CO₂ = 1; N₂O = 265 and CH₄ = 28. This means that our reported figures for New Zealand may be higher than figures reported in other publications that consider a New Zealand inventory only which still uses IPCC AR4.

Manufacturing

For countries where energy contents and emission factors are well understood and supported by local regulations and/or reporting guidelines, the local factors have been applied. In other countries, if officially sanctioned factors are available, we have used them, otherwise internationally accepted default factors have been applied.

For thermal energy, the convention in New Zealand and Australia is to report energy totals in gross terms (higher heating value). Therefore, for consistency, we have adopted this approach for reporting across all countries.

The sources of the default factors were as follows:

CATEGORY	SOURCE	COMMENTS
Energy contents	International Energy Agency (IEA) ‘Energy Statistics Manual’	Electricity use has been converted to energy terms at 0.0036 GJ per kWh while fuel use has been converted on a gross calorific, or higher heating value, basis ¹ .
Electricity emission factors	IEA ‘Emission Factors (2019 edition)’	The factors used were as tabulated by country for the 2017 calendar year as this was the most recent complete set available.
Fuels emission factors	Greenhouse Gas (GHG) tools library	Emission_Factors_from_Cross_Sector_Tools_March_2017.xlsx

The sources used for the percentage of renewable energy in grid electricity were as follows:

COUNTRY	SOURCE
New Zealand	Ministry of Business, Innovation & Employment, Quarterly electricity generation and consumption.
Australia	Australian Energy Statistics 2020, Table 09: Australian electricity generation, by fuel type, 2018/19.
Other	World Bank Data: Renewable electricity output (% of total electricity output).

Carbon dioxide (CO₂), Methane (CH₄), Nitrous oxide (N₂O), and hydrofluorocarbons (HFCs) have been considered with IPCC Assessment Report 5 global warming potential factors (GWPs). Perfluorinated compounds (PFCs) and sulphur hexafluoride are not used or generated.

1 Many countries report energy use in net calorific value (lower heating value) terms where the latent heat available in the water formed during combustion is excluded from the available energy. Typically, the gross values are about 5% higher than net values for solid and liquid fuels and up to 10% higher for gaseous fuels.

Scope 3 Emissions

Distribution

Data has been collected and reported for movement within New Zealand, including coastal shipping around New Zealand. We have also reported all international ocean freight under the control of our shipping partner Kotahi. This includes exports from New Zealand, Australia, Europe and North America to the final destination port. We also report additional ocean freight from New Zealand by our consumer branded business. We make minimum use of air freight but data has been collected and reported for air freight from New Zealand since FY18.

Overall, this is estimated to account for more than 80% of our GHG emissions from the distribution of finished goods.

Travel

Data has been collected and reported for all business air travel, most rental car, and most hotel accommodation. This emission data has been provided by our nominated travel agents.

Other

Energy transmission and distribution losses have been included for gas and electricity purchases in New Zealand and Australia.

Our Scope 3 emissions reporting aims to account for all main items. Contributions not reported include items such as use of taxis, personal travel to and from work, some finished product transportation and milk collection outside of New Zealand and Australia, emissions associated with packaging, chemicals, and non-dairy ingredients, and capital spend.

In line with the GHG reporting protocol, we also do not report the GHG emissions arising from the end use of our products due to the diverse range of customers and potential applications.

A screening exercise completed when submitting our emissions reduction target to the Science-Based Target initiative estimated that the excluded items account for less than 10% of Scope 3 emissions.

Water use and discharge

Scope

Water use and wastewater discharge are reported for our manufacturing sites only.

Water discharge by destination

We do not discharge any volumes of wastewater directly to groundwater. Under regulatory conditions we irrigate some wastewater in Australia and New Zealand to land. Given the options available to meet GRI reporting guidelines we use groundwater as the closest match to irrigation to land.

Water quality – Total Dissolved Solids

Total Dissolved Solids (TDS) is one method for analysing the quality of water, but not commonly tested for as part of our monitoring processes. Where TDS data is unavailable, we have converted representative conductivity (EC) measurements using a correlation ratio derived from research for fresh water or typical dairy effluent to estimate a TDS equivalent.

The correlation ratios we have used are: k = 0.55 for freshwater and k = 0.64 for dairy effluent.

Equation: TDS (mg/l) = Correlation ratio (k) * EC (µS/cm)

For each manufacturing site, the available information has been assessed by internal subject matter experts to estimate the quality level. This allows us to identify high-quality water sources and to provide a measure of our wastewater discharge quality.

Water quality – Chemical oxygen demand

Chemical oxygen demand (COD) is the most common water quality measure used by our manufacturing sites but some sites use biological oxygen demand (BOD). We have therefore chosen to report on discharge water quality using COD.

Where only BOD results are available for a given wastewater destination, we have converted the BOD results to COD using a conversion factor derived from research into typical compositions for wastewater from dairy manufacturing sites (COD = BOD/0.6).

Water quality sampling frequency varies between sites and destination of wastewater but is in line with the requirements of relevant regulations or permits. At some sites it is tested internally to a procedure approved by the relevant authority, while at other sites it is analysed by external laboratories.

Aggregation of global wastewater quality data

For each site outlet, the overall COD result for the reporting period is calculated as an average from the individual test results for that outlet. The average is generally calculated as a median but in some cases a mean is used.

To aggregate these into global results per discharge destination, a weighted average is calculated based on the volume discharged for each overall COD result.

If a facility provides a volume but is unable to provide the matching COD, or BOD, that volume has been excluded from the globally aggregation calculation.

Water in areas of water stress

Using the Aqueduct Water Risk Atlas¹, we have identified three of our manufacturing facilities as being in areas where current water stress indications are high. Our threshold recognises areas which specifically note a high risk of water scarcity, in addition to the overall risk score, which factors quality and regulatory or reputational risk.

Data changes

Acquisitions and Divestments

During FY21 we divested six farms in China which have been within the scope of our environmental reporting in prior years. The environmental data from these businesses remains included in our reporting for FY21 for the time that these businesses were under our operational control (see table below).

For reporting progress against targets, we have adopted the approach recommended by the GHG Protocol. This means that, where the target depends on a baseline value in a given financial year, we have adjusted the baseline value and all subsequent years to reflect divestment of the businesses and reported progress on a like-for-like basis (i.e. as if we had never owned that business).

BUSINESS	DATA INCLUDED UNTIL
6 farms, China	31/03/2021

During FY21 we acquired two small manufacturing facilities in Australia. Production, energy use and emissions for the period they were under Fonterra control are included in the FY21 totals but they are deducted from comparative measures until an appropriate baseline adjustment can be developed. Data for water withdrawal, wastewater and solid waste to landfill is not yet available for these sites.

Restatements of prior year results

Scope 3 emissions for FY20 have been restated to reflect the findings of the LCA assessment for milk sourced in New Zealand during the 2019/2020 season which was completed during FY21. The results of this LCA have been applied to both FY20 and FY21 as this is the most recent LCA available. This has also resulted in a restatement of the FY20 Scope 1 and 2 emissions arising from the small number of farms where we have operational control (see page SP-42).

Scope 1 and 2 emissions were also updated to reflect minor adjustments to energy consumption and the calculation of the New Zealand electricity emission factors. The combined increase to FY20 reported emissions was less than 0.3%.

Scope 3 emissions for prior years have been restated for distribution. More complete data has been obtained for New Zealand road and rail movements and international freight. This improvement in data quality results in an increase of about 7% increase in reported emissions related to distribution (see page SP-54).

Solid waste to landfill for prior years have been restated to include previously unidentified waste streams (see page SP-55).

Reduction in water use at our sites in water-constrained regions has been restated to reflect the latest set of sites (see page SP-51).

1 Aqueduct is a peer reviewed global water risk mapping tool provided by the World Resources Institute (WRI) www.wri.org/data/aqueduct-water-risk-atlas

Materiality assessment

Determining what’s important

In FY21, we refreshed our materiality assessment. Starting from the results of previous assessments, we identified potential topics of importance based on industry guidance and reports, customer reports and emerging issues derived from risk assessments and media coverage. This long list of topics was assessed and clustered into a set of topics at a common level of granularity for further analysis.

The relative importance of the topics to our stakeholder groups was determined by a combination of specific surveying, findings of specific engagement workshops and interviewing owners of existing relationships. We engaged directly with more than 400 individual stakeholders, who in turn represented many more from their respective stakeholder group. The findings for each stakeholder group were combined into an overall ordered list of importance, treating all stakeholder groups on an equal basis.

We also assessed the significance of our impact on society for each topic by considering the positive and negative impact of our activities against five criteria: the extent of our impact (i.e. local, regional, global), the severity of our impact, the duration of our impact, Fonterra’s ability to influence this impact and the likelihood of the impact occurring.

Using the combination of importance to stakeholders and the significance of our impact, we generated an ordered list of topics that was discussed with our Sustainability Advisory Panel and approved by the Fonterra Management team.

The final findings were also reviewed with and supported by external stakeholders including dairy sector representatives in New Zealand and Australia and a sustainable business organisation.



Alan, Bay of Plenty

Material topics

For the purpose of reporting we have focused our disclosure on those topics which rated medium or above for importance to stakeholders or significance of impact. The following table lists these topics, in order, and where we cover our response in this report. For each topic we have assessed and defined

the scope of our impact and identified which stakeholder groups raised the topic most strongly. We also provided cross-referencing to the GRI indicators we are reporting against and the UN SDG targets where our actions make a related contribution.

TOPIC	SCOPE	STAKEHOLDER GROUPS THAT RAISED THE TOPIC MOST STRONGLY	OUR RESPONSE	RELATED GRI INDICATORS	RELATED CONTRIBUTION TO UN SDG TARGETS
Ensuring the food safety and quality of the products we deliver.	All food products we sell, including ingredients, foodservice and consumer products.	All except iwi and NGOs.	See Food safety and quality on page SP-12	416-1	2.1
Adapting to the effects of climate change , while mitigating our impacts.	Our contribution to climate change from the activities in our value chain, including sourcing, farming, manufacturing and distribution; and the potential impact on those activities arising from predicted climate change.	All	See Climate change on page SP-27	302-1,3 305-1 to 4 308-2	13.1
Using water responsibly, including water quality, availability and disposal.	The water used by, and the potential impact on water quality arising from, our manufacturing sites and the farms which supply us with milk.	All except Investors and Vendors	See Land and water on page SP-23	303-1 to 5 306-3 307-1 308-2	6.3 6.4
Protecting the health and safety of people at work , including their wellbeing.	The health and safety of employees and contractors working at Fonterra sites and visitors to those sites. The wellbeing of our employees and farmers. Influencing the health and safety at work on supplying farms and the other businesses which provide us with goods and services.	Employees Iwi Vendors	See Health, safety and wellbeing on page SP-14	403-1 to 9	8.8
Protecting animal health and welfare within our supply chain, including caring for our cows and responsible use of antibiotics.	All dairy animals on farms directly or indirectly supplying fresh milk to Fonterra.	Customers Consumers Employees	See Animal wellbeing on page SP-36		
Supporting the livelihood of thousands of people through meaningful employment and sustainable income creation , including the milk price for our farmers.	Local economies in the locations where we operate and source milk, goods and services from, including our impact on the national New Zealand economy.	Farmers Government Iwi	See Employment and sustainable income creation on page SP-40	201-1 202-2 401-1	1.2 8.5
Protecting soil health which is essential for sustainable food production, including nutrient management.	Directly on Fonterra-managed farms, and influencing best-practice on farms directly supplying fresh milk to Fonterra.	Farmers NGOs	See Land and water on page SP-23		2.4

TOPIC	SCOPE	STAKEHOLDER GROUPS THAT RAISED THE TOPIC MOST STRONGLY	OUR RESPONSE	RELATED GRI INDICATORS	RELATED CONTRIBUTION TO UN SDG TARGETS
Contributing to nutrition and health through the products and information we deliver, including reducing obesity and under-nutrition.	The nutritional profile, impact and accessibility of our products, and our role in promoting healthy, balanced diets.	Investors	See Nutrition and health on page SP-08	416-1 417-2,3	3.1 3.2 3.4
Maintaining ethical business practices fundamental to the way we work, including anti-corruption and fair competition.	All activities undertaken by, or on behalf of, Fonterra, in all markets.	Vendors Iwi	See Ethical business practices on page SP-46	102-17 205-3 206-1 415-1 419-1	
Using responsible procurement to influence environmental, social and economic performance along our supply chain.	All direct procurement of goods and services.	Iwi	See Responsible procurement on page SP-44	308-2	Many
Protecting and enhancing biodiversity and the underlying ecosystem services we rely upon, including the impact of deforestation.	The direct impact of our operations and supplying farms, and the indirect impact through procurement of goods, including procurement of animal feed by our farmers.	Governments Iwi NGOs	See Land and water on page SP-23 See Responsible procurement on page SP-44		
Protecting the employment rights and working conditions of our people, including diversity and inclusion, women’s empowerment, and learning and development.	All Fonterra permanent and temporary employees, and those working at our sites.	Customers and consumers	See Employment rights on page SP-16	102-41 405-1,2 406-1	5.5 8.7 8.8
Minimising post-consumption waste , including product packaging and food waste.	All Fonterra consumer branded products and packaging of ingredients products.	No stakeholder group raised this particularly highly	See Packaging and waste on page SP-33		12.5

Protecting the **human rights** of individuals impacted by our business actions, including modern slavery did not make the materiality threshold for inclusion in this report but we recognise our responsibility to care for the human rights of people directly or indirectly impacted by our operations and decisions. Rather than manage human rights as a standalone topic, our approach is to embed our respect of human rights

across our range of policies and standards including our Code of Business Conduct (see Corporate Governance Statement page CG-02). This means our main activities are covered already in our reporting: see Employment rights page SP-16, Health, safety and wellbeing page SP-14, Responsible Procurement page SP-44 and our first Modern Slavery Report.

GRI Content Index

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. The GRI Standards are the world’s most widely used standards for sustainability reporting, enabling organisations to measure and report their most important sustainability topics.

For more information see -> www.globalreporting.org

REF	TOPIC TITLE	REFERENCE	
GRI 102: GENERAL DISCLOSURES 2016			
102-1	Name of the organisation	Fonterra Co-operative Group Limited	X ¹
102-2	Activities, brands, products, and services	About Fonterra. See page AR-04	X
102-3	Location of headquarters	Directory. See page SP-71	X
102-4	Location of operations	About Fonterra. See page AR-04	X
102-5	Ownership and legal form	About Fonterra. See page AR-04	X
102-6	Markets served	About Fonterra. See page AR-04	X
102-7	Scale of the organisation	About Fonterra. See page AR-04 How we create value. See page AR-24 Financial Statements. See page FS-02	X
102-8	Information on employees and other workers	Employee information. See page SP-56	X
102-9	Supply chain	How we create value. See page AR-24 About Fonterra. See page AR-04	X
102-10	Significant changes to the organisation and its supply chain	We divested six of the seven farms in China where we had operational control. The seventh farm is still held for sale.	X
102-11	Precautionary principle or approach	Managing operations. See page SP-38	X
102-12	External initiatives	External initiatives. See page SP-69	X
102-13	Membership of associations	Membership of associations. See page SP-69	X
102-14	Statement from senior decision-maker	Message from the Board Chair. See page AR-08 Message from the CEO. See page AR-10	X
102-16	Values, principles, standards, and norms of behaviour	Ethical business practices. See page SP-46 Code of Ethical Behaviour. See page CG-02	X
102-17	Mechanisms for advice and concerns about ethics	Code of Ethical Behaviour. See page CG-02	X

REF	TOPIC TITLE	REFERENCE	
102-18	Governance structure	Governance of sustainability. See page SP-49	X
102-20	Executive-level responsibility for economic, environmental, and social topics	Governance of sustainability. See page SP-49	X
102-40;	List of stakeholder groups	How we create value. See page AR-26	X
102-42;	Identifying and selecting stakeholders	Responding to what’s important. See page SP-06	
102-43;	Approach to stakeholder engagement	Materiality assessment. See page SP-62	
102-44	Key topics and concerns raised	Materiality assessment. See page SP-62	
102-41	Collective bargaining agreements	Employment rights. See page SP-16	X
102-45	Entities included in the consolidated financial statements	For the list of entities see page FS-57	X
102-46	Defining report content and topic boundaries	Materiality assessment. See page SP-63	X
102-47	List of material topics	Responding to what’s important. See page SP-06	X
102-48	Restatements of information	See Data reporting notes on page SP-61	X
102-49	Changes in reporting	No significant changes	X
102-50	Reporting period	Period is 1 August 2020 – 31 July 2021	X
102-51	Date of most recent report	November 2020 for period 1 August 2019 – 31 July 2020	X
102-52	Reporting cycle	Annual	X
102-53	Contact point for questions regarding the report	Email: sustainability@fonterra.com	X
102-54	Claims of reporting in accordance with the GRI Standards	About this report. See page SP-02	X
102-55	GRI content index	GRI Content Index. See page SP-65	X
102-56	External assurance	Bureau Veritas Assurance Statement. See page SP-67	X

This table refers to pages in this report and in other reports that are part of our integrated suite of reports. The referencing is as follows:

SP-XX – page in this Sustainability Performance Report
AR-XX – page in Annual Review (www.fonterra.com/AnnualReview2021)
CG-XX – page in Corporate Governance Statement (www.fonterra.com/CorporateGovernance2021)
FS-XX – page in Financial Statements (www.fonterra.com/FinancialStatements2021)
SI-XX – page in Statutory Information (www.fonterra.com/StatutoryInformation2021)

1 X – Within scope of assurance.

REF	TOPIC TITLE	REFERENCE	
ECONOMIC TOPIC DISCLOSURES			
GRI 201: ECONOMIC PERFORMANCE 2016 – Employment and income creation. See page SP-40			
201-1	Direct economic value generated and distributed	About Fonterra. See page AR-04. Supporting Communities. See page SP-20 Remuneration. See page SI-02 and FS-22	X
GRI 205: ANTI-CORRUPTION 2016 – Ethical business practice. See page SP-46			
205-3	Confirmed incidents of corruption and actions taken	Anti-corruption. See page SP-46	X
GRI 206: ANTI-COMPETITIVE BEHAVIOR 2016 – Ethical business practice. See page SP-46			
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Legal compliance. See page SP-46	X
ENVIRONMENTAL TOPIC DISCLOSURES			
GRI 302: ENERGY 2016 – Climate change. See page SP-27			
302-1	Energy consumption within the organisation	Our performance. See page SP-54	X
302-3	Energy intensity	Our performance. See page SP-55	X
GRI 303: WATER AND EFFLUENTS 2018 – Land and water. See page SP-23			
303-1	Interactions with water as a shared resource	Land and Water. See page SP-23	X
303-2	Management of water discharge-related impacts	Improving wastewater treatment. See page SP-24	X
303-3	Water withdrawal	Water withdrawal. See page SP-52	X
303-4	Water discharge	Water discharge. See page SP-52	X
303-5	Water consumption	Water consumption. See page SP-53	X
GRI 305: EMISSIONS 2016 – Climate change. See page SP-27			
305-1;	Direct (Scope 1) GHG emissions	Our performance. See page SP-54	X
305-2;	Energy indirect (Scope 2) GHG emissions	Data reporting. See page SP-60	
305-3;	Other indirect (Scope 3) GHG emissions		
305-4	GHG emissions intensity		
GRI 306: EFFLUENTS AND WASTE 2016 – Managing operations. See page SP-38			
306-3	Significant spills	Significant spills. See page SP-38	X
GRI 307: ENVIRONMENTAL COMPLIANCE 2016 – Managing operations. See page SP-38			
307-1	Non-compliance with environmental laws and regulations	Environmental compliance. See page SP-38	X
GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016 – Working with farmers. See page SP-42			
308-2	Negative environmental impacts in the supply chain and actions taken	Working with farmers. See page SP-42	X

REF	TOPIC TITLE	REFERENCE	
SOCIAL TOPIC DISCLOSURES			
401 EMPLOYMENT 2016 – Employment rights. See page SP-16			
401-1	New employee hires and employee turnover	See page SP-58	X
403 OCCUPATIONAL HEALTH AND SAFETY 2018 – Health, safety and wellbeing. See page SP-14			
403-1	Occupational health and safety management system	Health, safety and wellbeing. See page SP-14	
403-2	Hazard identification, risk assessment, and incident investigation	Health, safety and wellbeing. See page SP-14	
403-3	Occupational health services	Health, safety and wellbeing. See page SP-14	
403-4	Worker participation, consultation, and communication on occupational health and safety	Health, safety and wellbeing. See page SP-14	
403-5	Worker training on occupational health and safety	Health, safety and wellbeing. See page SP-14	
403-6	Promotion of worker health	Health, safety and wellbeing. See page SP-14	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Health, safety and wellbeing. See page SP-14	
403-8	Workers covered by an occupational health and safety management system	Health, safety and wellbeing. See page SP-14	
403-9	Work-related injuries	Health, safety and wellbeing. See page SP-14	
404 TRAINING AND EDUCATION 2016 – Employment rights. See page SP-16			
404-2	Programmes for upgrading employee skills and transition assistance programmes	Learning and development. See page SP-16 Employee Assistance Programme. See page CG-03	
405 DIVERSITY AND EQUAL OPPORTUNITY 2016 – Employment rights. See page SP-16			
405-1	Diversity of governance bodies and employees	Employee data. See page SP-57	X
405-2	Ratio of basic salary and remuneration of women to men	Gender pay. See page SP-19 and SP-58	X
406 NON-DISCRIMINATION 2016 – Employment rights. See page SP-16			
406-1	Incidents of discrimination and corrective actions taken	Non-discrimination. See page SP-19	X
415 PUBLIC POLICY 2016 - Ethical business practice. See page SP-46			
415-1	Political contributions	Responsible political involvement. See page SP-46	
416 CUSTOMER HEALTH AND SAFETY 2016 – Food safety and quality. See page SP-12			
416-1	Assessment of the health and safety impacts of product and service categories	Food safety and quality. See page SP-12	X
419 SOCIOECONOMIC COMPLIANCE 2016 – Ethical business practice. See page SP-46			
419-1	Non-compliance with laws and regulations in the social and economic area	Legal compliance. See page SP-46	

Assurance Statement



INDEPENDENT ASSURANCE STATEMENT

To: The Stakeholders of Fonterra Co-operative Group Limited

Introduction and Objectives of Work

Bureau Veritas New-Zealand Ltd (“Bureau Veritas”) was engaged by Fonterra Co-operative Group Limited (“Fonterra”) to undertake a limited assurance engagement on selected information and data presented in the Fonterra 2021 Sustainability Report (the Report). This Assurance Statement applies to the related information included within the scope of assurance described below.

Scope of Limited Assurance

The scope of assurance was limited to the information and data related to sites and operations under which Fonterra has operational control for the period of 1st August 2020 to 31st July 2021.

The complete list of assured disclosures is referred to within the GRI Index of the Report.

Our assurance engagement does not extend to any other information included in the Report or information in respect of earlier periods.

Limited Assurance Conclusion

On the basis of our procedures as described under “Methodology” and the evidence we have obtained, we provide limited assurance that nothing has come to our attention:

- to indicate that the statements reviewed within the scope of our assurance engagement are inaccurate and the information included therein is not fairly stated.
- that causes us to believe that the information, within the scope of our assurance engagement, is not prepared, in all material respects, in accordance with the criteria indicated under “Understanding how Fonterra has Prepared the Information”.

It is our opinion that Fonterra has established systems for the collection, aggregation and analysis of relevant information and quantitative data.

Understanding how Fonterra has prepared the Information

The Report was prepared in accordance with the GRI Standards: Core option including appropriate considerations of the reporting principles for defining report content and report quality, profile disclosures, management approach disclosures and performance indicators.

Fonterra’s Responsibilities

Management of Fonterra was responsible for:

- Selecting and establishing suitable criteria for preparing the Report and information subject to our limited assurance;
- Preparing the information in accordance with the criteria; and
- Designing, implementing and maintaining internal controls over information relevant to the preparation of the Report that is free from material misstatement, whether due to fraud or error.

Our Responsibilities

Bureau Veritas was responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the information included within the scope of assurance is free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion.

Bureau Veritas was not involved in the drafting of the Report and our independence has not been compromised. This is the fifth year in which we have provided limited assurance over the Fonterra’s Report.



Assurance Statement

Methodology

Our limited assurance engagement was performed in accordance with International Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board, and informed by Bureau Veritas' standard procedures and guidelines for external verification of Sustainability Report.

Our work was planned and executed in a manner designed to produce a limited level of assurance and to provide a sound basis for our conclusions. We undertook the following activities:

- Review of the suitability of the criteria used as the basis for preparing the information subject to assurance;
- Interviews and follow-up communication with relevant individuals;
- Review of documentary evidence produced by Fonterra representatives;
- Audit of performance data and factual information including source verification; and
- Review of Fonterra's processes for identification, aggregation and analysis of relevant information, report content and performance data.

Limitations and Exclusions

Excluded from the scope of our work is any assurance of information relating to:

- Activities outside the defined reporting period;
- Statements of commitment to, or intention to undertake future actions by Fonterra;
- Statements of position, opinion, belief and/or aspiration by Fonterra;
- Financial data audited by an external third party; and
- Other sites and/or activities not included in the scope.

This independent assurance statement should not be relied upon to detect all errors, omissions or misstatements that may exist within the Report.

Statement of independence, impartiality and competence

Bureau Veritas is a global leader in Testing, Inspection and Certification ("TIC") services. The Group's mission is to reduce its clients' risks, improve their performance and help them innovate to meet the challenges of quality, health, safety, hygiene, environmental protection and social responsibility. Leveraging its renowned expertise, as well as its impartiality, integrity and independence, Bureau Veritas has helped build trust between companies, public authorities and consumers for more than 190 years.

Bureau Veritas has implemented a Code of Ethics across the business to maintain high ethical standards among its personnel in their day to day business activities. We are particularly vigilant in the prevention of conflicts of interest.

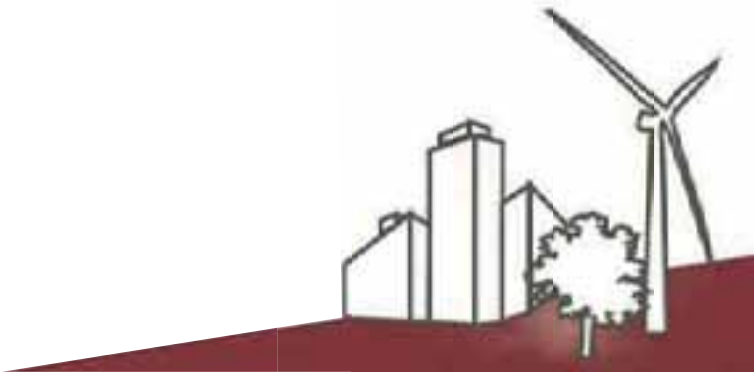
No member of the assurance team has a business relationship with Fonterra, its Directors or Managers beyond that required of this assignment. We have conducted this assurance engagement independently and there has been no conflict of interest.

The assurance team was selected based on its extensive Industry Sector knowledge and experience in conducting independent verification, validation and assurance of Environmental Social and Governance (ESG) information and associated systems and processes.

Jeremy Leu
General Manager – Certification Pacific



14th September 2021
Bureau Veritas New Zealand Ltd



External initiatives

Fonterra is a supporter of the following voluntary initiatives:

INITIATIVE	DATE ADOPTED
CDP	2015
Science-based targets initiative	2020
Dairy Sustainability Framework	2013
New Zealand Climate Leaders Coalition	2017
Rainbow Tick	2019
Global Food Safety Initiative (AUS/NZ forum)	2019
Tupu Toa	2018
New Zealand Plastic Packaging Declaration	2019
The Australian Packaging Covenant	2011
Chilean Plastics Pact	2019

Non-GAAP measures

Fonterra uses several non-GAAP measures when discussing financial performance. These measures include normalised profit after tax, normalised EBIT, EBIT, normalised earnings per share, normalisation adjustments and total Group measures. Total Group measures present the combined financial performance of the Group's continuing and discontinued operations. Non-GAAP financial 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 are used internally to evaluate the underlying performance of business units and to analyse trends.

Membership of associations

Fonterra is a member of the following organisations:

International Dairy Federation
Global Dairy Platform
Dairy Companies Association of New Zealand
Sustainable Agriculture Initiative Platform
Roundtable for Sustainable Palm Oil
Business New Zealand
Sustainable Business Council
Sustainable Business Network
Fwd: Buyer
The Aotearoa Circle
Dairy Womens' Network

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 Financial Statements.

Please refer to the Non-GAAP Measures section in Fonterra's 2021 Annual Review for further information about non-GAAP measures used by Fonterra, including reconciliations back to NZ IFRS measures. Definitions of non-GAAP measures used by Fonterra can be found in the glossary included within Fonterra's Business Performance Report.

Disclaimer

This report contains some forward-looking statements, targets and projections relating to Fonterra Co-operative Group Limited (Fonterra) and its subsidiaries (the Fonterra Group) that are based on the beliefs of the Fonterra Group's management as well as assumptions made by and information currently available to the Fonterra Group's management.

There can be no certainty of outcome in relation to the matters to which the forward-looking statements, targets and projections relate. These forward-looking statements, targets and projections involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements, targets and projections. Those risks, uncertainties, assumptions and other important factors are not all within the control of the Fonterra Group and cannot be predicted by the Fonterra Group.

While all reasonable care has been taken in the preparation of this report, none of Fonterra or any of its respective subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (Relevant Persons) makes any representation, assurance or guarantee as to the accuracy or

completeness of any information in this report or likelihood of fulfilment of any forward-looking statement, target or projection or any outcomes expressed or implied in any forward-looking statement, target or projection. The forward-looking statements, targets and projections in this report reflect views held only at the date of this report. None of the forward-looking statements, targets or projections in this report shall be construed as profit or revenue forecasts.

Accordingly, no-one should place reliance on any forward-looking statements, targets or projections in this report. All forward-looking statements, targets and projections in this report are qualified by reference to the cautionary statements set forth in this section.

Statements about past performance are not necessarily indicative of future performance. Except as required by applicable law or any applicable Listing Rules, the Relevant Persons disclaim any obligation or undertaking to update any information in this report.

This report does not constitute investment advice, or an inducement, recommendation or offer to buy or sell any securities in Fonterra or the Fonterra Shareholders' Fund.

Our 2021 Suite of Reports

Our Annual Review is a concise summary of our environmental, social and economic activities and performance. It is supported by a suite of supplementary reports where stakeholders can find more detailed information most relevant to them. This represents another step on our journey towards more integrated reporting.



OUR REPORTS ARE AVAILABLE FROM
FONTERRA.COM/NZ/EN/INVESTORS.HTML



Annual Review
2021



Sustainability Performance
Report 2021



Financial Statements
2021



Corporate Governance
Statement 2021



Farmgate Milk Price
Statement 2021



Statutory Information
2021



Business Performance
Report 2021

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Corporate
Governance
Statement 2021



**Good
Together**
from one generation
to the next



Dairy for life



IMAGE:
Anthony John, Waikato

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This Corporate Governance Statement is current as at 23 September 2021 and has been approved by the Fonterra Co-operative Group Limited Board.

COVER IMAGE:
Anthony John & Luana, Waikato

Corporate Governance Statement

Fonterra recognises the critical role governance plays in the success of the Co-operative. Fonterra’s Board, Co-operative Council and Management are committed to achieving the highest standard of corporate governance, representation and leadership and have developed governance systems to reflect Fonterra’s unique characteristics and requirements as a globally competitive New Zealand based dairy co-operative. These are regularly reviewed to ensure they align with best practice.

Compliance with Best Practice Governance Standards

Fonterra’s governance framework takes into consideration contemporary standards in New Zealand and Australia, including the principles in the NZX Corporate Governance Code.

Fonterra focuses on governance in a way that promotes:

- the interests of its key stakeholders, including farmer shareholders, unit holders, debt investors, employees, customers, governments and the communities it operates in;
- Good Together – Fonterra’s purpose, values and strategy;
- transparency and meaningful engagement to ensure its key stakeholders have the information they need to assess Fonterra’s performance;
- effective risk management and compliance to meet Fonterra’s business objectives and legal requirements; and
- an appropriate balance between the roles and responsibilities of the Board and Management.

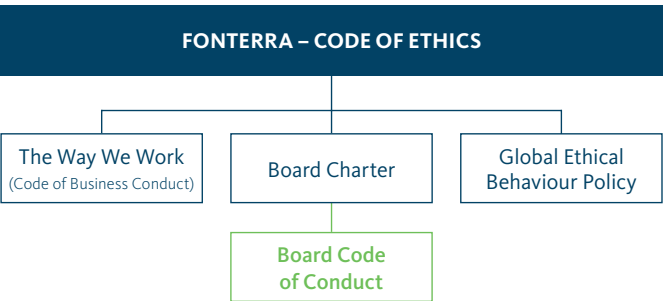
Principle 1: Code of Ethical Behaviour

Code of Ethics

A culture of honesty, integrity and transparency is integral to Fonterra’s purpose and securing its reputation.

Fonterra expects its Directors, officers and employees to maintain high ethical standards and to operate ethically and legally in the countries where it does business, and reflect Fonterra’s guiding philosophy, Good Together, through all their behaviours, choices and decisions.

Fonterra’s Code of Ethics comprises the following core documents:



The Way We Work, Fonterra’s Code of Business Conduct, reflects Good Together and provides a comprehensive outline of Fonterra’s position across a wide range of internal and external operating practice, its values, and expected behaviour and conduct. The Board also owns and is guided by the Board Code of Conduct for Directors.

The Way We Work is available in multiple languages on fonterra.com, along with other core global policies. These documents, along with Fonterra’s employment agreements, underpin delivery to its Code of Ethics. They lay out clear expectations for Fonterra’s people regarding ethical behaviour, including:

- the requirement for the highest standard of integrity, honesty and transparency;
- how to deal with conflicts of interest;

- the use of corporate information, assets and property;
- competition and antitrust;
- procedures for giving and receiving gifts;
- procedures for whistle blowing; and
- how to manage breaches of the Code of Ethics.

Fonterra’s Global Ethical Behaviour Policy and The Way We Work are also available on MilkyWay, the Fonterra intranet. All employees are introduced to these core expectations during their induction programme. In addition, Fonterra’s annual e-learning and certification process supports its people’s ongoing awareness and understanding of the Fonterra Global Policy Framework. In FY21, this certification was completed by 4,354 employees (99% of its target audience), being Fonterra’s people leaders, managers and other key roles. A global refresher learning programme on Fonterra’s ethical behaviour commitments, expectations, systems and processes is also required learning for all Fonterra employees.

All Fonterra employees are expected to record actual or potential conflicts using its Conflict of Interest register. Fonterra also operates a Gift & Entertainment register where employees must record all gifts given or received, including hospitality and entertainment with third parties, above a nominal level.

Fonterra funds an independently administered whistle-blowing hotline (The Way We Work Hotline), facilitated by Deloitte, that provides all Fonterra stakeholders globally with a confidential and anonymous channel (by phone, email, mail, or online) to report concerns about serious wrongdoing or behaviour that does not meet the standards described in The Way We Work. Disclosures are investigated by a Fonterra team not involved in the substance of the concern (Internal Audit, other specialist teams or, where appropriate, an external investigator) before appropriate action is taken. Timely updates are made available to the whistle-blower through the hotline.

In the year ended 31 July 2021, 19 disclosures were made to The Way We Work Hotline: 9 disclosures were made by people based in New Zealand and 10 came from other countries.

Employee Assistance Programme

Fonterra also provides a free and confidential Employee Assistance Programme where employees can seek guidance and counselling in any area of concern in their personal, or working life. It provides independent professional support to address issues such as anxiety, grief and work-related stress. Targeted support is also available to assist employees dealing with workplace change and restructuring.

Securities Trading Policy

Fonterra has adopted a Securities Trading Policy that details the rules for trading in shares, capital notes, retail bonds, units, derivatives, any swap contract, contract for difference, futures contract or options contract that settles to the Fonterra Farmgate Milk Price, and any other listed securities of Fonterra or the Fonterra Shareholders’ Fund. This applies to Directors, officers, employees and contractors of the Fonterra Group around the world and members of the Co-operative Council and Milk Price Panel and is in addition to legislative requirements for trading securities in New Zealand and Australia.

The Securities Trading Policy and Standard and other key Global Policies are available on fonterra.com. All Fonterra Directors comply with the legislative requirements for disclosing interests in listed voting securities of Fonterra and its related companies.

Principle 2: Board Composition and Performance

Board Charter

The Board Charter includes details about the Board’s role, responsibilities, obligations, composition and procedures, including the Chair’s election and role, the Board’s relationship with Management, incident management engagement, training provided to Directors, and the process for assessing the Board’s performance.

The Board Charter is reviewed regularly and is available on fonterra.com.

Board Appointments

Fonterra’s Constitution provides for a maximum of 11 Directors and sets out how they are appointed. Up to seven Directors are elected by farmer shareholders (Elected Directors) and up to four Directors are appointed by the Board (Appointed Directors). All Directors enter into written agreements establishing the terms of their appointment.

The Board is committed to building its capabilities, ensuring a good balance of experience on the Board, and maintaining the highest standards of governance in accordance with best practice. To achieve this, the Board has developed a list of attributes that all Directors must be able to demonstrate and a list of skills that the Board believes are required to effectively govern a complex, globally competitive New Zealand dairy co-operative with diverse stakeholders. The attributes and skills lists are reviewed annually and updated as required.

Using the skills list, the Board develops a skills matrix by assessing the required weighting of each skill against the aggregate skills of the current Board. The skills matrix is used to identify the skills to be targeted each year as part of the Elected Director election process and when selecting Appointed Directors. The attributes, skills list, skills matrix and the year’s targeted skills are published annually as part of the Elected Director election process, to assist potential candidates in assessing their suitability and to assist farmer shareholders when assessing the candidates put forward for election.

Elected Director Selection Process

The Elected Director selection process involves a three-member Independent Selection Panel (ISP) that assesses and recommends appropriate candidates to be put to farmer shareholders for election. The members of the ISP are independent of Fonterra. One member is appointed by the Board, one by the Co-operative Council and a third appointed by the other two members of the ISP. In addition to candidates assessed and recommended by the ISP, there is a non-assessed candidate process where candidates can propose themselves for election as Elected Directors with the support of 35 shareholders. Elected Directors are elected by postal ballot and online voting by farmer shareholders. The voting packs circulated to all farmer shareholders include biographical information on each candidate including relevant skills and experience. The Elected Director elections are overseen by the Co-operative Council.

Appointed Director Selection Process

Appointed Directors are selected to enable the Board to access the skills and competencies needed to lead an enterprise of Fonterra’s size, global reach and complexity. They are independent and bring perspectives, experience and skills to complement and enhance the attributes and skills provided by the Elected Directors.

The Appointments and Remuneration Committee oversees the process for identifying and recommending potential Appointed Directors. Prior to appointment by the Board, the Fonterra Shareholders’ Fund Board is consulted. The Appointed Directors are ratified by farmer shareholders at the next Annual Meeting held following their appointment.

Changes to the Fonterra Board

There were a number of changes to the Fonterra Board during the financial year ended 31 July 2021. In November 2020:

- Elected Director Peter McBride became Chairman and former Chairman John Monaghan retired from the Board; and
- Elected Director Cathy Quinn was elected to the Board, and Elected Director Brent Goldsack was re-elected to the Board.

Disclosure

Information about the experience, length of service, independence and attendance at Board meetings of each Director is disclosed on pages 04, 06 and 17 of this Corporate Governance Statement. The ownership interests of each Director are disclosed in Fonterra’s 2021 Statutory Information.

Diversity and Inclusion

Fonterra publishes its Diversity and Inclusion Policy on fonterra.com. Information about Fonterra’s Diversity and Inclusion Policy, and performance against its targets and objectives across senior leadership can be found in the Employment Rights section of the 2021 Sustainability Performance Report.

Board Gender Composition

As the majority of Directors are elected by farmer shareholders through an independent process, the Board has not adopted Board gender targets in 2021. The Board is committed to addressing the gender composition of the Board through the appointment of Appointed Directors, building a pipeline of diverse Directors through the Fonterra Governance Development programme and through the Elected Director election process. The gender composition of the Board changed between 2020 and 2021 as shown in the table below.

BOARD		GENDER			
AS AT 31 JULY 2021		MALE	FEMALE	GENDER DIVERSE	UNDECLARED
11		7	4	–	–
%		64%	36%	0%	0%

BOARD		GENDER			
AS AT 31 JULY 2020		MALE	FEMALE	GENDER DIVERSE	UNDECLARED
11		8	3	–	–
%		73%	27%	0%	0%

Officer Gender Composition

The gender composition of the Officers of Fonterra is shown in the table below.

OFFICERS		GENDER			
AS AT 31 JULY 2021		MALE	FEMALE	GENDER DIVERSE	UNDECLARED
8 FTE ^{1,2}		6	2	–	–
%		75%	25%	0%	0%

OFFICERS		GENDER			
AS AT 31 JULY 2020		MALE	FEMALE	GENDER DIVERSE	UNDECLARED
8 FTE ¹		6	2	–	–
%		75%	25%	0%	0%

1 Full time equivalent.
2 As of 31 July 2021, the position of Managing Director People & Culture was vacant and therefore not included in this calculation.

Ongoing Training

Following appointment to the Board, Directors undertake an induction programme to familiarise themselves with Fonterra and its global business. Areas covered include:

- business strategy and planning;
- an overview of key financial metrics to monitor business performance;
- an overview of material areas of the Fonterra business, including through meetings with key executives and visits to key offshore markets, where possible; and
- Fonterra’s Constitution and other governance systems.

Directors are expected to keep themselves abreast of changes and trends in the business, Fonterra’s environment and markets, and the economic, political, social and legal climate generally. The Board holds training and workshops on relevant subjects each year, is provided with regular strategic readings and Directors are also expected to keep up to date with governance issues. Board visits to Fonterra’s manufacturing sites and global businesses occur regularly, where possible.

Assess Performance

Directors formally assess the performance of the Board each year, and the Board reviews each Committee’s performance against its charter. A regular programme of peer review of individual Directors occurs as part of an ongoing Director development programme. Directors are also encouraged

to attend external development and training programmes. The Co-operative Council reviews the Board’s Statement of Intentions against the performance and operation of the Group and reports on this to farmers annually. The Board is responsible for reviewing the Chief Executive Officer’s performance.

Director Independence

The rules of the Fonterra Shareholders’ Market (FSM Rules) require Fonterra to have at least two Independent Directors. In order to be an Independent Director under the FSM Rules, a Director must not be an ‘employee’ of Fonterra or have a ‘disqualifying relationship’.

A Director has a disqualifying relationship where they have a direct or indirect interest, position, association or relationship that could reasonably influence, or could be reasonably perceived to influence, in a material way, the Director’s capacity to bring an independent view to decisions relating to Fonterra, to act in Fonterra’s best interests and to represent the interests of Fonterra’s financial product owners generally. The FSM Rules contain specific examples of what may give rise to a disqualifying relationship. Appointed Directors cannot be shareholders and are expected to maintain independence for the length of their term.

Elected Directors must be qualified as farmer shareholders under section 12.3 of the Constitution and are therefore not considered independent.

Fonterra currently has four Appointed Directors. As at 31 July 2021, Clinton Dines, Bruce Hassall, Holly Kramer and Scott St John each did not have (and continue not to have) any disqualifying relationship in relation to Fonterra and were therefore Independent Directors.

Division of Roles

Peter McBride, who is an Elected Director, is the Board-elected Chairman. The Chairman and Chief Executive Officer roles at Fonterra are not exercised by the same individual.

Principle 3: Board Committees

Fonterra has a number of permanent Board Committees, as detailed below. Additional Board Committees are formed when it is efficient or necessary to facilitate decision-making by providing for a sub-group of Directors to focus on particular areas or issues and to develop recommendations to the Board.

Board Committees have standard ‘Terms of Reference’ and each permanent Committee has a charter, which defines the scope and responsibilities of that Committee and is approved by the Board regularly. The charters of the permanent Board Committees are available on [fonterra.com](#). The papers considered by, and the minutes for each of the Board Committees’ meetings, are provided to the Board for review.

There are currently two non-permanent Board Committees, the Divestment Review Committee and the Capital Structure Committee, which were established in 2019:

- The Divestment Review Committee’s purpose is to oversee material divestments and similar transactions. Scott St John is the Chair of the Committee and Brent Goldsack, Leonie Guiney, Bruce Hassall and Cathy Quinn are members of the Committee.
- The Capital Structure Committee’s purpose is to provide guidance over the review of Fonterra’s capital structure. Brent Goldsack is the Chair of the Committee and Leonie Guiney, Bruce Hassall, John Nicholls and Cathy Quinn are members of the Committee. Peter McBride attends Capital Structure Committee meetings as required.

These two non-permanent Board Committees operate under separate Terms of Reference which define their respective purposes and responsibilities.

A non-permanent joint Board and Co-operative Council Committee comprising three Directors and three Councillors was established in February 2021 to undertake the five year review of the 2016 Governance and Representation changes. Bruce Hassall, Andrew Macfarlane and Cathy Quinn were the Board’s appointees to the Committee.

COMMITTEE OR GROUP	MEMBERSHIP AS AT 31 JULY 2021	PURPOSE
Appointments and Remuneration Committee	Holly Kramer (Chair) Clinton Dines ¹ Andrew Macfarlane Peter McBride Bruce Hassall ^{1,2} (observer)	To assist the Board in fulfilling its corporate governance responsibilities relating to the recruitment, retention, remuneration and development of Directors, executives and other employees.
Audit and Finance Committee	Bruce Hassall ¹ (Chair) Brent Goldsack Cathy Quinn Donna Smit Scott St John ¹	To assist the Board in fulfilling its corporate governance responsibilities relating to Fonterra’s financial management and internal control frameworks, financial reporting, audit activities, capital markets matters, and funding activities.
Co-operative Relations Committee	Andrew Macfarlane (Chair) Clinton Dines ¹ Brent Goldsack Leonie Guiney John Nicholls	To support strong and effective engagement between the Co-operative and farmer shareholders and assist the Board in the management of Fonterra’s relationships with key external stakeholders and community initiatives. To review Fonterra’s Co-operative Principles periodically, assist the Board in fulfilling its corporate governance responsibilities relating to the supply of milk from Fonterra suppliers, and to seek to resolve supplier complaints before reference to the Milk Commissioner.
Milk Price Panel	Scott St John ^{1,2} (Chair) Bill Donaldson ³ Brent Goldsack Bruce Hassall ^{1,2} Andrew Wallace ^{2,3}	To provide assurances to the Board as to the governance of the Milk Price and the Milk Price Manual, and the proper application of the Milk Price Principles. The Milk Price Panel does not determine the Farmgate Milk Price, as this is a decision for the Board.
Safety and Risk Committee	Leonie Guiney (Chair) Clinton Dines ¹ Holly Kramer ¹ John Nicholls Donna Smit Scott St John ¹	To assist the Board in fulfilling its corporate governance responsibilities relating to Fonterra’s management of health and safety and key enterprise wide risks. This includes promoting a safe and healthy working environment and overseeing Fonterra’s risk management framework to ensure the behaviours required, guidelines, policies and processes for monitoring and mitigating enterprise-wide risks are in place.

1 Independent Director.
2 Independent Member.
3 Appointed by Co-operative Council.

Board and Committee Attendance

	BOARD		AUDIT AND FINANCE COMMITTEE		APPOINTMENTS AND REMUNERATION COMMITTEE		CO-OPERATIVE RELATIONS COMMITTEE		MILK PRICE PANEL		SAFETY AND RISK COMMITTEE	
	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance	Eligible to Attend	Attendance
Clinton Dines	15	13	0	0	5	5	3	3	0	0	4	4
Brent Goldsack	15	13	4	4	0	0	6	6	7	7	2	2
Leonie Guiney	15	14	2	2	0	0	3	3	0	0	4	4
Bruce Hassall	15	14	6	6	5 ¹	4	0	0	7	6	0	0
Holly Kramer	15	14	0	0	5	5	0	1	0	0	0	1
Andrew Macfarlane	15	15	2	2	5	5	6	6	0	0	0	0
Peter McBride	15	15	2	3	5	5	3	3	0	0	0	1
John Monaghan	5	5	0	1	1	1	0	0	0	0	0	0
John Nicholls	15	13	0	0	0	0	6	6	0	0	4	4
Cathy Quinn	10	10	4	5	0	0	0	3	0	1	0	1
Donna Smit	15	15	4	4	0	0	3	4	0	0	2	2
Scott St John	15	15	6	6	0	0	0	0	7	7	4	4

1 Eligible to attend as an observer.

Audit and Finance Committee

The Audit and Finance Committee comprises two Appointed Directors and three Elected Directors. The Committee is chaired by Bruce Hassall, who is an independent Appointed Director and a Fellow of the New Zealand Institute of Chartered Accountants.

Majority Independent Directors – Audit and Finance Committee and Appointments and Remuneration Committee

The Audit and Finance Committee and Appointments and Remuneration Committee do not comprise a majority of independent Appointed Directors.

Under the FSM Rules, the Audit and Finance Committee is not required to comprise of a majority of Appointed Directors. There is currently no headroom for Fonterra, based on having 11 Directors, to have more than four independent Appointed Directors, as the Elected Directors fill each of the seven positions open to them (and as noted above, the Elected Directors are not considered independent). Given this, it is difficult for Fonterra to appoint a majority of Appointed Directors to these Committees without excluding Elected Directors or significantly increasing the workload of the Appointed Directors.

Fonterra does not consider that this is a significant issue, as the Audit and Finance Committee and the Appointments and Remuneration Committee are chaired by independent Appointed Directors.

Employees attend Audit and Finance Committee and Appointments and Remuneration Committee meetings at the invitation of the respective Committee.

Milk Price Panel

The Dairy Industry Restructuring Act 2001 requires that the Chair and a majority of the members of the Milk Price Panel are independent. The Panel currently consists of two Appointed Directors, one Elected Director and two appropriately qualified persons nominated by the Co-operative Council, at least one of whom must be independent. The Chair must be one of the independent Appointed Director members. As at 31 July 2021, Scott St John, Bruce Hassall and Andrew Wallace were (and continue to be) independent members of the Milk Price Panel.

Pursuant to the Dairy Industry Restructuring Amendment Act 2020, Fonterra must appoint one member of the Milk Price Panel who is nominated by the Minister of Agriculture.

Nominations Committee

The Appointments and Remuneration Committee fulfils the role of a nominations committee in respect of the appointment of Appointed Directors. The election and selection process for Elected Directors and Appointed Directors is explained above under Board Appointments on page 03 of this Corporate Governance Statement.

Takeover Offer

The Board does not believe that it is necessary to establish protocols for a takeover offer, given Fonterra's co-operative structure and the thresholds on share ownership in its Constitution.

Principle 4: Reporting and Disclosure

Disclosure Policy

Fonterra is committed to promoting well-informed and efficient markets in its shares, units issued by the Fonterra Shareholders' Fund and debt securities. The Board has approved a Global Disclosure Policy to ensure compliance with the NZX and FSM Listing Rules regarding continuous disclosure. The Global Disclosure Policy governs Fonterra's communications with investors and market participants, and the disclosure of information relevant to Fonterra. The Global Disclosure Policy and the associated Global Disclosure Standard are available on fonterra.com.

Fonterra and the Manager of the Fonterra Shareholders' Fund have entered into an arrangement to co-operate with each other and take all steps reasonably required to ensure that information to be disclosed by either of them under the FSM Rules and the listing rules of the NZX or the ASX (as the case may be) is disclosed simultaneously to the Fonterra Shareholders' Market, the NZX Main Board and the ASX. Fonterra simultaneously discloses relevant information on the ASX on behalf of the Fonterra Shareholders' Fund.

Website Disclosure

Fonterra has the following documents available on fonterra.com:

- Board Charter
- Board Code of Conduct
- Appointments and Remuneration Committee Charter
- Audit and Finance Committee Charter
- Co-operative Relations Committee Charter
- Safety and Risk Committee Charter
- Milk Price Panel Terms of Reference
- The Way We Work (Code of Business Conduct)
- Global Disclosure Policy and Standard
- Global Diversity and Inclusion Policy
- Global Health, Safety and Wellbeing Policy
- Global Environmental Policy
- Global Ethical Behaviour Policy
- Global Nutrition Policy
- Global Privacy Policy
- Global Securities Trading Policy and Standard
- Sustainability Code of Practice
- Tax Principles

Fonterra does not have a Director Remuneration Policy for the reasons noted below under 'Director Remuneration'.

Non-Financial Reporting

Fonterra is guided by international best practice and, reflecting the core role of sustainability within its strategy, it is on a journey towards more integrated reporting.

In the 2021 Annual Review and suite of supporting reports, Fonterra provides coverage of both financial and non-financial matters. Non-financial reporting includes coverage of social, environmental and governance matters and Fonterra covers these in a concise and integrated way within its Annual Review. Supporting the Annual Review is an integrated suite of reports that provide further detailed information according to the stakeholder's interest. For example, governance details are provided in this Corporate Governance Statement, financial performance details are provided in the Financial Statements and more sustainability details are covered in the Sustainability Performance Report.

In November 2020 Fonterra issued its fourth Sustainability Report, which was prepared in accordance with the Global Reporting Initiative (GRI) Standards and is independently assured. This further expands the coverage of Fonterra's non-financial reporting, including consideration of material environmental, social and governance (ESG) factors and performances against targets. Fonterra has adopted this internationally recognised reporting framework to help users of its sustainability performance information more easily compare its disclosed information and performance with others. From this year, Fonterra plans to release its sustainability performance information annually as part of its suite of reports and it will continue to be assured against GRI Standards.

In FY21, Fonterra also released its first Modern Slavery Statement to meet the regulatory disclosure requirements in the Australian Modern Slavery Act 2018. The Statement sets out the actions taken by Fonterra to address modern slavery and risks in its business and supply chain for the financial year ending 31 July 2020.

Principle 5: Remuneration

Fonterra's remuneration framework is designed to attract, retain and motivate high-quality Directors and senior management.

Director Remuneration

Fonterra's Constitution modifies the Board's discretion to set remuneration of Elected Directors. Farmer shareholders elect an independent committee of six farmer shareholders (the Directors' Remuneration Committee) to consider and make recommendations at the Annual Meeting on the remuneration for Elected Directors, which is required to be approved by farmer shareholders.

The members of the Directors' Remuneration Committee as at 31 July 2021 were Glenn Holmes (Chair), Ellen Bartlett, David Gasquoine, John Gregan, Scott Montgomerie and Stephen Silcock. Directors and employees only attend Directors' Remuneration Committee meetings at the invitation of the Committee.

The Board has full discretion over the remuneration of Appointed Directors, with such remuneration not being approved at the Annual Meeting. The Board has historically remunerated Appointed Directors at the same level as Elected Directors, in line with Directors' Remuneration Committee recommendations.

Given the arrangements outlined above, Fonterra does not have a specific policy for remuneration of Directors.

Further details of the Directors' remuneration are contained on pages 05 and 06 of Fonterra's 2021 Statutory Information.

Remuneration of Fonterra's People

This section is intended to provide transparency in the principles, approach and structure of how Fonterra rewards and recognises its Chief Executive Officer, Fonterra Management Team (FMT) and people. It also provides details on Fonterra's FY21 performance and the impact this has had on the remuneration outcomes for its Chief Executive Officer.

Role of the Appointments and Remuneration Committee

The remuneration of Fonterra's Chief Executive Officer and FMT is governed by the Appointments and Remuneration Committee (ARC) who assist the Board in fulfilling its corporate governance responsibilities relating to remuneration, recruitment and retention of Directors, Chief Executive Officer and Executives. The ARC charter is available on fonterra.com.

The ARC also oversees and provides counsel on Fonterra's People Strategy including key priorities and milestones as well as noting Fonterra's progress on culture, talent and leadership activities and diversity and inclusion.

An independent consultant is engaged to provide guidance on Chief Executive Officer and FMT rewards, to provide the ARC with an independent view in addition to the advice provided by management or advisors commissioned by management. During the year, the ARC conducted a review of the market for independent consultants and after a fully documented process have continued to engage the services of their current independent advisor.

Remuneration Strategy

Fonterra’s remuneration strategy has been designed to align and support its philosophy of Good Together through its:

- Purpose;
- Values; and
- Business strategies and goals.

These are the foundation of the Co-operative and the lens through which all behaviours, decisions and choices are made.

Fonterra’s executive remuneration framework follows three simple principles:



Executive Remuneration Framework

The remuneration framework for Fonterra’s Chief Executive Officer and FMT is based on a Total Remuneration approach which is delivered through fixed remuneration and variable (at risk) components as outlined below.

The Chief Executive Officer and eligible FMT members participate in an Executive Incentive Plan (EIP), rather than separate Short-Term Incentive (STI) and Long-Term Incentive (LTI) programmes. The purpose of the EIP is to have a fit-for-purpose long-term incentive that focuses the Chief Executive Officer and eligible FMT members on the execution of Fonterra’s strategy. The current design is a deferred STI which focuses management on annual strategy execution whilst deferring a portion of the incentive against longer-term goals over three years. The final vesting of the deferred value is modified using a long-term performance hurdle of Return on Capital (ROC) over the Milk Price Weighted Average Cost of Capital (WACC).

Both the fixed and variable remuneration components of the Chief Executive Officer and eligible FMT members for FY21 are outlined below:

	FIXED ELEMENT	VARIABLE ELEMENT
	FIXED REMUNERATION	EXECUTIVE INCENTIVE PLAN (EIP)
How it’s delivered	Cash	Cash (with a deferred cash component)
How it works	– Consists of base salary and KiwiSaver or Superannuation and insurances. – Benchmarked against the external market using comparable companies in the country or region where they’re located. – Benchmarked to the 65th percentile of the relative peer group. – Reviewed annually based on performance and behaviours.	– Paid as cash. – CEO Target – 120% of Base Remuneration. – Eligible FMT Target – 110% of Base Remuneration. – Calculated based on achievement against a Fonterra Group Scorecard which aligns to Fonterra’s three goals of Healthy People, Healthy Environment and Healthy Business. – Fonterra’s measures within the scorecard include Health and Safety, Food Safety Quality, Lowering its Environmental Footprint, Group Return on Capital and Total Farmer Payout . – Achievement is determined over a one-year performance period (01 August – 31 July, aligned to Fonterra’s financial year). – The EIP comprises 70% cash paid in the year earned and 30% deferred cash which vests three years after grant, subject to continued employment and a performance hurdle of Group ROC over the Milk Price WACC. The incentive is capped at 150% payment of on-target earnings.
What it does	Attracts and retains key talent in the markets in which Fonterra operates.	Aligns the CEO and eligible FMT members on delivering exceptional results over both the short and long term for farmer shareholders.

The introduction of the EIP in FY20 replaced all previous LTI programmes, including the FY19-21 scheme.

The remuneration pay-mix graph below shows the percentage of each remuneration element that makes up the Chief Executive Officer’s total on-target remuneration.



Executive Remuneration Benchmarking

Pay benchmarking for the Chief Executive Officer, eligible FMT members and certain senior roles is conducted using an independent third-party remuneration adviser appointed by the ARC.

Given Fonterra’s size and global scale is unique to New Zealand, the peer group for these roles is comprised of 20 Australian listed companies matched to the size, complexity and operational scope of Fonterra, allowing appropriate benchmarking of senior executive remuneration. The benchmark also reflects that senior positions within Fonterra require global expertise and are typically recruited from competitive global talent markets, particularly Australia and Asia. Fonterra aims to pay Fixed Remuneration at the 65th percentile and Total Remuneration at the median of the benchmark peer group for Fonterra’s senior executives.

Chief Executive Officer Remuneration

Total Remuneration Paid FY21

Total Remuneration Paid reflects the remuneration in the period it is received, rather than the performance period to which the payment relates.

Miles Hurrell has held the role of Chief Executive Officer for the full financial year. His annual fixed remuneration as at 31 July 2021 is \$1,950,000. The variable pay component paid in FY21 was for the FY20 plan year and relates to the 70% portion of the EIP that is paid in cash directly following the end of the financial year. The FY20 EIP achievement was 135% resulting in a payment of \$2,214,576 with a further 30% or \$949,104 deferred until 2023, subject to the performance hurdle being met. The total remuneration received by Mr Hurrell in FY21 was \$4,289,513, as shown in the table below.

FIXED REMUNERATION		PAY FOR PERFORMANCE	TOTAL REMUNERATION PAID
SALARY	BENEFITS ¹	EIP PAID	
\$1,950,000	\$124,937	\$2,214,576 ²	\$4,289,513

- 1 Employer superannuation contribution.
2 The value of EIP paid represents the non-deferred component of the FY20 EIP Plan.

Total Remuneration Earned FY21

Total Remuneration Earned aligns remuneration outcomes with performance periods, providing what Fonterra believes is a more transparent indication of pay for performance. Variable pay outcomes are listed against the relevant performance period, regardless of when the payment is made. Fonterra believes this reporting approach provides the right balance of transparency and disclosure while accurately reflecting the outcomes for a given fiscal year.

FIXED REMUNERATION		PAY FOR PERFORMANCE		TOTAL REMUNERATION EARNED
	SALARY	BENEFITS ¹	EIP EARNED (70%)	EIP DEFERRED 3 YEARS (30%)
FY21	\$1,950,000	\$116,731	\$1,941,030	\$831,870 ²
FY20				\$949,104 ³

- 1 Employer superannuation contribution.
2 Subject to meeting the required long-term performance hurdle, this is due to be paid in October 2024. \$207,968 is recognised as an expense in FY21 and \$623,902 will be recognised as an expense over the remaining service period.
3 The deferred component of the FY20 EIP shown above remains at risk. If at the vesting date (October 2023) the performance hurdle has been met, the deferred component will be paid in cash. The performance hurdle is a longer-term measure of Group ROC over Milk Price WACC.

Principle 6: Risk Management

Risk Management Framework

The Board, supported by the Safety and Risk Committee, has overall responsibility for ensuring the implementation of Fonterra’s purpose-built risk management framework and that the business operates within its Group Risk Appetite settings.

Fonterra’s risk management framework is based on the three lines model. Fonterra’s first line is its people. Managers and individual business units hold clear risk management responsibilities for business risk management, including requirements to ensure compliance with external obligations as well as Fonterra’s Global Policy standards. Fonterra’s second line consists of the risk management and assurance processes delivered by its Group Functions, ensuring a consistent best-practice approach to risk management across the business. Assurance and oversight are provided by a dedicated internal audit function, taking a risk-based approach to the control environment and review of key business activities and providing reporting to the Fonterra Management Team and the Board via the Safety and Risk Committee and the Audit and Finance Committee.

Fonterra’s risk management framework focuses on the key risks faced globally in implementing its business strategy. Regular monitoring of the risk environment occurs via its integrated business planning process, specific technical risk councils and audit outcomes. As part of its risk management responsibility, the Safety and Risk Committee receives regular reports of Fonterra’s Group Risk Appetite position and the measures in place to mitigate the impact of emerging risks. The Safety and Risk Committee also receives regular reports on the health and safety of Fonterra’s people as part of Fonterra’s risk management framework.

Fonterra’s Global Risk Management Policy is aligned to the Australian/ New Zealand Risk Management Standard “AS/NZS ISO 31000:2018 Risk management – Principles and Guideline”. The policy outlines Fonterra’s risk principles and accountabilities, setting out the requirements for managing and reporting risk across its business. It is designed to embed a positive risk culture and co-operative-wide risk management capability. This includes establishing a consistent approach to identifying, controlling, monitoring and reporting on Fonterra’s key risks. These processes are overseen by the Fonterra Management Team alongside a dedicated internal audit function, taking a risk-based approach to oversight for key business activities and reporting to the Board via the Safety and Risk Committee and the Audit and Finance Committee.

Key Risks

KEY RISK	RISK DESCRIPTION	RISK MITIGATIONS
Strategic Decision	Suboptimal strategy that does not empower Fonterra’s innovation ambitions, enable opportunity, leverage its competitive advantage or provide improved business performance.	– Annual review of strategy including structured review of value protection and value creation objectives. – Monitoring of the macro/longer-term operating environment and demand and supply trends (risks and opportunities), with insights feeding into the annual strategy process.
Strategic Execution and Innovation	Suboptimal execution of strategic initiatives.	– Dedicated strategic implementation function, providing strategic visibility and implementation support for the business. – Regular monitoring of strategic deployment milestones and forecasts through integration into established business management systems. – Insights and outputs from strategic development and implementation processes feed directly through to regular innovation forums to ensure innovation is aligned with strategy.
Liquidity and Funding	Inability to access sufficient funds to meet financial obligations, and/or take advantage of opportunities.	– Established financial assurance framework including oversight from the Financial Risk Committee. – Active management of debt, debtors, and cashflow forecasting.
Market Price and Currency	The risk that movement within global markets in which Fonterra operates is not appropriately responded to, adversely impacting business operations, and profitability.	– Established governance framework including oversight from the Financial Risk Committee and the Audit and Finance Committee. – Regular review of relevant policies, standards, and procedures to maintain a robust control framework. – Review and approval of annual Exposure Management Plans and financial trading limits. – Monthly review of foreign exchange exposures and approval of hedge plan. – Monthly review of dairy and non-dairy portfolios, ongoing market exposure assessments.

KEY RISK	RISK DESCRIPTION	RISK MITIGATIONS
Milk Supply	Inability to retain milk supply driven by disruption (e.g. biosecurity/weather event), unfavourable returns and/or adverse regulatory settings.	– Continued financial performance and achievement of stated milestones. – The Capital Structure review with an objective of delivering positive outcomes for improved share flexibility. – Comprehensive activity focused on winning and retaining New Zealand milk. – Insights and support for farmers in meeting regulatory challenges and achieving milestones under the Co-operative Difference.
Market Access/Geopolitical	The risk that changes within global markets, including economic volatility, geopolitical instability, market access and market concentration adversely impacts business operations and sales.	– Trade Strategy, advocacy, and government relationship management. – Active central portfolio management including consideration of concentration risk. – Multimarket, diverse product offerings.
Food Safety and Quality	The risk that Fonterra supplies unsafe food (or food that is perceived to be unsafe), or product that is of sub-standard quality.	– The Global Quality Management framework is designed to ensure the purchase, supply, production and release of food is aligned with global regulatory standards as a minimum. – Covid-19 restrictions have required additional measures that control and manage Fonterra’s increased risk profile. – Fonterra’s global third-party sourcing network undergoes specific food safety and quality audits by specialists from Fonterra. – External global regulatory bodies undertake independent audits of Fonterra’s global management system and manufacturing footprint.
Leadership, People, Culture, Behaviours and Governance	The risk that leadership, organisational culture, behaviour and people management practices are inadequate or insufficiently agile.	– Build culturing capabilities for high performance and promoting health and wellbeing. – Business partnering to provide advice, tools, processes and policies to engage individual teams and support performance. – Objectives focused on diversity and inclusion, within Fonterra’s healthy people strategy.
Information Technology and Data Management	The risk that failure to establish, maintain and safeguard an appropriate information technology and data management framework, that ensure the confidentiality, integrity and availability of Fonterra’s data, systems and supply chain.	– Implementation of programmes to improve awareness of cyber risk and build capability to protect against and respond to any incidents. – Ongoing investment in software and hardware to improve reliability, stability and resilience of Fonterra’s IT landscape, including data protection.
Supply Chain and Manufacturing	The risk that Fonterra’s ability to maintain or operate the assets within its end to end supply chain is disrupted, delayed or reduced.	– Reliable and efficient collection, treatment and distribution of milk. – Strong focus on global supply chain management: implementing resilience strategies to mitigate impacts of global shipping disruption. – Established, robust business continuity plans to address identified supply chain risks.

KEY RISK	RISK DESCRIPTION	RISK MITIGATIONS
Health, Safety and Wellbeing	Failure to manage the health, safety and wellbeing of Fonterra's people in the workplace.	– A rigorous Process Safety Assessment (PSA) methodology to ensure Fonterra understands significant hazards, their credible risks, and how best to control. – Engaging employees to develop risk management plans to improve their safety. – Robust investigations of events and implementation of preventative actions. Reporting of events, near misses and hazards in the enterprise wide First Priority event management tool. – Protect health from workplace exposures, prevent health harm through proactive health education and promote healthy work and life balance.
Environment, Water and Climate Change	Failure to enact measures to mitigate the impact (or perceived impact) of Fonterra's activities on the environment and/or mitigate the effects of climate change on Fonterra.	– Resourcing plans to make progress against environmental targets. Please refer to the Sustainability Performance Report for Fonterra's sustainability goals and performance. – Proactive engagement with industry, iwi, government and regulators.
Social Impact/Licence to Operate	The risk that Fonterra's engagement with, and treatment of the communities and environment where Fonterra operates, is ineffective and/or fails to consider societal impacts and stakeholder interests.	– A dedicated community engagement programme. – Fonterra's Purpose – Good Together. – Active stakeholder engagement programme in New Zealand and key international markets.
Legal, Regulatory and Compliance	Failure to manage, or respond to changes in, Fonterra's Legal, Regulatory and Compliance obligations, within the markets in which Fonterra operates.	– Proactive engagement with, and monitoring of, regulatory and contractual changes. – Annual Employee Policy Commitment (including certification of compliance with Fonterra Legal and Compliance policies and standards). – Compliance training, accessible compliance guidance, and reporting systems and processes. – Support and advice from internal Legal, Regulatory and Trade Strategy teams including in-market and supplemented by specialist external support as required.

Risk Management Focus in FY21

The Key Risk table above defines the key Group Risks and provides an overview of mitigation activity for Fonterra's key risks in FY21. Throughout 2021 Fonterra's risk management framework has been actively deployed to identify, assess and monitor existing, new and emerging risks. This activity includes continuously assessing the appropriateness and accuracy of the measures used to monitor risk status. Specific focus has been applied to risks relating to climate, the continuing impact of Covid-19, Wellbeing and Cybersecurity.

To strengthen Fonterra's risk culture and ensure a consistent approach to risk management across the business, risk management analysis, training, and education programmes have been delivered globally. As part of Fonterra's long-term strategy work, its Group Risk Appetite settings were also assessed to provide clarity of the acceptable levels of risk in pursuit of its longer-term strategic objectives.

Covid-19

Fonterra's response to the global Covid-19 outbreak was first initiated in January 2020. As with many businesses, the pandemic has had varying levels of impact across Fonterra, including its supply chain and within the global markets in which it operates. Fonterra has utilised its Group Crisis Response plan and Incident Management Team to enable an expedited and appropriate response at each stage of the situation globally. Key areas of impact include:

- supply chain disruptions;
- health risks to Fonterra's people;
- market volatility;
- social distancing and increased safety measures at Fonterra manufacturing and distribution sites; and
- fluctuations in customer demand and changes to global consumption habits.

Fonterra's response to the pandemic is ongoing. To ensure the continuity of Fonterra's operations during FY21, several control measures, including promoting and facilitating better understanding of and access to the Covid-19 vaccine, have been put in place to mitigate risks to Fonterra's operations. While Fonterra's Incident Management framework has allowed its operations and core business activities to continue, ongoing challenges will be presented to the organisation by Covid-19. These challenges, which include the economic impacts of the virus on the global markets in which Fonterra operates, will require continued monitoring, analysis and management for a sustained period.

Principle 7: Auditors

Auditor Framework

The Audit and Finance Committee is responsible for making recommendations to the Board regarding the appointment of the external auditor. The external auditor is appointed by farmer shareholders at the Annual Meeting. KPMG was appointed as Fonterra's external auditor for the financial year ended 31 July 2021.

Fonterra has a Group Audit Independence Policy. This policy ensures the ability of the auditor to carry out its statutory audit role is not impaired or could be perceived to be impaired. The policy sets out the types of services that the auditor may undertake, those the auditor may only undertake with the approval of the Audit and Finance Committee, and those that are not permitted. The policy stipulates the rotation of the lead external audit partner at least every five years.

As per the policy, all non-audit services to be undertaken by the auditor require approval by the Chief Financial Officer or Director Group Finance. Regardless of the nature of the services proposed, any engagements exceeding a total of NZD200,000 must be approved by the Audit and Finance Committee.

The Audit and Finance Committee reviews the independence of the auditor, external audit fees, terms of engagement and the annual audit plan.

The Chairman of the Audit and Finance Committee communicates regularly with the external auditor and the Audit and Finance Committee meets with the external auditor without Management at least twice a year.

The fees paid to Fonterra's auditor, KPMG, are detailed in Note 6 (page 20) to the Financial Statements for the year ended 31 July 2021.

Annual Meeting

The external auditor attends Fonterra's Annual Meeting and is available to answer questions from farmer shareholders in relation to the audit.

Internal Audit

Fonterra has an internal audit function that provides independent and objective assurance to both the Audit and Finance Committee and Management on the adequacy of risk management, control and governance processes.

Fonterra's internal audit approach is based on the principle of line management responsibility for risk and controls. Management is responsible for implementing, operating and monitoring the system of internal controls to provide reasonable assurance of achieving business objectives. Internal Audit is responsible for:

- delivering a reasonable degree of assurance, as determined by the Audit and Finance Committee, over business risk;
- assisting the business with special reviews or investigations; and
- complying with the Internal Audit methodology.

The appointment and removal of the Chief Internal Auditor (CIA) is subject to the approval of the Audit and Finance Committee.

The CIA develops the annual internal audit plan, which is endorsed by the Audit and Finance Committee, and is accountable for its implementation. The Audit and Finance Committee regularly monitors progress of the implementation of the internal audit plan.

Principle 8: Shareholder Rights and Relations

Website

Fonterra's website (fonterra.com) provides investors and interested stakeholders access to financial and operational information and key corporate governance information about Fonterra as an issuer.

Co-operative Council

One of the Board's most important relationships is with the Co-operative Council, which was previously known as the Shareholders' Council. The Council, Fonterra's representative body established under the Constitution, is independent of the Board and as at 31 July 2021 comprised 25 farmer shareholders elected as Councillors, representing the interests of all members of the Co-operative in 25 wards across New Zealand. The functions of the Council are set out in the Constitution. The Council publishes an annual report, commenting on its activities which is emailed to all members of the Co-operative and made available on the Farm Source™ website.

The Council, Board and Management have a working interface document which sets out the principles to facilitate the working partnership between the Board, the Council and Management and the way operational issues will be dealt with by the Board and the Council.

The working interface document is available on the Farm Source™ website.

The Council and the Board meet regularly, as do the Chairs of the Board and the Council.

Farmer Communications

Fonterra is committed to maintaining and improving communication with its farmers. An extensive farmer and supplier relations programme is managed by the Farm Source™ team. Channels for electronic communication are provided through the Fonterra and Farm Source™ websites and the My Co-op mobile app. In addition, Fonterra provides farmers with the ability to receive communications (such as the Annual Report) from Fonterra electronically. Webcasts are used where appropriate.

Fonterra's communications with farmers include regular face-to-face meetings, a regular Global Dairy Update, Farm Source™ magazine, My Co-op app posts and regular emails from the Chairman, Chief Executive Officer and Regional Heads. Fonterra releases all material information to the NZX and ASX (where applicable) and complies with the FSM Rules with respect to shareholder communications.

Farmer Meetings

A schedule of regular meetings with farmer shareholders, sharemilkers and farm workers are usually held across the country at least twice each year. Often these are run in conjunction with the Co-operative Council and Farm Source™ regional teams. However, due to Covid-19 restrictions, this year Fonterra has been unable to hold a number of these regular face-to-face meetings and offered stakeholders the opportunity to attend a range of online meetings instead.

Elected Directors also regularly attend other farmer meetings during the year on specific topics.

In addition, the Board consults with farmers on specific issues as they arise. A focus for this year has been consultation on Fonterra's Capital Structure review proposals.

Fonterra.com and Farm Source™ Digital Tools

An overview of Fonterra's operations, financial presentations and public announcements are all available on fonterra.com.

The Farm Source™ website enables farmer shareholders, their employees and business partners to transact online with Fonterra and access information and tools on milk production and quality, online statements and up-to-the-minute news and weather. This site is also used to provide information on the business to farmer shareholders.

The My Co-op app provides updated news and information from across the Co-operative and the industry including Milk Price announcements and updates from the Chairman and Chief Executive Officer. The On Farm app provides daily milk production and quality information, comparisons against last season's volumes, tanker movements, and summary reports of key milk performance information for the last 30 days.

Annual or Special Meeting

The Board views the Annual Meeting of farmer shareholders, which is held at a different venue around New Zealand each year, as an opportunity to communicate directly with farmer shareholders and the Board ensures that adequate time is provided at these meetings for farmer shareholders to raise issues or ask questions from the floor. The Chief Executive Officer attends the Annual Meeting.

The Constitution describes the process whereby a farmer shareholder can raise a proposal for discussion or resolution at the next meeting of farmer shareholders at which the farmer shareholder is entitled to vote.

Fonterra endeavours to send notices of annual or special meetings to farmer shareholders at least 20 working days prior to the relevant meeting. Due to the need to consider and include the details of shareholder proposals received by Fonterra this is not always possible, however at a minimum, notices are sent to farmer shareholders and published on fonterra.com at least 10 working days before the meeting in line with Fonterra's Constitution and the Companies Act 1993. The notice of annual meeting for Fonterra's 2020 Annual Meeting was made available to farmer shareholders on 13 October 2020.

Annual Report

The Group's Annual Report (which this year is comprised of the 2021 Annual Review, Financial Statements, this Corporate Governance Statement and Statutory Information), together with the half-year report and other material announcements, are designed to present an integrated, balanced and clear view of Fonterra's activities and prospects and are available on fonterra.com.

Other Disclosures

Information on the Group's performance, annual and half-year financial results, Director changes, and other significant matters, is advised to the market through the NZX and ASX in accordance with relevant laws and listing rules. Farmer shareholders and other stakeholders receive regular updates on these and other issues relevant to them and all media and market releases are available on fonterra.com.

Voting

Shareholders have the right to vote on major transactions (as defined in the Companies Act 1993) as well as other major decisions that may change the nature of Fonterra as prescribed by the FSM Rules. In particular, FSM Rule 4.1.1 restricts Fonterra from entering into any transaction (or series of linked or related transactions) which would significantly change, indirectly or directly, the nature of Fonterra's business or involves a gross value above 50% of the average market capitalisation of Fonterra, unless the transaction(s) is approved by (or is conditional on the approval of) Fonterra's shareholders.

In accordance with the co-operative nature of Fonterra, voting is based on the quantity of milk solids supplied to Fonterra, backed by shares and is not on the principle of one vote per share.



Board of Directors



PETER MCBRIDE

BOARD RESPONSIBILITIES *Elected Director, Chairman, Member of the Appointments and Remuneration Committee, Disclosure Committee and the Governance Development Programme Committee*

TERM OF OFFICE *Elected 2018*

Peter McBride was elected to the Fonterra Board in 2018 and became Chairman in November 2020. He is the Chief Executive Officer of Trinity Lands Limited, a dairy and kiwifruit operation largely based in the Waikato, and is the Managing Director of Ellett Beach Farms Joint Venture. Peter is a member of the Zespri China Advisory Board and Zespri Global Supply Advisory Board.

Peter was previously the Chairman and a Director of Zespri Group Limited and other related companies, and Managing Director of South East Hort Limited and its subsidiaries. Peter was also previously a Director of the New Zealand International Business Forum and a member of the Executive Board of the New Zealand China Council. Peter has shareholding interests in the Waikato.

B. Horticulture, PG Dip Com Agribusiness



CLINTON DINES

BOARD RESPONSIBILITIES *Appointed Director, Member of the Appointments and Remuneration Committee, Co-operative Relations Committee and the Safety and Risk Committee*

TERM OF OFFICE *Appointed 2015*

Clinton was appointed to the Fonterra Board in 2015. Clinton lived and worked in China for 36 years, 21 of which as President of BHP Billiton's China business. He has extensive experience as an executive in China and Asia businesses and has had an active career as a Non-Executive Director, currently serving on the Boards of the Port of Newcastle, Sky Renewables Pty Limited and Zanaga Iron Ore Company Limited.

He was Executive Chairman of Caledonia Asia from 2010 to 2013, an investment group in Asia, and is a Partner in Moreton Bay Partners, a strategic advisory firm based in Brisbane. He is an Adjunct Professor at Griffith University's Asia Institute and is a Member of the Griffith University Council. Clinton has extensive experience as a senior executive in China and Asia businesses, including global manufacturing and commodity businesses.

BA (Modern Asian Studies, Griffith), CIM, INSEAD



BRENT GOLDSACK

BOARD RESPONSIBILITIES *Elected Director, Chair of the Capital Structure Committee, Member of the Audit and Finance Committee, Co-operative Relations Committee, Divestment Review Committee, Disclosure Committee and the Milk Price Panel*

TERM OF OFFICE *Elected 2017, last re-elected 2020*

Brent Goldsack was elected to the Fonterra Board in 2017. Brent had a 25-year career in both New Zealand and abroad in various corporate advisory roles, including being a Partner at PwC for more than 12 years. Brent is a Fellow of the Chartered Accountants of Australia and New Zealand. Brent currently Chairs the Board of Waitomo Group Limited and Better Eggs Limited and is a Director of Rabobank NZ Limited and Power Farming Holdings Limited.

Brent is actively involved as a shareholder of three dairy operations in the Waikato. In addition to his strong financial skills and knowledge, Brent has particular expertise in Fonterra's Farmgate Milk Price and the drivers of the Co-operative's earnings and its strategy.

BCA, FCA



LEONIE GUINEY

BOARD RESPONSIBILITIES *Elected Director, Chair of the Safety and Risk Committee and Member of the Capital Structure Committee, Co-operative Relations Committee and Divestment Review Committee*

TERM OF OFFICE *Elected 2018*

Leonie Guiney was elected to the Fonterra Board in 2018. Leonie previously served on the Board from 2014 to 2017. Leonie has worked in the agriculture sector for more than 25 years in a number of positions including lecturer of Dairy Production at Lincoln University, consultant on the BNZ Growth Programme for farmers and has held roles with Golden Vale Dairy Co-operative in Ireland, LIC and FarmRight South Island.

Leonie lives and farms at Fairlie in South Canterbury and is a Director and shareholder of seven South Canterbury farms and Bobby Square Limited.

BAgrSci



BRUCE HASSALL

BOARD RESPONSIBILITIES *Appointed Director, Chair of the Audit and Finance Committee, Member of the Capital Structure Committee, the Disclosure Committee, the Divestment Review Committee, the Milk Price Panel and is an observer on the Appointments and Remuneration Committee*

TERM OF OFFICE *Appointed 2017*

Bruce Hassall was appointed to the Fonterra Board in 2017. Bruce is a Chartered Accountant and has had a 35-year career at PwC, including holding the position of Chief Executive Officer of the New Zealand practice from 2009 to 2016. Bruce is Chairman of The Farmers Trading Company Limited, Prolife Foods Limited and Fletcher Building Limited and serves as a Director on the Board of Bank of New Zealand. Bruce was previously a member of the University of Auckland Business School Advisory Board and was a founding Board Member of the New Zealand China Council. Bruce has extensive experience in financial reporting, information system processes, risk management, business acquisitions, capital raising and IPOs across both listed and private companies.

BCom, FCA (CAANZ)



HOLLY KRAMER

BOARD RESPONSIBILITIES *Appointed Director, Chair of the Appointments and Remuneration Committee, Member of the Safety and Risk Committee*

TERM OF OFFICE *Appointed 2020*

Holly Kramer was appointed to the Fonterra Board in 2020. Holly has more than 25 years of extensive governance, management and product/marketing experience. She was Chief Executive Officer of major Australian retailer Best & Less. She has also held senior executive roles at Telstra Corporation, Ford Motor Company (in the US and Australia) and Pacific Brands.

Holly is currently a Director on the Boards of Woolworths, Abacus Property Group and the GO (Goodes-O'Loughlin) Foundation and The Ethics Centre. In 2021 she was appointed as a non-Executive Director to the Board of Endeavour Group following its demerger from Woolworths Group. She is also the Pro-Chancellor of Western Sydney University and a Member of the Bain Advisory Group. Holly's previous governance roles include the Boards of Australia Post, Nine Entertainment Corporation, AMP Limited, Lendi and Telstra Clear (NZ).

BA, MBA



ANDY MACFARLANE

BOARD RESPONSIBILITIES *Elected Director, Chair of the Co-operative Relations Committee, Member of the Appointments and Remuneration Committee and Governance Development Programme Committee, Fonterra appointed Director of FSF Management Company Limited*

TERM OF OFFICE *Elected 2017, last re-elected 2019*

Andy Macfarlane was elected to the Fonterra Board in 2017. Andy was a farm management consultant for 38 years. Andy is a Director of ANZCO and an active member of the International Farm Management Association (IFMA), Global Dairy Farmers and New Zealand Institute of Primary Industry Management (NZIPIM). Andy was previously a Director of Ngai Tahu Farming Limited and AgResearch. He is the Past President of the NZIPIM and chaired Deer Industry New Zealand for seven years.

Andy began farming in 1989 and lives near Ashburton. He has shareholding interests in the South Island. Andy has a strong understanding of the governance of research and development and innovation, and has a particular interest in the strategic use of technology in the dairy industry.

B.Agr.Sc



JOHN NICHOLLS

BOARD RESPONSIBILITIES *Elected Director, Member of the Co-operative Relations Committee, Capital Structure Committee, Disclosure Committee and the Safety and Risk Committee*

TERM OF OFFICE *Elected 2018*

John Nicholls was elected to the Fonterra Board in 2018. An experienced company director, he is current chair of MHV Water, New Zealand's largest intergenerational irrigation co-operative.

As the owner of several mid-Canterbury dairy farms forming part of the Rylib Group, John is highly focused on investing in and mentoring the next generation of farmers in New Zealand and on safeguarding the sustainability of farming for the long term. He brings professionalism, cost consciousness and a strategic mindset to governance, ensuring that business operations align with core strategy and are consistently adding value.

John served on the Fonterra Shareholders' Council from 2009 to 2011. He has a degree in agriculture and a postgraduate diploma in agricultural science, both from Massey University.

B.Agr, PG AgrSci



CATHY QUINN

BOARD RESPONSIBILITIES *Elected Director, Chair of the Disclosure Committee, Member of the Audit and Finance Committee, Capital Structure Committee and Divestment Review Committee*

TERM OF OFFICE *Elected 2020*

Cathy Quinn was elected to the Fonterra Board in 2020. She has a number of governance roles having previously enjoyed a 30+year career as a commercial and corporate lawyer with MinterEllisonRuddWatts, and has significant expertise in governance, equity capital markets, mergers and acquisitions and private equity services. Amongst the numerous awards she has won, Cathy was made an Officer of the New Zealand Order of Merit for services to law and women in 2016.

Cathy is a Director and indirect shareholder of Thistlehurst Dairy Limited, based in the Waikato. Cathy advised the dairy industry for many years including the Dairy Board, Fonterra, the Fonterra Co-operative Council, and competitors of Fonterra. Key commercial Boards that Cathy serves on are Fletcher Building, Tourism Holdings, Rangatira and she chairs Fertility Associates. In terms of public service roles Cathy is the Pro-Chancellor of the Council of Auckland University. She was previously on the advisory Board at New Zealand Treasury, the New Zealand Securities Commission and NZ China Council.

ONZM, LLB



DONNA SMIT

BOARD RESPONSIBILITIES *Elected Director, Member of the Audit and Finance Committee, Safety and Risk Committee, Fonterra appointed Director of FSF Management Company Limited and Fonterra Farmer Custodian Limited*

TERM OF OFFICE *Elected 2016, last re-elected 2019*

Donna Smit was elected to the Fonterra Board in December 2016. Donna serves on the Board of the Manager of the Fonterra Shareholders' Fund. Donna lives and farms at Edgecumbe, and has built and owns five dairy farms in Eastern Bay of Plenty and Oamaru. Donna is a Director of EastPack Limited, where she serves as Chair of their Audit and Finance Committee and is a Director of Kiwifruit Equities Limited and a Trustee of the Dairy Women's Network.

Donna is a Fellow Chartered Accountant and was a company administrator at kiwifruit co-operative EastPack for 24 years. Donna's strong focus on financial and risk management has been built through her extensive business and manufacturing experience and financial background, and complements her deep dairy farming experience.

FCA



SCOTT ST JOHN

BOARD RESPONSIBILITIES *Appointed Director, Chair of the Milk Price Panel and Divestment Review Committee and Member of the Audit and Finance Committee, Disclosure Committee and the Safety and Risk Committee*

TERM OF OFFICE *Appointed 2016*

Scott St John was appointed to the Fonterra Board in 2016. He was the CEO of First NZ Capital (FNZC) for 15 years, stepping down from that role in early 2017. Scott is the Chair of Fisher and Paykel Healthcare and serves on the Board of ANZ Bank New Zealand, Mercury NZ Limited and NEXT Foundation.

Scott has served on the Council of the University of Auckland since 2009 and including as Chancellor from 2017 to 2021. His other previous roles have included Chairman of the Securities Industries Association, and membership of both the Capital Markets Development Taskforce and the Financial Markets Authority Establishment Board.

BCom, Diploma of Business

Fonterra Management Team



MILES HURRELL

CHIEF EXECUTIVE OFFICER

Miles Hurrell was appointed as Chief Executive Officer in 2019. Prior to this, he held the role of Chief Operating Officer, Farm Source, with responsibility for farmer services and engagement, milk sourcing and the operation of New Zealand's 70 Farm Source™ retail stores. Before this, Miles also held a number of leadership roles across our Co-op, including Group Co-operative Affairs Director and General Manager Middle East, Africa, Russia and Eastern Europe where he led a period of sustained growth across the region. Earlier in his career, Miles worked as the General Manager of Global Sourcing and oversaw the streamlining of our Co-operative's European operations.

Miles has completed management programmes at INSEAD (International Executive Development), London Business School (Finance), Kellogg's NorthWestern University (Global Sales) and the International Institute for Management Development (Marketing).



MARC RIVERS

CHIEF FINANCIAL OFFICER

Marc Rivers joined Fonterra in February 2018 as the Chief Financial Officer, responsible for the Co-operative's finances. Marc's responsibilities extend to the centralised management of Fonterra's physical and financial portfolios, as well as mergers and acquisitions.

Marc is an experienced global finance executive. Prior to joining Fonterra, Marc was the CFO at Roche Pharmaceuticals Division in Switzerland. Marc has worked in both emerging and established markets, including China, Japan, Southeast Asia, Europe and the US. During this time, he has led teams through significant change and provided strategic leadership. Marc is known for his commitment to leading and developing his people while building diverse and inclusive teams.

He has a Bachelor of Arts in International Studies and an International Master of Business Administration, Finance and German from the University of South Carolina, Columbia, SC, USA.



JUDITH SWALES

CHIEF EXECUTIVE OFFICER, ASIA PACIFIC (APAC)

Judith Swales leads Fonterra's business in Asia Pacific where she is responsible for all sales and marketing of Fonterra's Consumer, Foodservice and Ingredients products in the region.

Judith and her team also set the global strategy for the Consumer, Foodservice and paediatric businesses.

Prior to this she was Fonterra's COO Global Consumer and Foodservice having earlier led the Innovation and Transformation business unit, shaping the future of Fonterra by harnessing innovation, emerging technologies and game changing business models, while embedding a performance driven culture. Judith joined our Co-operative in 2013 as Managing Director Australia and Fonterra Oceania, where she led the successful turnaround of the Australian business and oversaw Fonterra Brands New Zealand.

The daughter of a milkman, Judith grew up helping her father on his daily milk run. She has extensive experience in senior management and business turnarounds, and prior to joining Fonterra was the Managing Director of Heinz Australia, and CEO and Managing Director of Goodyear Dunlop, Australia and New Zealand. Judith worked for a number of UK retailers which culminated in her move to Australia in 2001 as the Managing Director of Angus and Robertson.

She served as a Non-Executive Director on the DuluxGroup Board from April 2011 to August 2019 and a Non-Executive Director on the Virgin Australia Board from May 2019 to August 2020.

Judith has a degree in Microbiology and Virology.



MIKE CRONIN

MANAGING DIRECTOR CO-OPERATIVE AFFAIRS

Mike Cronin oversees Co-operative Affairs which includes Governance, Risk and Audit, Farm Source, Global Stakeholder Affairs, Communications, Legal, Inclusion and Māori Strategy.

Mike joined Fonterra in 2002 and has been a member of teams that have contributed to some of Fonterra's key initiatives, including Trading Among Farmers, the Governance and Representation Review, the Fonterra Purpose and The Co-operative Difference.

Prior to 2014 when he joined the Fonterra Management Team, Mike was the General Manager of Strategy Deployment and then Group Director Governance and Legal.

Mike has a Bachelor of Laws and Bachelor of Arts from the University of Auckland.



FRASER WHINERAY

CHIEF OPERATING OFFICER

Fraser Whineray joined Fonterra in March 2020 as the Chief Operating Officer.

He is responsible for our New Zealand manufacturing site and global supply chain operations, sustainability, innovation and R&D, IT and safety, quality and regulatory teams.

Fraser joined our Co-op from Mercury, a 100% renewable electricity retailer and generator, where he was the Chief Executive from 2014 and held executive roles since joining the company in 2008.

Fraser is no stranger to the dairy industry. He started his career as a graduate of the New Zealand Dairy Board's technical training programme and spent time at manufacturing sites that are now part of our Co-op, and also in Fonterra's export markets. He has also worked in the investment banking and forestry industries, both in New Zealand and internationally.

Fraser is a keen advocate for astute long-term decisions that leverage New Zealand's competitive advantages, including its people, for sustainable growth.

He served as a Non-Executive Director of Opus International Consultants from 2008 – 2016 and of Tilt Renewables and Chaired the Prime Minister's Business Advisory Council. In 2019 he was named the Deloitte Top 200 Chief Executive of the year.

Fraser holds an MBA from the University of Cambridge, a Bachelor of Chemical Engineering from Canterbury University and a Diploma in Dairy Science and Technology from Massey University.



KELVIN WICKHAM

CHIEF EXECUTIVE OFFICER, AMENA

Kelvin Wickham is responsible for the business activities of Fonterra across Consumer, Foodservice and Ingredients products in Africa, Middle East, Europe, North Asia and the Americas.

In addition, Kelvin oversees the Active Living FNU (Functional Nutrition Unit), and with his team is responsible for development of Fonterra's NZMP™ brand and sales capability.

In his previous role as COO NZMP™ Kelvin led the delivery of solutions to our global customers, ensuring optimisation of supply and demand, commodity price risk management, and championing the NZMP™ brand. Kelvin has more than 30 years' experience in the dairy industry and has played a key role in building markets, customer relationships and partnerships. In his earlier role as President Greater China and India he focused on directing the development of Fonterra's business in these expanding markets, during which he oversaw a period of rapid growth.

Prior to that, Kelvin led Fonterra's Supplier and External Relations team, and was Managing Director of Fonterra's Global Trade overseeing the launch of Global Dairy Trade.

Kelvin holds a Chemical and Materials Engineering Degree, a Master of Management and a Diploma of Dairy Science and Technology.



TEH-HAN CHOW

CHIEF EXECUTIVE OFFICER, GREATER CHINA

Teh-han Chow was appointed as the Chief Executive Officer, Fonterra Greater China in August 2020, after acting in the interim role from December 2019.

In this role, he is responsible for overseeing our Co-op's overall business in the Greater China region, including Ingredients, Foodservice, Consumer Brands and China Farms business.

Teh-han has extensive experience leading large organisations in the food sector, as well as proven ability in business growth through innovation and putting customers front and centre.

Previously, he was President of NZMP for Greater China, South & East Asia, where he embedded sustained improvements in business performance, strong customer relationships and empowering leadership across 23 markets in Fonterra's ingredients business.

Before joining Fonterra in 2015, Teh-han was the CEO of Louis Dreyfus in China, a leading global merchant and processor of agricultural goods and other commodities. He was also Managing Director Greater China for Simplot, a food and agribusiness company and served as a Director of COFCO Agriculture Industry Investment Fund from 2012 – 2015.

Teh-han has a Bachelor's degree in Marketing from California State University Northridge and a Master's degree, with honours, in International Management from Thunderbird Graduate School of International Management.



CARLY ROBINSON

DIRECTOR, OFFICE OF THE CHIEF EXECUTIVE OFFICER

Carly Robinson was appointed as the Director, Office of the Chief Executive Officer in March 2020. Since then, her focus has been on driving Fonterra's executive management systems and key strategic projects to support the delivery of top priorities and targets. Carly also plays a key role in guiding the wider leadership community, helping to create the best environment for enterprise-wide success.

Carly has spent over 20 years working in the dairy industry, after joining the New Zealand Dairy Board's Marketing Graduate Programme in 1998. Her career has spanned a wide range of business functions, models and markets over this time, including having leadership roles in sales and marketing, farmer services, strategy, sustainability, social responsibility and transformation.

Carly has spent considerable time living and working in South East Asia and Europe, and brings a strong passion for customers, communities and people to her work.

Carly has a Bachelor of Arts (Spanish) and Bachelor of Commerce (Economics) from the University of Auckland.

Our 2021 Suite of Reports

Our Annual Review is a concise summary of our environmental, social and economic activities and performance. It is supported by a suite of supplementary reports where stakeholders can find more detailed information most relevant to them. This represents another step on our journey towards more integrated reporting.



OUR REPORTS ARE AVAILABLE FROM
[FONTERRA.COM/NZ/EN/INVESTORS.HTML](https://fonterra.com/nz/en/investors.html)



Annual Review
2021



Sustainability Performance
Report 2021



Financial Statements
2021



Corporate Governance
Statement 2021



Farmgate Milk Price
Statement 2021



Statutory Information
2021



Business Performance
Report 2021

Statutory
Information 2021



**Good
Together**
from one generation
to the next



Dairy for life



IMAGE:
Kiri, Alan, Te Kaihou & Michael, Bay of Plenty

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COVER IMAGE:
Lana & Kiri, Bay of Plenty

Statutory Information

FOR THE YEAR ENDED 31 JULY 2021

Co-operative Status

In accordance with section 10 of the Co-operative Companies Act 1996, the Directors of Fonterra Co-operative Group Limited (Fonterra) unanimously resolved on 26 August 2021 that the Company was, for the year ended 31 July 2021, a co-operative company. The opinion was based upon the fact that:

- Throughout that period the principal activities of the Company have been the activities stated in clause 1.3 of the Company’s constitution:
 - the manufacture and sale of butter, cheese, dried milk, casein, or any other product derived from milk or milk solids supplied to the Company by its shareholders;
 - the sale to any person of milk or milk solids supplied to the Company by its shareholders; and
 - the collection, treatment, and distribution for human consumption of milk or cream supplied to the Company by its shareholders.
- Each of the Company’s principal activities are co-operative activities (as defined in section 3 of the Co-operative Companies Act 1996).
- Throughout that period not less than 60 per cent of the voting rights attaching to shares in the Company have been held by transacting shareholders (as defined in section 4 of the Co-operative Companies Act 1996).

Employee Remuneration Framework

A well-designed remuneration framework helps the Co-operative attract and retain talent, and both motivates and recognises the role our people play in the success of Fonterra.

Fonterra’s remuneration framework for salaried staff is based on a ‘total remuneration’ approach, which is consistent with best practice globally. This includes base salary, benefits (superannuation and insurance), and variable remuneration (incentives).

The amounts we pay to our employees are benchmarked against comparable companies in relevant markets, using information obtained from independent remuneration consultants. Adjustments to packages may occur on a cyclical basis, such as an annual salary review, or on an as-needed basis to recognise additional responsibilities.

The framework is designed to take into account budget targets and restraints, market conditions, internal equity, and governance factors such as local legislation, as well as taking into account individual performance.

- Fonterra’s incentive programmes are designed to drive performance by:
- focusing on Fonterra’s primary objective of maximising returns for its farmer shareholders;
 - promoting collaboration and a one team approach to achieve Fonterra’s goals;
 - establishing targets which are challenging yet achievable; and
 - linked to team (such as business unit) and Group performance.

At the end of each financial year, performance is reviewed, and incentive payments are approved by the Appointments and Remuneration Committee at its discretion. The Appointments and Remuneration Committee retains absolute discretion in respect to payments for all incentive schemes.

Further detail on Fonterra’s remuneration framework can be found at page 07 of the Corporate Governance Statement.

Employee Remuneration

Fonterra operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2021, the number of employees, not being Directors of Fonterra, who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 was as follows:

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹	REGIONAL NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
100,000	110,000	64	1,477	150	58	1,749
110,000	120,000	70	759	232	42	1,103
120,000	130,000	59	658	240	40	997
130,000	140,000	50	584	197	28	859
140,000	150,000	51	246	143	13	453
150,000	160,000	47	150	128	12	337
160,000	170,000	52	122	88	11	273
170,000	180,000	36	91	93	13	233
180,000	190,000	33	61	70	11	175
190,000	200,000	28	52	69	7	156
200,000	210,000	29	46	41	9	125
210,000	220,000	25	34	35	7	101
220,000	230,000	21	21	36	2	80
230,000	240,000	18	17	28	2	65
240,000	250,000	22	21	25	3	71
250,000	260,000	19	11	22	4	56
260,000	270,000	18	7	15	4	44
270,000	280,000	16	11	19	1	47
280,000	290,000	8	4	32	1	45
290,000	300,000	7	1	19	0	27
300,000	310,000	16	9	9	1	35
310,000	320,000	11	1	11	1	24
320,000	330,000	8	4	10	0	22
330,000	340,000	8	8	10	0	26
340,000	350,000	7	8	15	0	30
350,000	360,000	2	2	7	1	12
360,000	370,000	8	5	3	0	16
370,000	380,000	1	1	10	0	12
380,000	390,000	1	2	7	0	10
390,000	400,000	6	3	7	1	17
400,000	410,000	4	1	6	0	11
410,000	420,000	6	1	2	0	9
420,000	430,000	2	1	4	0	7
430,000	440,000	3	2	3	0	8
440,000	450,000	3	0	5	1	9
450,000	460,000	4	0	6	1	11
460,000	470,000	2	3	4	0	9
470,000	480,000	4	0	4	1	9
480,000	490,000	2	1	3	0	6
490,000	500,000	0	0	1	0	1
500,000	510,000	2	2	4	0	8
510,000	520,000	2	1	3	3	9
520,000	530,000	0	1	3	0	4
530,000	540,000	1	1	3	1	6
540,000	550,000	0	0	3	0	3
550,000	560,000	0	1	1	0	2

Employee Remuneration CONTINUED

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹	REGIONAL NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
560,000	570,000	2	0	2	1	5
570,000	580,000	0	0	2	0	2
590,000	600,000	2	0	0	1	3
600,000	610,000	1	1	1	1	4
610,000	620,000	1	0	1	1	3
620,000	630,000	1	0	0	0	1
650,000	660,000	0	0	3	0	3
660,000	670,000	0	0	1	2	3
670,000	680,000	1	0	2	0	3
680,000	690,000	1	0	2	0	3
690,000	700,000	0	1	1	0	2
700,000	710,000	0	0	1	1	2
710,000	720,000	1	0	1	1	3
730,000	740,000	1	0	1	1	3
780,000	790,000	0	0	2	0	2
800,000	810,000	0	1	0	0	1
810,000	820,000	0	1	0	0	1
820,000	830,000	0	0	0	1	1
830,000	840,000	0	0	1	1	2
850,000	860,000	0	0	1	0	1
870,000	880,000	1	0	0	0	1
880,000	890,000	1	0	0	0	1
900,000	910,000	1	0	0	0	1
910,000	920,000	1	0	1	0	2
920,000	930,000	0	0	1	0	1
930,000	940,000	1	0	0	0	1
940,000	950,000	0	0	1	0	1
970,000	980,000	1	0	0	0	1
980,000	990,000	0	0	1	0	1
990,000	1,000,000	1	0	1	0	2
1,000,000	1,010,000	0	0	0	1	1
1,050,000	1,060,000	0	0	1	1	2
1,130,000	1,140,000	0	0	1	0	1
1,140,000	1,150,000	0	0	0	1	1
1,170,000	1,180,000	0	0	1	0	1
1,250,000	1,260,000	0	0	0	1	1
1,270,000	1,280,000	0	0	1	0	1
1,370,000	1,380,000	0	0	1	0	1
1,640,000	1,650,000	1	0	0	0	1
2,030,000	2,040,000	1	0	0	0	1
2,090,000	2,100,000	1	0	0	0	1
2,170,000	2,180,000	0	0	1	0	1
2,520,000	2,530,000	0	0	1	0	1
3,220,000	3,230,000	0	0	1	0	1
4,280,000	4,290,000	1	0	0	0	1
Totals		798	4,435	1,861	294	7,388

1 Includes employees employed in New Zealand during the reporting period.
2 Includes employees employed in an offshore operation during the reporting period. Amounts paid in foreign currency have been converted at the average conversion rate for the period. As Fonterra has a significant offshore population, the number of offshore employees exceeding the fixed figure of \$100,000 increases if the New Zealand dollar currency weakens significantly. Should the New Zealand dollar strengthen against those markets' currencies, these same individuals may not be reported in future lists.
3 Cessations include employees that have been terminated or retired during the reporting period. The amounts paid to former employees include salary and bonuses for the current period, prior period bonuses that have been paid in the current period and termination entitlements including those arising from employment arrangements entered into by legacy companies prior to the formation of Fonterra.

Within New Zealand, employees who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 were based throughout the country as follows:

	TOTAL
Auckland	1,142
Bay of Plenty	158
Canterbury	616
Manawatu – Whanganui	353
Northland	204
Southland	220
Taranaki	714
Waikato	1,737
Rest of New Zealand	89
New Zealand total	5,233

In addition to being a significant employer in New Zealand, Fonterra also has employees in markets around the world. Those who received remuneration, incentives, and other benefits (including superannuation and allowances etc) exceeding \$100,000 were based in markets around the world as follows:

	TOTAL
Australia	1,002
Greater China	224
Europe	126
Latin America	85
New Zealand	5,233
Rest of Asia	289
Rest of World	63
United States	72
Cessations	294
Global total	7,388

Remuneration of Directors

The Directors' Remuneration Committee, comprising six shareholders elected in accordance with the Constitution, makes recommendations for shareholder approval as to the level of Elected Directors' fees. Elected Directors are those Directors elected by shareholders in accordance with clauses 12.2 and 33.4 of the Constitution.

At the Annual Meeting of shareholders held on 5 November 2020, shareholders approved, on the recommendation of the Directors' Remuneration Committee, the following amounts of remuneration to apply to Elected Directors from the date of that Annual Meeting of shareholders.

Chairman	\$430,000 per annum
Directors	\$175,000 per annum
Discretionary additional payments to the Chair of permanent Board Committees (except when the Chair is the Chairman of the Board of Directors)	\$35,000 per annum

The Board has approved payment of the discretionary additional payment, at the prevailing approved rate, to the Chair of permanent Board Committees.

The Board has discretion to set the fees for Directors appointed under clause 12.4 of the Constitution (Appointed Directors). In the period to 31 July 2021 the Board applied the same remuneration levels as above to the Appointed Directors.

The Appointments and Remuneration Committee and the Chairman of the Board of Directors has the discretion to allocate a discretionary pool of up to \$75,000 per annum for fees for Directors remuneration for additional duties, workload and responsibilities. In the period to 31 July 2021 the Board has approved a payment to Mr Goldsack of \$35,000 from the discretionary pool in recognition of his additional workload as Chair of the Capital Structure Committee (a non-permanent committee).

Fees paid by subsidiary or associate companies in respect of Fonterra Directors or employees appointed by Fonterra as Directors of those companies are payable directly to Fonterra.

Directors Remuneration

The total remuneration and value of other benefits (not including superannuation contributions, if applicable) received by each Director in the 12-month period from 1 August 2020 to 31 July 2021 are scheduled below:

	BOARD FEES	COMMITTEE CHAIR FEES	TRAVEL ALLOWANCE	DISCRETIONARY POOL	TOTAL REMUNERATION (\$)
Clinton Dines	175,000	–	–	–	175,000
Brent Goldsack	175,000	12,070 ¹	–	35,000	222,070
Leonie Guiney (Chair of the Safety and Risk Committee)	175,000	35,000	–	–	210,000
Bruce Hassall (Chair of the Audit and Finance Committee)	175,000	35,000	–	–	210,000
Holly Kramer (Chair of the Appointments and Remuneration Committee)	175,000	22,929 ¹	–	–	197,929
Andrew Macfarlane (Chair of the Co-operative Relations Committee)	175,000	22,929 ¹	–	–	197,929
Peter McBride (Chairman of the Board of Directors from November 2020)	362,327 ¹	–	–	–	362,327
John Monaghan (Chairman of the Board of Directors until November 2020)	114,115 ¹	–	–	–	114,115
John Nicholls	175,000	–	–	–	175,000
Cathy Quinn	129,231 ¹	–	–	–	129,231
Donna Smit	175,000	–	–	–	175,000
Scott St John (Chair of the Milk Price Panel)	175,000	35,000	–	–	210,000

1 Indicates a part year.

Quoted Financial Products Held at Balance Date

In accordance with Rules of the Fonterra Shareholders' Market (FSM) Rule 2.7.1(d), the following table identifies the Quoted Financial Products in which each Director has a Relevant Interest as at 31 July 2021:

	FSF UNITS ¹	CO-OPERATIVE SHARES	RETAIL BONDS	
			FCG030	FCG040
Brent Goldsack	3,493	457,815	–	–
Leonie Guiney	–	1,198,824	–	–
Andrew Macfarlane	147,041	1,885,990	–	–
Peter McBride	–	7,090,320	–	–
John Nicholls	930	2,215,164	–	–
Cathy Quinn	–	444,280	1,000,000	9,000,000
Donna Smit	9,959	1,281,277	–	–

1 Units issued by the Fonterra Shareholders' Fund may be converted to Co-operative shares.

A 'Relevant Interest' in Fonterra securities which is required to be disclosed is explicitly defined in the Financial Markets Conduct Act 2013.

To qualify as an Elected Director under the Fonterra Constitution a person must be a shareholder, a shareholder of a company that is a shareholder, a member of a partnership that is a shareholder, or have a legal or beneficial interest in, or a right or entitlement to participate directly in the distributions of, a body corporate that is a shareholder of Fonterra.

Given the variety of ways that farmer shareholders can organise their interests, it is possible for Fonterra Elected Directors to have an interest in Co-operative shares without this being a 'Relevant Interest' as defined in the Financial Markets Conduct Act 2013.

All current Elected Directors have Relevant Interests in Co-operative shares. Some Elected Directors also have interests in Co-operative shares which are not within the definition of 'Relevant Interest' in the Financial Markets Conduct Act 2013, and those interests are not disclosed above.

Entries in the Interests Register

Directors' interests in transactions

General disclosures of interest

The following general disclosures of interest were made in the period from 1 August 2020 to 31 July 2021:

Brent Goldsack	Better Eggs Limited	Chair and Director
	Power Farming Holdings Limited	Director
Holly Kramer	Bain Advisory Council	Member
	Endeavour Group Limited	Non-executive Director
	<i>Lendi Pty Limited</i>	<i>Chair and Director (ceased April 2021)</i>
	The Ethics Centre	Independent Non-executive Director
Andrew Macfarlane	<i>ANZCO Farmer Nominee Limited</i>	<i>Director (ceased August 2020)</i>
	<i>MRB Securities Limited</i>	<i>Director (ceased July 2020)</i>
Peter McBride	<i>South East Hort Limited</i>	<i>Managing Director (ceased October 2020)</i>
John Nicholls	<i>FEP Dashboard Limited</i>	<i>Director (ceased October 2020)</i>
Cathy Quinn	Fletcher Building Industries Limited	Director
	Fletcher Building Limited	Director
	Kintyre Trust	Trustee
	MinterEllisonRuddWatts	Consultant
	<i>New Zealand Treasury Advisory Board</i>	<i>Board Member (ceased November 2020)</i>
	Pin Twenty Limited	Director and Shareholder
	Thistlehurst Dairy Limited	Director and Indirect Shareholder
	Tourism Holdings Limited	Director
	<i>St Jude's Trust</i>	<i>Trustee (ceased December 2020)</i>
	Rangatira Limited	Director
	University of Auckland Council	Pro-Chancellor
Scott St John	ANZ Bank New Zealand Limited	Director
	<i>Butland Medical Foundation</i>	<i>Trustee (ceased June 2021)</i>
	Fisher and Paykel Healthcare Limited	Chairman
	<i>University of Auckland Council</i>	<i>Chancellor (ceased June 2021)</i>

During the financial year there were no notices from Directors requesting to disclose or use information received in their capacity as Directors which would not otherwise have been available to them.

Securities dealings of Directors

The following entries were made in the Interests Register during the year.

New Disclosures

Directors disclosed the following holdings of securities during the year.

DIRECTOR	RELEVANT INTERESTS IN CO-OPERATIVE SHARES	RELEVANT INTERESTS IN FSF UNITS	RELEVANT INTERESTS IN RETAIL BONDS		RELEVANT INTERESTS IN WHOLESALE BONDS	
			FCG030	FCG040	FCG AT 5.90% MATURING 25 FEBRUARY 2022	FCG AT 5.08% MATURING 19 JUNE 2025
Cathy Quinn (on appointment on 5 November 2020)	444,280	–	1,000,000	9,000,000	2,050,000	14,510,000
Andrew Macfarlane (on 28 June 2021)	1,072,689	9,317	–	–		

Entries in the Interests Register CONTINUED

During the year, Directors disclosed in respect of section 148(2) of the Companies Act 1993 and/or section 297 of the Financial Markets Conduct Act 2013 that they (or their associated persons) acquired or disposed of a relevant interest in financial products as follows:

Co-operative share transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Leonie Guiney	50,000 ¹	50,000 ¹	–	3 August 2020
Donna Smit	1,124 ³		–	1 October 2020
Donna Smit	582 ⁴		2,316	6 October 2020
Donna Smit	2,887 ⁴		11,490	6 October 2020
Brent Goldsack	2,678 ⁴		10,658	6 October 2020
Brent Goldsack	48,000		192,960	7 October 2020
Peter McBride	7,418		29,746	7 October 2020
Peter McBride	4,231		16,966	8 October 2020
Peter McBride	42,693		171,626	8 October 2020
Peter McBride	46,703		187,279	9 October 2020
Peter McBride	27,080		108,862	9 October 2020
Peter McBride	14,088		56,634	14 October 2020
Brent Goldsack	6,730		27,189	15 October 2020
Peter McBride	24,359		98,654	15 October 2020
Peter McBride	2,494 ²	2,494 ²	10,000	15 October 2020
Peter McBride	4,924 ¹	4,924 ¹	19,745	15 October 2020
Donna Smit	18,230		73,996	15 October 2020
Donna Smit	9,655		39,489	19 October 2020
Donna Smit	419		1,714	21 October 2020
John Nicholls	2,300		10,120	10 November 2020
John Nicholls	10,000 ¹	10,000 ¹	–	22 December 2020
John Nicholls	10,000 ¹	10,000 ¹	–	22 December 2020
John Nicholls	22,000		96,570	29 December 2020
Donna Smit	2,090		9,677	19 April 2021
Donna Smit	697		3,227	19 April 2021
Donna Smit	1,542		7,139	19 April 2021
Donna Smit	118		550	20 April 2021

1 Transferred between related entities.
2 Transferred between non-related entities.
3 Conversion of Units to Shares.
4 Farm Sources Dollars for Shares offer.

Unit transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Donna Smit		1,124 ¹	–	1 October 2020
Andrew Macfarlane	1,574		6,107	15 October 2020
Donna Smit	642 ²		–	23 February 2021
Brent Goldsack	3,493 ²		–	23 February 2021
John Nicholls	930 ²		–	23 February 2021

1 Conversion of Units to Shares.
2 Acquired as part of the Contract Fees for Units programme.

Retail Bond transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Cathy Quinn	1,000,000 ^{1,2}	1,000,000 ^{1,2}	–	21 December 2020
Cathy Quinn	9,000,000 ^{1,3}	9,000,000 ^{1,3}	–	21 December 2020

1 Transferred between related entities.
2 FCG030.
3 FCG040.

Capital Note transactions

There were no transactions by Directors (or their associated persons) in Capital Notes reported during the period from 1 August 2020 to 31 July 2021. No current holdings of Capital Notes have been advised by Directors (or their associated persons).

Subsidiary Company Directors

The following companies were subsidiaries of Fonterra as at 31 July 2021. Directors as of this date are listed below. Those who resigned during the year are denoted with an R. Alternate Directors are denoted with an A.

Assessment Labs Limited: B K Connolly, J Swales	Fonterra Ingredients Limited: G A Duncan, B M Ryan
Canpac International Limited: B M Ryan, P D Wynen	Fonterra LATAM Brands Limited: A J Cordner, G A Duncan
Dairy Industry Superannuation Scheme Trustee Limited: M A Apiata-Wade, B J Kerr, B M McCarthy, T P McGuinness, D W C Scott, A K Williams, P D Wynen	Fonterra Limited: M R Cronin, A R van der Nagel (R), F S Whineray
Fonterra (Delegated Compliance Trading Services) Limited: G A Duncan, S D T Till	Fonterra PGGRC Limited: G A Duncan, J P Hill
Fonterra (International) Limited: G A Duncan, C E Rowe	Fonterra TM Limited: G A Duncan, S D T Till
Fonterra (Kotahi) Limited: R G Carlyle, F S Whineray	Glencol Energy Limited: G A Duncan, P D Wynen
Fonterra (Middle East) Limited: G A Duncan, C E Rowe, P D Washer (R)	GlobalDairyTrade Holdings Limited: G A Duncan, C E Rowe
Fonterra (New Zealand) Limited: G A Duncan, C E Rowe	Kotahi GP Limited: D G Boulton, R G Carlyle, B M Ryan, F S Whineray
Fonterra (North Asia) Limited: G A Duncan, S D T Till	Lactanol Limited: G A Duncan, B M Ryan
Fonterra Brands (New Zealand) Limited: M R Cronin (R), B Henshaw, J Swales	MIH Limited: R J Allen, G A Duncan
Fonterra Commodities Limited: G A Duncan, B M Turner	Milktest GP Limited: R J Allen, R J van Boheemen, P G Brown, G B McCullough, R G Townshend, T A Winter
Fonterra Dairy Solutions Limited: G A Duncan, R McNickle	MyMilk Limited: C W Fergusson, K F Shaw
Fonterra Equities Limited: G A Duncan, S D T Till	New Zealand Dairy Board: G A Duncan, C E Rowe
Fonterra Farming Ventures Limited: G A Duncan, C E Rowe	New Zealand Milk (International) Limited: G A Duncan, R M Kennerley
Fonterra Finance Corporation Limited: G A Duncan, S D T Till	New Zealand Milk Brands Limited: G A Duncan, S D T Till

Subsidiary Company Directors CONTINUED

NZAgbiz Limited: R J Allen, G A Duncan	Fonterra (Europe) Coöperatie U.A. [Netherlands]: M Boyd, G A Duncan, H E Huistra
RD1 Limited: R J Allen, G A Duncan	Fonterra (France) SAS [France]: H E Huistra
SAITL Limited: G B McCullough, T A Winter	Fonterra (Ing.) Limited [Mauritius]: A Aggarwal, T Chow, M R Robins, B M Ryan (R)
Tangshan Dairy Farm (NZ) Limited: M R Cronin, G A Duncan	Fonterra (Japan) Limited [Japan]: C L M Courtois, K Kumagai, K Kumagai, A Okuyama, B M Ryan (R), Y Saito, K A Wickham
Whareroa Co-Generation Limited: G A Duncan, P D Wynen	Fonterra (Korea) Limited [Korea]: G A Duncan, J Murney (R), Y Saito
Anchor Insurance Pte. Limited [Singapore]: G A Duncan, S S Herbert, C E Rowe, H N Toh (A)	Fonterra (Logistics) Limited [United Kingdom]: M Boyd, G A Duncan, G R Sharma
Annum (Malaysia) Sdn. Bhd. [Malaysia]: R M Kennerley, J Oh (R), S S Rapaka, V Sivaraja (R), V Tang	Fonterra (Mexico) S.A. de C.V. [Mexico]: L Barona Mariscal (A), F R Camacho (A), J P Coote (R), G A Duncan, E P G R Gil (A), J A Del Rio
Australasian Food Holdings Pty. Limited [Australia]: R Dedoncker, G A Duncan	Fonterra (SEA) Pte. Ltd. [Singapore]: A Aggarwal (R), H Gowans, R Kumar
Bonland Cheese Trading Pty. Limited. [Australia]: R Dedoncker, G A Duncan	Fonterra (Thailand) Limited [Thailand]: A Aggarwal (R), R Kumar, K Vunthanadit
Comercial Dos Alamos S.A. [Chile]: E Becker, A Rabie, A L Raddatz Vargas, R Waldspurger (R)	Fonterra (USA) Inc. [United States]: N R Christiansen, C L M Courtois, J P Coote (R), G A Duncan, J H Lees, B M Ryan (R)
Comercial Santa Elena S.A. [Chile]: J Barria Pina, C F Osorio Bascur, S T Perez	Fonterra Australia Pty. Ltd. [Australia]: R Dedoncker, G A Duncan
Dairy Enterprises (Chile) Limitada [Chile]: A J Cordner, G A Duncan, J P Egaña Bertoglia, R Lavados McKenzie, R Sepúlveda Seminario,	Fonterra Brands (Asia Holdings) Pte. Ltd. [Singapore]: S Goh, J Swales
Dairy Partners Americas Brasil Limitada [Brazil]: S Aparecido Flavio, R de Oliveira Carrelas, F Carvalho Goncalves, R Gurrero Leal (R), F Spinelli (R), M G Guerreiro Pinheiro, L L Rangel	Fonterra Brands (Australia) Pty. Ltd. [Australia]: R Dedoncker, G A Duncan
Dairy Partners Americas Nordeste-Produtos Alimenticios Limitada [Brazil]: S Aparecido Flavio, R de Oliveira Carrelas, F Carvalho Goncalves, M G Guerreiro Pinheiro, F Liani, R Guerrero Leal (R), F Spinelli (R), L L Rangel	Fonterra Brands (Far East) Limited [Hong Kong]: A Aggarwal, G A Duncan, P D Washer (R)
Dairymas (Malaysia) Sdn Bhd [Malaysia]: R M Kennerley, J Oh (R), S S Rapaka, V Sivaraja (R), V Tang	Fonterra Brands (Guangzhou) Ltd. [China] (in liquidation): T T Lye, P A Turner, K A Wickham
Darnum Park Pty. Limited. [Australia]: R Dedoncker, G A Duncan	Fonterra Brands (Hong Kong) Limited [Hong Kong]: A Aggarwal, W Y Chan, G A Duncan, P D Washer (R)
Fonterra (Beijing) Farm Management Consulting Company Limited [China]: A Aggarwal, G A Duncan, G Yuan, P D Washer (R), X Xu (R)	Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]: R M Kennerley, J Oh (R), S S Rapaka, V Sivaraja (R), V Tang
Fonterra (Brasil) Limitada [Brazil]: R F Aracil Filho, B de Luca Zanatta	Fonterra Brands (New Young) Pte. Ltd. [Singapore]: A Aggarwal, S Goh, Y Li, C Lin, Y Lin, J Ling, P D Washer (R)
Fonterra (Canada), Inc. [Canada]: J P Coote (R), G A Duncan, B Kipping, B M Ryan	Fonterra Brands (Singapore) Pte. Ltd. [Singapore]: S Goh, C C Pheng (R), J Swales
Fonterra (China) Limited [Hong Kong]: M R Cronin, G A Duncan	Fonterra Brands (Thailand) Ltd. [Thailand]: P Chaychotchaoen, R M Kennerley, S Pronanunt, P A Richards (R), S Totana
Fonterra (CIS) Limited Liability Company [Russian Federation]: E Grishina	Fonterra Brands (Viet Nam) Company Limited [Vietnam]: S Arfelt, R M Kennerley, P Richards (R)

Fonterra Brands Indonesia, PT [Indonesia]: D M Irfani, S S Rapaka (R), C A Salinas Robeson, G Thiagarajan	Fonterra Brands Lanka (Private) Limited [Sri Lanka]: R M Kennerley, T Salpitikotala, V Sivaraja
Fonterra Brands Manufacturing Indonesia, PT [Indonesia]: M A Nasution, S S Rapaka (R), C A Salinas Robeson, T A Siswanto, G Thiagarajan	Fonterra Brands Myanmar Co. Ltd. [Myanmar]: G A Duncan, P Richards (R), C D Wickramanayake
Fonterra Brands Phils. Inc. [Philippines]: R Cook, C Ferrer, R M Kennerley, R A Mendoza, G Santiago, L De Velez	Fonterra Chile SpA [Chile]: A J Cordner, G A Duncan, J P Egaña Bertoglia (A), R Lavados (A), R Sepúlveda Seminario
Fonterra Commercial Trading (Shanghai) Company Limited [China]: A Aggarwal, C Cao, G A Duncan, J Ruan (R), P D Washer (R)	Fonterra Commercial Trading (Tangshan) Company Limited [China]: C Cao, G A Duncan, J Ruan (R), P D Washer (R)
Fonterra Egypt Limited [Egypt]: A Anwar, G A Duncan	Fonterra Europe Manufacturing B.V. [Netherlands]: D Krabbe, B M Ryan
Fonterra Europe Manufacturing Holding B.V. [Netherlands]: G A Duncan, H Huistra	Fonterra Foodservices (USA), Inc. [United States]: N R Christiansen, J P Coote (R), G A Duncan
Fonterra Global Business Services Asia Sdn Bhd [Malaysia]: J Oh (R), S S Rapaka, V Sivaraja (R), V Tang	Fonterra Hangu (HK) Limited [Hong Kong]: G A Duncan, G Yuan
Fonterra India Private Limited [India]: A Aggarwal, H D Gowans, S G Mathews	Fonterra Ingredients Australia Pty. Ltd. [Australia]: R Dedoncker, G A Duncan
Fonterra Investments Pty Ltd [Australia]: R J Dendoncker, G A Duncan	Fonterra Middle East FZE [United Arab Emirates] (in liquidation): G A Duncan, S Penfold
Fonterra Milk Australia Pty. Ltd. [Australia]: R Dedoncker, G A Duncan	Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]: G A Duncan, X Xu (R), G Yuan
Fonterra Venezuela, S.A. [Venezuela]: G A Duncan, F C Ortega Becea	Inversiones Dairy Enterprises S.A. [Chile]: A J Cordner, G A Duncan, J P Egaña Bertoglia (A), R Lavados (A), R Sepúlveda Seminario, A S Vega (A)

Key Ingredients, Inc. [United States]: N R Christiansen, J P Coote (R), C L M Courtois, G A Duncan, J H Lees, B M Ryan (R)
Kotahi Logistics Australia Pty Limited [Australia]: D Ross, J J Ryan, A Wright (R)
Milk Products Holdings (North America) Inc. [United States]: N R Christiansen, J P Coote (R), C L M Courtois, J H Lees, B M Ryan (R)
New Tai Milk Products Co. Ltd. [Taiwan]: A Aggarwal, T Chow, C Lee, G Lee, K Lee, M R Robins, P D Washer (R)
New Zealand Milk (Australasia) Pty. Ltd. [Australia]: R Dedoncker, G A Duncan
New Zealand Milk (Barbados) Ltd. [Barbados]: N R Christiansen, G A Duncan, F Spinelli (R)
New Zealand Milk (LATAM) Ltd. [Bermuda]: G A Duncan, F Spinelli
New Zealand Milk Products (Ethiopia) SC [Ethiopia]: A B Abubeker, M B Abubeker, G Amade (R), F Spinelli (R), M Woodward
Newdale Dairies (Private) Limited [Sri Lanka]: R M Kennerley, T Salpitikorala, V Sivaraja
NZMP Fonterra Nigeria Limited [Nigeria]: G A Duncan, H Huistra
Prolesur S.A. [Chile]: M P Campbell, H Covarrubias Lalanne, S Diez Arrigada (A), S Jimenez, J P Matus Pickering (A), C Perez-Cotapos Subercaseaux (A), R Sepúlveda Seminario (A), G V Verela Alfonso, A S Vega (A), K A Wickham
Sociedad Agrícola y Lechera Praderas Australes S.A. (“Pradesur”) [Chile]: E Becker, A Rabie, A L Raddatz Vargas, R Waldspurger (R)
Soprole Inversiones SA [Chile]: M P Campbell, H Covarrubias Lalanne, S Diez Arrigada (A), S Jimenez, J P Matus Pickering (A), C Perez Cotapos Subercaseaux (A), R Sepúlveda Seminario (A), G V Varela Alfonso, A S Vega (A), K A Wickham
Soprole S.A. [Chile]: M P Campbell, H Covarrubias Lalanne, S Diez Arrigada (A), S Jimenez, J P Matus Pickering (A), C Perez Cotapos Subercaseaux (A), R Sepúlveda Seminario (A), G V Varela Alfonso, A S Vega (A), K A Wickham
Tangshan Fonterra Dairy Farm Limited [China]: A Aggarwal, G A Duncan, Q Jiang, P D Washer (R), X Xu (R), G Yuan
United Milk Tasmania Pty. Limited [Australia]: R Dedoncker, G A Duncan

Directors’ indemnity and insurance

Fonterra has given indemnities to, and has effected insurance for, Directors and executives of the Company and its related companies, in accordance with section 162 of the Companies Act 1993, and clause 35 of Fonterra’s Constitution, which, except for specific matters that are expressly excluded, indemnify and insure Directors and executives against monetary losses as a result of actions undertaken by them in the course of their duties. Among the matters specifically excluded are penalties and fines that may be imposed for breaches of law.

Analysis of Shareholding

Analysis of Fonterra’s shareholding as at 31 July 2021:

FCG Largest Recorded Share Holdings¹

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	107,420,162	6.65
Ellis-Lea Farms (2000) Limited – Lamorna	1,326,453	0.08
Cumberland Dairy Farm Limited	1,029,128	0.06
Singletree Dairies 2013 Limited	1,012,776	0.06
Silverdale Farm Limited	973,679	0.06
Southern Pastures (Manako Farm) Limited Partnership	962,757	0.05
Coringa Park Dairies Limited	944,423	0.05
E F Deadman Limited	936,808	0.05
Stewart Partnership Limited	922,500	0.05
Arlanda Limited	920,033	0.05
Moffitt Dairy Limited	910,713	0.05
Rangitata Dairies Limited Partnership	902,623	0.05
Baytown Investments Limited	890,348	0.05
Mcbain Farms Limited	867,790	0.05
Auchenbrae Farm Limited	852,456	0.05
Mildara Dairy Limited	841,654	0.05
Cookstin Dairies Limited	839,600	0.05
Bel Group Limited - Ashton	836,353	0.05
Ellis-Lea Farms (2000) Limited – Grandview	831,143	0.05
Premier Dairies Limited	824,788	0.05

1 The FSM Rules, which reflect the rules of the NZX Main Board, require that Fonterra’s annual report contain the names and holdings of persons having the 20 largest holdings of Co-operative shares on the register of Fonterra as at a date not earlier than two months before the date of the publication of the annual report. The list above complies with the FSM Rules and sets out the list of the 20 largest shareholders on the register as at the appropriate date. There is a separate requirement in the FSM Rules to disclose in the annual report those persons who have a ‘Relevant Interest’ (as defined in the Financial Markets Conduct Act 2013) in Co-operative shares in excess of five per cent, where this information has been provided to Fonterra. Accordingly, the list of the 20 largest holdings of Co-operative shares is not required to show, and does not purport to show, the top 20 holdings of ‘Relevant Interests’ in Co-operative shares which may be owned or controlled by a person or entity and their associated entities. Other people or entities may have ‘Relevant Interests’ in a greater number of Co-operative shares than those listed above. However, it is not possible for Fonterra to accurately determine those interests, nor is it a requirement of the FSM Rules for those interests to be reported in the annual report, except where Fonterra has been advised that a person has a ‘Relevant Interest’ in excess of the five per cent threshold.

Substantial Product Holders

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 31 July 2021, the substantial product holders in the Company and their relevant interests are noted below. The total number of Co-operative shares on issue as at 31 July 2021 was 1,613,357,879.

SUBSTANTIAL PRODUCT HOLDERS	NUMBER OF VOTING SECURITIES	DATE OF MOST RECENT NOTICE
Fonterra Farmer Custodian Limited	111,816,183	30 July 2018
FSF Management Company Limited	111,735,183	30 July 2018

More than one ‘Relevant Interest’ can exist in the same voting financial products. Fonterra Farmer Custodian Limited holds Co-operative shares for the Fonterra Shareholders’ Fund (Fund), of which FSF Management Company Limited is the Manager. These two notices therefore refer to substantially the same Co-operative shares. The Custodian also holds some Co-operative shares for the Registered Volume Provider in respect of the Fund.

FCG Fonterra Co-operative Shares

Analysis of Fonterra Co-operative Shares as at 31 July 2021:

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–50,000	968	10.52	27,708,200	1.72
50,001–100,000	2,390	25.97	183,837,074	11.39
100,001–200,000	3,278	35.62	465,254,429	28.84
200,001–400,000	2,051	22.29	561,620,406	34.81
400,001 and over	515	5.6	374,937,770	23.24

Analysis of Capital Note and Retail Bond Holding

Analysis of Fonterra’s Capital Note Holding as at 4 August 2021:

FCGHA Capital Notes

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–1,000	9	1.47	3,974	.00
1,001–5,000	25	4.07	68,405	.07
5,001–10,000	203	33.06	1,444,664	1.41
10,001–100,000	353	57.49	10,184,325	9.93
100,001 and over	24	3.91	90,817,886	88.59

100,001 and over includes Fonterra's holding of 67,435,575.

Analysis of Fonterra’s Retail Bond Holding as at 4 August 2021:

FCG030 \$350 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	34	7.98	206,000	0.06
10,000–49,999	240	56.34	5,382,000	1.54
50,000–99,999	42	9.86	2,386,000	0.68
100,000–999,999	75	17.61	28,249,000	8.07
1,000,000 and over	35	8.22	313,777,000	89.65

FCG040 \$150 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	54	9.91	314,000	0.21
10,000–49,999	346	63.49	7,074,000	4.72
50,000–99,999	67	12.29	4,089,000	2.73
100,000–999,999	61	11.19	15,156,000	10.10
1,000,000 and over	17	3.12	123,367,000	82.24

FCG050 \$100 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	8	3.69	60,000	0.06
10,000–49,999	149	68.66	3,486,000	3.49
50,000–99,999	24	11.06	1,475,000	1.48
100,000–999,999	19	8.76	5,471,000	5.47
1,000,000 and over	17	7.83	89,508,000	89.51

Current Credit Rating Status

Standard & Poor’s long-term rating for Fonterra is A- with a rating outlook of stable. Fitch’s long-term and short-term default rating is A with a rating outlook of stable. Retail Bonds have been rated the same as the Company’s long-term rating by both Standard & Poor’s and Fitch. Capital Notes, which are subordinate to other Fonterra debt issued, are rated BBB+ by Standard & Poor’s and A- by Fitch.

Exchange Rulings and Waivers

NZX Limited (NZX) has ruled that Capital Notes (FCGHA) are debt securities as defined in the NZX Main Board/Debt Market Listing Rules (Listing Rules). This means that where Capital Notes are quoted on NZX’s Debt Market, Fonterra is not required to comply with certain Listing Rules which apply to an issuer of quoted equity securities.

NZX Trading Halts

On 5 May 2021, NZ RegCo, at the request of Fonterra, placed a trading halt on its ordinary shares and units in the Fund. Fonterra was preparing to announce to the market details relating to the commencement of its consultation to change its capital structure. The trading halt had been requested to allow Fonterra to make the announcement to the market and allow shareholders and unit holders to review and consider the materials. This announcement was made on 6 May 2021 and included notice that the size of the Fund would be temporarily capped by suspending shares in the FSM from being exchanged into units in the Fund. The trading halt was lifted on 7 May 2021.

Stock Exchange Listings

Fonterra’s Co-operative shares are listed and quoted on the FSM (operated by NZX Limited for Fonterra) under the code ‘FCG’. Fonterra has three issues of retail bonds listed and quoted on the NZDX under the codes ‘FCG030’, ‘FCG040’, and ‘FCG050’. Fonterra also has an issue of capital notes listed and quoted on NZDX under the code ‘FCGHA’ and a Euro Medium Term Note Programme listed on the Singapore Stock Exchange.

As at 31 July 2021 there were 1,613,357,879 Fonterra Co-operative shares on issue.



Our 2021 Suite of Reports

Our Annual Review is a concise summary of our environmental, social and economic activities and performance. It is supported by a suite of supplementary reports where stakeholders can find more detailed information most relevant to them. This represents another step on our journey towards more integrated reporting.



OUR REPORTS ARE AVAILABLE FROM
FONTERRA.COM/NZ/EN/INVESTORS.HTML



Annual Review
2021



Sustainability Performance
Report 2021



Financial Statements
2021



Corporate Governance
Statement 2021



Farmgate Milk Price
Statement 2021



Statutory Information
2021



Business Performance
Report 2021

Farmgate Milk Price Statement

FOR THE SEASON ENDED 31 MAY 2021

**Good
Together**
from one generation
to the next





IMAGE:
Dave, Darryl & Gareth, Taranaki

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COVER IMAGE:
Dave & Gareth, Taranaki

2021 Season Farmgate Milk Price

The primary purpose of this Statement is to help Fonterra farmer shareholders, unitholders in the Fonterra Shareholders' Fund and other interested parties better understand the Farmgate Milk Price.

The Farmgate Milk Price is 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 supply¹. It is calculated in accordance with the Farmgate Milk Price Manual. The Manual is maintained by the Fonterra Board in accordance with the Dairy Industry Restructuring Act (DIRA) and the Fonterra Constitution.

The 2021 season Farmgate Milk Price of **\$7.54** per kgMS is:

- The Aggregate Farmgate Milk Price of **\$11.611** billion; *divided by*
- New Zealand milk supplied to Fonterra in the 2021 season of **1.539** billion kgMS.

The Aggregate Farmgate Milk Price is calculated as revenue less costs. Revenue assumes:

- The entire volume of milk collected is processed into 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).²
- The RCPs are sold in USD on and off GDT.
- USD sales revenue is converted into NZD at exchange rates achieved by Fonterra.

Costs comprise:

- **Cash Costs:** costs of collecting raw milk, efficiently manufacturing the five RCPs, delivering finished product to New Zealand export ports, and selling and administration expenses.
- **Capital Costs:** depreciation of fixed assets, an appropriate return on investment including on working capital, and corporate tax.
- **Additional Commodity Milk Payments and Standard Supply Adjustments³:** adjustments for milk quality issues and additional payments or deductions for milk not supplied on standard terms, to the extent these would apply to the Farmgate Milk Price business.

Numbers in this Statement have been rounded and, as a result, some tables may not exactly total or sum to 100%.

2021 Season Farmgate Milk Price

\$7.54 per kgMS

Changes in revenue drive most of the movements in the Farmgate Milk Price between seasons. Figure 1 shows this.

Figure 1: Changes in the Farmgate Milk Price between seasons

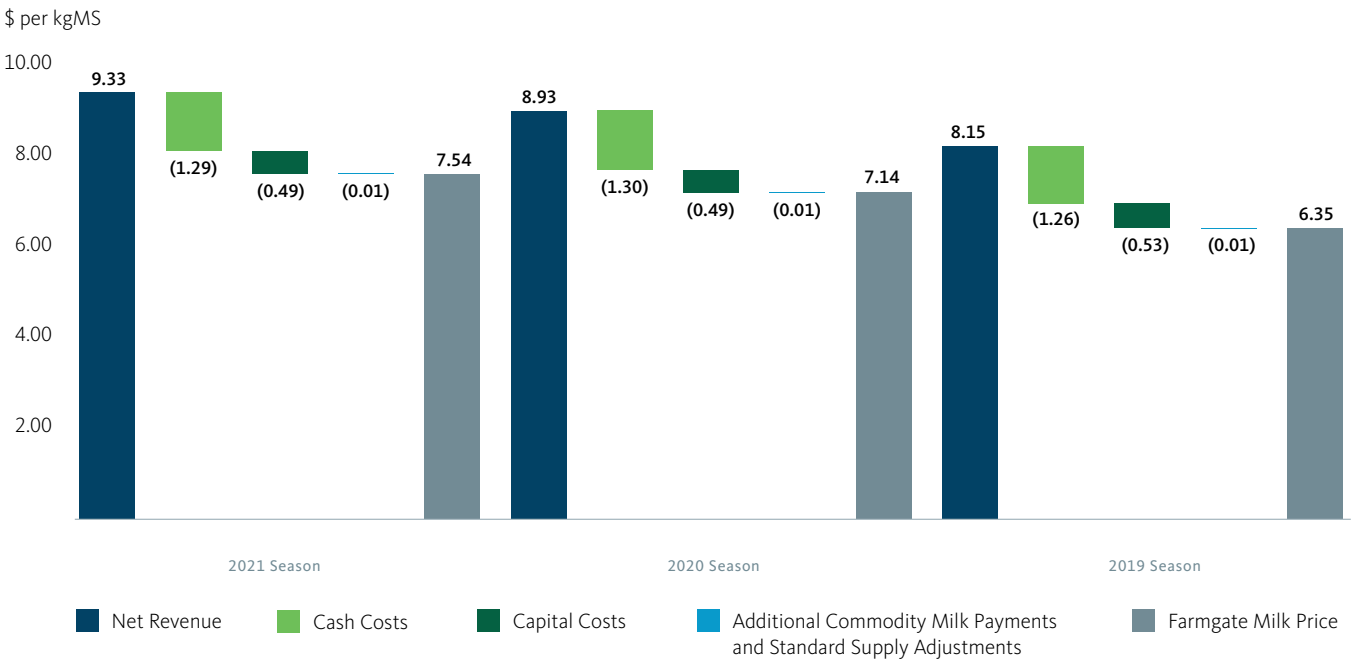


Table 1 shows the summary Farmgate Milk Price calculation for the last three seasons.

Table 1: Farmgate Milk Price Summary

SEASON	2021 \$ MILLION	2020 \$ MILLION	2019 \$ MILLION
Farmgate Milk Price Revenue	15,014	14,061	12,831
Lactose	(648)	(508)	(423)
Net Revenue	14,366	13,553	12,408
Farmgate Milk Price Cash Costs	(1,986)	(1,968)	(1,915)
Farmgate Milk Price Capital Costs	(754)	(746)	(803)
Additional Commodity Milk Payments and Standard Supply Adjustments	(15)	(11)	(14)
Aggregate Farmgate Milk Price	11,611	10,829	9,676
Million kgMS	1,539	1,517	1,523
Farmgate Milk Price calculated under the Manual (\$ per kgMS)	7.54	7.14	6.35

The following sections provide more detail on revenue, costs and drivers of change between seasons.

1 This price may differ from the “farm gate milk price” published in accordance with the Dairy Industry Restructuring (Raw Milk) Regulations 2012 due to the way “farm gate milk price” is defined in those Regulations and the impact of Fonterra’s fixed milk price offers.

2 Almost all the increase in milk supplied over the past decade in New Zealand to Fonterra and its competitors has been used to manufacture milk powders. As returns from the sale of milk powders and their by-products represent the marginal returns that would drive the price of milk in a competitive market in New Zealand, the Farmgate Milk Price is based on these products.

3 Additional Commodity Milk Payments are payments for milk supplied other than on standard terms of supply where it would be appropriate for the Notional Milk Price Business to source that milk for conversion into RCPs. Examples of these payments include the portion of Winter Milk premiums that would be payable by the Notional Milk Price Business and discounts for contract milk. Standard Supply Adjustments arise from adjustments to payments for milk supplied under Fonterra’s standard terms of supply, such as where milk quality demerits have been applied.

Farmgate Milk Price Revenue

Farmgate Milk Price Revenue uses a combination of actual Fonterra results and key assumptions:

- 1.539 billion kgMS of milk actually supplied to Fonterra during the 2021 season.
- All milk supplied is converted into the five RCPs based on Fonterra's actual mix of those products.
- Sales volumes are assumed to reflect Fonterra's actual shipments of RCPs.
- Selling prices reflect relevant prices achieved by Fonterra for RCPs on and off GDT.

Milk Supply, Production and Sales Volumes

Figure 2 shows the relationship between:

- Milk collected during a season (the light blue line). This shows very little milk is supplied in June and July and that supply peaks in late October / early November.
- Volume of products manufactured from that milk (the dark blue line).
- When that product is sold (the green line). There is typically a lag of between one to three months between when milk is collected and manufactured into RCPs and when those RCPs are sold.

Sales of product manufactured in a season do not normally start until August and are normally complete by October of the following year.

Revenue is recognised when sales are invoiced, which is at the time of shipment. Sales prices are always struck before the month of shipment. Figure 3 shows the average lag between when prices are struck and when products are shipped. This lag matches Fonterra's actual average lag for relevant sales.

Figure 2: Timing of Supply, Production and Sales Volumes

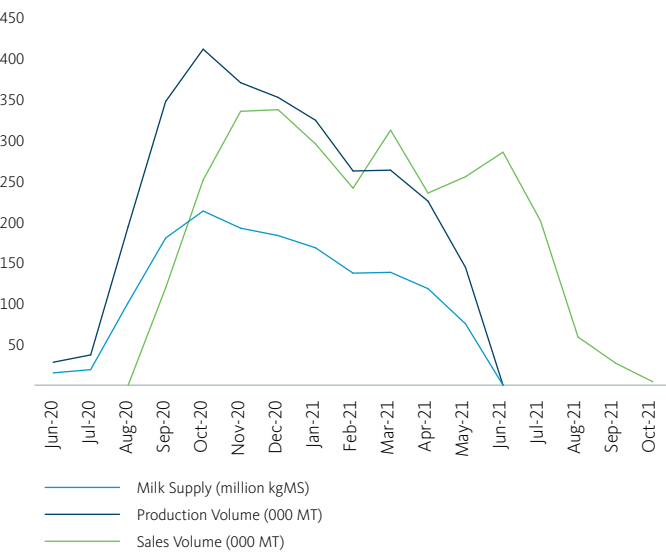
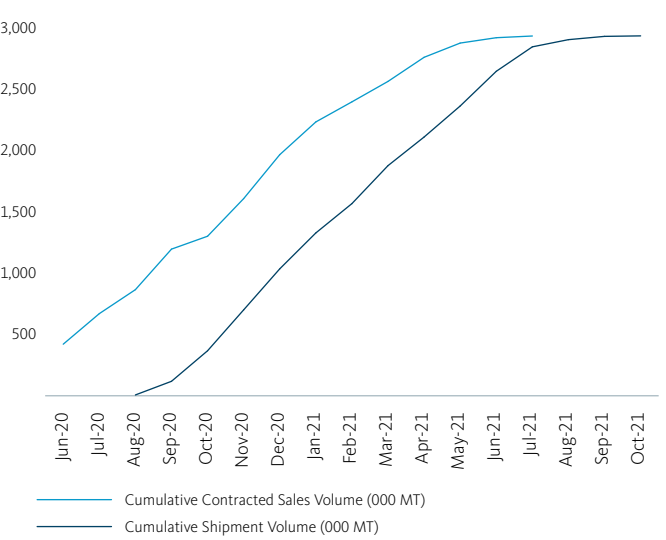


Figure 3: Average Lag between when prices were Struck and Shipment



Prices

The Farmgate Milk Price uses weighted average monthly prices achieved by Fonterra on relevant sales of RCPs on and off GDT.

The Manual outlines the criteria which Fonterra's sales must meet to inform the Farmgate Milk Price which include:

- Only arm's length sales at current market prices to customers in freely contestable global markets can be included. Sales to Fonterra subsidiaries are excluded.
- Only sales contracted by Fonterra between one and five months before shipment are included.
- Off GDT sales are only included when they are of commodity products with similar specifications to products sold on GDT.

Between the 2012 and 2016 seasons, GDT was the sole source of prices for WMP, SMP and AMF whereas both on and off GDT prices were used for Butter and BMP. Since the 2017 season, certain off GDT sales of all RCPs inform the Farmgate Milk Price. In the 2021 season, the inclusion of these off GDT sales of WMP, SMP and AMF in the Farmgate Milk Price resulted in an increase of 10 cents per kgMS relative to not including these off GDT sales.

Table 2 shows weighted average selling prices for each RCP for the last three seasons. It shows that weighted average USD selling prices per metric tonne (MT) were 5.7% higher for the 2021 season than last season.

Impact of NZD/USD Foreign Exchange Rate Movements

As RCPs are sold in USD, Fonterra enters into foreign exchange hedge contracts to reduce volatility and exposure to movements in NZD/USD rates, thereby providing a degree of certainty over the resulting NZD revenue. The average rates Fonterra achieves through its hedging programme are used to convert Farmgate Milk Price USD receipts to NZD.⁴

Fonterra's hedging programme resulted in an average NZD/USD conversion rate for the 2021 season of 0.6677, against an average spot rate of 0.7067. Table 3 shows this across the last three seasons.

Lactose

Lactose is contained in the raw milk supplied and used as an ingredient in the production of WMP, SMP and BMP. The Farmgate Milk Price has further lactose requirements to achieve a standard product composition in line with internationally recognised standards.

The Farmgate Milk Price assumes this further lactose is purchased on global markets. Lactose is shown in Table 1 as a deduction from Farmgate Milk Price Revenue.

Table 4 shows volume and average purchase prices of lactose over the past three seasons.

Table 2: Weighted Average USD Contract Price⁵

WEIGHTED AVERAGE PRICE (USD) PER MT	2021	2020	2019	2021/2020 % CHANGE	2020/2019 % CHANGE
WMP	3,323	3,110	2,907	6.9%	7.0%
SMP	3,012	2,755	2,216	9.3%	24.3%
Butter	4,117	4,140	4,448	(0.6)%	(6.9)%
AMF	4,792	4,891	5,540	(2.0)%	(11.7)%
BMP	3,194	2,833	3,032	12.8%	(6.6)%
				5.7%	5.7%

Table 3: Impact on the Farmgate Milk Price of Fonterra's Hedging, Relative to Not Hedging

SEASON	2021	2020	2019
Average Hedged Rate (NZD/USD)	0.6677	0.6638	0.6905
Average Spot Rate (NZD/USD)	0.7067	0.6375	0.6697
Impact on Milk Price of hedging, relative to not hedging (\$ per kgMS)	0.53	(0.38)	(0.26)

Table 4: Purchased Lactose and Price

SEASON	2021	2020	2019	2021/2020 % CHANGE	2020/2019 % CHANGE
Purchased Lactose (000 MT)	369	361	348	2.1%	3.7%
Average Price (USD per MT)	1,154	946	851	21.9%	11.2%
Total Lactose Purchases (USD m)	425	342	296	24.4%	15.3%

⁴ Fonterra's hedging policies are outlined in Fonterra's Financial Statements for the year ended 31 July 2021.

⁵ Average shipment prices include an allowance for lower prices received for downgrade product. These are products that do not meet standard manufacturing specifications, some of which may only be suitable for stock feed.

Farmgate Milk Price Cash Costs

Farmgate Milk Price Cash Costs reflect:

- Fonterra’s actual collection costs, and supply chain costs determined by reference to Fonterra’s actual costs.
- Costs of operating modern plants capable of processing the same volume of milk Fonterra collects, but only manufacturing the five RCPs. These assume plant operating parameters consistent with manufacturers’ specifications, Fonterra’s per unit costs, and include the full range of overhead costs associated with running these plants.
- Overhead and selling costs that would be incurred by a business selling the five RCPs from New Zealand. These are determined by reference to Fonterra’s actual costs for undertaking those activities.

Figure 4 and Table 5 summarise the major categories of cash costs and movements between the 2020 and 2021 Seasons.⁶

Figure 4: Sources of Movements in Average Cash Costs

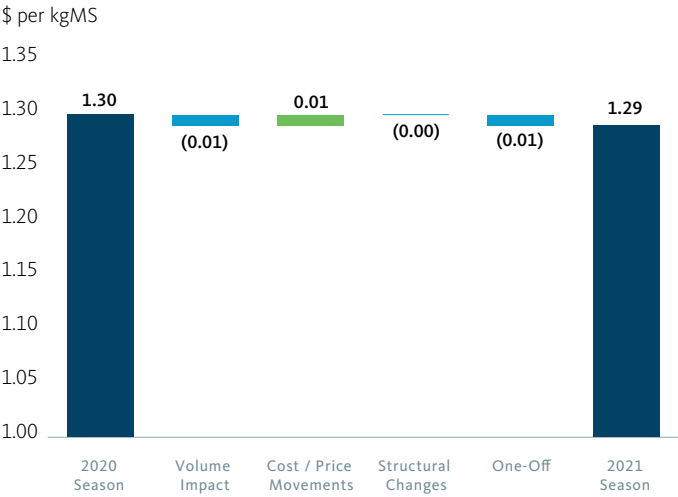


Table 5: Summary of Movements in Cash Costs

\$ MILLION	2020	VOLUME	COST/PRICE	STRUCTURAL	ONE-OFF	2021	% CHANGE COST/PRICE	TOTAL % CHANGE
Sales costs	130	0	2	–	–	132	1.2%	1.5%
Variable manufacturing and supply chain costs	705	1	16	(4)	–	718	2.2%	1.7%
Fixed manufacturing (including repairs and maintenance)/site overheads and supply chain costs	424	–	9	–	–	433	2.1%	2.1%
Collection costs	367	4	(12)	–	–	359	(3.2)%	(2.1)%
Other costs	342	8	4	–	(9)	344	1.1%	0.6%
Total cash costs	1,968	13	18	(4)	(9)	1,986	0.9%	0.9%
% movement		0.7%	0.9%	(0.2)%	(0.5)%			

Movements between the 2020 and 2021 season were due to:

- \$13m of volume-related costs due to an increase in milk collected to 1.539 billion kgMS from 1.517 billion kgMS.
- Increases in the cost of inputs primarily due to the impacts of inflation and foreign exchange.
- Structural changes in the 2021 arising from the adoption of Fonterra’s average actual carbon credit cost compared to the use of benchmark data in previous years.
- One-off costs were \$9m lower in the 2021 season than in the prior season, with the only material item in this category relating to COVID-19 related savings.

6 Average cash costs for 2020 have been restated from \$1.29 per kgMS in Figure 4 of the 2020 Farmgate Milk Price Statement.

Farmgate Milk Price Capital Costs

Farmgate Milk Price Capital Costs provide for:

- Depreciation of manufacturing and other assets.
- A return at a benchmark Weighted Average Cost of Capital (WACC) on the book value of those assets.
- A WACC return on net working capital balances from the sale and manufacture of the RCPs and on the phasing of milk payments to suppliers.
- Corporate income tax.

The Milk Price business manufactures RCPs in modern plants with current industry-standard technology. These plants have manufacturing capacity that approximates the average of Fonterra’s RCP plants. The average daily processing capacity of the standard WMP and SMP plants installed prior to the 2013 season is approximately 1.9 million litres. Incremental and replacement WMP and SMP plants incorporated in the asset base since 2013 have an average daily processing capacity of approximately 2.5 million litres, equivalent to plants installed by Fonterra at Darfield in 2011 and Pahiatua in 2015. The Milk Price business ensures there is always sufficient capacity to process all milk collected by Fonterra and it does so by maintaining or adding incremental plants where necessary.

Table 6 shows capital costs and total book value of the Milk Price business fixed asset base and average net working capital for the last three seasons.

The WACC has been declining since 2012. This is primarily because it incorporates a rolling five-year average of the five-year New Zealand Government bond rates, which have declined from an average of 5% over the five-year period to June 2012 to 2% over the five-year period to June 2021. An amendment to DIRA passed into law in July 2020 mandates a change to the methodology used to determine the asset beta, a key input into the WACC, for the F22 season. Fonterra has determined the revised DIRA methodology will be applied to the F21 season WACC, and in consequence has increased the asset beta from 0.38 to 0.45 and has also reduced the specific risk premium in the cost of equity from 0.22% to nil, which has the effect of reducing the WACC by 0.15 percentage points on average. The net impact of these changes is a WACC of 4.9%, compared to a WACC of 4.6% if the asset beta and specific risk premium remained unchanged from their previous values. The WACC will be 4.8% for the F22 season, reflecting a further reduction in the rolling five-year average risk-free rate, partially offset by an increase in the Post Tax Market Risk Premium from 7.0% to 7.5%.

For the 2021 season the lower WACC, in isolation, resulted in:

- A decrease of \$6 million in the capital charge on fixed assets.
- A decrease of \$0.5 million in the capital charge on net working capital.
- A decrease of \$3 million in the provision for corporate tax.
- Higher depreciation of \$2 million.

Changes in the average age of the asset base do not result in material season on season movements in the capital charge. This is because the capital charge is calculated so that growth each season is approximately in line with capital goods inflation as long as the WACC does not change. This methodology means that a decrease in the WACC will, other things being equal, result in an increase in depreciation.

Table 6: Capital Costs, Book Value of Fixed Asset Base and Average Net Working Capital

NZD \$ MILLION	2021	2020	2019
WACC % (post-tax)	4.90%	5.00%	5.30%
Depreciation	278	269	260
WACC Charge – Fixed Assets	316	330	358
WACC Charge – Net Working Capital	43	31	47
Tax	117	116	138
Total Capital Costs	754	746	803
Total Fixed Assets (Book Value)	6,532	6,684	6,832
Average Net Working Capital	622	635	791

Appendix 1: Independent
Reasonable Assurance Report
TO THE DIRECTORS OF FONTERRA CO-OPERATIVE GROUP LIMITED



Opinion

Our reasonable assurance opinion has been formed on the basis of the matters outlined in this report.

In our opinion, the Farmgate Milk Price has been calculated, in all material respects, in accordance with the Farmgate Milk Price Manual for the season ended 31 May 2021.

In our opinion, the information presented in the Farmgate Milk Price Statement is materially consistent with the data in the calculation of the Farmgate Milk Price.

Information subject to assurance

We have performed an engagement to provide reasonable assurance in relation to the Fonterra Co-operative Group Limited (Fonterra) Farmgate Milk Price and Farmgate Milk Price Statement for the season ended 31 May 2021.

Criteria

The Farmgate Milk Price Calculation and the Farmgate Milk Price Statement are assessed against the requirements of the Farmgate Milk Price Manual for the season ended 31 May 2021, dated 1 August 2020.

Key Assurance Matters

Key assurance matters are those matters that, in our professional judgement, were of most significance in our reasonable assurance engagement in relation to the Farmgate Milk Price and the Farmgate Milk Price Statement for the season ended 31 May 2021. We summarise below those matters and our key procedures to address those matters in order that the Directors may better understand the process by which we arrived at our opinion. Our procedures were undertaken in the context of and solely for the purposes of our opinion on the Farmgate Milk Price and the Farmgate Milk Price Statement as a whole and we do not express discrete opinions on separate elements of the Farmgate Milk Price and the Farmgate Milk Price Statement.

Net Sales	
We consider the calculation of Net Sales to be a key assurance matter due to the nature and detail of the policies and judgements included in the Principles and Rules of the Farmgate Milk Price Manual. In respect of Net Sales there is complexity relating to (a) determining and calculating Benchmark Selling Prices from underlying Fonterra sales data, that are applied to notionally derived Referenced Commodity Product volumes and (b) the judgement in determining the phasing of sales volumes relating to actual Fonterra collections.	The procedures we performed to evaluate Net Sales included: – examining the processes, judgements and models used to extract sales data from underlying Fonterra systems, considering whether there is manipulation of the transactional price and quantity data that forms the basis of the statutory financial statements of the Co-operative. We also examined the bespoke IT program that extracts the data; – evaluating these assumptions and judgements used in the models that calculate Net Sales. This involved challenging management and the Milk Price Group regarding the basis for each assumption; and – assessing whether the requirements of the Fonterra Farmgate Milk Price Manual had been correctly applied in the models used to calculate Net Sales. We did not identify any instances where the models and the judgements and assumptions therein, used to calculate Net Sales were inconsistent with the requirements of the Farmgate Milk Price Manual.
Capital Charge	
The Farmgate Milk Price Manual requires that the Milk Price Group (MPG) calculate asset beta having regard to the requirements of the Farmgate Milk Price Manual and DIRA (in light of the recent changes to DIRA legislation). We consider the calculation of the WACC, used to calculate the capital charge and depreciation, to be a key assurance matter. This is due to the complexity and judgement employed by the MPG in determining the asset beta and specific risk premium included in the WACC calculation.	The procedures we performed to evaluate Overheads included: – understanding the requirements set out in the Farmgate Milk Price Manual regarding the timing, frequency and elements to be considered in the asset beta and specific risk premium. – examining the process and judgements used by the MPG to update the asset beta and specific risk premium included in the updated WACC. This included using our Corporate Finance Specialists. – examining the capital models used by the MPG to apply the WACC in calculating the depreciation and capital charge. Applying the requirements of the Farmgate Milk Price Manual can give rise to a range of possible outcomes for the WACC – we did not identify any instances where the models and the judgements and assumptions therein, used to calculate depreciation and capital charge, were inconsistent with the requirements of the Farmgate Milk Price Manual. We consider the WACC could be in the range of 4.9% to 5.6% (which amounts to approximately 3 cents/kgMS).

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Standards we followed

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) Assurance Engagements other than audits or reviews of historical financial information and Standard on Assurance Engagements SAE 3100 (Revised) Assurance Engagements on Compliance. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In accordance with those standards we have:

- used our professional judgement to assess the risk of material misstatement and plan and perform the engagement to obtain reasonable assurance that the Farmgate Milk Price and Farmgate Milk Price Statement are free from material misstatement, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express an opinion on the effectiveness of these controls; and
- ensured that the engagement team possesses the appropriate knowledge, skills and professional competencies.

How to interpret reasonable assurance and material misstatement

Reasonable assurance is a high level of assurance, but is not a guarantee that it will always detect a material misstatement when it exists.

Misstatements, including omissions, within the Farmgate Milk Price and Farmgate Milk Price Statement are considered material if, individually or in aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the Farmgate Milk Price and Farmgate Milk Price Statement.

Use of this assurance Report

Our report should not be regarded as suitable to be used or relied on by any parties other than the Directors for any purpose or in any context. Any party other than the Directors who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Milk Price Panel and Directors of Fonterra for our work, for this independent reasonable assurance report, or for the opinions we have reached.

Our report is released to Fonterra Co-operative Group Limited on the basis that it shall not be copied, referred to or disclosed, in whole (save for Fonterra's own internal purposes or in the Farmgate Milk Price Statement) or in part, without our prior written consent.

Milk Price Group's responsibility for the Farmgate Milk Price and Farmgate Milk Price Statement

The Milk Price Group of Fonterra are responsible for the preparation and fair presentation of the Farmgate Milk Price and Farmgate Milk Price Statement in accordance with the Farmgate Milk Price Manual. This responsibility includes such internal control as the Milk Price Group determine is necessary to enable the preparation of the Farmgate Milk Price and Farmgate Milk Price Statement that are free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express an opinion to the Directors on:

- whether the Farmgate Milk Price has been calculated, in all material respects, in accordance with the Farmgate Milk Price Manual, and
- whether the information presented in the Farmgate Milk Price Statement is materially consistent with the data in the calculation of the Farmgate Milk Price.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to the Fonterra Co-operative Group Limited in relation to the statutory audit of the financial statements and other assurance services. The firm has no other relationship with, or interest in, the Fonterra Co-operative Group Limited.



KPMG
Auckland
22 September 2021

Appendix 2: Updates to the Farmgate Milk Price Manual and Calculation

Minor refinements to address practical issues in a timely and efficient way have regularly been made to the Manual since it was introduced in the 2009 season. These refinements play an important part in ensuring the Farmgate Milk Price methodology continues to be robust. Refinements to the Manual must be consistent with the Milk Price Principles.

Adjustments can be made to a number of parameters and inputs without any change being required to the Manual. An example is the rule that allows for new RCPs to be added if certain criteria are met. The Manual also provides for reviews of important aspects to be carried out at least every four years, and the Board or Milk Price Panel may initiate additional reviews if circumstances warrant.

Farmgate Milk Price Manual Updates

The Fonterra Board approved a number of amendments to the Manual for the 2022 season, all intended to address minor matters raised by the Commerce Commission in its Final Report on the F21 Manual, and none of which are expected to have any impact on the calculation methodology or quantum of the Farmgate Milk Price. A summary and explanation of these changes is provided in the 'reasons paper' provided by Fonterra to the Commerce Commission in support of the 2021/22 Manual, located at:

https://comcom.govt.nz/_data/assets/pdf_file/0031/262867/Fonterra-Reasons-paper-in-support-of-FonterraE28099s-Base-Milk-Price-Manual-for-the-2021-22-season-30-July-2021.pdf

The Manual for the 2022 season is available at:

https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/2021/Fonterra%27s_Farmgate_Milk_Price_Manual_Final_2021-22.pdf

As part of its oversight role, the Commerce Commission reviews and reports annually on whether the Manual is consistent with ensuring Fonterra is operating efficiently, and whether it allows for competition in the market for farmers' milk. The Commerce Commission's final report on the 2020/21 Manual was released on 15 December 2020. That report can be found at:

https://comcom.govt.nz/_data/assets/pdf_file/0014/230270/Final-report-Review-of-Fonterras-Milk-Price-Manual-15-December-2020.pdf

Changes in approach to the calculation of the Farmgate Milk Price

There were three changes in the application of the Manual for the 2021 season that resulted in materially different values of inputs into the Farmgate Milk Price calculation.

An amendment to DIRA passed into law in July 2020 mandates a change to the methodology used to determine the asset beta, a key input into the WACC, for the F22 season. As advised in last year's Farmgate Milk Price Statement, Fonterra determined in F20 that the revised DIRA methodology would be used to determine the F21 season asset beta. The application of the revised methodology by the Milk Price Group resulted in an increase in the asset beta, from 0.38 to 0.45, and the removal of the specific risk premium. The net impact of these updates was a WACC of 4.9%, compared to a WACC of 4.6% had the previous inputs been used.

In addition, and as noted on page five, the methodology used to determine the average surrender value of carbon credits, an input into Farmgate Milk Price energy costs, was revised this season to incorporate the use of the average cost of credits surrendered by Fonterra in the current season. In previous seasons an external benchmark was used.

Appendix 3: Farmgate Milk Price Overview

Rationale for Farmgate Milk Price

Fonterra currently collects around 80% of New Zealand's milk production. Because Fonterra purchases such a large proportion of New Zealand's total milk, there is no market price for milk that is independent of the price paid by Fonterra. As a result, since its formation in 2001, Fonterra has calculated a Farmgate Milk Price that enables total returns to be allocated between payments for milk and returns on the capital invested by Fonterra farmer shareholders and by unit holders in the Fonterra Shareholders' Fund.

The Aggregate Farmgate Milk Price is different from the cost of New Zealand sourced milk disclosed in Fonterra's financial statements due to:

- The financial statements report the cost of milk for the 12 months ending 31 July whereas the Aggregate Farmgate Milk Price relates to milk supplied in the 12 months of the season ending 31 May;
- Differences between what Fonterra is willing to pay in premiums for value-added products such as organic milk which a commodity-only processor would not pay;
- The higher premium that Fonterra pays for Winter Milk compared to the premium that would be paid by a commodity-only processor;
- The amount of Additional Commodity Milk Payments and Standard Supply Adjustments.

Rationale for Reference Commodity Products

Manufacture of the RCPs comprised approximately 70% of Fonterra's total New Zealand ingredients production in the 2021 season.

Almost all the increase in milk supplied over the past decade in New Zealand to Fonterra and its competitors has been used to make milk powders.

As returns from the sale of milk powders and their by-products represent the marginal returns that would drive the price of milk in a competitive market in New Zealand, the Farmgate Milk Price is based on these products. Returns from non-powder commodities, such as cheese and casein, have largely been irrelevant in driving investment in the dairy industry over the past 10 years and are therefore not taken into account in determining the Farmgate Milk Price.

The Farmgate Milk Price approach does not include any returns earned by Fonterra from non-commodity or specialised ingredients and consumer branded products. These types of products earn premiums over the returns to standard commodity ingredients. It is therefore appropriate that these premiums are recognised in Fonterra's earnings rather than in the Farmgate Milk Price.

Basis for the WACC Calculation

The WACC used to determine the Fixed Asset Capital Charge and the Net Working Capital Charge is calculated using the simplified Brennan Lally methodology employed by the Commerce Commission.⁷

Since the 2012 season, the methodology has been based on rolling five year averages of market interest rates, including the five year New Zealand Government stock rate, resulting in a reduction in the WACC from 7.7% for the 2012 season to 6.8% for the 2014 season.

In the 2015 season, the WACC methodology was changed to incorporate a specific risk premium of 0.15% and a reduction in the asset beta from 0.45 to 0.38, on the basis of a review by an independent expert, Associate Professor Alastair Marsden of the University of Auckland. As noted in Appendix 2, the WACC methodology was further updated this season to incorporate an increase in the asset beta to 0.45 and a reduction in the specific risk premium to nil.

Farmgate Milk Price Governance

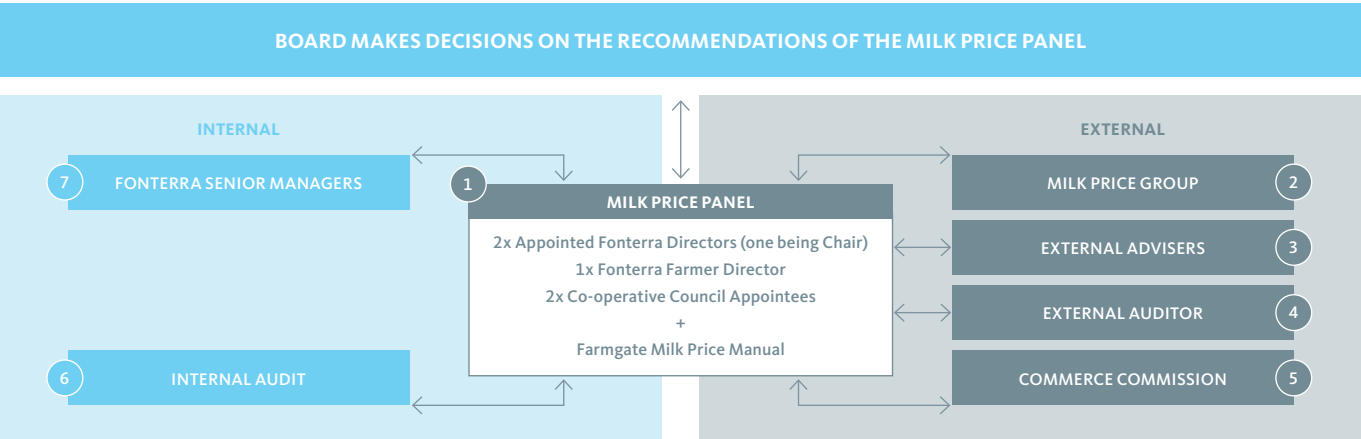
The Fonterra Board sets the total amount to be paid by Fonterra for all milk supplied to it in New Zealand in each season.

Both Fonterra's Constitution and DIRA require Fonterra to maintain the Manual, which sets out Fonterra's policies and methodology for determining the Farmgate Milk Price. The Manual must reflect the Milk Price Principles set out in Fonterra's Constitution. The Farmgate Milk Price has been calculated in accordance with the Manual since the start of the 2009 season.

The Fonterra Board has established a robust governance structure to oversee the setting of the Farmgate Milk Price, which comprises the elements illustrated in the diagram on page 12.

⁷ For example, <http://www.comcom.govt.nz/regulated-industries/input-methodologies-2/input-methodologies-review/cost-of-capital-im-review/>

Appendix 3: Farmgate Milk Price Overview (CONTINUED)



1. Milk Price Panel

The Milk Price Panel plays a key role in overseeing the integrity of the Farmgate Milk Price. It currently has five members: two are Fonterra appointed directors (one of whom is the Chair); one is a Fonterra farmer-elected director; and two are appropriately qualified nominees of the Fonterra Co-operative Council. With effect from 1 June 2021, the responsible Minister under DIRA (currently the Minister of Agriculture) has the right to nominate one member of the Panel.

The current members of the Panel are: Scott St John (Chair) and Bruce Hassall, who are appointed Fonterra directors; Brent Goldsack, who is a farmer-elected Fonterra director; and Andrew Wallace and Bill Donaldson, who are nominees of the Fonterra Co-operative Council.

The Panel oversees the governance of the Farmgate Milk Price and the Manual, including changes to the Manual and verification by independent external experts of key parameters (such as resource usage rates, product yields and fixed manufacturing costs).

The Panel is responsible for:

- Overseeing the calculation of the Farmgate Milk Price and making a recommendation on it to the Fonterra Board.
- Providing recommendations to the Fonterra Board on changes to the Manual.
- Providing assurance to the Fonterra Board that the Farmgate Milk Price has been calculated in accordance with the Manual.

The Fonterra Board is responsible for the forecast of the annual Farmgate Milk Price.

2. Milk Price Group

The Milk Price Group is a working group established by Fonterra. The Head of the Milk Price Group is independent of Fonterra’s management and reports directly to the Chair of the Milk Price Panel. The role of the Milk Price Group includes:

- Ensuring that the Farmgate Milk Price is calculated in accordance with the Manual and making recommendations in respect of the Farmgate Milk Price to the Panel.
- Considering any proposed amendments to the Manual, including those the Milk Price Group itself considers are appropriate, and ensuring they are in accordance with the Milk Price Principles in Fonterra’s Constitution.
- Providing assurance to the Fonterra Board over the calculation of the forecast of the Farmgate Milk Price.
- Managing engagement with external reviewers.

- Engaging with the Commerce Commission, including to ensure full disclosure of all material aspects of the Farmgate Milk Price derivation each year.

The functions of the Milk Price Group are contracted out to EY and other technical experts who are not employees of Fonterra.

3. External Reviewers

External advisors may provide expert advice on various inputs, as well as assurance over the accuracy of financial models. In addition, they participate in reviews of key parameters of the Farmgate Milk Price at regular intervals (which can be up to four years).

4. External Auditor

The external auditor examines the Farmgate Milk Price each year and provides assurance that the Farmgate Milk Price has been determined in accordance with the Milk Price Principles, Methodologies and Detailed Rules of the Farmgate Milk Price Manual. Fonterra’s external auditor is KPMG.

5. Commerce Commission

Subpart 5A of DIRA, which was passed into law in July 2012, gives the Commerce Commission an oversight role with respect to Fonterra’s Farmgate Milk Price.

The purpose of Subpart 5A is to promote the setting of a Farmgate Milk Price that provides an incentive to Fonterra to operate efficiently, while providing for contestability in the market for the purchase of milk from farmers (section 150A). Each year the Commission is required to review and report on the extent to which the Manual and Fonterra’s actual Farmgate Milk Price are consistent with this purpose.

6. Internal Audit

Fonterra’s internal audit team provides assurance over the processes and controls relating to Fonterra data used in the calculation of the Farmgate Milk Price.

7. Fonterra Senior Managers

Fonterra senior managers provide internal oversight of the calculation of the actual and forecast Farmgate Milk Price in accordance with the Manual and detailed models and procedures. Fonterra management is also responsible for engagement with the Commerce Commission.

Appendix 4: Milk Supplied and Production Volumes

2021 SEASON	MILK SUPPLIED (MILLION KGMS)	PRODUCTION (000 MT) OF FINISHED PRODUCT					
		WMP	SMP	BUTTER	AMF	BMP	TOTAL
JUN 20 TO AUG 20	135	179	46	13	16	5	259
SEP 20 TO NOV 20	585	772	201	87	47	20	1,127
DEC 20 TO FEB 21	488	626	174	84	36	18	938
MAR 21 TO MAY 21	332	504	58	39	21	11	633
TOTAL	1,539	2,080	479	223	121	53	2,957

2020 SEASON	MILK SUPPLIED (MILLION KGMS)	PRODUCTION (000 MT) OF FINISHED PRODUCT					
		WMP	SMP	BUTTER	AMF	BMP	TOTAL
JUN 19 TO AUG 19	130	151	61	11	23	6	250
SEP 19 TO NOV 19	595	760	222	87	55	21	1,145
DEC 19 TO FEB 20	488	609	182	82	42	19	934
MAR 20 TO MAY 20	304	401	96	41	30	13	581
TOTAL	1,517	1,921	561	221	150	58	2,911

2019 SEASON	MILK SUPPLIED (MILLION KGMS)	PRODUCTION (000 MT) OF FINISHED PRODUCT					
		WMP	SMP	BUTTER	AMF	BMP	TOTAL
JUN 18 TO AUG 18	128	195	26	11	10	3	246
SEP 18 TO NOV 18	601	756	229	89	59	22	1,154
DEC 18 TO FEB 19	487	578	202	91	44	20	935
MAR 19 TO MAY 19	308	337	140	49	43	16	585
TOTAL	1,523	1,867	597	239	155	61	2,920

Appendix 5: Sales Volumes

2021 SEASON						
SHIPMENTS (000 MT) OF FINISHED PRODUCT						
	WMP	SMP	BUTTER	AMF	BMP	TOTAL SALES
AUG 20 TO OCT 20	269	61	19	16	6	370
NOV 20 TO JAN 21	667	168	84	36	12	967
FEB 21 TO APR 21	569	114	58	33	15	788
MAY 21 TO JUL 21	530	122	43	31	15	741
AUG 21 TO OCT 21	45	15	20	5	4	90
TOTAL	2,080	479	223	121	53	2,957

2020 SEASON						
SHIPMENTS (000 MT) OF FINISHED PRODUCT						
	WMP	SMP	BUTTER	AMF	BMP	TOTAL SALES
AUG 19 TO OCT 19	251	83	22	20	3	379
NOV 19 TO JAN 20	662	203	94	38	17	1,014
FEB 20 TO APR 20	514	146	52	43	19	774
MAY 20 TO JUL 20	434	115	35	44	17	644
AUG 20 TO OCT 20	60	14	19	5	3	100
TOTAL	1,921	561	221	150	58	2,911

2019 SEASON						
SHIPMENTS (000 MT) OF FINISHED PRODUCT						
	WMP	SMP	BUTTER	AMF	BMP	TOTAL SALES
AUG 18 TO OCT 18	163	61	18	20	6	268
NOV 18 TO JAN 19	731	234	69	50	22	1,106
FEB 19 TO APR 19	526	157	85	40	17	825
MAY 19 TO JUL 19	394	137	49	40	11	631
AUG 19 TO OCT 19	53	8	19	5	5	90
TOTAL	1,867	597	239	155	61	2,920

Appendix 6: Average Number of Months Prior to Shipment that Prices were Struck

2021 SEASON					
AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT					
	WMP	SMP	BUTTER	AMF	BMP
AUG 20 TO OCT 20	3.1	3.1	2.4	2.7	2.5
NOV 20 TO JAN 21	3.2	3.3	3.2	3.0	2.6
FEB 21 TO APR 21	3.2	3.1	3.6	2.9	2.7
MAY 21 TO JUL 21	2.8	2.9	2.9	2.8	2.7
AUG 21 TO OCT 21	2.8	3.2	2.8	3.3	2.4
	3.1	3.1	3.1	2.9	2.6

2020 SEASON					
AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT					
	WMP	SMP	BUTTER	AMF	BMP
AUG 19 TO OCT 19	2.6	2.9	2.9	2.2	1.8
NOV 19 TO JAN 20	2.8	3.1	2.8	2.7	2.9
FEB 20 TO APR 20	2.8	2.9	3.3	3.0	2.6
MAY 20 TO JUL 20	2.6	2.9	2.6	2.6	2.4
AUG 20 TO OCT 20	2.7	2.9	2.7	2.8	2.3
	2.7	3.0	2.9	2.7	2.6

2019 SEASON					
AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT					
	WMP	SMP	BUTTER	AMF	BMP
AUG 18 TO OCT 18	2.5	3.0	2.3	2.7	2.7
NOV 18 TO JAN 19	2.5	3.2	2.7	3.2	2.9
FEB 19 TO APR 19	2.8	3.1	3.0	3.4	3.0
MAY 19 TO JUL 19	2.9	2.5	3.0	2.6	2.5
AUG 19 TO OCT 19	3.2	3.7	2.8	3.2	3.0
	2.7	3.0	2.8	3.0	2.8

Appendix 7: Average % of Sales Contracted in Each Month Prior to Shipment

2021 SEASON					
AVERAGE PERCENTAGE OF SALES CONTRACTED IN EACH OF MONTHS 1-5 PRIOR TO SHIPMENT					
	WMP	SMP	BUTTER	AMF	BMP
1	8%	6%	8%	7%	13%
2	30%	32%	25%	33%	39%
3	27%	24%	29%	31%	26%
4	19%	22%	22%	19%	15%
5	17%	17%	16%	10%	7%

2020 SEASON					
AVERAGE PERCENTAGE OF SALES CONTRACTED IN EACH OF MONTHS 1-5 PRIOR TO SHIPMENT					
	WMP	SMP	BUTTER	AMF	BMP
1	10%	6%	13%	12%	20%
2	39%	35%	31%	39%	38%
3	28%	27%	24%	24%	23%
4	14%	19%	22%	14%	10%
5	9%	13%	11%	10%	9%

2019 SEASON					
AVERAGE PERCENTAGE OF SALES CONTRACTED IN EACH OF MONTHS 1-5 PRIOR TO SHIPMENT					
	WMP	SMP	BUTTER	AMF	BMP
1	14%	8%	7%	10%	13%
2	38%	32%	42%	29%	33%
3	22%	27%	25%	27%	25%
4	16%	18%	18%	18%	16%
5	10%	15%	9%	16%	13%

Appendix 8: Average USD Prices

2021 SEASON					
USD PER MT OF FINISHED PRODUCT					
SHIPMENT PERIOD	WMP	SMP	BUTTER	AMF	BMP
AUG 20 TO OCT 20	2,974	2,699	3,568	4,010	2,612
NOV 20 TO JAN 21	3,020	2,797	3,552	4,095	2,754
FEB 21 TO APR 21	3,247	3,045	4,102	4,729	2,962
MAY 21 TO JUL 21	3,899	3,383	5,183	5,891	3,771
AUG 21 TO OCT 21	4,077	3,412	4,757	5,873	4,066
	3,323	3,012	4,117	4,792	3,194
Full season GDT-only prices	3,288	2,966	4,039	4,726	3,141

2020 SEASON					
USD PER MT OF FINISHED PRODUCT					
SHIPMENT PERIOD	WMP	SMP	BUTTER	AMF	BMP
AUG 19 TO OCT 19	3,129	2,549	4,420	5,408	2,820
NOV 19 TO JAN 20	3,184	2,680	4,257	5,210	2,794
FEB 20 TO APR 20	3,203	2,980	4,128	4,954	3,033
MAY 20 TO JUL 20	2,916	2,761	3,883	4,394	2,691
AUG 20 TO OCT 20	2,825	2,673	3,732	4,198	2,561
	3,110	2,755	4,140	4,891	2,833
Full season GDT-only prices	3,069	2,719	4,108	4,835	2,758

2019 SEASON					
USD PER MT OF FINISHED PRODUCT					
SHIPMENT PERIOD	WMP	SMP	BUTTER	AMF	BMP
AUG 18 TO OCT 18	3,011	2,056	4,938	5,886	2,483
NOV 18 TO JAN 19	2,811	2,051	4,336	5,418	2,707
FEB 19 TO APR 19	2,788	2,214	4,085	5,200	3,131
MAY 19 TO JUL 19	3,163	2,553	4,882	5,821	3,630
AUG 19 TO OCT 19	3,198	2,541	4,902	5,851	3,388
	2,907	2,216	4,448	5,540	3,032
Full season GDT-only prices	2,870	2,164	4,355	5,507	2,959

Appendix 9: Average NZD/USD Conversion and Spot Rates

	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE
2021 SEASON		
AUG 20 TO OCT 20	0.6477	0.6746
NOV 20 TO JAN 21	0.6570	0.7134
FEB 21 TO APR 21	0.6637	0.7159
MAY 21 TO JUL 21	0.6889	0.7055
AUG 21 TO OCT 21	0.6825	0.7010 ⁸
Revenue-weighted annual average	0.6677	0.7067
2020 SEASON		
AUG 19 TO OCT 19	0.6651	0.6366
NOV 19 TO JAN 20	0.6693	0.6541
FEB 20 TO APR 20	0.6627	0.6079
MAY 20 TO JUL 20	0.6565	0.6477
AUG 20 TO OCT 20	0.6568	0.6647
Revenue-weighted annual average	0.6638	0.6375
2019 SEASON		
AUG 18 TO OCT 18	0.6919	0.6676
NOV 18 TO JAN 19	0.6982	0.6805
FEB 19 TO APR 19	0.6895	0.6726
MAY 19 TO JUL 19	0.6813	0.6573
AUG 19 TO OCT 19	0.6809	0.6354
Revenue-weighted annual average	0.6905	0.6697

As at 31 July 2021, Fonterra had hedged approximately 71% of the forecast cash flows related to the 2022 season Farmgate Milk Price. If the remaining 29% of the forecast cash flows were to be hedged at the 31 July spot rate, the average NZD/USD conversion rate would be around 70 cents.

Glossary

In this Statement the following terms have the meanings as set out below:

Additional Commodity Milk Payments as defined in the Manual for the 2021 season.

Aggregate Farmgate Milk Price as defined in the Manual for the 2021 season.

AMF means anhydrous milk fat.

BMP means buttermilk powder.

Detailed Rules means the detailed rules for calculating the Farmgate Milk Price as set out in the Manual.

DIRA means the Dairy Industry Restructuring Act 2001, which authorised Fonterra's formation and regulates its activities.

Farmgate Milk Price means Fonterra's Farmgate Milk Price as determined under the Manual for the 2021 season.

Farmgate Milk Price Capital Costs as defined in the Manual for the 2021 season.

Farmgate Milk Price Cash Costs as defined in the Manual for the 2021 season.

Farmgate Milk Price Manual or **Manual** means Fonterra's Farmgate Milk Price Manual which is available on www.fonterra.com.

Farmgate Milk Price Revenue as defined in the Manual for the 2021 season.

Financial year means Fonterra's financial year, which runs from 1 August to the following 31 July.

Fixed Asset Capital Charges as defined in the Manual for the 2021 season.

Fonterra means Fonterra Co-operative Group Limited.

Global Dairy Trade or **GDT** means the electronic auction platform that is used to sell commodity dairy products.

kgMS means kilograms of milk solids.

Methodology means the methodology for calculating the Farmgate Milk Price as set out in the Manual.

Milk Price Principles or **Principles** means the Milk Price Principles set out in Fonterra's Constitution.

MT means metric tonnes.

Net Working Capital Charges as defined in the Manual for the 2021 season.

NZD means New Zealand dollars.

Reference Commodity Products or **RCP** means the commodity products used to calculate the Farmgate Milk Price, comprising WMP, SMP, BMP, AMF and butter.

Season means the 12-month period from 1 June to the following 31 May.

SMP means skim milk powder.

Standard Supply Adjustments as defined in the Manual for the 2021 season.

USD means United States dollars.

Winter Milk means milk supplied by farmers in the months of May, June and July.

WMP means whole milk powder.

⁸ This Milk Price Statement presents the spot exchange rate for August to October 21 as the spot rate at 9am on 31 July 2021, which is the last day of Fonterra's financial year.

⁹ Certain average spot exchange rate figures for the 2020 season differ from those disclosed in the 2020 Farmgate Milk Price Statement, as forecast exchange rates have been replaced with actual exchange rates.



Our 2021 Suite of Reports

Our Annual Review is a concise summary of our environmental, social and economic activities and performance. It is supported by a suite of supplementary reports where stakeholders can find more detailed information most relevant to them. This represents another step on our journey towards more integrated reporting.



OUR REPORTS ARE AVAILABLE FROM
[FONTERRA.COM/NZ/EN/INVESTORS.HTML](https://fonterra.com/nz/en/investors.html)



Annual Review
2021



Sustainability Performance
Report 2021



Financial Statements
2021



Corporate Governance
Statement 2021



Farmgate Milk Price
Statement 2021



Statutory Information
2021



Business Performance
Report 2021

Fonterra Co-operative Group Limited

Distribution Notice

Section 1: Issuer information				
Name of issuer	Fonterra Co-operative Group Limited			
Financial product name/description	Fonterra Co-operative Group Limited Shares			
NZX ticker code	FCG			
ISIN (If unknown, check on NZX website)	NZFCGE0001S7			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies			
Record date	30/09/2021			
Ex-Date (one business day before the Record Date)	29/09/2021			
Payment date (and allotment date for DRP)	15/10/2021			
Total monies associated with the distribution ¹	\$242,003,682			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution ²	\$0.15000000			
Gross taxable amount ³	\$0.15000000			
Total cash distribution ⁴	\$0.15000000			
Excluded amount (applicable to listed PIEs)	Not Applicable			
Supplementary distribution amount	Not Applicable			

¹ Based on the number of units on issue at the date of the form.

² "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (RWT).

³ "Gross taxable amount" is the gross distribution minus any excluded income.

⁴ "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should include any excluded amounts, where applicable to listed PIEs.

Section 3: Imputation credits and Resident Withholding Tax⁵

Is the distribution imputed	Fully imputed
	Partial imputation
	No imputation
If fully or partially imputed, please state imputation rate as % applied ⁶	Not Applicable
Imputation tax credits per financial product	Not Applicable
Resident Withholding Tax per financial product	0.04950000

Section 4: Distribution re-investment plan (if applicable)

DRP % discount (if any)	Not Applicable	
Start date and end date for determining market price for DRP	Not Applicable	Not Applicable
Date strike price to be announced (if not available at this time)	Not Applicable	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	Not Applicable	
DRP strike price per financial product	Not Applicable	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	Not Applicable	

Section 5: Authority for this announcement

Name of person authorised to make this announcement	Anya Wicks
Contact person for this announcement	Anya Wicks
Contact phone number	(09) 374 9341
Contact email address	anya.wicks@fonterra.com
Date of release through MAP	23/09/2021

⁵ The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

⁶ Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.