

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 2022	
Previous Reporting Period	12 months to 31 July 2021	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$22,953,000	12%
Total Revenue	\$23,425,000	11%
Net profit from continuing operations	\$661,000	24%
Total net profit	\$583,000	(3%)
Final Dividend		
Amount per Quoted Equity Security	\$0.15	
Imputed amount per Quoted Equity Security	Not Applicable	
Record Date	29 September 2022	
Dividend Payment Date	14 October 2022	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$2.86	\$2.87
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	22/09/2022	

Audited financial statements accompany this announcement.



Market Announcement

22 September 2022

Fonterra announces FY22 Annual Results

- Total Group Revenue: NZ\$23.4 billion, up 11%
- Reported Profit After Tax: NZ\$583 million, down 3%
- Normalised Profit After Tax: NZ\$591 million, up 1%
- Total Group normalised EBIT: NZ\$991 million, up 4%
- Net Debt: NZ\$5.3 billion, up NZ\$1 billion
- Normalised earnings per share: 35 cents per share, up 1 cent
- Final 2021/22 Farmgate Milk Price: NZ\$9.30 per kgMS
- FY22 Total Dividend: 20 cents per share (interim: 5 cents; final: 15 cents)
- Milk collections: 1,478 million kgMS, down 4%
- NZ\$13.7 billion delivered to the New Zealand economy through the Farmgate Milk Price pay-out to farmers
- FY23 Outlook: Forecast 2022/23 Farmgate Milk Price range of NZ\$8.50–\$10.00 per kgMS, with a midpoint of NZ\$9.25 per kgMS. Forecast 2022/23 normalised earnings guidance range of 45-60 cents per share.

Fonterra today announced a strong set of results for the financial year ending 31 July 2022, reflecting a 2021/22 Farmgate Milk Price of NZ\$9.30 per kgMS and normalised profit after tax of NZ\$591 million.

With a total dividend of 20 cents per share to our fully shared-up farmers – comprising of an interim dividend of 5 cents per share and a final dividend of 15 cents per share – the final cash pay-out for farmers is \$9.50.

Total Group normalised Earnings Before Interest and Taxes (EBIT) was NZ\$991 million, up NZ\$39 million or 4% on the prior year.

Chief Executive Miles Hurrell says despite the challenges including increased costs associated with supply chain volatility, 2021/22 was a good year for the Co-op.

“These results demonstrate that our decisions relating to product mix, market diversification, quality products and resilient supply chain, mean the Co-op is able to deliver both a strong milk price and robust financial performance in a tough global operating environment.

“The Co-op is pleased to be able to pay a total dividend of 20 cents per share for our farmer owners and unit holders. And this year’s higher Farmgate Milk Price is the strongest it has ever been, which is great news for our farmers. New Zealand also benefits from this, with \$13.7 billion returned into the economy in milk price payments alone this year.

“Importantly, one year on, the Co-op is making tangible progress against our strategy – namely to focus on New Zealand milk, be a leader in sustainability and a leader in dairy innovation and science.

“As part of the strategic review of the ownership of our milk pools outside New Zealand, we continue to make progress, with the sales process for the Soprole business progressing. Meanwhile, we’ve looked at a number of options for our Australian business and have decided that it’s in the Co-op’s best interests to maintain full ownership.

“Australia plays an important role in our consumer strategy with a number of common and complementary brands and products and as a destination for our New Zealand milk solids. The business is going well, and it will play a key role in helping us get to our 2030 strategic targets.

“As part of our strategy to 2030, we set a goal of a return of about \$1 billion to shareholders and unitholders which anticipated divestments including Soprole and a stake in our Australian business. Even though we have decided not to sell a stake in our Australian business, we are still committed to targeting a significant capital return to our shareholders and unitholders. The amount of any capital return will ultimately be determined on a number of factors including the successful completion of the divestment programme as well as our ongoing debt and earnings levels.

“Our positive performance in 2021/22 would not have been possible without the continuing hard work of employees and our farmer owners, and I want to thank every one of them for their commitment and support.”

Performance

Mr Hurrell says despite tight supply there was robust demand from global customers for dairy, which has helped Fonterra deliver a strong milk price and financial performance.

“Total Group Revenue increased \$2.3 billion to \$23.4 billion due to higher product prices, but sales volumes decreased in FY22 due to short-term shifts in demand and ongoing shipping and supply disruptions.

“Strong margins in the Ingredients channel, particularly in the final quarter, resulted in an increase in our gross profit. However, total gross margin was down due to the higher cost of milk on our Foodservice and Consumer channels during the year.

“Our Total Group normalised EBIT of NZ\$991 million, up 4%, reflects improved margins in our Ingredients channel but is partially offset by the higher milk price which placed pressure on margins in our Consumer and Foodservice channels.

“A series of geopolitical and economic events also impacted our performance – including a NZ\$80 million adverse revaluation of the Co-op’s Sri Lankan business payables, due to the devaluation of the rupee.

“Total Group operating expenses were up in FY22, by 7% to NZ\$2.4 billion, with underlying operating expenses increasing due in part to inflationary pressures and supply costs.

“Our normalised profit after tax of NZ\$591 million was up 1% on last year, due to higher earnings.

“We have higher inventory than usual at the end of the 2022 financial year due to stronger milk collections towards the end of the season coinciding with factory constraints, short-term impacts on demand and shipping disruptions. 88% of our year inventory is contracted, which means the sale price has been agreed and the product contracted, however the inventory had not been shipped at the balance date. The first six weeks of the new financial year have showed good progress with shipment of this inventory. We have flexibility in relation to inventory levels due to the strength of our balance sheet.

“The increased inventory, coupled with the higher milk price, has also increased our working capital throughout the year, and our net debt position at year end. Our net debt was NZ\$5.3 billion, up NZ\$1 billion, and as a result our Debt/EBITDA ratio increased to 3.2x from 2.7x and our gearing ratio increased from 38.5% to 42.4%. We expect these measures to improve as our working capital returns to normal levels. Even with the higher working capital, our return on capital has increased from 6.6% to 6.8%, as a result of the improvement in our EBIT.

Mr Hurrell says FY22 saw a mixed performance across Fonterra's three regional markets.

"Africa, Middle East, Europe, North Asia, Americas (AMENA) normalised EBIT was NZ\$527 million, up 57%, due to the improved gross margin in its Ingredients channel. Asia Pacific (APAC) normalised EBIT was NZ\$237 million, down 22%, with the improved performance in APAC's Ingredients channel more than offset by the somewhat weaker Consumer and Foodservice channels. Greater China normalised EBIT was NZ\$432 million, up 7%, with an improved performance in its Ingredients channel partially offset by lower margins in the Foodservice and Consumer channels, as a result of the higher cost of milk.

Strategy

Mr Hurrell says it's been a year since the Co-op announced its long-term strategy.

"While it's still early days and the shift from reset to growth continues, I am pleased with the progress we are making driving greater customer value and meeting the increasing demand for sustainable dairy and innovative nutrition and science solutions.

"Over the past 12 months we have been working through how we adapt our organisational structure to accelerate progress against our strategy. To grow the value we derive from our New Zealand milk through our sustainability credentials, innovation, and nutrition science, we have established two new Fonterra Management Team (FMT) roles. These two roles and the subsequent structural realignment serve to increase visibility and focus on innovation and strategic implementation – and drive performance in these areas.

"We continue to believe that New Zealand milk is the highest quality and most sought-after milk in the world. Our milk has a carbon footprint, one third the global average for milk production due to our grass-fed farming model. Pleasingly, the Co-op has maintained its share of the New Zealand milk supply market in a very competitive market.

"We've also made progress with our capital restructure and will continue to engage with Government. We believe a globally competitive farmer owned Co-op is in the best interests of the dairy industry, rural communities and New Zealand.

"Equally in the 12 months to 31 July 2022, Fonterra has continued to strive for a better future for the environment upon which we depend and has made solid progress against some of our key sustainability targets. Water use by manufacturing sites in water-constrained regions reduced, now 6.6% below FY18 baseline, and around 71% of shareholder farms now have a Farm Environment Plan – a substantial undertaking by our Farmer Shareholders and the Farm Source team.

"To respond to the ongoing expectations of customers and communities for more sustainable products, we have continued to reduce our greenhouse gas emissions, and transition away from the use of coal. We continue to progress the decarbonisation of our light and heavy vehicle fleets, and we have progressed the on-farm trial of Asparagopsis seaweed as supplemental feed for dairy cows. We are also working in partnership with the New Zealand Government on an agricultural emissions partnership.

"The Co-op is absolutely committed to taking a leadership position in sustainability right across our value chain, investing significantly to provide leadership against global competitors and to build long-term resilience.

"In 2021/22 Fonterra continued its long and proud heritage of dairy innovation, to solve problems our customers face in their operations and to help people around the world live healthier and longer lives.

"We have continued to lead the way in dairy science and innovation, both in the products we're innovating and the way in which we innovate. Two examples of this innovation are the MinION genome sequencing device, which provides dairy DNA results at pace and at a quarter of the previous cost, and the launch of an exciting new Whey Protein Concentrate (WPC) which can be used to create different textures in high protein yoghurt.

“In summary, in 2021/22 we have made good progress in the implementation of our strategy to increase the value of every drop of milk and deliver higher returns. We look forward to reporting further progress updates in the future, and we remain committed to delivering our 10-year aspirations,” says Mr Hurrell.

FY23 Outlook

Fonterra has announced a forecast 2022/23 Farmgate Milk Price range of NZ\$8.50–\$10.00 per kgMS, with a midpoint of NZ\$9.25 per kgMS. The Co-op also forecasts 2023 normalised earnings guidance of 45-60 cents per share.

“The longer-term outlook for dairy remains positive. And in the medium-term, we expect to see an easing in some of the geopolitical events, namely the COVID-19 lockdowns in China and the economic challenges in Sri Lanka. This has been reflected in our earnings guidance and forecast Farmgate Milk Price for the 2022/23 season.

“We continue to monitor a number of risks. The strength of our balance sheet means we remain in a strong position to weather uncertainty and market volatility. Our ability to refocus our product mix through our diverse and flexible operations footprint, means the Co-op’s milk will continue to be delivered to wherever the most value can be obtained for our farmer owners.

“The future for our Co-op is exciting,” says Mr Hurrell.

ENDS

Non-GAAP financial information

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

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

Please refer to the non-GAAP measures section in Fonterra’s 2022 Annual Review for reconciliation of NZ IFRS to non-GAAP measures, and the Glossary for definitions of non-GAAP measures referred to by Fonterra.

For further information contact:

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

About Fonterra

[Fonterra](#) is a co-operative owned and supplied by about [9,000 farming families](#) in Aotearoa New Zealand. Through the spirit of co-operation and a can-do attitude, Fonterra’s farmers and employees share the goodness of [our milk](#) through innovative [consumer](#), [foodservice](#) and [ingredients](#) brands. [Sustainability](#) is at the heart of everything we do, and we’re committed to leaving things in a better way than we found them. We are passionate about supporting our communities by [Doing Good Together](#).



Dairy for life

2022

We're
Good Together

22 September 2022

We've had a good year

Farmgate Milk Price
\$9.30 per kgMS

Dividend
20c per share

Reported profit after tax¹
\$583 million

Normalised profit after tax¹
\$591 million

35c earnings per share²

Note: Figures are Total Group, which includes continuing and discontinued operations

1. Includes amounts attributable to non-controlling interests

2. Attributable to equity holders of the Co-operative, excludes \$23 million of normalised profit after tax attributable to non-controlling interests

We've managed higher dairy prices and favourable price relativities

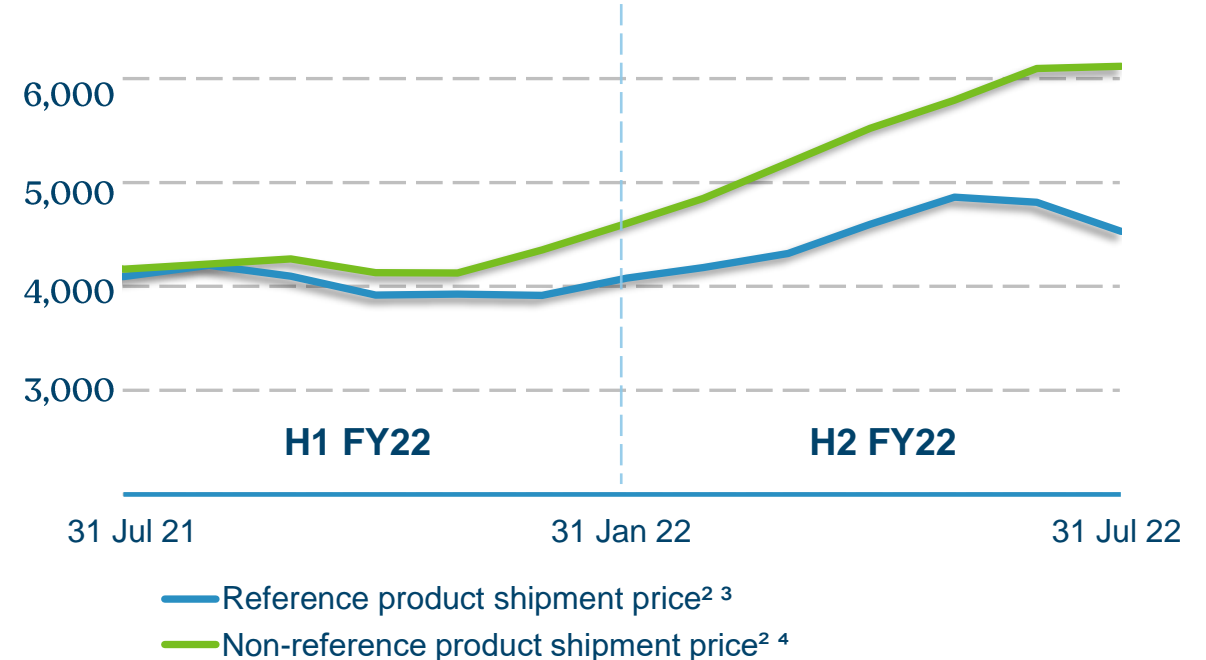
Monthly Milk Prices

(NZ\$)



Reference and non-reference price relativities on GDT¹

(US\$/MT)

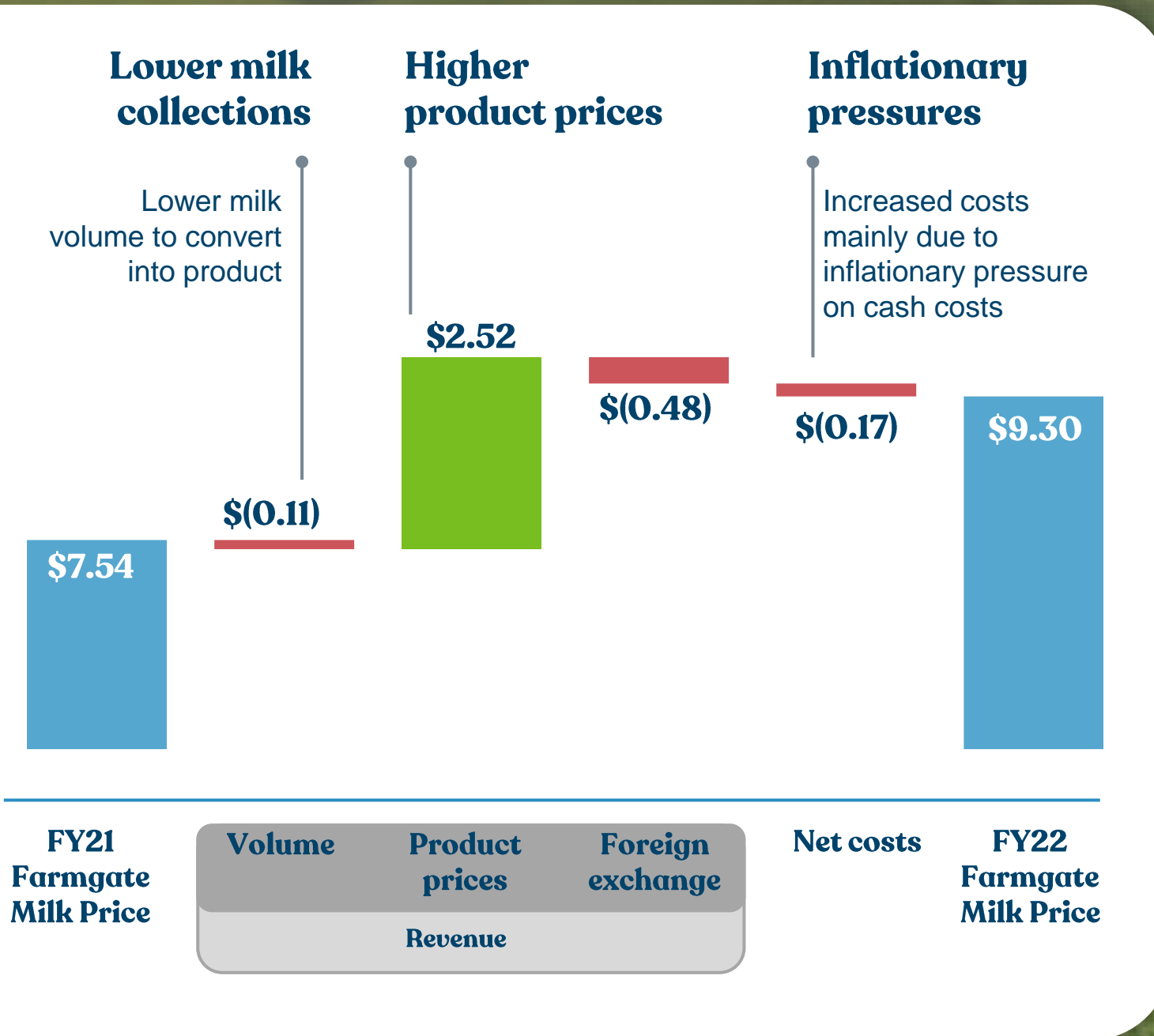


1. Source: GlobalDairyTrade

2. 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

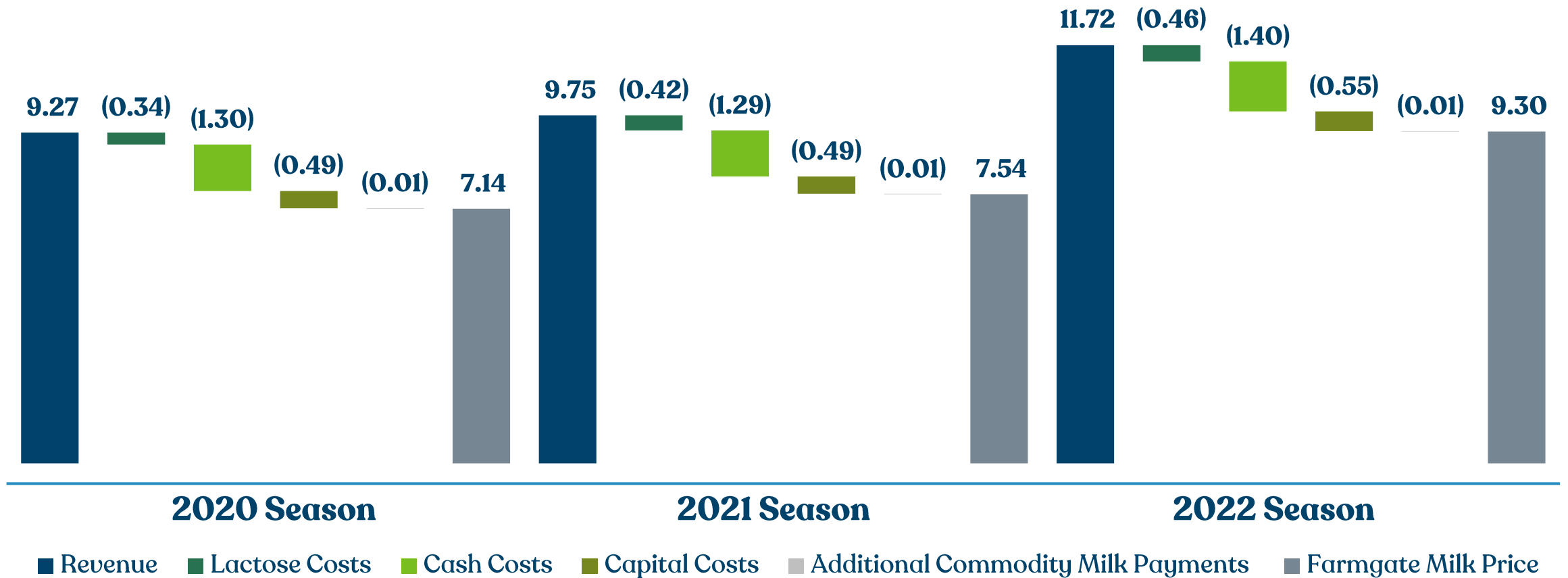
3. Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and Butter prices achieved on GDT

4. Non-reference product shipment price is represented by the cheddar prices achieved on GDT



Resulting in a strong Farmgate Milk Price in challenging times

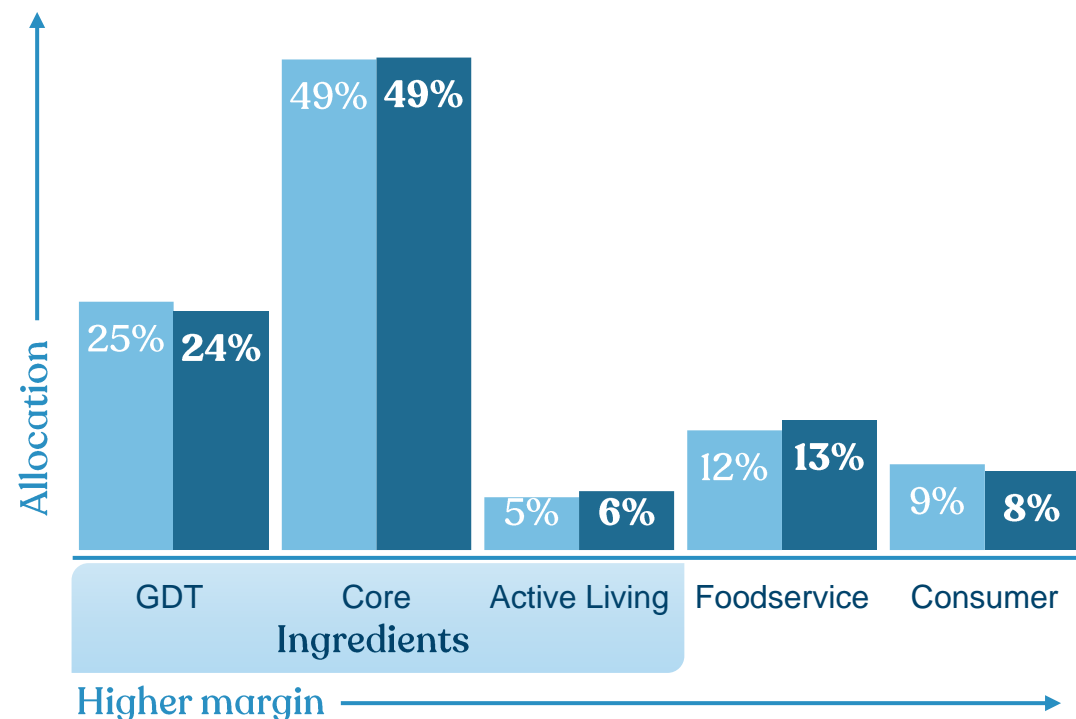
Market pricing out-stripped inflationary pressures



By shifting milk into higher value products

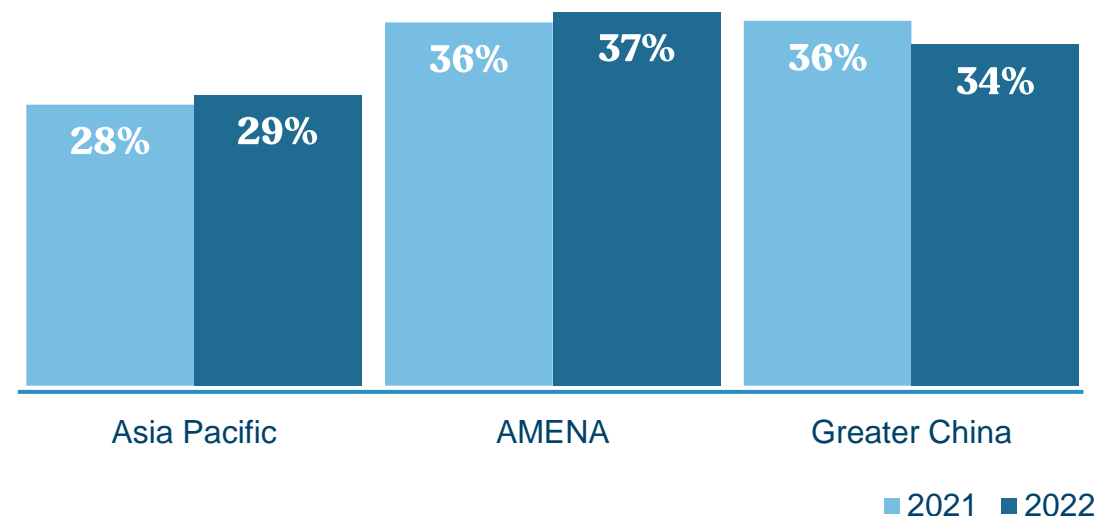
New Zealand milk solids allocation by product channel

% of milk solids



New Zealand milk solids allocation by region

% of milk solids



Note: The tables are prepared on a continuing operations basis.

**We optimised
our business
on the best
performing
products to
capture
higher
returns**

	Asia Pacific	AMENA	Greater China	Total
Volume ('000 MT) ¹	1,370 ↓ 1%	1,355 n/c	1,029 ↓ 13%	3,754 ↓ 4%
EBIT contribution ^{1,2}				
 Ingredients	\$192m ↑ \$168m	\$442m ↑ \$231m	\$282m ↑ \$152m	\$916m ↑ \$551m
 Foodservice	\$(13)m ↓ \$92m	\$(4)m ↓ \$19m	\$155m ↓ \$120m	\$138m ↓ \$231m
 Consumer	\$58m ³ ↓ \$144m	\$89m ↓ \$21m	\$(5)m ↓ \$3m	\$142m ↓ \$168m
Total	\$237m ↓ \$68m	\$527m ↑ \$191m	\$432m ↑ \$29m	

Note: Figures are for the year ended 31 July

1. Prepared on a normalised continuing operations basis. Normalised EBIT contributions sum to \$1,196 million, and does not align to reported continuing operations due to excluding unallocated costs and eliminations. Comparative information includes re-presentations for consistency with the current period

2. Inclusive of Group Operations' EBIT attribution

3. Includes \$(80) million adverse revaluation of payables in Sri Lanka

million	2021 ¹	2022	%Δ ²
Sales volume ('000 MT)	4,102	3,924	(4)%
Revenue (\$)	21,124	23,425	11%
Cost of goods sold (\$)	(18,010)	(20,085)	(12)%
Gross profit (\$)	3,114	3,340	7%
Gross margin (%)	14.7%	14.3%	
Operating expenses (\$)	(2,242)	(2,397)	(7)%
Other ³ (\$)	80	48	(40)%
Normalised EBIT (\$)	952	991	4%
Normalised profit after tax ⁴ (\$)	588	591	1%
Normalised EPS ⁵ (cents)	34	35	3%

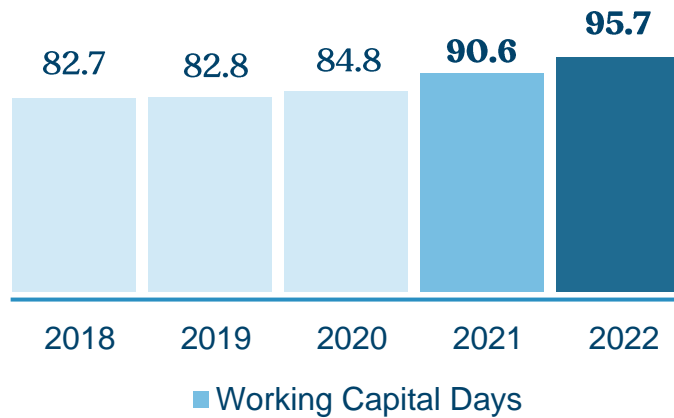
Delivering a solid Total Group business performance

Note: Total Group figures are for the year ended 31 July. This includes continuing and discontinued operations and are on a normalised basis unless otherwise stated

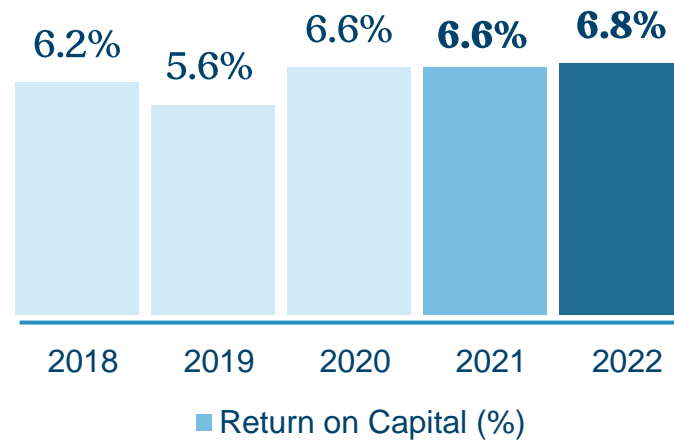
1. 2021 performance includes Ying and Yutian China Farming hubs and China Farms joint venture, which were sold during FY21
2. Percentages as shown in the table may not align to the calculation of percentages based on numbers in the table due to rounding of figures

3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees
4. Includes amounts attributable to non-controlling interests
5. Attributable to equity holders of the Co-operative, excludes \$23 million of normalised profit after tax attributable to non-controlling interests

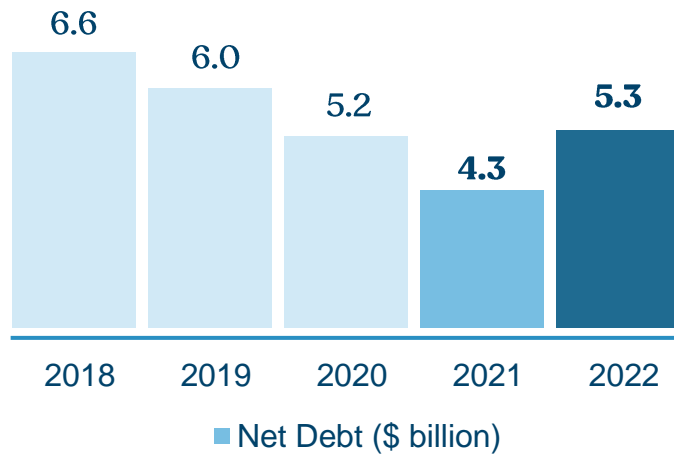
Working Capital



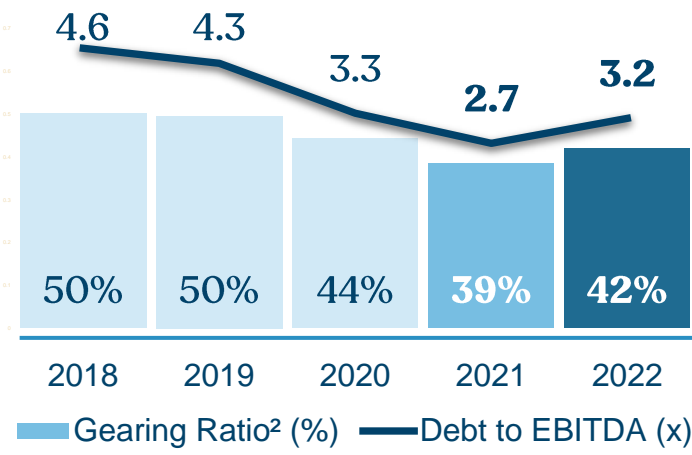
Return on Capital



Net Debt^{1,2}



Leverage



**A strong
balance sheet
enabled us to
manage
inventory**

Note: Figures are for the year ended 31 July except where otherwise stated

1. As at 31 July. Refer to Glossary for definition

2. Comparative figures are shown on a consistent basis with current year

And our customers appreciate us



Demand for dairy remains strong

The world's population is growing,
and so is demand for nutrition

NEXT 5 YEARS **400m** 

NEXT 10 YEARS **800m** 

NEXT 15 YEARS **1100m** 

Consumer trends

1/3rd

Globally, an estimated one-third of people suffer from at least one form of micronutrient deficiency.

73%

of global consumers find sustainability pledges important when buying dairy products.

58%

of people look for the health-boosting claims of the dairy products they consume.

Our strategy is built on a strong platform

Our strategic long term aspirations and targets to 2030



Focus on Aotearoa
New Zealand Milk



PERFORMANCE
TARGETS

40–50%
EBIT increase
from FY21

~9–10%
Return on capital

Increase dividends to
~40–45
cents per share

Aspiration to be
Net zero
by 2050



Be a leader in dairy
Innovation & science



INVESTMENT

~\$1 billion
in sustainability

~\$1 billion
moving more milk to
higher value products

~\$160m
per annum in
R&D

~\$2 billion
for mix of
investment in
further growth and
return to
shareholders



Be a leader in
Sustainability



DISTRIBUTION
OF FUNDS

~\$1 billion

Intended to be distributed to shareholders after asset sales

Note: These targets are based on assumptions and risks that are set out in the Appendix to the booklet *Our Path to 2030*, including the assumption of an average Farmgate Milk Price for the decade of \$6.50 - \$7.50 per kgMS. We are aiming to achieve these targets and they should not be taken as forecasts or guarantees of returns. They are subject to successfully completing a number of business initiatives.

We're on track for 2030

	FY20 Actual	FY21 Actual	FY22 Forecast	FY22 Actual	FY24 Year 3 Target	FY27 Year 6 Target	FY30 Year 9 Target
Improved performance							
Milk Price per kgMS (\$)	\$7.14	\$7.54		\$9.30			
Normalised EBIT (\$m)	\$879m	\$952m	\$875-\$975m	\$991m	\$1,025-\$1,125m	\$1,150-\$1,250m	\$1,325-\$1,425m
Earnings per share (CPS)	24c	34c	25-40c	35c	45-55c	50-60c	55-65c
Return on capital	6.6%	6.6%	6.5-7.0%	6.8%	7.0-8.0%	7.5-8.5%	9.0-10.0%
Financial position							
Capital investment (\$m)	\$525m	\$608m	\$650m	\$617m	\$980m	\$980m	\$980m
Debt to EBITDA ratio	3.3x	2.7x	2.4x¹	3.2x	<2.5x	<2.5x	<2.5x
Gearing ratio	44%	39%	35%¹	42%	<35%	<35%	<35%
Dividend to shareholders							
Dividends (CPS)	5c	20c	15-20c	20c	22-27c	30-35c	40-45c

1. 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 details.

We're taking solid steps toward our strategy



**Expanded cream
cheese range**



**Maungatūroto: 2022 Water
NZ Excellence Awards**



**Increased Active Living
milk solids**



**Piloting new technology to
decarbonise our business**

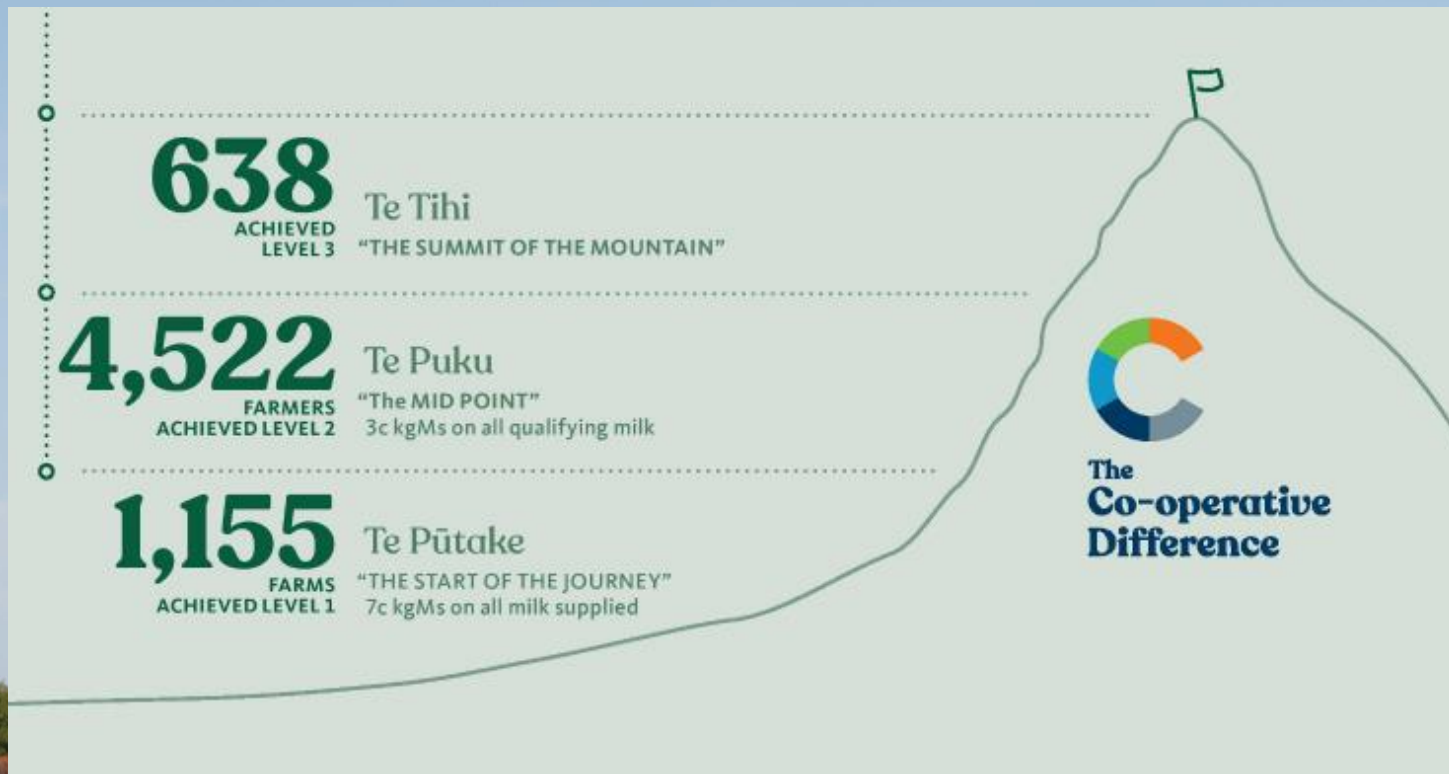


**Partnering with Government
and sector methane challenge**



Progressing divestment

We're making progress on farm



72%

Achieved
Co-operative
Difference

71%

FEPs

6,651

Animal
Wellbeing
Plans

12%

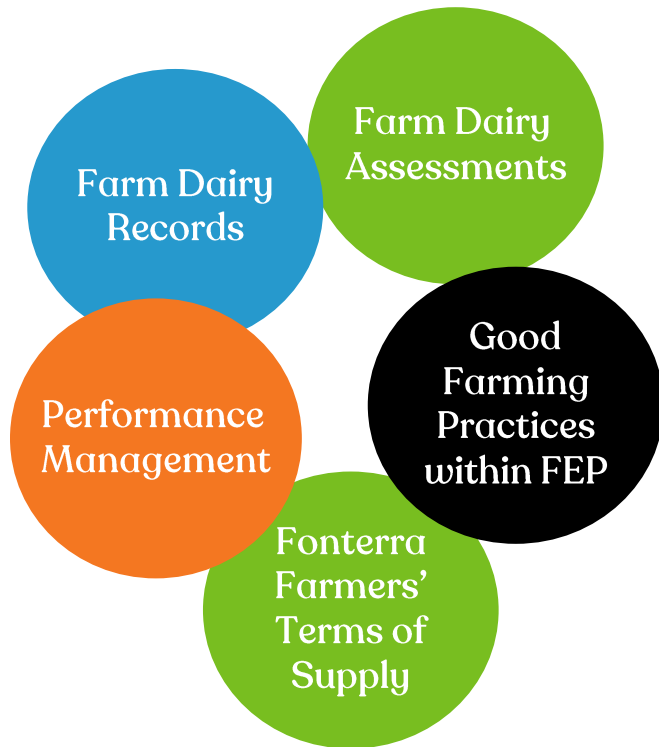
Reduction
PNS



We're bringing farmers and customers closer in an ever-changing world



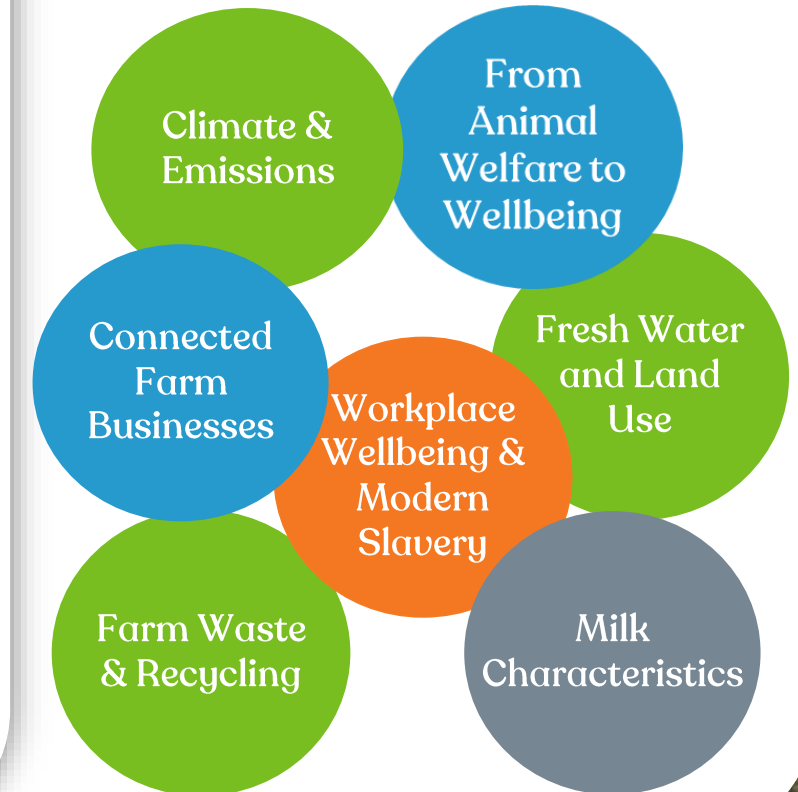
Improving today



Thinking of tomorrow



Planning for the long term



Flexible Shareholding on track

Government is
supportive



Expect legislation
to progress
through Select
Committee this
year



Implement as
soon as possible



Market making
arrangements and
transitional buy
back in place



Measurement
statement issued
confirming new
minimum
shareholding



FY23 Outlook

2022/23 Forecast Farmgate Milk Price

\$8.50– \$10.00
per kgMS

Midpoint of **\$9.25** per kgMS

Forecast Earnings

45–60c
per share





2022

Discussion



Fonterra

Business Performance

2022 Annual Results

2022 Annual Results

Farmgate Milk Price

\$9.30 per kgMS

Reported profit after tax¹

\$583 million ⬇️ \$16m

Normalised profit after tax¹

\$591 million ⬆️ \$3m

35c earnings per share²

Dividend

20c per share

Return on capital

6.8% ⬆️

Note: Figures are Total Group, which includes continuing and discontinued operations

1. Includes amounts attributable to non-controlling interests

2. Attributable to equity holders of the Co-operative, excludes \$23 million of normalised profit after tax attributable to non-controlling interests



- Fonterra has delivered a higher Farmgate Milk Price and strong earnings, total pay-out of \$9.50 per kgMS
- Diversified and resilient earnings – top end of guidance
- Good progress on key drivers of our strategy, focusing on New Zealand milk, sustainability, and dairy innovation and science
- Increased working capital has driven higher debt levels but will improve as working capital returns to normal levels in FY23
- Continued strong dairy industry fundamentals

Higher dairy prices and favourable price relativities

Monthly Milk Prices

(NZ\$)



- Consistently higher monthly milk price across the 2021/22 season compared to prior season
- The average of the monthly milk prices are equivalent to \$7.54 and \$9.30 for 2020/21 and the 2021/22 seasons, respectively

1. Source: GlobalDairyTrade

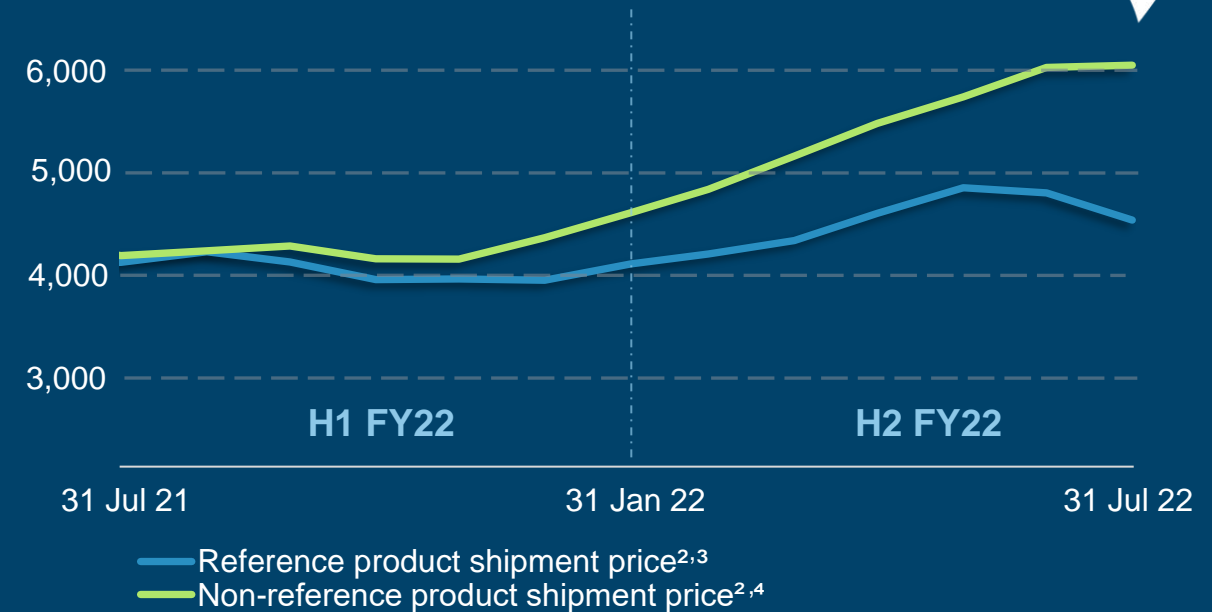
2. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced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

3. Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and butter prices achieved on GDT

4. Non-reference product shipment price is represented by the cheddar prices achieved on GDT

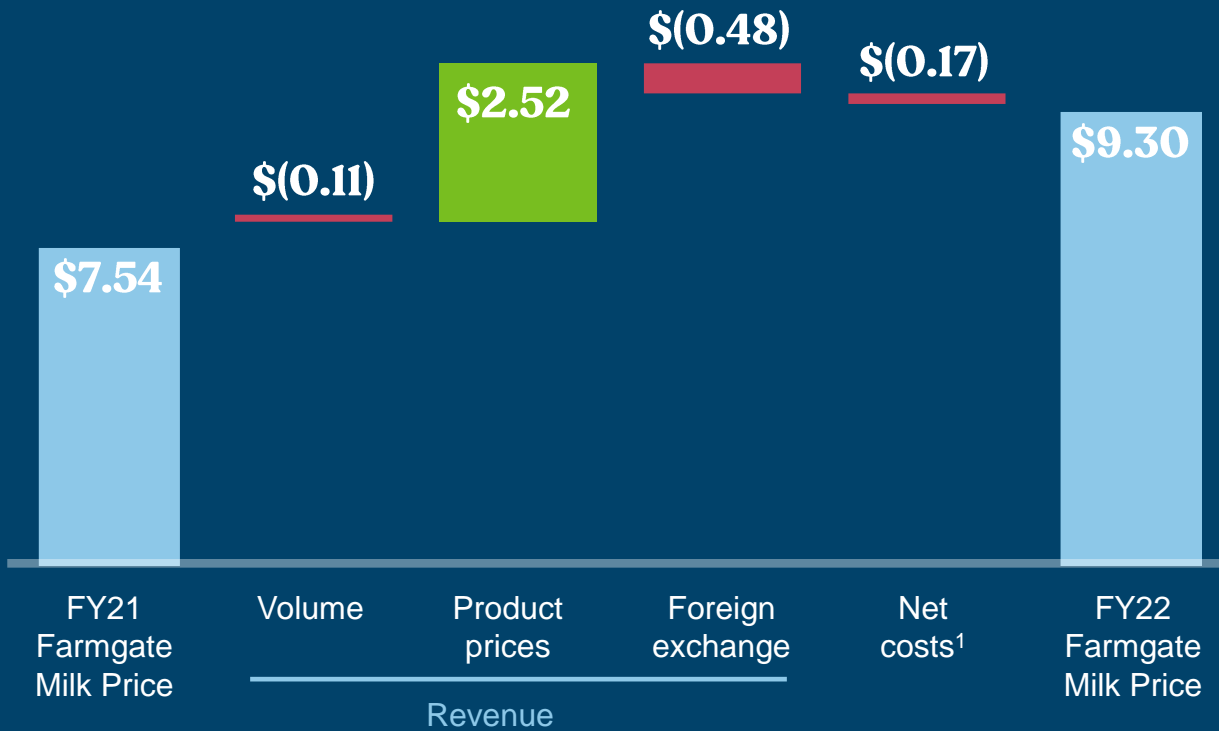
Reference and non-reference price relativities on GDT¹

(US\$/MT)



- Narrow price relativities in the first half; strong increase in non-reference product prices improving price relativities in second half
- More favourable than expected price relativities contributed to stronger fourth quarter earnings

Drivers of Farmgate Milk Price



- Lower milk volume to convert into product
- Product prices increased, with the average WMP price in the 2022 season 20.9% higher at US\$4,019 per metric tonne compared to US\$3,323 per metric tonne in the prior year
- Impact of foreign exchange increased as a result of the higher hedged rate due to the NZ dollar strengthening over the prior seasons
- Increased costs mainly due to inflationary pressure on cash costs

1. Net costs include capital costs and cash costs

Total Group business performance

million	2021 ¹	2022	%Δ ²
Sales volume ('000 MT)	4,102	3,924	(4)%
Revenue (\$)	21,124	23,425	11%
Cost of goods sold (\$)	(18,010)	(20,085)	(12)%
Gross profit (\$)	3,114	3,340	7%
Gross margin (%)	14.7%	14.3%	
Operating expenses (\$)	(2,242)	(2,397)	(7)%
Other ³ (\$)	80	48	(40)%
Normalised EBIT (\$)	952	991	4%
Normalised profit after tax ⁴ (\$)	588	591	1%
Normalised EPS ⁵ (cents)	34	35	3%

Note: Total Group figures are for the year ended 31 July. This includes continuing and discontinued operations and are on a normalised basis unless otherwise stated

- 2021 performance includes Ying and Yutian China Farming hubs and China Farms joint venture, which were sold during FY21
- Percentages as shown in the table may not align to the calculation of percentages based on numbers in the table due to rounding of figures

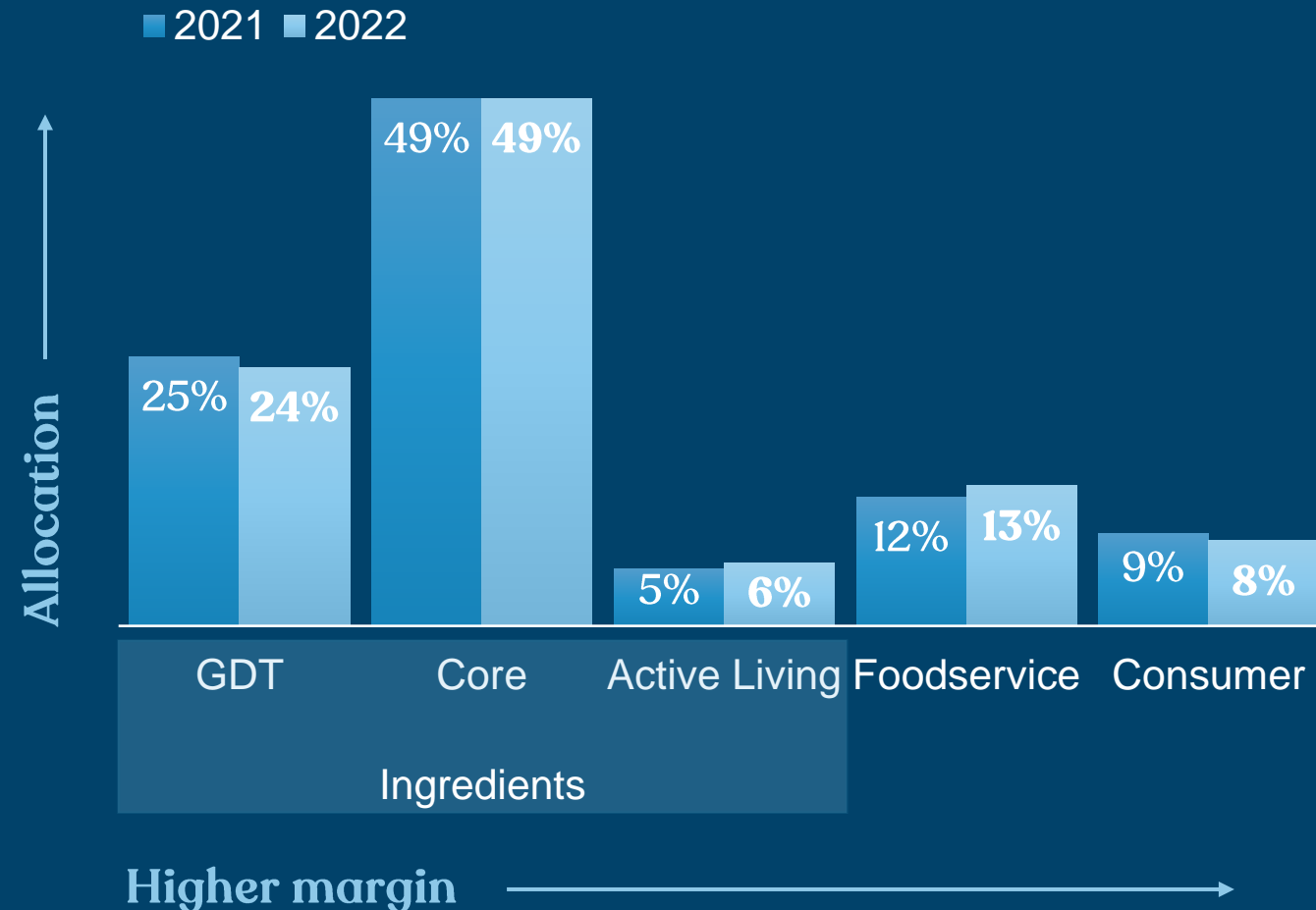


- Increased revenue from higher product prices, partially offset by lower sales volumes reflecting lower milk collections in the first nine months of the year and shipping disruptions
- Higher gross profit despite increased cost of milk, driven by gross margin achieved in Ingredients, particularly in the protein portfolio
- Operating expenses up due to inflationary pressures, supply chain disruption and impairment of some of our Asia brands⁶
- 'Other' includes \$(80) million adverse revaluation of the Sri Lankan business payables due to devaluation of the rupee
- Normalised profit after tax is up \$3 million, due to higher earnings and favourable interest expense

- Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees
- Includes amounts attributable to non-controlling interests
- Attributable to equity holders of the Co-operative, excludes \$23 million of normalised profit after tax attributable to non-controlling interests
- The impairment includes a \$22 million impairment of Anlene, an \$11 million impairment of Anmum and a \$1 million impairment of Chesdale, with the carrying amount of these brands now at \$336 million as at 31 July 2022. Our Asia brands also include Anchor which was not impaired

Allocation of New Zealand milk solids

by Product Channel
% of milk solids



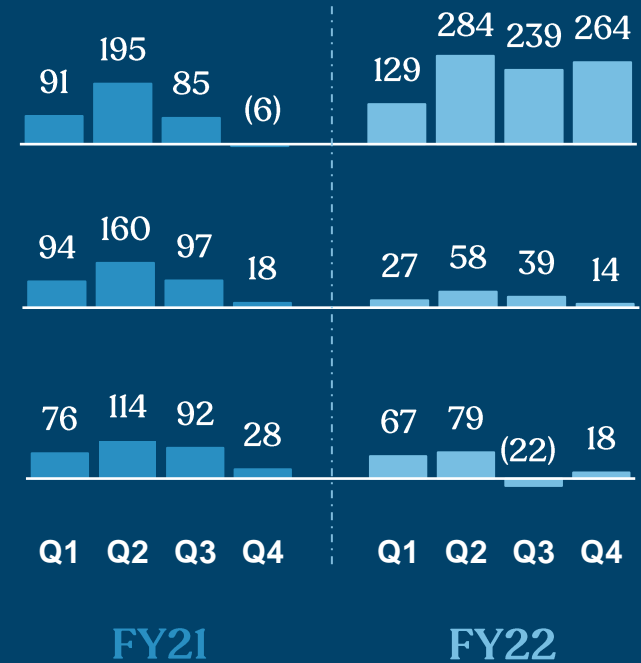
- A key driver of our strategy and earnings growth is shifting milk into higher margin products
- Active Living allocation increased as demand for milk protein concentrate, casein and caseinate products grew
- Foodservice allocation has continued to grow as innovation enabled us to expand the uses of UHT cream
- Percentage of milk solids in our Consumer channel reduced due to limiting sales volumes in Sri Lanka while the crisis unfolds

Diversified across markets and products

Higher margins in the Ingredients channel in the second half

	Asia Pacific	AMENA	Greater China	Total
Volume ('000 MT) ¹	1,370 ↓ 1%	1,355 n/c	1,029 ↓ 13%	3,754 ↓ 4%
EBIT contribution^{1,2}				
 Ingredients	\$192m ↑ \$168m	\$442m ↑ \$231m	\$282m ↑ \$152m	\$916m ↑ \$551m
 Foodservice	\$(13)m ↓ \$92m	\$(4)m ↓ \$19m	\$155m ↓ \$120m	\$138m ↓ \$231m
 Consumer	\$58m ³ ↓ \$144m	\$89m ↓ \$21m	\$(5)m ↓ \$3m	\$142m ↓ \$168m
Total	\$237 ↓ \$68m	\$527m ↑ \$191m	\$432m ↑ \$29m	

EBIT by Quarter^{1,2}












Note: Figures are for the year ended 31 July

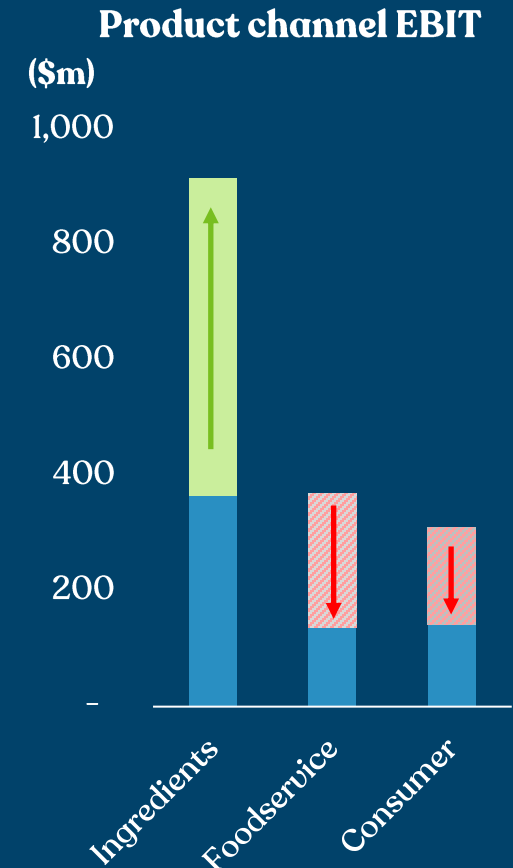
1. Prepared on a normalised continuing operations basis. Normalised EBIT contributions sum to \$1,196 million, and does not align to reported continuing operations due to excluding unallocated costs and eliminations. Comparative information includes re-presentations for consistency with the current period

2. Inclusive of Group Operations' EBIT attribution

3. Includes \$(80) million adverse revaluation of payables in Sri Lanka

Earnings driven by strong Ingredients' margins

Asia Pacific	2021 EBIT		2022 EBIT	Change
Ingredients	\$24m		\$192m	700%
Foodservice	\$79m		\$(13)m	-
Consumer	\$202m		\$58m ²	(71)%
	\$305m		\$237m	(22)%
AMENA				
Ingredients	\$211m		\$442m	109%
Foodservice	\$15m		\$(4)m	-
Consumer	\$110m		\$89m	(19)%
	\$336m		\$527m	57%
Greater China				
Ingredients	\$130m		\$282m	117%
Foodservice	\$275m		\$155m	(44)%
Consumer	\$(2)m		\$(5)m	(150)%
	\$403m		\$432m	7%
Eliminations ¹	\$(148)m		\$(214)m	(45)%
Total	\$896m		\$982m	10%



Note: Figures are for the year ended 31 July and prepared on a normalised continuing operations basis. Comparative information includes re-presentations for consistency with the current period

1. Eliminations and unallocated costs

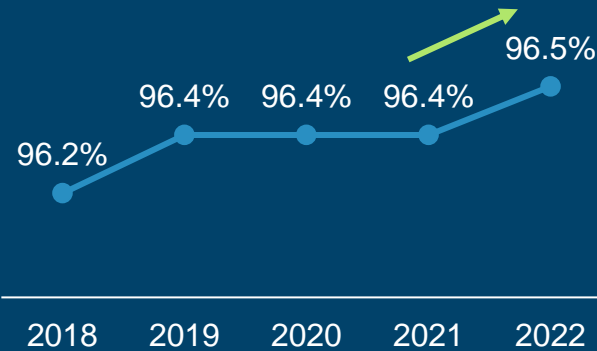
2. Includes \$(80) million adverse revaluation of payables in Sri Lanka

New Zealand manufacturing performance

Increased manufacturing complexity as we shift to higher value products

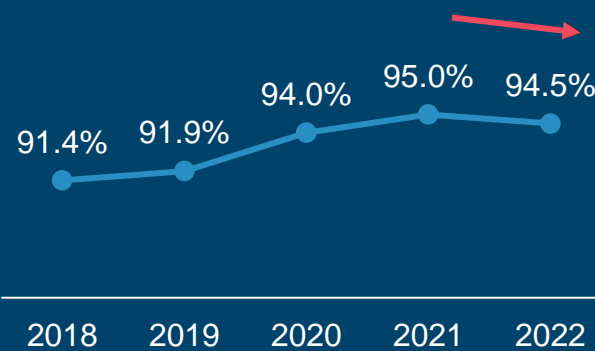


Milk Utilisation



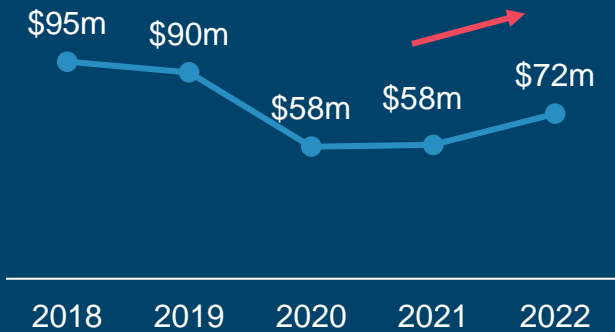
- Increased utilisation of milk solids while manufacturing a more complex product mix as we shift volume to our Active Living portfolio, including manufacturing 8% less WMP

Made Right First Time



- As we shift our product mix towards higher value products manufacturing complexity increases. We expect to return to our underlying upward trend

Cost of Quality

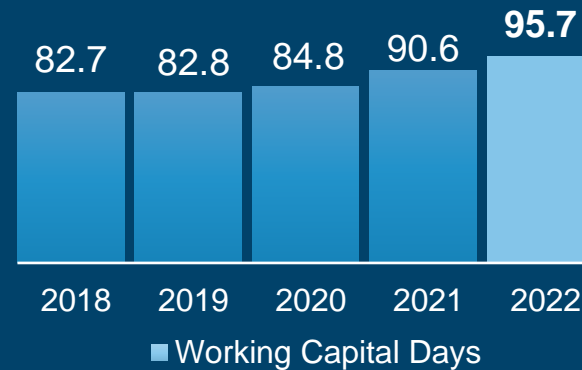


- Higher value of milk per tonne, two specific bacterial issues in NZ and an ingredient formulation issue contributed to higher cost of quality. The cost is equivalent to 0.4% of NZ cost of goods sold

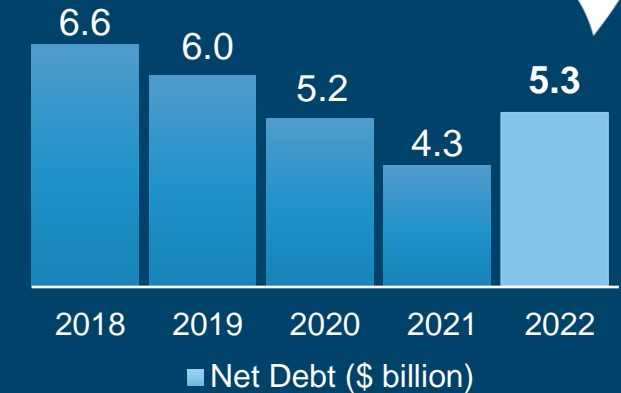
A strong balance sheet

- Our 'A band' credit rating and key metrics demonstrate our strong balance sheet position
- These metrics have increased but will improve as working capital returns to normal levels throughout FY23
 - FY23 sales and shipping profile supports inventory levels returning to normal
- Improved return on capital due to higher earnings offsetting the impact of additional working capital on our capital employed

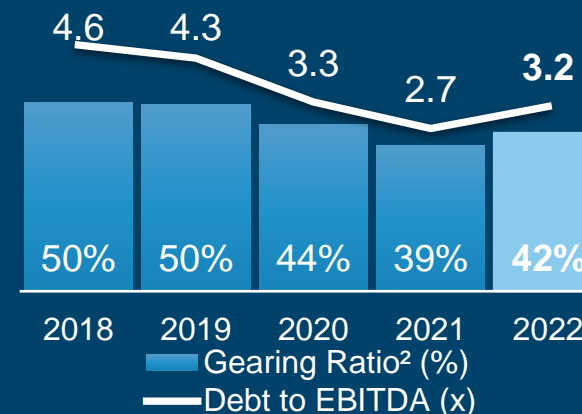
Working Capital



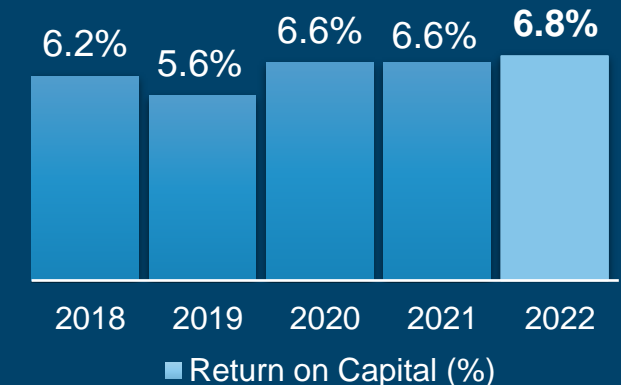
Net Debt^{1,2}



Leverage



Return on Capital



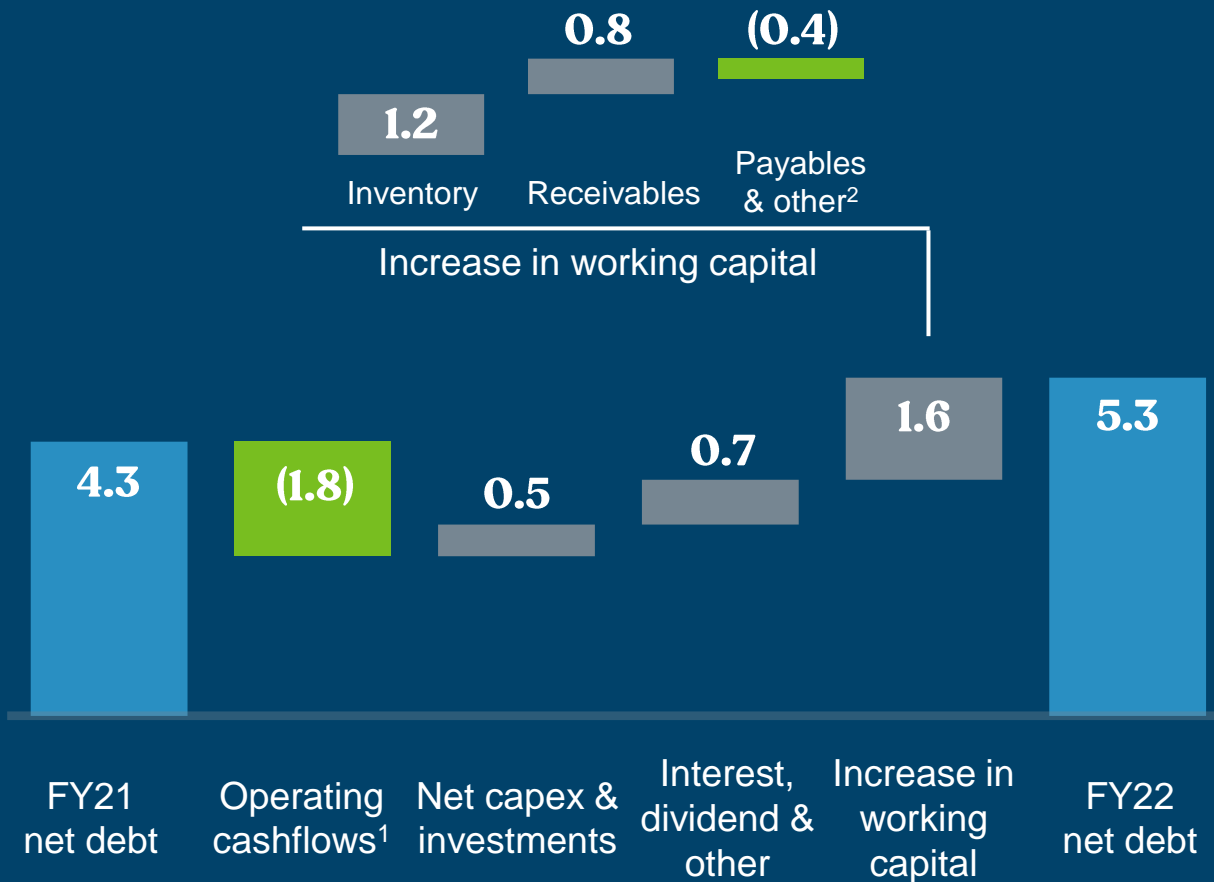
Note: Figures are for the year ended 31 July except where otherwise stated

1. As at 31 July. Refer to Glossary for definition

2. Comparative figures are shown on a consistent basis with current year

Strong balance sheet provides flexibility to manage market volatility and disruptions

Change in net debt (\$ billion)



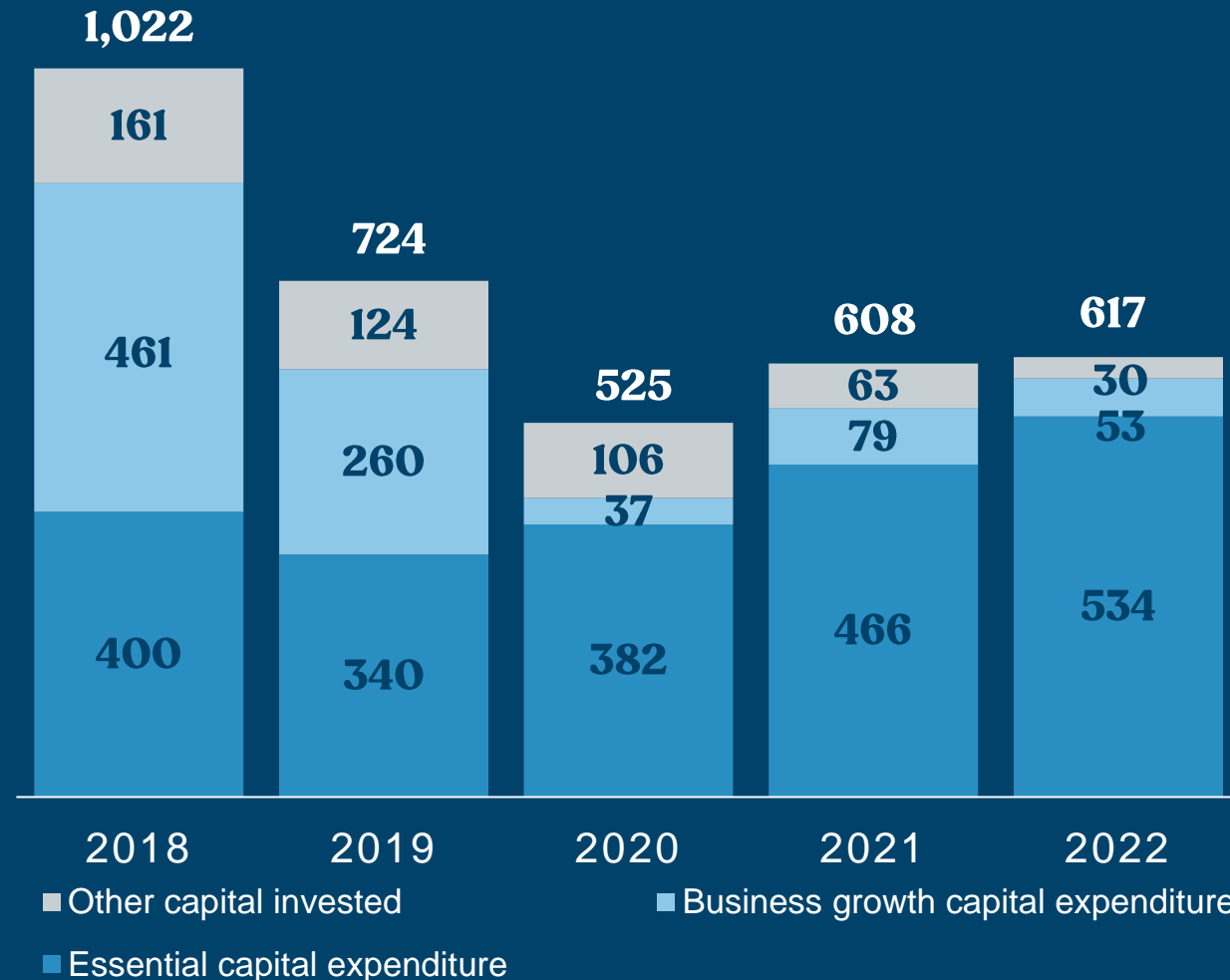
- Strong balance sheet enabled us to hold higher working capital through year end
- Increase of \$1.6 billion in working capital resulted in an increase in year end net debt of \$1.0 billion
 - 88% of total inventory was priced and contracted but not shipped at year end
- Net debt position will improve as working capital returns to normal levels throughout the year
 - FY23 sales and shipping profile supports inventory levels returning to normal

1. Excluding working capital

2. Includes supplier payables and other movements

Capital invested

\$ million



- Total capital invested was \$617 million, comprised of capital expenditure of \$587 million and other capital invested of \$30 million
- Of the \$587 million capital expenditure:
 - \$534 million was allocated to essential projects to maintain and improve existing assets
 - \$53 million was allocated to business growth projects to drive future earnings growth
- The \$30 million of other investments mainly comprised of right-of-use assets and equity investments, including investment in new innovation opportunities

Capital invested

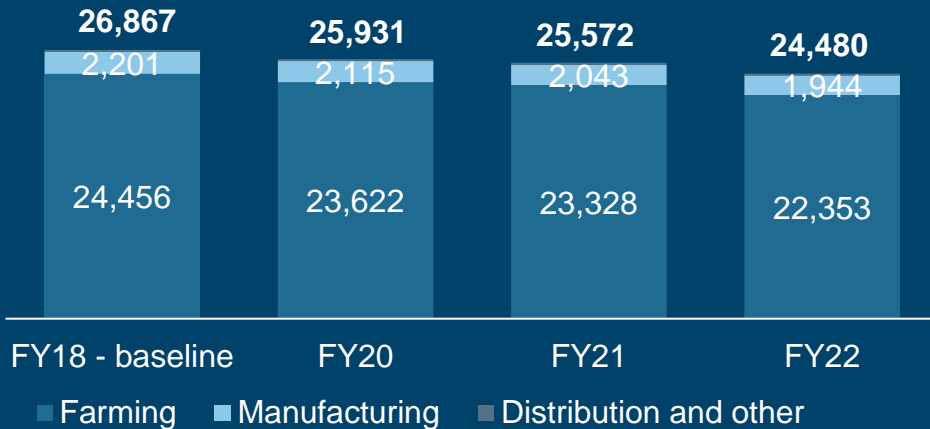


- The majority of our capital invested is allocated to Group Operations to ensure our processing sites are fit for purpose
- Key projects for FY22 include:
 - wastewater upgrades at our Te Awamutu and Tirau site
 - biomass boiler installation to replace coal at several sites
 - improving refrigerant technology at Whareroa
- Asia Pacific's capital spend included acquiring a secondary cheese processing site in Australia to further expand our cheese manufacturing lines

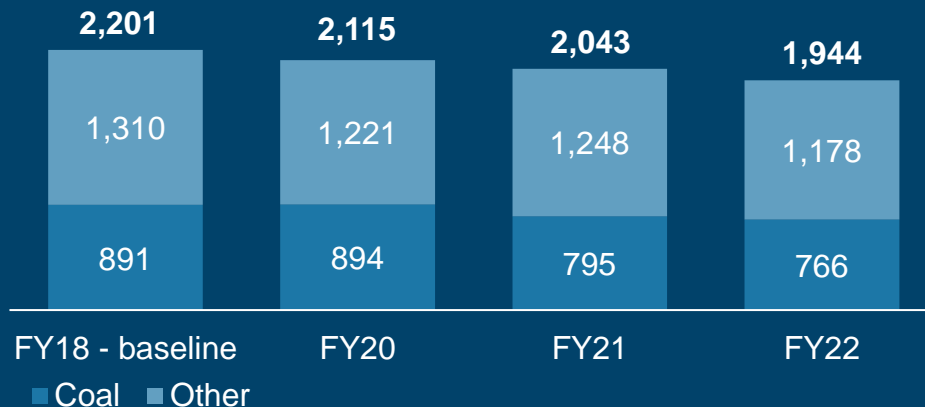
Investing in sustainability

Doing what's right for customers, the planet and our Co-op

Total GHG emission in Fonterra's value chain^{1,2}



Manufacturing GHG emissions²



- Reducing annual manufacturing emissions by converting coal boilers to wood biomass:
 - completion of Te Awamutu in FY21 reduced our emissions from coal by more than 9%³. The project cost \$11 million
 - Stirling to be completed during FY23 will reduce our emissions from coal by about 2%³. The project is expected to cost \$30 million
 - one boiler at Waitoa to be completed in FY24. Expected to reduce our emissions from coal by more than 5%³. The project is expected to cost \$102 million

1. Farming and Manufacturing emissions do not add to Total GHG emissions. Distribution and other emissions are not displayed, these are less than 1% of our total emissions

2. Measured in 000's tCO₂-e

3. Relative to FY18, the baseline year

Drivers of return on capital

NZD million	2021	2022
Total Group normalised EBIT	952	991
Finance income on long-term advances	8	7
Notional tax charge	(155)	(161)
Total Group normalised EBIT plus finance income on long-term advances less notional tax charge	805	837
Capital employed at year end	10,863	12,179
Impact of seasonal capital employed	1,418	177
Average capital employed	12,281	12,356
Return on capital (%)	6.6%	6.8%

- Return on capital improved from 6.6% to 6.8%, reflecting:
 - increase in normalised EBIT, partially offset by;
 - additional working capital increasing our average capital employed
- The impact on the average capital employed from the higher working capital in the second half was largely offset by lower net debt in the first half

Our strategy positions us well

OUR STRATEGIC CHOICES



Focus on Aotearoa
New Zealand Milk



Be a leader in dairy
Innovation & science



Be a leader in
Sustainability



PERFORMANCE TARGETS

40–50%

EBIT increase
from FY21

~9–10%

Return on capital

Increase dividends to

~40–45

cents per share

Aspiration to be

**Net zero
by 2050**



INVESTMENT

~\$1 billion

in sustainability

~\$1 billion

invested in moving more
milk to higher value
products

~\$160m

per annum in
R&D

~\$2 billion

for mix of investment in
further growth and return
to shareholders



DISTRIBUTION OF FUNDS

~\$1 billion

Intended to be distributed to shareholders
after asset sales

Note: These targets are based on assumptions and risks that are set out in the Appendix to the booklet *Our Path to 2030*, including the assumption of an average Farmgate Milk Price for the decade of \$6.50 - \$7.50 per kgMS. We are aiming to achieve these targets and they should not be taken as forecasts or guarantees of returns. They are subject to successfully completing a number of business initiatives.

We're taking solid steps toward our strategy



**Expanded cream
cheese range**



**Maungatūroto: 2022 Water
NZ Excellence Awards**



**Increased Active Living
milk solids**



**Piloting new technology to
decarbonise our business**



**Partnering with Government
and sector methane challenge**



Progressing divestment

Forecast 2022/23 Season Farmgate Milk Price

Forecast Farmgate Milk Price

\$8.50 - \$10.00

per kgMS

- Midpoint of \$9.25 per kgMS reflects:
 - constrained supply as growth from key milk producing regions expected to remain low
 - continuing strong underlying demand
- The wide range reflects several risks, such as COVID-19 and macroeconomic factors, including global inflation, global economic growth and volatility in foreign exchange markets



Source: GlobalDairyTrade. Data is up to GDT event 315 on 6 September 2022

1. Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and butter prices

2. 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

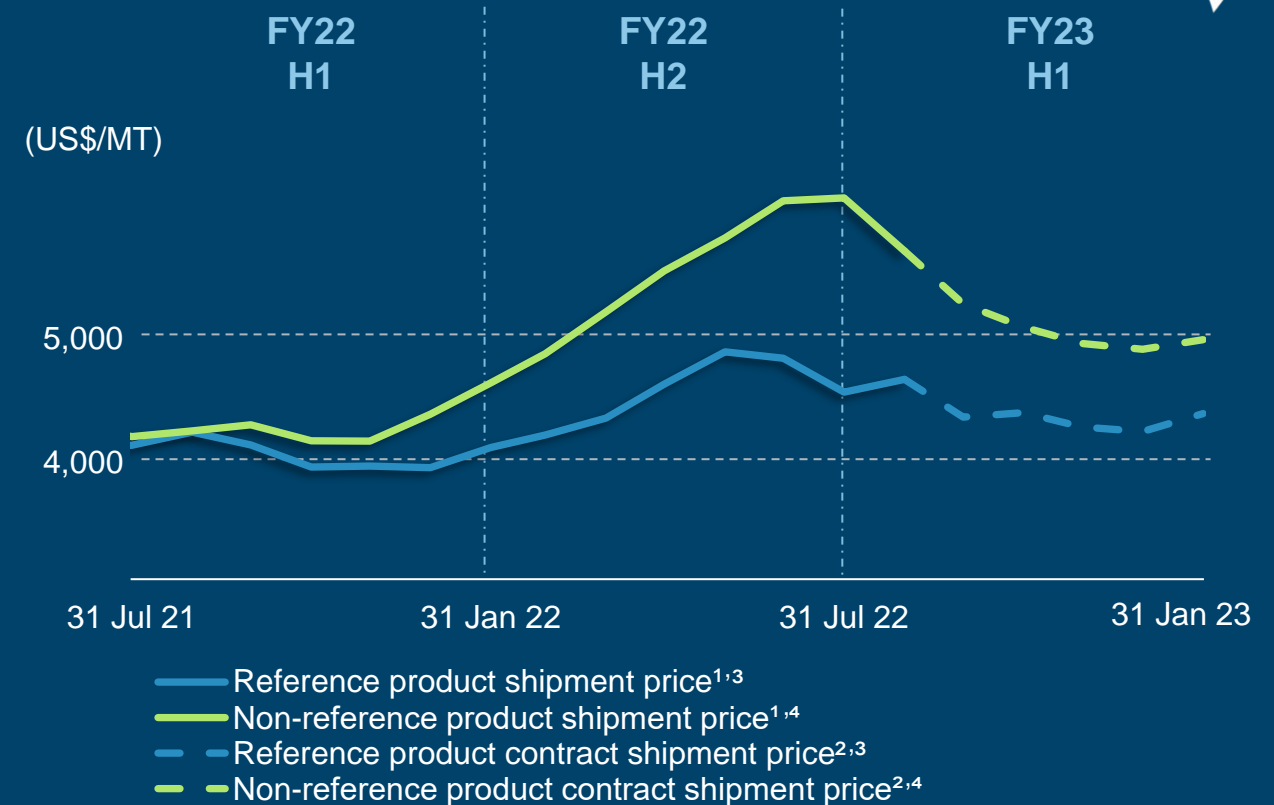
3. The contracted shipment price is the weighted average shipment price of GDT contracts won 1 to 5 months prior on the GDT platform. These contracts are yet to be shipped or invoiced and the weighted average price will change closer to the actual shipment date as new contracts are written

2023 earnings outlook

Forecast Earnings

45 – 60c
per share

- The range reflects:
 - continuing strong underlying demand
 - sustained favourable price relativities between our reference and non-reference portfolios
 - protein portfolio contract rate well positioned for this stage of the season



Source: GlobalDairyTrade. Data is up to GDT event 315 on 6 September 2022

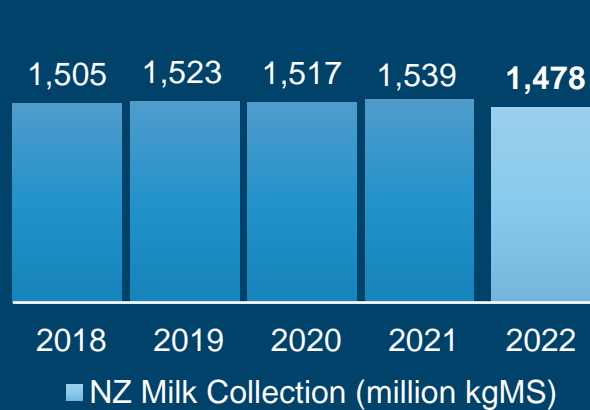
1. The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped
2. The contracted shipment price is the weighted average shipment price of GDT contracts won 1 to 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
3. Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and butter prices achieved on GDT
4. Non-reference product shipment price is represented by the cheddar prices achieved on GDT

Appendix

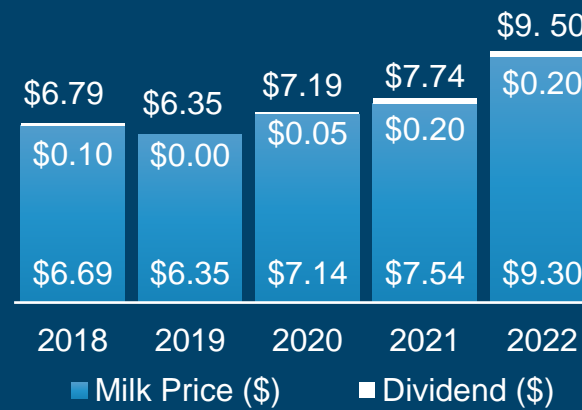


Key financial metrics for Total Group FY22¹

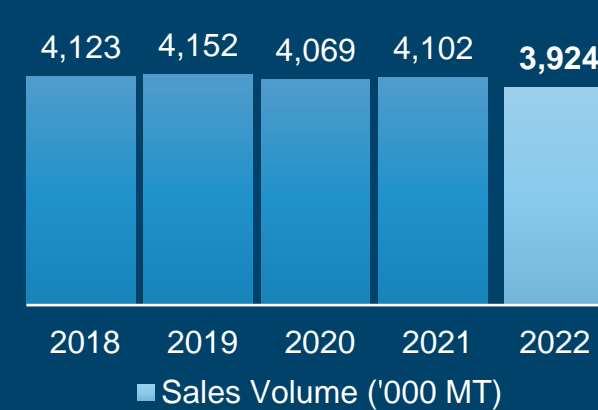
New Zealand Milk Collections



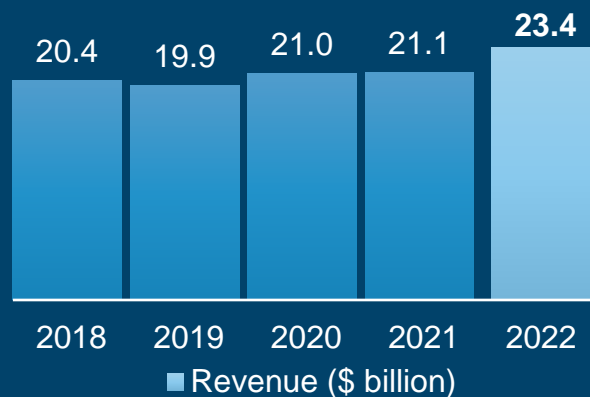
Total Pay-out



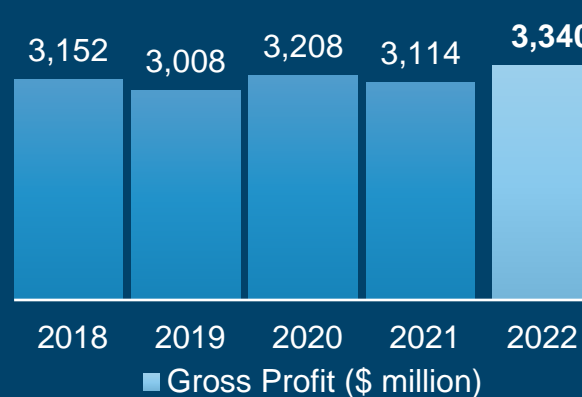
Sales Volume



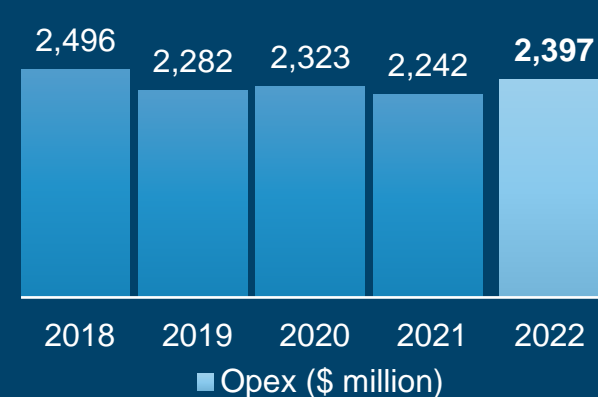
Revenue



Gross Profit



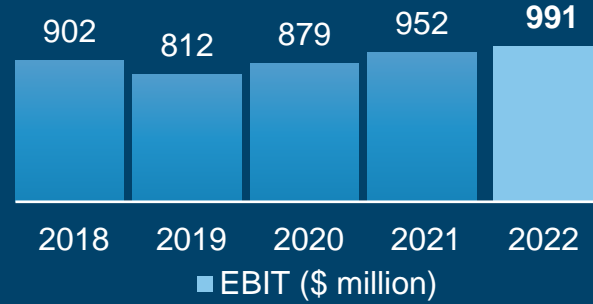
OPEX



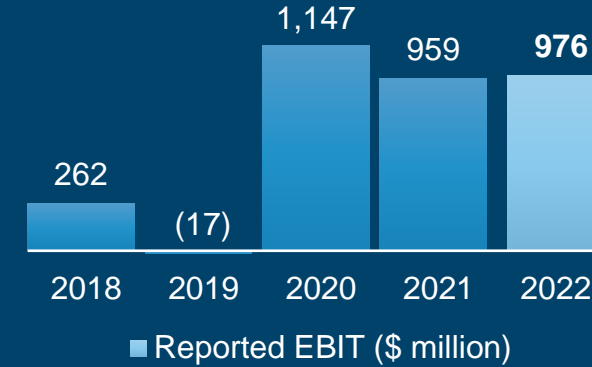
1. Total Group figures for the year ended 31 July. This includes continuing and discontinued operations, and are on a normalised basis unless stated otherwise

Key financial metrics for Total Group FY22¹

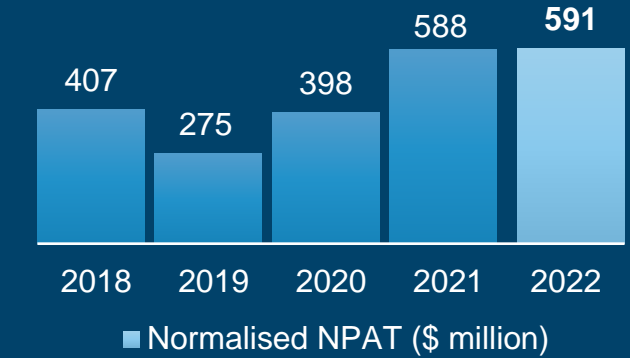
Normalised EBIT



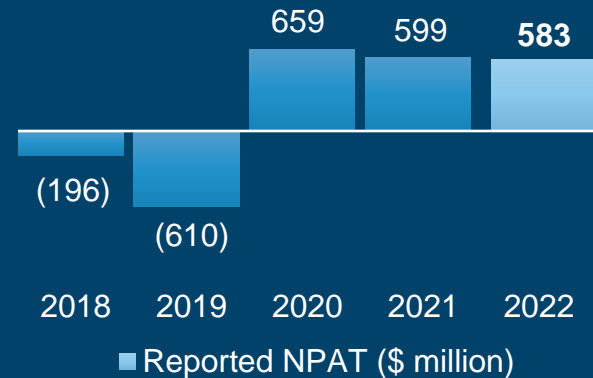
Reported EBIT



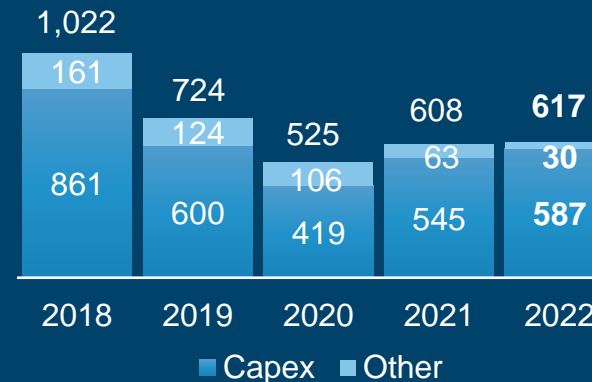
Normalised Profit After Tax²



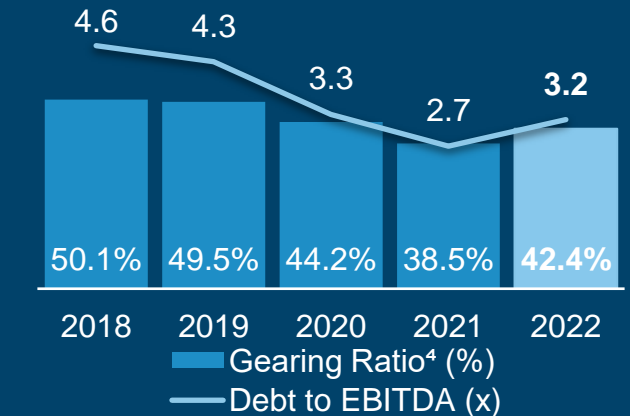
Reported Profit After Tax²



Capital Invested³



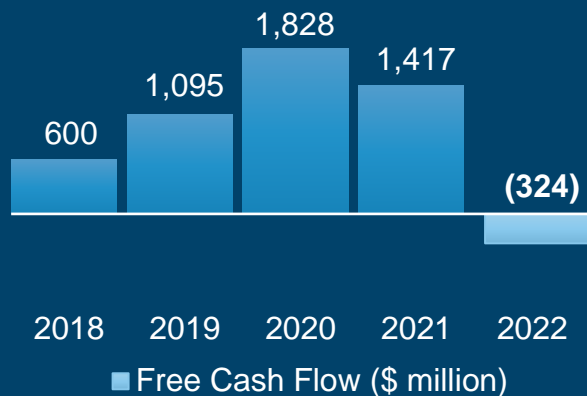
Leverage



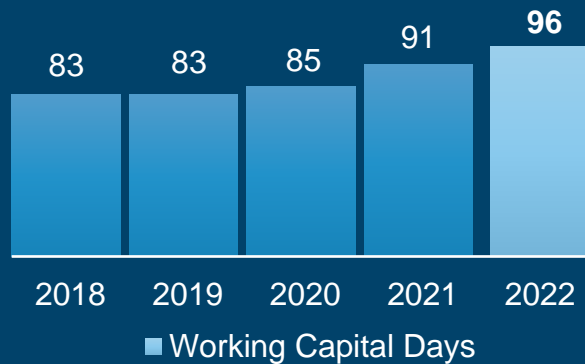
1. Total Group figures for the year ended 31 July. This includes continuing and discontinued operations, and are on a normalised basis unless stated otherwise
2. Includes amounts attributable to non-controlling interests
3. Refer to Glossary for definition
4. Comparative figures are shown on a consistent basis with current year

Key financial metrics for Total Group FY22¹

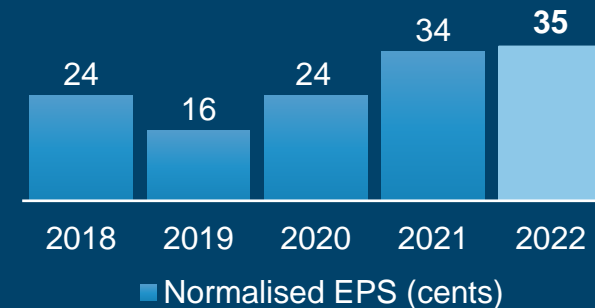
Free Cash Flow²



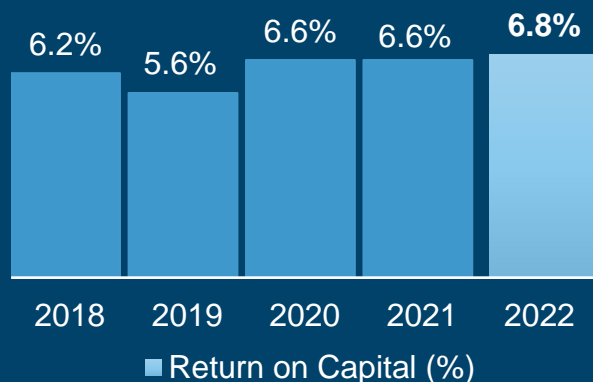
Working Capital Days



Earnings per Share

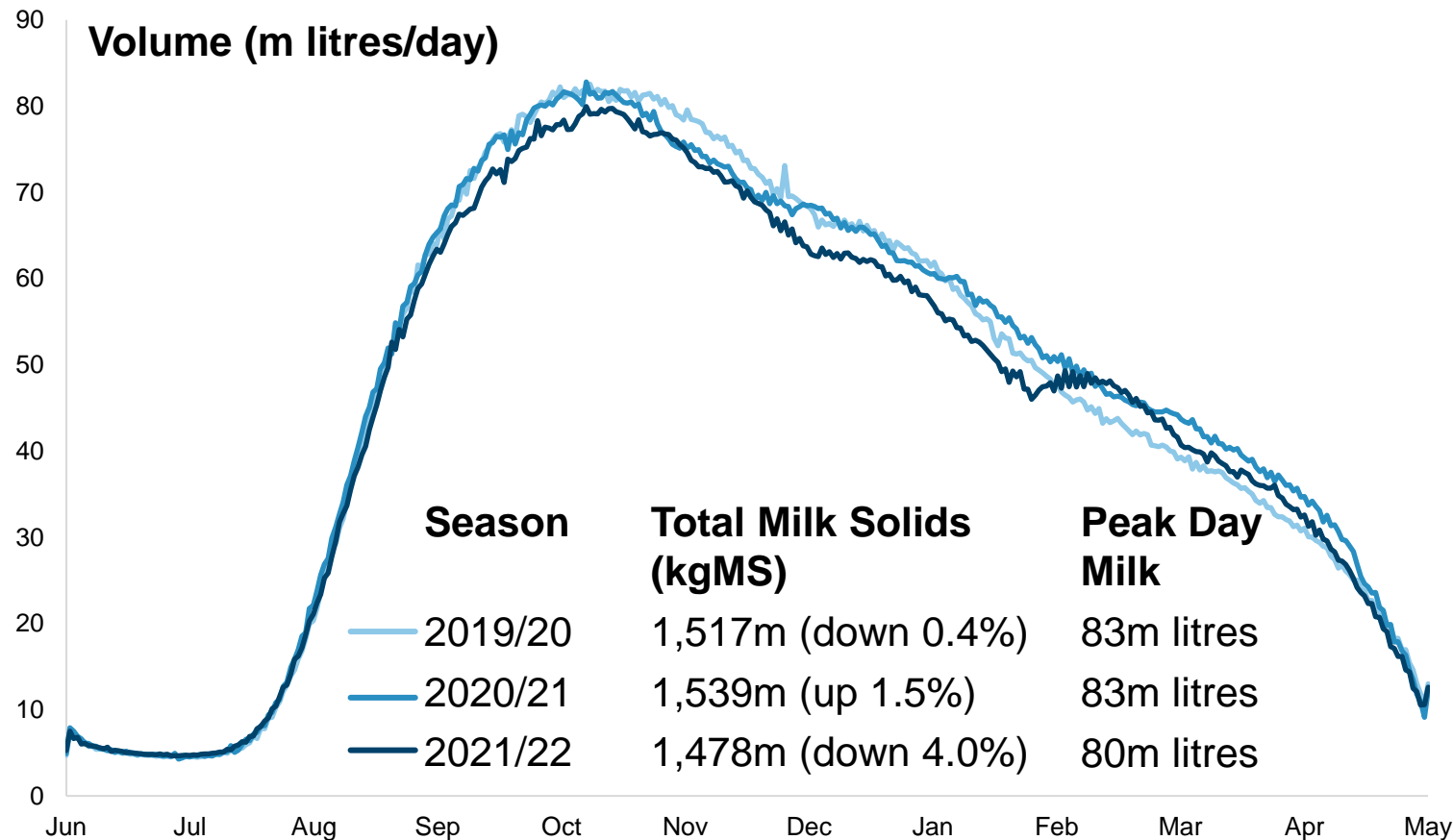


Return on Capital²



1. Total Group figures for the year ended 31 July. This includes continuing and discontinued operations, and are on a normalised basis unless stated otherwise
 2. Refer to Glossary for definition

Fonterra's New Zealand milk collections



- Fonterra's NZ milk collection for the 2021/22 season reached 1,478 million kgMS, a 4.0% decrease on last season
- Cold and wet spring with limited sunshine affected pasture growth and collections early in the season
- Improved North Island collections later in the season due to favourable growing conditions, offset by hot and dry conditions in lower South Island
- Rain at the very end of the season allowed for pasture covers to recover, ahead of the new season
- Maintained NZ milk market share at 79.1%

Reconciliation to Total Group EBIT

NZD million	31 Jul 2021			31 Jul 2022		
	Continuing Operations ¹	Discontinued Operations ¹	Total Group	Continuing Operations ¹	Discontinued Operations ¹	Total Group
Revenue	20,565	559	21,124	22,953	472	23,425
Cost of goods sold	(17,581)	(429)	(18,010)	(19,737)	(348)	(20,085)
Gross profit	2,984	130	3,114	3,216	124	3,340
Gross margin	14.5%	23.3%	14.7%	14.0%	26.3%	14.3%
Operating expenses	(2,153)	(89)	(2,242)	(2,284)	(113)	(2,397)
Other ²	65	15	80	50	(2)	48
Normalised EBIT	896	56	952	982	9	991
Normalisations	(9)	16	7	42	(57)	(15)
Reported EBIT	887	72	959	1,024	(48)	976

1. Refer to Note 1a and 2b of the FY22 Annual Financial Statements

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

Normalised items

NZD million	Global Dairy Trade	DPA Brazil	Total
Impairment	-	(57)	(57)
Gain on sale	42	-	42
EBIT	42	(57)	(15)
Tax impact	-	7	7
Profit/(loss) after tax	42	(50)	(8)
Loss attributable to non-controlling interests	-	24	24
Profit/(loss) after tax attributable to equity holders of the Co-operative	42	(26)	16

Earnings per share reconciliation

NZD million	2021	2022
Reported profit after tax¹	599	583
(Profit)/loss attributable to non-controlling interests	(21)	1
Reported profit after tax attributable to equity holders of the Co-operative	578	584
Reported earnings per share (cents)²	36	36
Normalised profit after tax¹	588	591
(Profit)/loss attributable to non-controlling interests	(21)	1
Less normalisation adjustments attributable to non-controlling interests	(17)	(24)
Normalised profit after tax attributable to equity holders of the Co-operative	550	568
Normalised earnings per share (cents)²	34	35
Weighted average number of Co-operative shares ('000)	1,613,105	1,613,353

1. Includes amount attributable to non-controlling interests

2. Attributable to equity holders of the Co-operative

Dividend Calculation

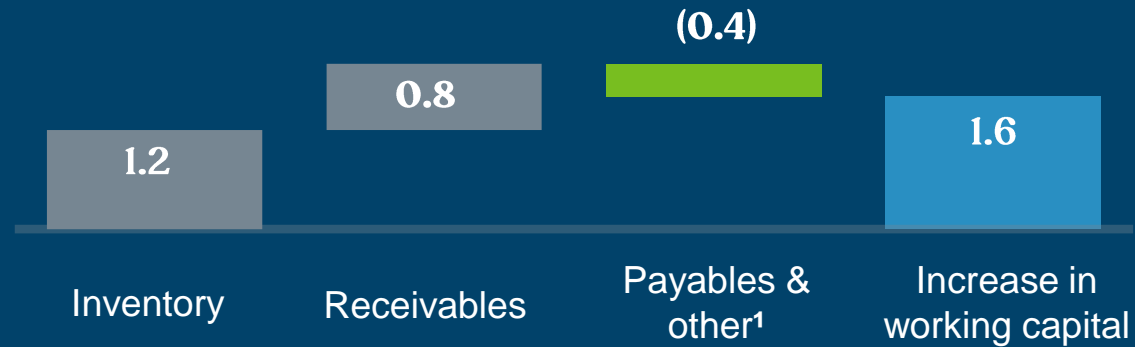
NZD cents per share	2021	2022
Normalised earnings ¹	34	35
Add: normalisations	2	1
Reported earnings ¹	36	36
Less: abnormal gains	(6)	(2)
Net earnings for dividend payment ²	30	34
Dividend payment percentage (%)	57%	59%
Dividend based on attributable earnings	17	20
Dividend based on abnormal gains ³	3	–
Total dividend	20	20
Interim dividend	5	5
Final dividend	15	15

- Total dividend of 20 cents per share
 - Interim dividend of 5 cents
 - Final dividend of 15 cents
- Final dividend of 15 cents per share will be paid on 14 October, with interim dividend of 5 cents per share having been paid on 14 April
- Total dividend represents 59% of attributable earnings

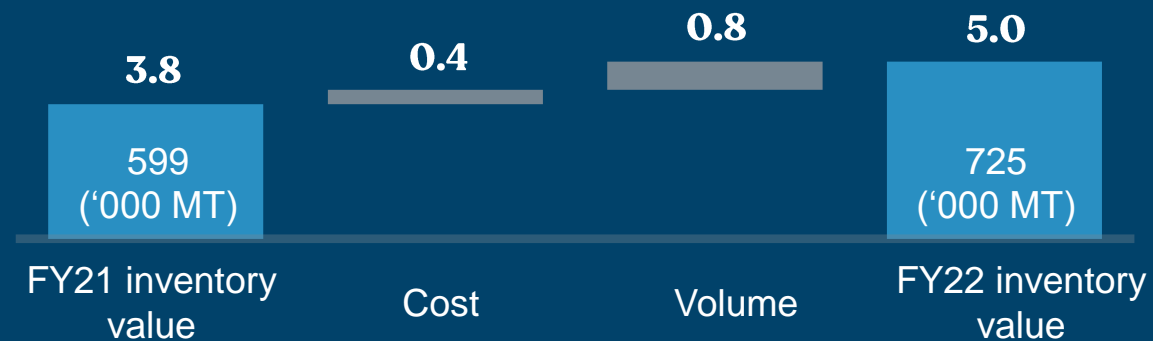
1. Attributable to equity holders of the Co-operative, excludes non-controlling interest
 2. Represents net earnings as specified in the Dividend Policy and is calculated as reported profit after tax less abnormal gains
 3. FY21 includes the reversal of previous impairment of our China Farms

Increase in working capital due to higher prices and inventory

Breakdown of increase in working capital as at 31 July (\$ billion)



Closing inventory as at 31 July (\$ billion)



- Significantly higher working capital throughout the year and year end, up \$1.6 billion, reflecting:
 - higher milk price – impacts both receivables and inventory
 - higher levels of inventory throughout second half and year end
- Higher year end inventory reflects late season milk production coinciding with shipping constraints
 - 88% of total inventory was priced and contracted but not shipped at year end
 - FY23 sales profile and shipping schedule supports inventory levels returning to normal levels

1. Includes supplier payables and other movements

Cash flow and change in net debt

NZD million	2021	2022
Cash generated from operations ¹	1,449	1,928
Net change in working capital	(171)	(1,598)
Net taxes paid	(84)	(137)
A. Net cash flows from operating activities	1,194	193
Cash flows from investing activities		
Divestments and asset sales	782	45
Capital expenditure and other ²	(559)	(562)
B. Net cash flows from investing activities	223	(517)
Free cash flow (A+B)	1,417	(324)
Interest, dividend and other	(452)	(638)
Non-cash changes in net debt	(52)	(52)
Decrease/(increase) in net debt³	913	(1,014)

- Increase in net debt of \$1 billion mainly due to higher working capital and lower proceeds from asset sales
- Free cash flow of \$(324) million was \$1.7 billion lower than last year, which reflects:
 - cash generated from operations increased \$479 million due to strong underlying performance, offset by;
 - increase in working capital \$(1.6) billion due to the higher milk price and inventory levels
 - net cash flows from investing activities down by \$740 million, with prior year benefiting from asset sales

Note: Comparative figures are shown on a consistent basis with current year

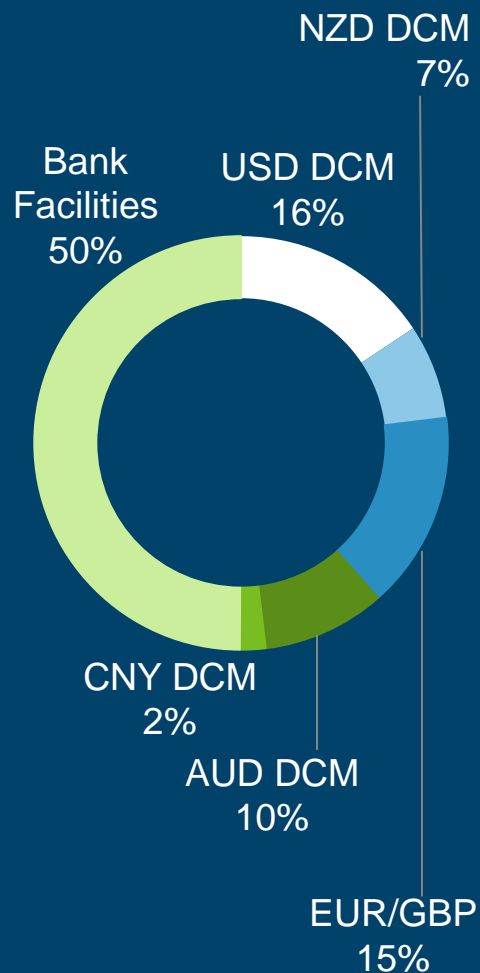
1. Includes EBIT, non-cash and non-operating adjustments made to EBIT to determine cash generated from operations

2. Capital expenditure presented in this table is different to capital expenditure on the Capital Invested page primarily due to treatment of livestock and accruals

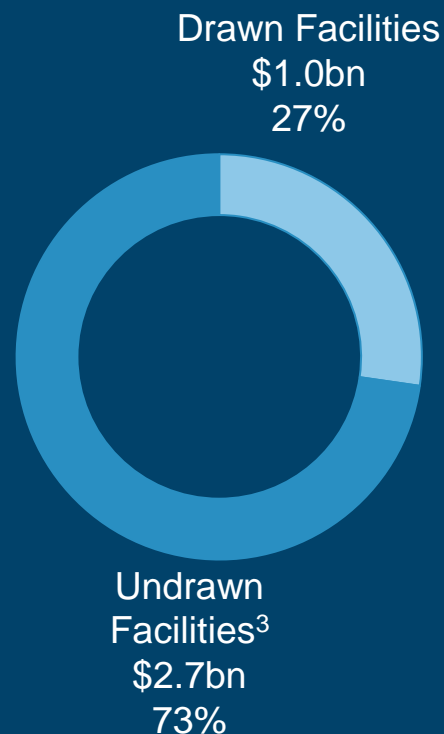
3. Net debt includes amounts attributable to disposal groups held for sale

Diversified and prudent funding position

Diversified Profile¹

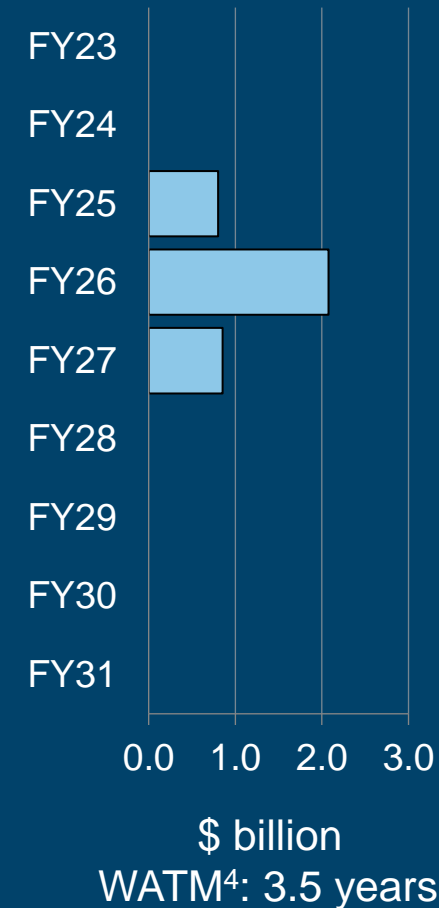


Prudent Liquidity



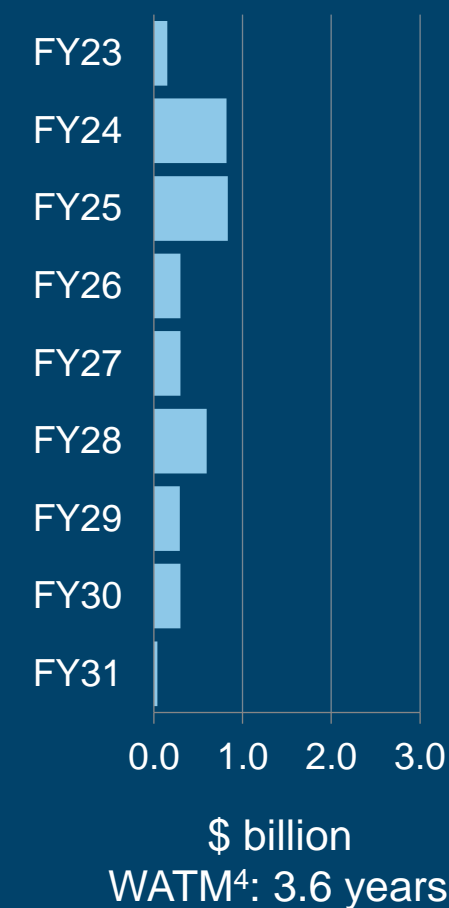
Bank Facilities

Maturity Profile



Debt Capital Markets²

Maturity Profile



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

3. Undrawn facilities includes \$0.4bn stepped down during the year, reinstated from 1 Sept 2022
4. WATM is weighted average term to maturity

Note: As at 31 July 2022 and excludes amounts attributable to disposal groups held for sale

Operating expenses

NZD million ¹	2021 ²	2022
Costs allocated to regions		
Selling & marketing	656	667
Distribution & storage	543	588
Administration expenses	633	669
Research & development	82	83
Other expenses	16	72
Total allocated operating expenses	1,930	2,079
Unallocated costs	223	205
Operating expenses from continuing operations	2,153	2,284
Operating expenses from discontinued operations	89	113
Total Group operating expenses	2,242	2,397

1. Normalised basis. Does not align to FY22 Annual Financial Statements, predominately due to additional categories

2. \$59 million of 'Other' expenses have been reclassified to Administration expenses for consistency with the current period



- Total Group operating expenses increased \$155 million reflecting:
 - inflationary pressure and supply chain disruptions increased distribution & storage, and administration expenses by \$81 million
 - increased 'Other' expenses of \$56 million reflects Asia brands impairment and costs associated with discontinuing some products that are not aligned with our strategy
- Unallocated costs decreased \$18 million due to releasing a provision held at Group level
- Increased costs in discontinued operations due to higher distribution and storage costs in DPA Brazil

Unallocated costs¹

NZD million ²	2021	2022
Farmer services	44	44
Communication and community	13	16
Fonterra Board & Co-operative Council	7	6
Governance support	34	36
Group finance, property & support	42	44
People & culture	10	16
Other	73	43
Total	223	205

1. Refer to Glossary for definition
2. Normalised basis



- Unallocated costs are favourable \$18 million largely due to 'Other'
- 'Other' is favourable due to release of a provision at Group level following a final judicial interpretation on the application of the Holidays Act 2003 in New Zealand to certain discretionary incentive payments

Group performance by channels

Ingredients

Volume ('000 MT)

2,197 From 2,346 ↓

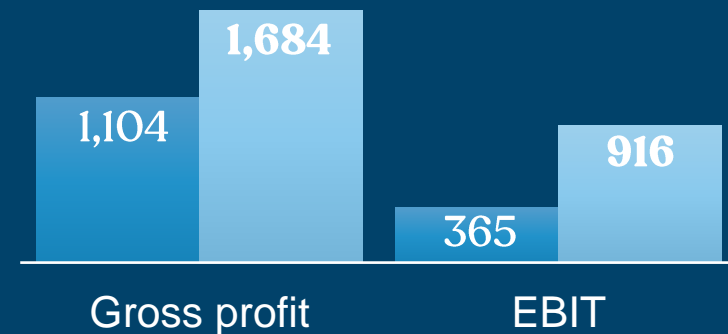
Revenue (\$ million)

15,703 From 13,697 ↑

Gross margin

10.7% From 8.1% ↑

\$ million ■ 2021 ■ 2022



Foodservice

Volume ('000 MT)

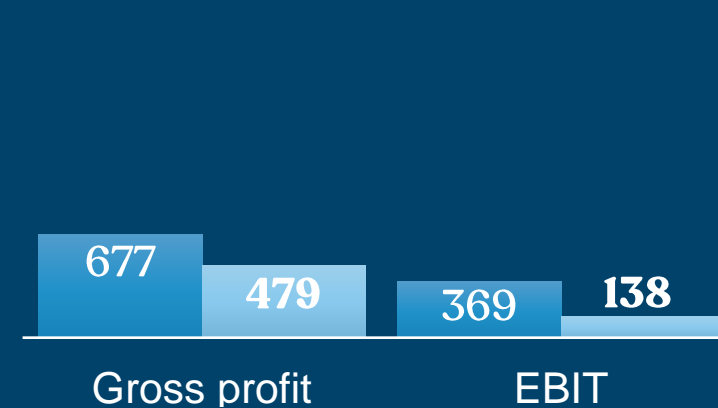
509 From 498 ↑

Revenue (\$ million)

3,314 From 2,959 ↑

Gross margin

14.5% From 22.9% ↓



Consumer

Volume ('000 MT)

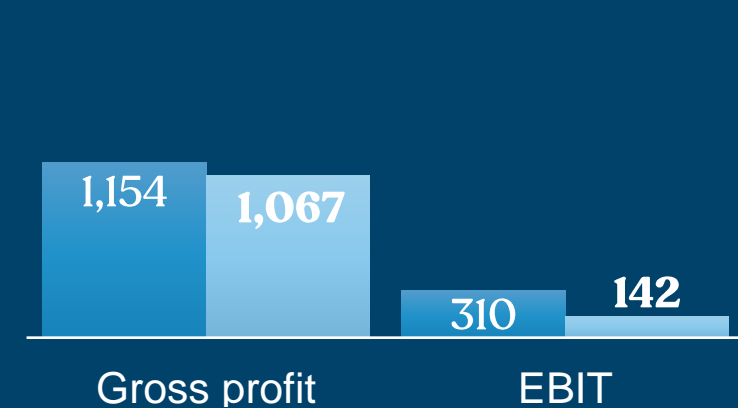
1,048 From 1,070 ↓

Revenue (\$ million)

4,134 From 4,070 ↑

Gross margin

25.8% From 28.4% ↓



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 includes re-presentations for consistency with the current period

Ingredients

million	2021	2022	%Δ ¹
Sales volume ² ('000 MT)	2,346	2,197	(6)%
Revenue (\$)	13,697	15,703	15%
Gross profit (\$)	1,104	1,684	53%
Gross margin (%)	8.1%	10.7%	
Operating expenses (\$)	(772)	(871)	(13)%
Other ³ (\$)	33	103	212%
Normalised EBIT ⁴ (\$)	365	916	151%
Includes EBIT attribution from Group Operations ⁵ (\$)	(109)	260	-

Note: Figures are for the year ended 31 July and are on a normalised continuing operations basis.

Comparative information includes re-presentations for consistency with the current period

1. Percentages as shown in the 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 channels

3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees

4. Includes EBIT attribution from Group Operations

5. Included in Ingredients' EBIT. Refer to Glossary for explanation of Group Operations



- Strong performance in the Ingredients channel across multiple markets and products at a time of constrained milk supply
- Gross profit and margins improved reflecting:
 - higher product prices, particularly in our protein portfolio
 - improved product mix, including increased allocation to our higher value Active Living products, partially offset by;
 - reduced sales volumes due to lower milk collections and shipping disruptions
- 'Other' up due to higher other operating income and favourable foreign exchange movements
- Favourable allocation from Group Operations reflects improved margins, particularly in casein

New Zealand sourced Ingredients product mix



	2021		2022	
Sales Volume ('000 MT)¹				
Reference products	1,817		1,629	
Non-reference products	884		822	
Revenue¹	\$ billion	\$ per MT	\$ billion	\$ per MT
Reference products	9.4	5,162	10.4	6,361
Non-reference products	5.1	5,780	5.7	6,951
Cost of Milk				
Reference products	(7.4)	(4,069)	(8.3)	(5,077)
Non-reference products	(3.3)	(3,678)	(3.7)	(4,494)

- The average reference product sales price per metric tonne has increased 23%, driven by all products:
 - in particular, AMF and butter, fat-based products increased 31% and 29%, respectively
- The average non-reference product sales price per metric tonne has increased 20%:
 - strong performance from individual products such as casein and whey protein concentrate (WPC)
 - other products, such as cheese, have had more modest prices increases
- Cost of milk increased 25% and 22% for reference products and non-reference products, respectively, with fat-based products getting higher allocation of milk cost relative to protein products

1. Excludes bulk liquid milk. Bulk liquid milk for the year ended 31 July 2022 was 68,000 MT of kgMS equivalent (the year ended July 2021 was 72,000 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 919 million kgMS in reference products and 424 million kgMS non-reference products (previous comparative period 1,019 million kgMS reference products and 442 million non-reference products)

Foodservice

million	2021	2022	%Δ ¹
Sales volume ² ('000 MT)	498	509	2%
Revenue (\$)	2,959	3,314	12%
Gross profit (\$)	677	479	(29)%
Gross margin (%)	22.9%	14.5%	
Operating expenses (\$)	(315)	(346)	(10)%
Other ³ (\$)	7	5	(29)%
Normalised EBIT ⁴ (\$)	369	138	(63)%
Includes EBIT attribution from Group Operations ⁵ (\$)	4	(71)	-

Note: Figures are for the year ended 31 July and are on a normalised continuing operations basis

1. Percentages as shown in the 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 channels
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees
4. Includes EBIT attribution from Group Operations
5. Included in Foodservice's EBIT. Refer to Glossary for explanation of Group Operations



- Sales volumes up due to COVID-19 restrictions relaxing in key markets and growth of our Quick Service Restaurant portfolio
- Gross profit down, particularly in Greater China and South East Asia, due to:
 - in-market sales pricing unable to adjust at the same rate as rising cost of milk
 - weaker market conditions including COVID-19 restrictions and weather events
- Unfavourable allocation from Group Operations reflects lower margins on products such as mozzarella

Consumer

million	2021	2022	%Δ ¹
Sales volume ² ('000 MT)	1,070	1,048	(2)%
Revenue (\$)	4,070	4,134	2%
Gross profit (\$)	1,154	1,067	(8)%
Gross margin (%)	28.4%	25.8%	
Operating expenses (\$)	(843)	(862)	(2)%
Other ³ (\$)	(1)	(63)	-
Normalised EBIT ⁴ (\$)	310	142	(54)%
Includes EBIT attribution from Group Operations ⁵ (\$)	(13)	-	-

Note: Figures are for the year ended 31 July and are on a normalised continuing operations basis. Comparative information includes re-presentations for consistency with the current period

1. Percentages as shown in the 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 channels
3. Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees
4. Includes EBIT attribution from Group Operations



- Strong performance in our consumer business in Chile, offset by;
 - in-market sales pricing unable to adjust at the same rate as rising cost of milk in other markets
 - weaker market conditions, particularly in South East Asia and Sri Lanka
- Operating expenses up due to impairment of some of our Asia brands⁶
- 'Other' includes \$(80) million adverse revaluation of the Sri Lankan business payables due to devaluation of the rupee
- Favourable change in Group Operations attribution due to improved margins in our protein portfolio, such as skim milk powder

5. Included in normalised Consumer's EBIT. Refer to Glossary for explanation of Group Operations

6. The impairment includes a \$22 million impairment of Anlene, an \$11 million impairment of Anmum and a \$1 million impairment of Chesdale, with the carrying amount of these brands now at \$336 million as at 31 July 2022. Our Asia brands also include Anchor which was not impaired

Group performance by region

Asia Pacific

Volume ('000 MT)

1,370 From 1,386 ↓

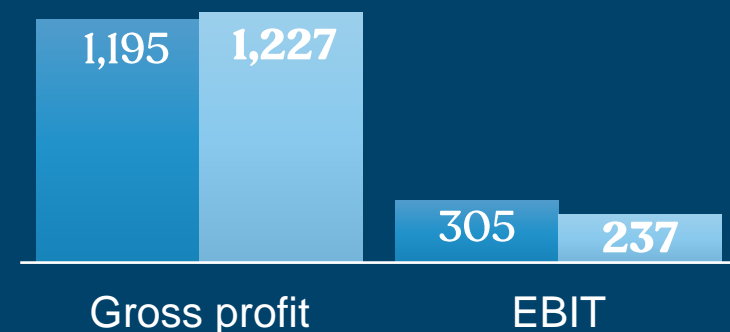
Revenue (\$ million)

7,879 From 7,110 ↑

Gross margin

15.6% From 16.8% ↓

\$ million ■ 2021 ■ 2022



AMENA

Volume ('000 MT)

1,355 From 1,352 ↑

Revenue (\$ million)

8,612 From 7,304 ↑

Gross margin

13.2% From 12.4% ↑



Greater China

Volume ('000 MT)

1,029 From 1,176 ↓

Revenue (\$ million)

6,660 From 6,312 ↑

Gross margin

13.0% From 13.2% ↓

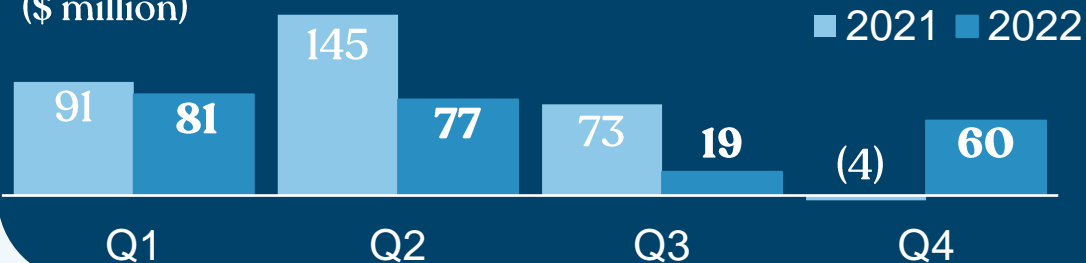


Asia Pacific

million	2021	2022	%Δ ¹
Sales volume ² ('000 MT)	1,386	1,370	(1)%
Revenue (\$)	7,110	7,879	11%
Gross profit (\$)	1,195	1,227	3%
Gross margin (%)	16.8%	15.6%	
Operating expenses (\$)	(889)	(941)	(6)%
Other ³ (\$)	(1)	(49)	
Normalised EBIT ⁴ (\$)	305	237	(22)%

Includes EBIT attribution from Group Operations ⁵ (\$)	(3)	67	-
---	-----	----	---

EBIT by Quarter
(\$ million)



- Improved Ingredients gross margin more than offset by lower Foodservice and Consumer gross margins:
 - Ingredients channel benefited from higher product prices improving gross profit
 - lower gross margins in Foodservice and Consumer channels due to higher cost of milk
- 'Other' includes \$(80) million adverse revaluation of the Sri Lankan business payables due to devaluation of the rupee
- Increased EBIT attribution from Group Operations mainly driven by improved margin in our protein portfolio and bulk liquids

Note: Figures are for the year ended 31 July and are on a normalised continuing operations basis.

- Percentages as shown in the table may not align to the calculation of percentages based on numbers in the table due to rounding of figures
- Includes sales to other segments
- Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees
- Includes EBIT attribution from Group Operations
- Included in Asia Pacific's normalised EBIT. Refer to Glossary for explanation of Group Operations

Asia Pacific channel performance

Ingredients

Volume ('000 MT)

605 From 610 ↓

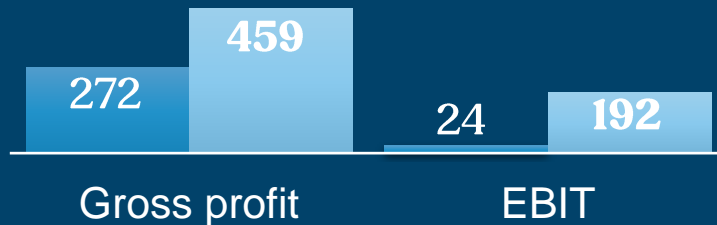
Revenue (\$ million)

4,325 From 3,654 ↑

Gross margin

10.6% From 7.4% ↑

\$ million ■ 2021 ■ 2022



Foodservice

Volume ('000 MT)

177 From 163 ↑

Revenue (\$ million)

1,079 From 930 ↑

Gross margin

12.1% From 23.4% ↓



Consumer

Volume ('000 MT)

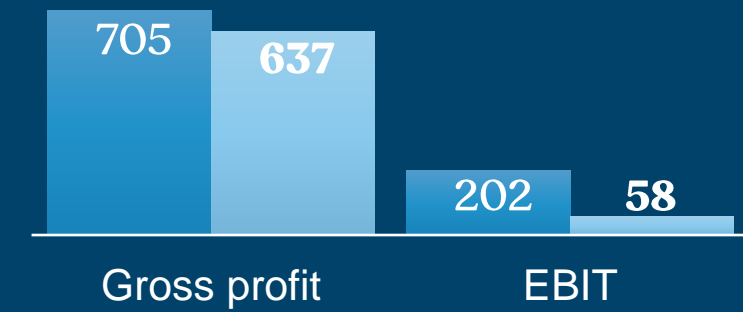
588 From 613 ↓

Revenue (\$ million)

2,475 From 2,526 ↓

Gross margin

25.7% From 27.9% ↓



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 includes re-presentations for consistency with the current period

Australia

million	2021	2022	%Δ ¹
Milk collections (kgMS)	106	106	–
Sales volume ² ('000 MT)	373	365	(2)%
Revenue (\$)	1,953	2,094	7%
Gross profit (\$)	243	283	16%
Gross margin (%)	12.4%	13.5%	
Operating expenses (\$)	(167)	(178)	(7)%
Other ³ (\$)	(2)	1	–
Normalised EBIT (\$)	74	106	43%

Note: Figures are for the year ended 31 July and are on a normalised continuing operations basis.
This table was prepared exclusive of Group Operations attribution

1. Percentages as shown in the 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 and net foreign exchange gains/(losses)

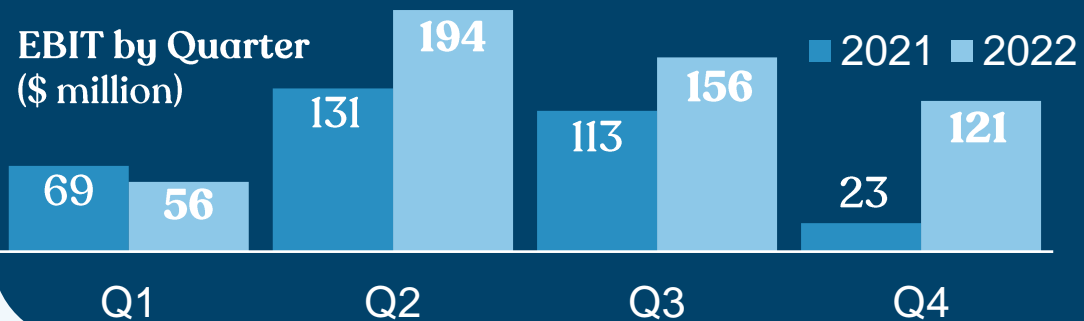


- Milk collections were stable, with improved market share offset by labour shortages, and on-farm input costs and availability
- Improved gross profit due to:
 - Ingredients channel benefited from the broad strengthening of product prices and a weaker Australian dollar, partially offset by;
 - higher input costs impacted gross margins in Consumer and Foodservice channels
- EBIT increased \$32 million to \$106 million, mainly due to an increase in gross profit

AMENA

million	2021	2022	%Δ ¹
Sales volume ² ('000 MT)	1,352	1,355	–
Revenue (\$)	7,304	8,612	18%
Gross profit (\$)	904	1,137	26%
Gross margin (%)	12.4%	13.2%	
Operating expenses (\$)	(605)	(674)	(11)%
Other ³ (\$)	37	64	73%
Normalised EBIT ⁴ (\$)	336	527	57%

Includes EBIT attribution from Group Operations ⁵ (\$)	(99)	70
---	------	----



- Increased gross profit due to
 - improved pricing and product mix in the Ingredients channel, particularly in our protein portfolio, partially offset by;
 - tighter margins in Foodservice and Consumer channels
- Operating expenses up, impacted by increased storage and distribution costs
- Increased EBIT attribution from Group Operations driven mainly by strong casein, milk protein concentrate and whey protein concentrate margins

Note: Figures are for the year ended 31 July and are on a normalised continuing operations basis.

1. Percentages as shown in the 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 profit or loss on of equity accounted investees
4. Includes EBIT attribution from Group Operations
5. Included in AMENA's normalised EBIT. Refer to Glossary for explanation of Group Operations

AMENA channel performance

Ingredients

Volume ('000 MT)

895 From 912 ↓

Revenue (\$ million)

6,899 From 5,784 ↑

Gross margin

11.4% From 9.2% ↑

\$ million ■ 2021 ■ 2022



Foodservice

Volume ('000 MT)

73 From 61 ↑

Revenue (\$ million)

411 From 338 ↑

Gross margin

7.3% From 12.4% ↓



Consumer

Volume ('000 MT)

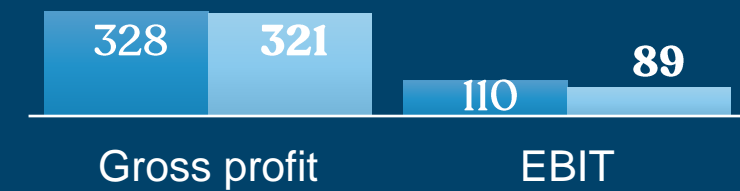
387 From 379 ↑

Revenue (\$ million)

1,302 From 1,182 ↑

Gross margin

24.7% From 27.7% ↓



Latin America

million	2021	2022	%Δ ¹
Sales volume ² ('000 MT)	379	388	2%
Revenue (\$)	1,045	1,131	8%
Gross profit (\$)	285	309	8%
Gross margin (%)	27.3%	27.3%	
Operating expenses (\$)	(211)	(217)	(3)%
Other ³ (\$)	1	–	–
Normalised EBIT (\$)	75	92	23%

Note: Figures are for the year ended 31 July and are on a normalised continuing operations basis.

This table was prepared exclusive of Group Operations attribution

1. Percentages as shown in the 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 and net foreign exchange gains/(losses)

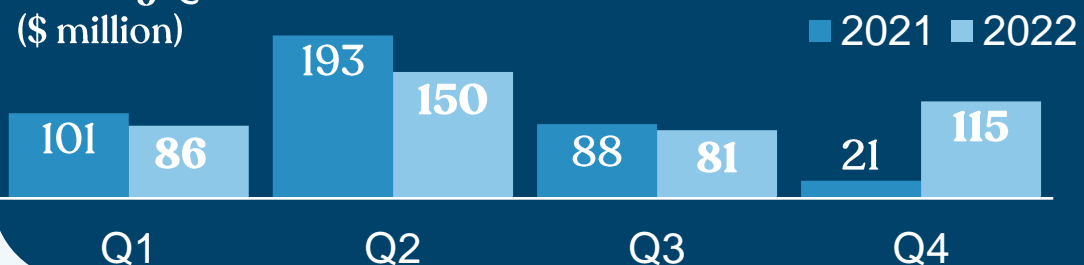


- Sales volumes growth mainly driven by Chilean government stimulus
- Improved gross profit driven by our consumer business in Chile, due to:
 - sales volume growth of higher margin products – such as yoghurt and desserts
 - ability to leverage our number one market share position and lift in-market prices
- Operating expenses increased to support higher sales volumes and higher supply chain costs

Greater China

million	2021	2022	%Δ ¹
Sales volume ² ('000 MT)	1,176	1,029	(13)%
Revenue (\$)	6,312	6,660	6%
Gross profit (\$)	836	866	4%
Gross margin (%)	13.2%	13.0%	
Operating expenses (\$)	(436)	(464)	(6)%
Other ³ (\$)	3	30	-
Normalised EBIT ⁴ (\$)	403	432	7%
Includes EBIT attribution from Group Operations ⁵ (\$)	(16)	52	-

EBIT by Quarter
(\$ million)



- Lower sales volumes impacted by lower milk collections over the first nine months of FY22 and shipping disruptions
- Increased gross profit driven by:
 - strong Ingredients performance, due to improved pricing, particularly in our protein portfolio, partially offset by;
 - higher input costs and lower sales volumes in Foodservice and Consumer
- Increased EBIT attribution from Group Operations due to strong protein portfolio margins

Note: Figures are for the year ended 31 July and are on a normalised continuing operations basis.

1. Percentages as shown in the 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 profit or loss on equity accounted investees
4. Includes EBIT attribution from Group Operations
5. Included in Greater China's normalised EBIT. Refer to Glossary for explanation of Group Operations

Greater China channel performance

Ingredients

Volume ('000 MT)

697 From 824 ↓

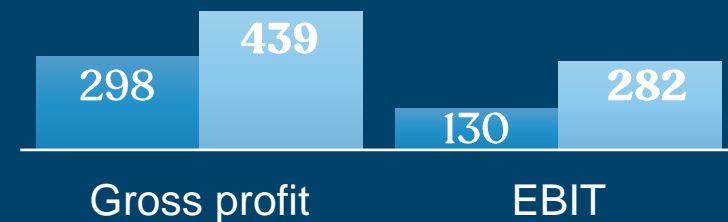
Revenue (\$ million)

4,479 From 4,259 ↑

Gross margin

9.8% From 7.0% ↑

\$ million ■ 2021 ■ 2022



Foodservice

Volume ('000 MT)

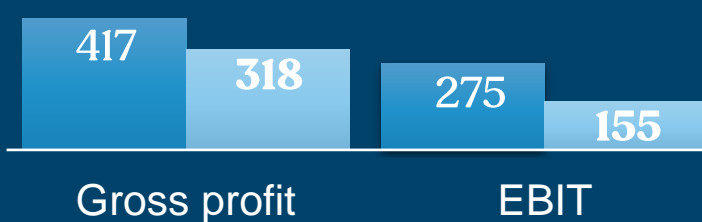
259 From 274 ↓

Revenue (\$ million)

1,824 From 1,691 ↑

Gross margin

17.4% From 24.7% ↓



Consumer

Volume ('000 MT)

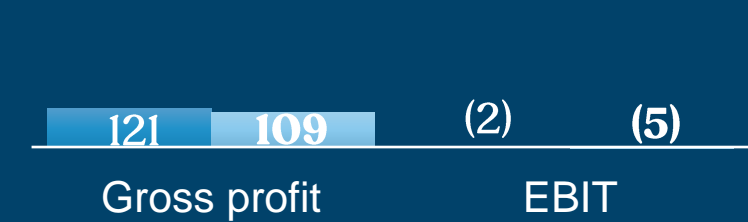
73 From 78 ↓

Revenue (\$ million)

357 From 362 ↓

Gross margin

30.5% From 33.4% ↓




New Zealand and Non-New Zealand Milk

NZD million ¹	31 July 2021			31 July 2022		
	New Zealand Milk	Non-New Zealand Milk	Total	New Zealand Milk	Non-New Zealand Milk	Total
Revenue	17,331	3,234	20,565	19,466	3,487	22,953
Cost of goods sold	(14,844)	(2,737)	(17,581)	(16,794)	(2,943)	(19,737)
Gross profit	2,487	497	2,984	2,672	544	3,216
Gross margin	14.4%	15.4%	14.5%	13.7%	15.6%	14.0%
Operating expenses	(1,752)	(401)	(2,153)	(1,910)	(374)	(2,284)
Other ²	56	9	65	43	7	50
Normalised EBIT	791	105	896	805	177	982
EBIT margin	4.6%	3.2%	4.4%	4.1%	5.1%	4.3%

1. Figures are for the year ended 31 July and are prepared on a normalised continuing operations basis

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

Good progress on our strategic choices

		FY21	FY22
	Focus on Aotearoa New Zealand Milk		
	<ul style="list-style-type: none">Higher allocation of milk solids to:<ul style="list-style-type: none">Foodservice through innovation of our UHT cream portfolioActive Living through partnership with key medical nutrition customers	12.0% 5.3%	13.0%¹ 5.9%¹
	Be a leader in dairy innovation & science		
	<ul style="list-style-type: none">Increased R&D expenditureEntered into a strategic partnership with VitaKey	\$110m	\$115m²
	Be a leader in Sustainability		
	<ul style="list-style-type: none">Reduced water use at manufacturing sites in water constrained regionsMade progress toward exiting coal	2.6%	6.6%³

1. As a percentage of our total New Zealand milk solids (kgMS)
2. Research and development costs
3. Reduction in water usage relative to FY18

FY22 progress against our aspirational financial profile

	FY20 Actual	FY21 Actual	FY22 Forecast	FY22 Actual	FY24 Year 3 Target	FY27 Year 6 Target	FY30 Year 9 Target
Improved performance							
Milk Price per kgMS	\$7.14	\$7.54		\$9.30			
Normalised EBIT	\$879m	\$952m	\$875- \$975m	\$991m	\$1,025- \$1,125m	\$1,150- \$1,250m	\$1,325- \$1,425m
Earnings per share	24c	34c	25-40c	35c	45-55c	50-60c	55-65c
Return on capital	6.6%	6.6%	6.5-7.0%	6.8%	7.0-8.0%	7.5-8.5%	9.0-10.0%
Financial position							
Capital investment	\$525m	\$608m	\$650m	\$617m	\$980m	\$980m	\$980m
Debt to EBITDA ratio	3.3x	2.7x	2.4x*	3.2x	<2.5x	<2.5x	<2.5x
Gearing ratio	44%	39%	35%*	42%	<35%	<35%	<35%
Dividend to shareholders							
Dividends per share	5c	20c	15-20c	20c	22-27c	30-35c	40-45c

*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 back of this document and the key assumptions and risks in the Appendix of the booklet titled Our Path to 2030 for further details.

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 provides an update of Fonterra's performance against these targets for the year ended 31 July 2022.

	FY21	FY22 SOI	FY22
Healthy People			
Total recordable injury frequency rate (TRIFR) per million work hours ¹	5.7	5.6	6.7
Female representation in senior leadership ²	32.4%	35.8%	34.8%
Employee engagement	4.09	Top Quartile ³	— ³
Farmer sentiment (Net Promoter Score for Fonterra in New Zealand)	23	30	25
Healthy Environment			
Number of farms with Farm Environment Plans (New Zealand)	53%	67%	71%
Reduction in water used at sites in water-constrained regions versus FY18	(2.6)%	(8.0)%	(6.6)%
Reduction in greenhouse gas emissions from manufacturing versus FY18	(6.5)%	(6.6)%	(11.2)%
Healthy Business			
Fonterra % kgMS of New Zealand milk collected for the season ended 31 May	79.0%	79.3%	79.1% ⁴
New Zealand Farmgate Milk Price (per kgMS)	\$7.54	\$7.25-\$8.75	\$9.30
Return on capital	6.6%	6.5% to 7.0%	6.8%
Debt/EBITDA	2.7x	2.4x	3.2x ⁵
Adjusted Net Debt Gearing Ratio	38.5%	34.5%	42.4% ⁵
Normalised earnings per share	34c	25c to 40c	35c

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

2. Senior leadership defined as Band 14+

3. Due to management review of the provider and means of determining engagement, measurement of this metric was not completed during the FY22 financial year.

4. F22 Season to 31 May 2022. Prior comparable season to 31 May 2021: 79.0%.

5. Colour reflects performance relative to target and prior year. Both metrics remain below the maximum ratio of 3.75x and 45%.

FY23 Integrated Scorecard



People

Providing a safe, healthy and inclusive place to work. Able to attract and retain the best talent in the world. Continuously developing people's skills for meaningful careers within the ever-changing nature of work.

Nature

Leading the transition to net-zero GHG emissions for dairy nutrition.

Demonstrating that dairy can be a net-positive contributor to nature.

Relationships

(Farmers, customers, New Zealand, consumer, government etc.)

Strong relationships with customers and consumers through the provision of high-quality, innovative products and services and sustainability credentials. Processor of choice for farmers through competitive returns on their investment and value-adding support and services.

Trusted relationships with stakeholders, playing our part for positive social, environmental and economic outcomes that are recognised by New Zealanders.

Intellectual Capital

(What we know)

Leveraging our IP to deliver extra value for the Co-op.

Assets & Infrastructure

(How we do dairy)

Operational assets are resilient and can efficiently deliver our most valuable portfolio of products and services, with an ever-decreasing environmental footprint.

Financial

(Our Performance)

Consistently attractive for farmers to be members of the Co-op, both as suppliers and shareholders.

	Key Metrics	FY21	FY22	FY23 Scorecard
People	Serious harm	9	8	5
	Gender diversity (Band 12+)	36.3%	37.6%	38.8%
Nature	GHG emissions (Scope 1,2) ¹	(6.6)%	(11.2)%	(10.6)%
	FEP adoption (New Zealand)	53%	71%	84%
Relationships	Water Improvement Plans in place	—	—	37.5% (18 sites)
	Share of New Zealand milk collected	79.0%	79.1%	79.0%
Intellectual Capital	EBIT from New Zealand value-add businesses (\$ million) ²	616	307	388
Assets & Infrastructure	Cost of quality (% of cost of goods sold)	0.45%	0.44%	0.35%
Financial	Return on capital	6.6%	6.8%	7.0% to 7.5%
	Farmgate Milk Price (\$)	7.54	9.30	\$9.50 ³

1. Relative to FY18 Baseline. Long-term will include Scope 3 but for now Scope 1&2 including farms under our operational control

2. EBIT consists of Consumer, Foodservice, Active Living excluding Brazil, Australia and Chile

3. The latest announced Forecast Farmgate Milk Price range is \$8.50-\$10.00 per kgMS, with a mid-point of \$9.25 per kgMS (26 August 2022)

Glossary

Active Living

Represents ingredients & solutions sold to businesses who cater to consumers' health and wellness needs. It addresses three dimensions of wellbeing (Physical, Mental, Inner), extending to meet the nutrition needs of medical patients through to everyday people pursuing active lifestyles. This portfolio includes proteins, specialty ingredients such as probiotics, lactoferrin & lipids, and patented formulations

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

Comprises capital expenditure plus right-of-use asset additions and business acquisitions, including equity contributions, long-term advances, and investments

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

Earnings before interest and tax (EBIT)

Is profit before net finance costs and tax

Farmgate Milk Price

Means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual

Foodservice

Represents the channel selling to businesses that cater for out-of-home consumption; restaurants, hotels, 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

Glossary

Gearing ratio (adjusted net debt)

Is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt

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; Fonterra 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

Net debt (adjusted)

Is calculated as total borrowings, plus bank overdraft, less cash and cash equivalents, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries, adjusted for derivatives used to manage changes in hedged risks on debt instruments. Amounts relating to disposal groups held for sale are included in the calculation

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

Chile: 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 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 (in the case of our 2030 strategy) the assumptions noted in the Appendix of the booklet titled Our Path to 2030 which is available on our website. 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.

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, 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 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. 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 this presentation.

While all reasonable care has been taken in the preparation of this presentation, none of Fonterra, the Fonterra Group, or any of their respective subsidiaries, affiliates and associated companies (or any of their respective officers, employees or agents) (together “Relevant Persons”) makes any representation or gives any assurance or guarantee as to the accuracy or completeness of any information in this presentation or the likelihood of fulfilment of any Forward Statement or any outcomes expressed or implied in any Forward Statement. Accordingly, to the maximum extent permitted by law, none of the Relevant Persons accepts any liability whether direct or indirect, express or implied, contractual, tortious, statutory or otherwise, in respect of any Forward Statements or for any loss, howsoever arising, from the use of this presentation.

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

Except to the extent (if any) as required by applicable law or any applicable Listing Rules (including the Fonterra Shareholders’ Market Rules), the Relevant Persons disclaim any obligation or undertaking to update any information in this presentation.

This presentation does not constitute investment advice or opinions, or an inducement, recommendation or offer to buy or sell any securities in Fonterra or the Fonterra Shareholders’ Fund.

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

Please refer to the Non-GAAP Measures section in Fonterra's 2022 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.

Good Together

from one generation
to the next

Annual Review
2022

Arotake-ā-tau
Te Mātāpuna



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



Contents

Welcome to our Annual Review, which forms part of our end-of-year reporting suite.

We know there are a wide range of stakeholders who are interested in our Co-op. This report gives an integrated view of our performance across financial and non-financial measures, and our targets for the future. It is supported by a series of supplementary reports where stakeholders can find more detailed information most relevant to them.

This Annual Review provides a summary of our environmental, social and economic activities and performance. It covers key achievements and performance data, as well as the challenges and opportunities we have faced across our Co-op over the last 12 months. It is a chance to reflect on our work, quantify our impacts and look to the future.

OVERVIEW	03
About us	04
Letter from the Chair	05
Letter from our CEO	07
Our purpose, values and goals	09
Our approach	10
How we created value in 2021/22	11
Creating value for our stakeholders	12
The world we operate in	14
Our year in review	15
Doing Good Together	16
BUSINESS PERFORMANCE	18
Group overview	18
ON FARM	26
The Co-operative Difference	27
Addressing the methane challenge	28
Improving water quality	29
Supporting our farming families	29
Lending a hand	30
Sharing our know how	30
Honour Roll for On-farm Excellence	31

OFF FARM	34
Rising to the challenge	35
Supporting our people	35
Aligning for success	36
Minimising our footprint	36
Packaging	37
Reducing water usage at site	37
PRODUCTS & CUSTOMERS	38
Provenance	39
Reducing waste	40
Driving innovation	40
Taking the Co-op to our customers	41
Tapping into trends	41
Board of Directors	42
Fonterra Management Team	45
Non-GAAP measures	48
Glossary	50
Directory	53

Fonterra uses several non-GAAP measures when discussing financial performance. 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 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 2022 SUITE OF REPORTS

Annual Review 2022
(Referenced as AR)

Financial Statements 2022
(Referenced as FS)

Business Performance Report 2022
(Referenced as BP)

Sustainability Report 2022
(Referenced as SR)

Corporate Governance Statement & Statutory Information 2022
(Referenced as C&S)

Modern Slavery Statement 2022
(Referenced as MS)

Farmgate Milk Price Statement 2022
(Referenced as MP)

OUR REPORTS ARE AVAILABLE FROM [FONTERRA.COM/NZ/EN/INVESTORS.HTML](https://fonterra.com/nz/en/investors.html)



About us

We're a co-operative formed and owned by Aotearoa New Zealand dairy farmers. Fonterra farmers sit at the very heart of our Co-op, producing the high quality, sustainable milk sought out by our customers around the world.

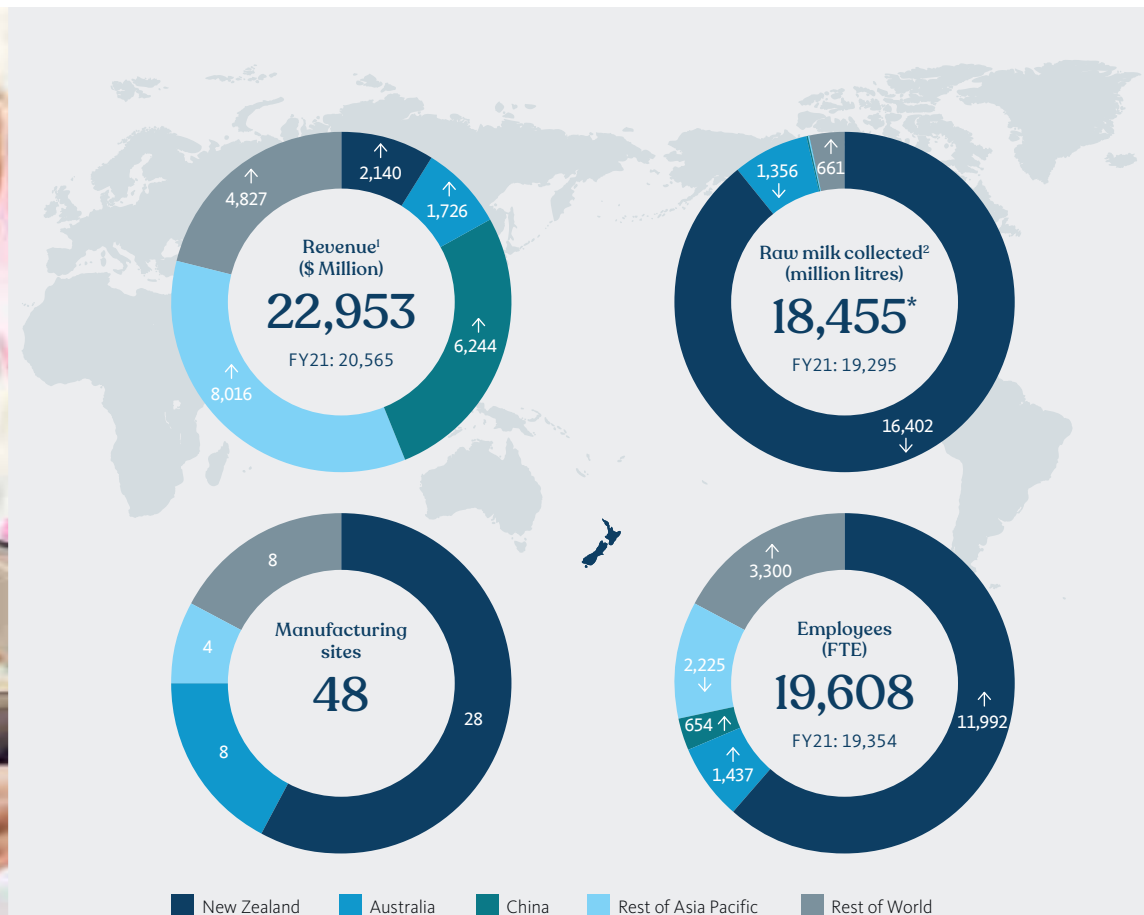
We're committed to producing dairy nutrition in a way that cares for people, animals and the environment, and brings value to our communities. New Zealand milk is the focus of our strategy, and our global presence helps us generate revenue in over 130 countries.

Our range of dairy ingredients are sold under our NZMP™ brand and are found in prominent food and nutrition brands.

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

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 Anmum™.

Farm Source™ is the Co-op's main farm-facing team, providing guidance and support to farmers, including through a network of rural supply stores in New Zealand.



* China & Rest of Asia 0.1% each

1 This geographical breakdown of revenue is for continuing businesses only rather than Total Group revenue of \$23,425 million.

2 Figures represent raw milk collected during the financial year rather than milking season.

Solid progress towards our 2030 performance targets

Kia ora farmers and unitholders,

Our Co-op has continued to make good progress towards becoming an innovative and customer-led organisation over the past 12 months, while delivering another year of strong performance under challenging circumstances.



Peter McBride – Chairman

The Board is very pleased with the team's overall progress on implementing our strategy and this year's strong financial performance in the context of historically high milk prices, inflationary pressure, and continued geo-political disruption in a number of key regions.

Our final Farmgate Milk Price of \$9.30 per kgMS exceeds the previous high mark of \$8.40 per kgMS set in the 2013-14 season.

It's the third consecutive year of +\$7.00 milk prices and will be welcomed by farmers, as we face significant cost pressures in our individual farming operations and continue to pay down debt. Reserve Bank data shows dairy sector debt has declined by around 12% (\$5 billion) since its peak level in 2018.

The Co-op's normalised earnings per share were 35 cents, and in-line with our policy, the Board has approved a final dividend of 15 cents per share. Combined with the 5 cent interim dividend declared in March, and the final Farmgate Milk Price, this brings the total payout for a fully share-backed farmer to \$9.50 per kgMS for the 2022 financial year.

We will always push hard for performance, but when you consider the continued supply chain disruption resulting from COVID-19, the geo-political and economic challenges in Sri Lanka and the conflict in Ukraine, Miles and his team have done an excellent job to remain agile and use the Co-op's scale to deliver a Reported Profit After Tax of \$583 million, down 3% on the prior year.

“The outlook for our Co-op remains strong and we are committed to achieving our long-term performance targets.”

Within this year's overall performance, there are three key strategy and performance points of interest the Board would like to highlight.

1. Progress on Innovation and R&D

Innovation, research and development, and collaborations with strategic partners are critical to achieving our strategy and are a focus area for the Board.

We acknowledge the changes Miles has made to the Co-op's organisational structure to increase the visibility and focus on innovation and strategic implementation – to drive performance in these areas.

The internal promotion of Komal Mistry-Mehta (Chief Innovation and Brand Officer) and Emma Parsons (Managing Director Strategy and Optimisation) onto the Co-op's leadership team adds to our existing capabilities and recognises the emerging home-grown talent within Miles' wider team.

2. Co-op's debt levels

Our net debt of \$5.3 billion is up \$1 billion, and as a result our gearing ratio has increased from 38.5% to 42.4% reflecting higher working capital during the second half of the financial year and at year end due to higher dairy prices and a conscious decision to carry higher inventory given our strong balance sheet. The Board remains vigilant about these measures but we do expect them to improve as working capital returns to normal levels during this calendar year.



3. Implementing our Flexible Shareholding Capital Structure

We are pleased to see the Co-op maintain its share of New Zealand milk supply in a very competitive market. It's the first year in more than a decade that our local market share has not declined.

Fonterra's strategy relies on our ability to maintain a reliable and sustainable source of New Zealand milk in an environment where we see total milk supply in New Zealand as likely to decline, and remain flat at best, due to environmental pressures, new regulations and alternative land uses.

Our new Flexible Shareholding model will help our Co-op maintain a sustainable milk supply. It is intended to make it easier for new farmers to join our Co-op and for existing farmers to remain in our Co-op.

The decision to change the Co-op's capital structure was not something we went into lightly and it was a confronting conversation with our farmers at times. In the end, we received a very strong mandate. Of the 83% of eligible votes that were cast, 85% were in support of the Flexible Shareholding structure.

We look forward to participating in the Government's Select Committee process and will continue to advocate for the necessary legislation being in place before the end of the 2022 calendar year.

Finally, on behalf of the Board I would like to thank our farmers, our dedicated team of people around the world and the Co-op's many other partners for their continued support and commitment. The outlook for our Co-op remains strong and we are committed to achieving our long-term performance targets. However, there are significant uncertainties and a number of headwinds, both here at home and out in our global markets, that may create earnings volatility year-to-year as we move through to 2030.

Ngā mihi

Peter

The Board is pleased to present Fonterra's 2022 Suite of Reports. Fonterra's Annual Report for the year ended 31 July 2022 comprises this Annual Review, the Business Performance Report, the Financial Statements, and the Corporate Governance Statement and Statutory Information. The Annual Report was approved by the Board on 21 September 2022 and is signed on its behalf by:



Peter McBride, Chairman



Bruce Hassall, Director

Faced with global challenges, our teams stepped up

FY22 has been a year like no other, but once again our Co-op has shown that these challenges make us stronger. In the face of unprecedented macroeconomic events, we have continued to deliver for our farmer owners and New Zealand, delivering \$13.7bn to the domestic economy in milk price payments alone. Combined with a total dividend of 20 cents per share, we've delivered a total payout of \$9.50 to our farmer owners.



Miles Hurrell – CEO

COVID-19

While we've seen the world opening up, COVID-19 continues to challenge us. The lockdowns in China, shipping delays and supply chain disruption were felt in many of our markets throughout the year and we expect this to continue in the short to medium term.

Here in New Zealand, new variants presented new challenges to our operations but I'm proud of how our people stepped up. We've learned a lot over the last couple of years and through good management and planning, we kept collecting our farmers' milk, our manufacturing plants continued to operate and we kept delivering for our customers. While this came at an additional cost to the Co-op, collecting and processing our farmers' milk is our key role.

Geopolitical events

Sri Lanka has been a good market for us historically and we've built a strong consumer business over the decades, with our Anchor and Ratthi businesses Sri Lanka's most popular dairy brands.

While it represents a small part of our overall business, the economic fallout for our business has been significant. To minimise the impact, we've temporarily reduced our sales volume into Sri Lanka so that we can direct our milk into more profitable products and markets.

The team has done a remarkable job in really trying circumstances and as a resilient nation, Sri Lanka will come through these challenging times. In the meantime, we will continue to care for our people and their families and keep the business running on a restricted basis, ensuring that our nutritious dairy is available to our customers in the country.

The conflict in Ukraine has added to an already complex operating environment, impacting global supply chains, oil prices and the global supply of grain.

We suspended shipment of product to Russia while we assessed the safety of our people and impact of economic sanctions and discussed our long-term plans with our customers and joint venture partner. Following careful consideration of the impact on our people and our long-term plans for the Russian market, we made the decision to exit both operations.

While supply chains remain impacted, our Kotahi partnership continues to deliver with its scale and strategic partnership with Maersk reducing the impacts of schedule slippage and container shortages.

Inflation is dominating headlines, both here in New Zealand and globally, and we are all feeling the impact. While our operating expenses are up 7% in FY22 to NZ\$2.4 billion, this included an impairment. Operating expenses excluding impairments rose 5%, reflecting tight control on expenses throughout the year.

Household incomes are being hit as the price of food staples like fruit, vegetables, and milk rise. That's why our community work is so important, ensuring that we're getting our nutritious dairy to those who need it most.

Here in New Zealand, we reached the milestone of serving 50 million KickStart breakfasts with Sanitarium and the Ministry of Social Development, and this year we donated more than 12 million dairy servings to the New Zealand Food Network. It's a similar story globally, with our teams stepping up to help their communities.

Our diversified portfolio, and the Co-op's scale and ability to move products between different markets and categories, has seen us weather the long tail of COVID-19, various economic pressures and the knock-on effects of the Russia-Ukraine conflict.

From the outside it may appear easy, but our ability to navigate these unprecedented storms is thanks in large part to the constant and careful planning by talented teams of people right across the Co-op.

We're focused on what makes a difference

Despite these challenges, our people have continued to deliver for our farmer owners with both a strong financial performance and milk price, by focusing on the things that matter.

Collecting and processing milk

It all starts on farm. We collected 1,478 million kgMS, which was 4% down on last financial year, but at \$9.30 per kgMS, this year's Farmgate Milk Price is the strongest it has ever been. It is great news for our farmers, and New Zealand also benefits, with \$13.7 billion returned into the economy in milk price payments alone this year.

A record number of farms achieved The Co-operative Difference in 2022. As our framework for ensuring that our on-farm practices support the achievement of our strategy, these outstanding results enable us to give important reassurances to customers about the quality and sustainability credentials of Fonterra dairy.

Delivering excellence to customers

While it all starts on farm, it ends with our customers and consumers. In an increasingly competitive environment, our diversity, and ability to change product mix and move our products between markets, has allowed us to keep delivering for our customers.

We are delivering nutrition solutions to help consumers live longer and healthier lives and we're using technology to improve customer experience and adapt to changing buying and procurement needs. An example of this is myNZMP, our industry-leading business-to-business platform, offering personalised digital services to our customers.

Our end-to-end supply chain was recognised for delivering service levels that are the benchmark in the industry, with Foodstuffs awarding Fonterra Brands New Zealand the National Partnership Award.

Our Australian Consumer business was ranked the #2 overall supplier in this year's Grocery Advantage Survey, and Anchor Food Professionals was ranked the #1 foodservice supplier.

One of our biggest Australian foodservice customers, NAFDA, which distributes to around 40,000 out-of-home establishments in Australia, awarded the team the prestigious Chairman's Award which recognises the business that is best aligned with NAFDA's values of ethos, passion and integrity.

We continue to innovate, despite challenges

Despite global challenges, we've remained steadfast in our approach to innovation.

We continue to leverage our world-class dairy expertise to partner with our customers and respond to the evolving needs of consumers. Through these innovations, we are maximising value for both our customers and farmer owners, while ensuring we utilise every single drop of milk.

Earlier this year we announced a transformative dairy science collaboration with VitaKey Inc. to further unlock the benefits of our probiotic strains, while FBNZ kicked off a trial for Anchor café milk taps which means less waste and ultimately reduces the customer's costs.

Our innovation isn't limited to New Zealand. In Vietnam, the country's leading premium coffee brand, Trung Nguyen, is using Anchor butter to roast its coffee beans, with Anchor's provenance and grass-fed value proposition offering a compelling advantage.

Looking to the year ahead

The 2023 financial year is already off to a strong start. We've revised our 2023 forecast earnings guidance to 45 to 60 cents per share, up from 30 to 45 cents per share, with strong demand, particularly for cheese and protein, driving this change.

We launched Nutiani, which sits alongside NZMP as a complementary business-to-business brand targeted at both the multi-billion-dollar medical and everyday wellbeing nutrition markets.

Hitting the market is BioKodeLab, a new nutritional supplement using our famous phosphatidylserine and probiotic strains working with the best of other ingredients such as lutein and zeaxanthin to create something really different to support peak brain performance.

Our partnership with Royal DSM will establish a start-up company to accelerate the development and commercialisation of fermentation-derived proteins with dairy-like properties, ramping up opportunities in complementary nutrition.

Delivering our 2030 targets

Our 2030 targets are still firmly in sight. We've made some great progress since announcing our strategy last September and now is the right time to really double down on our three strategic choices – to lead in sustainability, to lead in dairy innovation and science and to focus on our New Zealand milk.

We continue to strive for a better future for the environment and have made solid progress against some of our key sustainability targets. Water use at our manufacturing sites in water-constrained regions is

down by 6.6% and 71% of Co-op farms now have a Farm Environment Plan – a substantial undertaking by our farmer shareholders and the Farm Source team.

We've also made good progress on the decarbonisation of our fleet and continue to work with the Government, our sector and commercial partners to find a solution to the on-farm methane challenge.

The changes we've made to the FMT will enable us to accelerate our progress towards our 2030 goals and increase the Co-op's focus on innovation and strategic implementation.

Komal Mistry-Mehta, as Chief Innovation and Brand Officer, brings a new level of focus, capability and thinking to the FMT to help grow the premium value of our products, while Emma Parsons, as Managing Director Strategy and Optimisation, is focusing on demand choices and portfolio and asset management, using analytics to inform decision making.

With effect from October, Judith Swales will head up our Global Markets team, following the consolidation of AMENA and APAC. Taking the best parts of the Co-op and applying them to create great local outcomes, we are leveraging the scale of the Co-op to deliver true customer and market intimacy.

I'm confident that with this new aligned structure we're in a good place to achieve our strategic aspirations and maintain our focus on milk price and earnings, so that we continue our strong performance and deliver for our farmers and unit holders and take the best of New Zealand to the world.



Miles Hurrell, Chief Executive Officer

Our purpose, values and goals

OUR PURPOSE:

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

OUR VALUES:

Co-operative spirit
Do what's right
Make it happen
Challenge
boundaries

OUR PRINCIPLES:

Our principles are
aligned with the
Māori world view.

Manaakitanga is the care
we show for others – it
strengthens our relationships
and communities.

Kaitiakitanga is how we
care for our environment
today, tomorrow, and for
future generations.

Whanaungatanga is our
Co-operative spirit – it sits
at the heart of our values.

WE'VE MADE KEY STRATEGIC CHOICES:



Focus on Aotearoa
New Zealand Milk



Be a leader in
dairy Innovation
& Science



Be a leader in
Sustainability

KEY ASPIRATIONS FOR 2030:

Group ROC

~9-10%

Operating Profit

40-50%
increase from FY21







Strong progress towards
2050 aspiration to be

Net Zero
Carbon



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.

 <h2>People & culture</h2> <p>Able to retain, develop and attract the best talent</p> <p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Providing a safe, healthy and inclusive place to work – Continuously developing people's skills for meaningful careers within the everchanging nature of work 	 <h2>Nature</h2> <p>Demonstrating that dairy can be a net-positive contributor to nature</p> <p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Leading the transition to net-zero GHG emissions for dairy nutrition – Farmers are adopting and investing in leading on-farm practices – Using science and innovation skills to solve environmental challenges on and off farm 	 <h2>Relationships</h2> <p>Trusted relationships through high-quality, innovative products and services and playing our part for positive social, environmental and economic outcomes</p> <p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Understanding the needs of our customers and being responsive to these – Partnering with others to help unlock the full potential of dairy and deliver improved sustainability outcomes – Being clear on what we stand for and demonstrating the value we bring to specific relationships and more broadly 	 <h2>Intellectual Capital</h2> <p>Leveraging intellectual property to deliver additional value</p> <p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Converting our specialised dairy know-how into value through the products, solutions and partnerships we develop 	 <h2>Assets and infrastructure</h2> <p>Operational assets are resilient and efficiently delivering our most valuable products</p> <p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – A mindset of continuous improvement to protect and enhance our scale/ cost advantage and stay competitive on a world stage – Applying innovation to our assets so they are safe and able to respond to future needs 	 <h2>Financial</h2> <p>Consistently attractive performance for providers of funding, including our farmer shareholders</p> <p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Using science and innovation to improve efficiency and grow value – Sustainability credentials are valued building preference and premium for our dairy – Target to return ~\$1 billion to shareholders through planned divestments
--	---	--	---	--	--

How we created value in 2021/22

The resources we rely on (our inputs)

PEOPLE (AND CULTURE)

- 19,000+ skilled and motivated employees led by a board and management team with diverse skills and experience
- 20,000+ dedicated farmers and farm workers
- Thousands more people in our supply chain

NATURE

- 4.1 million milking cows grazing on 1.6 million hectares of pastoral land
- Some fertiliser, irrigated water and supplementary animal nutrition
- Energy (27.7PJ) and freshwater (48.6 million cubic metres) for our manufacturing sites

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 granted patents across 25 patent families

ASSETS AND INFRASTRUCTURE

- Our portfolio of property, plant and equipment including right-of-use assets (\$6,465 million total net book value)
- 500+ milk collection tankers
- 48 manufacturing sites

FINANCIAL

- A strong financial base, capital from our farmer shareholders, unit holders and debt (\$12,356 million average capital employed)



Governance and Risk

We recognise the critical role governance plays in the success of our Co-operative so we are committed to achieving the highest standards with a focus that promotes:

- the interests of our key stakeholders including farmer shareholders, unit holders, debt investors, employees, customers, governments and the communities we operate within
- transparency and meaningful engagement with stakeholders
- effective risk management and compliance

Our progress in 2021/22

PEOPLE (AND CULTURE)

- Serious harm injuries 8 ↓
- Female representation in leadership 34.8% ↑

NATURE

- GHG emissions (Scope 1&2) reduction since FY18 11.2% ↓
- Farm Environment Plan adoption (New Zealand) 71% ↑
- Water use reduction in constrained regions since FY18 6.6% ↓

RELATIONSHIPS

- Share of New Zealand milk collected 79.1% ↑

INTELLECTUAL CAPITAL

- EBIT from New Zealand value-add businesses \$307m ↓

ASSETS AND INFRASTRUCTURE

- Cost of quality (% cost of goods sold) 0.44% =

FINANCIAL

- Return on capital 6.8% ↑
- Farmgate Milk Price (\$) \$9.30 per kgMS ↑
- Normalised earnings per share \$0.35 ↑

Creating value for our stakeholders

Creating value for our stakeholders

Customers & consumers



We create value by

- Delivering nutrition products that are high-quality, low-carbon and responsibly produced – [See page SR-10](#)
- Providing access to nutrition products that include healthier options and linked to sustainable credentials – [See page 39](#)
- Using responsible procurement to influence our supply chain – [See page SR-49](#)
- Responding quickly to changing needs and customer demand for innovative new products and ingredients – [See page 40](#)

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, social media and consumer research

Employees



We create value by

- Providing a safe workplace – [See page SR-16](#)
- Supporting health and wellbeing – [See page 35](#)
- Providing good learning and development opportunities – [See page SR-20](#)
- Building an inclusive culture where everyone contributes and feels supported – [See page SR-21](#)

How we engage

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

Farmers



We create value by

- Delivering a strong total payout – [See page 20](#)
- Reliably collecting their perishable product and providing efficient access to valuable international markets – [See page 34](#)
- Adding value to their milk through innovation and a flexible product portfolio – [See page 40](#)
- Providing resilience to operating volatilities such as price, energy, foreign exchange rates and ocean freight – [See page BP-31](#)
- Providing access to technology and services that helps meet regulatory requirements and continues to improve farming practices – [See page SR-47](#)

How we engage

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

Society



We create value by

- Complying with regulatory requirements, including food safety, marketing and environmental – [See page SR-15](#)
- Reducing our environmental footprint including GHG emissions, water consumption and waste – [See page SR-24](#)
- Contributing to the development of policy and responding to crises – [See page 17](#)
- Collaborating with industry partners to achieve international commitments – [See page SR-51](#)
- Taking a responsible approach to tax – [See page SR-55](#)
- Supporting international relations through our presence in global markets – [See page 4](#)

How we engage

- On an ongoing basis through our Global Sustainability, Stakeholder Affairs and Trade 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

Investors



We create value by

- Providing sustainable returns via earnings per share, dividends, and interest paid – [See page SR-57](#)
- Reducing investment risk through transparency and independent assessment – [See page SR-45](#)
- Providing opportunities to invest in New Zealand dairy nutrition through the [Fonterra Shareholders' Fund](#)

How we engage

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

Local communities



We create value by

- Providing direct and indirect, rural and urban employment – [See page SR-56](#)
- Lowering our environmental footprint – [See page SR-24](#)
- Supporting communities through natural disasters and crises such as floods – [See page 16](#)
- Providing access to nutrition through in school nutrition programmes and food bank donations – [See page 17](#)
- Strengthening and enhancing our relationships with tangata whenua – [See page SR-21](#)

How we engage

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

The world we operate in

The way food is produced and consumed is at the centre of many challenges facing society. With a growing population, consumers are looking for healthier and sustainable food options that don't threaten the planet's ability to support food production. We believe our pasture-based dairy has an important role to play.

Consumer trends

73%

of global consumers find sustainability pledges important when buying dairy products.

58%

of people look for the health-boosting claims of the dairy products they consume.

The world's population is growing, and so is demand for nutrition

NEXT
5 YEARS

400m



NEXT
10 YEARS

800m



NEXT
15 YEARS

1100m



Geopolitical events



The conflict in Ukraine, the economic crisis in Sri Lanka and COVID-19 are pushing food and energy prices up and adding fuel to inflationary pressures.

7.5%

Global inflation is forecast to rise to 7.5% by the end of 2022.

The planet faces interconnected crises



Climate change will increasingly put pressure on food production, especially in vulnerable regions, with increases in frequency, intensity and severity of droughts, floods and heatwaves.

1/3rd

Globally, an estimated one-third of people suffer from at least one form of micronutrient deficiency.

670m

Projections indicate that nearly 670 million people will still be facing hunger in 2030.

3.6b

In 2018, 3.6 billion people had inadequate access to water at least one month per year. It is estimated that by 2050, this will grow to 5 billion people.

x3

Worldwide obesity has nearly tripled since 1975.

Our year in review

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

Kate Daly joins the FMT as Managing Director, People & Culture

We lift our Organic Milk Price range to NZD \$8.10-\$9.10 per kgMS

Farm Insight Reports are delivered to Fonterra farmers for the first time, giving them a comprehensive picture of their overall farm from an environmental performance and animal health perspective



Anchor Food Professionals
becomes a \$3 billion NZD annual
revenue business

We increase and narrow the 2021/22 forecast Farmgate Milk Price range to NZD \$7.90 - \$8.90 per kgMS, from NZD \$7.25 - \$8.75 per kgMS



We announce a partnership with Vitakey to further unlock the benefits of Fonterra's probiotic strains

JULY 2021

AUGUST 2021

SEPTEMBER 2021

OCTOBER 2021

NOVEMBER 2021



We expand our carbonzero Simply Milk range with Foodstuffs North Island, with the introduction of a 3-litre bottle

NZMP's Organic Butter - carbonzero™ certified wins the Most Innovative Dairy Product Award at the Gulfood Innovation Awards

We lift our 2021/22 forecast
Farmgate Milk Price range to
NZD \$9.30 - \$9.90 per kgMS

New Zealand's longest-running dairy manufacturing site, Fonterra Edendale, celebrates 140 years of service. We lift our 2021/22 forecast Farmgate Milk Price range to NZD \$8.90 - \$9.50 per kgMS



More than 85% of total farmer votes support the Co-op's capital structure proposal

We lift and narrow the 2021/22 forecast Farmgate Milk Price range to NZD \$8.40 - \$9.00 per kgMS and revise our earnings guidance to 25-35 cents per share from 25-40 cents per share

FEBRUARY 2022

JANUARY 2022

DECEMBER 2021

We announce that CFO Marc Rivers will be leaving the Co-op at the end of 2022

With Russia's invasion of Ukraine,
we suspend shipment of product to
Russia and announce the closure of
our Russia business

Together with Future Consumer Limited, we announce that we've agreed to wind down our 50:50 India joint venture - Fonterra Future Dairy

We expand on-farm trials of methane-reducing *Asparagopsis* seaweed, in partnership with Australian company Sea Forest

Cultured milk drink Nurture hits supermarket shelves in Singapore, taking around seven months from concept to launch

We maintained the 2021/22 forecast
Farmgate Milk Price range to NZD
\$9.10 - \$9.50 per kgMS

We reduce our Organic Milk Price
range to NZD \$9.85-\$10.05 per kgMS

We announce an opening forecast
Farmgate Milk Price for the
2022/23 season of NZD \$8.25 -
\$9.75 per kgMS, with a midpoint of
\$9.00 per kgMS

MARCH 2022

APRIL 2022

MAY 2022



We announce that Director Donna Smit will retire from the Board at the Annual Meeting in November. We announce Emma Parsons as Managing Director Strategy and Optimisation



We unveil Milk-E, New Zealand's first electric milk tanker

We make changes to our structure with Komal Mistry-Mehta joining the FMT as Chief Innovation and Brand Officer.

We announce Kelvin Wickham's resignation as CEO AMENA

New Zealand's Exchange (NZX) and the European Energy Exchange (EEX) each take ownership stakes in Global Dairy Trade (GDT) alongside the Co-op

We lift our 2022/23 forecast
Farmgate Milk Price range by 50 cents
to NZD \$8.75-\$10.25 per kgMS

We announce FY23 earnings
guidance range of 30-45 cents
per share

JULY 2022

JUNE 2022

Doing Good Together

Student at Waitara Central School
enjoying KickStart breakfast

50 million

KickStart breakfasts served
since the programme started

\$899,362

donated to community
projects globally

\$671,606

donated to community
projects in New Zealand

12 million

dairy serves donated to the
New Zealand Food Network

The communities we are part of have always been important to us. It's through community, kinship and coming together for a common cause that we create meaningful impact.

As a co-operative of 9,000 farming families, we know just how much good can come from working together, which is why we're working with partners right across the country. Because a better Aotearoa comes from Doing Good Together.

Guided by our Co-operative's purpose of empowering people to create goodness for generations, our community work is targeted where it is needed the most and where we can make a greater impact. Our three impact areas are:

- **Putting good quality nutrition in the hands of those who need it most:** We believe everyone should benefit from the goodness of dairy
- **Protecting and regenerating the environment:** We need to preserve our land, our whenua
- **Keeping our communities strong:** We want to create meaningful impact that goes beyond our farming families

Partnerships play a critical role in helping us make a sustainable difference. Working hand-in-hand with government, other organisations, not-for-profits and community stakeholders, means we can make a bigger impact.



Rebecca & Gracie, NZ Food Network

Putting good quality nutrition in the hands of those who need it most

Here in New Zealand, we work with Sanitarium and the Ministry for Social Development to give nearly 40,000 Kiwi kids the best possible start to their day through our KickStart Breakfast programme. This year we have been humbled to share our 50 millionth breakfast.

As a foundation donor partner of the New Zealand Food Network and through our work with Feed Out, we're helping to supply food banks throughout the country with nutritious dairy products. Together we have donated more than 15 million serves of dairy since July 2020 to help feed New Zealand communities.

Protecting and regenerating the environment

We are working with farmers, iwi, councils and communities to restore and enhance water catchments across New Zealand. We are taking the lessons learnt from our Living Water Partnership with DOC and scaling these across the country. The Co-op has more than 140 partnership initiatives underway, and have contributed \$1 million this year to partner organisations across Aotearoa.

Keeping our communities strong

Hapori means community, kinship & coming together for a common cause, and through our 11 regional teams across New Zealand we work alongside our communities to create meaningful impact on the causes that are important to them. Through Hapori we have donated \$671,606 to community projects across the country.

As New Zealand's largest employer of volunteer firefighters, we're proud to have our contribution to the communities we live and work in recognised by Fire and Emergency New Zealand. Fonterra employees volunteer in over 60 fire stations across the country and in some communities they make up over 40% of the fire crews.

Global support

Globally, our focus has been to get our good quality nutrition into the hands of those who need it the most. We have supported aid efforts in Tonga following the volcanic eruption, donated dairy products to the Yayasan Food Bank in Malaysia and whole milk powder to Sri Lankan families impacted by the economic crisis.



Callum, Southland

Business performance

Emma & Daniel, Auckland

Our Co-op has delivered another strong financial performance, with a 2021/22 Farmgate Milk Price of \$9.30 per kgMS and normalised profit after tax of \$591 million.

With a total dividend of 20 cents per share for our fully shared-up farmers – comprising of an interim dividend of 5 cents per share and a final dividend of 15 cents per share – the final cash pay-out for farmers is \$9.50 per kgMS.

Like every sector, we've seen input costs rise sharply right through our value chain, but we've also seen a positive supply and demand picture. Throughout the year, demand for our milk has been strong, in the face of a shrinking supply picture for other dairy-producing regions.

Business Performance Dashboard



Reported profit after tax¹

\$583

↓ from \$599m

Reported earnings per share²

36c

no change

Normalised earnings per share²

35c

↑ from 34c

Return on capital⁴

6.8%

↑ from 6.6%

Total Group normalised EBIT³

\$991m

↑ from \$952m



Asia Pacific EBIT⁵



\$237m

↓ from \$305m

AMENA EBIT⁵



\$527m

↑ from \$336m

Greater China EBIT⁵



\$432m

↑ from \$403m



Milk Price per kgMS

\$9.30

↑ from \$7.54

+

Dividend per share

20c

no change

=

Total pay-out⁴

\$9.50

↑ from \$7.74



Net debt⁴

\$5.3b

↑ from \$4.3b

Gearing ratio⁴

42.4%

↑ from 38.5%

Debt to EBTIDA⁴

3.2x

↑ from 2.7x

Ingredients EBIT⁵

\$916m

↑ from \$365m

Foodservice EBIT⁵

\$138m

↓ from \$369m

Consumer EBIT⁵

\$142m

↓ from \$310m

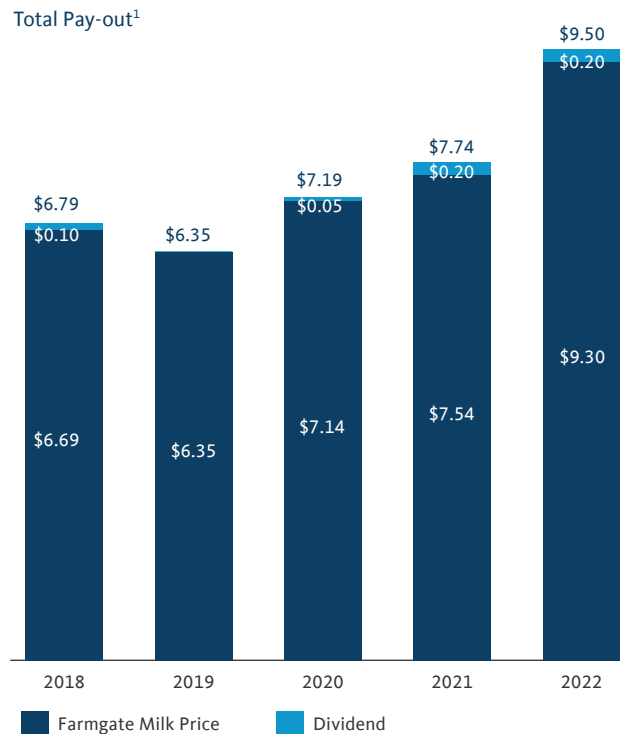
- 1 Reported profit after tax includes amounts attributable to non-controlling interests.
- 2 Earnings per share excludes amounts attributable to non-controlling interests.
- 3 Total Group includes continuing and discontinued operations.
- 4 Refer to the Glossary for definition.
- 5 Prepared on a normalised continuing operations basis.

We returned \$9.30 on average for every kilogram of milk solids our farmer owners supplied us. Combined with a dividend of 20 cents per share, this means a total pay-out of \$9.50 per kgMS – a record pay-out for the Co-operative.

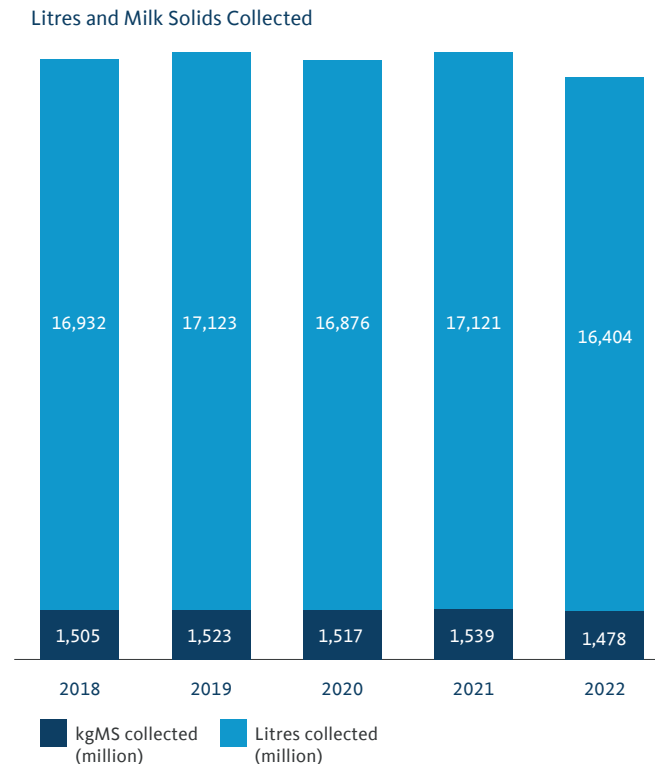
Normalised earnings per share increased 3% from 34 cents to 35 cents per share.

The higher milk price and earnings performance reflects strong demand for dairy across multiple markets and products at a time of constrained milk supply, global supply chain challenges and a significantly higher cost of milk for our businesses. This operating environment significantly increased our working capital requirements through the second half of the financial year and at financial year end, and our net debt was \$1 billion higher at \$5.3 billion.

Our strong balance sheet enabled us to absorb the increased working capital requirements and our net debt position is forecast to improve during the 2023 financial year as working capital returns to normal levels.



¹ Refer to the Glossary for definition.



Fonterra milk collections (kgMS) for the season were down in New Zealand by 4.0%, reflecting a cold and wet spring contributing to a lower peak in milk supplied

Our reported profit after tax of \$583 million is \$16 million lower than last year, with the prior year benefiting from larger gains from the sale of non-core assets.

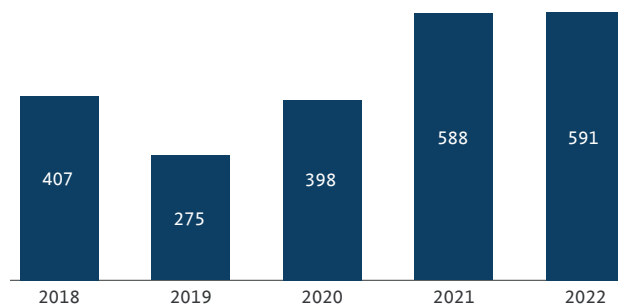
After removing the net impact of these gains, our underlying performance has improved despite a significant increase in the cost of milk and operating expenses, with normalised profit after tax up \$3 million to \$591 million.

Total Group gross profit is up 7% to \$3,340 million. The main driver of this performance was a significant increase in gross profit from our Ingredients channel due to stronger underlying market demand resulting in a broad strengthening of product prices and higher margins, particularly in our protein products such as casein.

Throughout the year we remained focused on allocating milk into products that generate the best overall returns to Fonterra and our farmer owners. This year we increased the allocation of New Zealand milk solids to our Active Living products within our Ingredients channel, as we look to shift volume away from Core Ingredients products to higher value products.

The improved Ingredients performance was partially offset by the impact of higher milk input costs in our Foodservice and Consumer channels. Where possible, our in-market teams worked with customers to adjust sales prices to reflect the increased costs in our Foodservice and Consumer channels. However, we have not been able to fully adjust pricing at the same rate as our cost increases.

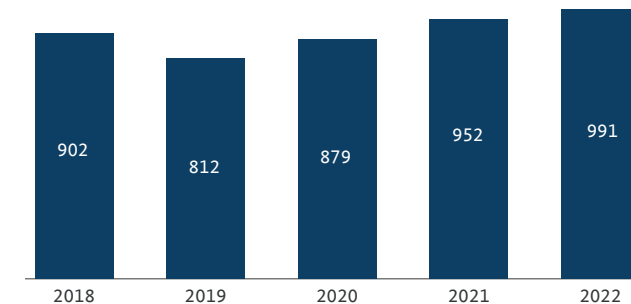
Normalised Profit After Tax¹ (\$ million)



¹ Includes amounts attributable to non-controlling interests.

Our performance was also impacted by the deterioration of economic conditions in Sri Lanka. The US dollar appreciated around 80% against the Sri Lankan rupee over the third quarter, resulting in a \$80 million adverse revaluation of our business payables, impacting our EBIT. To reduce the impact of the Sri Lankan crisis we chose to limit sales volume into Sri Lanka, resulting in lower sales volume and milk solids being allocated to our Asia Pacific Consumer channel during the second half of the financial year. Sri Lanka has historically been a strong business for us, and our brands Ratthi and Anchor are the top two consumer dairy brands in the country. We remain committed to the market and making dairy products available to consumers by continuing to operate, but at a restricted capacity to mitigate further impact to our business in the current economic climate. In our Asia Pacific business we also recognised an impairment of \$34 million on our Asia Brands - Annum, Anlene and Chesdale.

Total Group Normalised EBIT (\$ million)



Total Group reported EBIT increased 2%, or \$17 million, to \$976 million. Normalisation adjustments for the year were an adverse \$15 million, a decrease of \$22 million on the prior year's net favourable normalisations of \$7 million, which included gains on sale from the Ying and Yutian China farming hubs and the China Farming joint venture, but partially offset by realised losses on the sale of Beingmate shares and a further impairment of the carrying value of DPA Brazil.

This year's normalisations comprise of the \$42 million gain on sale on the partial sale of the Global Dairy Trade (GDT) with a further \$57 million pre-tax impairment made to the value of DPA Brazil.

After removing the impact of the gains from asset sales and impairment of DPA Brazil, our underlying performance improved by \$39 million, with a normalised EBIT of \$991 million.

Total Group normalised EBIT, which reflects underlying business performance, was up 4% to \$991 million. This comprised \$982 million from our continuing operations and \$9 million from our discontinued operations – which are DPA Brazil and our Hangu China Farm

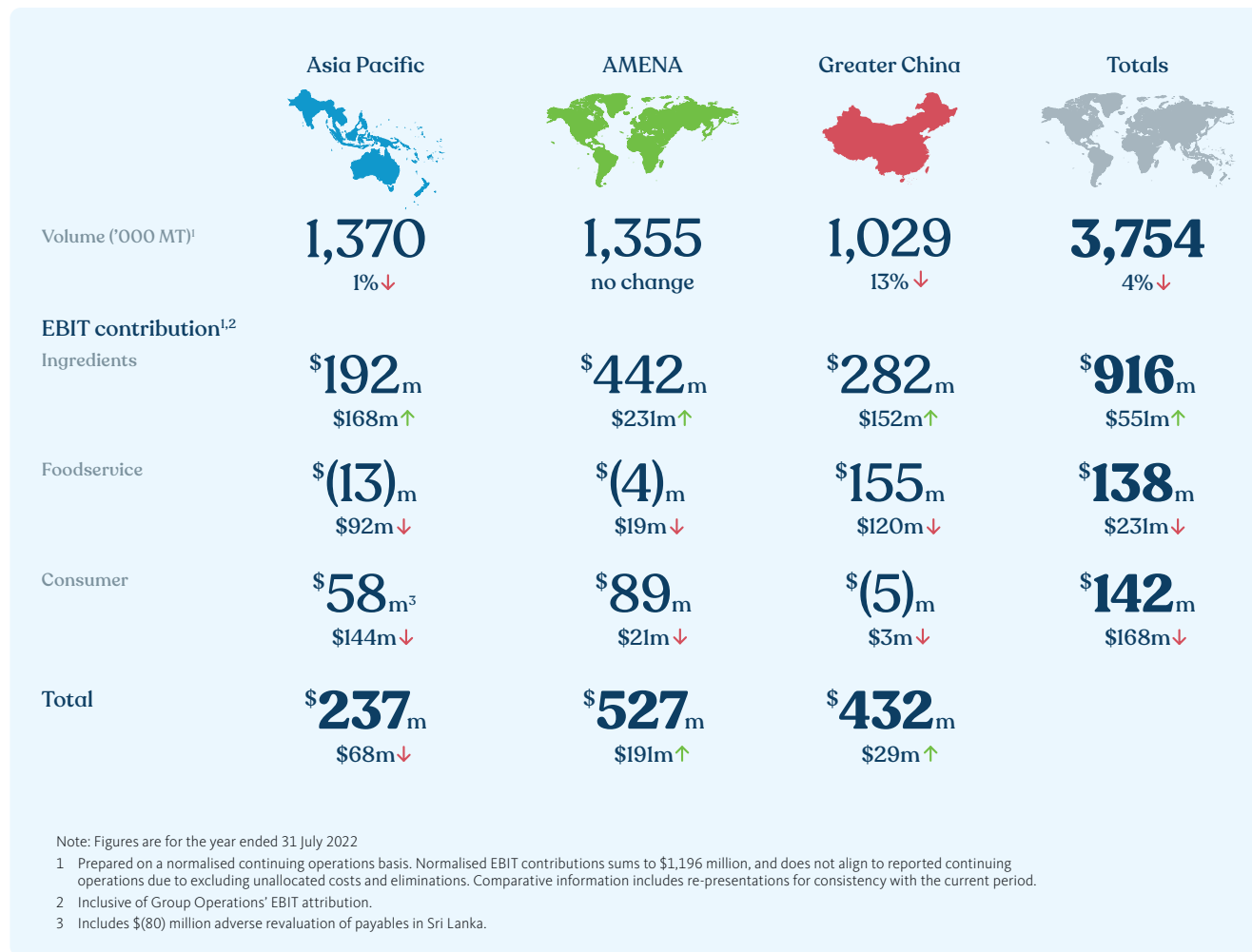
Breakdown of Total Group Performance

FOR THE YEAR ENDED		31 JULY 2021			31 JULY 2022		
NORMALISED BASIS NZD MILLION	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	
Sales volume ('000 MT)	3,874	228	4,102	3,706	218	3,924	
Revenue	20,565	559	21,124	22,953	472	23,425	
Cost of goods sold	(17,581)	(429)	(18,010)	(19,737)	(348)	(20,085)	
Gross profit	2,984	130	3,114	3,216	124	3,340	
Gross margin (%)	14.5%	23.3%	14.7%	14.0%	26.3%	14.3%	
Operating expenses	(2,153)	(89)	(2,242)	(2,284)	(113)	(2,397)	
Other ²	65	15	80	50	(2)	48	
Normalised EBIT	896	56	952	982	9	991	
Normalisations ³	(9)	16	7	42	(57)	(15)	
EBIT	887	72	959	1,024	(48)	976	

1 Refer to Note 1a and 2b of the FY22 Financial Statements.

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

3 Refer to the Non-GAAP Measures section of the report.



Looking at our continuing operations on a regional basis;

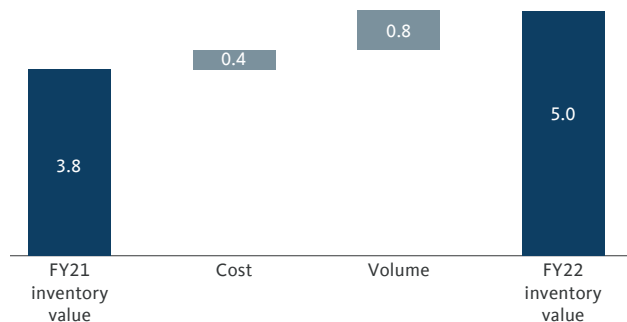
- **Asia Pacific normalised EBIT decreased 22% to \$237 million**, due to the Foodservice and Consumer channels being impacted by the increased cost of milk and weaker market conditions including the impact of COVID-19 restrictions, particularly in South East Asia. The Consumer channel was also impacted by the economic crisis in Sri Lanka. The reduced earnings in the Foodservice and Consumer channels were partially offset by a significant improvement in the Ingredients channel due to improved product prices.
- **AMENA normalised EBIT increased 57% to \$527 million**, due to higher gross margins in the Ingredients channel, reflecting a broad strengthening of product prices, particularly in our protein products such as casein. Our Consumer business in Chile performed well, but overall, the Consumer channel EBIT was down on the prior year.
- **Greater China normalised EBIT increased 7% to \$432 million**, due to higher gross margins in the Ingredients channel, driven by improved pricing of our protein portfolio and allocation of greater volume to higher margin ingredients. This was partially offset by the lower sales volumes and gross margins achieved in the Foodservice and Consumer channels due to increased input costs and the impact of strict COVID-19 restrictions.

Financial discipline

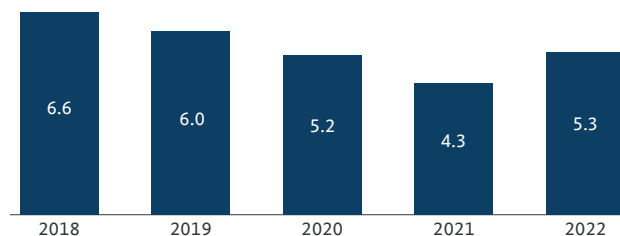
As at 31 July 2022, our working capital increased \$1.6 billion reflecting:

- Higher inventory of \$1.2 billion, due to higher milk price and higher inventory on hand at year end due to increased late season milk production and shipping constraints
 - At year end we held an additional 126,000 MT of product. 88% of total inventory was contracted with an agreed price prior to year end
- Higher receivables due to increased sales revenue in the month of July 2022 compared to the prior year, partially offset by;
- Higher payables reflecting increased accruals for capital expenditure, amounts owing to suppliers due to higher milk prices and the impact of supply chain disruptions.

Closing Inventory as at 31 July (\$ billion)



Net Debt¹ (\$ billion)



¹ Comparative figures are shown on a consistent basis with current year. Refer to Glossary for definition.

As a result of higher working capital requirements, our net debt increased \$1.0 billion.

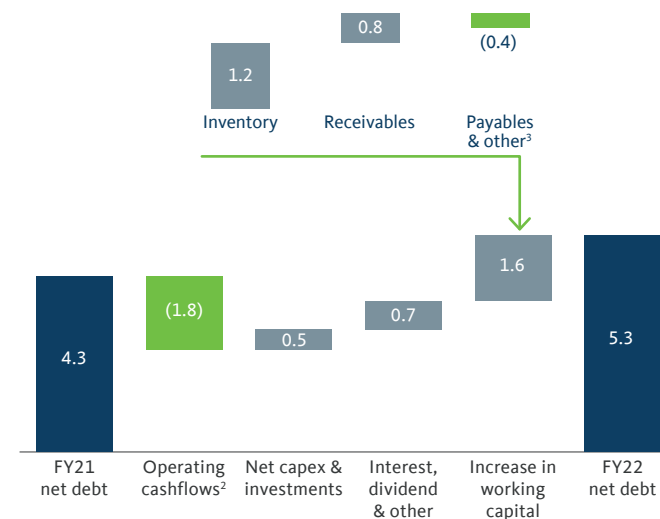
We have steadily reduced our net debt over the period to 2021, through the alignment of our asset portfolio and improved underlying operating performance. However, this year our net debt has increased \$1 billion due to:

- cash generated from operations increasing \$479 million on the prior year to \$1.9 billion. After tax of \$137 million, this is \$1.8 billion in operating cashflows excluding changes in working capital

Offset by:

- net cash flow used for investing activities of \$517 million, which was predominantly capital expenditure
- funding of \$0.4 billion of dividends and interest payments of \$0.3 billion, and
- increase in working capital of \$1.6 billion

Change in Net Debt¹ (\$ billion)

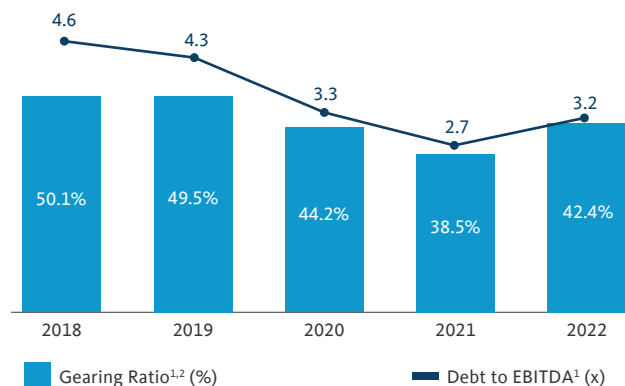


¹ Refer to Glossary for definition.

² Excluding working capital.

³ Includes supplier payables and other movements.

Leverage Metrics

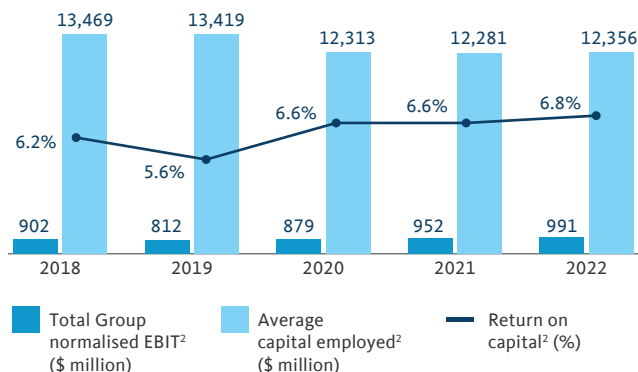


1 Refer to Glossary for definition.

2 Comparative figures are shown on a consistent basis with current year.

Both leverage metrics, gearing ratio and debt to EBITDA ratio, have increased due to the higher net debt.

Our strong balance sheet enabled us to absorb the increased working capital, and we expect both our net debt position and leverage metrics will improve during the 2023 financial year as working capital returns to normal levels.

Return on Capital¹

1 For a reconciliation of return on capital calculation see page BP-19.

2 Refer to the Glossary for definition.

Total Group return on capital improved from 6.6% to 6.8%

The improvement in our return on capital was primarily due to the increase in our normalised EBIT. The impact of the improved EBIT was partially offset by the additional working capital increasing our average capital employed.

The impact on our average capital employed from year end net debt increasing by \$1 billion is limited due to our low net debt position at the start of the year, and the significant increase in working capital requirements only impacting towards the end of the second half.



On-farm

Blair, Billie, Penelope & Joe, Tararua

The 9,000 farming families across our Co-op are committed to producing the world's most sustainable, high-quality dairy.

Here in New Zealand, we have many natural advantages – a temperate climate, lush grass and a pasture-based system, but at the heart of it all is our farming families, who care for their animals and care for their land.

Our farmer owners know that we will take care of their precious milk, and that we'll move it into the most valuable products and markets. This gives the owners of our Co-op control of their own destiny and the certainty to invest in their businesses.

Being part of our Co-op means working together to address some of our biggest on-farm challenges. New Zealand dairy farmers are already among the most carbon-efficient in the world, but together we are working hard to ensure that dairy farming and the environment can thrive for future generations.

Having a strong farmer-owned co-operative is important to every New Zealand dairy farmer and for the country as a whole. It enables efficiency and supports innovation. Our milk price sets the New Zealand benchmark.

The Co-operative Difference

The Co-operative Difference is our way of encouraging the positive practices on-farm that support our strategy of maximising the value of our New Zealand milk.

Integrating our global view of current and future market trends and insights, The Co-operative Difference framework provides farmers the confidence to invest on-farm, for the future. Requirements are organised within five key areas – the Environment, Co-op & Prosperity, Animals, People & Community and Milk Quality.

Through supporting our farmers' achievement, the Co-op stays at the forefront of key issues such as safety, animal wellbeing and sustainability while recognising those farmers who consistently provide the highest quality milk. Ultimately, it means our milk is backed by the quality and sustainability credentials our customers and communities expect.

The Co-operative Difference was launched in 2019 to give farmers the opportunity to adapt and for the first time this year, up to 10 cents of each farm's milk payment has been determined by performance under the framework.

There are three levels of achievement under The Co-operative Difference:

- **Te Pūtake:** achieving this first step is all about looking after people, animals, the environment and our Co-op. Reaching Te Pūtake receives an additional 7 cents per kgMS for all milk supplied during the season.
- **Te Puku:** reaching Te Puku means achieving Milk Quality Excellence on at least 30 days during the season. Once this is achieved, all milk supplied during the season that meets the milk quality excellence standard attracts an additional 3 cents per kgMS on top of the base price and the Te Pūtake component of the Co-operative Difference payment.
- **Te Tihi:** this recognises those in the Co-op who consistently deliver the highest quality milk. Achieving Te Tihi means achieving Milk Quality Excellence for 90% of the season. There is no additional payment for Te Tihi - it is simply about recognising those at the top of their game.



Chris & Andrew, Canterbury

This year, up to 10 cents of each farm's milk payment has been determined by its sustainability credentials and milk quality.





Addressing the methane challenge

Fonterra farmers are world leaders when it comes to their care for their animals and the environment. Our Co-op's milk has a carbon footprint one third the global average, but we know there's more we can do.

We're stronger together and that's why we're working with Government, our sector and commercial partners to find a solution to the on-farm methane challenge.

We've also made progress on some of the methane-busting projects we've been working on, with on-farm studies now well underway.

In partnership with Australian company Sea Forest, we've expanded on-farm trials of Asparagopsis seaweed in Tasmania to understand if using it as supplemental feed can replicate lab trials that have seen emission reductions of over 80%.

“Asparagopsis seaweed looks like it could be the first viable option we have had to achieve major emission reductions, and although it's early days, it could potentially be part of the future sustainability of our industry.”

– Richard Gardner, Fonterra Farmer

Working 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.

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, reduce carbon emissions and improve freshwater quality.

We're also tapping into our large collection of dairy cultures to create new fermentations we are calling Kowbucha™, which could inhibit the methanogens that create methane in cows.



Richard & Sam, Tasmania

Farmers put a lot of time and effort into recording data that provides evidence they're producing milk in a way our customers require. Through individual Farm Insights Reports the Co-op is able to help farmers get greater visibility of what's happening on their own farms.

Each report gives farmers a comprehensive picture of their overall farm performance from an environmental, milk quality and animal health perspective. This year, for the first time, the reports will include a fertiliser efficiency report. These insights are in addition to the GHG emissions report, Nitrogen Risk scorecard and insights on things like somatic cell count, heat stress, milking efficiency and lameness. Our local Farm Source team can help farmers maximise the value of the reports by working alongside them to understand information and identify areas of opportunity.

“For us, the information was empowering. If I have our people engaged in what they're doing, then it makes it easier to implement the plan. I always say it's the people in the gumboots that make the difference.”

– Dave Hislop, Fonterra farmer

Improving water quality

Through the 6,200 Farm Environment Plans we've delivered so far, farmers have bespoke plans that help them work towards improving water quality on farm.

For the last nine years, we've also been working with the Department of Conservation (DOC) on our Living Water partnership. The partnership brings together communities, farmers, scientists and iwi in five catchments across New Zealand, to trial game-changing and scalable solutions across different freshwater environments. These include on-farm tools, catchment-based solutions and addressing implementation barriers including funding, consenting, capability and waterway management.

One example being trialled on farm is a woodchip bioreactor that could reduce nitrates in the Ararira River in Canterbury. If successful, in-stream tools like this could be used in key areas around the country. By partnering, we're making it easier for farmers, iwi and communities to accelerate freshwater improvement.

The partnership is also supporting a new project that helps farmers make the best decisions for the environment based on better landscape information. Living Water and Land & Water Science recently launched a new web-based map LandscapedDNA tool, which integrates landscape properties and cutting-edge science to understand why water quality varies.

It brings next generation spatial landscape data into one platform, putting landscape information in the hands of our Fonterra farmers, helping them to manage their land, while minimising the risk of pollution and maximising production.



Annual Waituna Creek fish survey

Supporting our farming families

Being part of a co-operative means supporting our farming families. Many know Farm Source as our network of 66 rural retail stores across the country, but there's much more to the team than that.

Alongside our store teams, Farm Source has regional services teams, digital tools and advisors who work alongside our farmers, helping them produce the highest quality milk in the most sustainable way. Our retail stores maximise our collective scale to deliver competitive prices to farmers, while our Sustainable Dairy Advisors support farmers on their sustainability journeys.

“In our simplest form, we are our Co-op’s farmer-facing team across the country. We are passionate, local people who work hard every day to help lower on-farm costs, provide on-farm support and advice, and support rural communities.”

– Anne Douglas, Director Category,
Marketing & Digital Innovation



Andrew, Sarah, Hannah, Henry & Isabella, Canterbury

Lending a hand

Dairy farming is the economic engine that powers New Zealand, this year contributing \$13.7 billion to the domestic economy in milk price payments alone. But the impact of our Co-operative extends far beyond just our financial contribution.

Through our Doing Good Together programme (page 16), our community work is targeted where we can make the biggest impact. That includes working alongside our communities to help make them more resilient.

Over the last year, we teamed up with the Rural Support Trust (RST) to improve the health and wellbeing of our rural communities and support our farming families. In the wake of the 2021 South Island floods, a Fonterra Good Together rugby team, coached by Scott 'Razor' Robertson, beat the Parliamentary First XV, raising \$100,000 for the RST in the process.

This year, we supported RST's Time Out Tour which took TV presenter turned sheep and beef farmer, Matt Chisholm, to communities across New Zealand, where he shared his experiences of mental wellness and resilience.

The RST was also one of the beneficiaries of an idea suggested by Micha Johansen, one of our farmer shareholders in Eketahuna. Micha suggested that farmers could donate their Farm Source Reward Dollars to charity instead, with the RST, the New Zealand Food Network and Feed Out all benefiting from her idea.

Feed Out NZ - a nationwide charity that supplies milk to city missions and food banks – also joined our Doing Good Together programme this year. Founded by farmer owner Wayne Langford, Feed Out NZ allows farmers to donate milk which the Co-op turns into milk powder to be distributed by the New Zealand Food Network to those most in need.

“As farmers, we can tell a thousand stories of the great things we are doing on-farm, but nothing will speak louder than giving a family a meal when they are at their most vulnerable.”

– Wayne Langford, Feed Out founder and Fonterra farmer



Andy, Angus, Jon, Scott, Leonie, Josh, George & Albie, Canterbury



Casey & Matua, Canterbury



Mark, Nathan, Rob, Michael, & Cam, Canterbury



Wayne, Wellington City Mission

Sharing our know how

As well as being among the most carbon-efficient milk in the world, our dairy is also packed with nutrients, thanks to our pasture-based system. As part of the New Zealand Embassy's Hokkaido partnership in Japan, we've been using our know-how to help farmers in the Hokkaido region convert to grass-fed farming.

Japan is the world's largest importer of grain feed for dairy cows so as well as being more environmentally friendly, grass-fed farming also makes good business sense. The region's soil and climate are well-suited to grass-fed farming, and conversion, where appropriate, helps transition grass-fed from a niche farming system to a successful sustainable model with widespread demand.

Our farmer owners have shared their experiences through regular seminars and we have recently extended our commitment to the programme.

Honour Roll for On-farm Excellence

Thank you to all our farmer owners who have worked hard in the 2021/22 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.

Legend

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

A & N Harvey Family Trust	C & H Mabey	F A & R C M Smits Ltd	J & L M Van Burgsteden	R S & R D Gordon	W J & J G Pile Family Trust
A Holten & N Brown	C J & C J McKenzie Limited	Farmer Fred Ltd	Kemra Farm Ltd	Rainbowcreek Farms Limited	Waicola Holdings Ltd
Ashgrove Dairy Farms Limited	C M & K M O'Donoghue	Fowler Family Prosperity Trust	Maken Milk Ltd	S G & B L Thirkell	Waiotu Farms Ltd
Barmac Dairies Limited	Caskey Farms	G J Farms Limited	Owhango Farms Limited	Schorn Trust	Waituna Investments Ltd
Black & White Cow Company Limited	Cotlands Ltd	Glen Eden Otago Ltd	R & P Woods Farms Ltd	Shawlink Ltd	Whenuakura Farm Limited
	D C & V F Frew	Golden Mile Farms Ltd	R & S Singh	T D & I A Rhind	

Te Tihi

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

A & C Hodges Family Trust	Aerodrome Farm Limited	Arahiwi Farm Limited	B M & J A Ahlers	BLL Farm Trust	Burnell Farms Limited	Casterbridge Farms Limited	Cview Trust	Daybreak Farms Limited
A B Lime Limited	Aghern Holdings Limited	Aramaunga Farms Limited	B M & R M Sarten	Blom Family Farm Limited	Burton Farm Trust		D & D M Coupe Trust	DB & MJ Kalma Ltd
A D Harwood Limited	Ahipaipa Farms Limited		B W & C A McNeil		By the Beach Company Limited	Clan Leslie Limited	D & K & M Kavanagh Limited	DDB Dairy Enterprises Limited
A G & G F J Pijfers	Ahol Trust	Ararata Holdings Limited	B W & S J Phillips	BM & GI Watson Limited		Claremont Trusts Partnership	D & K Verryt Farms Limited	Deebury Pastoral Partnership
A H & B M Kuttel	Akarana Partnership	Ardendale Farm Trust	B W E Binnie	Bonezco Farms Limited	C & H Mabey			
A H Baxter Limited	Alan & Lynette Smith Family Trust	Arnmore Dairy Limited		Brensan Farm Limited	C G & A M Janson	Clarensheff Forty-Three Ltd	D C & C N Davison	
A J & B M Simmonds		Ashmore Limited	Limited	Brentwood Farm (2003) Limited	C G & J A Venn		D C & V F Frew	Deltabrooke Farms Limited
A J & Est L R Arnet	Albert & Karen Pouwels Limited	Ashvale Jerseys Limited	Barridge Farms		C J Biddle & R Godinagh	Clemcorp Ltd	D G & H A Bloor	Dennis & Donna Gill Family Trust
A J & P T Bryant	Alderbrook Farms Limited	Askin Plains Dairy	Baucke Family Trust	Brittany Trust Partnership	C J Dairies Limited	Clyde Colin Bishop	D J & J A Veen	
A L & W A Mullan		B & G Park Limited	Beckett Family Trust	Brookside Farms	C M & K M O'Donoghue	Clyde Dairy Farm Ltd	D M & J C Brogden	Dennley Farms Ltd
A P Jones & J G Craw	Alkington Limited	B C & H J McLellan	Belbrook Farming Limited	Brookside Farms No2	C&F Farms Limited	Collingwood Farm Trust	D M & J S Trust	Department of Corrections
A R & P A Hayward	Alley Farms Limited	B F & S J Gordon	Bell Family Farms Limited		Cairra Farms Limited	Cornik Farms Limited	D P & T M Stephens	
A T & J L Hughes Trust	Allison Family Farms Limited	B H & L J Bourne	Belrari Farm Limited	Broughshane Farm Limited	Cantley Developments Limited No 1	Corona Farms Ltd	D R & J B Wallace	Derrynane Family Trust
A8 Enterprises Limited		B J & D A Verryt Family Trust	Benmore Downs Limited	Brunswick Downs (2014) Limited	Careyfarm Limited	Cotlands Ltd	D R & J E Gilchrist	Dillon Farms Ltd
Abbey Farm Partnership	Alpine Rose Limited				Cashmore Investments Limited	Cows 4 Us Limited	D W & M E Kidd	DJ & AJ Williams Ltd
Abbott Trusts	Andesite Trust	B J & J N O'Brien	Berry Farm Limited	Bruski Farms 2001 Limited	Cashmore Investments Limited	CPX Limited	D D & M E Kidd	Dodd Farms Limited
Partnership	Aniwhenua Farms Limited	B J & J R Goodwin	BJ & TM Verryt Limited	Bucman Trust	Caskey Farms	Craigower Farms Ltd	Dammar Farms Ltd	Dogterom Farming Limited
	B L & D J Haylock	B L & D J Haylock	BI Caird Limited			Cressey Dairies Ltd	Daniel Symons	

Te Tihi Continued...

Dogterom Thomson Limited	Farnley Tyas (2018) Limited	Glenmore Farm	Hopcroft Farms Limited	K & LG Pickett Limited	L K Farms Partnership	M P & V M J Joyce Trusts P/Ship	Milestone Trust	P J & H J Horo
Dogterom Thomson Ltd	Feenstra & Bouwmeester Trust	Glenmore Farming Company Limited	Huntersview Farm Ltd	K A & N J Riddington Ltd	L M Farms	M T & D H Simpson	Milk Power Ltd	P J & K J Henderson
Donald Pearson Farm Ltd	Fernhill Farms Koru Ltd	Glenrowan Trust	Huntly Road Dairies Ltd	K C & D M Gooch	L P & I Bylsma	Maandonks Farm Limited	Minus 1 Trust	P J & M E Gamble Family Trust
Doneve Agriculture Limited	Finch Contracting Limited	Glenwrae Farming Ltd	Hwitan Tune Holdings Ltd	K C & L M Berry	L S & K A Phipps	Macedonian Properties Limited	Molehill Farm Ltd	P J & T L Walsh Family Trusts
Doric Trust	Firdale Farms Limited	GM & AM Woolley	I & M Selak Ltd	K G Reeve	Landcorp Farming Ltd	Macken Farm Ltd	Moo2U Ltd	P Jones Family Trust
Drought & Kalin Family Trusts Partnership	Flaxwood South	GN & LG Burgess	I G Haigh	K J & H Chalmers Ltd	Langman Family Trust	Maerewhenua Investments Limited	Moonlight Farms Trust Ltd	P M & K F Westenra
Drumderg Farm Ltd	Fleming Family Trust	Golden Mile Farms Ltd	I J Versalko and I J Versalko Family Trusts	K J & P J Death Family Trust	Lawson Road Farm Ltd	Mahdeen Partners	Morag Farm Limited	P M & K J Clinton Family Trust
Dryden Farming Limited	Flo New Zealand Limited	Gordon Dale Farms (2006) Ltd	Ingram Farming (2003) Limited	K J & S R Crowley	Le Emari Trust - Morven	Mahunga Farm Limited	Mullerwhero Farming Ltd	P N & D L Waite Family Trust
Drylands Trust	Florida Farms Ltd	GP Wilson	Inveraray Dairy Ltd	K R Vollebregt	Le Emari Trust T/A Willowbridge Dairies	Manganui Partnership Limited	Murphy Farms Limited	P N & D L Waite Family Trust
E A White Ltd	Fonterra - Kapuni Farm 1	Granity Dairy Limited	Ivesburn Limited	K W Laing	Lenek Farms Limited	Mangaroa Farms	N K & A M Fox	P R & R F Mossman
E B & J L Day	Freely Farms Ltd	Green Sky Dairies Limited	Ivy Plains Ltd	Kahikatea Dairy Ltd	Lillburn Valley Dairies Ltd	Mangatoki Partnership	Netherland Holdings Ltd	P S & H J Wilson
E C Briden & Sons Ltd	G & C Came Ltd	Greenhart Limited	J & D Reynolds	Kairoa Dairies 2016 Limited	Lobblinn Farms Ltd	Mary Rose Trust	Newlane Trusts	P T & E A Kelly
E J & A M Kiser	G & N Wightman Farms Ltd	Gregory Farms Ltd	J & J Van Polanen Family Trust	Kanuka Terrace Limited	Loch Ness Farm Ltd	Mathieson@Rongomai Limited	Ngahape Valley Farm Ltd	P W & S J Ryan
E T De La Rue	G & P R Rennie Ltd	Greywacke Farms Limited	J & P S Malcolm	Kauri Karaka Ltd	Lochlea Partnership	Matricksen Ag Holdings Ltd	Ngai Tahu Farming	P.J. and H.J. Horo Family Trust
E.K. & M.J. Chisnall Ltd	G A & K T Lynch	Guy Wong & Son Ltd	J H & H R Smyth	Kauri Moor Farms Limited	Lowburn Dairy Farms Ltd	Maude Peak Farm Trust	Ngatitu Whanau Trust	Pahtuna Farms Ltd
Ealing Dairies Limited	G A Knight	Gwen-May Trust	J H & R Cotman	Kavanagh Trust Partnership	LR and SJ Hammond Limited	Maxlands Farms Limited	Nicholson O'Rourke Ltd	Pakarau Heights Ltd
Edge Holdings Limited	G B & J S Coulter	H & H Singh Sandhu	J L & K S Gwerder Family Trust	Keelinn Farms Limited	Ludell Limited	McClelland Dairies Ltd	Nilock & Camole Trusts	NP & AE Bluett
Est C W Schultz	G B and S J Harrison Ltd	H & H Singh Sandhu	J L & K S Gwerder Family Trust	Keelinn Farms Limited	Luscombe Partnership	McClelland Dairies Ltd	NP Van Straalen Family Trusts Partnership	NP Van Straalen Family Trusts Partnership
Est of M F Blake & M Blake	G G Ring	H J & A M Van Hout	J M & L M North	Kelvin Vickers Family Trust	Lynbrook Farm Ltd	McClelland Dairies Ltd	O'Connell Dairy Ltd	Old Kookaburra Farms Limited
Estate M J Abbott	G I Norgate	H L & J E Wallace	J M Mellow	Kemra Farm Ltd	Lynwood Dairies Limited	McClelland Dairies Ltd	Old Kookaburra Farms Limited	Oporo Farms Ltd
Estate of T J Hailes	G L & G F Bell	Haket Trust	J R & B R Murdoch	Ken Bullians Trust	M & A Schrader Family Trust	McCullough Family 2008 Ltd	O'Connell Dairy Ltd	Oreti Plains Agriculture Limited
Evans Partners Ltd	G M & D M Tomsett	Hall Agri Ltd	J R & J P Barrett	Kilfinan Farm Ltd	M & G Askin Family Trust	McCullough Orakau Farm Trusts Partnership	Oporo Farms Ltd	Orini Downs Station Limited
Evergreen Ventures Ltd	G P & D J Wolvers Family Trust	Harakeke Dairy Ltd Partnership	J W & A M Steeghs	Kilkenny Farm Ltd	M & G Howden	McDonnell Farming Company (Ohau) Ltd	Oporo Farms Ltd	Oroango Farms Limited
Eyretonelea Partnership	G P & M E J Voogt	Hartland Pastoral Limited	Jackel Trust Partnership	Kilvarock Farming Company Ltd	M A Watt Family Trust	McIntosh Dairies Limited	Oroango Farms Ltd	OTO Trust
Eyrewell Dairy Ltd	G P S 2007 Ltd	Haswell Farm Limited	Jareem Trust	KJ&HL	M B & K M Watkins Family Trust	McKamp Farms Ltd	Oroango Farms Ltd	Owen & Robyn Ruddell Partnership
F A & R C M Smits Ltd	Galloway Enterprises Ltd	Haurere Farms Ltd	Jaska Farm Trust	Kohinoor Farms Ltd	M C & M Davey	McLeod Farms Limited	Oroango Farms Ltd	Owhango Farms Limited
Fairfax Stonehouse Farm Ltd	Galloway Enterprises Ltd	Henderson Partnership Farm	Jersey Collective	Kowalski Farms Ltd	M E Hunt & Son Ltd	McNab Farms Limited	Oroango Farms Ltd	P B & D P White
Fairview Dairies Ltd	Geordie Farms Limited	Highfield Farm Holdings Ltd	JF & LM Le Fleming Family Trust	KRTH Limited	M F & D C Robinson Trust Partnership	McSwag Limited	Oroango Farms Ltd	P B & E J Chick
Falcon Farms Trust	Gilray Partnership	Hildersea Limited Partnership	JM & RM Martin	Kyle Farm (2005) Limited	M J & D R McFetridge	Melrose Dairy Ltd	Oroango Farms Ltd	P G & J G Wilson Family Trust
Farm Partners Limited	Gladvale Farms Ltd	Hogsback Limited	Joblin Partners Limited	L & A Verstappen	M J & L M Van Tiel	Mid Island Farms Limited	Oroango Farms Ltd	P H S & P C Byford
Farmbuild Milk Company Ltd	Glanton Holdings Limited	Hollands Farm Limited	Johns Hill Trust	L & M Wild River Limited	M J Robertson	Midway Holdings Limited	Oroango Farms Ltd	
Farmer Fred Ltd	Glenarne Limited	Homelands Ltd	Jomar Farm Ltd		M L & K I Clark Family Trust		Oroango Farms Ltd	
	Glendine Ltd		JS & KJ Lorimer trading as Laurel Hill Farm		M M & L Baxter		Oroango Farms Ltd	
	Glengairn Trust						Oroango Farms Ltd	

Te Tihi Continued...

Port Molyneux Dairies Limited
 Poyzer & Swanney Partnership
 Premier Dairies Limited
 Prima Farms Ltd
 PT & CA Shearer Family Trust
 Pukerua Farm Ltd
 Puniho 606 Partnership
 R & L Swafford
 R & P McIntosh Ltd
 R & S Singh
 R A & F N Davidson
 R A & J L Hamilton
 R A & P E Adam
 R C & K M Ormsby
 R F & C L Lansdaal Ltd
 R F Seebeck
 R G King Ltd
 R J & J F Van Marrewijk
 R L & F M Hurley
 R L & S F Thompson
 R P MacInnes Trust
 R W & R D Kane
 Rakaia Incorporation (Pahau) Limited
 Rangitata Island Dairy Ltd
 Rangitata Island Dairy Partnership Ltd
 Redpark Farm Limited
 Reuver Limited
 Rhodes Hills Ltd
 Rich Feet Limited
 Ridgedale Limited
 Rimoo Farm Limited
 Riverside Dairy Farm Ltd
 Riverside Park Limited

Riverview Trust
 Roaring View Farms Limited
 Robren Farms Ltd
 Rockburn Dairy Ltd
 Rogers Farming Ltd
 Rolling Farms Limited
 Rollinson Farms Limited
 Rolwood Farms Ltd
 Rombouts Farm Ltd
 Rooney Farms Limited
 Rosebrae Farm Limited
 Roslyn Plains Ltd
 Ross & Louise Fieten Family Trust
 Roswin Farm Limited
 Rotoma Farms Limited
 Rozel Farm Limited
 RP & KJ Willans Family Trust
 Ruakiwi Dairies Limited
 Rubia Farm Limited
 Rydal Farm Trust
 S B & A H Stevenson
 S B & Y M Thompson
 S C & A N Charmley Ltd
 S E & S A Nicholas Family Trusts
 S G Holland Ltd
 S J Bruce Family Trust
 S Petterson Family Trust
 S.V. & M.L. Helms
 Sanddale Farm Ltd
 Schayes Enterprises Ltd
 Schnuriger Family Trust
 Schorn Trust
 Schouten Dairies Ltd
 Seamist Dairies Ltd

Searle's Dairy Ltd
 Shawlink Ltd
 Sheenfield Farms Ltd
 Shenandoah Trust
 Silverdene Farms (2000) Ltd
 Sisley Farms Ltd
 Skyhigh Farming Limited
 Smith Family Trusts
 Smithill Ltd
 Somerset Trust
 Southern Pastures (Longmead Farm) Ltd Partnership
 Southern Pastures (Mamaku Farm) Ltd Partnership
 Southern Pastures (Mauri Farm) Ltd Partnership
 Southern Pastures (Tatua Farm) Ltd Partnership
 Southern Star Farms Ltd
 Spark Brothers Limited
 St Helena Trust
 Staple Homestead Limited
 Stichbury Farms Limited
 Stonebrook Dairy Farm Limited
 Stoneleigh Park Limited
 Stonylea Dairies Limited
 Strathyre Farms Ltd
 Streamline Limited Partnership
 Sursum Farms Ltd
 Swim Farms Ltd
 T & N Kuter Family Trust
 T J & L E Luond
 T M & H D Green
 T M McDowall

Tablelands Dairy Limited
 Tamatea Farms Limited
 Taradise Farm
 Taranga Town Supply
 Tatiara Ltd
 Tauhei Farms Ltd
 Tayco Farm Limited
 Te Mahanga (2018) Ltd
 Te Whanake Enterprises Ltd
 Ternstone Limited
 Terrace Top Dairy Ltd
 The D & A Roberts Family Trust
 The Flavall Trust
 The Grange Ltd
 The Herewahine Trust
 The Milky Way Limited
 The Red Cow Company Limited
 Theland Purata Farm Group Limited
 Thistlehurst Dairy Ltd
 Thomas Falconer
 Thornehayes Farm Ltd
 Three Leaf Farm Limited
 Tiaki Farm Limited Partnership
 Toey Farms Ltd
 Toggenburg Trust
 Tokarata Farms Ltd
 Tokoroa Pastoral Ltd
 Torlesse Farm Ltd
 Totoro Trust
 Trinity Lands Limited
 TRK Farm Limited
 Tronnoco Farming Co Ltd
 Tui Company Limited
 Turnbull Family Trust

Turney Farms Limited
 Twin River Dairies Ltd
 Tyndale Family Trust
 Tyrone Trust P/Ship
 Uruwhenua Farms Ltd
 V C & S H Dearlove
 Vale Green Services Limited
 Van Rossum Ltd
 Ventsha Farms Ltd
 W & C Candy Trust
 W A & D P McKenzie
 W B Scott Family Trust
 W M & S R Fisher
 Wade Industries Ltd
 Wai-iti Dairy Farm Ltd
 Waioto Farm Ltd
 Waiotu Farms Ltd
 Waipa Meadow Ltd
 Wairakau Farm Trust
 Waitago Farms Ltd
 Waituna Investments Ltd
 Walker & McLean Partnership
 Wallace Johnstone Ltd
 Walsh Enterprises Limited
 Walters Holdings (2008) Ltd
 Waterscape Dairies Ltd
 Watershed Ventures Ltd
 Watford Trust
 Wattle Downs Limited
 Weirburn Farms Limited
 Wells Partnership
 Welsh Family Farms Limited
 West Mains Farm Ltd

Westbrook Farming Company Limited
 Westmere Co (2007) Ltd
 Whakahau Trust
 Whakahora Farm Ltd
 Wheyland Farms Limited
 White Gold Dairy Farms Ltd
 Whitten Holdings Ltd
 Willowbank Farms 2015 Limited
 Willowbank Farms 2015 Ltd
 Willowcreek Trust
 Willowhaugh Enterprises Limited
 Willowview Pastures Limited
 Wilmat Farms Limited
 Windsor Park Dairies Limited
 Windvale Farms Limited
 Wiremu Trusts
 Wolff Farms Ltd
 Woodside Dairying Ltd
 Wyke Partnership
 Wynyard Limited
 Ziang Farm Ltd
 Zonneveld Farms Ltd



Off-farm

Tracy, Palmerston North

COVID-19 disruptions and geopolitical events have dominated news headlines again this year. Our Co-op hasn't been immune to the impacts of these events. However, our diversity, ability to change product mix and move our products between markets has allowed us to minimise the negative impact.

Once again, our people around the world have stepped up. When Omicron hit New Zealand, our supply chain team was ready. Anticipating the need to change product mix at a moment's notice, the team ensured we had contingency packaging and ingredients, alongside warehouse capacity.

In China, our Anchor consumer team tapped into the 'group buying' phenomenon that took off during the Shanghai lockdown, getting products delivered direct to customers. It is this ingenuity, combined with our scale and optionality, that has kept our milk moving through the supply chain in spite of the many challenges this year.

Rising to the challenge

The conflict in Ukraine has placed more pressure on a global supply chain that was already under pressure from COVID-19 disruptions. In the face of this, our Kotahi partnership continues to deliver, reducing the impacts of schedule slippage and container shortages.

“It’s not just Fonterra that sees benefits from this. Through the scale that Kotahi brings with its strategic partnership with Maersk, many other Kiwi companies are able to get their product exported. It also indirectly underpins many imports for all New Zealanders.”

– Fraser Whineray, COO

We’ve also been able to lean into our global reach and our ability to change product mix, enabling us to get value from every drop of milk. This agility has been important throughout the COVID-19 outbreak, ensuring that our sites could continue to operate. While COVID-19 is something we’re learning to accommodate, right across our Co-op there are great examples of people stepping up to deliver.

At our Kauri site in New Zealand, DAIRYCRAFT coach Ross Beddows and technologist Coen Cramer helped out on the production line when Omicron hit. Our communications team in Australia also put their hands up to fill a shift if needed at our Tullamarine plant when Omicron led to shortages across the site floor.

At our Selangor plant in Malaysia, the team juggled the impact of the COVID-19 peak alongside flash floods which damaged many of our people’s homes. Despite this, the production line kept moving.

The Takanini milk transport team – Louis Compaan, Gene Watene, Mike Adams, Glynn Yern, Hamish McCrae and Quentin Sullivan – swapped farm pick-ups for supermarket drop offs to keep the supermarket shelves stocked during the Omicron peak. And our tanker operators mobilised to drop off COVID-19 test kits to all of our supplying farms in New Zealand.



Michelle, Auckland



Ross (left) and Mason, Kauri

Supporting our people

At all of our workplaces, health and safety measures have kept our people safe from COVID-19. But as well as the physical wellbeing of our people, we’ve also been conscious of the psychological toll the last three years has had.

This year, we expanded our Good Yarn workshops to include an online option. These provide a safe forum, where people can talk about mental health and know 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 with 55 GoodSorts in New Zealand and 26 globally.

In 2019, we committed to doubling on-the-job training and reskilling hours in New Zealand by 2025 (page SR-20). The Skills Pledge aligns with our focus of developing our people to put us in the best possible position to deliver on our long-term strategy.

One of the key drivers of our training hours is DAIRYCRAFT, an 18-month programme which equips participants with technical skills and an independently recognised qualification. Since 2015, more than 1,000 qualifications have been achieved through this programme.

“Since achieving my DAIRYCRAFT NZQA Qualification and with the support of my manager, I was appointed to a secondment position in IWS Cell Team as Process Lead. I put it down to the additional capability building that I have done.”

– Nazeefah Ali, Process Lead, CANPAC



Minister for Energy and Resources,
Hon. Dr Megan Woods and Chief Operating
Officer Fraser Whineray

Aligning for success

Delivering on our long-term strategy also requires a step change in our culture. Over the last year, thousands of our people have engaged in culturing conversations, with parts of the Co-op most critical to the delivery of innovation and our long-term aspirations focused on how we improve our decision making, operational effectiveness and value creation.

We've also adapted our organisational structure so that we can accelerate progress towards our long-term aspirations. Our ambitions are to grow the value we derive from our New Zealand milk through our sustainability credentials, innovation and nutrition science.

Two new Fonterra Management Team (FMT) roles to increase the Co-op's focus on innovation and strategic implementation have seen Komal Mistry-Mehta appointed as Chief Brand and Innovation Officer and Emma Parsons as Managing Director, Strategy and Optimisation.

Minimising our footprint

Milk collections play a vital role in keeping our product moving through the supply chain and this year, we welcomed New Zealand's first electric milk tanker to our fleet. Milk-E is part of our fleet decarbonisation work and one of a number of programmes helping us towards our goal of being net zero carbon by 2050.

Made possible in part by the Government's Low Emissions Transport Fund, Milk-E is also a significant milestone for the wider heavy transport sector, with the potential for the pilot to be replicated across other businesses.

The introduction of Milk-E has given the transport team an opportunity to design and trial other innovations to improve milk collection efficiencies, reduce safety concerns and reduce the amount of work required to customise a Fonterra tanker. A battery swap system is being installed at the Waitoa site, where Milk-E will be based, to trial how this could work within a fleet to minimise downtime from battery charging.

We're making other changes to our fleet to realise our sustainability goals. For the last two years, we've been working with our supplier Carters to reduce the number of tyres we use. By changing the way we monitor tyre tread wear, we've saved 2,900 tyres over the course of one year.

That hasn't been the only achievement - of the 20,000 tyres purchased in FY21, 13,000 were re-treads, meaning the Co-op only purchased 7,000 new tyres.

In terms of sustainability achievements, we've been able to reduce 247 tonnes of CO2 emissions, saving 75,000 litres of crude oil used to manufacture tyres. The next focus for the project is on recycling, with the aspiration that all tyre waste will be recycled to make new tyres, aligned with a circular economy.

“By working together with our vendor, the depot teams have reduced the number of tyres required without compromising safety, which is great for people and the environment. At the same time, we've made a significant cost saving which is great for our shareholders.”

– National Parts and Warranty Manager, Guy Cooper



Packaging

Through a partnership with not-for-profit charitable trust Agrecovery, the Co-op is making it easier for our farmer shareholders to recycle on-farm packaging, with collection points now available at 65 of our 66 Farm Source stores in New Zealand.

The Co-operative Difference programme is helping to drive change. To be eligible for The Co-operative Difference payment, farms need to manage plastics and unused agrichemicals through an approved scheme like Agrecovery. In 2021, this resulted in a 521% increase in registrations for the scheme. Last year Farm Source stores recycled over 400 tonnes of plastic, including 71,000kg of containers from customer farms.

In-store, Farm Source is also making strides, by removing non-recyclable packaging where it can. More than half of the Farm Source Country Mile brand now has no plastic packaging at all, through either elimination or replacement with a paper-based alternative.

“Sustainability is at the heart of our Co-op. At Farm Source we’re working to reduce waste by eliminating non-recyclable packaging, facilitating recycling and using recycled materials.”

– Anne Douglas, Director Category,
Marketing & Digital Innovation

Reducing water usage at site

Minimising our impact on the environment safeguards it for future generations. Recovering water from milk when we make powdered products means that the majority of our sites discharge more water than they consume. By improving processes and using new technology, we are improving water quality treatment so that we can be even more resource efficient.

Our Maungatūroto site was recognised at the 2022 Water New Zealand Excellence Awards for reducing water usage by up to 25%. In a first of its kind for Fonterra, evaporator condensate (water extracted from milk) from the site is redirected through a natural wetland before being further treated and re-used at the site. By recycling up to 700,000 litres of water a day through the wetland, the site has been able to reduce its reliance on Kaipara District Council supply, giving the community more security of water supply.

“We’ve taken an holistic, circular and nature-based approach to look at how we could work in partnership with nature. By providing the right amount of nutrients for the native plants and habitat to thrive promotes greater biodiversity within the wetland.”

– Stuart Glen, Maungatūroto Environmental Manager



Products & customers

“Nurture is a great example of an entrepreneurial mindset. If you can’t get somebody to do it for you then do it yourself and make it happen and that’s exactly what the team did. Their ‘start-up like’ model meant Fonterra was able to get Nurture to market quickly and on a shoestring budget.”

– Judith Swales, Fonterra CEO APAC

Billie, Tararua

At Fonterra we believe our New Zealand pasture-based farming produces the best milk in the world, a testament to the care and attention our farmer owners give to their animals and the land.

This high level of focus means that our on-farm carbon footprint is amongst the lowest in the world. As our customers and consumers become more focused on the provenance of their food, our sustainability credentials are more important than ever before as we offer our trusted goodness beyond New Zealand’s backyard.

We play an important part in the development of new dairy innovations, helping customers as they look to nutrition solutions to help them live longer and healthier lives. This year, Fonterra’s Research and Development Centre (FRDC) celebrated turning 95, and this centre of excellence continues to be an important part of our strategy to become a leader in innovation and science.

As the world changes, we change with it, adapting to the evolving needs and desires of our customers and consumers. Using our extensive dairy expertise, we are creating new value-add products to cater to the changing tastes of consumers around the world. Through these innovations, we are maximising value for both our customers and farmer owners, while ensuring we utilise every single drop of milk.



Chris Anderson, Foodstuffs North Island

Provenance

New Zealand's reputation for our low-carbon pasture-based farming system is expanding as consumers are increasingly interested in understanding where their food comes from, how it is made and its impact on the environment.

Across the globe, our New Zealand provenance is featured strongly on-pack, particularly in South-East Asian markets, where New Zealand is perceived as a marker for superior nutrition and purity.

While external animal wellbeing standards and certifications exist, not all are relevant to New Zealand's pasture-based farming system. In response to this, we've developed our Cared for Cows Standard as a representation of how we approach animal wellbeing alongside our farmers.

The Cared for Cows Standard formalises the process for assessing and managing animal wellbeing on farms supplying Fonterra New Zealand and sets out the requirements for Fonterra's management of animal wellbeing on our farms.

Our South Korea customer Daesang has started using the Cared for Cows Standard on their packaging as a byword for quality.

New Zealand origin has become a trustworthy signal in the eye of consumers. In Vietnam, one customer, Nutifood, recently released its 100% New Zealand Grass-Fed milk brand, the first of its kind in the country. Vietnamese consumers are becoming more interested in natural, high-quality foods and using our provenance story and sustainability claims allows Nutifood to differentiate its products on supermarket shelves.

With 72% of global consumers expressing an interest in brands that actively communicate achievements around sustainability, we're leveraging our sustainability solutions to create a range of carbonzero™ ingredients. Achieving carbonzero™ certification for products like Simply Milk and NZMP™ Organic Butter is a great way for us to help our customers and the environment.

Carbonzero™ ingredients help unlock real benefits for our customers, allowing them to meet their sustainability targets, signal environmental values and grow brand preference and market share.

To achieve our carbonzero™ certification, we partnered with independent company Toitū Envirocare. They measure the impact of producing our carbonzero™ products right the way through the supply chain, including the disposal of packaging by customers. Understanding our footprint means we can offset our impact with high-quality carbon credits from projects, including native forest regeneration in New Zealand and Gold Standard renewable energy projects.

In recognition of this work, this year NZMP Organic Butter carbonzero™ certified won the 'Sustainability Innovation Award' at Food Ingredients Europe 2021 and the 'Most Innovative Dairy Product Award' at the Gulfood Innovation Awards 2022, a first for Fonterra. We also continued our work with another New Zealand co-operative, Foodstuffs North Island, to expand the Simply Milk range, the first carbonzero™ milk in the Southern Hemisphere. The range now includes a 3-litre bottle size, offering more choice to consumers.

“It's becoming increasingly important to customers to know where their food comes from and that it's being produced sustainably. Simply Milk offers customers the opportunity to purchase their everyday milk and know their choice is making a difference to something that's really important to them.”

**– Chris Anderson, Merchandise Manager
for chilled beverages at Foodstuffs North Island**

Reducing Waste

Fancy your latte or flat white from a source that produces less waste and is better for the environment? Our Fonterra Brands New Zealand (FBNZ) team has been working with baristas around New Zealand to trial Anchor café milk taps.

The Anchor café milk tap is connected to a recyclable 10 litre bladder, filled with milk, which replaces five 2-litre standard milk bottles, reducing plastic by 65%. The tap itself measures the precise amount of milk into coffee cups, meaning less waste and ultimately a reduction in costs.

The Anchor café milk tap is yet another small step towards our goal of becoming a leader in sustainability.



Driving innovation

At the forefront of dairy innovations, Fonterra is continuously looking at ways to better leverage the nutritional value of New Zealand milk. With an enviable research and development facility in Palmerston North, we continue to develop new dairy innovations to help customers as they look to nutrition solutions to help them live longer and healthier lives.

Although most nutritional innovation happens in one of our Fonterra laboratories, during COVID-19, our team had to be a little more creative. Creating and launching a brand of cultured milk drink for Singapore all happened from the home kitchen of one of our Food Technologists in New Zealand.

Without access to their usual labs, the team used their ingenuity to develop the product at home and then conduct socially distanced testing in parks and outdoor spaces to ensure that they got the taste and texture just right. The resulting product, Nurture cultured milk, uses only a little sugar, unlike regular cultured milks on the market, and has added vitamins to support immunity. This is just one example of how we're leveraging agile lean innovation techniques.

In Greater China, our team has developed and launched Anchor Veg-Fruit Probiotic Milk Powder. The Anchor Veg-Fruit Probiotic Milk Powder contains four kinds of fruit: banana, pineapple, prune, and cranberry, as well as three vegetable ingredients – pumpkin, corn and carrot. All these natural elements help provide vitamin A, dietary fibre, zinc, iron, magnesium and other nutrients needed by the human body.

Further cementing our position as a leading dairy nutrition producer, Fonterra this year became a member of the Medical Nutrition International Industry (MNI). Representing companies that provide expert solutions to feed patients in hospital care or in otherwise vulnerable stages of their health, this new membership strengthens our efforts to provide quality nutritional interventions and services to best serve the interests of patients and those working in healthcare. By partnering with MNI, we can show dairy is more than just a daily dose of nutrition for breakfast – it's also a medical superfood that can help save lives.



Elise, Food Technologist, Auckland

“Because there is less waste and spillage with every pour from the Anchor café milk tap, it means less cost for us and increased productivity and time savings for the baristas making coffee. From our perspective it also enhances the whole café experience because it gives us more time to connect with our customers.”

– Eric Heycoop, Owner Emporio Coffee

Taking the Co-op to our customers

We're also using technology to improve customer experience and adapt to changing buying and procurement needs. E-commerce has come a long way over the past ten years, thanks in particular to business-to-consumer e-commerce, which has radically pushed boundaries and innovated in this space. In response to our customers' desire for more convenience and flexibility, our ingredients business, NZMP, launched myNZMP.

Built and powered by Fonterra, myNZMP is an industry-leading business-to-business platform, offering personalised digital services to our customers, including an e-commerce store. myNZMP makes it easier and more convenient for customers to plan, buy, track and manage their NZMP orders.

With the introduction of myNZMP, customers have a seamless online to offline experience. They can buy quickly online when needed and access order data and insights, as well continuing to access ingredients support from NZMP's experienced sales network when required.

Since the myNZMP Store's pilot launch in September 2020 with a small group of customers, myNZMP Store has evolved month-on-month with the help of customer and employee feedback. To date, over USD \$200 million worth of product has been sold via myNZMP Store.

myNZMP Store is becoming a significant enabler of our Ingredients business over the next decade and is helping us to deepen relationships with our customers, a key to achieving our long-term ambitions.

Fonterra has a long history of hosting thousands of visitors annually, all eager to understand the stories that sit behind our much-loved products, ingredients and brands. When COVID-19 put a halt to our entire visitor programme, we faced an interesting challenge – if we can't bring our customers to the Co-op, how do we take the Co-op to our customers?

Aiming to showcase both New Zealand and Fonterra virtually, the Co-operative Experience team developed 'Visit Fonterra'. The interactive digital experience focuses on our people, sustainability, innovation, traceability and food safety quality.

Since its launch in March this year, there have been over 12,000 visitors to the platform from 107 countries globally, consuming over 90,000 pages of Fonterra content. It's a valuable tool to educate people from around the world about our grass-fed farming methods and quality products.



Our mozzarella gives dumplings a twist in China



Coffee beans roasted in Anchor Butter in Vietnam

Tapping into trends

Innovation means we need to constantly look at consumer trends, and what's happening in the world. At Fonterra, our teams are always looking to drive demand for New Zealand milk by developing new ways of using our products in local cuisine to find the next big food trend.

Chinese New Year festivities last for a few weeks each year. An important feature of these celebrations is spending time with family and sharing dumplings – a symbol of prosperity and wealth. In Greater China, using the power of social media, the team promoted the idea of mozzarella on dumplings. The dish gained huge attention and sparked a new trend in the lead-up to the Lunar New Year.

In Vietnam, coffee beans are traditionally roasted with fat to remove the acidity of the beans. Working with the country's leading premium coffee brand Trung Nguyen, we introduced Anchor butter to the roasting process of their coffee. The butter gives the coffee beans a glossy finish, an enhanced aroma and a distinctive taste profile. Our ability to assure consistency of supply and Anchor's provenance and grass-fed value proposition offered a compelling advantage over other alternatives.

Board of Directors



PETER MCBRIDE

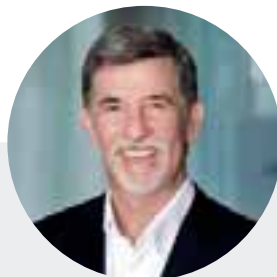
BOARD RESPONSIBILITIES *Elected Director, Chairman, Member of the People, Culture and Safety Committee, the Disclosure Committee, and the Governance Development Programme Committee*

TERM OF OFFICE *Elected 2018, last re-elected 2021*

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 Director of Sequal Holdings Limited and its subsidiaries, and is a member of the New Zealand China Council and the 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 the Zespri China Advisory Board. Peter has shareholding interests in the Waikato.

B. Horticulture, PG Dip Com Agribusiness



CLINTON DINES

BOARD RESPONSIBILITIES *Appointed Director, Member of the Co-operative Relations Committee, the Divestment Review Committee and the People, Culture and Safety 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, Member of the Audit, Finance and Risk Committee, the Co-operative Relations Committee, the Divestment Review 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 its subsidiaries and Better Eggs Limited and is a Director of Rabobank NZ Limited, The Hills Golf Club Limited and Henergy Cage-Free Limited. Brent previously served on the Board of Canterbury Grasslands 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.

BCA, FCA



LEONIE GUINEY

BOARD RESPONSIBILITIES *Elected Director, Member of the Co-operative Relations Committee and the People, Culture and Safety Committee*

TERM OF OFFICE *Elected 2018, last re-elected 2021*

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

Board of Directors (continued)



BRUCE HASSALL

BOARD RESPONSIBILITIES *Appointed Director, Chair of the Audit, Finance and Risk Committee, Member of the Disclosure Committee, the Divestment Review Committee, the Milk Price Panel and is an observer on the People, Culture and Safety 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 People, Culture and Safety Committee, and Member of the Audit, Finance 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 (Chair, Sustainability Committee), Abacus Property Group, Endeavour Group, the GO (Goodes-O'Loughlin) Foundation and The Ethics Centre. 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).

Holly and her husband live on a small rural property in the Southern Highlands, NSW, where they raise beef cattle. Holly volunteers her time as a mentor for numerous programs (including AICD Chair's Mentoring, Women in STEM, Minerva Sports Network,) and speaks publicly on the topics of leadership, gender diversity and sustainability.

BA, MBA



ANDY MACFARLANE

BOARD RESPONSIBILITIES *Elected Director, Chair of the Co-operative Relations Committee, Member of the People, Culture and Safety Committee and the Governance Development Programme Committee, and 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 and is a past President of the New Zealand Institute of Primary Industry Management (NZIPIM). He is a Director of ANZCO, chairs the SFFF Plantain Project and Edgewater Hotel Lake Wanaka and is a member of the International Farm Management Association (IFMA). Andy is a previous Director of Ngai Tahu Farming Limited and AgResearch, past chair of Deer Industry New Zealand, and served on the council of Lincoln University for 12 years.

Andy and his wife Tricia commenced farming in 1989 and live near Ashburton. His shareholding interests are in Canterbury. He has a strong interest in the governance of food processing and manufacturing, research and development, and strategic use of technology in the farming sector.

B.Agr.Sc



JOHN NICHOLLS

BOARD RESPONSIBILITIES *Elected Director, Member of the Co-operative Relations Committee and the Disclosure Committee, and Fonterra appointed Director of Fonterra Farmer Custodian Limited*

TERM OF OFFICE *Elected 2018, last re-elected 2021*

John Nicholls was elected to the Fonterra Board in 2018. An experienced company director, he is the 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 Co-operative 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

Board of Directors (continued)



CATHY QUINN

BOARD RESPONSIBILITIES *Elected Director, Chair of the Disclosure Committee and the Divestment Review Committee, Member of the Audit, Finance and Risk Committee, and an observer on the Milk Price Panel*

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. Cathy serves on the Fletcher Building and Rangitira Boards and chairs the Boards of Tourism Holdings and 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 New Zealand China Council.

ONZM, LLB



DONNA SMIT

BOARD RESPONSIBILITIES *Elected Director, Member of the Audit, Finance and Risk Committee, and Fonterra appointed Director of FSF Management Company 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 (FSF Board). In July 2022, Donna announced she will retire from the Fonterra Board and the FSF Board following their respective Annual Meetings in November 2022. 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 Kiwifruit Equities Limited and a Trustee of the Dairy Women's Network and was previously a Director of EastPack Limited.

Donna is a Fellow Chartered Accountant and was a company administrator of 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 Member of the Audit, Finance and Risk Committee, the Disclosure Committee and the Divestment Review 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 served on the Council of the University of Auckland from 2009 to 2021, 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 was appointed Chief Executive in 2018. He is responsible for leading the organisation, delivering strategy and financial performance, and engaging with our farmer owners, employees, customers and shareholders.

As Chief Executive, Miles has led the Co-operative through strategic reviews into a new growth phase focused on New Zealand's pasture-based milk, dairy innovation and science and sustainability.

Previously, Miles 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.

Miles has also held a number of leadership roles across the 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, building relationships with many of our global partners of today.

Miles has completed management programmes at INSEAD (International Executive Development), London Business School (Finance), Kellogg's Northwestern University (Global Sales) and IMD Switzerland (Global Marketing).



TEH-HAN CHOW

CHIEF EXECUTIVE OFFICER, GREATER CHINA

Teh-han oversees the Co-op's business in the Greater China region, including Ingredients, Foodservices and Consumer Brands. The region is one of the largest markets for Fonterra, accounting for roughly a third of the Co-op's total business.

Prior to his appointment as Chief Executive Officer of the Greater China region in 2020, Teh-han was President of Fonterra's ingredients business, NZMP, in Greater China, and South and East Asia.

Teh-han has over 20 years of experience in China across a variety of industries and functions, including marketing, public relations, advertising, sales, and management roles in food, agriculture, commodities, FMCG, luxury goods, and hospitality sectors.

Prior to joining Fonterra in 2015, Teh-han was Chief Executive Officer of Louis Dreyfus Commodities China, where he doubled the business, expanded the company's business lines, built and acquired production facilities, and was involved in establishing multiple joint-ventures including COFCO Agricultural Industry Investment Fund. Prior to Louis Dreyfus, Teh-han was Managing Director for Greater China for J.R. Simplot, a United States-based diversified agribusiness with farming and food processing operations in China.

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.



MIKE CRONIN

MANAGING DIRECTOR CO-OPERATIVE AFFAIRS

Mike Cronin oversees Co-operative Affairs which includes Governance, Risk and Audit, Farm Source, Global Sustainability, Stakeholder Affairs and Trade, 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, The Co-operative Difference and Flexible Shareholding.

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.



KATE DALY

MANAGING DIRECTOR, PEOPLE AND CULTURE

Kate was appointed as Managing Director People and Culture in August 2021.

She has oversight of the teams responsible for facilitating Fonterra's people strategy including Culture and Wellbeing, Employment Relations, Leadership Development, Talent and Future Capabilities, Rewards and Global Mobility.

Kate first joined Fonterra in December 2020, making significant contribution to the Co-operative as Director of HR for COO, where she held responsibility for leading the HR function for Fonterra across NZ Manufacturing, Technical Excellence, Global Supply Chain, Global Sustainability, Global Quality & Safety, Category Strategy & Innovation and Information Technology.

Prior to joining Fonterra, Kate had extensive experience in Human Resources and Communications leadership, having held senior roles across these portfolios since 2001. Kate previously led a transformation of the People and Culture function at the BNZ. She also was appointed as the Chief People and Communications Officer with Fletcher Building Ltd. Kate was awarded the HRINZ HR person of the year in 2018 in recognition for her contribution to Fletcher Building.

Kate has a Bachelor of Commerce in Economics and International Finance and a Bachelor of Science in Pharmacology, both from the University of Auckland.

Fonterra Management Team (continued)



KOMAL MISTRY-MEHTA

CHIEF INNOVATION AND BRAND OFFICER

Komal leads Fonterra's innovation, research and development functions along with the Co-operative's brand and communications activities. This includes shaping the future of Fonterra by developing and commercialising innovation, technologies and new business models.

In addition, Komal oversees the Active Living Business Unit, and has responsibility for setting the global strategy for Core Dairy, Foodservice and the Nutrition Science portfolio.

Prior to joining the Fonterra Management Team in August 2022, Komal led Fonterra's high-value global ingredients business Active Living, unlocking growth through developing and commercialising science-backed health and wellness solutions. In her prior role, Komal's work establishing and developing Fonterra Ventures earned her the title of New Zealand's Young Executive of the Year in the 2017 Deloitte Top 200 Awards. Prior to joining Fonterra in 2011, Komal worked for Deloitte in Europe.

She is known for her leadership in developing people and her strong advocacy for diversity and inclusion.

Komal has completed the Executive Program at Stanford University School of Business and holds Bachelor of Laws and Bachelor of Management degrees from the University of Waikato. She is a Barrister and Solicitor of the High Court of New Zealand as well as a member of the New Zealand Institute of Chartered Accountants.



EMMA PARSONS

MANAGING DIRECTOR, STRATEGY AND OPTIMISATION

Emma leads Fonterra's work on strategy and optimisation, overseeing the central portfolio management function, and the development and implementation of strategy.

Prior to August 2022 when Emma joined the Fonterra Management Team, she was the General Manager of Capital Strategy and CEO of Agrigate, a joint venture between Fonterra and Livestock Improvement Corporation (LIC), GM Responsible Dairying, and had roles in Brazil and Argentina where she developed the Co-operative's export relationships and supply chain integration across Latin America.

Before joining Fonterra in 2001, Emma worked for the New Zealand Dairy Board and Kiwi Dairies.

She has a Master of Business Administration, with First Class Honours, from Massey University, and has Bachelor of Science and Bachelor of Commerce degrees from Victoria University of Wellington.



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 United States. 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 the 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 currently serves as a Non-Executive Director for Super Retail Group and has served on the boards of Virgin Australia, DuluxGroup and Fosters. Judith has a Bachelor of Science (Honours) in Microbiology and Virology, and is a graduate member of the Australian Institute of Company Directors.

Fonterra Management Team (continued)



FRASER WHINERAY

CHIEF OPERATING OFFICER

Fraser is responsible for our New Zealand manufacturing site and global supply chain operations, sustainability, IT and safety, quality and regulatory teams.

He joined the Co-operative 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 the 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

With over 30 years at Fonterra and in the global dairy industry, Kelvin Wickham is driven by his belief in dairy as a high-quality source of nutrition for the world.

In his current role as the CEO of AMENA, he is responsible for Fonterra's activities across Consumer, Foodservice and Ingredients in Africa, Middle East, Europe, North Asia and the Americas.

Over his career, Kelvin has played a key role in building Fonterra's ingredient's brand, NZMP, across the world, developing Fonterra's business in expanding markets, and establishing key customer relationships and partnerships.

He has also led major projects during pivotal moments in the history of Fonterra and the dairy industry. This includes when he oversaw the launch of Global Dairy Trade, a first for the industry, which in addition to making global online dairy sales possible, offered transparent price discovery to support the development of dairy price risk management tools.

Kelvin holds a Chemical and Materials Engineering Degree, a Master of Management and a Diploma of Dairy Science and Technology.

Fonterra Management Team Overview

Fonterra announced several changes to the Fonterra Management Team (FMT) in 2022:

- Fonterra's Chief Financial Officer, Marc Rivers, is leaving Fonterra in November 2022. Chris Rowe has been appointed as the Acting Chief Financial Officer from 1 October 2022, with Mr Rivers moving into the role of Strategic Advisor to the Chief Executive Officer from 1 October 2022 until his departure.
- Two new FMT roles were established with effect from 1 August 2022 to reflect Fonterra's focus on innovation and strategic implementation. Komal Mistry-Mehta has been appointed as the Chief Innovation and Brand Officer and Emma Parsons has been appointed as the Managing Director Strategy and Optimisation.
- The AMENA and APAC Business Units will be consolidated into one business unit from 1 October 2022, to be led by Judith Swales as the CEO Global Markets. Kelvin Wickham (AMENA CEO) will be leaving Fonterra in December 2022.

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.

Please refer to the following tables for reconciliations of NZ IFRS to non-GAAP measures, and the Glossary for definitions of non-GAAP measures referred to by Fonterra.



Reconciliation from profit after tax to total Group normalised EBITDA

	GROUP \$ MILLION	
	31 JULY 2022	31 JULY 2021
Profit after tax	583	599
Net finance costs from continuing operations	194	252
Net finance costs from discontinued operations	37	10
Tax expense from continuing operations	169	103
Tax credit from discontinued operations	(7)	(5)
Depreciation and amortisation from continuing operations	635	642
Depreciation and amortisation from discontinued operations	–	–
Total Group EBITDA	1,611	1,601
Gain on sale of Global Dairy Trade	(42)	–
Gain on sale of Ying and Yutian China Farms	–	(32)
China Farms impairment reversal	–	(23)
Gain on sale of Falcon China Farms JV	–	(40)
Brazil Consumer and Foodservice business impairment	57	39
Income Statement impact of Beingmate investment	–	49
Total normalisation adjustments	15	(7)
Total Group normalised EBITDA	1,626	1,594

Reconciliation from profit after tax to total Group normalised EBIT

	GROUP \$ MILLION	
	31 JULY 2022	31 JULY 2021
Profit after tax	583	599
Net finance costs from continuing operations	194	252
Net finance costs from discontinued operations	37	10
Tax expense from continuing operations	169	103
Tax credit from discontinued operations	(7)	(5)
Total Group EBIT	976	959
Normalisation adjustments (as detailed on the previous page)	15	(7)
Total Group normalised EBIT	991	952

Reconciliation from profit after tax to normalised profit after tax and normalised earnings per share

	GROUP \$ MILLION	
	31 JULY 2022	31 JULY 2021
Profit after tax	583	599
Normalisation adjustments (as detailed on the previous page)	15	(7)
Tax on normalisation adjustments	(7)	(4)
Normalised profit after tax	591	588
Loss/(profit) attributable to non-controlling interests	1	(21)
Normalisation adjustments attributable to non-controlling interests	(24)	(17)
Normalised profit after tax attributable to equity holders of the Co-operative	568	550
Weighted average number of Co-operative shares (thousands of shares)	1,613,353	1,613,105
Normalised earnings per share (\$)	0.35	0.34

Reconciliation from gross profit from continuing operations to total Group normalised gross profit

	GROUP \$ MILLION	
	31 JULY 2022	31 JULY 2021
Gross profit from continuing operations	3,216	2,984
Gross profit from discontinued operations	124	153
China Farms impairment reversal	–	(23)
Total Group normalised gross profit	3,340	3,114



Hannah & Henry, Canterbury

Glossary

TERMS	DEFINITION
Active Living	represents ingredients & solutions sold to businesses who cater to consumers' health and wellness needs. It addresses three dimensions of wellbeing (Physical, Mental, Inner), extending to meet the nutrition needs of medical patients through to everyday people pursuing active lifestyles. This portfolio includes proteins, specialty ingredients such as probiotics, lactoferrin & lipids, and patented formulations.
Adjusted net debt	is calculated as total borrowings, plus bank overdraft, less cash and cash equivalents, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries, adjusted for derivatives used to manage changes in hedged risks on debt instruments. Amounts relating to disposal groups held for sale are included in the calculation.
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.
Average capital employed	is a 13-month rolling average of capital employed.
Bulk liquids	means bulk raw milk that has not been processed and bulk separated cream.
Business growth capital expenditure	covers investments to drive business expansion or improvement toward our strategy, and generate incremental revenue.

TERMS	DEFINITION
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, including equity contributions, long-term advances, and investments.
Consumer	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.
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.

TERMS	DEFINITION
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.
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 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.
Essential capital expenditure	covers investments to maintain the capability of our existing assets from risk management, legislation/regulation commitments, business continuity and capital replacement, as well as projects that drive the Co-operative sustainability targets
Farmgate Milk Price	means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual.
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.

TERMS	DEFINITION
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.
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; Fonterra 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 adjusted net 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.
Net working capital	is total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements.

TERMS	DEFINITION
Non-reference products	means all dairy products, except for reference commodity products manufactured in NZ.
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 earnings per share, 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.
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. Chile: A period of 12 months from 1 August to 31 July.

TERMS	DEFINITION
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.
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.
Total Group	is used to indicate that a measure or sub-total comprises continuing operations, discontinued operations and noncontrolling interests. E.g. 'Total Group EBIT'.
Total pay-out	means the total cash payment per milk solid that is backed by a share, being the sum of the Farmgate Milk Price per kgMS and the dividend per share.
Tradeable shares	represents shares on issue that are in excess of Aggregate minimum shareholding
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
Voucher	means a voucher provided to a farmer shareholder who transferred the economic rights of a supply backed share to the Fund, and which can be used to count towards a farmer shareholder's Share Standard.
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.
Working capital days	is calculated as 13-month rolling average working capital divided by revenue from the sale of goods (excluding impact of derivative financial instruments) multiplied by the number of days in the period. The working capital days calculation excludes other receivables, prepayments, other payables and includes working capital classified as held for sale.

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
Teh-Han Chow
Mike Cronin
Kate Daly
Komal Mistry-Mehta
Emma Parsons
Marc Rivers
Judith Swales
Fraser Whineray
Kelvin Wickham

REGISTERED OFFICE

Fonterra Co-operative Group Limited
Private Bag 92032
Auckland 1142
New Zealand
109 Fanshawe Street
Auckland Central 1010
New Zealand
Phone +64 9 374 9000
Fax +64 9 374 9001

AUDITOR

KPMG
18 Viaduct Harbour Avenue
Auckland 1010
New Zealand

FARMER SHAREHOLDER AND SUPPLIER SERVICES

Freephone 0800 65 65 68

FONTERRA SHARES AND FSF UNITS REGISTRY

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
New Zealand
Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

CAPITAL NOTES REGISTRY

Link Market Services Limited
PO Box 91976
Auckland 1142
New Zealand
Level 30, PwC Tower
15 Customs Street West
Auckland 1010
New Zealand

INVESTOR RELATIONS ENQUIRIES

Phone +64 9 374 9000
investor.relations@fonterra.com
www.fonterra.com



Ben & Bella-Rose, Auckland

Good Together

from one generation
to the next

Financial Statements

For the year ended 31 July 2022
Fonterra Co-operative Group Limited

Pūrongo pūtea
Te Mātāpuna



Dairy for life

Contents

INCOME STATEMENT	03
STATEMENT OF COMPREHENSIVE INCOME	04
STATEMENT OF FINANCIAL POSITION	05
STATEMENT OF CHANGES IN EQUITY	06
CASH FLOW STATEMENT	07
BASIS OF PREPARATION	08
NOTES TO THE FINANCIAL STATEMENTS	10
INDEPENDENT AUDITOR'S REPORT	69

IMAGE:
Henry & Andrew, Canterbury



OUR 2022 SUITE OF REPORTS

Annual Review 2022
(Referenced as AR)

Financial Statements 2022
(Referenced as FS)

Business Performance
Report 2022
(Referenced as BP)

Sustainability Report 2022
(Referenced as SR)

Corporate Governance
Statement & Statutory
Information 2022
(Referenced as C&S)

Modern Slavery
Statement 2022
(Referenced as MS)

Farmgate Milk Price
Statement 2022
(Referenced as MP)

OUR REPORTS ARE AVAILABLE
FROM [FONTERRA.COM/NZ/
EN/INVESTORS.HTML](https://fonterra.com/nz/en/investors.html)



Income Statement

FOR THE YEAR ENDED 31 JULY 2022

	NOTES	GROUP \$ MILLION	
		31 JULY 2022	31 JULY 2021 ¹
Continuing operations			
Revenue from sale of goods	3	22,953	20,565
Cost of goods sold	4	(19,737)	(17,581)
Gross profit		3,216	2,984
Other operating income		141	129
Selling and marketing expenses		(581)	(574)
Distribution expenses		(516)	(476)
Administrative expenses		(831)	(816)
Other operating expenses		(415)	(365)
Share of profit of equity accounted investees		10	5
Profit before net finance costs and tax from continuing operations	6	1,024	887
Finance income		14	9
Finance costs		(208)	(261)
Net finance costs	10	(194)	(252)
Profit before tax from continuing operations		830	635
Tax expense	21	(169)	(103)
Profit after tax from continuing operations		661	532
Discontinued operations			
(Loss)/profit after tax from discontinued operations	2	(78)	67
Profit after tax		583	599

	NOTES	GROUP \$ MILLION	
		31 JULY 2022	31 JULY 2021 ¹
Profit after tax is attributable to:			
Profit attributable to equity holders of the Co-operative		584	578
(Loss)/profit attributable to non-controlling interests		(1)	21
Profit after tax		583	599
Earnings per share:			
Basic and diluted earnings per share from continuing operations	5	0.38	0.31
Basic and diluted (loss)/earnings per share from discontinued operations	5	(0.02)	0.05
Basic and diluted earnings per share	5	0.36	0.36

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 2022

	GROUP \$ MILLION	
	31 JULY 2022	31 JULY 2021
Profit after tax	583	599
Items that may be reclassified subsequently to the Income Statement:		
Cash flow hedges and other costs of hedging, net of tax	(320)	(127)
Net investment hedges and translation of foreign operations, net of tax	103	(112)
Foreign currency translation reserve gains transferred to the Income Statement	(1)	(14)
Other movements in reserves	4	(3)
Total items that may be reclassified subsequently to the Income Statement	(214)	(256)
Items that will not be reclassified subsequently to the Income Statement:		
Net fair value gains on investments in shares	16	5
Foreign currency translation losses attributable to non-controlling interests	(8)	–
Other movements in reserves	16	(2)
Total items that will not be reclassified subsequently to the Income Statement	24	3
Total other comprehensive expense	(190)	(253)
Total comprehensive income	393	346
Total comprehensive income is attributable to:		
Equity holders of the Co-operative	394	327
Non-controlling interests	(1)	19
Total comprehensive income	393	346
Total comprehensive income arises from:		
Continuing operations	461	297
Discontinued operations	(68)	49
Total comprehensive income	393	346

Statement of Financial Position

AS AT 31 JULY 2022

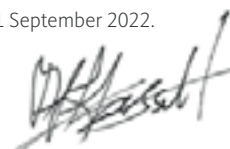
	NOTES	GROUP \$ MILLION	
		31 JULY 2022	31 JULY 2021 ¹
ASSETS			
Current assets			
Cash and cash equivalents		288	985
Trade and other receivables	12	2,482	1,802
Inventories	13	5,007	3,766
Intangible assets	18	78	47
Tax receivable		64	31
Derivative financial instruments		230	249
Other current assets		107	95
Assets held for sale	2	473	462
Total current assets		8,729	7,437
Non-current assets			
Property, plant and equipment	16	6,067	5,979
Right-of-use assets	17	398	486
Equity accounted investments		113	91
Intangible assets	18	2,216	2,195
Deferred tax assets	21	551	460
Derivative financial instruments		434	437
Long-term advances		154	163
Other non-current assets		119	93
Total non-current assets		10,052	9,904
Total assets		18,781	17,341

The Board approved and authorised for issue these Financial Statements on 21 September 2022.

For and on behalf of the Board:



PETER MCBRIDE
Chairman



BRUCE HASSALL
Director

	NOTES	GROUP \$ MILLION	
		31 JULY 2022	31 JULY 2021 ¹
LIABILITIES			
Current liabilities			
Bank overdraft		31	20
Borrowings	9	356	818
Trade and other payables	14	2,403	2,208
Owing to suppliers	15	2,119	1,825
Tax payable		107	87
Derivative financial instruments		733	84
Provisions	22	70	72
Other current liabilities		71	57
Liabilities held for sale	2	628	542
Total current liabilities		6,518	5,713
Non-current liabilities			
Borrowings	9	4,900	4,254
Derivative financial instruments		313	359
Provisions	22	79	82
Deferred tax liabilities	21	50	25
Other non-current liabilities		15	39
Total non-current liabilities		5,357	4,759
Total liabilities		11,875	10,472
Net assets		6,906	6,869
EQUITY			
Subscribed equity	7	5,891	5,892
Retained earnings		1,611	1,350
Foreign currency translation reserve	20	(253)	(355)
Hedge reserves	20	(346)	(26)
Other reserves		30	2
Total equity attributable to equity holders of the Co-operative		6,933	6,863
Non-controlling interests		(27)	6
Total equity		6,906	6,869

1 Comparative information includes re-presentations for consistency with the current period.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2022

	GROUP \$ MILLION							
	ATTRIBUTABLE TO EQUITY HOLDERS OF THE CO-OPERATIVE							TOTAL EQUITY
	SUBSCRIBED EQUITY	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVES	OTHER RESERVES	TOTAL	NON-CONTROLLING INTERESTS	
As at 1 August 2021	5,892	1,350	(355)	(26)	2	6,863	6	6,869
Profit after tax	–	584	–	–	–	584	(1)	583
Other comprehensive income/(expense)	–	–	102	(320)	28	(190)	–	(190)
Total comprehensive income/(expense)	–	584	102	(320)	28	394	(1)	393
Transactions with equity holders in their capacity as equity holders:								
Dividends paid to equity holders of the Co-operative (refer to Note 8)	–	(323)	–	–	–	(323)	–	(323)
Share buyback (refer to Note 7)	(1)	–	–	–	–	(1)	–	(1)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(32)	(32)
As at 31 July 2022	5,891	1,611	(253)	(346)	30	6,933	(27)	6,906
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

Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2022

The Cash Flow Statement presents total Group cash flows from continuing and discontinued operations.

	NOTES	GROUP \$ MILLION	
		31 JULY 2022	31 JULY 2021
Cash flows from operating activities			
Profit before net finance costs and tax from continuing operations		1,024	887
(Loss)/profit before net finance costs and tax from discontinued operations		(48)	72
Total Group profit before net finance costs and tax		976	959
Adjustments for:			
– Depreciation and amortisation		635	642
– Foreign exchange losses/(gains)		309	(136)
– Gain on sale of Global Dairy Trade		(42)	–
– Gain on sale of Ying and Yutian China farms	2	–	(32)
– Gain on sale of investment in Falcon China Farms JV		–	(40)
– Loss on sale of investment in Beingmate		–	49
– China Farms impairment reversal	2	–	(23)
– Brazil consumer and foodservice business impairment	2	57	39
– Other		(7)	(9)
Total adjustments		952	490
(Increase)/decrease in working capital:			
– Trade and other receivables		(821)	11
– Inventories		(1,222)	(556)
– Trade and other payables		201	199
– Owing to suppliers		293	238
– Other movements		(49)	(63)
Total increase in working capital		(1,598)	(171)
Net cash flows from operations		330	1,278
Net taxes paid		(137)	(84)
Net cash flows from operating activities		193	1,194

	NOTES	GROUP \$ MILLION	
		31 JULY 2022	31 JULY 2021
Cash flows from investing activities			
Cash was provided from:			
– Proceeds from sale of businesses		26	638
– Proceeds from disposal of property, plant and equipment		17	9
– Proceeds from sale of livestock		2	25
– Proceeds from sale of investments		–	110
Cash was applied to:			
– Acquisition of property, plant and equipment		(480)	(441)
– Acquisition of livestock (including rearing costs)		(4)	(28)
– Acquisition of intangible assets		(72)	(80)
– Other cash outflows		(6)	(10)
Net cash flows from investing activities		(517)	223
Cash flows from financing activities			
Cash was provided from:			
– Proceeds from borrowings		3,919	2,402
– Interest received		15	10
– Other cash inflows		–	27
Cash was applied to:			
– Interest paid		(297)	(308)
– Repayment of borrowings		(3,634)	(3,142)
– Dividends paid to equity holders of the Co-operative		(323)	(157)
– Dividends paid to non-controlling interests		(32)	(24)
– Share buyback		(1)	–
Net cash flows from financing activities		(353)	(1,192)
Net (decrease)/increase in cash		(677)	225
Opening cash		982	780
Effect of exchange rate changes		(24)	(23)
Closing cash		281	982
Reconciliation of closing cash to the Statement of Financial Position			
Cash and cash equivalents		288	985
Bank overdraft		(31)	(20)
Cash balances included in assets and liabilities held for sale	2	24	17
Closing cash		281	982

Basis of Preparation

FOR THE YEAR ENDED 31 JULY 2022

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 (DIRA).

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.

Re-presentations

Income Statement

Certain comparative period information has been re-presented for consistency with the current year presentation. Re-presentations have had no impact on the totals or sub-totals presented in the Income Statement.

Balance Sheet

During the year the Group reassessed the current/non-current classification of emissions units held for compliance purposes. Emissions units held for compliance purposes expected to be surrendered within twelve months are classified as current intangible assets. Previously the Group presented all emissions units held for compliance purposes as non-current intangible assets. Comparative year information has been re-presented for consistency with the current year presentation.

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 that are attributable to equity holders of the Co-operative 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.

Basis of Preparation (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 2022 have had a material impact to the Group.

Accounting standards issued but not yet effective

NZ IFRS 17 Insurance Contracts (effective 1 August 2023) replaces the current guidance NZ IFRS 4 Insurance Contracts. The new standard provides a comprehensive accounting model, which applies to all types of insurance contracts regardless of the type of entity that issues them. Management is continuing to assess the effect of applying NZ IFRS 17.

There are no other 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>Divestments</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 16 <i>Property, plant and equipment</i>	– Determining residual values and useful lives
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) Global uncertainties

Current global uncertainties exist in relation to the ongoing impact of COVID-19, financial markets and foreign exchange volatility, inflationary pressures and increasing interest rates, geopolitical events, as well as potential impacts on demand. The Group has assessed the impact on its assets and liabilities. Debtor collectability and inventory obsolescence continue to be closely monitored, and forecasts and budgets used for impairment testing include the Group's best estimate of the ongoing impact of such events.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2022

NOTE	FS PAGE
Performance	11
1 Segment reporting	11
2 Divestments	14
3 Revenue from sale of goods	17
4 Cost of goods sold	18
5 Earnings per share	19
6 Profit before net finance costs and tax	20
Debt and Equity	21
7 Subscribed equity instruments	21
8 Dividends	22
9 Borrowings	23
10 Net finance costs	25
11 Capital management	26
Working capital	28
12 Trade and other receivables	28
13 Inventories	29
14 Trade and other payables	29
15 Owing to suppliers	30
Long-term assets	31
16 Property, plant and equipment	31
17 Leases	33
18 Intangible assets	35

NOTE	FS PAGE
Financial risk management	40
19 Financial risk management	40
20 Hedge accounting	46
Other	56
21 Taxation	56
22 Contingent liabilities, provisions and commitments	60
23 Related party transactions	61
24 Subsidiaries	62
25 Fair value measurement	64
26 Offsetting of financial assets and liabilities	67
27 Net tangible assets per quoted equity security	68

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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: *Divestments*
 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 *Divestments* 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 2022, the FMT consisted of the Group Chief Executive Officer (CEO), Chief Financial Officer and Chief Operating Officer, the CEOs of the three customer-facing regional business units (Asia Pacific, AMENA and Greater China), the Managing Director People & Culture 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 customer-facing 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.

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; and
- share of product sold/manufactured in the segment.

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 and where possible to expand the portion attributed using activity-based principles. Where appropriate, comparative information may be re-presented for consistency with the current period attribution.

For the year ended 31 July 2022, the Group has continued to refine its approach to attributing the change in the cost of milk across the season.

Unallocated costs represent corporate costs including Co-operative Affairs and Group Functions.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

1. Segment reporting CONTINUED**a) Reportable segments** CONTINUED

CONTINUING OPERATIONS	GROUP \$ MILLION									
	ASIA PACIFIC		AMENA		GREATER CHINA		UNALLOCATED COSTS AND ELIMINATIONS		TOTAL	
	31 JULY 2022	31 JULY 2021	31 JULY 2022	31 JULY 2021	31 JULY 2022	31 JULY 2021	31 JULY 2022	31 JULY 2021	31 JULY 2022	31 JULY 2021
Sales volume (metric tonnes, thousands)	1,370	1,386	1,355	1,352	1,029	1,176	(48)	(40)	3,706	3,874
Revenue from sale of goods	7,879	7,110	8,612	7,304	6,660	6,312	(198)	(161)	22,953	20,565
Cost of goods sold	(6,652)	(5,915)	(7,475)	(6,400)	(5,794)	(5,476)	184	210	(19,737)	(17,581)
Normalised gross profit	1,227	1,195	1,137	904	866	836	(14)	49	3,216	2,984
Operating expenses	(941)	(889)	(674)	(605)	(464)	(436)	(205)	(223)	(2,284)	(2,153)
Other ¹	(49)	(1)	64	37	30	3	5	26	50	65
Normalised EBIT	237	305	527	336	432	403	(214)	(148)	982	896
Normalisation adjustments:										
– Gain on sale of Falcon China Farms JV	–	–	–	–	–	40	–	–	–	40
– Income Statement impact of Beingmate investment	–	–	–	–	–	(49)	–	–	–	(49)
– Gain on sale of Global Dairy Trade	–	–	–	–	–	–	42	–	42	–
Profit/(loss) before net finance costs and tax	237	305	527	336	432	394	(172)	(148)	1,024	887
Other segment information:										
– Inter-segment revenue	161	155	37	6	–	–	(198)	(161)	–	–
– Depreciation and amortisation	(240)	(242)	(204)	(196)	(172)	(182)	(19)	(22)	(635)	(642)
– Share of (loss)/profit of equity accounted investments	–	(3)	8	6	–	–	2	2	10	5

1 Comprises other operating income, net foreign exchange gains/(losses) and share of profit/(loss) of equity accounted investments.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

1. Segment reporting CONTINUED

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 2022	2,140	1,726	6,244	8,016	3,050	1,777	22,953
Year ended 31 July 2021	1,726	1,699	6,119	7,056	2,597	1,368	20,565

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
Geographical non-current assets							
As at 31 July 2022	6,603	1,026	20	799	378	241	9,067
As at 31 July 2021 ¹	6,602	970	17	777	388	253	9,007

	GROUP \$ MILLION	
	AS AT 31 JULY 2022	AS AT 31 JULY 2021 ¹
Reconciliation of geographical non-current assets to total non-current assets		
Geographical non-current assets	9,067	9,007
Deferred tax assets	551	460
Derivative financial instruments	434	437
Total non-current assets	10,052	9,904

1 Comparative information includes re-presentations for consistency with the current period.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

2. Divestments

This note provides information about the Group's disposal groups held for sale and discontinued operations for the year ended 31 July 2022.

At 31 July 2022, the Hangu China farm and the Brazil consumer and foodservice business continued to meet the definition of held for sale and are discontinued operations. The Group's divestment of the Chilean business is underway, however it does not meet the held for sale criteria at balance date and is not presented as held for sale in these Financial Statements.

a) 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 2022	AS AT 31 JULY 2021
ASSETS AND LIABILITIES HELD FOR SALE		
Cash and cash equivalents	24	17
Trade receivables	58	39
Inventory	32	37
Property, plant and equipment	79	79
Livestock	21	25
Intangible assets	111	122
Other assets	148	143
Total assets held for sale	473	462
Borrowings	333	282
Trade and other payables	209	150
Provisions	42	54
Other liabilities	44	56
Total liabilities held for sale	628	542
Net liabilities held for sale	(155)	(80)

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

2. Divestments CONTINUED

Hangu China farm

In January 2022 the Group purchased the 15 percent non-controlling interest in the Hangu China farm, and as at 31 July 2022 the Hangu China farm continued to meet the requirements to be classified as held for sale (31 July 2021: held for sale).

The sale process was initially delayed due to a lack of progress in agreeing the specific terms of sale following the minority shareholder exercising their right of first refusal to purchase Fonterra's interest. Subsequent delays have been due to market conditions related to COVID-19, including the effect of lockdowns in China. However at 31 July 2022 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 2022 the Group reassessed the fair value less costs to sell of the Hangu China farm and no further adjustment has been recognised (31 July 2021: nil).

The foreign currency translation reserve balance as at 31 July 2022 attributable to the Hangu China farm was a debit balance of \$3 million (31 July 2021: debit balance of \$1 million).

Brazil consumer and foodservice business

As at 31 July 2022 the Brazil consumer and foodservice business continued to meet the requirements to be classified as held for sale (31 July 2021: held for sale).

The sale process has been delayed due to market conditions related to COVID-19, however at 31 July 2022 the Group remains committed to the sale and continues to actively progress the sale. 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 2022 and recognised a further write-down of \$57 million (\$50 million after tax) (31 July 2021: \$39 million (\$35 million after tax)), of which \$26 million after tax is attributable to the Group's equity holders (31 July 2021: \$18 million).

At 31 July 2022 the foreign currency translation reserve balance attributable to the Brazil consumer and foodservice business was a debit balance of \$67 million (31 July 2021: debit balance of \$63 million).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

2. Divestments CONTINUED**b) 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.

For the year ended 31 July 2022, the China Farms business represents solely the Hangu China farm.

For the year ended 31 July 2021, the China Farms business also included the Ying and Yutian farms, up to the date of sale (1 April 2021). The financial performance of the Ying and Yutian 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 2022	31 JULY 2021
DISCONTINUED OPERATIONS		
Revenue from sale of goods	472	559
Cost of goods sold	(348)	(429)
China Farms impairment reversal	–	23
Gross profit	124	153
Other operating income	–	18
Other operating expenses	(115)	(92)
Gain on sale of Ying and Yutian China farms	–	32
Brazil consumer and foodservice impairment	(57)	(39)
(Loss)/profit before net finance costs and tax	(48)	72
Net finance costs	(37)	(10)
(Loss)/profit before tax	(85)	62
Tax credit	7	5
(Loss)/profit after tax from discontinued operations	(78)	67
Share of loss attributable to non-controlling interests	36	13
(Loss)/profit after tax attributable to equity holders of the Co-operative	(42)	80
Movement in exchange differences on translation of discontinued operations	3	2
Foreign currency translation reserve gains transferred to the Income Statement	(1)	(19)
Other reserve movements	8	(1)
Total comprehensive (expense)/income from discontinued operations	(68)	49
Net cash inflow/(outflow) from operating activities	9	(8)
Net cash (outflow)/inflow from investing activities	(5)	510
Net cash outflow from financing activities	–	(6)
Net increase in cash generated by the discontinued operations	4	496

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

3. Revenue from sale of goods CONTINUED

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 2022	31 JULY 2021	31 JULY 2022	31 JULY 2021	31 JULY 2022	31 JULY 2021	31 JULY 2022	31 JULY 2021
Ingredients channel revenue	4,189	3,521	6,883	5,783	4,479	4,259	15,551	13,563
Foodservice channel revenue	1,075	928	393	333	1,824	1,691	3,292	2,952
Consumer channel revenue	2,454	2,506	1,299	1,182	357	362	4,110	4,050
Revenue from sale of goods	7,718	6,955	8,575	7,298	6,660	6,312	22,953	20,565

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 2022	31 JULY 2021
Opening inventory	3,766	3,268
Cost of milk:		
– New Zealand-sourced	13,722	11,660
– Non-New Zealand-sourced	1,113	994
Other costs	6,143	5,425
Closing inventory	(5,007)	(3,766)
Total cost of goods sold	19,737	17,581

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 2022	31 JULY 2021
Basic and diluted earnings per share from continuing operations (\$)	0.38	0.31
Basic and diluted (loss)/earnings per share from discontinued operations (\$)	(0.02)	0.05
Basic and diluted earnings per share (\$)	0.36	0.36
Profit attributable to equity holders of the Co-operative (\$ million)	584	578
Weighted average number of shares (thousands of shares)	1,613,353	1,613,105

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 2022	31 JULY 2021
Normalised basic and diluted earnings per share (\$)	0.35	0.34
Normalised profit after tax attributable to equity holders of the Co-operative (\$ million)	568	550
Weighted average number of shares (thousands of shares)	1,613,353	1,613,105

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 2022	31 JULY 2021
Profit after tax attributable to equity holders of the Co-operative	584	578
Less: Gain on sale of Global Dairy Trade	(42)	–
Less: Loss on sale of Ying and Yutian China farms	–	(32)
Less: China Farms impairment reversal	–	(23)
Less: Loss on sale of Falcon China Farms JV	–	(40)
Add: Income Statement impact of Beingmate investment	–	49
Add: Brazil consumer and foodservice business impairment	57	39
Total normalisation adjustments	15	(7)
Less: Tax on normalisation adjustments	(7)	(4)
Less: Normalisation adjustments attributable to non-controlling interests	(24)	(17)
Normalised profit after tax attributable to equity holders of the Co-operative	568	550

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 2022	31 JULY 2021
Total employee benefits expense	2,159	2,117
Depreciation and amortisation expense	635	642
Research and development costs	115	110
Contributions to defined contribution plans included in employee benefits expense	91	83
Donations	2	–
Net foreign exchange losses	58	26

b) Fees paid to the auditor and network firms

KPMG has been appointed the Group's external auditor for three consecutive years. The lead audit partner has served for three 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 2022	31 JULY 2021
Audit and review of the Financial Statements of the Group and its subsidiaries:		
– New Zealand	6.0	6.2
– Network firms of the auditor	1.7	2.4
Total fees for the audit and review of the Financial Statements	7.7	8.6
Audit-related services:		
– Assurance services in respect of the Farmgate Milk Price Statement	0.1	0.1
– Other audit-related services ¹	0.1	0.1
Total fees for audit-related services	0.2	0.2
Total fees paid to auditor	7.9	8.8

1 Other audit-related services include assurance and agreed upon procedure engagements.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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.

On 8 June 2022, Fonterra announced that it would allocate up to \$50 million to an on-market share buyback programme commencing 30 June 2022.

At 31 July 2022, Fonterra had bought back 532,294 shares (31 July 2021: nil) at a total cost of \$1 million. The shares bought back were cancelled on acquisition.

At 31 July 2022 there were 1,612,825,585 Co-operative shares on issue (31 July 2021: 1,613,357,879 shares).

During the year ended 31 July 2022 no shares were issued under the Dividend Reinvestment Plan (31 July 2021: 1,138,230 shares) or the Farm Source Rewards scheme (31 July 2021: 122,582 shares).

Co-operative shares can be traded between farmer shareholders on the Fonterra Shareholders' Market (a private market operated by NZX Limited). At a Special Meeting held on 9 December 2021, Fonterra shareholders voted in favour of capital structure related amendments to Fonterra's Constitution that would give effect to the Flexible Shareholding structure. Subsequently, on 27 April 2022 the Government announced that it intends to amend the DIRA to support Fonterra's new structure, signalling it expects the amendments to DIRA to pass through Parliament in the 2022 calendar year. The Constitution amendments and new structure will come into effect once the Fonterra Board is satisfied that any steps necessary for implementation have been (or will be) completed. The Co-operative is aiming to implement the changes as soon as possible. Share compliance obligations will remain on hold for all shareholders holding a minimum of 1,000 shares and exiting suppliers that are selling shares over three seasons in accordance with Fonterra's Constitution, until at least six months after the new structure comes into effect. The current cap on the Fund remains, so Fonterra shares are not able to be exchanged into units in the Fund on a day-to-day basis. A capped Fund is a feature of the Flexible Shareholding structure.

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 2022 107,417,322 Co-operative shares (31 July 2021: 107,420,162) 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 2022, the Fund issued no units (31 July 2021: 11,794,492 units) and redeemed 2,840 units (31 July 2021: 8,955,846 units).

Under the capital structure related amendments to Fonterra's Constitution the overall limit on the Fund size reduces from 20% to 10%. The current cap on the Fund remains, so Fonterra shares are not able to be exchanged into units in the Fund on a day-to-day basis. The Fonterra share buyback programme has not had a material impact on the Fund size as a percentage of the total number of Fonterra shares on issue.

The rights attaching to units are set out in the Fonterra Shareholders' Fund 2022 Annual Report, available in the 'Investors/Fonterra Shareholders' Fund' section of Fonterra's website.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

7. Subscribed equity instruments (CONTINUED)

c) Market capitalisation

The Group's market capitalisation has been below the carrying amount of net assets since Fonterra's capital review announcement in May 2021. Accounting standards consider this to be an indicator of impairment. The Group does not believe the current share price provides an accurate reflection of the fair value of the net assets, due to factors such as being traded in a restricted market and the reduced levels of liquidity following the announcement of the capital review.

The Group has undertaken an impairment test and obtained an independent valuation to determine the recoverable amount of its net assets. The independent valuation was used to determine the Group's recoverable amount on a fair value less costs of disposal basis. The valuation uses a sustainable EBIT based on normalised earnings and an appropriate range of earnings multiples based on benchmarking against peers.

The estimate of the recoverable amount exceeded the carrying amount and as such, no impairment has been identified.

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.

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.

DIVIDENDS	\$ MILLION	
	31 JULY 2022	31 JULY 2021
2022 Interim dividend – 5 cents per share ¹	81	–
2021 Final dividend – 15 cents per share ²	242	–
2021 Interim dividend – 5 cents per share ³	–	80
2020 Final dividend – 5 cents per share ⁴	–	81

- 1 Declared on 16 March 2022 and paid on 14 April 2022 to all Co-operative shares on issue at 24 March 2022. The Dividend Reinvestment Plan did not apply to this dividend.
- 2 Declared on 22 September 2021 and paid on 15 October 2021 to all Co-operative shares on issue at 30 September 2021. The Dividend Reinvestment Plan did not apply to this dividend.
- 3 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.
- 4 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.

Dividend declared after balance date

On 21 September 2022, the Board declared a final dividend of 15 cents per share, to be paid on 14 October 2022 to all holders of Co-operative shares on issue at 29 September 2022.

The Dividend Reinvestment Plan does not apply to this dividend.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 2022	AS AT 31 JULY 2021
Total current borrowings	356	818
Total non-current borrowings	4,900	4,254
Total borrowings¹	5,256	5,072

1 Borrowings of \$333 million attributable to disposal groups held for sale are not included in the table above (31 July 2021: \$282 million).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

9. Borrowings CONTINUED**a) Total borrowings** CONTINUED

A breakdown of total borrowings is presented in the following tables.

GROUP \$ MILLION								
	BALANCE AS AT 1 AUGUST 2021	PROCEEDS	NEW LEASE LIABILITIES	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	OTHER	BALANCE AS AT 31 JULY 2022
Commercial paper	–	1,469	–	(1,375)	–	–	4	98
Bank loans	11	2,425	–	(1,437)	–	–	–	999
Lease liabilities ¹	523	–	41	(106)	–	–	(20)	438
Capital notes ²	35	–	–	–	–	–	–	35
NZX-listed bonds	600	–	–	(350)	–	–	–	250
Medium-term notes	3,903	–	–	(366)	168	(270)	1	3,436
Total borrowings³	5,072	3,894	41	(3,634)	168	(270)	(15)	5,256

GROUP \$ MILLION								
	BALANCE AS AT 1 AUGUST 2020	PROCEEDS	NEW LEASE LIABILITIES	REPAYMENTS	FOREIGN EXCHANGE MOVEMENT	CHANGES IN FAIR VALUES	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

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 2022

9. Borrowings (CONTINUED)

b) Adjusted net debt

The Group uses adjusted net debt, a non-GAAP debt measure in monitoring its net debt position and in calculating the Group's debt to EBITDA ratio, gearing ratio, and return on capital. Refer to Note 11 *Capital management* for further information about this ratio.

Adjusted net debt is total borrowings, plus bank overdraft, less cash and cash equivalents, 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), less derivatives used to manage changes in hedged risks on debt instruments.

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 2022	AS AT 31 JULY 2021
Total borrowings	5,256	5,072
Plus: Bank overdraft	31	20
Less: Cash and cash equivalents	(288)	(985)
Plus: Borrowings attributable to disposal groups held for sale	333	282
Less: Cash and cash equivalents attributable to disposal groups held for sale	(24)	(17)
Plus: Cash adjustment for cash held by subsidiaries	77	110
Less: Adjusted for the carrying value of derivatives used to manage changes in hedged risks on debt instruments	(46)	(157)
Adjusted net debt	5,339	4,325

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 2022	31 JULY 2021
Finance income	14	9
Interest expense ^{1,2}	(263)	(299)
Changes in fair value relating to:		
– Borrowings designated in a hedge relationship	270	151
– Derivatives designated in a hedge relationship	(225)	(107)
– Derivatives where hedge accounting has not been applied	10	(6)
Total interest income from fair value movements	55	38
Finance costs	(208)	(261)
Net finance costs	(194)	(252)

1 Includes interest expense of \$3 million (31 July 2021: \$2 million) relating to derivatives where hedge accounting has not been applied.

2 Includes interest expense of \$13 million (31 July 2021: \$17 million) relating to lease liabilities.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

11. Capital management

The Group is not subject to debt covenants or any other externally imposed capital requirements. The Board closely monitors the following non-GAAP measures: debt to EBITDA ratio, gearing ratio 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 2022	AS AT 31 JULY 2021
Adjusted net debt¹	5,339	4,325
Profit after tax	583	599
Add: Net finance costs from continuing operations	194	252
Add: Net finance costs from discontinued operations	37	10
Add: Tax expense from continuing operations	169	103
Less: Tax credit from discontinued operations	(7)	(5)
Total Group EBIT	976	959
Add: Depreciation and amortisation from continuing operations	635	642
Total Group EBITDA	1,611	1,601
Add/(less): Normalisation adjustments ²	15	(7)
Total Group normalised EBITDA	1,626	1,594
Less: Share of profit of equity accounted investments	(10)	(5)
Add: Net foreign exchange losses from continuing operations	58	26
Less: Net foreign exchange losses included in normalisation adjustments	–	(2)
Add/(less): Net foreign exchange losses/(gains) from discontinued operations	2	(7)
Total Group normalised EBITDA excluding share of profit/loss of equity accounted investees and net foreign exchange gains/losses	1,676	1,606
Debt to EBITDA ratio	3.2x	2.7x

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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

11. Capital management CONTINUED

b) Gearing ratio

Adjusted net debt gearing ratio

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 2022	AS AT 31 JULY 2021
Adjusted net debt ¹	5,339	4,325
Equity excluding hedge reserves	7,252	6,895
Total capital	12,591	11,220
Adjusted net debt gearing ratio (%)	42.4%	38.5%

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. Return on capital is reported regularly to key management personnel, and compared against budget and prior years return on capital.

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 2022	31 JULY 2021
Total Group EBIT	976	959
Add/(less): Normalisation adjustments ¹	15	(7)
Total Group normalised EBIT	991	952
Plus: Finance income on long-term advances	7	8
Less: Notional tax charge	(161)	(155)
Total Group normalised EBIT including finance income on long-term advances less notional tax charge	837	805
Adjusted net debt²	5,339	4,325
Less: Cash adjustment ²	(77)	(110)
Plus: Cash and cash equivalents held by subsidiaries for working capital purposes	166	188
Plus: Total equity	6,906	6,869
Plus: Hedge reserves	346	26
Less: Net deferred tax assets	(501)	(435)
Capital employed	12,179	10,863
Impact of seasonal variation in capital employed	177	1,418
Average capital employed	12,356	12,281
Return on capital	6.8%	6.6%

1 Refer to Note 5 *Earnings per share* for further information about normalisation adjustments.

2 Refer to Note 9 *Borrowings* for further information about adjusted net debt.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 an allowance for expected credit losses on trade receivables based on the lifetime expected credit loss at balance date.

	GROUP \$ MILLION	
	AS AT 31 JULY 2022	AS AT 31 JULY 2021
Trade receivables	2,355	1,673
Less: Allowance for expected credit losses on trade receivables	(12)	(18)
Trade receivables net of allowance for expected credit losses	2,343	1,655
Receivables from related parties ¹	19	25
Other receivables	50	67
Total trade and other receivables (excluding prepayments)	2,412	1,747
Prepayments	70	55
Total trade and other receivables	2,482	1,802

1 Refer to Note 23 *Related party transactions* for further information about receivables from related parties.

Amounts received in advance from customers of \$58 million (31 July 2021: \$17 million) have been recognised in trade and other payables.

The Group has a receivables management programme. At 31 July 2022 the Group's exposure was \$20 million, which reflects the first loss component of amounts managed at balance date (31 July 2021: \$17 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 2022	2,164	166	55	27	2,412
As at 31 July 2021	1,579	114	32	22	1,747

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 2022	AS AT 31 JULY 2021
Raw materials	802	678
Finished goods	4,261	3,133
Less: Provision for impairment of raw materials and finished goods	(95)	(69)
Total raw materials and finished goods	4,968	3,742
Emissions units held for trading	39	24
Total inventories	5,007	3,766

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 2022	AS AT 31 JULY 2021
Trade payables	1,863	1,677
Amounts due to related parties ¹	14	9
Other payables	158	190
Total trade and other payables (excluding employee entitlements)	2,035	1,876
Employee entitlements	368	332
Total trade and other payables	2,403	2,208

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 2022

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 2022	AS AT 31 JULY 2021
Owing to suppliers (\$ million)	2,119	1,825
Details relating to the season ended 31 May:		
Farmgate Milk Price ¹ (per kgMS)	\$9.30	\$7.54
– Total advance payments made during the year	\$7.90	\$6.41
– Total owing as at 31 July	\$1.40	\$1.13
Amount advanced during the year as a percentage of the milk price	85%	85%

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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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.

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

Judgement is involved in determining the assets' residual values and useful lives, which are reviewed and adjusted, where required, each financial year.

	GROUP \$ MILLION				
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	TOTAL
As at 31 July 2022					
Cost	368	2,706	8,356	508	11,938
Accumulated depreciation and impairment	–	(1,189)	(4,682)	–	(5,871)
Net book value at 31 July 2022	368	1,517	3,674	508	6,067
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

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

16. Property, plant and equipment CONTINUED

	GROUP \$ MILLION				TOTAL
	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	PLANT, VEHICLES AND EQUIPMENT	CAPITAL WORK IN PROGRESS	
Net book value					
As at 1 August 2021	350	1,552	3,706	371	5,979
Additions ¹	22	16	5	490	533
Transferred from capital work in progress	–	35	309	(344)	–
Depreciation charge	–	(87)	(352)	–	(439)
Impairment	–	–	–	(8)	(8)
Disposals	(6)	(1)	(5)	–	(12)
Foreign currency translation	2	2	11	(1)	14
As at 31 July 2022	368	1,517	3,674	508	6,067

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

1 Additions include borrowing costs of \$7 million (31 July 2021: \$5 million) capitalised using a weighted average interest rate of 4.74% (31 July 2021: 4.94%).

There has been no significant impairment of assets during the year ended 31 July 2022.

New Zealand ingredients manufacturing assets

The Group's New Zealand ingredients manufacturing sites are utilised as a single network for processing raw milk supply. In estimating useful lives and residual values of its New Zealand ingredients manufacturing assets, the Group has considered the impact of:

- possible flat or declining milk supply scenarios (together with individual plant peak milk processing requirements);
- environmental matters (such as the New Zealand Government's Emissions Reduction Plan); and
- the Group's investment in sustainability, including its decarbonisation plan to exit coal by 2037.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 2022	AS AT 31 JULY 2021 ¹	YEAR ENDED 31 JULY 2022	YEAR ENDED 31 JULY 2021
Land	22	22	1	8
Buildings	275	331	64	58
Plant, vehicles and equipment	101	133	39	42
Total	398	486	104	108

1 Comparative information has been re-presented for consistency with the current period.

Additions to right-of-use assets during the year were \$15 million (31 July 2021: \$32 million).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

17. Leases CONTINUED**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 2022	AS AT 31 JULY 2021
Current lease liabilities	94	99
Non-current lease liabilities	344	424
Total lease liabilities	438	523

During the year ended 31 July 2022 total cash payments for leases were \$145 million (31 July 2021: \$145 million).

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 2022, 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 \$1 million (31 July 2021: \$2 million).

c) Other lease-related expenses recognised in the Income Statement

	GROUP \$ MILLION	
	31 JULY 2022	31 JULY 2021
Interest on lease liabilities	13	17
Variable lease payments not included in the measurement of lease liabilities	4	5
Expenses relating to short-term leases	10	8
Expenses relating to low value leases	10	10
Income from sub-leasing right-of-use assets	1	–

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 expected to be surrendered within twelve months are classified as current intangible assets, and 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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

18. Intangible assets CONTINUED

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.

	GROUP \$ MILLION	
	AS AT 31 JULY 2022	AS AT 31 JULY 2021 ¹
Current intangible assets	78	47
Non-current intangible assets	2,216	2,195
Total intangible assets	2,294	2,242

1. Comparative information includes re-presentations for consistency with the current period.

A breakdown of total intangible assets is presented in the following table.

	GROUP \$ MILLION						
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	EMISSIONS UNITS	OTHER	TOTAL INTANGIBLES
As at 31 July 2022							
Cost	852	1,485	1,497	74	141	36	4,085
Accumulated amortisation and impairment	(319)	(237)	(1,214)	–	–	(21)	(1,791)
Net book value at 31 July 2022	533	1,248	283	74	141	15	2,294
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

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

18. Intangible assets CONTINUED

	GROUP \$ MILLION						
	GOODWILL	BRANDS	SOFTWARE	SOFTWARE WIP	EMISSIONS UNITS	OTHER	TOTAL INTANGIBLES
Net book value							
As at 1 August 2021	529	1,224	302	80	97	10	2,242
Additions	–	–	–	63	113	8	184
Transferred from work in progress	–	–	69	(69)	–	–	–
Impairment	–	(34)	–	–	–	–	(34)
Amortisation	–	–	(89)	–	–	(3)	(92)
Disposals/surrender of units	–	–	–	–	(69)	–	(69)
Foreign currency translation	4	58	1	–	–	–	63
As at 31 July 2022	533	1,248	283	74	141	15	2,294
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

Amortisation is recognised in cost of goods sold and other operating expenses in the Income Statement.

Impairment is recognised within other operating expenses in the Income Statement.

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 2022			AS AT 31 JULY 2021		
	GOODWILL	BRANDS	TOTAL	GOODWILL	BRANDS	TOTAL
Asia Pacific reportable segment						
– New Zealand consumer and foodservice CGU	229	282	511	229	282	511
– Australia CGU	140	148	288	131	148	279
– Asia brands	–	678	678	–	653	653
– NZMP brand	–	120	120	–	120	120
AMENA reportable segment						
– Chile CGU	90	20	110	97	21	118
Other CGUs	74	–	74	72	–	72
Total	533	1,248	1,781	529	1,224	1,753

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. Impairment has been recognised on the Group's Asia brands. No further 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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

18. Intangible assets CONTINUED

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 volume growth, margin growth, increases in intra-group revenues and operational cost management. These key assumptions are set as part of the three-year business plan approved by the Board, and reflect past experience and Management's future expectations for the business.

The long-term growth rate applied to the future cash flows after year five of the forecast was 2.0% (31 July 2021: 2.0%). This reflects the expected long-term economic growth rate for New Zealand.

The post-tax discount rate was 8.4% (31 July 2021: 7.5%). The pre-tax discount rate was 11.0% (31 July 2021: 9.8%).

The recoverable amount of the business exceeds its carrying amount by \$66 million. The Group has identified that a reasonably possible change in five key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these assumptions would need to change individually for the carrying amount to exceed estimated recoverable amount.

KEY ASSUMPTIONS	VALUE ATTRIBUTED	CHANGE REQUIRED FOR THE CARRYING AMOUNT TO EXCEED THE RECOVERABLE AMOUNT
Volume growth	2.3%	A decrease in volume growth of 0.5%
Margin growth	3.8%	A decrease in margin growth of 0.5%
Increase in intra-group revenues	\$14 million per annum from FY23	A decrease of \$6 million per annum
Operational cost management	\$15 million by FY25	Savings of \$6 million by FY25 not achieved
Discount rate (post-tax)	8.4%	An increase in the discount rate of 0.6%

b) Australia 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. A key driver for the business to achieve its performance targets is delivery on identified consumer and foodservice growth opportunities. This key assumption was based on business cases prepared by Management, leveraging from past experience.

The long-term growth rate applied to the future cash flows after year five of the forecast was 2.5% (31 July 2021: 2.0%). This reflects the expected long-term economic growth rate for Australia.

The post-tax discount rate was 7.0% (31 July 2021: 6.5%). The pre-tax discount rate was 9.3% (31 July 2021: 8.7%).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

18. Intangible assets CONTINUED

c) 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 the 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 2021: 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 five-year cash flow forecasts using the three-year business plans approved by the Board. Cash flows for years four and five have been prepared based on growth expectations for the brand.

For these brands, the long-term growth rates applied to the future sales revenue used in the valuation model range from 1.6% to 7.4% (31 July 2021: 2.0% to 6.5%) and the range of discount rates (post-tax) that have been applied in the valuation model range from 8.8% to 31.5% (31 July 2021: 7.0% to 18.0%), country dependent. The range of pre-tax discount rates was 11.1% to 41.4% (31 July 2021: 8.8% to 23.1%).

The carrying amount for the Anchor, Anlene and Annum brands and cash flow forecasts for each region are in local currency and converted to NZD.

Anlene brand

The recoverable amount of the Anlene brand was assessed to be \$195 million. This was lower than the carrying value of the brand, resulting in an impairment of \$22 million. The impairment was a result of changes in discount rates, long-term growth rates and foreign exchange rates. Impairment was recognised in the Group's Asia Pacific operating segment.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 31.5% (31 July 2021: 7.0% to 18.0%). The range of pre-tax discount rates was 11.1% to 41.4% (31 July 2021: 8.8% to 23.1%).

Annum brand

The recoverable amount of the Annum brand was assessed to be \$114 million. This was lower than the carrying value of the brand, resulting in an impairment of \$11 million. The impairment was a result of changes in discount rates, long-term growth rates and foreign exchange rates. Impairment was recognised in the Group's Asia Pacific operating segment.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 9.2% to 15.8% (31 July 2021: 7.0% to 11.5%). The range of pre-tax discount rates was 11.1% to 19.8% (31 July 2021: 8.8% to 14.4%).

Chesdale brand

The recoverable amount of the Chesdale brand was assessed to be \$27 million. This was lower than the carrying value of the brand, resulting in an impairment of \$1 million. The impairment was a result of changes in discount rates, long-term growth rates and foreign exchange rates. Impairment was recognised in the Group's Greater China operating segment.

As the brand is sold across a number of markets, all with different characteristics, the range of post-tax discount rates applied was 8.8% to 31.5% (31 July 2021: 7.0% to 16.5%). The range of pre-tax discount rates was 11.1% to 41.4% (31 July 2021: 8.8% to 21.7%).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 \$4,067 million (31 July 2021: \$3,729 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 \$3,506 million (31 July 2021: \$3,780 million).
- foreign currency receivables of \$2,089 million (31 July 2021: \$1,459 million) and payables of \$1,075 million (31 July 2021: \$991 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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

19. Financial risk management CONTINUED**a) Foreign exchange risk** CONTINUED*Receivables and payables denominated in foreign currency*

The Group typically 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 2022		31 JULY 2021	
	EQUITY	PROFIT	EQUITY	PROFIT
10% strengthening of the NZD	513	10	351	16
10% weakening of the NZD	(617)	(13)	(366)	(17)

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 \$4,845 million (31 July 2021: \$3,944 million).

How interest rate risk is managed

The Group issues fixed and floating 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 \$3 million of the impact on profit from a 100 basis point movement (31 July 2021: \$20 million).

Assets and liabilities held for sale have been excluded from the sensitivity analysis in the following table.

	GROUP \$ MILLION			
	31 JULY 2022		31 JULY 2021	
	EQUITY	PROFIT	EQUITY	PROFIT
100 basis point increase	48	3	48	21
100 basis point decrease	(50)	(3)	(55)	(17)

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 2022	31 JULY 2021
100 basis point increase	(7)	(1)
100 basis point decrease	7	1

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

19. Financial risk management CONTINUED

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 prices; and
- using dairy commodity derivative contracts to obtain a certain 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 2022		31 JULY 2021	
	EQUITY	PROFIT	EQUITY	PROFIT
10% increase in commodity prices	76	35	40	31
10% decrease in commodity prices	(77)	(35)	(40)	(31)

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

19. Financial risk management CONTINUED**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 2022					
	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	(999)	(1,119)	(17)	(33)	(1,069)	–
– Commercial paper	(98)	(100)	–	(100)	–	–
– Lease liabilities	(438)	(443)	(26)	(70)	(210)	(137)
– Capital notes	(35)	(41)	–	(1)	(5)	(35)
– NZX-listed bonds	(250)	(270)	(3)	(157)	(110)	–
– Medium-term notes	(3,436)	(4,031)	(25)	(117)	(2,450)	(1,439)
Bank overdraft	(31)	(31)	(31)	–	–	–
Owing to suppliers	(2,119)	(2,119)	(2,018)	(101)	–	–
Trade and other payables (excluding employee entitlements)	(2,035)	(2,035)	(2,035)	–	–	–
Other financial liabilities	(32)	(32)	(17)	–	(15)	–
Financial guarantees issued ¹	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(9,473)	(10,222)	(4,173)	(579)	(3,859)	(1,611)
Derivative financial instruments						
Gross settled derivatives						
Inflow		22,840	7,871	10,153	3,589	1,227
Outflow		(23,476)	(8,098)	(10,605)	(3,721)	(1,052)
Total gross settled derivative financial instruments	(639)	(636)	(227)	(452)	(132)	175
Net settled derivatives	257	274	109	70	97	(2)
Total financial liabilities and derivatives	(9,855)	(10,584)	(4,291)	(961)	(3,894)	(1,438)

1 Maximum cash flows under guarantees provided by the Group.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

19. Financial risk management CONTINUED

	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	(1,825)	(1,825)	(1,718)	(107)	–	–
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 ²	–	(1)	(1)	–	–	–
Total non-derivative financial liabilities	(8,853)	(9,344)	(4,150)	(583)	(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)	(4,048)	(555)	(2,713)	(1,770)

¹ Comparative information includes re-presentations for consistency with the current period.² Maximum cash flows under guarantees provided by the Group.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

19. Financial risk management (CONTINUED)

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 \$2,345 million (31 July 2021: \$2,905 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 2022	AS AT 31 JULY 2021
New Zealand Dollar	345	908
Australian Dollar	708	894
United States Dollar	1,437	1,432
British Pound	447	488
European Euro	559	603
Chinese Renminbi	190	178
Total	3,686	4,503

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 2022 the Group received \$54 million (31 July 2021: received \$14 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 2022

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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

20. Hedge accounting CONTINUED

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.

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 2022

20. Hedge accounting CONTINUED**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 (sales)	1–18	0.663	14,636	42	(610)	–
USD:CNY forwards and options (sales)	1–12	6.615	708	14	(2)	–
AUD:USD forwards (sales)	1–12	0.714	165	1	(4)	–
USD:AUD forwards (purchases)	1–30	0.714	125	4	(2)	–
AUD:AED forwards (sales)	1–9	2.573	46	–	–	–
Total			15,680	61	(618)	–
Foreign exchange risk – Foreign operations						
<i>Net investment hedges</i>						
AUD borrowings	64	–	89	–	–	(89)
EUR borrowings	28	–	157	–	–	(157)
NZD:CNY forwards	5	4.340	19	–	(1)	–
Total			265	–	(1)	(246)
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
<i>Cash flow and fair value hedges</i>						
NZD:USD CCIRS	50–97	0.760/Floating	1,184	239	–	–
NZD:GBP CCIRS	17	0.361/Floating	623	9	(206)	–
NZD:EUR CCIRS	28	0.656/Floating	386	10	–	–
NZD:CNY CCIRS	36	4.669/Floating	171	16	–	–
Total			2,364	274	(206)	–

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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

20. Hedge accounting CONTINUED

a) Hedging instruments designated in a hedge accounting relationship CONTINUED

AS AT 31 JULY 2021						
RISK AND HEDGING INSTRUMENTS	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	GROUP \$ MILLION			
			CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION			
			NOMINAL AMOUNT ¹	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
Interest rate risk – Borrowings						
<i>Cash flow hedges</i>						
NZD IRS	1–60	2.43%	4,193	106	(12)	–
AUD IRS	23–25	3.34%	178	–	–	–
Total			4,371	106	(12)	–
<i>Fair value hedges</i>						
NZD IRS	8–40	Floating	250	–	(4)	–
AUD IRS	47–64	Floating	534	–	(19)	–
Total			784	–	(23)	–
Commodity price risk – Forecast transactions						
<i>Cash flow hedges²</i>						
Fuel futures	1–18	\$109.55	25	5	–	–
Milk Price futures and options	3–27	\$8.50	1,291	130	–	–
Electricity futures	1–45	\$119.81	138	28	–	–
Total			1,454	163	–	–

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.

² The weighted average prices for commodity hedges are presented as the price per barrel for fuel futures (shown in USD), kilogram of milk solid for milk price futures and options, and per megawatt hour for electricity futures.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

20. Hedge accounting CONTINUED**a) Hedging instruments designated in a hedge accounting relationship** CONTINUED

AS AT 31 JULY 2021						
RISK AND HEDGING INSTRUMENTS	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	GROUP \$ MILLION			
			CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION			
			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 (sales)	1–18	0.707	11,205	152	(98)	–
USD:CNY forwards and options (sales)	1–12	6.672	1,117	3	(18)	–
AUD:USD forwards (sales)	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)	–

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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

20. Hedge accounting CONTINUED

a) Hedging instruments designated in a hedge accounting relationship CONTINUED

AS AT 31 JULY 2021						
RISK AND HEDGING INSTRUMENTS	MATURITY (MONTHS)	WEIGHTED AVERAGE RATE/PRICE	GROUP \$ MILLION			
			NOMINAL AMOUNT ¹	CARRYING AMOUNT IN THE STATEMENT OF FINANCIAL POSITION		
				DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	BORROWINGS
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 hedges²</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.

2 The weighted average prices for commodity hedges are presented as the price per barrel for fuel futures (shown in USD), kilogram of milk solid for milk price futures and options, and per megawatt hour for electricity futures.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

20. Hedge accounting CONTINUED**b) Impact of hedge accounting**

Information about the impact of hedge accounting on the Group's Financial Statements is presented in the following tables.

	GROUP \$ MILLION					
	AS AT 31 JULY 2022		YEAR ENDED 31 JULY 2022			
	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)
RISK AND HEDGING INSTRUMENTS USED						
Foreign exchange risk – Forecast foreign currency transactions						
Cash flow hedges	(56)	(545)	(973)	409	–	–
Foreign exchange risk – Foreign operations						
Net investment hedges	–	2	2	–	–	–
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
Cash flow and fair value hedges	(8)	145	14	5	(82)	5
Interest rate risk – Borrowings						
Cash flow hedges	–	168	106	42	–	42
Fair value hedges	–	(26)	–	–	(79)	–
Commodity price risk – Forecast transactions						
Cash flow hedges	–	158	127	(148)	–	3
Total	(64)	N/A	(724)	308	(161)	50

1 For those borrowings in a net investment hedge, the change in value to calculate hedge effectiveness is for the year ended 2022.

2 For those borrowings in fair value hedges, life-to-date fair value hedge adjustments decrease the carrying amount of borrowings by \$9 million.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

20. Hedge accounting CONTINUED**b) Impact of hedge accounting** CONTINUED

	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)
RISK AND HEDGING INSTRUMENTS USED						
Foreign exchange risk – Forecast foreign currency transactions						
<i>Cash flow hedges</i>	(24)	19	323	(664)	–	–
Foreign exchange risk – Foreign operations						
<i>Net investment hedges</i>	–	10	10	–	–	–
Foreign exchange risk and interest rate risk – Foreign currency denominated borrowings						
<i>Cash flow and fair value hedges</i>	(14)	189	(42)	57	(152)	(1)
Interest rate risk – Borrowings						
<i>Cash flow hedges</i>	–	3	70	51	–	45
<i>Fair value hedges</i>	–	54	–	–	(31)	–
Commodity price risk – Forecast transactions						
<i>Cash flow hedges</i>	–	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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

20. Hedge accounting CONTINUED

c) Impact to reserves in equity

Hedge reserves

	GROUP \$ MILLION	
	AS AT 31 JULY 2022	AS AT 31 JULY 2021
Opening balance	(26)	101
<i>Movements attributable to cash flow hedges</i>		
Change in value of effective derivative hedging instruments	(726)	505
Reclassifications to the Income Statement:		
– As hedged transactions occurred	308	(651)
Net change in the cost of hedging reserve	(26)	(30)
Tax credit	124	49
Total movement	(320)	(127)
Closing balance¹	(346)	(26)

1 Included in the closing balance of the hedge reserves is a credit balance of \$1 million (31 July 2021: 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 2022	31 JULY 2021
Opening balance	(355)	(229)
<i>Movements attributable to net investments in foreign operations and net investment hedges</i>		
Net translation loss on:		
– Borrowings and derivative hedging instruments	76	(67)
– Net investments in foreign operations	27	(42)
Reclassifications to the Income Statement:		
– Disposals of foreign operations	(1)	(14)
– Tax expense	–	(3)
Total movement	102	(126)
Closing balance¹	(253)	(355)

1 Included in the closing balance of the foreign currency translation reserve is a debit balance of \$26 million (31 July 2021: debit balance of \$22 million) relating to hedge relationships for which hedge accounting is no longer applied.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

20. Hedge accounting CONTINUED**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 2022	31 JULY 2021
Foreign currency contracts	Revenue from sale of goods	–	4
Foreign currency contracts	Other operating expenses ¹	(182)	25
Commodity contracts	Cost of goods sold	(39)	14
Commodity contracts	Other operating expenses	9	(1)
Interest rate contracts	Finance costs	7	(2)
Total		(205)	40

1 These predominantly relate to foreign currency contracts hedging net receivables. The revaluation of the net receivables also recognised in other operating expenses is a gain of \$207 million (31 July 2021: loss of \$35 million).

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

21. Taxation CONTINUED**a) Taxation – Income Statement**

The total tax expense in the Income Statement is summarised in the following table.

	GROUP \$ MILLION	
	31 JULY 2022	31 JULY 2021
Current tax expense	118	83
Prior period adjustments to current tax	(9)	11
Deferred tax movements:		
– Origination and reversal of temporary differences	60	9
Tax expense	169	103

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 2022	31 JULY 2021
Profit before tax from continuing operations	830	635
Prima facie tax expense at 28%	232	178
(Deduct)/add tax effect of:		
– Effect of tax rates in foreign jurisdictions	(11)	(9)
– Non-deductible expenses/additional assessable income	95	85
– Non-assessable income/additional deductible expenses	(62)	(85)
– Prior year (over)/under provision	(9)	11
Tax expense before distributions and deferred tax	245	180
Effective tax rate before distributions and deferred tax	29.5%	28.3%
Tax effect of distributions to farmer shareholders	(79)	(77)
Tax expense before deferred tax	166	103
Effective tax rate before deferred tax	20.0%	16.2%
(Deduct)/add tax effect of:		
– Origination and reversal of other temporary differences	2	(2)
– Losses of overseas Group entities not recognised	1	2
Tax expense from continuing operations	169	103
Effective tax rate	20.4%	16.2%
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	54	45

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

21. Taxation CONTINUED**b) Taxation – Statement of Financial Position**

Deferred tax assets and deferred tax liabilities relate to the following:

	GROUP \$ MILLION					
	AS AT 31 JULY 2022			AS AT 31 JULY 2021		
	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY	NET	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY	NET
Deferred tax						
Property, plant and equipment	1,613	(1,658)	(45)	1,589	(1,637)	(48)
Intangible assets	–	(380)	(380)	–	(380)	(380)
Right-of-use assets	117	(109)	8	142	(134)	8
Derivative financial instruments	131	–	131	17	–	17
Employee entitlements	93	–	93	85	–	85
Inventories	79	–	79	45	–	45
Receivables, payables and provisions	92	–	92	82	–	82
New Zealand tax losses	348	–	348	434	–	434
Offshore tax losses	187	–	187	215	–	215
Other	9	(21)	(12)	7	(30)	(23)
Total before offsetting	2,669	(2,168)	501	2,616	(2,181)	435
Offset adjustment	(2,118)	2,118	–	(2,156)	2,156	–
Total	551	(50)	501	460	(25)	435

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

21. Taxation CONTINUED

b) Taxation – Statement of Financial Position CONTINUED

	GROUP \$ MILLION	
	31 JULY 2022	31 JULY 2021
Movements for the year		
Opening balance	435	401
Recognised in the Income Statement ¹	(60)	(9)
Recognised directly in other comprehensive income	124	46
Foreign currency translation	2	(3)
Closing balance	501	435

1 Comparative information has been re-presented for consistency with the current period.

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 taxable income in the current year. The deferred tax asset relating to New Zealand tax losses of \$348 million (31 July 2021: \$434 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 (31 July 2021: seven years). Changes in the key assumptions used could impact the expected time horizon for utilisation of the tax losses, for example higher dividends could 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 \$54 million reflecting a deferred tax asset of \$15 million (31 July 2021: \$45 million gross, deferred tax asset of \$14 million) relating to offshore entities have not been recognised as they may not be utilised.

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. During the year, the Group assessed the likelihood of earnings being remitted to New Zealand and has recorded a deferred tax liability of \$21 million (31 July 2021: \$30 million).

As at 31 July 2022, unremitted earnings that are considered indefinitely reinvested in foreign subsidiaries amount to \$185 million (31 July 2021: \$128 million). The Group made a judgement not to recognise 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. This includes controlling the timing of dividends, and in the event of divestments made because of the strategic review, the manner in which divestment proceeds are remitted, and therefore the associated tax consequences.

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 estimation of 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 estimate of uncertain tax positions. Such changes to tax liabilities will affect tax expense in the period that such determination is made.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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.

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, with compulsory mediation and the trial scheduled for later in 2022.

	GROUP \$ MILLION	
	AS AT 31 JULY 2022	AS AT 31 JULY 2021
Current provisions	70	72
Non-current provisions	79	82
Total provisions	149	154

A breakdown of total provisions is presented in the following table.

	GROUP \$ MILLION		
	EMPLOYEE RELATED PROVISIONS	OTHER PROVISIONS	TOTAL PROVISIONS
As at 1 August 2021¹	108	46	154
Additional provisions	20	103	123
Unused amounts reversed	(44)	(17)	(61)
Charged to Income Statement	(24)	86	62
Charged to equity	(3)	–	(3)
Utilised during the year	(7)	(52)	(59)
Foreign currency translation	(5)	–	(5)
As at 31 July 2022	69	80	149

¹ Categories have been re-presented for consistency with the current period.

Employee related provisions include defined benefit scheme obligations, other obligations that fall due on termination of employment, and long-term employee benefits.

Other provisions include obligations relating to customs and duties, legal matters, 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 judicial proceedings or commercial negotiations relating to each individual claim.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

22. Contingent liabilities, provisions and commitments CONTINUED

At year end the Group was committed to future capital expenditure for:

	GROUP \$ MILLION	
	AS AT 31 JULY 2022	AS AT 31 JULY 2021
Buildings	20	19
Plant, vehicles and equipment	192	92
Software	13	2
Total commitments	225	113

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 2022	31 JULY 2021
Short-term employee benefits ¹	21	21
Long-term employee benefits	5	1
Directors' remuneration	3	2
Total key management personnel remuneration	29	24

1 In addition to the amount disclosed in the table above, the Group has previously recognised a provision of \$2 million relating to the pending judicial interpretation of the requirements of the Holidays Act 2003 for former key management personnel. This interpretation was concluded in the current year and the Group released the provision.

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 2022	31 JULY 2021
Equity accounted investees		
Revenue from the sale of goods ¹	82	83
Sale of services ²	4	7
Royalty and other income	–	1
Dividends received	6	8
Interest income from financing arrangements	–	1
Purchases of goods ³	(81)	(61)
Purchases of services ⁴	(167)	(171)
Key management personnel		
Purchases of goods ⁵	(157)	(135)
Sale of goods ⁶	8	8
Dividends paid	3	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 2022

23. Related party transactions CONTINUED

c) Outstanding balances with related parties

	GROUP \$ MILLION	
	AS AT 31 JULY 2022	AS AT 31 JULY 2021
Equity accounted investees		
Total receivables arising from the sale of goods or services ¹	19	25
Total payables arising from the purchase of goods or services	(14)	(9)
Key management personnel		
Total payables and provisions arising from remuneration ²	(22)	(16)
Total payables arising from the sale or purchase of goods or services ³	(24)	(21)

1 As at 31 July 2022, there was no provision for impairment of receivables from equity accounted investees (31 July 2021: nil).

2 In addition to the amount disclosed in the table above, the Group has previously recognised a provision of \$2 million relating to the pending judicial interpretation of the requirements of the Holidays Act 2003 for former key management personnel. This interpretation was concluded in the current year and the Group released the provision.

3 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 2022, the aggregate drawn down amount of equity accounted investees' liabilities for which the Group is jointly and severally liable is \$1 million (31 July 2021: \$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

The Group has prospective commitments with related parties including contracts with equity accounted investments for the sale, supply and purchase 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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

24. Subsidiaries (CONTINUED)

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 2022	AS AT 31 JULY 2021
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
Prolesur S.A. ³	Chile	99.9	99.9
Fonterra Commercial Trading (Shanghai) Company Limited ²	China	100	100
Tangshan Fonterra Dairy Farm Limited ^{2,4}	China	100	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	90	91
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. The Group purchased the 15% non-controlling interest in January 2022. Refer to Note 2 *Divestments* for more information.

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 2022	AS AT 31 JULY 2021
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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

25. Fair value measurement CONTINUED

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 2022	AS AT 31 JULY 2021	AS AT 31 JULY 2022	AS AT 31 JULY 2021	AS AT 31 JULY 2022	AS AT 31 JULY 2021
Measured at fair value on a recurring basis						
Derivative assets						
– Commodity derivatives	211	107	7	4	–	–
– Foreign exchange derivatives	–	–	64	185	–	–
– Interest rate derivatives ¹	–	–	382	390	–	–
Derivative liabilities						
– Commodity derivatives	(40)	(2)	(3)	–	–	–
– Foreign exchange derivatives	–	–	(760)	(102)	–	–
– Interest rate derivatives ¹	–	–	(243)	(339)	–	–
Emissions units held for trading	39	24	–	–	–	–
Investments in shares	24	20	18	18	36	22
Measured at fair value on a non-recurring basis						
Net liabilities held for sale	–	–	–	–	(155)	(80)
Fair value	234	149	(535)	156	(119)	(58)

¹ Includes cross-currency interest rate swaps.

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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 2022	AS AT 31 JULY 2021	AS AT 31 JULY 2022	AS AT 31 JULY 2021	AS AT 31 JULY 2022	AS AT 31 JULY 2021
Financial assets						
Long-term advances	154	163	–	–	153	182
Financial liabilities						
Borrowings						
– NZX-listed bonds	(250)	(600)	(246)	(611)	–	–
– Capital notes	(35)	(35)	(34)	(35)	–	–
– Medium-term notes	(3,436)	(3,903)	–	–	(3,511)	(4,056)

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

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				
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			AMOUNTS NOT OFFSET	NET
	GROSS FINANCIAL ASSETS/ (LIABILITIES)	GROSS FINANCIAL ASSETS/ (LIABILITIES) SET OFF	NET FINANCIAL ASSETS/ (LIABILITIES) PRESENTED		
Derivative financial assets	944	(280)	664	(444)	220
Trade and other receivables (excluding prepayments)	2,523	(111)	2,412	–	2,412
	3,467	(391)	3,076	(444)	2,632
Derivative financial liabilities	(1,326)	280	(1,046)	363	(683)
Total trade and other payables (excluding employee entitlements)	(2,035)	–	(2,035)	66	(1,969)
Owing to suppliers	(2,230)	111	(2,119)	–	(2,119)
Borrowings	(5,256)	–	(5,256)	15	(5,241)
	(10,847)	391	(10,456)	444	(10,012)
As at 31 July 2022	(7,380)	–	(7,380)	–	(7,380)
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)

Notes to the Financial Statements (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2022

27. Net tangible assets per quoted equity security

Net tangible assets is calculated as net assets less intangible assets.

	GROUP	
	AS AT 31 JULY 2022	AS AT 31 JULY 2021
Net tangible assets per security		
\$ per equity instrument on issue	2.86	2.87
Equity instruments on issue (million)	1,613	1,613

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 consolidated financial statements of Fonterra Co-operative Group Limited (the 'Company') and its subsidiaries (the 'Group') on pages 3 to 68:

- i. present fairly in all material respects the Group's financial position as at 31 July 2022 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 2022;
- 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.

Independent Auditor's Report (CONTINUED)



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 \$60 million 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, 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 4 subsidiaries in Chile, Japan, the Netherlands and Singapore, as well as 3 subsidiaries accounted for as held for sale during the year in Brazil, China and New Zealand.

Taken together, the subsidiaries in scope for the Group audit accounted for 85% of the Group's revenue and 87% 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 \$40 million, and determined with reference to the size and risk profile of the subsidiary.

We visited subsidiary locations in New Zealand, Australia, Chile and the Netherlands. 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.

Independent Auditor's Report (CONTINUED)



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. We considered the recognition of revenue from contracts with key customers and distributors to be a key audit matter due to: <ul style="list-style-type: none"> — the significance of the Group's \$23.0 billion of revenue to the financial statements as a whole; — the level of judgement involved in establishing the timing and amount of revenue recognised for certain customers and distributors, in particular judgement related to agent versus principal considerations; and — 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. 	The procedures we performed to evaluate whether revenue had been recognised appropriately included: <ul style="list-style-type: none"> — 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); — assessing the Group's revenue recognition accounting policies, and evaluating the application of these policies to actual contracts with customers as noted below; — 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 — 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. 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 Notes 7 and 18 to the financial statements.

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.

\$0.8 billion of goodwill and brands is included within two cash generating units ('CGUs'), which are tested using discounted cash flow models:

- Fonterra Brands New Zealand ('FBNZ') (\$511 million of goodwill and brands); and
- Fonterra Australia (\$288 million of goodwill and brands).

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.

We focused on the significant forward-looking assumptions the Group applied in their impairment testing, including:

- forecast cash flows, taking into account the Group's profit improvement plans for FBNZ and Fonterra Australia;
- branded consumer & foodservice sales forecasts and market royalty rates appropriate to each brand; and
- terminal growth rates and discount rates, as the Group's models are highly sensitive to small changes in these assumptions.

In addition to the above, the carrying amount of the Group's net assets at 31 July 2022 was \$6.9 billion whilst the market capitalisation of Fonterra Co-operative Group Limited was \$4.4 billion. This is an indicator of impairment and required additional analysis and interpretation.

The procedures we performed to evaluate the impairment assessments included:

- assessing whether the methodology adopted was consistent with accepted valuation approaches of IAS 36 Impairment of Assets;
- evaluating the significant assumptions by comparing to historical trends, approved budgets, business plans and external market data;
- comparing the discount rates and terminal growth rates applied to the estimated future cash flows to relevant benchmarks using KPMG valuation specialists;
- challenging the above assumptions and judgements by performing sensitivity analysis, considering a range of likely outcomes based on various scenarios;
- evaluating the estimate of the recoverable amount of the Group as a whole, including evaluating the work performed by the Group's external valuation specialist; and
- considering the appropriateness of the disclosures in the financial statements.

No impairment of goodwill was recognised. However, the Group recognised an impairment of brands amounting to \$34 million.

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 largely supported by comparison to the sources we considered.

For FBNZ, our scenario analysis indicated there is limited headroom in the recoverable amount over the carrying value, and there are reasonably possible scenarios that would result in impairment (which are disclosed in Note 18).

For Anlene, Anmum and Chesdale, our scenario analysis indicated that the impairments recognised were appropriate. As there is no headroom over the carrying value of these brands, any adverse movement in key assumptions would result in further impairments.

For Fonterra Australia and the Anchor consumer & foodservice brand, our scenario analysis indicated that the recoverable amount of each of these assets exceeded its carrying value.

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.

Independent Auditor's Report (CONTINUED)



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 cost of New Zealand sourced milk supplied by farmer shareholders amounted to \$13.7 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.

In making that determination, the Board takes into account the Farmgate Milk Price calculated in accordance with the Farmgate Milk Price Manual.

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. The cost of New Zealand sourced milk is a key component of the Group's cost of goods sold of \$19.7 billion and the carrying value of the Group's inventory of \$5.0 billion.
- the extent of audit effort required to examine 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.

The procedures we performed to evaluate the impact of the Farmgate Milk Price calculation on the cost of New Zealand sourced milk included:

- 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 \$9.30 per kgMS for New Zealand sourced milk for the season ended 31 May 2022; and
- 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.

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.

We completed these procedures and have no matters to report.

The Farmgate Milk Price calculation prepared by the Milk Price Group amounted to \$9.30 per kgMS (which equates to \$13.7 billion in total) and we confirmed with the Company Secretary that the Board of Directors approved a payment of \$9.30 per kgMS for New Zealand sourced milk for the season ended 31 May 2022 at their meeting on 21 September 2022.

Independent Auditor's Report (CONTINUED)

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 and 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.

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 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
Auckland

21 September 2022



Good Together

from one generation
to the next



Business Performance
Report 2022

Pūrongo haumāuiui pakihi
Te Mātāpuna



Dairy for life

Contents

BUSINESS PERFORMANCE DASHBOARD	03
TOTAL GROUP PERFORMANCE	04
ON-FARM	21
GROUP OPERATIONS	26
SUMMARY OF REGIONS AND PRODUCT CHANNELS	33
ASIA PACIFIC	35
AMENA	38
GREATER CHINA	40
NEW ZEALAND MILK	42
INGREDIENTS	43
FOODSERVICE	48
CONSUMER	51
DISCONTINUED OPERATIONS	56
HISTORICAL SUMMARY	57
GLOSSARY	63

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

Management believes that these measures provide useful information as they provide valuable insight on the underlying performance of the business. They may be used internally to evaluate the underlying performance of business units and to analyse trends. These measures are not uniformly defined or utilised by all companies. Accordingly, these measures may not be comparable with similarly titled measures used by other companies.

Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP measures are not subject to audit unless they are included in Fonterra's audited annual financial statements.

Please refer to the Non-GAAP Measures section in Fonterra's 2022 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.



Harepaora & Lana, Rerewhakaaitu

OUR 2022 SUITE OF REPORTS

Annual Review 2022
(Referenced as AR)

Financial Statements 2022
(Referenced as FS)

Business Performance
Report 2022
(Referenced as BP)

Sustainability Report 2022
(Referenced as SR)

Corporate Governance
Statement & Statutory
Information 2022
(Referenced as C&S)

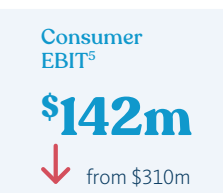
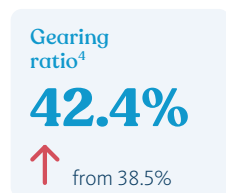
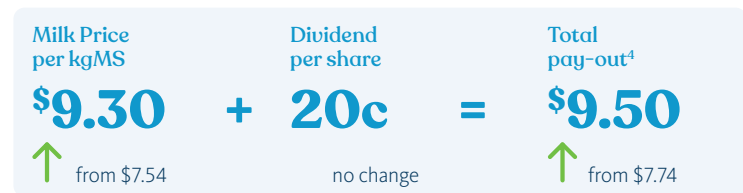
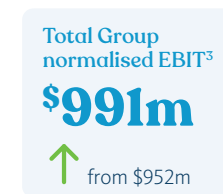
Modern Slavery
Statement 2022
(Referenced as MS)

Farmgate Milk Price
Statement 2022
(Referenced as MP)

OUR REPORTS ARE AVAILABLE
FROM [FONTERRA.COM/NZ/
EN/INVESTORS.HTML](https://FONTERRA.COM/NZ/EN/INVESTORS.HTML)



Business Performance Dashboard



- 1 Reported profit after tax includes amounts attributable to non-controlling interests.
- 2 Earnings per share excludes amounts attributable to non-controlling interests.
- 3 Total Group includes continuing and discontinued operations.
- 4 Refer to the Glossary for definition.
- 5 Prepared on a normalised continuing operations basis.

Total Group Performance

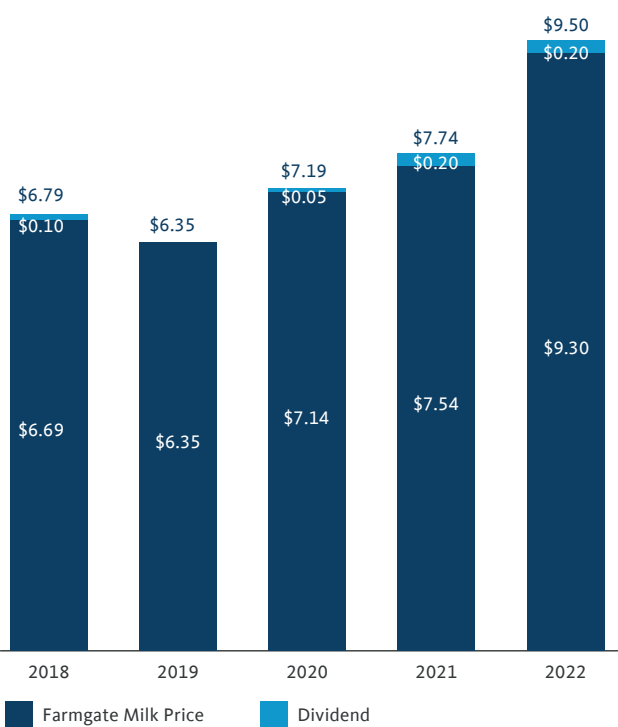
We returned \$9.30 on average for every kilogram of milk solids our farmer owners supplied us. Combined with a dividend of 20 cents per share, this means a total pay-out of \$9.50 per kgMS – a record pay-out for the Co-operative.

Normalised earnings per share increased 3% from 34 cents to 35 cents per share.

The higher milk price and earnings performance reflects strong demand for dairy across multiple markets and products at a time of constrained milk supply, global supply chain challenges, and a significantly higher cost of milk for our businesses. This operating environment significantly increased our working capital requirements through the second half of the financial year and at financial year end, and our net debt was \$1 billion higher at \$5.3 billion.

Our strong balance sheet enabled us to absorb the increased working capital requirements and our net debt position is forecast to improve during the 2023 financial year as working capital returns to normal levels.

Total pay-out¹



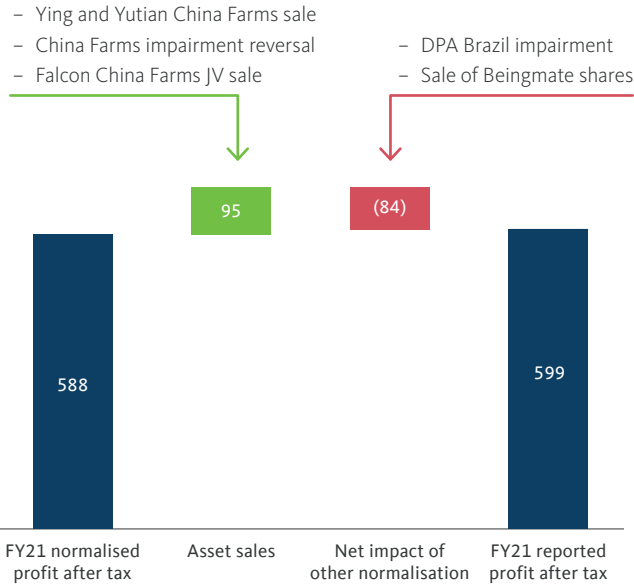
¹ Refer to the Glossary for definition.



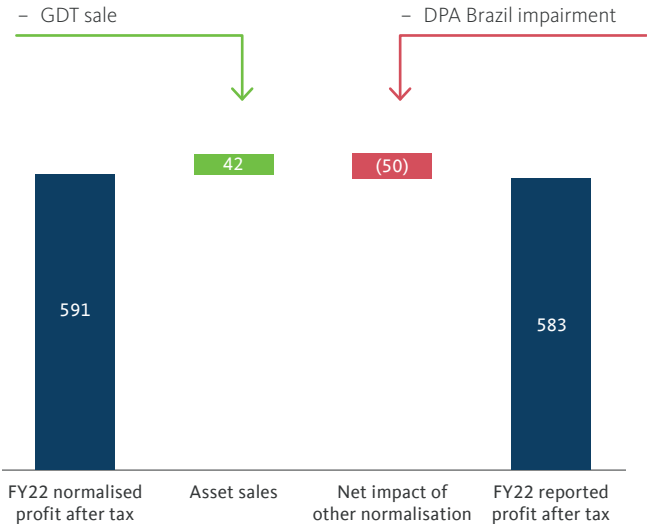


Our reported profit after tax of \$583 million is \$16 million lower than last year, with the prior year benefiting from a larger gain from the sale of non-core assets.

FY21 Normalised to Reported Profit After Tax¹



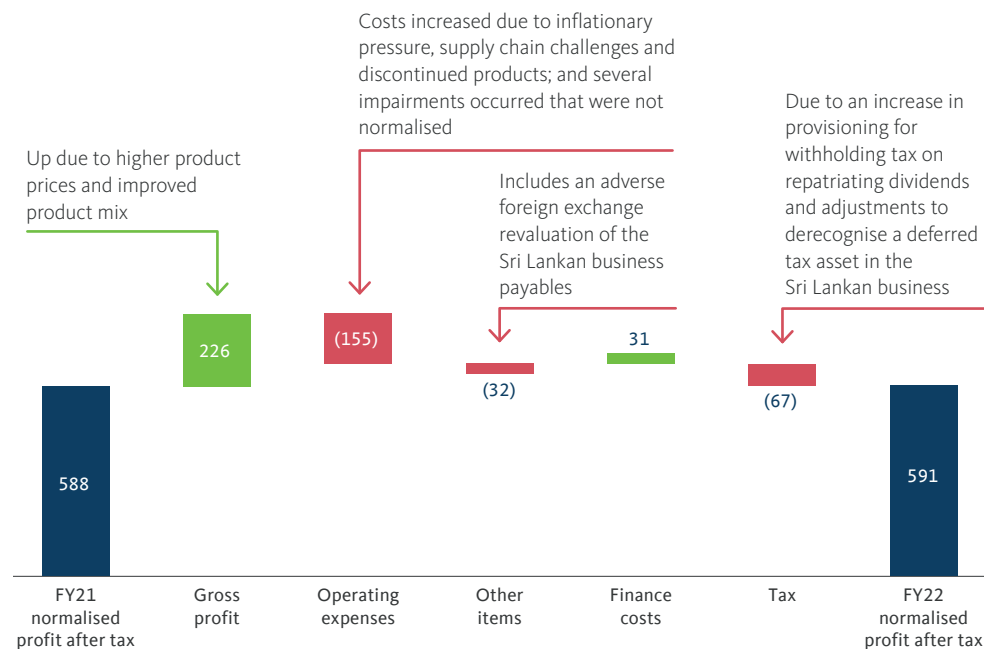
FY22 Normalised to Reported Profit After Tax¹



¹ Normalised and reported profit after tax includes amounts attributable to non-controlling interests.

Normalised profit after tax of \$591 million increased \$3 million on last year – after adjusting for the impact of asset sales and other normalisations, our underlying performance has improved slightly despite a significant increase in the cost of milk and higher operating expenses.

FY21 to FY22 Normalised Profit After Tax¹



¹ Normalised profit after tax includes amounts attributable to non-controlling interests.

Throughout the year we continued our focus on allocating milk into the 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 regions and channels, combined with lower interest expense due to reduced funding costs.

On a continuing operations basis, our Ingredients channel normalised EBIT increased 151%, from \$365 million to \$916 million. The significant increase in earnings from our Ingredients channel reflects strong demand across multiple markets and products at a time of constrained milk supply. The stronger underlying market demand resulted in a broad strengthening of product prices and higher margins were achieved across our Ingredients channel, particularly in our protein products such as casein. The improved Ingredients performance was partially offset by the impact of higher milk input costs in our Foodservice and Consumer channels, with normalised EBIT down 63% and 54% to \$138 million and \$142 million, respectively.

Looking at our continuing operations on a regional basis;

- **Asia Pacific normalised EBIT decreased 22% to \$237 million**, due to the Foodservice and Consumer channels being impacted by the increased cost of milk and weaker market conditions including the impact of COVID-19 restrictions, particularly in South East Asia. The Consumer channel was also impacted by the economic crisis in Sri Lanka. The reduced earnings in the Foodservice and Consumer channels was partially offset by a significant improvement in the Ingredients channel due to higher product prices.
- **AMENA normalised EBIT increased 57% to \$527 million**, due to higher gross margins in the Ingredients channel, reflecting a broad strengthening of product prices, particularly in our protein products such as casein. Our consumer business in Chile performed well, but overall, the Consumer channel EBIT was down on the prior year.
- **Greater China normalised EBIT increased 7% to \$432 million**, due to higher gross margins in the Ingredients channel, driven by improved pricing of our protein portfolio and allocation of greater volume to higher margin ingredients. This was partially offset by the lower sales volumes and gross margins achieved in the Foodservice and Consumer channels due to increased input costs and the impact of strict COVID-19 restrictions.

Overall, Fonterra milk collections are down on last year.

Our milk collections are dominated by our New Zealand sourced milk.

Milk collections for main regions (litres, million)

Fonterra New Zealand¹

16,404

down 4.2%

Fonterra Australia²

1,362

stable

Fonterra Chile³

508

up 5.2%

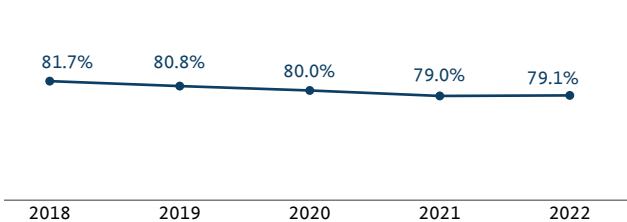
Total

18,274

down 3.6%



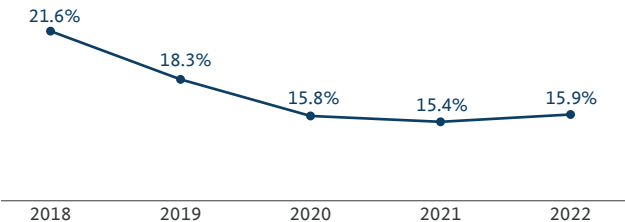
Fonterra Milk Collection Market Share in New Zealand¹



Fonterra milk collections for the season were down by 4% compared to the 2020/21 season, with challenging weather conditions across much of the season hampering production.

Our reduction in collections was slightly less than the reduction in collections for the whole of the New Zealand dairy industry. This, combined with a net win back of milk supply from competitors contributed to the 0.1% increase in our market share to 79.1% for the 2021/22 season.

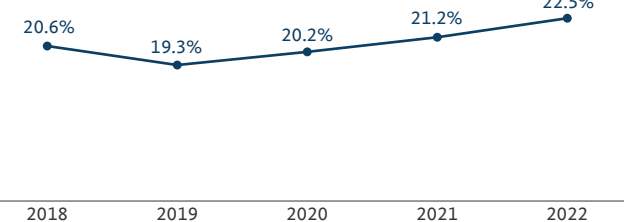
Fonterra Milk Collection Market Share in Australia²



Our Australian market share improved during the season through a continued focus on strong farmer relationships and we were able to secure the milk needs of the business.

However, total milk volumes were in line with the prior period as the overall milk pool declined across Victoria and Tasmania due to a combination of factors including labour shortages, and on-farm input costs and availability.

Fonterra Milk Collection Market Share in Chile³



We continue to gain market share in Chile, up 1.3% to 22.5%, which has led to an increase in milk collections by 5% on the prior year. This was achieved through ongoing 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, discussed in more detail in the AMENA section on [page 38](#).

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 2021			31 JULY 2022		
NORMALISED BASIS NZD MILLION	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP
Sales volume ('000 MT)	3,874	228	4,102	3,706	218	3,924
Revenue	20,565	559	21,124	22,953	472	23,425
Cost of goods sold	(17,581)	(429)	(18,010)	(19,737)	(348)	(20,085)
Gross profit	2,984	130	3,114	3,216	124	3,340
Gross margin (%)	14.5%	23.3%	14.7%	14.0%	26.3%	14.3%
Operating expenses	(2,153)	(89)	(2,242)	(2,284)	(113)	(2,397)
Other ²	65	15	80	50	(2)	48
Normalised EBIT	896	56	952	982	9	991
Normalisations ³	(9)	16	7	42	(57)	(15)
EBIT	887	72	959	1,024	(48)	976

1 Refer to Note 1a and 2b of the FY22 Financial Statements.

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

3 Refer to the Non-GAAP Measures section of the 2022 Annual Review.

Our Total Group sales volumes were down 4% on the prior year, mainly due to lower shipped volumes out of New Zealand. The prior year shipped volumes out of New Zealand were a record high at 2.59 million tonnes compared to 2.35 million tonnes this year. This year's lower New Zealand volumes were due to lower New Zealand milk collections over the first nine months of the financial year, and shipping disruptions in the final quarter relating to continuing scheduling difficulties compounded by challenging weather conditions through July.

Our Total Group gross profit increased \$226 million relative to the prior year, despite the lower sales volumes and gross margin, due to significantly higher product prices across our regions' Ingredients channels.

Our business is well diversified across both 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.

Gross profit by Regions¹

Asia Pacific

\$1,227m

↑ up \$32m

AMENA

\$1,137m

↑ up \$233m

Greater China

\$866m

↑ up \$30m

1 Does not add to Total Group as shown on a normalised continuing operations basis and excludes unallocated costs and eliminations.



Our mozzarella gives dumplings a twist in China.

Gross Profit – Product Channel

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLIONS	2021	2022	CHANGE ¹
Ingredients	1,104	1,684	53%
Foodservice	677	479	(29)%
Consumer	1,154	1,067	(8)%
Unallocated costs and eliminations	49	(14)	–
Continuing operations	2,984	3,216	8%
Discontinued operations	130	124	(5)%
Total Group gross profit	3,114	3,340	7%

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

The Ingredients channel gross margin increased mainly due to improved product pricing and product mix across all three regions.

Gross margins in our Foodservice and Consumer channels decreased across all three regions as our in-market sales pricing was unable to increase at the same rate as rising dairy prices.

Gross margin by
Product ChannelIngredients¹**10.7%**

↑ from 8.1%

Consumer¹**25.8%**

↓ from 28.4%

Foodservice¹**14.5%**

↓ from 22.9%

Total Group

14.3%

↓ from 14.7%

1 Prepared on a continuing operations basis.



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		
	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²
Sales volume ('000 MT)	3,874	3,706	(4)%	3,016	2,856	(5)%	858	850	(1)%
Revenue	20,565	22,953	12%	17,331	19,466	12%	3,234	3,487	8%
Cost of goods sold	(17,581)	(19,737)	(12)%	(14,844)	(16,794)	(13)%	(2,737)	(2,943)	(8)%
Gross profit	2,984	3,216	8%	2,487	2,672	7%	497	544	9%
Operating expenses	(2,153)	(2,284)	(6)%	(1,752)	(1,910)	(9)%	(401)	(374)	7%
Other ³	65	50	(23)%	56	43	(23)%	9	7	(22)%
EBIT	896	982	10%	791	805	2%	105	177	69%
Discontinued operations EBIT	56	9	(84)%	–	–	–	56	9	(84)%
Gross margin	14.5%	14.0%		14.4%	13.7%		15.4%	15.6%	
EBIT margin	4.4%	4.3%		4.6%	4.1%		3.2%	5.1%	

1 New Zealand and Non-New Zealand sourced milk is prepared on a continuing operations basis.

2 Percentages as shown in the 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.

Normalised EBIT generated from our New Zealand milk, the value we were able to deliver over and above the Farmgate Milk Price, increased from \$791 million to \$805 million, mainly due to the strong increase in product prices in our Ingredients channel. The performance of New Zealand milk in the Ingredients channel was largely offset by the EBIT losses made on New Zealand milk allocated across all three regions' Consumer channels, due to reduced gross margins and increased operating expenses.

Further detail on the value of New Zealand milk is provided in the Region and Product Channel sections.

Non-New Zealand milk continues to perform well, driven by the strong performance of our Australian business and our consumer business in Chile.



Operating Expenses¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022
Costs allocated to regions		
Selling & marketing	656	667
Distribution & storage	543	588
Administration expenses ²	633	669
Research & development	82	83
Other expenses ²	16	72
Total allocated operating expenses	1,930	2,079
Unallocated costs	223	205
Operating expenses from continuing operations	2,153	2,284
Operating expenses from discontinued operations	89	113
Total Group operating expenses	2,242	2,397

1 Does not align to FY22 Financial Statements, predominantly due to additional categories.

2 \$59 million of 'Other' expenses have been reclassified as administration expenses for consistency with the current period.

Total Group operating expenses are \$155 million, or 7%, higher than last year.

Of this increase, \$131 million relates to the Group's continuing operations. Distribution and storage, and administration costs were up collectively \$81 million, mainly due to supply chain disruption and inflationary pressure.

'Other' expenses increased \$56 million, mainly due to recognising an impairment of \$34 million on our Asia Brands - Annum, Anlene and Chesdale, with the carrying amount of these brands now at \$336 million as at 31 July 2022. Additionally, we incurred costs associated with discontinuing some products that are not aligned with our long-term strategy.

Our unallocated costs were favourable by \$18 million mainly due to releasing a provision held at Group following a final judicial interpretation on the application of the Holidays Act 2003 in New Zealand to certain discretionary incentive payments.

Operating expenses in our discontinued operations increased \$24 million, mainly due to higher distribution and storage costs in DPA Brazil.

Research and Development costs

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022
Operating expenditure	84	86
Cost of goods sold	26	29
Total Group research and development costs	110	115

Globally we invested \$115 million in research and development this year, up from \$110 million in the prior year. \$86 million is reported in our operating expenses, of which \$83 million is within Research and Development and \$3 million is in Unallocated Costs.

The remaining \$29 million of our research and development is within our Cost of goods sold.

Our Co-op has a long and proud heritage of dairy innovation, pioneering many world firsts from instant whole milk powder to spreadable butter. This year our innovation hub, the Fonterra Research and development Centre, based in Palmerston North, celebrated its 95th year. Today, the centre continues to focus on ground-breaking technologies and dairy science, aligned to our long-term aspiration, committed to supporting our customers:

- We've entered a collaboration with VitaKey Inc. to further unlock the benefits of our probiotic strains and to focus on precision nutrition, allowing our milk to go further while decreasing waste. See [page SR-51](#).
- We've successfully expanded our cream cheese product range from one formulation to six. This has been a five-year journey investing in the knowledge, capability, insights, and capital that has resulted in an expansion of our cream cheese portfolio to meet the needs of our customers, their consumers and the evolving market requirements
- In Active Living, we've made progress in commercialising our functional whey technology through investment in increasing capacity; transferring technology to our joint venture, Columbia River Technologies, which has opened up novel product and business opportunities in cultured and advanced nutrition
- In Foodservice, we've launched our first blended dairy products with Red Cow cream in the Middle East and butter blends in South East Asia. These products combine innovative dairy know-how with the best of plant fats to expand the performance possibilities for our customers
- In Consumer, we created and launched Nurture, our first brand of cultured milk drink for Singapore, with low sugar and added vitamins to support immunity. See [page AR-40](#).
- In on-farm sustainability, Kowbucha™, Fonterra's natural probiotic culture-based approach to methane reduction, saw up to a 20% reduction of methane in lab trials, and have subsequently seen methane reductions in animal trials. We are also partnering with Sea Forest Pty Ltd to investigate whether small quantities of Asparagopsis seaweed could be used in dairy herds on a commercial scale to reduce biological emissions. See [page SR-33](#).

‘Other’, which includes other operating income, net foreign exchange movements, and share of profit or loss on equity accounted investees, decreased \$32 million mainly due to the impact of the economic crisis in Sri Lanka. The significant deterioration of economic conditions in Sri Lanka has seen the rapid devaluation of the Sri Lankan Rupee against the US dollar. This means it takes more Sri Lankan Rupee to pay for product purchased in US dollars from New Zealand and resulted in an \$80 million adverse revaluation of our Sri Lankan business payables owing to New Zealand. This was partially offset by favourable foreign exchange movements in our net receivables due to timing differences between the processing and hedging of invoices.

Total Group normalised EBIT increased 4%, or \$39 million, to \$991 million, due to the \$226 million increase in gross profit, offset by the increase in operating expenses and decrease in ‘Other’.

Total Group reported EBIT increased 2%, or \$17 million, to \$976 million. The impacts from normalisation adjustments to reported EBIT were an adverse \$15 million this year, compared to a favourable \$7 million normalisation adjustment in the prior year. Prior year normalisations included gains on sale from the Ying and Yutian China farming hubs, the China Farming joint venture, partially offset by realised losses on the sale of Beingmate shares and an impairment of the carrying value of DPA Brazil. This year’s normalisations comprise of:

- the partial sale of Global Dairy Trade (GDT), where we entered a partnership with New Zealand’s Exchange (NZX) and the European Energy Exchange (EEX). The total impact to our EBIT was \$42 million; and
- a further pre-tax impairment of \$57 million was made to the full value of DPA Brazil based on an assessment of the fair value of the business. The sale process of DPA Brazil continues to be delayed due to market conditions related to COVID-19, however we remained committed to the sale and continue to actively progress the sale. We expect the sale to be completed within one year.

Total Group Performance¹

FOR THE YEAR ENDED 31 JULY

NZD MILLION	2021	2022	CHANGE ²
EBIT	959	976	2%
Net finance costs	(262)	(231)	12%
Tax expenses	(98)	(162)	(65)%
Reported profit after tax	599	583	(3)%
Normalisation adjustments ³	(7)	15	–
Add: Tax on normalisation adjustments	(4)	(7)	75%
Normalised profit after tax	588	591	1%
(Profit)/loss attributable to non-controlling interests	(21)	1	–
Less: Normalisation adjustments attributable to non-controlling interests	(17)	(24)	41%
Normalised profit after tax attributable to equity holders of the Co-operative	550	568	3%
Normalised earnings per share (cents)	34	35	3%
Full year dividend per share (cents)	20	20	–

1 Includes continuing and discontinued operations.

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

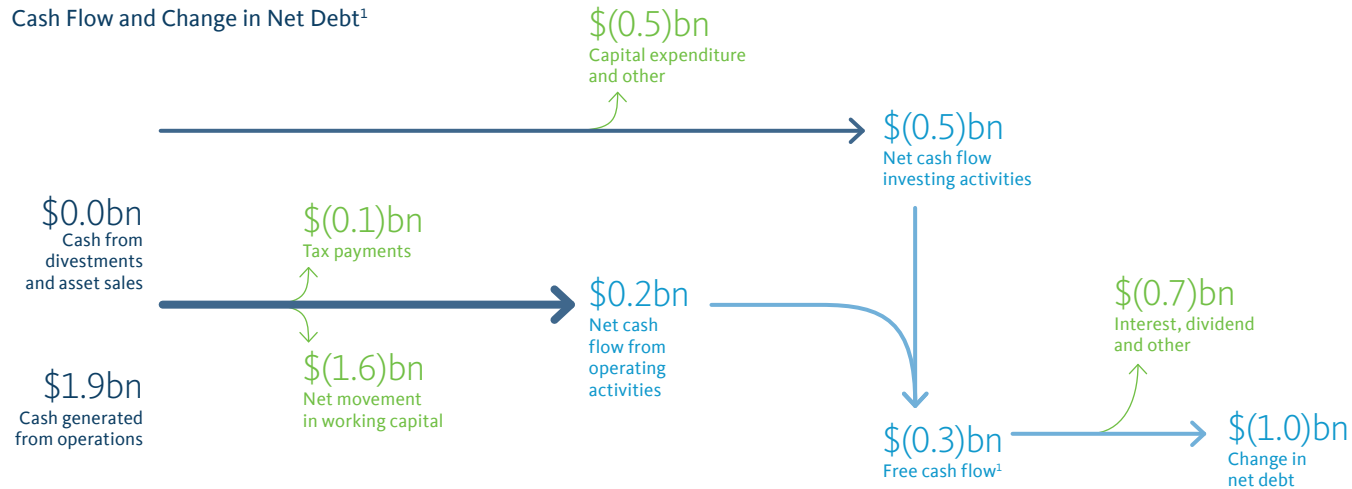
3 Refer to the Non-GAAP Measures section in the Annual Review 2022.

Our Total Group net financing costs reduced \$31 million, or 12%, due to refinancing maturing bonds with shorter-term bank facilities as well as the impact of increased global rates on a portion of our interest rate hedges.

Our strong normalised profit result and the strength of our balance sheet puts us in a position to pay a total dividend for the year of 20 cents, comprising of an interim dividend of 5 cents per share and a final dividend of 15 cents per share.

Our sources and uses of cash

Cash Flow and Change in Net Debt¹



Total Group cash generated from operations increased on the prior year to \$1.9 billion due to the strong underlying performance of the business. However, our working capital requirements increased and we used \$1.6 billion more cash due to the higher cost of milk combined with an increase in year-end inventory due to late season milk production and supply chain disruptions. Therefore, our net cash flow from operating activities, after deducting tax payments of \$0.1 billion, was \$0.2 billion.

Combined with net cash flow used for investing activities of \$0.5 billion, which was predominantly capital expenditure, our Total Group free cash flow for the year was \$(0.3) billion.

We have funded dividends of \$0.4 billion (including 15 cents from last year's final dividend and this year's interim dividend of 5 cents). Combined with interest payments of \$0.3 billion our net debt has increased \$1 billion but this is expected to improve in the 2023 financial year as working capital returns to normal levels during the year. This, combined with our strong balance sheet enables us to pay a final dividend of 15 cents resulting in a total dividend of 20 cents per share again this year.

¹ Refer to Glossary for the definition.





Cash Flow and Change in Net Debt

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022
Cash generated from operations ¹	1,449	1,928
Net change in working capital	(171)	(1,598)
Net tax paid	(84)	(137)
A. Net cash flows from operating activities	1,194	193
Cash flows from investing activities		
Divestments and asset sales	782	45
Capital expenditure and other ²	(559)	(562)
B. Net cash flows from investing activities	223	(517)
Free cash flow (A+B)	1,417	(324)
Interest, dividend and other	(452)	(638)
Non-cash changes in net debt	(52)	(52)
Decrease/(increase) in net debt ³	913	(1,014)

Note: Comparative figures are shown on a consistent basis with current year.

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.

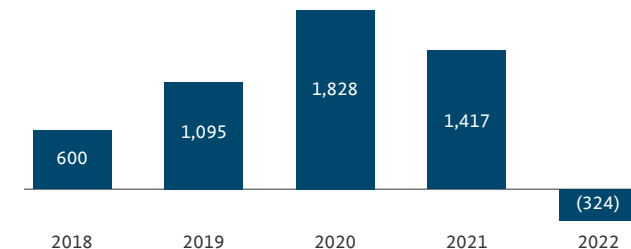
3 Net debt includes amounts attributable to disposal groups held for sale.

Total Group free cash flow for the year of \$(324) million was \$1.7 billion lower than last year which reflects:

- Cash generated from operations increased \$479 million on the prior year to \$1.9 billion due to the strong underlying performance of the business, offset by;
- A \$1.6 billion increase in our working capital funding requirements because of the higher milk price and inventory volume.
- Cash from investing activities down \$740 million, with the prior year benefiting from \$737 million more in asset sales. Cash spent on the acquisition of property, plant and equipment was broadly in line year-on-year. Significant projects are disclosed in the Capital Invested section on [page 17](#).

We continue to focus on our financial discipline, and expect working capital to return to normal levels during the year.

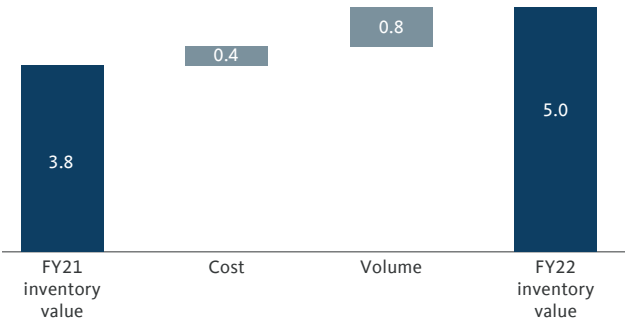
Free Cash Flow¹ (\$ million)



1 Refer to the Glossary for definition.

Working Capital

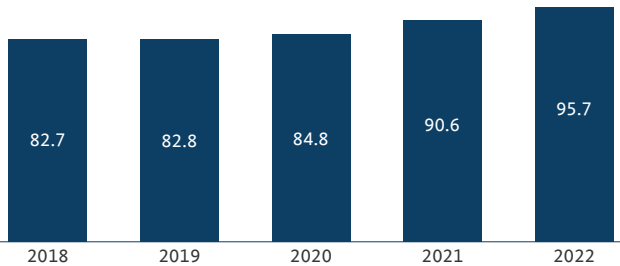
Closing Inventory as at 31 July (\$ billion)



As at 31 July 2022, our working capital increased \$1.6 billion reflecting:

- Higher inventory of \$1.2 billion, due to higher milk price and higher inventory on hand at year end due to increased late season milk production and shipping constraints
 - At year end we held an additional 126,000 MT of product. 88% of total inventory was contracted with an agreed price prior to year end
- Higher receivables due to increased sales revenue in the month of July 2022 compared to the prior year, partially offset by;
- Higher payables reflecting increased accruals for capital expenditure, amounts owing to suppliers due to higher milk prices, and the impact of supply chain disruptions.

Working Capital Days¹



¹ Refer to the Glossary for definition.

Working capital throughout the year has increased 5.1 days compared with the previous year.

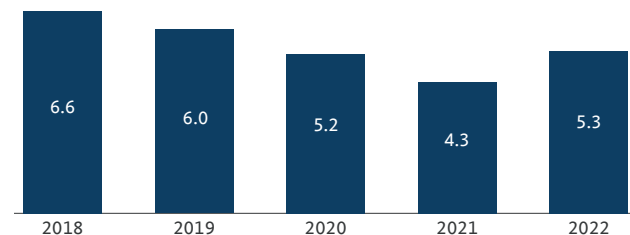
The key drivers of this were:

- Higher average milk price – impacting both receivables and inventory
- Higher levels of inventory throughout the second half of the year, mainly due to late season milk production coinciding with shipping disruptions which saw shipments shift to the next financial year



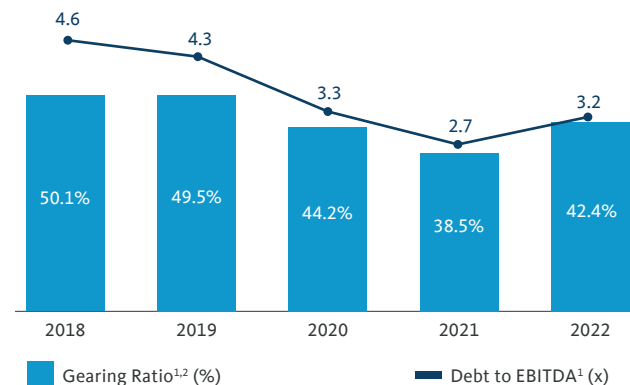
As a result of higher working capital requirements, our net debt increased \$1.0 billion.

Net Debt¹ (\$ billion)



1 Refer to Glossary for definition. Comparative figures are shown on a consistent basis with current year.

Leverage Metrics



1 Refer to Glossary for definition.

2 Comparative figures are shown on a consistent basis with current year.

We have steadily reduced our net debt over the period to 2021, through the alignment of our asset portfolio and improved underlying operating performance. However, this year our net debt has increased \$1.0 billion due to;

- cash generated from operations increasing \$479 million on the prior year to \$1.9 billion. After tax of \$137 million, this is \$1.8 billion in operating cashflows excluding changes in working capital.

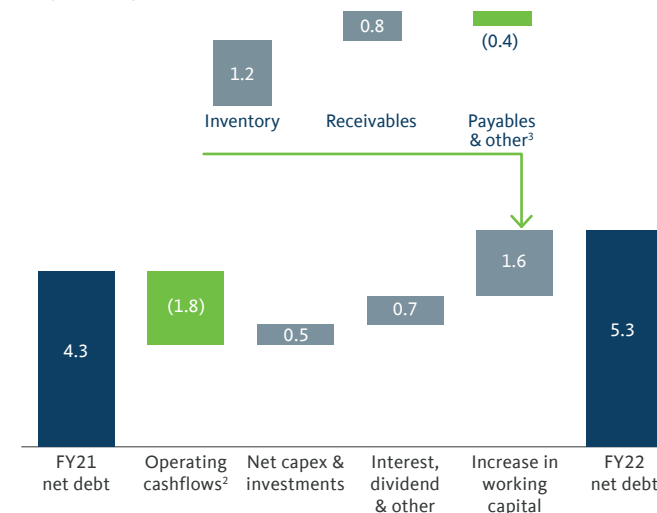
Offset by;

- net cash flow used for investing activities of \$517 million, which was predominantly capital expenditure
- funding of \$0.4 billion of dividends and interest payments of \$0.3 billion, and
- increase in working capital of \$1.6 billion

Both leverage metrics, gearing ratio and debt to EBITDA ratio, have increased as a result of the higher net debt.

Our strong balance sheet enabled us to absorb the increased working capital, and both our net debt position and leverage metrics will improve during the 2023 financial year as working capital returns to normal levels.

Change in Net Debt¹ (\$ billion)



1 Refer to Glossary for definition.

2 Excluding working capital.

3 Includes supplier payables and other movements.



Capital Invested

Total capital invested was \$617 million, comprised of capital expenditure of \$587 million and other capital invested of \$30 million.

The capital expenditure of \$587 million comprised \$534 million for essential projects to maintain and improve existing assets and \$53 million for business growth projects to drive future growth. The \$30 million of other investments mainly comprised of right-of-use assets and equity investments, including investment in new innovation opportunities.

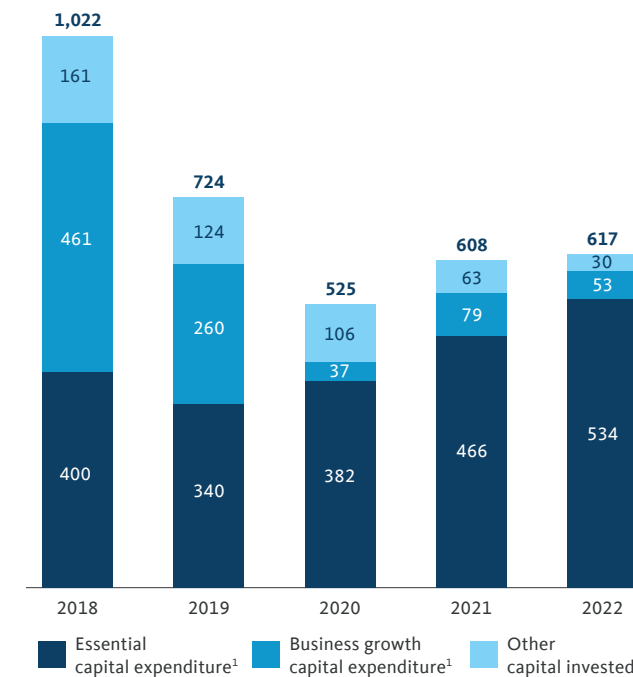
Capital expenditure has increased \$42 million, as planned, in response to increasing regulatory requirements on wastewater treatment, reducing emissions from thermal fuel sources and also maintaining integrity and reliability across our network of processing assets.

Across New Zealand, we continue to progress our annual truck and trailer replacement programme and on-farm milk vat replacement programme to drive operating efficiencies.

We are continuously working through our capital expenditure programme to keep our processing sites fit for purpose. Key projects included wastewater upgrades at our Te Awamutu and Tirau site, biomass boiler installation to replace coal at our Stirling and Waitoa sites, investing in whey permeate concentrate related assets to manage process risk and improving refrigerant technology at our Whareroa site.

Offshore we have 20 manufacturing sites, this year we invested \$103 million to maintain and optimise our offshore portfolio, as well as adding to our asset base where appropriate. Key growth investments included acquiring a secondary cheese processing site to further expand our cheese manufacturing lines in Australia.

Capital Invested¹ (\$ million)



¹ Refer to the Glossary for definition.

Central North Island

- **Tirau**
 - Invested in whey permeate concentration related assets to remove process risk of ethanol
 - Improved wastewater processing. See page [SR-26](#)
- **Te Awamutu**
 - Upgraded our infrastructure to better manage wastewater. See [SR-26](#)
- **Waitoa**
 - Commenced work on biomass boiler to replace coal. See [SR-34](#)
 - Improved our UHT cream processing
- Trialling an electric tanker for fleet decarbonisation. See page [AR-36](#)
- **Te Rapa**
 - Trialling use of large scale battery technology. See [SR-37](#)
- **Crawford Street**
 - Invested in an automated storage and retrieval system
- **Lichfield**
 - Invested in an advanced ingredient for world leading critical care nutrition brand

Lower North Island

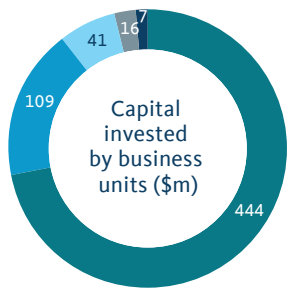
- **Whareroa**
 - Improved powder dryer building integrity to manage product quality risk
 - Increased processing time by improving cleaning-in-process systems
 - Improved refrigerant technology risk
- **Kapuni**
 - Increased processing time by improving cleaning-in-process systems
- **Palmerston North**
 - Increased production capacity of probiotics



South Island

- **Stirling**
 - Invested in biomass boiler to replace coal. See [SR-34](#)
- **Clandeboye**
 - Scale up of pilot plant using biological treatment for wastewater. See [SR-26](#)
 - Invested in whey process to improve efficiency of functional WPC production
- **Edendale**
 - Improved integrity of infrastructure
 - Improved water utilisation efficiency

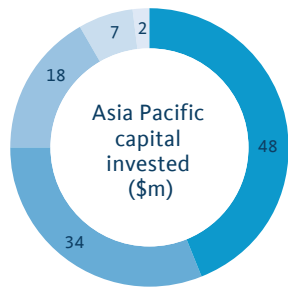
Sites displayed are not a full representation of all Fonterra factories



- Group Operations
- Asia Pacific
- AMENA
- Group Functions
- Greater China

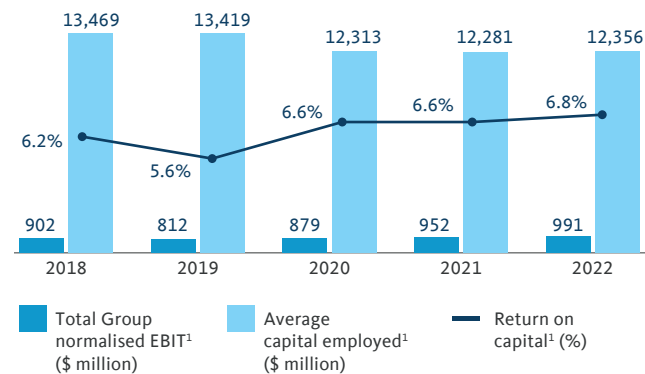


- Health, Safety and Risk
- Wastewater
- Decarbonisation
- Information Technology
- Other
- Milk Collections Assets
- Electrical Infrastructure
- Food Safety and Quality
- Buildings
- Innovation



- Strategy and Innovation
- Health, Safety and Risk
- Other
- Information Technology
- Decarbonisation

Return on Capital



1 Refer to the Glossary for definition.

Total Group return on capital improved from 6.6% to 6.8%

The increase in our return on capital was due to the increase in our normalised EBIT. The impact of the improved EBIT was partially offset by the additional working capital increasing our average capital employed.

The impact on our average capital employed from year-end net debt increasing by \$1 billion is limited due to our low net debt position at the start of the year, and the significant increase in working capital requirements only impacting towards the end of the second half.

Return on Capital

NZD MILLION	2021	2022
Total Group normalised EBIT	952	991
Finance income on long-term advances	8	7
Notional tax charge	(155)	(161)
Total Group normalised EBIT plus finance income on long-term advances less notional tax charge	805	837
Capital employed at year end	10,863	12,179
Impact of seasonal capital employed	1,418	177
Average capital employed	12,281	12,356
Return on capital (%)	6.6%	6.8%

Dividend

We are committed to our financial discipline and following the guidelines of our [Dividend Policy](#).

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 2022 abnormal gains included the normalised gains of \$42 million on selling two-thirds of our Global Dairy Trade business.

Another key principle of the Policy is the dividend payment should not require the Co-operative to take on more debt, after taking into account any material working capital changes considered highly likely to reverse in future periods. This applies in the current year, where we had a significant increase in working capital including higher levels of year-end inventory and we expect this to return to normal levels in the 2023 financial year. This combined with the ongoing strength of the Co-operative's balance sheet has put us in a position to return a dividend to shareholders and unit holders.

The normal dividend of 20 cents per share is equivalent to a 59% pay-out ratio of the net earnings for dividend payment.

Dividend Calculation

FOR THE YEAR ENDED 31 JULY

NZD CENTS PER SHARE	2021	2022
Normalised earnings ¹	34	35
Add: normalisations	2	1
Reported earnings ¹	36	36
Less: abnormal gains	(6)	(2)
Net earnings for dividend payment ²	30	34
Dividend payment percentage (%)	57%	59%
Dividend based on attributable earnings	17	20
Dividend based on abnormal gains ³	3	–
Total dividend	20	20
Interim dividend	5	5
Final dividend	15	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 FY21 includes the reversal of previous impairment of our China Farms.

On-farm

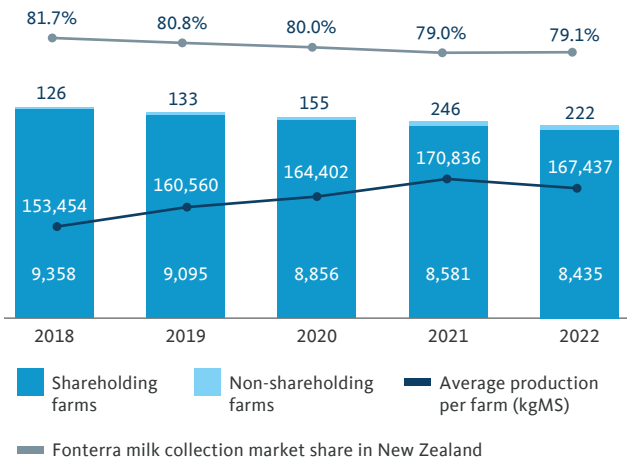
We believe having a strong and resilient dairy co-operative makes a real difference to our farmer owners, and to New Zealand. Our scale and diversification allow us to move our farmer owners' milk into the most valuable products and markets and achieve scale advantages in processing, innovation and supply chain. This helps mitigate some of the risk for farmers that can occur when demand for certain products or markets soften.



Penelope, Jess & Blair, Taranua

Our New Zealand supplier base and owners

Composition of our Supplier Base¹



¹ Comparative information includes re-presentations for consistency with the current period.

As at 31 July 2022 the Co-operative collected milk from 8,435 shareholding farms and 222 non-shareholding supplying farms around New Zealand.

The decline in supplying farms is primarily due to a higher proportion of farm conversions to other land uses. Our loss of farms to alternative processors at the end of the 2021/22 season has been more than offset by farms coming back to supply the Co-operative, and as a result, on a milk supplied basis our market share increased slightly.

Our supply from non-shareholding farms is largely made up of farms supplying MyMilk. At the end of the 2021/22 season, 34 of the 36 farms that had completed their permitted maximum number of seasons with MyMilk switched to supplying the Co-operative as a supplying shareholder. In addition, prior to the end of the 2021/22 season an additional 43 farms shifted from MyMilk to join the Co-operative as a supplying shareholder having completed less than their permitted maximum number of seasons with MyMilk. This increase in non-shareholding suppliers becoming supplying shareholders of the Co-operative has meant for the first time in six years our non-shareholding farm supplier base has decreased.

Average production per farm this season is down on the prior 2020/21 season, which had more favourable on-farm conditions. This year's two percent decline reflects the challenging weather conditions affecting a number of key dairy regions. This was exacerbated by COVID-19 related labour shortages and rising on-farm costs as well as a reduction in cow numbers nationwide.



Steven & Cooper, Morrinsville

Share Capital

FOR THE YEAR ENDED 31 JULY

(MILLION)	2018	2019	2020	2021	2022
Total shares on issue	1,612	1,612	1,612	1,613	1,613
Aggregate minimum shareholding requirement	1,391	1,391	1,392	1,403	1,396
Tradeable shares	221	221	220	210	217
Vouchers counting to aggregate minimum shareholding requirement	45	43	43	41	38
Total tradeable shares	266	264	263	251	255
Tradeable shares held by shareholding farms	155	161	158	144	148
Tradeable shares held by Custodian (equal to units in Fund)	111	103	105	107	107

Total tradeable shares = total shares on issue *less* aggregate minimum shareholding requirement *plus* Vouchers

1,613 million *less* 1,396 million *plus* 38 million = 255 million

As at 31 July 2022 the Co-operative had 1,613 million shares on issue. Total shares on issue are 0.03% lower than this time last year as a result of the Co-operative purchasing and cancelling 532,294 shares during July 2022 under the \$50 million on-market buy-back programme announced on 8 June 2022.

At 31 July 2022 supplying shareholders were required to hold 1,396 million shares in aggregate to meet their Share Standard compliance obligations. Farmers used 38 million Vouchers to meet their shareholding requirement.

Therefore, there are 255 million shares that are considered tradeable of which 107 million are currently held by the Custodian. For every share the Custodian holds, there is a corresponding unit in the Fonterra Shareholders' Fund (the Fund).

On 9 December 2021, our shareholders approved changes to the Constitution that would give effect to the new Flexible Shareholding capital structure. These will become effective on a date to be determined and notified by the Board once it is satisfied that all steps necessary to implement the new structure have been, or will be, completed. In the

meantime, the Fund remains capped, this means shares are not able to be exchanged into units in the Fund on a day-to-day basis, as this is a feature of the new structure. Share Standard compliance obligations for the 2022/23 season remain on hold until at least six months after the new Flexible Shareholding capital structure is effective for all supplying shareholders holding a minimum of 1,000 shares and for exiting shareholders that are selling shares over three seasons in accordance with Fonterra's constitution.

The reduction in the aggregate minimum shareholding requirement from 1,403 million to 1,396 million is primarily due to a material decrease in the three-season rolling average milk production, with the 2021/22 total production of 1,478 million kgMS, being 45 million kgMS lower than the season it is replacing in the three-season average – this being the 2018/19 total production of 1,523 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 those farmers are cancelled. The reduction in vouchers does not impact total shares on issue or directly impact the Fund size.

On implementation of the new Flexible Shareholding capital structure, all other things being equal, the aggregate minimum shareholding requirement would reduce from 1,396 million shares to around 465 million shares. This significantly increases the number of tradeable shares. The Co-operative has allocated up to \$300 million to support the transition to the new Flexible Shareholding capital structure, through an on-market share buy-back and other tools such as the market maker arrangements.

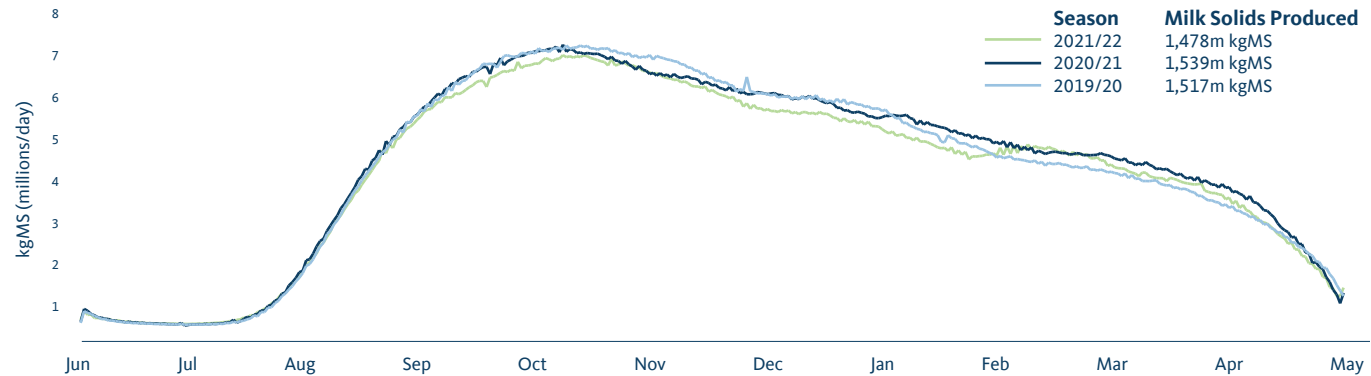
Fonterra’s New Zealand Milk Production

For the 2021/22 season, production from Fonterra farmers in New Zealand was 1,478 million kgMS, down 4.0% compared to the prior season.

The 2021/22 season had a challenging start, driven by a cold and wet spring with limited sunshine affecting pasture growth. This contributed to a lower peak in milk supplied.

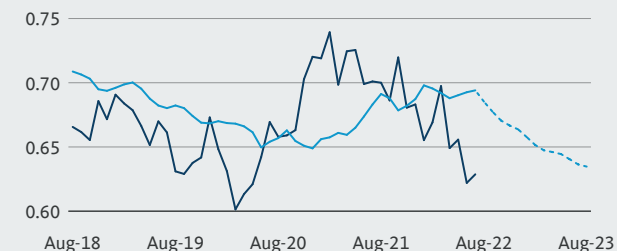
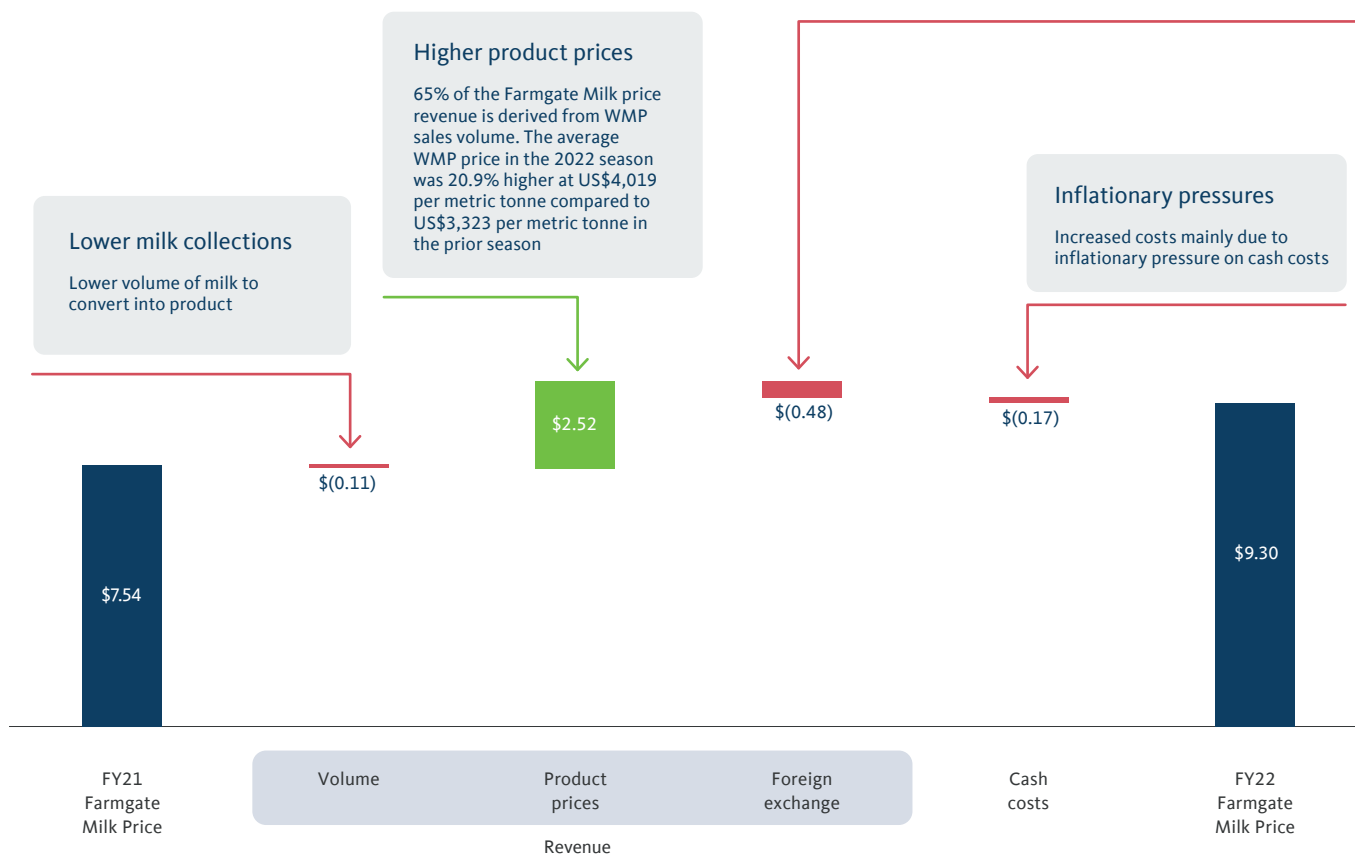
After the peak collection period, September through to November, production was further impacted by very dry and warm conditions in January that led to declining soil moisture and reduced feed in the North Island.

Favourable pasture growing conditions during February to March in the North Island led to a recovery in collections at the end of the season. However, this was partially offset by the lower South Island experiencing hot and dry conditions.



New Zealand Farmgate Milk Price (per kgMS)

For more information please see Farmgate Milk Price Statement 2022 - [see MP](#)



— NZD/USD Spot Rate
— Fonterra's quarterly smooth conversion rate
- - - Illustrative future 18 month hedge profile¹

Foreign Exchange Hedging

The foreign exchange (FX) season-on-season impact is because the hedge rate increased as a result of the New Zealand dollar strengthening over the prior seasons. The average hedge rate increased from NZD/USD 0.6677 last season to NZD/USD 0.6884.

Fonterra hedges the FX risk progressively over an 18-month period, therefore the FX conversion rate for the Farmgate Milk Price for a specific season is largely based on the weighted average spot rate over the previous season.

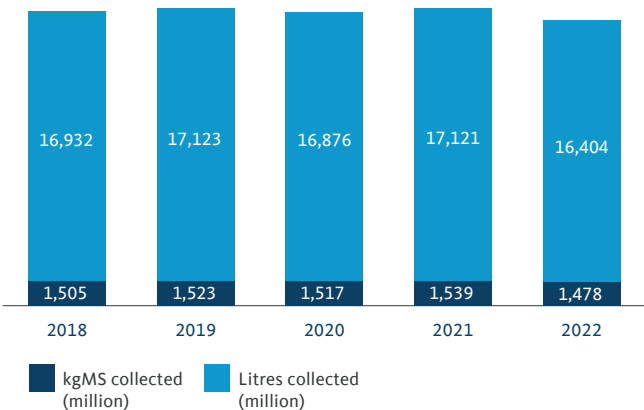
The hedging approach means changes in the New Zealand dollar will still impact the Farmgate Milk Price, but it will impact at a later date and we can estimate with greater certainty what the impact of that change will be. As a result, hedging provides increased certainty on what the FX conversion rate for the season will be and means a narrower range on the forecast Farmgate Milk Price compared to not hedging.

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); Fonterra 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 allocate our milk to the most valuable products and regions. It includes optimising New Zealand milk collections, 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.

Litres and Milk Solids Collected



The performance of our Group Operations team during the 2022 financial year demonstrated the resilience of the team alongside in-market sales teams. The team successfully collected over 16 billion litres of milk from our supplying shareholders, and then processed, packed, cleared and shipped 2.35 million metric tonnes to our customers around the world, while anticipating, adapting and working with the many challenges caused by the COVID-19 pandemic. This resilience, and the ability to continue operating effectively over the year, is due to our people, our partnerships, and ability to be agile.

This year we collected 16,404 million litres of milk from the Co-operative’s farmers, which equated to 1,478 million kgMS.

Around 11 litres of milk produces 1kg of milk solids, or about 9% of milk collected is solids, and the rest is other components of milk and water.

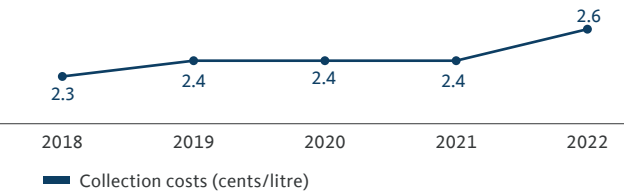
The Co-operative experienced increases in a number of input costs, including the cost of diesel increasing 48%. These impacted milk collection costs per litre.

In response to these pressures, the Co-operative uses data analytics to provide a view of fuel efficiency by tanker and driver, to enable targeted vehicle tuning and training to drivers to improve fuel efficiency. As a result, the litres used per 100km continues to decrease and has helped to reduce the impact of the rising cost of fuel.

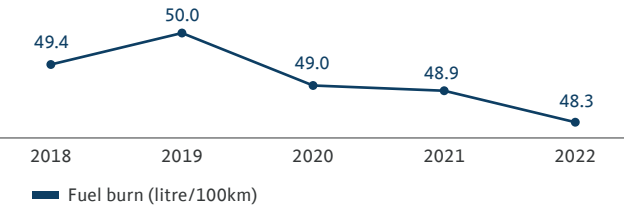
The recently installed on-farm milk vat monitoring technology continues to deliver efficiencies. It has enabled us to improve the way we plan and manage milk collection efficiently, enabling us to further reduce our tanker fleet and improve asset utilisation.

“Collected in full on time” (CIFOT) is the measure of how well we have performed in collecting our farmer owners’ milk within our planned collection windows. This is important for farmer engagement and milk processing. Despite the challenges of COVID-19 this year our collections team has worked hard to maintain the integrity of our timeliness of collecting milk.

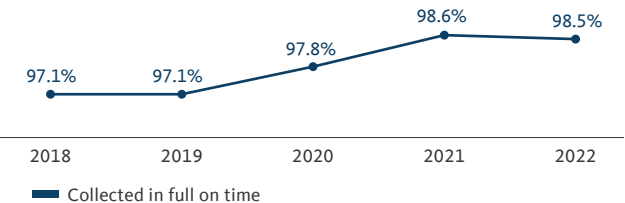
Cost of Collecting Milk



Fuel Efficiency when Collecting Milk

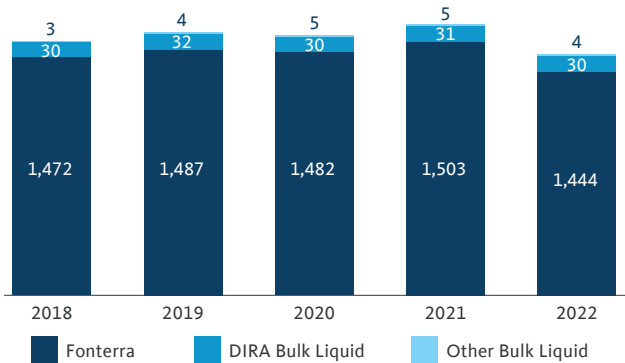


Timeliness of Collecting Milk



Milk solids available to process and where we allocated them

Milk Solids Processed and Bulk Liquid Sales
(million kgMS)



We process around 98% of 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 Dairy Industry Restructuring Act (DIRA) raw milk regulations 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, an additional charge of 10 cents per kgMS. 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.

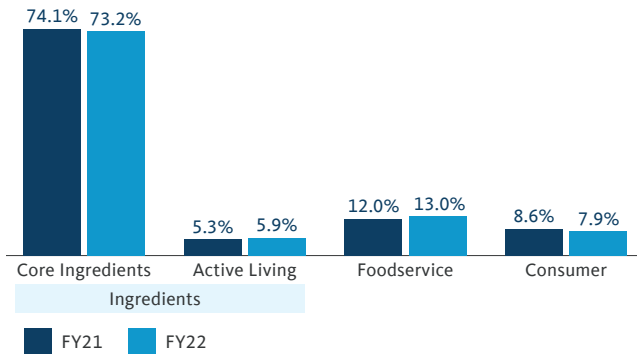
With the remaining milk solids we process, we continue to focus on allocating milk into the products that generate the best overall returns to Fonterra and our farmer owners.

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.



New Zealand Milk Solids Allocation by Product Channel

(% of milk solids)



A key driver to our strategy and earnings growth is shifting our New Zealand milk into higher margin products, particularly in our Active Living portfolio and Foodservice channel.

The growth of our Active Living portfolio this year was driven by increased demand for our milk protein concentrate, casein and caseinate products.

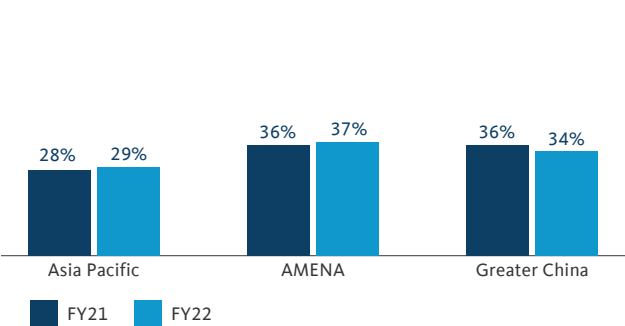
The allocation of milk solids to our Foodservice channel has continued to grow, as innovation enables us to expand the uses of our UHT cream range within our Anchor Food Professionals brand.

Milk solids allocated to our Core Ingredients portfolio have reduced as we grow our Active Living portfolio and Foodservice channel.

The percentage of solids our Consumer channel received this year was impacted by our choice to limit sales volumes in Sri Lanka while the economic crisis unfolds.

New Zealand Milk Solids Allocation by Region

(% of milk solids)



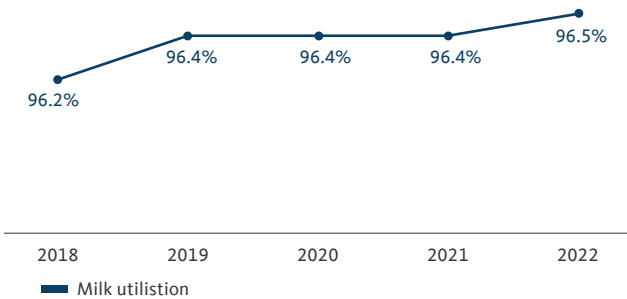
AMENA's increased allocation of milk solids was driven by the growth in the Active Living channel and the strong demand for our protein products.

AMENA and Asia Pacific allocation percentages naturally lifted due to our overall lower milk collections which impacted the allocations to Greater China more, where COVID-19 lockdowns impacted demand for powders, particularly WMP, during the second half of the financial year.



Milk Processing Performance

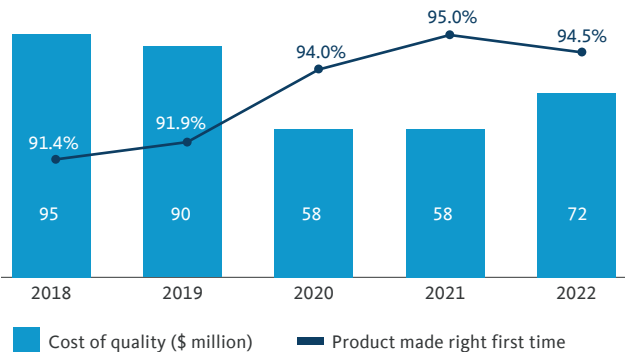
Portion of Milk Solids Made into Product



Within our New Zealand Manufacturing operations, milk utilisation (the proportion of milk solids made into products) improved slightly on last year. This was mainly due to improvements in our cheese processing and better planning and scheduling of by-product streams, such as whey, which is produced during the manufacturing of cheese and casein.

This improvement was achieved despite our product mix shifting out of core ingredients, including manufacturing eight per cent less WMP, and into manufacturing more complex products. The more complex products can incur greater processing losses of milk solids but provide greater earnings to the Co-operative and represent the greatest overall return for our milk solids.

Product Made Right First Time



Product made 'right first time' tracks the product that passes grading tests once the product is manufactured. Over the past five years it has trended favourably with our focus on quality and reliability. However, product made 'right first time' decreased by 0.5% this year due to challenges achieving bulk density and vitamin specifications on some of our more complex products.

Cost of quality, one of our key indicators of the effectiveness of our manufacturing activity, has been trending favourably over the past five years through using a risk-based quality management programme, better process control and plant stability supported by capital investment. However, cost of quality increased \$14 million this year, mainly due to the higher value of milk per tonne, two specific bacterial issues that were identified by our food safety and quality controls and stopped the product being released from the factory, and an ingredient formulation issue. The cost of quality this year is equivalent to 0.4% of our New Zealand cost of goods sold.

We expect both our product made 'right first time' and cost of quality to return to favourable trends.

Supply Chain and Logistics

In the 2022 financial year, we shipped 2.35 million tonnes of product to customers across the world with the support of Kotahi (Fonterra's ocean freight partnership with Silver Fern Farms) and Coda (our New Zealand domestic land freight partnership with Port of Tauranga) despite significant global supply chain disruptions.

Global supply chains continued to experience substantial disruption during the financial year, primarily due to COVID-19, including a two-month closure of Shanghai Port. Shipping schedule integrity remained at levels below 40% for the second consecutive year, compared to a long-term average of 80%, with high volumes of sales and shipping orders requiring rescheduling and manual intervention. Similarly, to our milk collections, the rest of our supply chain has also experienced significant increases in diesel prices. Our focus remains on ongoing cost reduction, driven by network optimisation and asset efficiency.

Overall, Fonterra's shipped volumes were lower than the prior year due to reduced milk volumes, supply chain disruptions, temporary impacts to demand, and physical supply chain issues related to vessel arrivals and weather impacts on the landside supply chain in the final weeks of the financial year.

In response to the challenging global supply chain environment, we continued to leverage our strategic partnerships and through the commitment, agility, and operational understanding of our people, and we have been able to secure additional shipping capacity, optimise our network and increase productivity.



Group Operation Attribution to Regional Segments

Overall, the Group Operations' EBIT has increased \$307 million to \$189 million relative to the prior year.

The significant improvement to our Group Operations' EBIT is mainly due to higher gross margins achieved in our protein portfolio, particularly in casein and WPC. This has been achieved by higher product pricing reflecting strong demand across multiple markets and products at a time of constrained milk supply.

In the 2021 financial year, the Group Operations' result was adversely impacted by gross margins on bulk liquids and the lagged impact of longer-term pricing arrangements in sales contracts as the cost of milk increased. These factors did not impact the 2022 financial year to the same extent.

In addition, our commodity hedging programme has enabled us to stabilise product margins as the cost of milk increased throughout the year by matching customers' need for price certainty with financial market instruments and fixed milk price contracts.

In broad terms, Group Operations collects and processes New Zealand milk into the most valuable 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 monthly or quarterly 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 pursuant to the Milk Price Manual, the impact of longer-term pricing commitments, product mix and 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 contribution 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 the share of product sold/manufactured in the region as the base of allocation.

Group Operations' Attribution

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS
EBIT NZD MILLION

	TOTAL		CHANGE	ASIA PACIFIC		CHANGE	AMENA		CHANGE	GREATER CHINA		CHANGE
	2021	2022		2021	2022		2021	2022		2021	2022	
Group Operations' attribution to regional segments	(118)	189	307	(3)	67	70	(99)	70	169	(16)	52	68

Summary by Region and Product Channels

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 region and product channel performance and commentary in this section and the subsequent sections on individual regions and product channels are prepared on a normalised continuing operations basis unless stated otherwise.

This year all three regions' Ingredients channels benefited from the broad strengthening of product prices and higher margins, particularly in our protein products such as casein. More detail on the drivers of the Ingredients channel have been provided in the Ingredients channel performance section on [page 43](#).

The regions' Foodservice and Consumer channels have worked with customers to adjust in-market sales prices to reflect increased costs, particularly the significant increase in the cost of milk. However, we have not been able to adjust pricing at the same rate as our cost increases and this has been a driver for our Foodservice and Consumer channel performances being down, as well as several region-specific challenges in the Consumer channel.

	Asia Pacific 	AMENA 	Greater China 	Totals 
Volume ('000 MT) ¹	1,370 1% ↓	1,355 no change	1,029 13% ↓	3,754 4% ↓
EBIT contribution ^{1,2}				
Ingredients	\$192 _m \$168m ↑	\$442 _m \$231m ↑	\$282 _m \$152m ↑	\$916 _m \$551m ↑
Foodservice	\$(13) _m \$92m ↓	\$(4) _m \$19m ↓	\$155 _m \$120m ↓	\$138 _m \$231m ↓
Consumer	\$58 _m ³ \$144m ↓	\$89 _m \$21m ↓	\$(5) _m \$3m ↓	\$142 _m \$168m ↓
Total	\$237 _m \$68m ↓	\$527 _m \$191m ↑	\$432 _m \$29m ↑	

Note: Figures are for the year ended 31 July 2022

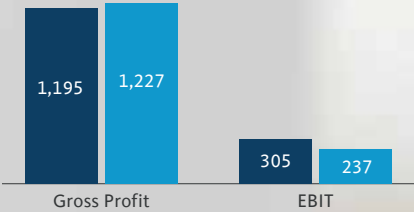
1 Prepared on a normalised continuing operations basis. Normalised EBIT contributions sums to \$1,196 million, and does not align to reported continuing operations due to excluding unallocated costs and eliminations. Comparative information includes re-representations for consistency with the current period.

2 Inclusive of Group Operations' EBIT attribution.

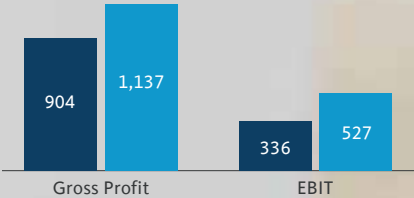
3 Includes \$(80) million adverse revaluation of payables in Sri Lanka.

Regions

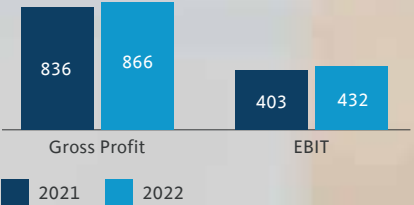
Asia Pacific



AMENA



Greater China



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.



Asia Pacific

Asia Pacific's EBIT was \$237 million, a decrease of \$68 million, or 22%, on the prior year.

Asia Pacific's Ingredients channel EBIT increased significantly from \$24 million to \$192 million due to higher gross margins. In particular, the New Zealand Ingredients channel benefited from improved margins in bulk liquids and its protein portfolio, including products like casein. The strong improvement in the Ingredients channel was more than offset by the collective \$236 million decrease in EBIT from the Foodservice and Consumer channels, with both channels impacted by the increased cost of milk and weaker market conditions, particularly in South East Asia. The Foodservice channel EBIT was a loss of \$13 million. The Consumer channel EBIT was down 71% to \$58 million, and in addition to lower gross margins was also impacted by the economic crisis in Sri Lanka, which led to lower sales volumes and an adverse revaluation of \$80 million of Sri Lanka business payables. In addition, we recognised an impairment of \$34 million on our Asia Brands - Annum, Anlene and Chesdale, with the carrying amount of these brands now at \$336 million as at 31 July 2022.

Our Asia Pacific business covers New Zealand, Australia, Pacific Islands, South East Asia, and South Asia.

Asia Pacific Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²
Sales volume ('000 MT) ³	1,386	1,370	(1)%	610	605	(1)%	163	177	9%	613	588	(4)%
Revenue	7,110	7,879	11%	3,654	4,325	18%	930	1,079	16%	2,526	2,475	(2)%
Cost of goods sold	(5,915)	(6,652)	(12)%	(3,382)	(3,866)	(14)%	(712)	(948)	(33)%	(1,821)	(1,838)	(1)%
Gross profit	1,195	1,227	3%	272	459	69%	218	131	(40)%	705	637	(10)%
Operating expenses	(889)	(941)	(6)%	(254)	(290)	(14)%	(139)	(142)	(2)%	(496)	(509)	(3)%
Other ⁴	(1)	(49)	–	6	23	283%	–	(2)	–	(7)	(70)	900%
EBIT ⁵	305	237	(22)%	24	192	700%	79	(13)		202	58	(71)%
Includes EBIT attribution from Group Operations ⁶	(3)	67	–									
Gross margin	16.8%	15.6%		7.4%	10.6%		23.4%	12.1%		27.9%	25.7%	
EBIT margin	4.3%	3.0%		0.7%	4.4%		8.5%	(1.2)%		8.0%	2.3%	

1 Asia Pacific performance is prepared on a continuing operations basis. Comparative information includes representations for consistency with current period.

2 Percentages as shown in the 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.

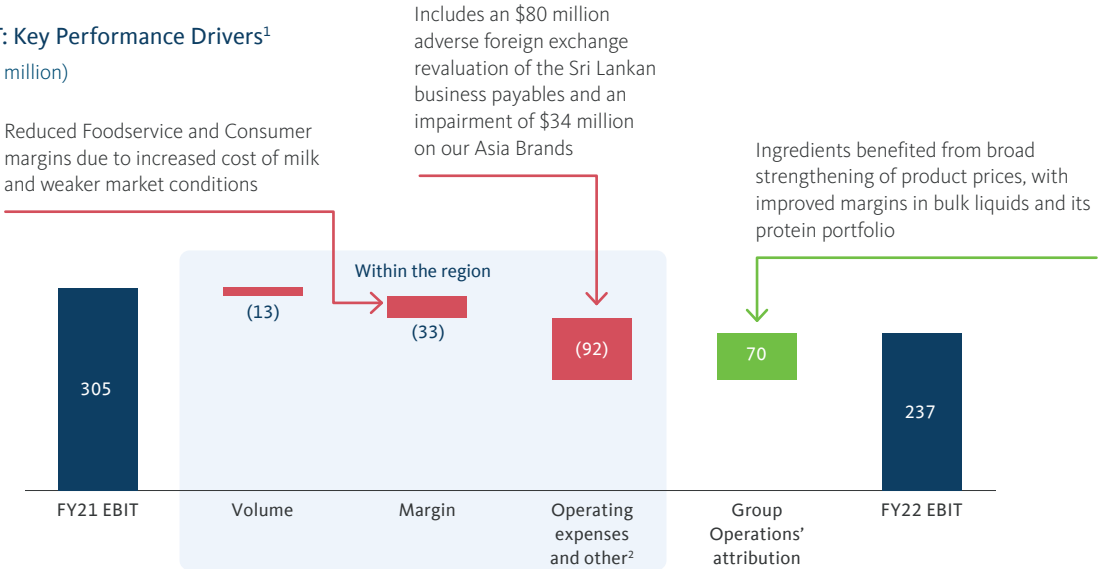
5 This includes EBIT attribution from Group Operations.

6 This is included in Asia Pacific's EBIT. Refer to Glossary for explanation of Group Operations.



Asia Pacific EBIT: Key Performance Drivers¹

Normalised EBIT (\$ million)



1 Asia Pacific performance is prepared on a continuing operations basis.

Asia Pacific EBIT: Key Performance Drivers¹

FOR THE YEAR ENDED 31 JULY 2022

NORMALISED BASIS NZD MILLION	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT 2021	305	24	79	202
Volume	(13)	(1)	16	(28)
Margin (price, cost and product mix)	(33)	89	(77)	(45)
Operating expenses and other ²	(92)	6	(11)	(87)
Group Operations attribution	70	74	(20)	16
EBIT 2022	237	192	(13)	58

1 Asia Pacific performance is prepared on a continuing operations basis. Comparative information includes representations for consistency with current period.

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

Australia

Our Australian business continued its positive momentum, with EBIT significantly improved on the prior year as a result of robust demand conditions across all three channels. The growth trajectory of our strong Consumer brands has continued, as illustrated in the graph to the right. The Ingredients channel benefited from a broad strengthening of dairy prices in the domestic and global market, including benefiting from a weaker Australian dollar. The improved Ingredients channel performance was partially offset by rising input costs in the Foodservice and Consumer channels.

Australia Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022	CHANGE ²
Milk collection (million kgMS)	106	106	–
Sales volume ('000 MT) ³	373	365	(2)%
Revenue	1,953	2,094	7%
Cost of goods sold	(1,710)	(1,811)	(6)%
Gross profit	243	283	16%
Operating expenses	(167)	(178)	(7)%
Other ⁴	(2)	1	–
EBIT	74	106	43%
Gross margin	12.4%	13.5%	
EBIT margin	3.8%	5.1%	

¹ Australia's performance is prepared on a continuing operations basis and is prior to Group Operations attribution.

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

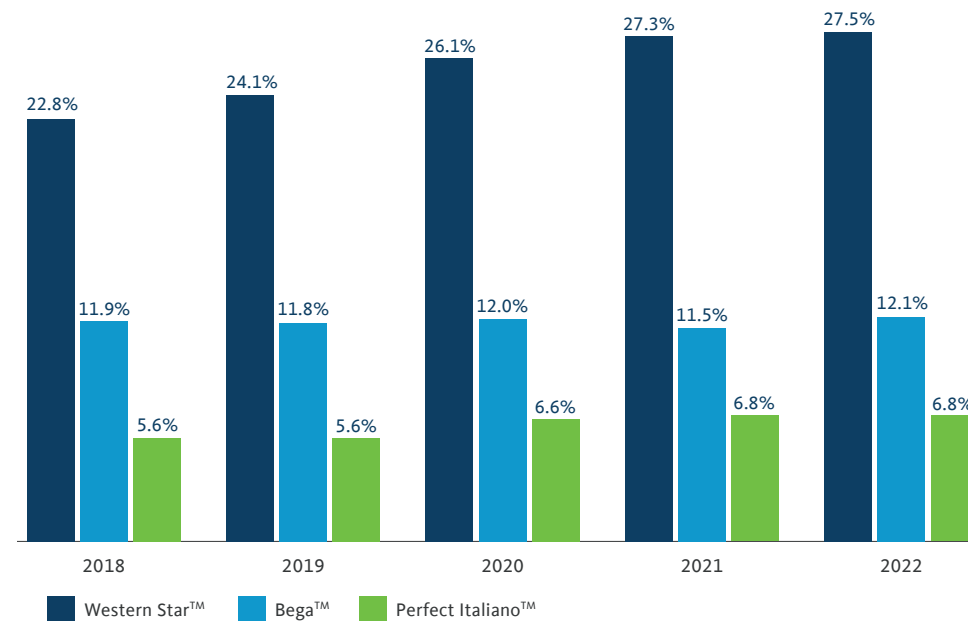
³ Includes sales to other segments.

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

Fonterra Australia Value Market Share by Brand¹

MAT Aug-18 to MAT Aug 22, percentage share of category

Source: Nielsen RMS, Total AU grocery scan



¹ Comparative figures are shown on a consistent basis with current year.

AMENA

AMENA's EBIT was \$527 million, an increase of \$191 million, or 57%, on the prior year.

The improved EBIT was mainly due to an increase of \$231 million to \$442 million in the Ingredients channel, due to higher gross margins particularly in our protein products such as casein. Product mix in the Ingredients channel also improved as we continue to develop demand for our speciality ingredients in our Active Living portfolio. Our consumer business in Chile performed well and was the primary driver of our sub-region Latin America increasing its EBIT by 23% to \$92 million. Chile's performance was due to sales volume growth stimulated by the Chilean Government's programmes to support citizens through COVID-19. Overall, the Consumer channel EBIT was down 19%, from \$110 million to \$89 million, mainly due to a temporary reduction in business for our Middle East third-party manufacturing business as it transitioned between customers during the year.

Our AMENA business covers Africa, Middle East, Europe, North Asia and the Americas.

AMENA Performance¹

FOR THE YEAR ENDED 31 JULY

	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
NORMALISED BASIS NZD MILLION	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²
Sales volume ('000 MT) ³	1,352	1,355	–	912	895	(2)%	61	73	20%	379	387	2%
Revenue	7,304	8,612	18%	5,784	6,899	19%	338	411	22%	1,182	1,302	10%
Cost of goods sold	(6,400)	(7,475)	(17)%	(5,250)	(6,113)	(16)%	(296)	(381)	(29)%	(854)	(981)	(15)%
Gross profit	904	1,137	26%	534	786	47%	42	30	(29)%	328	321	(2)%
Operating expenses	(605)	(674)	(11)%	(354)	(401)	(13)%	(28)	(35)	(25)%	(223)	(238)	(7)%
Other ⁴	37	64	73%	31	57	84%	1	1	0%	5	6	20%
EBIT ⁵	336	527	57%	211	442	109%	15	(4)	(127)%	110	89	(19)%
Includes EBIT attribution from Group Operations ⁶	(99)	70	–									
Gross margin	12.4%	13.2%		9.2%	11.4%		12.4%	7.3%		27.7%	24.7%	
EBIT margin	4.6%	6.1%		3.6%	6.4%		4.4%	(1.0)%		9.3%	6.8%	

1 AMENA performance is prepared on a continuing operations basis.

2 Percentages as shown in the 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.

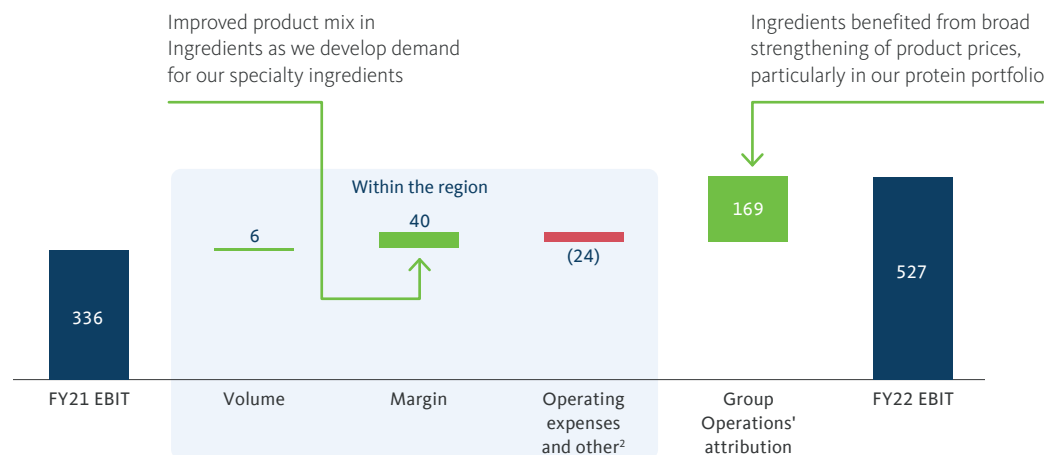
4 Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

5 Includes EBIT attribution from Group Operations.

6 Included in AMENA's EBIT. Refer to Glossary for explanation of Group Operations.

AMENA EBIT: Key Performance Drivers¹

Normalised EBIT (\$ million)

**AMENA EBIT: Key Performance Drivers¹**

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT 2021	336	211	15	110
Volume	6	(9)	8	7
Margin (price, cost and product mix)	40	64	(16)	(8)
Operating expenses and other ²	(24)	(2)	(8)	(14)
Group Operations attribution	169	178	(3)	(6)
EBIT 2022	527	442	(4)	89

¹ AMENA performance is prepared on a continuing operations basis.² Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.**Latin America**

The performance of our Latin America business was driven by our consumer business in Chile. The performance of our Chilean business is discussed in more detail in the Consumer channel section on [page 51](#).

Latin America Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022	CHANGE ²
Sales volume ('000 MT) ³	379	388	2%
Revenue	1,045	1,131	8%
Cost of goods sold	(760)	(822)	(8)%
Gross profit	285	309	8%
Operating expenses	(211)	(217)	(3)%
Other ⁴	1	–	(100)%
EBIT	75	92	23%
Gross margin	27.3%	27.3%	
EBIT margin	7.2%	8.1%	

¹ Latin America performance is prepared on a continuing operations basis and is prior to Group Operations attribution. Latin America includes Chile and Brazil but excludes DPA Brazil, which is classified as a discontinued operation.

² Percentages as shown in the 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).

Greater China

Greater China's EBIT was \$432 million, an increase of \$29 million, or 7%, on the prior year.

The improved EBIT was due to an \$152 million increase in the Ingredients EBIT, from \$130 million to \$282 million. This was partially offset by the lower sales volumes and gross margins achieved in the Foodservice and Consumer channel due to increased input costs and the impact of strict COVID-19 restrictions. The Foodservice channel was impacted the most, down \$120 million, from \$275 million to \$155 million.

Greater China Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			INGREDIENTS			FOODSERVICE			CONSUMER		
	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²
Sales volume ('000 MT) ³	1,176	1,029	(13)%	824	697	(15)%	274	259	(5)%	78	73	(6)%
Revenue	6,312	6,660	6%	4,259	4,479	5%	1,691	1,824	8%	362	357	(1)%
Cost of goods sold	(5,476)	(5,794)	(6)%	(3,961)	(4,040)	(2)%	(1,274)	(1,506)	(18)%	(241)	(248)	(3)%
Gross profit	836	866	4%	298	439	47%	417	318	(24)%	121	109	(10)%
Operating expenses	(436)	(464)	(6)%	(164)	(180)	(10)%	(148)	(169)	(14)%	(124)	(115)	7%
Other ⁴	3	30	900%	(4)	23	-	6	6	0%	1	1	0%
EBIT ⁵	403	432	7%	130	282	117%	275	155	(44)%	(2)	(5)	(150)%
Includes EBIT attribution from Group Operations ⁶	(16)	52	-									
Gross margin	13.2%	13.0%		7.0%	9.8%		24.7%	17.4%		33.4%	30.5%	
EBIT margin	6.4%	6.5%		3.1%	6.3%		16.3%	8.5%		(0.6)%	(1.4)%	

1 Greater China performance is prepared on a continuing operations basis.

2 Percentages as shown in the 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.

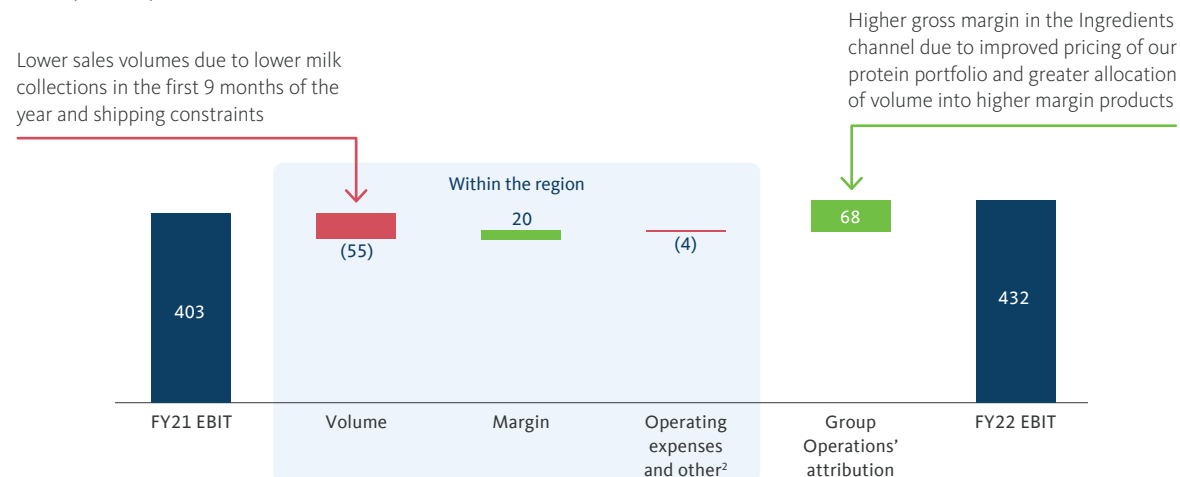
5 Includes EBIT attribution from Group Operations.

6 Included in Greater China's EBIT. Refer to Glossary for explanation of Group Operations.



Greater China EBIT: Key Performance Drivers¹

Normalised EBIT (\$ million)



Greater China EBIT: Key Performance Drivers¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS
NZD MILLION

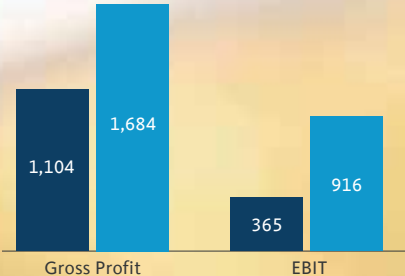
	TOTAL	INGREDIENTS	FOODSERVICE	CONSUMER
EBIT 2021	403	130	275	(2)
Volume	(55)	(27)	(20)	(8)
Margin (price, cost and product mix)	20	54	(27)	(7)
Operating expenses and other ²	(4)	8	(21)	9
Group Operations attribution	68	117	(52)	3
EBIT 2022	432	282	155	(5)

¹ Greater China performance is prepared on a continuing operations basis.

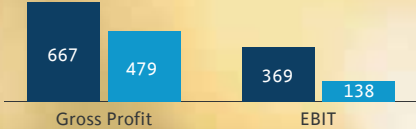
² Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

Product Channels

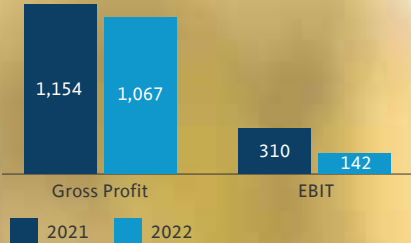
Ingredients



Foodservice



Consumer



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.



Ingredients

The significant increase in earnings from our Ingredients channel reflects strong demand across multiple markets and products at a time of constrained milk supply. The stronger underlying market demand resulted in a broad strengthening of product prices and higher margins were achieved across our Ingredients portfolio, particularly in our protein products such as casein.

Ingredients' Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022	CHANGE ²
Sales volume ('000 MT) ³	2,346	2,197	(6)%
Revenue	13,697	15,703	15%
Cost of goods sold	(12,593)	(14,019)	(11)%
Gross profit	1,104	1,684	53%
Operating expenses	(772)	(871)	(13)%
Other ⁴	33	103	212%
EBIT ⁵	365	916	151%
Includes EBIT attribution from Group Operations ⁶	(109)	260	–
Gross margin	8.1%	10.7%	
EBIT margin	2.7%	5.8%	

1 Ingredients' performance is prepared on a continuing operations basis.

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

3 Includes sales to other channels.

4 Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

5 Includes EBIT attribution from Group Operations.

6 Included in Ingredients' EBIT. Refer to Glossary for explanation of Group Operations.

Our Ingredients channels EBIT increased \$551 million, or 151%, to \$916 million, mainly due to improved product pricing and product mix, partially offset by lower sales volumes. Our sales volumes were impacted by lower milk collections over the first nine months of the financial year, and shipping disruptions in the final quarter relating to continuing scheduling difficulties compounded by challenging weather conditions through July.

Part of our improved product mix within our Ingredients channel has been the increased allocation of New Zealand milk solids to our Active Living products as we look to shift volume away from Core Ingredients products to higher value products.

Allocation of New Zealand Milk Solids

Core Ingredients

73.2%

from 74.1% ↓

Active Living

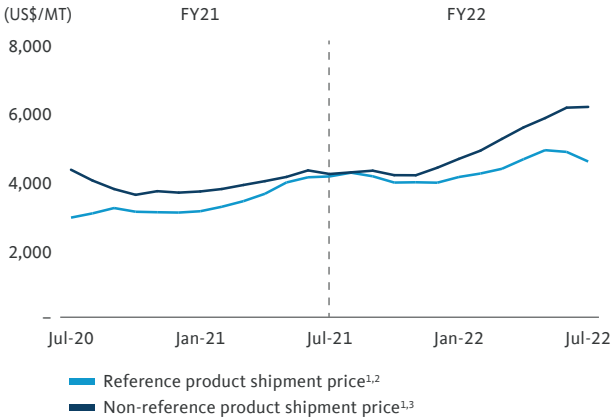
5.9%

from 5.3% ↑

Shifting milk solids allocation away from Core Ingredients products to higher value products

A key driver of our EBIT in our Ingredients channel is the relative price movements between product prices that inform the Farmgate Milk Price, referred to as reference products, and products prices that inform EBIT, referred to as non-reference products.

Price Relativities



Source: GlobalDairyTrade

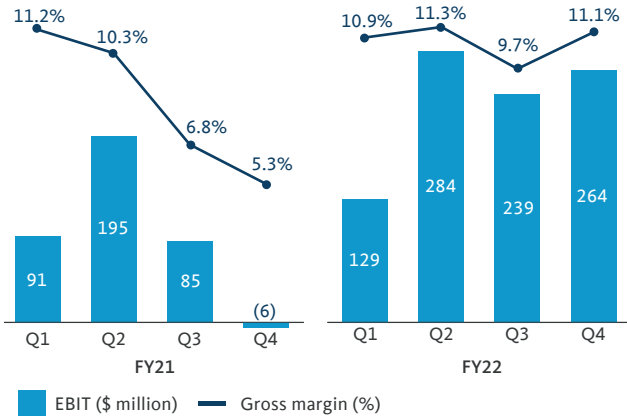
- 1 The shipment price is a weighted average price of GDT contracts struck 1 to 5 months prior to the agreed shipment month. Shipment month is the month in which the sale would be deemed for financial reporting purposes to have been completed, and will normally be the month in which the sale is invoiced and the product is shipped.
- 2 Reference product shipment price is represented by a weighted average of the WMP, SMP, AMF and butter prices achieved on GDT.
- 3 Non-reference product shipment price is represented by the cheddar prices achieved on GDT.

As depicted in the price relativities graph, the revenue price difference between reference products and non-reference products widened over the course of the year and have become particularly favourable in the last quarter.

The strong rise in both reference and non-reference product prices enabled the Co-operative to deliver both a higher Farmgate Milk Price and earnings.

The impact from the price relativities on our performance compared to the prior year can be seen in our Ingredients quarterly gross margin and EBIT. The Ingredients – Performance by Quarter graph illustrates the significant improvement in price relativities year on year, particularly in the second half where EBIT was \$424 million, or 537%, higher than the last six months of the prior year. The quarterly EBIT figures also highlight that the second quarter, November to January, is our largest shipment period, reflective of the seasonal peak in milk collections during October.

Ingredients – Performance by Quarter



New Zealand Sourced Ingredients' Product Mix¹

FOR THE YEAR ENDED 31 JULY

	2021		2022	
Sales Volume ('000 MT)				
Reference products		1,817		1,629
Non-reference products		884		882
	\$ billion	\$ per MT	\$ billion	\$ per MT
Revenue				
Reference products	9.4	5,162	10.4	6,361
Non-reference products	5.1	5,780	5.7	6,951
Cost of Milk				
Reference products	(7.4)	(4,069)	(8.3)	(5,077)
Non-reference products	(3.3)	(3,678)	(3.7)	(4,494)

1 Table includes Ingredient's products that are on-sold to the Foodservice and Consumer channel. Table excludes bulk liquid milk. Bulk liquids for the year ended 31 July 2022 was 68,000 MT of kgMS equivalent (the year ended 31 July 2021 was 72,000 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 919 million kgMS in reference and 424 million kgMS non-reference (previous comparable period 1,019 million kgMS reference and 442 million non-reference).

With lower milk collections this year, we chose to allocate less milk solids to reference products, mainly whole milk powder (WMP). Our sales volume of WMP is also down due to this being the main product that was impacted by shipping disruptions in the final quarter relating to continuing scheduling difficulties compounded by challenging weather conditions through July. Overall, reference product sales volumes were down 10%, whereas non-reference product volume, despite the lower milk collections, were relatively stable – reflecting our focus on allocating more milk solids into higher margin products.

The average reference product sale price per metric tonne has increased 23% compared to last year, largely following the pricing we have seen on GDT over the period. Anhydrous milk fat (AMF) and butter, fat based dairy products, recorded the strongest increases within the reference products increasing 31% and 29%, respectively. WMP and skim milk powder (SMP) both increased 20%.

The average non-reference sale price per metric tonne has increased 20% compared to last year. While lower than the reference portfolio increase, this is still a strong performance with individual products such as casein and whey protein concentrate (WPC) having increased 30% and 32% respectively, contributing to a significantly higher total margin than last year. Other products, such as cheese, have had more modest price increases at 11% and have lower year on year margins reflecting both the slower rate of price increases this year and the favourable price relativities experienced in the first half of last year.

The cost of milk allocated to our products is a function of the fat and protein value of the Farmgate Milk Price which is determined from the prices achieved from the sale of our reference products.

The stronger price increase in AMF and butter (fat based products), relative to the other reference products has resulted in the fat based dairy components getting a higher allocation of milk cost, relative to protein dairy components. Therefore, while the cost of milk has gone up for all products, the rate of the increase was less in our protein portfolio.

The significant price increases in protein products such as casein and WPC, coupled with the lower increase in milk costs relative to reference products, has meant higher margins for our non-reference products. This is the main driver behind the increased EBIT derived from our New Zealand milk.

In addition, our price risk management service offerings to our customers and farmers which provides them with increased certainty, has provided margin stability as milk costs increased over the year from an opening forecast midpoint of \$8.00 per kgMS to the final milk price of \$9.30 per kgMS.

New Zealand Milk – Ingredients Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS
NZD MILLION

	TOTAL			ASIA PACIFIC			AMENA			GREATER CHINA		
	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²
Allocation of milk solids (% of kgMS) ³	79%	79%										
Sales volume ('000 MT)	2,103	1,948	(7)%	502	494	(2)%	801	777	(3)%	800	677	(15)%
NZD million												
Revenue	12,542	14,315	14%	3,111	3,680	18%	5,269	6,254	19%	4,162	4,381	5%
Cost of goods sold	(11,465)	(12,730)	(11)%	(2,826)	(3,295)	(17)%	(4,769)	(5,493)	(15)%	(3,870)	(3,942)	(2)%
Gross profit	1,077	1,585	47%	285	385	35%	500	761	52%	292	439	50%
Operating expenses	(696)	(818)	(21)%	(205)	(249)	(21)%	(327)	(389)	(19)%	(164)	(180)	(10)%
Other ⁴	34	102	200%	7	23	229%	31	56	81%	(4)	23	–
EBIT ⁵	415	869	100%	87	159	83%	204	428	110%	124	282	127%
Gross margin	8.6%	11.1%		9.2%	10.5%		9.5%	12.2%		7.0%	10.0%	
EBIT margin	3.3%	6.1%		2.8%	4.3%		3.9%	6.8%		3.0%	6.4%	

¹ Ingredients' performance is prepared on a continuing operations basis.² Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.³ Includes Core Ingredients allocation of 74% and 73% for 2021 and 2022, respectively. As well as Active Living of 5% and 6% for 2021 and 2022, respectively.⁴ Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.⁵ Includes EBIT attribution from Group Operations.



Active Living¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022	CHANGE ²
Sales volume ('000 MT)	123	129	5%
Allocation of milk solids (% of kgMS)	5%	6%	
Revenue	1,175	1,681	43%

1 Active Living performance is prepared on a continuing operations basis.

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

In addition to benefiting from the stronger underlying market demand for Ingredients' products, we remain focused on the growth of our Active Living portfolio to maximise the value of our protein products and create higher non-reference margins. In our Active Living portfolio, we are focused on developing demand for our protein products in sports and active, healthy ageing and medical nutrition ingredients categories.

This year, within our Active Living portfolio, there was very strong demand for our casein, WPC and Milk Protein Concentrates from North Asia, the Americas and Greater China due to a general tightening of protein product availability.

In North Asia our in-market teams continue to grow partnerships with key medical nutrition customers, such as Daesang, and this has resulted in increased sales of higher value caseinate and WPC products. An example of this is the increased sales of our SureProtein™ WPC 550 which delivers a high whey protein, low viscosity beverage in a compact, ready-to-drink (RTD) format without compromising on taste and texture, giving the elderly and patients more of what they need to meet their nutritional requirements.

In Europe and the USA, the largest active living market for protein products has strengthened considerably. In part, this is driven by the increased demand for immunity and medical nutrition, but it is also due to the recovery of the market supporting active lifestyles. Over the year consumers have headed back into the office and the gym as COVID-19 restrictions ease and demand for our protein products used in snack bars and high protein beverages are increasing, such as our SureProtein™ Calcium Caseinate 380 which offers high protein levels (>90%) and slow release of essential amino acids.

Our Core Ingredients sales teams have also worked hard to capture the improved pricing of caseinate and its precursor casein, in conjunction with our Consumer Powders team, by delivering strong sales volume growth for caseinate into beverages and non-dairy creamer applications (i.e., substitutes for milk or cream) where caseinate is a preferred choice as an emulsifier. Greater China, and to a lesser extent South East Asia, has seen strong growth in the non-dairy creamer sector for use in products such as milk tea and coconut juice. This is being driven by consumption growth as these western style consumption occasions penetrate further into the market.

Foodservice

We continue to focus on driving performance through our innovative Foodservice products, launching several cooking cream applications last year and earlier this year, successfully growing the channel and shifting milk solids into higher value products. However, our margins in our Foodservice channel have reduced as input costs have climbed at a significant rate over the past six months, and we have not been able to increase our in-market sales prices at the same rate.

Allocation of New Zealand Milk Solids

13.0%

from 12.0% ↑

Foodservice Performance¹

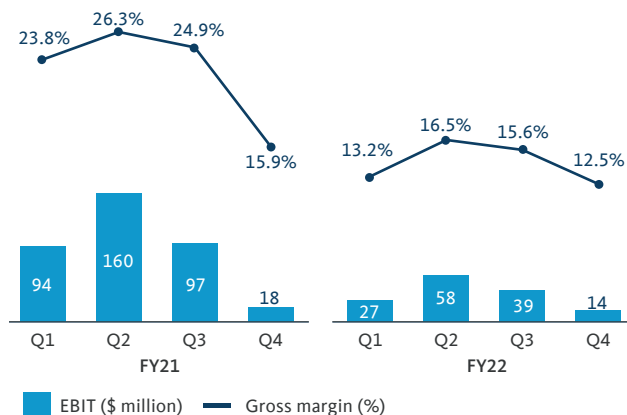
FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022	CHANGE ²
Sales volume ('000 MT) ³	498	509	2%
Revenue	2,959	3,314	12%
Cost of goods sold	(2,282)	(2,835)	(24)%
Gross profit	677	479	(29)%
Operating expenses	(315)	(346)	(10)%
Other ⁴	7	5	(29)%
EBIT ⁵	369	138	(63)%
Includes EBIT attribution from Group Operations ⁶	4	(71)	–
Gross margin	22.9%	14.5%	
EBIT margin	12.5%	4.2%	

- 1 Foodservice performance is prepared on a continuing operations basis.
- 2 Percentages as shown in the table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
- 3 Includes sales to other channels.
- 4 Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.
- 5 Includes EBIT attribution from Group Operations.
- 6 Included in Foodservice EBIT. Refer to Glossary for explanation of Group Operations.



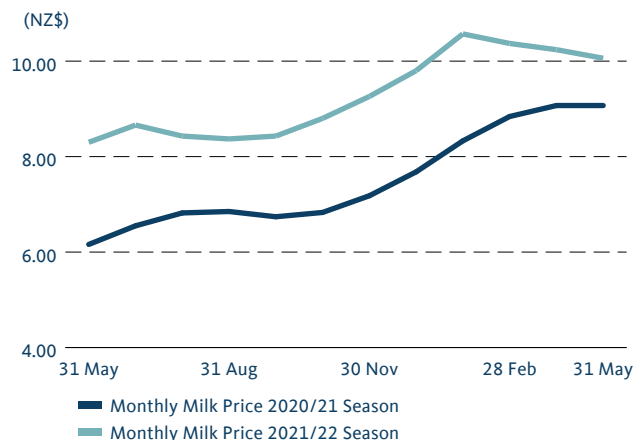
Foodservice – Performance by Quarter



Our Foodservice EBIT this year has been impacted by the rising cost of milk, with EBIT down \$231 million to \$138 million.

Our sales volume increased due to COVID-19 restrictions relaxing across key markets, growth in our Quick Service Restaurant portfolio, and demand for our cooking cream products.

The graph of monthly milk prices illustrates the significant rise in the cost of milk over the course of the year as well as the consistently higher cost relative to the prior year.

Monthly Milk Prices¹

¹ The weighted average of the monthly milk prices are equivalent to \$7.54 and \$9.30 for 2020/21 and 2021/22 season, respectively.

Where possible our in-market teams have worked with customers to adjust sales prices to reflect the increased costs. However, we have not been able to adjust pricing at the same rate as our cost increases. Market conditions have also been challenging, particularly in South East Asia and Greater China. Our Greater China region was impacted by COVID-19 restrictions, while our South East Asia market was impacted by COVID-19 restrictions as well as Typhoon Rai in the Philippines and flooding in Malaysia.

The impact of the strong rise in milk costs can be seen in the second half of this financial year, in particular the collection and manufacturing months of February to April which averaged \$10.40 per kgMS and impacted sales in the final quarter.

Despite the current lower overall margin in our Foodservice channel, it is a high value channel for a number of our products, and we remain committed to increasing the milk solids we allocate to our Foodservice channel. We aim to achieve this by continuing to develop innovative products and growing our global Foodservice presence across Greater China, South East Asia and the USA.

Our Greater China region is the most significant contributor to our Foodservice channel, and we continue to grow our presence. We now deliver our products to 431 cities, compared to 387 cities this time last year. We have had good organic sales volume growth within our UHT cream portfolio, mainly due to our Anchor™ Food Professionals Cheese-Pro Cream and Easy Topping Cream products, both launched the prior year. We continue to focus on driving sales by innovating and developing new applications for our products.

In South East Asia, we are applying what we've learned from our Greater China business. This includes building our chef development programme, and in particular focusing on Indonesia and Malaysia where the evolution of bakeries will see us expanding our reach into more cities. In Malaysia, sales through our bakery ingredients stores now account for nearly a quarter of our sales. We are also developing new products that work well in recipes chefs can use in the growing number of on-line bakery stores.

The table below displays the value we create for our New Zealand milk from the Foodservice channel. The differences between this table and the total Foodservice channel result is our Australian and European milk sourced Foodservice products.

New Zealand Milk – Foodservice Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			ASIA PACIFIC			AMENA			GREATER CHINA		
	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²
Allocation of milk solids (% of kgMS)	12%	13%										
Sales volume ('000 MT) ³	416	421	1%	136	146	7%	27	26	(4)%	253	249	(2)%
NZD million												
Revenue	2,548	2,862	12%	714	827	16%	186	250	34%	1,648	1,785	8%
Cost of goods sold	(1,920)	(2,390)	24%	(530)	(721)	(36)%	(154)	(209)	(36)%	(1,236)	(1,460)	(18)%
Gross profit	628	472	(25)%	184	106	(42)%	32	41	28%	412	325	(21)%
Operating expenses	(266)	(298)	(12)%	(116)	(113)	3%	(9)	(26)	(189)%	(141)	(159)	13%
Other ⁴	7	5	(29)%	-	(3)	-	1	1	-	6	7	17%
EBIT ⁵	369	179	(51)%	68	(10)	-	24	16	(33)%	277	173	(38)%
Gross margin	24.6%	16.5%		25.8%	12.8%		17.2%	16.4%		25.0%	18.2%	
EBIT margin	14.5%	6.3%		9.5%	(1.2)%		12.9%	6.4%		16.8%	9.7%	

1 Foodservice performance is prepared on a continuing operations basis.

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

3 Comparative period sales volumes have been re-presented for consistency with current period.

4 Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

5 Includes EBIT attribution from Group Operations.

Most of our New Zealand milk in the Foodservice channel is made into product bound for Greater China, where this year it generated an EBIT margin of 9.7% compared to the prior year of 16.8%.

This year New Zealand milk into the Asia Pacific Foodservice channel made a loss due to a significant reduction in gross margin. The increased cost of milk impacted Asia Pacific margins more than Greater China due to Asia Pacific's product mix, which is weighted more to mozzarella as opposed to the cream products that Greater China sells. The differences

between this table and the total Foodservice channel result is the positive value we generate from our Australian milk sourced products offset by Asia Pacific's cost allocation of the A-ware sourcing agreement.

Only a small portion of New Zealand milk is manufactured into product for our AMENA Foodservice channel. Instead we are developing our portfolio through our sourcing relationship with A-ware in the Netherlands, with an ex-Europe product offering to complement our wider Anchor™ Food Professional product range into key Foodservice

markets. This year we chose to focus on our UHT cream portfolio and discontinued the supply agreement for mozzarella. Excluding costs relating to discontinuing the mozzarella supply agreement our losses in A-ware have decreased from \$36 million to \$31 million. Despite creating more demand for our European UHT cream, the historically high cost of European cream has impacted the profitability of our portfolio. The loss is allocated across AMENA, Asia Pacific and Greater China as all three regions collectively work to grow demand for ex-Europe UHT cream products.



Consumer

Our consumer business in Chile had a strong year due to sales volume growth and an improved product mix as we allocated more milk into higher margin products which offset rising input costs. However, the cost of New Zealand milk has climbed at a significant rate and weaker market conditions, including COVID-19 restrictions and the economic crisis in Sri Lanka, reduced earnings in our Consumer channel.

Allocation of New Zealand Milk Solids

7.9%

from 8.6% ↓

Consumer Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	2021	2022	CHANGE ²
Sales volume ('000 MT) ³	1,070	1,048	(2)%
Revenue	4,070	4,134	2%
Cost of goods sold	(2,916)	(3,067)	(5)%
Gross profit	1,154	1,067	(8)%
Operating expenses	(843)	(862)	(2)%
Other ⁴	(1)	(63)	–
EBIT ⁵	310	142	(54)%
Includes EBIT attribution from Group Operations ⁶	(13)	–	–
Gross margin	28.4%	25.8%	
EBIT margin	7.6%	3.4%	

1 Consumer performance is prepared on a continuing operations basis.

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

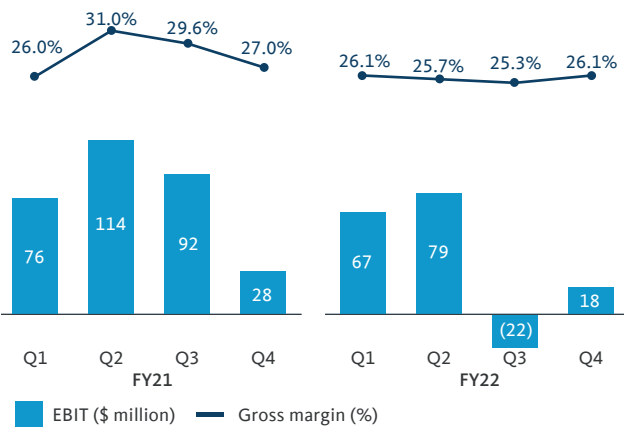
3 Includes sales to other channels.

4 Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

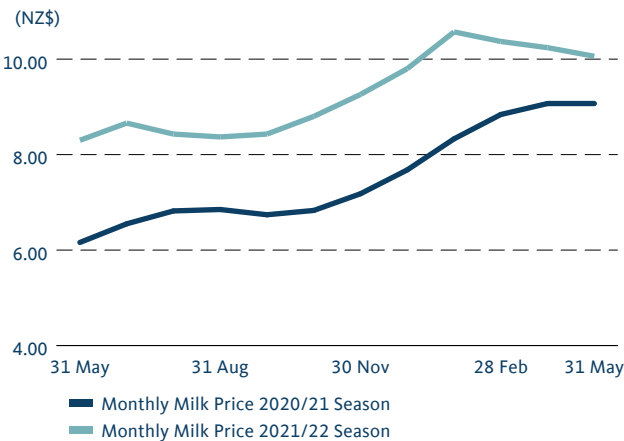
5 Includes EBIT attribution from Group Operations.

6 Included in Consumer's EBIT. Refer to Glossary for explanation of Group Operations.

Consumer – Performance by Quarter



Monthly Milk Prices¹



¹ The weighted average of the monthly milk prices are equivalent to \$7.54 and \$9.30 for 2020/21 and 2021/22 season, respectively.

Our Consumer channel EBIT has been impacted by weaker market conditions and higher input costs, particularly in our Asia Pacific region, with EBIT down \$168 million to \$142 million

Our in-market sales team were able to increase sales prices through leveraging the strength of our brands, which helped us partially offset the significant rise in the cost of milk over the year.

The graph of monthly milk prices (by month of manufacture) illustrates the significant rise in the cost of milk, and the stable consumer gross margin is highlighted in the performance graph by quarter.

However, the cost of milk was consistently higher than the prior year and in-market prices could not entirely offset the higher cost of milk, resulting in the gross margin reducing from 28.4% in the prior year to 25.8% this year.

The ability to adjust pricing to reflect rising costs was also managed in the context of weaker market conditions for customers, particularly in South East Asia with COVID-19 restrictions, Typhoon Rai in the Philippines and flooding in Malaysia.

The third quarter was significantly impacted by the deterioration of economic conditions in Sri Lanka. The US dollar appreciated around 80% against the Sri Lankan rupee over the third quarter, resulting in an \$80 million adverse revaluation of our business payables impacting our third quarter EBIT. To reduce the impact of the Sri Lankan crisis we chose to limit sales volume into Sri Lanka, resulting in lower sales volume and milk solids being allocated to the Consumer channel overall during the second half of the financial year.

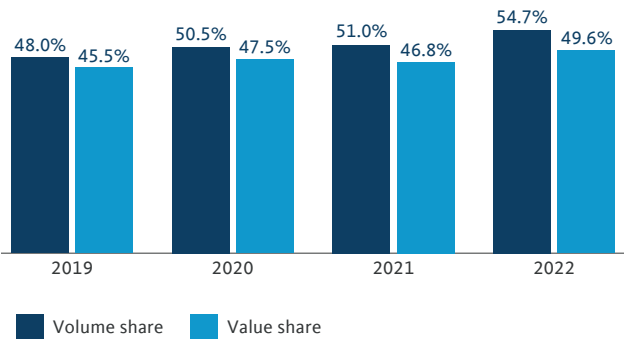
Sri Lanka has historically been a strong business for us, and our brands Ratthi and Anchor are the top two consumer dairy brands in the country. We remain committed to the market and making dairy products available to consumers by continuing to operate, but at a limited capacity to mitigate further impact to our business in the current economic climate.

Fourth quarter earnings were also impacted as we recognised an impairment of \$34 million on our Asia Brands - Annum, Anlene and Chesdale, with the carrying amount of these brands now at \$336 million, which impacted our Asia Pacific Consumer channel EBIT.

Despite weaker market conditions and higher input costs impacting our Consumer channel EBIT this year, we are continuing to work towards achieving more value in our Consumer channel, particularly through evolving our brands to make New Zealand provenance and sustainability an increasingly prominent proposition.

Malaysia is one of our strongest consumer markets globally and our flagship brand in that market, Fernleaf™, is well known among local consumers for its New Zealand provenance. This year Fernleaf™ launched its “All Good Things Start from Home” campaign, further championing its New Zealand provenance. The campaign helped widen its leadership position in the milk powder category, with both volume and value share growth¹.

Fernleaf™ Family Milk Powder Volume and Value Share¹



¹ Nielsen, MAT as at 31 July



This year we allocated 8% of our New Zealand milk into our Consumer channel down from 9% the prior year. Most of our consumer product is sold within the Asia Pacific region. This year the value we created from our New Zealand milk was impacted by an \$80 million adverse revaluation of our Sri Lankan business payables due devaluation of the Sri Lankan rupee, an event we do not expect to occur in the future.

We continue to focus on the performance of our Consumer businesses and look to extract greater value for New Zealand sustainability and provenance credentials. The differences between this table and the total Consumer channel result is the value we generate from our Australian and Chilean milk sourced consumer products.

New Zealand Milk – Consumer Performance¹

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION

	TOTAL			ASIA PACIFIC			AMENA			GREATER CHINA		
	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²	2021	2022	CHANGE ²
Allocation of milk solids (% of kgMS)	9%	8%										
Sales volume ('000 MT) ³	537	502	(7)%	427	395	(7)%	40	42	5%	70	65	(7)%
NZD million												
Revenue	2,402	2,318	(3)%	1,809	1,693	(6)%	251	300	20%	342	325	(5)%
Cost of goods sold	(1,669)	(1,688)	(1)%	(1,248)	(1,197)	4%	(201)	(269)	(34)%	(220)	(222)	(1)%
Gross profit	733	630	(14)%	561	496	(12)%	50	31	(38)%	122	103	(16)%
Operating expenses	(567)	(590)	(4)%	(402)	(436)	(8)%	(34)	(46)	(35)%	(131)	(108)	18%
Other ⁴	(11)	(70)	(536)%	(17)	(76)	(347)%	5	6	20%	1	–	(100)%
EBIT ⁵	155	(30)	–	142	(16)	–	21	(9)	–	(8)	(5)	38%
Gross margin	30.5%	27.2%		31.0%	29.3%		19.9%	10.3%		35.7%	31.7%	
EBIT margin	6.5%	(1.3)%		7.8%	(0.9)%		8.4%	(3.0)%		(2.3)%	(1.5)%	

1 Consumer performance is prepared on a continuing operations basis.

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

3 Comparative period sales volumes have been re-presented for consistency with current period.

4 Consists of other operating income, net foreign exchange gains/(losses) and share of profit or loss on equity accounted investees.

5 Includes EBIT attribution from Group Operations.



Only a small portion of New Zealand milk is manufactured into product for our AMENA Consumer channel. The majority of AMENA's sales volumes within its Consumer channel is from its strong consumer business in Chile.

The performance of our consumer business in Chile has continued to improve year on year.

We continue to see the positive impact of the Chilean Government's programmes to support citizens and the economy through COVID-19, including its Emergency Family Income payments and on several occasions, it has allowed citizens to withdraw a portion of their private pension funds. This contributed to increased demand for dairy products as consumers spent more. Our increased sales volumes have been supported by stronger milk collections in Chile as we continue to see the benefits of our improved engagement with our Chilean farmers.

We have shifted from lower margin categories, such as cheese, to high margin categories, such as yoghurt and desserts, driven by greater sales of our new products launched last year, including our 1+1 Single Yoghurt and dessert Manjarate 3D. Last year both of these products won 'Product of the Year', as voted by Chilean consumers, in their respective yoghurt and dessert categories.

Towards the end of last financial year, we also released another three new products, and subsequently each has won Product of the Year awards in their respective categories during the current financial year:

- Leche Cremosa, a creamy whole milk used in coffees and breakfast cereals (liquid milk category);
- Queso Rodda, a rich and creamy matured gouda cheese (cheese category); and
- Yoghurt Batido Tetra, a yoghurt smoothie in a tetra box (yoghurt category).

The continuous innovation and successful new product launches have resulted in our value market share increasing to 29.4% from 28.6%.

We have maintained our gross margin through the ability to leverage our number one market share position and lift in-market prices. In addition, our increased sales volumes improved our economies of scale and reduced the fixed cost per unit to help offset the higher raw milk cost.

Three new products



Leche Cremosa, a creamy whole milk used in coffees and breakfast cereals (liquid milk category).



Queso Rodda, a rich and creamy matured gouda cheese (cheese category).



Yoghurt Batido Tetra, a yoghurt smoothie in a tetra box (yoghurt category).

Discontinued Operations

We have two discontinued operations that are progressing through sales processes.

China Farms

For the 2022 financial year, our farming operations in China consists of our interest in our Hangu China Farm. The prior year performance not only includes our interest in our Hangu China farm but also the Ying and Yutian China Farming hubs up to the date of sale of those hubs in April 2021.

In January 2022 we acquired the remaining non-controlling 15% interest in the Hangu China farm to help simplify the sale process of the farm.

The performance of the Hangu China farm is relatively stable year-on-year. The \$48 million decrease in EBIT for our farming operations in China is due to the prior year including the Ying and Yutian China Farming hubs.

The sale process was initially delayed due to lack of progress agreeing the specific terms of sale following minority shareholders exercising their right to first refusal to purchase Fonterra's interest. Subsequent delays have arisen due to market conditions related to COVID-19, including the effect of lockdowns in China.

We continue to actively market the Hangu China farm and expect the sale to be completed within one year.

Discontinued Operations Performance

FOR THE YEAR ENDED 31 JULY

NORMALISED BASIS NZD MILLION	TOTAL			CHINA FARMS ¹			DPA BRAZIL		
	2021	2022	CHANGE ²	2021 ¹	2022	CHANGE ²	2021	2022	CHANGE ²
Sales volume ('000 MT)	228	218	(4)%	15	2	(87)%	213	216	1%
Revenue	559	472	(16)%	195	27	(86)%	364	445	22%
Cost of goods sold	(429)	(348)	19%	(165)	(31)	81%	(264)	(317)	(20)%
Gross profit	130	124	(5)%	30	(4)	(113)%	100	128	28%
Operating expenses	(89)	(113)	(27)%	(11)	(9)	18%	(78)	(104)	(33)%
Other ³	15	(2)	–	15	(1)	–	–	(1)	–
EBIT ⁴	56	9	(84)%	34	(14)	(141)%	22	23	5%
Gross margin	23.3%	26.3%		15.4%	(14.8)%		27.5%	28.8%	

1 2021 performance includes Ying and Yutian China Farming hubs for the eight-months until the date of sale.

2 Percentages as shown in the 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).

4 Depreciation is not recognised in discontinued operations.

DPA Brazil

DPA Brazil's EBIT increased \$1 million to \$23 million due to improved gross margins.

Higher product prices were achieved on several of our consumer products in response to rising input costs. The increase in gross profit was partially offset due to higher operating expenses. Operating expenses increased mainly due to higher investment in advertising and promotion to support sales, inflationary pressures and rising supply chain costs.

Despite the improved operating performance, we have reassessed the fair value of the business in Brazil and have recognised an after tax \$50 million impairment to the value of the business. The impairment is not included our normalised performance.

The sale process of DPA Brazil continues to be delayed due to market conditions related to COVID-19, however we remain committed to the sale and continue to actively progress the sale. We expect the sale to be completed within one year.

Historical Summary

Market Statistics

	MAY 2018	MAY 2019	MAY 2020	MAY 2021	MAY 2022
Fonterra Seasonal Statistics¹					
Total New Zealand milk collected (million litres)	16,932	17,123	16,876	17,121	16,404
Highest daily volume collected (million litres)	82.0	85.4	82.6	82.8	79.9
New Zealand shareholding farms milk solids collected (million kgMS)	1,489	1,495	1,486	1,505	1,432
New Zealand non-shareholding farms milk solids collected (million kgMS)	16	28	31	34	46
New Zealand milk solids collected (million kgMS)	1,505	1,523	1,517	1,539	1,478

	JULY 2018	JULY 2019	JULY 2020	JULY 2021	JULY 2022
Fonterra Supply Base					
Total number of shareholding farms ²	9,358	9,095	8,856	8,581	8,435
Total number of non-shareholding farms ²	126	133	155	246	222
Aggregate minimum shareholding requirement (million) ²	1,391	1,391	1,392	1,403	1,396
Tradeable shares held by shareholding farms (million) ²	155	161	158	144	148
Tradeable shares held by Custodian (equal to units in Fund) (million) ²	111	103	105	107	107
Total number of shares on issue (million)	1,612	1,612	1,612	1,613	1,613
Vouchers counting to aggregate minimum shareholding requirement (million) ²	45	43	43	41	38

	JULY 2018	JULY 2019	JULY 2020	JULY 2021	JULY 2022
Shareholder Supplier Returns					
Farmgate Milk Price (per kgMS) ²	6.69	6.35	7.14	7.54	9.30
Dividend (per share)	0.10	–	0.05	0.20	0.20
Dividend yield (%) ²	1.7%	–	1.3%	4.6%	6.9%
Total pay-out ²	6.79	6.35	7.19	7.74	9.50
Retentions (per share) ²	–	–	0.38	0.16	0.16
Weighted average share price (\$ NZD) ²	5.84	4.63	3.79	4.32	2.88
Weighted Average Commodity Prices (\$ USD per MT FOB)					
Whole milk powder ³	3,091	2,907	3,110	3,323	4,019
Skim milk powder ³	1,968	2,216	2,755	3,012	3,750
Butter ³	5,575	4,448	4,140	4,117	5,601
Cheese ⁴	3,853	3,772	4,011	4,060	5,261
Fonterra's average NZD/USD conversion rate²	0.71	0.69	0.66	0.67	0.69
Staff Employed					
Total staff employed (000's permanent full-time equivalents)	21.5	20.0	19.6	18.7	19.0
New Zealand	11.9	11.4	11.5	11.6	11.7
Overseas	9.6	8.6	8.1	7.1	7.3

Total Group Overview (Continuing and Discontinued Operations)

	JULY 2018	JULY 2019	JULY 2020	JULY 2021	JULY 2022
Income Statement Measures					
Sales volumes ('000 MT)	4,123	4,152	4,069	4,102	3,924
Normalised revenue (\$ million)	20,431	19,920	20,975	21,124	23,425
Normalised EBITDA (\$ million) ²	1,446	1,373	1,506	1,594	1,626
Normalised EBIT (\$ million) ²	902	812	879	952	991
Normalised profit after tax attributable to equity holders of the Co-operative (\$ million)	382	264	382	550	568
Reported earnings per share	(0.14)	(0.35)	0.43	0.36	0.36
Normalised earnings per share	0.24	0.16	0.24	0.34	0.35
Revenue Margin Analysis					
EBITDA margin (%) ²	7.1%	6.9%	7.2%	7.5%	6.9%
EBIT margin (%) ²	4.4%	4.1%	4.2%	4.5%	4.2%
Profit after tax margin (%) ²	1.9%	1.3%	1.8%	2.6%	2.4%
Cash Flow (\$ million)					
Operating cash flow	1,548	1,123	1,492	1,194	193
Free cash flow ²	600	1,095	1,828	1,417	(324)
Net working capital ²	3,432	3,122	3,417	3,692	5,454
Capital Measures					
Equity excluding hedge reserve (\$ million)	6,616	6,102	6,602	6,895	7,252
Net debt (\$ million) ^{2,5}	6,641	6,001	5,238	4,325	5,339
Gearing ratio (%) ^{2,5}	50.1%	49.5%	44.2%	38.5%	42.4%
Debt to EBITDA ²	4.6x	4.3x	3.3x	2.7x	3.2x
Average capital employed (\$ million) ²	13,469	13,419	12,313	12,281	12,356
Capital expenditure (\$ million) ²	861	600	419	545	587
Capital invested (\$ million) ²	1,022	724	525	608	617
Return on capital (%) ²	6.2%	5.6%	6.6%	6.6%	6.8%



Neil & Adriana, Te Rapa

Asia Pacific^{6,7}

	JULY 2020	JULY 2021	JULY 2022
Ingredients¹⁰			
Sales volume ('000 MT) ⁸	623	610	605
Normalised revenue (\$ million)	3,692	3,654	4,325
Normalised gross profit (\$ million)	391	272	459
Normalised gross margin (%) ²	10.6%	7.4%	10.6%
Normalised EBIT (\$ million)	148	24	192
Normalised EBIT margin (%) ²	4.0%	0.7%	4.4%
Foodservice			
Sales volume ('000 MT) ⁸	154	163	177
Normalised revenue (\$ million)	915	930	1,079
Normalised gross profit (\$ million)	167	218	131
Normalised gross margin (%) ²	18.3%	23.4%	12.1%
Normalised EBIT (\$ million)	27	79	(13)
Normalised EBIT margin (%) ²	3.0%	8.5%	(1.2)%
Consumer¹⁰			
Sales volume ('000 MT)	629	613	588
Normalised revenue (\$ million)	2,467	2,526	2,475
Normalised gross profit (\$ million)	649	705	637
Normalised gross margin (%) ²	26.3%	27.9%	25.7%
Normalised EBIT (\$ million)	64	202	58
Normalised EBIT margin (%) ²	2.6%	8.0%	2.3%
Total			
Sales volume ('000 MT)	1,406	1,386	1,370
Normalised revenue (\$ million)	7,074	7,110	7,879
Normalised gross profit (\$ million)	1,207	1,195	1,227
Normalised gross margin (%) ²	17.1%	16.8%	15.6%
Normalised EBIT (\$ million)	239	305	237
Normalised EBIT margin (%) ²	3.4%	4.3%	3.0%

Asia Pacific – Australia^{6,7,9}

	JULY 2020	JULY 2021	JULY 2022
Total			
Milk collection (millions kgMS)	108	106	106
Sales volume ('000 MT) ⁸	406	373	365
Normalised revenue (\$ million)	2,036	1,953	2,094
Normalised gross profit (\$ million)	214	243	283
Normalised gross margin (%) ²	10.5%	12.4%	13.5%
Normalised EBIT (\$ million)	54	74	106
Normalised EBIT margin (%) ²	2.7%	3.8%	5.1%

AMENA^{6,7}

	JULY 2020	JULY 2021	JULY 2022
Ingredients			
Sales volume ('000 MT) ⁸	1,031	912	895
Normalised revenue (\$ million)	6,506	5,784	6,899
Normalised gross profit (\$ million)	751	534	786
Normalised gross margin (%) ²	11.5%	9.2%	11.4%
Normalised EBIT (\$ million)	400	211	442
Normalised EBIT margin (%) ²	6.1%	3.6%	6.4%
Foodservice			
Sales volume ('000 MT) ⁸	47	61	73
Normalised revenue (\$ million)	235	338	411
Normalised gross profit (\$ million)	30	42	30
Normalised gross margin (%) ²	12.8%	12.4%	7.3%
Normalised EBIT (\$ million)	(5)	15	(4)
Normalised EBIT margin (%) ²	(2.1)%	4.4%	(1.0)%
Consumer			
Sales volume ('000 MT) ⁸	355	379	387
Normalised revenue (\$ million)	1,133	1,182	1,302
Normalised gross profit (\$ million)	276	328	321
Normalised gross margin (%) ²	24.4%	27.7%	24.7%
Normalised EBIT (\$ million)	70	110	89
Normalised EBIT margin (%) ²	6.2%	9.3%	6.8%
Total			
Sales volume ('000 MT) ⁸	1,433	1,352	1,355
Normalised revenue (\$ million)	7,874	7,304	8,612
Normalised gross profit (\$ million)	1,057	904	1,137
Normalised gross margin (%) ²	13.4%	12.4%	13.2%
Normalised EBIT (\$ million)	465	336	527
Normalised EBIT margin (%) ²	5.9%	4.6%	6.1%

AMENA – Latin America^{6,7,9}

	JULY 2020	JULY 2021	JULY 2022
Total			
Sales volume ('000 MT) ⁸	346	379	388
Normalised revenue (\$ million)	926	1,045	1,131
Normalised gross profit (\$ million)	242	285	309
Normalised gross margin (%) ²	26.1%	27.3%	27.3%
Normalised EBIT (\$ million)	42	75	92
Normalised EBIT margin (%) ²	4.5%	7.2%	8.1%

Greater China^{6,7}

	JULY 2020	JULY 2021	JULY 2022
Ingredients			
Sales volume ('000 MT) ⁸	691	824	697
Normalised revenue (\$ million)	3,513	4,259	4,479
Normalised gross profit (\$ million)	330	298	439
Normalised gross margin (%) ²	9.4%	7.0%	9.8%
Normalised EBIT (\$ million)	179	130	282
Normalised EBIT margin (%) ²	5.1%	3.1%	6.3%
Foodservice			
Sales volume ('000 MT) ⁸	257	274	259
Normalised revenue (\$ million)	1,531	1,691	1,824
Normalised gross profit (\$ million)	341	417	318
Normalised gross margin (%) ²	22.3%	24.7%	17.4%
Normalised EBIT (\$ million)	223	275	155
Normalised EBIT margin (%) ²	14.6%	16.3%	8.5%
Consumer			
Sales volume ('000 MT) ⁸	73	78	73
Normalised revenue (\$ million)	330	362	357
Normalised gross profit (\$ million)	107	121	109
Normalised gross margin (%) ²	32.4%	33.4%	30.5%
Normalised EBIT (\$ million)	(36)	(2)	(5)
Normalised EBIT margin (%) ²	(10.9)%	(0.6)%	(1.4)%
Total			
Sales volume ('000 MT) ⁸	1,021	1,176	1,029
Normalised revenue (\$ million)	5,374	6,312	6,660
Normalised gross profit (\$ million)	778	836	866
Normalised gross margin (%) ²	14.5%	13.2%	13.0%
Normalised EBIT (\$ million)	366	403	432
Normalised EBIT margin (%) ²	6.8%	6.4%	6.5%

New Zealand and Non-New Zealand Milk^{6,7}

	JULY 2020	JULY 2021	JULY 2022
New Zealand Milk			
Sales volume ('000 MT) ⁸	3,003	3,016	2,856
Normalised revenue (\$ million)	17,212	17,331	19,466
Normalised gross profit (\$ million)	2,597	2,487	2,672
Normalised gross margin (%) ²	15.1%	14.4%	13.7%
Normalised EBIT (\$ million)	777	791	805
Normalised EBIT margin (%) ²	4.5%	4.6%	4.1%
Non-New Zealand Milk			
Sales volume ('000 MT) ⁸	839	858	850
Normalised revenue (\$ million)	3,070	3,234	3,487
Normalised gross profit (\$ million)	449	497	544
Normalised gross margin (%) ²	14.6%	15.4%	15.6%
Normalised EBIT (\$ million)	70	105	177
Normalised EBIT margin (%) ²	2.3%	3.2%	5.1%
Total			
Sales volume ('000 MT) ⁸	3,842	3,874	3,706
Normalised revenue (\$ million)	20,282	20,565	22,953
Normalised gross profit (\$ million)	3,046	2,984	3,216
Normalised gross margin (%) ²	15.0%	14.5%	14.0%
Normalised EBIT (\$ million)	847	896	982
Normalised EBIT margin (%) ²	4.2%	4.4%	4.3%

Discontinued Operations^{6,11}

	JULY 2019	JULY 2020	JULY 2021	JULY 2022
China Farms				
Sales volume ('000 MT)	20	22	15	2
Normalised revenue (\$ million)	247	282	195	27
Normalised gross profit (\$ million)	(14)	34	30	(4)
Normalised gross margin (%) ²	(5.7)%	12.1%	15.4%	(14.8)%
Normalised EBIT (\$ million)	(14)	11	34	(14)
DPA Brazil				
Sales volume ('000 MT)	194	205	213	216
Normalised revenue (\$ million)	419	411	364	445
Normalised gross profit (\$ million)	116	128	100	128
Normalised gross margin (%) ²	27.7%	31.1%	27.5%	28.8%
Normalised EBIT (\$ million)	(8)	21	22	23

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 Comparative figures are shown on a consistent basis with current year.
- 6 Percentages as shown in table may not align to calculations of percentages based on numbers in the table due to rounding of figures.
- 7 Prepared on a continuing operations basis and includes normalisation adjustments.
- 8 Includes sales to other segments.
- 9 Exclusive of Group Operations' attribution.
- 10 Comparative information includes re-presentations for consistency with the current period.
- 11 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 our wholly-owned Hangu China farm and, up to the date of sale (1 April 2021), its two-wholly owned farming hubs in Ying and Yutian.

Glossary

TERMS	DEFINITIONS
Active Living	represents ingredients & solutions sold to businesses who cater to consumers' health and wellness needs. It addresses three dimensions of wellbeing (Physical, Mental, Inner), extending to meet the nutrition needs of medical patients through to everyday people pursuing active lifestyles. This portfolio includes proteins, specialty ingredients such as probiotics, lactoferrin & lipids, and patented formulations.
Adjusted net debt	is calculated as total borrowings, plus bank overdraft, less cash and cash equivalents, plus a cash adjustment for 25% of cash and cash equivalents held by the Group's subsidiaries, adjusted for derivatives used to manage changes in hedged risks on debt instruments. Amounts relating to disposal groups held for sale are included in the calculation.
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.
Average capital employed	is a 13-month rolling average of capital employed.
Bulk liquids	means bulk raw milk that has not been processed and bulk separated cream.
Business growth capital expenditure	covers investments to drive business expansion or improvement toward our strategy, and generate incremental revenue.
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.

TERMS	DEFINITIONS
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, including equity contributions, long-term advances, and investments.
Consumer	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.
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.
Earnings before interest and tax (EBIT)	is profit before net finance costs and tax.

TERMS	DEFINITIONS
Earnings before interest, tax, depreciation and amortisation (EBITDA)	is profit before net finance costs, tax, depreciation and amortisation.
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 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.
Essential capital expenditure	covers investments to maintain the capability of our existing assets from risk management, legislation/regulation commitments, business continuity and capital replacement, as well as projects that drive the Co-operative sustainability targets
Farmgate Milk Price	means the average price paid by Fonterra for each kilogram of milk solids (kgMS) supplied by Fonterra's farmer shareholders under Fonterra's standard terms of supply. The season refers to the 12-month milk season of 1 June to 31 May. The Farmgate Milk Price is set by the Board, based on the recommendation of the Milk Price Panel. In making that recommendation, the Panel provides assurance to the Board that the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual.
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.

TERMS	DEFINITIONS
Gearing ratio (adjusted net debt)	is adjusted net debt divided by total capital. Total capital is equity excluding hedge reserves, plus adjusted net debt.
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; Fonterra 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 adjusted net 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.
Net working capital	is total trade and other receivables plus inventories, less trade and other payables. It excludes amounts owing to suppliers and employee entitlements.
Non-reference products	means all dairy products, except for reference commodity products manufactured in NZ.

TERMS	DEFINITIONS
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 earnings per share, 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.
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. Chile: A period of 12 months from 1 August to 31 July.
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.

TERMS	DEFINITIONS
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.
Total Group	is used to indicate that a measure or sub-total comprises continuing operations, discontinued operations and noncontrolling interests. E.g. 'Total Group EBIT'.
Total pay-out	means the total cash payment per milk solid that is backed by a share, being the sum of the Farmgate Milk Price per kgMS and the dividend per share.
Tradeable shares	represents shares on issue that are in excess of Aggregate minimum shareholding
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
Voucher	means a voucher provided to a farmer shareholder who transferred the economic rights of a supply backed share to the Fund, and which can be used to count towards a farmer shareholder's Share Standard.
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.
Working capital days	is calculated as 13-month rolling average working capital divided by revenue from the sale of goods (excluding impact of derivative financial instruments) multiplied by the number of days in the period. The working capital days calculation excludes other receivables, prepayments, other payables and includes working capital classified as held for sale.

Good Together

from one generation
to the next

Sustainability
Report 2022

Pūrongo Toitūtanga
Te Mātāpuna



Dairy for life

Contents

INTRODUCTION	02
Message from Board Chair and CEO	03
Our approach and progress	05
Message from Sustainability Advisory Panel	07
Responding to what's important	08

PEOPLE AND CULTURE	09
Nutrition and health	10
Food safety and quality	14
Health, safety and wellbeing	16
Investing in people	19

NATURE	24
Land and water	25
Climate change	30
Packaging and waste	39
Animal wellbeing	42
Managing operations	45

WORKING TOGETHER	46
Working with farmers	47
Working with vendors	49
Working in partnership	51
Ethical business practices	54
Employment and income creation	56

APPENDICES	58
Our contribution to UN SDGs	59
Our performance	60
Employee data	71
Data reporting notes	75
Materiality assessment	79
GRI Content Index and other indexes	81
Assurance statement	87
External initiatives and memberships	89

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 2022 – 'FY22' and is one supporting document to the Annual Review 2022, forming an integrated suite of reports. www.fonterra.com/annualreview2022

In certain sections throughout the report, we have included data relating to periods prior to FY22 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 sixth sustainability report (our first was in 2017) and we intend to continue this type of reporting on an annual basis. This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option (see [page 81](#) 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 87](#).

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

OUR 2022 SUITE OF REPORTS

[Annual Review 2022](#)
(Referenced as **AR**)

[Financial Statements 2022](#)
(Referenced as **FS**)

[Business Performance Report 2022](#)
(Referenced as **BP**)

[Sustainability Report 2022](#)
(Referenced as **SR**)

[Corporate Governance Statement & Statutory Information 2022](#)
(Referenced as **C&S**)

[Modern Slavery Statement 2022](#)
(Referenced as **MS**)

[Farmgate Milk Price Statement 2022](#)
(Referenced as **MP**)

OUR REPORTS ARE AVAILABLE FROM FONTERRA.COM/NZ/EN/INVESTORS.HTML



Message from Board Chair and CEO



Peter McBride – Chair, Board of Directors
& Miles Hurrell – CEO

Sustainability is core to our strategy and how we create value for future generations.

Our Co-op's strategy is to enhance people's lives through convenience, health and wellbeing by unlocking the goodness of New Zealand milk. We seek to achieve this via three strategic choices - continue to focus on New Zealand milk, be a leader in sustainability, and be a leader in dairy innovation and science.

The consumer is at the heart of our strategy. We know that consumers have become increasingly mindful of the sustainability credentials of the products they're consuming. That's why it is important that we continue to support the hard work the Co-op's farmers are putting in on-farm and continue to make improvements across each stage of our supply chain.

The Co-operative Difference framework provides a clear signal to farmers about what needs to happen on-farm to ensure the Co-op can meet our customer needs - both today and into the future. It takes a holistic view of sustainability (social, environmental, and economic), covers our minimum expectations today and sends clear signals on where we are headed longer-term.

One of the ways that the framework encourages farmers to take proactive action is by rewarding farmers through The Co-operative Difference payment. This year farmers took significant action with more than 70% of farms achieving The Co-operative Difference payment at some level. This outstanding level of participation is an encouraging indication that farmers are willing to step-up and make changes on-farm in a way our customers want.

Making improvements in sustainability is a team effort that requires commitment across our supply chain. That starts on-farm, but also involves our people and partners here in New Zealand and in our global markets.

We'd like to thank all of them for their contribution this year.

8

serious harm injuries, a further reduction and we still aspire for zero harm.

34.8%

female representation in senior leadership, up from 32.4% and just short of target for FY22 (35.8%).

71%

of supplying farms in New Zealand farms now have a Farm Environment Plan, up from 53% at the start of the year.

6.6%

reduction in water use at our manufacturing sites in water-constrained regions since FY18, strong turnaround on FY21 and just short of target for FY22 (8%).

11.2%

reduction in our scope 1 & 2 GHG emissions since FY18, well ahead of target for FY22 (6.6%).

6.8%

return on capital, on plan for FY22.

As you will read in this report, we have more work to do in some areas. Considering the global context of wide-spread inflation, continued supply chain disruptions resulting from COVID-19, the geo-political and economic challenges in Sri Lanka, and the war in Ukraine, we are proud of the progress we have made over the past 12-months.

While we have made progress against the vast majority of our core indicators, there are two indicators where we have either not progressed well, or the original timeline has been significantly delayed: *our total recordable injury rate*; and *EBIT from our New Zealand value-add business*. These will be areas of focus for us over the next 12-months as we aim to bring them back on track.

Balancing that is our performance across our *environmental* and *economic* indicator categories where, for the most part, we have progressed well or achieved our targets.

The Farmgate Milk Price is worth special mention here. At a final price of \$9.30 per kgMS it is the strongest it has ever been. This is great news for our farmers, and New Zealand also benefits, with \$13.7 billion returned to the economy in milk price payments alone this year.

Looking ahead to the 2023 reporting year, we will be prioritising our efforts to continue making the Co-op a safe and inclusive place to work, and progressing our decarbonisation plan.

The Co-op remains committed to leading the transition to a net-zero GHG emissions future for dairy nutrition. A lot of work has gone into making tangible changes and embedding this commitment into our strategy and plans, as the Sustainability Advisory Panel acknowledges this year.

We would like to thank the Panel for its support and constructive challenge. The Panel provides our Co-op with an important external lens, which helps to determine our future direction and prioritise our activities.



We hope you find this report insightful. It's part of our integrated suite of reports, to transparently report on our sustainability performance. It includes an emphasis on social and environmental performance, which aims to complement the economic performance that is covered in our [Business Performance Report](#) and [Financial Statements](#).

Peter McBride







Chair, Fonterra Board of Directors

Miles Hurrell

Chief Executive Officer

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.

 People & culture	 Nature	 Relationships	 Intellectual Capital	 Assets and infrastructure	 Financial
<p>Able to retain, develop and attract the best talent</p>	<p>Demonstrating that dairy can be a net-positive contributor to nature</p>	<p>Trusted relationships through high-quality, innovative products and services and playing our part for positive social, environmental and economic outcomes</p>	<p>Leveraging intellectual property to deliver additional value</p>	<p>Operational assets are resilient and efficiently delivering our most valuable products</p>	<p>Consistently attractive performance for providers of funding, including our farmer shareholders</p>
<p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Providing a safe, healthy and inclusive place to work – Continuously developing people's skills for meaningful careers within the everchanging nature of work 	<p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Leading the transition to net-zero GHG emissions for dairy nutrition – Farmers are adopting and investing in leading on-farm practices – Using science and innovation skills to solve environmental challenges on and off farm 	<p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Understanding the needs of our customers and being responsive to these – Partnering with others to help unlock the full potential of dairy and deliver improved sustainability outcomes – Being clear on what we stand for and demonstrating the value we bring to specific relationships and more broadly 	<p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Converting our specialised dairy know-how into value through the products, solutions and partnerships we develop 	<p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – A mindset of continuous improvement to protect and enhance our scale/ cost advantage and stay competitive on a world stage – Applying innovation to our assets so they are safe and able to respond to future needs 	<p>PRIORITY ACTIVITIES</p> <ul style="list-style-type: none"> – Using science and innovation to improve efficiency and grow value – Sustainability credentials are valued, building preference and premium for our dairy – Target to return ~\$1 billion to shareholders through planned divestments

Our progress



	CORE INDICATORS ¹	TARGET ²	FY19	FY20	FY21	FY22 [Target]	FY23 TARGET	SEE PAGE
	Total recordable injury frequency rate (TRIFR) per million work hours	Less than 5	4.9	5.8	5.7	6.7 [5.6]	–	See 60
	Serious harm injuries	Zero harm	18	10	9	8 [-]	–	See 60
	Female representation in senior leadership (Band 14+)	50% by 2022	28.6%	29.1%	32.4%	34.8% [35.8%]	– ³	See 61
	Farm Environment Plans (FEPs) (NZ)	100% by 2025	23%	34%	53%	71% [67%]	84%	See 61
	Water reduction at manufacturing sites in water-constrained regions from FY18 baseline ⁴	30% reduction by 2030	3.9% increase on FY18	2.9% reduction on FY18	2.6% reduction on FY18	6.6% reduction on FY18 [8%]	–	See 62
	Reduction in absolute Scope 1 & 2 GHG emissions from FY18 baseline ⁵	30% reduction by 2030	1.8% reduction on FY18	3.5% reduction on FY18	6.6% reduction on FY18	11.2% reduction on FY18 [6.6%]	10.6%	See 65
	Farmer sentiment (Net Promoter Score for Fonterra) (NZ)	> 10 by 2030	-19	33	23	25 [30]	–	See AR-26
	Share of New Zealand milk collected (%kgMS for seasons ending 31st May)	–	81%	80%	79.0%	79.1% [79.3%]	79.0%	See BP-07
	EBIT from NZ value-add business (\$ million)	–	–	–	616	307	388	See AR-21
	Cost of quality (% of cost of goods sold)	–	–	–	0.45%	0.44%	0.35%	See BP-30
	New Zealand Farmgate Milk Price (per kgMS)		\$6.35	\$7.14	\$7.54	\$9.30 [\$7.25-\$8.75]	\$8.50 - \$10.00	See BP-25
	Return on capital	7% – 8% by 2024 9% – 10% by 2030	5.6%	6.6%	6.6%	6.8% [6.5% to 7.0%]	7.0% to 7.5%	See BP-19

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

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

3 Our original timeline was not achieved but we remain committed to the intent. From FY23 onwards we are extending the indicator to consider representation in bands 12+ and moving to 40:40:20 target, see [page 21](#).

4 From FY23 onwards we are moving to new set of water stewardship indicators, see [page 25](#).

5 Minor restatement of prior years see [page 78](#).

FY22 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.

Message from the Sustainability Advisory Panel



Bridget Coates
CHAIR

Our independent Sustainability Advisory Board has acted as a 'critical friend' to the company again this year, bringing fresh thinking and challenges to assist the Fonterra Board and management team as they tackle a wide range of issues. The scale of the challenges the company faces has continued to accelerate, with the level of urgency rising as global climate threats increase exponentially.

The Panel has evaluated the company's progress across many topics, with targets and measurement of carbon emissions being at the core of much of our recent work. We have been privileged to hear the 'voice of the global customer', articulated clearly through interviews with Fonterra's major customers in markets around the world, and have debated opportunities for building value for shareholders from a range of sustainability initiatives.

We have also focused on Fonterra's leadership within the global dairy industry, as well as its leadership within Aotearoa New Zealand. We are particularly gratified to see recent partnership initiatives with DSM and others, which we believe will likely lead to more rapid and innovative solutions to compelling global industry problems, such as the reduction of methane emissions from livestock.

Our independent Advisory Board has been strengthened this year with two highly qualified new members, with very diverse and relevant backgrounds and experience. Dr Gail Tipa and Lou Sanson bring their unique perspectives, and have already added significant value to our discussions and feedback.

Over the year, Fonterra's commitment to net zero carbon emissions has become more and more tangible and more tightly embedded within a wide range of current and future implementation strategies and plans. Increasing commitment and clarity on the company's future path will help farmers and the wider agricultural ecosystem determine their own courses of action as they adjust to the emerging realities of the global dairy industry. The panel looks forward to continuing its work in support of the company's sustainability change journey during the year ahead.

Bridget Coates
Chair, Fonterra Sustainability Panel

Role of the panel:

The Fonterra Sustainability Advisory Panel was established in 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
3. Present to the Board on advice and/or issues that relate to sustainability and affect Fonterra

Panel members:

Bridget Coates
Paul Gilding
Lou Sanson
Corrigan Sowman
Dr Gail Tipa
Dr J Morgan Williams QSO



[Read full biographies online](#)

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 [page AR-12](#)).

Determining what's important

Using a combination of the relative importance to our stakeholder groups and the significance of our impacts, in 2021 we refreshed our list of most material topics. This is used to help us prioritise areas for improvement 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 79](#).

Topic	Reporting on our response	Contribution to UN SDGs
Ensuring the <i>food safety and quality</i> of the products we deliver.	See Food safety and quality on page 14	Zero hunger (2.1)
<i>Adapting to the effects of climate change</i> , while mitigating our impacts.	See Climate change on page 30	Climate change (13.1)
Using <i>water</i> responsibly, including water quality, availability and disposal.	See Land and water on page 25	Clean water and sanitation (6.3,6.4,6.6) Life below water (14.1)
Protecting the <i>health and safety of people at work</i> , including their wellbeing.	See Health, safety and wellbeing on page 16	Good health and wellbeing (3.9) Decent work and economic growth (8.8)
Protecting <i>animal health and welfare</i> within our supply chain, including caring for cows and responsible use of antibiotics.	See Animal wellbeing on page 42	
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 income creation on page 56	No poverty (1.2)
Protecting <i>soil health</i> , which is essential for sustainable food production, including nutrient management.	See Land and water on page 25	Zero hunger (2.4)
Contributing to <i>nutrition and health</i> through the products and information we deliver, including reducing obesity and undernutrition.	See Nutrition and health on page 10	Zero hunger (2.1, 2.2) Good health and wellbeing (3.1,3.2,3.4)
<i>Maintaining ethical business practices</i> fundamental to the way we work, including anti-corruption and fair competition.	See Ethical business practices on page 54	
Using <i>responsible procurement</i> to influence environmental, social and economic performance along our supply chain.	See Working with farmers on page 47 See Working with vendors on page 49	No poverty (1.2) Gender equality (5.5) Decent work and economic growth (8.7,8.8) Climate change (13.1)
<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 25 See Working with vendors on page 49	Life on land (15.1, 15.2) Clean water and sanitation (6.3,6.6)
Protecting the <i>employment rights and working conditions</i> of our people, including diversity and inclusion, women's empowerment and learning and development.	See Investing in people on page 19	Gender equality (5.5) Decent work and economic growth (8.5)
Minimising <i>post-consumption waste</i> , including product packaging and food waste.	See Packaging and waste on page 39	Responsible consumption & production (12.3,12.5)

People and culture

We are working together
to care for people and make
a positive social impact.

Hannah, Canterbury

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.

As a food company, we recognise the valuable role nutrient-rich dairy products can play in addressing food security and improving health and wellbeing for people around the world.

To achieve this, we use our dairy innovation and science expertise to support our customers and improve our products while maintaining the highest standards of food safety and quality.

Delivering this value to customers and society requires a global team, performing at its best. That means we are committed to providing a safe, healthy and inclusive place to work and continuously developing people's skills for meaningful careers. In this way we aim to retain, develop and attract the best people.

IN THIS SECTION

Nutrition and health	10
Food safety and quality	14
Health, safety and wellbeing	16
Investing in people	19

87.7% ↑

further improving the composition of our everyday and advanced nutrition products to meet our independently endorsed nutritional guidelines – see [page 11](#)

100% ↑

of our manufacturing sites are certified to a leading food safety management system – see [page 14](#)

34.8% ↑

female representation in senior leadership continues to improve – see [page 21](#)

85.6% ↑

increase in on-the-job training and reskilling hours since FY20 – see [page 20](#)

Nutrition and health

Good nutrition is essential for people to lead healthy and fulfilling lives.

People eat for enjoyment and the nutrients needed to fuel growth, development, health and wellbeing. Dairy is a unique and valuable source of essential nutrients with proven benefits to support health outcomes across all life stages and, as a naturally nutritious product, we see dairy as an important part of the sustainable food systems of the future.

According to the latest United Nations report on food security, the world is currently moving in the wrong direction regarding the Sustainable Development Goals to end hunger, food insecurity and all forms of malnutrition. To turn this around, we need to increase the supply of nutritious foods which constitute a healthy diet and shift consumption towards them.

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 type II diabetes.

Milk provides high quality 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 are high quality because they contain the essential amino acids that are both easy to digest and in proportions that meet human needs. Many nutrients that milk provides are also in an easily absorbed form.

As a food company, we recognise the valuable role nutrient-rich dairy products can play in addressing deficiencies in diets and improving people's health and wellbeing worldwide. This section covers our global approach to nutrition and its contribution to health and wellbeing.



Our approach

The Fonterra Global Nutrition Policy sets out our overarching commitments including delivering science-based nutrition and health benefits, products tailored to specific nutritional needs and marketing these responsibly. Supporting the policy is our nutrition standard which outlines how we operate regarding nutrition and includes detailed guidelines that define the 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 our 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 promote 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 International Code for the Marketing of Breast Milk Substitutes. The World Health Organisation recommends six months of exclusive breast feeding and continued breast feeding, 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 formulated for 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

Proven Active Living solutions help customers with new products

Our Active Living solutions aim to address three dimensions of human wellbeing: the physical, the mental and the inner, and cater to a wide range of people from those taking a proactive approach to their health and wellbeing, to medical patients needing support during treatment or recovery.

We have already completed research and development work that has delivered evidence allowing us to position products around health benefits, including the areas of muscle health and sarcopenia (age related loss of muscle mass), mobility, malnutrition and digestive health. Partnering with customers to co-design value-added products using our ingredients is a focus area for us.

Building on a relationship which started in 2019, we saw Wonderlab release three new products this year using our ingredients. Wonderlab is one of the fastest-growing probiotic brands in China, with a focus on providing nutrition solutions to younger generations. This year, they launched a probiotics for children product using two of our clinically proven probiotics ([Nutiani HN001™](#) and [Nutiani HN019™](#)) and two ready-to-eat products using one of our milk protein concentrate (MPC) ingredients.

In Korea, Daesang, a customer that values our specialist ingredients and sustainability credentials (see Annual Review [page AR-39](#)), has launched a new product using our bioactive whey protein ingredients. The gentler process we use to make bioactive whey protein allows naturally higher levels of lactoferrin and immunoglobulin (IgG) to be retained in the product, both of which are recognised to support the human immune system. With lactoferrin content 11 times higher than standard whey protein, it allows Daesang to market the product at a premium level.

Improving the nutritional profile of our consumer products

We are continuing to improve the composition of our consumer products, taking into consideration the levels of dairy protein and calcium, while also minimising the addition of free 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.

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, we improved from 86.5%¹ to 87.7%.

Helping support immunity

Like most of the world, in response to the COVID-19 pandemic, Sri Lankan consumers have had a heightened interest in their immunity. Milk is already seen as a good nutritional option locally and this year, Fonterra Brands Sri Lanka launched Anchor™ Family Pro+ to help families with their immunity. Fortified with five nutrients (Vitamin C, Zinc, Vitamin A, Vitamin D and Vitamin B6), the product builds on the existing good nutrition of milk to also help the normal function of the immune system.

Leveraging science for heart health

Made by our team in Sri Lanka, Anchor Life™ is our strongest brand in the Mauritius market. This year, Fonterra Brands Sri Lanka sought to leverage their manufacturing capabilities by developing a formulation targeted at supporting heart health that has been successful for us in Malaysia. In addition to the MoveMax™ nutrient bundle, specially designed to support bones, muscles and joints, it also includes the HeartMax™ nutrient bundle, specifically designed to support heart health. This includes Omega 3, plant sterols, potassium and vitamins B9 and B12. By leveraging existing science, the team successfully developed a new formulation that retained all on-pack claims, including a specific endorsement from the Mauritius Heart Health Association.



Anchor Family Pro+ is a fortified milk powder with key nutrients that support the normal function of the immune system.



Anchor Life contains nutrient bundles to support bones, muscles and joints and heart health.

¹ FY21 result has been restated using more accurate information from our new online system, meaning it is now 86.5% compared to 84% previously reported.



Each tub of Anchor Probiotic+ yoghurt is packed with 10 billion live BB12™ probiotics to support gut health.



Anchor Newdale relaunched in Sri Lanka with DR20™ probiotics.

Wellness starts within – Probiotics

Probiotics are living organisms and proactively 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 over 2,000 bacterial strains to identify potential probiotics. This research is ongoing, tapping into Fonterra's extensive culture collection, as we look for improved strains.

This year, Fonterra Brands New Zealand launched an innovative new range of Anchor Probiotic+ yoghurts. Each tub of the new thick and creamy Greek yoghurt is packed with 10 billion live BB12™ probiotics to support gut health by improving digestive regularity as part of a healthy diet. It also contains prebiotic fibre, plus vitamins A and D for immunity support.

Thanks to the robust science backing the product, the Fonterra team satisfied the rigorous requirements of the regulators¹ to include the link between live BB12™ probiotics and gut health benefits as a claim on pack.

In Sri Lanka, Anchor Newdale™ relaunched its range of set yoghurts with DR20™ probiotics. Including these probiotics delivers benefits to gut health and digestion, helping the intended consumers, “Chandi Bandi's” (younger children), remain healthy and active throughout the day.

Our research into, and development of, probiotics is not only helping improve nutrition for humans, it is also being leveraged as a potential approach to reducing methane emissions from cows (see [page 33](#)).

Anlene™ Gold Plus launched in China

Like many countries in the world, China faces the challenges of an ageing population and nutrition has a vital role helping that ageing population live more healthily. Studies such as Luliano *et al*² indicate that dairy has an important role to play.

This year, we launched Anlene™ Gold Plus with lactoferrin and probiotics in China to help support the digestion and immunity of the older population.



1 Food Safety Australia and New Zealand (FSANZ) and the Ministry of Primary Industries.
2 S Luliano et al, Effect of dietary sources of calcium and protein on hip fractures and falls in older adults in residential care: cluster randomised controlled trial BMJ 2021;375:n2364 <https://doi.org/10.1136/bmj.n2364>

Protein+ range reaches Malaysia

In Malaysia this year, we launched three new versions of our Fernleaf™ Yogurt in a 450g pack size: Fernleaf Natural Yogurt, Fernleaf Greek Style Yogurt and Fernleaf Protein+ Yogurt.

All these products are made with New Zealand milk and no sugars are added. They are intended to be included as part of daily balanced diet by the entire family. The Fernleaf Protein+ Yogurt variety is formulated with 100% more protein¹, giving consumers higher levels of good quality dairy protein to help them spread their protein intake throughout the day, supporting optimal muscle health. Our Protein+ range of products is very popular elsewhere in the world, including New Zealand and Chile.

In addition to eating just as they are, these products can also be used in food and beverage preparation, enhancing popular Malaysian dishes such as curry and dipping sauce for salad.

1 Compared with Fernleaf Yoghurt Plain (110g pack size) on per 100g basis.



Fernleaf Protein+ yoghurt is formulated with extra protein to help consumers spread their protein intake.

Investigating complementary nutrition

Dairy offers a unique source of nutrition, which is recognised by governments and health experts around the world as having an important role to play in maintaining a healthy, balanced diet. We believe there will continue to be demand for natural dairy goodness, especially our pasture-based dairy nutrition from New Zealand. At the same time, as populations grow and the preferences of some consumers evolve, we are committed to remaining at the forefront of innovation and science and want to continuously position ourselves to meet the needs of our customers and consumers.

We believe there is a role for both dairy and other sources of nutrition - we view these as complementary. To this end, Fonterra's Complementary Nutrition programme is dedicated to exploring the potential of emerging food technologies and the role they can play alongside our core dairy products. This work continues to build on Fonterra's 2019 investment in Motif Foodworks™, a Boston-based company using biotechnology and fermentation to develop novel ingredients.

Building on our existing relationship with DSM – a global leader in the health, nutrition and bioscience sectors – this year we have been preparing to launch a new startup that will help to accelerate the development of advanced specialty ingredients using precision fermentation technology. We are also working with DSM on options to reduce greenhouse gas (GHG) emissions (see [page 33](#)).

Our performance



87.7%

of everyday and advanced nutrition products meet our independently endorsed nutritional guidelines.

Compliance with regulations

In the past year, we received no fines or market bans for breaches of marketing regulations. None of our products are banned from sale in any country.

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

Food safety and quality

Safe food. Safe people. World class quality. It's our promise.

Our approach

At Fonterra, food safety and quality (FSQ) are everyone's responsibility – from our farms all the way to our customers around the world. Accountability extends from the Board of Directors, through the Fonterra Management Team, to individual managers, front-line employees, contractors working on Fonterra sites and providers of goods and services. To encourage consistency of approach and continuous improvement, the Global Safety, Quality and Regulatory (GSQR) organisation and operating model, including the FSQ Council, is embedded across Fonterra.

Our FSQ System means that, wherever we are in the world, we have a clear, consistent framework to deliver safe, quality products and services. It consists of four key components: our Food Safety Policy, business unit requirements, partner requirements and our FSQ 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 through third-party audits by regulators, key account customers and certification bodies. Any areas identified as needing improvement are acted upon.

We are guided on best practice by multiple international food safety and quality standards and 100% of our manufacturing sites are independently certified to a leading food safety management system (e.g. FSSC22000, BRC).

What we've been doing

Safety culture and capability

We continue to focus on building FSQ as a core part of our culture and building the capability of our employees. This year, we launched a new people development framework for our global team of FSQ professionals. This multi-tiered framework covers entry-level employees up to senior management. Similar in style to university courses, there are a range of modules, some with pre-requisites, that allow employees to have structured development conversations with their managers. So far, around 50% of the FSQ professionals have completed such a conversation. We can also use the findings from our capability gap assessments to target specific training to close these gaps. This year, about 300 employees completed modules to specifically address capability gaps.

Simplification for increased effectiveness

Over time, with all the best intentions, we can make processes and systems more complicated than necessary. That's why it is important to regularly review our approach and look for opportunities where simplification can lead to increased effectiveness and more efficient ways to achieve the same or even better outcomes.

This year, we designed and implemented a new integrated Global Audit Assurance (GAA) programme. This replaces three separate audit programmes: one for manufacturing sites where we have operational control, one for third party manufacturing sites and one for warehouse/logistics. By rationalising these into a single integrated approach we can more easily maintain common material and a consistent approach across all parts of the supply chain.





Weston & Dheeraj, Auckland

Influencing our supply chain

In response to the COVID-19 pandemic travel restrictions, we rolled out a new auditing approach for new and existing third-party manufacturers (TPMs). An initial risk-based assessment determines the subsequent auditing approach, which can be a full physical audit, hybrid physical/remote audit, fully remote audit or desktop assessment.

Recognising that this new auditing approach is the new operating model for the post-pandemic world, we continue to monitor and improve this process. With travel restrictions lifting, in-person visits to physically audit sites are possible again, but there is a backlog to clear. This is where the adoption of leading standards and independent certification against these can be beneficial.

Over the past few years, when we are engaging new TPMs, we have been setting the expectation that they should be progressing towards leading standards certification, like ourselves. Such independent assurance reduces the audit burden for all parties while ensuring leading standards are being met. We are now working with our TPMs to obtain certifications and track progress.

Our performance



100%

of our manufacturing sites are certified to a leading food safety management system (e.g. FSSC22000 or BRC).



100%

of our FSSC22000-certified manufacturing sites are now using the latest version of FSSC22000 (5.1).



93%¹

of our global manufacturing plants have 100% electronic traceability from the farm vat or milk collection centre to the first sale to the customer, meaning we can track the origins of nearly any product within minutes.



Zero

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 and continue our transition to the latest version of FSSC22000
- We will continue to use the lessons we have learned to broaden our influence in the supply chain through our global audit assurance programme
- We will continue the development of our digital platform for FSQ and health and safety, with the first stage due to roll out early in 2023. This will include management of change, incident management, global FSQ vendor management and contractor safety management
- We will take a market-led approach to extend our existing dynamic QR labelling technology and explore further options in digital labelling technology, which can deliver additional value to consumers and our business systems
- 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

¹ 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.

Health, safety and wellbeing



Mira & Parehuia, Auckland.

Our ambition is for all our people to return home safely every day, everywhere.

Our approach

Fonterra operates a global health and safety management system and continuously improving health, safety and wellbeing is fundamental to our business. 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 to create a safe and healthy work environment

Accountability for performance extends from the Board of Directors, through the Fonterra Management Team, to individual managers, front-line employees and contractors working on Fonterra sites.

We monitor our performance using a number of preventative and reactive, 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

Leveraging technology and partnerships for improved health and safety

We have continued to extend the use of our digitised health record systems which helped us to manage our response to COVID-19 (see Annual Review [page AR-34](#)). The systems now securely hold health information for more than 11,000 people, providing them with easy access to their information, such as vaccinations and test results, and helping ensure Health and Safety and Food Safety requirements are being met. We also introduced the use of telemedicine techniques which proved very useful when we could not meet with employees face-to-face. In New Zealand, we partnered with Green Cross Health to help facilitate access to additional General Practitioner health care services, where required.

Supporting the wellbeing of employees and their whānau

This year, we grew our network of 'Good Sorts', volunteer employees who have been trained as mental health 'first aiders' and provide initial support to other employees. We also ran 'Good Yarn' workshops to raise awareness of mental wellbeing and the available support (see Annual Review [page AR-35](#)).

Our Employee Assistance Programme (EAP) is a professional and confidential service, paid for by Fonterra, that helps employees when they are experiencing difficulties. This year, we extended this programme to provide guidance on alcohol and other drug support and rehabilitation. We also expanded our EAP to provide support for our farmers too.

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 questionnaire

covering ten healthy habits, including healthy eating, sleeping, exercise and mental health, the participant gets an overall 'Wellbeing Score' and links to relevant material and activities that can help them make improvements. We have over 9,000 registered users, and 3,613 wellbeing scorecards have been completed. During the year, 4,025 users logged in, 718 new wellbeing scorecards were completed and there were over 900,000 page views.

The platform also allows us to run global team challenges designed to promote improved health and wellbeing by providing valuable information and encouraging the adoption of new behaviours through teamwork and competition. We ran seven challenges this year, including our Australian-themed Moove It Challenge. This involved teams tracking their daily step counts over a three-week period and completing a series of small learning activities connecting them to other support programmes and information to help them improve their wellbeing and care for the environment. A total of 1,260 employees participated in this challenge, and overall, 2,341 employees participated in at least one challenge this year.

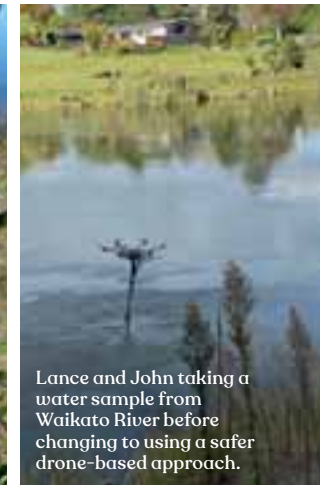
Improving workplace safety

We have continued to improve workplace safety by introducing new risk assessment tools, building team capability, simplifying policy and extending support programmes.

This year, we introduced several proactive risk assessment tools for operational safety, resulting in some great safety improvements. For example, the new hazard identification and risk assessment tool helps individuals identify controls that will support improved safety. Using this new tool has led to a significant change in how water samples are taken from the Waikato River. Instead of gathering samples manually from the bank, a remotely controlled drone is now used, removing the risk of slipping into the hazardous waterway.

To help build the capabilities of our Health and Safety professionals around the world, we have introduced a framework of competency assessments, which allow targeted development opportunities to be identified and planned.

We are simplifying our Health and Safety management system, so there is increased focus on doing work that is safe. We started with our operations in New Zealand, which is now feeding into a new Global Integrated Management system. Recognising that fellow employees who are impaired at work by alcohol or other drugs increase the risk of accidents and injuries, we have also reviewed our related policies and procedures, consulted on the improvements and are now rolling these out in New Zealand.



Lance and John taking a water sample from Waikato River before changing to using a safer drone-based approach.

Improving critical risk management

Manufacturing processes and technology used at scale can pose a risk of serious injury or damage to the environment, so it is important that we place a proportional focus on avoiding the consequence of an event rather than only reducing its likelihood. This year, we have continued to partner with external experts to help mature our Process Safety Management (PSM) system (see Sustainability Performance Report 2021 page SP-15). After three years of focused work, we have completed our first full pass of Process Safety Assessments (PSAs) for our manufacturing and distribution footprint in New Zealand. We also commenced our formal offshore roll out, starting in Australia and South-East Asia.

Safety-Critical Elements (SCEs) are items of equipment or technology (including software) identified as forming the last lines of defence against a potential major incident scenario. We have embraced the use of this methodology, not only at Major Hazard Facilities (MHFs) but for all manufacturing sites. These controls are vital to ongoing safety and must be well designed and maintained. We continue to focus on improved diligence to identify, assess and physically tag our SCEs (see example in photo). This year, our assessment expanded to cover a further 14 sites and the teams have now identified over 1,000 SCEs. Independent design verification then helps us understand the crucial aspects of each SCE for safety performance. We can then establish ongoing inspections, testing and/or preventative maintenance so they remain fit for purpose in the rare case they need to perform.

While SCEs form individual controls against hazardous technologies, we have also made wider improvements to systems, processes and competencies. This year, our teams completed more than 2,500 dedicated improvement actions related to critical risk reduction, a major demonstration of what our teams can do to care for and keep each other safe, especially when site access was restricted due to COVID-19.



Regulatory compliance

With designated MHFs 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. There have been no health and safety prosecutions in connection with Fonterra's operations since 2014, and during FY22, we did not receive any statutory enforcements.

This year, we ceased production of ethanol at our Tirau site, and are currently removing the last of the ethanol from the facility. Pending approval from the regulator, we believe this will see Tirau no longer designated a MHF. At Whareroa, our one remaining MHF site, we have a significant capital project underway to reduce our use of liquified ammonia. Once completed, in FY23, this will significantly reduce the risk of a major incident for our people and the environment.

Our Performance

**One**Work-related fatality¹**8**

Number of serious harm injuries

**258**

Number of recordable injuries

1. Tragically, one tanker driver passed away in April 2022 when his tanker left the road in Canterbury and rolled into a paddock. We have undertaken a review of the incident with an independent investigator, and currently await the Serious Crash Unit report from the Police.

What's next

- We will continue to improve and apply our process safety management system methodology
- We will continue to improve our proactive risk management approach, 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 launch a danger in disguise campaign to refocus our employees on safety hazards in the workplace after such a concentrated effort on COVID-19
- We will continue to develop our integrated digital platform. The first stage of roll out is due early in 2023, including management of change, incident management and contractor safety management

Investing in people



Our long-term success depends on the skill and commitment of our people, so investing in them is vital.

We are committed to creating a culture where we care about each other, encourage different views and perspectives and treat each other respectfully.

We are focused on building an inclusive workforce where diversity flourishes and teams can achieve their highest performance. This involves the ongoing development of 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.



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 501,879 hours upskilling, an increase of 85.6% on FY20, and an average of 45 hours per learner¹. The main areas of growth in FY22 have come in the areas of leadership development (up 81,600 hours), technical programmes such as DAIRYCRAFT² (up 38,700 hours) and apprenticeship training (up 40,000 hours).

Our Leadership Essentials Programme (LEP) is about developing our current and future frontline leaders. To date, over 1,000 employees have participated in LEP and 360-degree appraisals taken before and after programme participation show significant improvements. A core element of LEP is leveraging internal expertise. We have 50 sponsors and a network of over 200 coaches. With additional development and support, some LEP alumni go on to become LEP coaches themselves, building on skills they learned in LEP and giving back to the programme.

The High-Performance Teams (HPT) programme emphasises two modules: "Saying what needs to be said" and "Debriefing for Team Performance" which is a leader-led programme with 43 leaders facilitating adoption in other teams. The focus is on practical discussions that help the team become even more effective as a team. In FY22, 72 leaders across a range of teams totalling over 600 team members, completed the HPT programme.



For our New Zealand manufacturing sites and distribution centres, DAIRYCRAFT is our 18-month programme allowing employees to develop relevant technical skills and gain independently recognised qualifications. This year, 249 employees completed level 3 and 35 completed level 4. We also saw our 1,000th employee complete the programme since it began in 2015.

We have continued to grow our apprenticeship training with the support of some government funding for the first two years of what can be a four-year programme. During F22, we placed 23 new trade apprentices, making up 43 of the 44 apprentices in our funding agreement with MBIE. We offer apprenticeships across various disciplines, including heavy automotive, electrical and mechanical engineering. We have also expanded our early career programme to include a dairy apprenticeship and an energy centre traineeship. At the end of FY22, we had 63 active apprentices and 19 energy centre trainees.

Culturing high performance

Our Long-Term Aspirations have set high expectations for performance in an increasingly uncertain environment with a high likelihood of disruption. To meet these challenges and deliver the maximum value from every drop of milk, we need an adaptable workforce who are inspired to consistently perform at a high level.

This requires a step change in our culture (how we collectively choose to show up to deliver performance). Recognising that we can collectively show up in ways that optimise performance towards our goals, or hinder our progress, this work is about deliberately dialling up what optimises performance and stopping what doesn't. It's about thinking and acting differently and being clearly aligned with strategy. This year, we've progressed both bottom-up and top-down approaches.

Across the Co-operative, thousands of staff have been engaged in culturing conversations as part of their everyday team activities. The aim is to raise staff awareness so they can recognise whether their current culture is delivering high performance, and build their capability to create the best conditions for progressing our strategy.

We have delivered tailored capability building for key leadership groups and functions, including Strategy and Innovation, Nutrition Science Solutions and Centralised Portfolio Management. This is focused on improving our decision-making, operational effectiveness and value creation by optimising culture for high performance.

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).

Diversity and inclusion

Diversity and inclusion are a priority for us and, this year, we gathered momentum with increased support for global initiatives such as International Women's Day and Māori Language week. Our mahi (work) was acknowledged by having our Rainbow Tick certification renewed and being finalists in the Deloitte Top 200 for D&I Leadership.

We are nurturing an organisational culture and leadership approach where inclusive teams are an embedded behaviour and a natural way of operating. This requires an integrated approach where our diversity and inclusion, culturing and leadership teams work together (see Culturing high performance on the previous page).

On gender diversity we continued a positive upward trend, increasing female representation in global senior leadership from 32.4% to 34.8% and, for the start of FY23, two women were internally promoted to the Fonterra Management Team. To help guide our next steps, we interviewed a range of employees, including employees who had recently left Fonterra, and covering a mix of females and males in senior leadership, pipeline leadership and other roles, to understand their experiences. This has helped us develop an action plan for improved gender diversity. We also set a new goal, 40:40:20, which we believe is more appropriate and sends a positive signal on the direction we want to go. 40:40:20 refers to 40% female, 40% male, 20% of any gender. The 20% introduces the flexibility of female, male or non-binary gender. We have also extended the range of senior leadership covered by the goal to Bands 12+.

In FY21, we extended our parental leave cover for New Zealand employees, offering extra care for primary carers who have been employed for at least 12 months. We top up their government parental leave payments to 100% of base salary or wages for 26 weeks (up from 16 weeks at 80%). In FY22, 153 females and 15 males took parental leave as primary caregiver, and 2 females and 219 males took parental leave as secondary caregiver.

On ethnic diversity, we are also investigating alternative ways to express our intent and track progress. The project will start by reviewing the experiences of Māori and Pasifika employees within our Aotearoa New Zealand teams and make recommendations about how we make the

Co-operative more inclusive for different ethnicities. This will include identifying suitable indicators for progress covering the unique Aotearoa New Zealand context and our global teams. In the meantime, we continue to monitor ethnic diversity in senior leadership. This year, primarily due to increased voluntary disclosure of ethnicity information, ethnic representation in senior leadership improved from 9% to 15%.

Our Māori strategy – Haea te ata (To draw a new day)

Haea te ata 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.

Our Matakahi Māori (Māori Development) team continues to drive our Co-operative's relationships with tangata whenua (people of the land), to strengthen our Māori shareholder and farmer connections. The team are also leading Co-op-wide cultural capability and awareness initiatives.

A significant milestone this year was the creation of Te Pou Mātāpuna¹ (led by master carver Arekatera (Katz) Maihi). It was created and installed in four stages: Whakarongo – to listen, Whakawhiti – to reciprocate, Whakamahi – to create, and Whakatū – to install. More than 1,000 of our global employees and farmers contributed stories online and in person. Katz and his team then brought these stories to life through Te Pou Mātāpuna, unveiled at a ceremony led by mana whenua Ngāti Whātua Ōrākei. It is a physical representation of our journey to date and an inspiration going forward (read more on our [website](#)).

We also launched two new e-learning modules Te Pū Taka Māori (The Māori Alphabet) and Ngā Ingoa Wāhi (Māori place names) for global rollout and to help with accurate use of Te Reo Māori (the Māori language).

1. A pou is a traditional Māori way of telling a story through the art of wood carving.



Ngāti Whātua Ōrākei master carver Arekatera Maihi carving Te Pou Mātāpuna.

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.

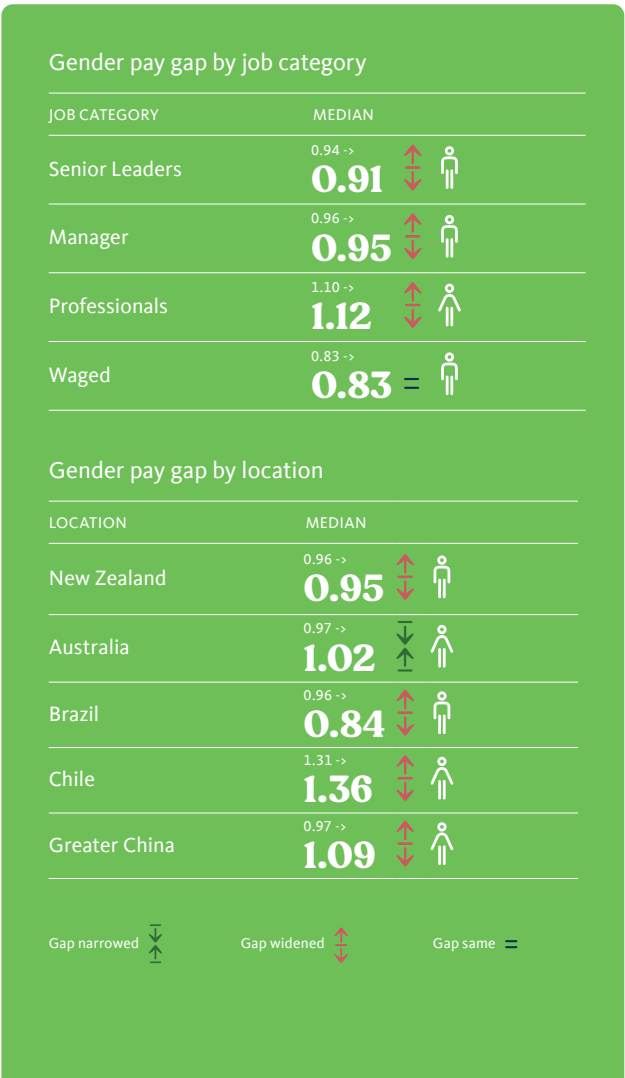
We believe this is a complex topic and cannot be accurately summarised by a single aggregated number. Instead, we believe transparency is important, including consideration of both mean and median calculations of the pay gaps and providing a breakdown by geographies and job categories.

Overall, the ratio of female to male base salary has remained the same this year at 0.93 on a median basis and 1.07 on a mean 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. This illustrates the importance of tracking different breakdowns which show the mix of changes across roles and geographies.

Considering job categories globally, Manager and Waged categories remain essentially unchanged, for Senior Leaders there was a small widening in favour of males and for Professionals there was a small widening in favour of females.

For New Zealand, the gap on a median basis is 0.95 which is equivalent to a 5.1% pay gap and continues to compare very favourably with the most recent national median of 9.2% for the June Quarter 2022.

We are investigating ways to improve internal reporting to track progress more frequently and are establishing long-term gender pay plans as part of broader talent and diversity strategies.



Non-discrimination

Through our independently administered whistle-blowing hotline (see The Way We Work Hotline [page C&S-03](#)), three disclosures were made this year relating to discrimination, including harassment. Following investigations, none were substantiated. In addition to concerns raised through The Way We Work Hotline, some discrimination and other employment issues are raised with local human resource or management teams every year. These are reviewed and, where appropriate, formally investigated in a similar manner. In New Zealand, 14 formal complaints were raised that included allegations of discrimination or harassment. In so far as these related to alleged discrimination or harassment, five were substantiated (resulting in disciplinary processes), four were unsubstantiated, four were resolved informally between the parties and one remains an active matter. At the reporting date last year, one complaint in New Zealand remained under investigation. That complaint was subsequently found to be unsubstantiated. In respect of other countries, four complaints were raised in Australia. Of these, three were partially substantiated and resolved between the parties and one was unsubstantiated. One complaint was raised in Sri Lanka, which was unsubstantiated. One complaint was raised in Japan that was substantiated and resulted in a disciplinary process. No complaints of discrimination or discrimination-related harassment were reported in other countries.

What's next

- We will continue to ramp up our on-the-job skills training and accelerate the deployment of our High-Performance Teams programme, with around 1,000 employees expected to complete the programme in FY23.
- We will continue to improve gender diversity, including pursuing our 40:40:20 goal for senior leadership, and also review the experiences of Māori and Pasifika employees within our Aotearoa New Zealand teams to help us make the Co-operative more ethnically inclusive.



Case Studies:



Malcolm Peacey
– Senior Environmental
Manager, Edendale

Leadership essentials – Malcolm Peacey

Malcolm started with Fonterra in 2013 as an Environmental Engineer and became Environmental Manager at the Edendale manufacturing site in 2019. The role can be intense, with several different hats to wear and competing priorities, including ensuring regulatory compliance and leading a team.

Malcolm started the Leadership Essentials Programme (LEP) in October 2020 and enjoyed the opportunity to take a step back from his day-to-day activities and develop skills to help him be more effective as a leader.

“The ‘big rocks’ and ‘managing my energy rather than my time’ tools were pivotal for me and I now take regular time for

reflection and planning. The share and reflect sessions with my LEP cohort kept me accountable and encouraged me to keep going.”

“The Leading My Team module helped me view my team interactions differently, shifting to a more relational approach where I am now quicker to listen and seek to understand what is really motivating them. The combination of LEP tools, the guidance of my coach and having a supportive manager have brought me to a place where I am confident and enjoy my role as a leader in the Co-op.”



Top: Ema-Kahurangi Richmond, Jayda Maniapoto, & Jessa McIntyre -Taylor

Bottom: Bradley White & Dr Rafea Naffa

High performance team – analytical chemistry FRDC

Over a few years, the Analytical Chemistry team at our Research and Development Centre (FRDC) have transformed from providing a testing service into a value-adding science function equipped with leading-edge technology that delivers niche science outputs. Key to achieving the transformation has been the introduction of the High-Performance Teams framework.

Based on the principles of “saying what needs to be said”, conversations and interactions within the team and externally have become richer, and debriefing sessions have identified opportunities to

improve their ways of working. With a strong focus on ‘how’ work is done, the team say there’s been a noticeable shift in mindset.

“We now think more about “what if?” and aiming high instead of living with perceived barriers. Our confidence is stronger, engagement is higher, and our growth is more self-led.”

“We are focused on excellence, with development and engagement at our core. Because of that, upskilling has become easier, providing us with increased scientific agility and resulting in quicker, smarter and more sustainable innovation outputs.”

Nature

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.

Nature plays a vital role in supporting the production of the valuable nutrition we deliver. Communities value their surroundings as a place to enjoy, and consumers are increasingly interested in where their food comes from and how it is produced.

We want to play our part in protecting and restoring nature so that we can continue producing nutrition inter-generationally. To achieve this, we are using our science and innovation skills to solve environmental challenges both on and off farm.

We are committed to leading the transition to net-zero GHG emissions for dairy nutrition, adopting and investing in leading practices to improve land and water, reducing waste and protecting the wellbeing of animals in our supply chain. In this way, we aim to demonstrate that dairy can be a net-positive contributor to nature.

IN THIS SECTION

Land and water	25
Climate change	30
Packaging and waste	39
Animal wellbeing	42
Managing our operations	45

71% ↑

of our farmer owners in New Zealand have a Farm Environment Plan tailored to their specific farm, on the way to 100% by 2025 – see [page 28](#)

11.2% ↓

reduction in our GHG emissions (scope 1 & 2) since FY18, on the way to 30% by 2030 – see [page 31](#)

6.6% ↓

reduction in water use at our manufacturing sites in water-constrained regions since FY18, on the way to 30% by 2030 – see [page 26](#)

76% ↑

of our farmer owners in New Zealand have an Animal Wellbeing Plan annually reviewed with their vet – see [page 43](#)

Land and water

Healthy freshwater, soil and ecosystems are essential to the long-term success of farmers' businesses, the Co-operative and communities.

Kaitiakitanga (how we care for our environment) is critical to safeguard opportunities for future generations. We believe this regenerative mindset must become embedded through 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 from which we collect milk.

Our approach

When our manufacturing sites withdraw water from the environment to use and subsequently discharge wastewater, this can impact a resource we share with others. We are committed to playing our part to improve the environment and maintain water security for our communities and operations (see next column).

Recognising the importance of effective water stewardship, we take a collaborative planning approach, assessing the health of sourcing and receiving environments as a key outcome for ongoing and long-term improvements. Recovering water from milk when we make powder products means that most sites discharge more water than they take in. By improving processes and adopting new technologies, we aim to further reduce water use (see [page 26](#)) and improve wastewater treatment (see [page 26](#)). Our management of risk also considers the potential adverse impacts of business activities on biodiversity and ecosystems, seeking to improve environmental outcomes.



Sediment testing, Taranua.

We support farmers to prepare for and meet increasing regulatory requirements, identify environmental impact risks and prioritise improvement actions specific to their situation (see [page 28](#)). This includes encouraging and supporting the adoption of recognised good farming practices related to water, soil health and biodiversity, including the exclusion of stock from waterways, riparian management, nutrient management and land management that minimises soil disturbance.

Please refer to “Working with farmers” on [page 47](#) and “Managing operations” on [page 49](#) for more information on our general approach to improving our performance.

What we've been doing

Improving water stewardship at our manufacturing sites

We have had a long standing focus on using water responsibly, with specific targets for water reduction and wastewater treatment. As part of our long-term strategy, we recognise the importance of water to our business and communities, and we plan to invest around \$600 million of capital in the next eight years. As water stewards, we are committed to

playing our part to improve the environment and maintain water security for our communities and operations.

To maximise the positive impact we can achieve through this investment, we intend to improve water stewardship at our manufacturing sites by establishing bespoke water improvement plans that consider water availability, water use and wastewater quality in a long-term integrated manner. Our objective is to ensure that sites can operate in a resilient, efficient and unconstrained manner into the future while maintaining water security for related communities.

This year, we reviewed our water-related targets. Our aim is for all manufacturing sites to have their bespoke water improvement plan by the end of FY24. We are also broadening our water reduction target. While sites in water-constrained regions will continue to be prioritised, our aim is to reduce absolute water use across manufacturing sites by 15% by 2030, from a 2018 baseline. Our target for wastewater treatment remains the same. At least 80% of manufacturing sites are treating wastewater to leading standards by 2030.

Using less water

This year, we continued to prioritise our efforts to improve water efficiency in water-constrained regions. We made good progress, turning around the slight increase in FY21 and almost achieving our target for FY22. Water use decreased at these sites by 4.2% this year, taking us to a 6.6% absolute reduction against our 2018 baseline. That means we are using about 950 million litres less water at these sites than in 2018. That saving is equivalent to about 375 Olympic-sized swimming pools each year.

To achieve this, six of the seven manufacturing sites in water-constrained¹ regions delivered reductions from work completed late in FY21 or this year, including the following examples. Using a natural wetland process at Maungatūroto delivered savings and won an award (see Annual Report [page AR-37](#)). At Kauri, Maungatūroto and Darfield, water use was reduced by optimising the flow of water used within pump seals. Darfield improved the operation of their reverse osmosis plant and our Lichfield site identified and resolved an underground leak.

Sites in regions where water is not constrained also made improvements this year. This included a nationwide programme in New Zealand to reduce the idle running time of milk dryers between batches. In Australia, at our Wynyard site, we commissioned new equipment to capture and reuse water, saving around 42.5 million litres in its first year.

Improving wastewater treatment

Ultimately, we would like to see all the nutrition from the milk we collect from farm make it into the products we sell. However, minor process losses mean some nutrients, plus some residues from the cleaning chemicals we use to keep our factories food safe, end up in our wastewater. This needs to be treated before it is released into the environment.

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 FY22, six New Zealand sites: Edendale, Clandeboye, Darfield, Lichfield, Kauri and Maungatūroto; and one Australian site: Stanhope, were identified as in water-constrained regions.



Upgrading the wastewater treatment facilities at Te Awamutu.

In New Zealand, our Nutrient Management team manage 29 farms close to our factories. Aligned with circular thinking, rather than the nutrients from process losses 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 and help them produce quality milk to process at our sites.

Recognising that stakeholders have different views and values when it comes to improving water quality, we believe that a leading industry approach to wastewater quality requires true collaboration. We judge our success based on a combination of internal guidelines and satisfying the expectations of key stakeholders at a catchment level. At the end of FY22, 56% of our global manufacturing sites met these criteria, and by 2030, we plan to upgrade wastewater treatment facilities at 14 sites, taking us to at least 80%.

Last year, at our Whareroa site, we installed a dissolved air flotation (DAF) system to treat wastewater before discharging it to the ocean. DAFs are particularly effective at removing substances such as fats, common in dairy wastewater, and are measured using chemical oxygen demand (COD). This year, the system has delivered about a 13% reduction in the COD of the wastewater discharged.

At our Clandeboye site, we installed new trial equipment to remove dissolved inorganic nitrogen, which largely arises from cleaning activities in the factory. The trial was successful and received positive feedback from both the regional council and local iwi (tribe) representatives during a subsequent site visit. We are now constructing a full-size plant which will lead to a significant improvement in water quality.

Upgrades are underway at our Te Awamutu and Tirau sites. The upgrade at Te Awamutu is well advanced with the last section planned for July 2023. The Tirau upgrade has just commenced and is planned for completion by July 2024. These will significantly reduce both the nitrogen and phosphorus in the wastewater discharged.

We were recently granted consent to construct a new wastewater treatment plant at our Hautapu site in the Waikato. Detailed plans are now being progressed and we aim to begin construction in September 2023.

Sustainable catchments

To achieve sustainable water catchments where we operate, we know we can achieve more by working with others. Our aspiration is to put nature at the heart of a regenerative food production system and help reverse the decline of New Zealand's natural resources by partnering with others to solve local and global environmental issues.

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. The goal is to identify game-changing and scalable solutions that show dairying and freshwater can thrive together. This work is focused on innovation and demonstration of what is possible. To date, we have initiated 40 trials of different tools and solutions, and 14 solutions have been scaled or used by others (for more information on the Living Water partnership, see [page 51](#)). Of those Fonterra farmers operating in the five catchments, 90% have engaged with the partnership, (up from 72% in FY21) and 50% are implementing freshwater improvement actions that go beyond regulatory requirements (up from 48% in FY21).

Beyond the five Living Water catchments, we are supporting 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, scientists and other industry members in catchments across New Zealand, our aim is to build on existing community efforts, helping them achieve their priorities and nurturing the national movement on catchment restoration. We have delivered 88% of the 146 agreed partnership actions in four years.

We are also supporting several catchment level and national initiatives intended to deliver transformational change. This year, we signed a memorandum of understanding with Te Taumutu Rūnanga for Living Water to support capacity and capability building for their freshwater and environmental mahi (work).

Sustainable Catchments Partnerships – Examples

National – Kaupapa Māori Cultural Health Assessments

Freshwater ecosystems are significant to Māori and are integral to Māori cultural identity. Kaupapa Māori Cultural Health Assessments is an assessment approach derived from the Māori world. We are investigating how these assessments might fit alongside traditional data-based approaches and help with our mahi around water quality and biodiversity. This year we have started supporting Kaupapa Māori Cultural Health Assessments for sub-catchments in both the Waikato and Taranaki regions.

Northland

We have supported the Mountains to Sea Conservation Trust to extend their work identifying and protecting whitebait habitat with local farmers and communities. We also supported an application to expand this work across further catchments in Northland and this year, the Ministry for the Environment have announced new funding of \$1 million for the Whitebait Connection.

Waikato – Mangapiko Stream

In the Waikato, we have extended our support of the Mangapiko Streamcare Group to help them with riparian planting along the Mangapiko Stream with the aim of establishing an ecological corridor from Maungatautari to Pirongia.



The beginning on an ecological corridor from Maungatautari to Pirongia.



Quentin and Lisa helping with planting in the Waioatahe catchment.

Bay of Plenty – Waioatahe

We provided funding and employees helped with environmental projects on public land in Waioatahe catchment in partnership with the Regional Council, Waioatahe Watercare, community groups and the local marae.

Hawkes Bay – Tukituki Wetlands Planning

Building on the success of previous work with Hawke's Bay Regional Council and NIWA constructing a large wetland at Tukipo, we are now supporting expansion to the wider Tukituki area, including identification of potential sites for the development of constructed wetlands.



A constructed wetland at Tukipo.



Planting day in the Greater Wellington region.

Taranaki – Rawhitiroa Wetland

We are supporting work at the South Taranaki District Council Wetland Reserve at Rawhitiroa with Forest and Bird, Ngāti Tupaea, Rawhitiroa School and the local community. The restoration project involves fencing, the creation of wetland habitat and a walking track.

Canterbury – Ashburton Flood Recovery

In partnership with Wildlands and impacted farmers, we are helping to regenerate biodiversity devastated by the Ashburton Floods this year. Site visits have been completed and a detailed catchment restoration plan is being prepared.

Otago – Poumāhaka

We have provided funding to the Pomahaka Water Care Group, to contribute to their efforts improving water quality and restoring natural values in the Waikaoihoi Creek.

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 to farmers, our customers and communities.

In New Zealand, our team of 40 Sustainable Dairy Advisors (SDA) are working with our farmer owners to establish farm-specific Farm Environment Plans (FEPs). Each FEP is unique to the farm and requires a physical visit to capture the specific environmental characteristics, assess current activities against industry-defined Good Farming Practices (GFP) and agree prioritised improvement actions with the farmer.

This year, we delivered more new FEPs than planned, increasing coverage from 53% to 71% of supplying farms in New Zealand and well on track for 100% by 2025. This year, for the first time, our team of SDAs were not only establishing new FEPs, they were also revisiting farms with existing FEPs to re-assess them against the latest version of the FEP framework and to confirm progress on improvement actions. They were also coping with pandemic-related travel restrictions. This makes the amount of progress the team has made even more significant.

The need for updates to our FEP framework and process is assessed on an annual basis, and to date, additional modules have been added nearly every year since we launched the service in 2018. Our goal is for farmers to remain a step ahead of future regulations and the requirements of our customers (see also The Co-operative Difference on [page 47](#)). The regulatory requirements vary between different regions in New Zealand, and in all cases the requirements of a Fonterra FEP go beyond these. In most cases, each GFP is higher than the local regulatory requirement, but where the local requirement is higher, the farm is assessed against that.

Topics currently covered in the FEP include water, soil health, biodiversity, GHG emissions (see [page 32](#)), 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 19%), our FEPs also build on regulatory requirements for metering and support water efficiency improvements.

We are currently undertaking a project with Dr Gail Tipa (from our Sustainability Advisory Panel see [page 07](#)) to critique our FEP modules through a cultural lens, bringing indigenous knowledge and a unique sustainability perspective. By overlaying iwi environmental plans and considering proposed regulatory changes, the aim is to further improve our FEP service for our Māori shareholders.

In New Zealand, farmers complete our annual Farm Dairy Records update, which is a key input for the Farm Insights Reports we provide them. This combines information on nitrogen risk, milk quality, GHG emissions and animal wellbeing, 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 specific improvements. Over the last three years, overall nitrogen risk has reduced with the average Purchased Nitrogen Surplus reducing by 12%.

Building on the FEP framework and delivery service developed for New Zealand, our Farm Source team in Australia has tailored it for the specific needs of the Australian farming environment. This year, we started rolling out this service to farmers and 70 farms supplying us milk in Australia now have a farm-specific FEP. Feedback from participants has been positive, with both short-term and medium-term benefits identified, including the value of having a tangible plan that demonstrates their commitment and actions to producing environmentally friendly milk. Our aim is to roll this out to a further 100 farms in Australia during FY23.

Our performance



71%

of our farmer owners in New Zealand now have tailored Farm Environment Plans



6.6%

reduction in water use at manufacturing sites in water-constrained regions

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 improve water stewardship at our manufacturing sites, establishing integrated water improvement plans covering both water usage and treatment of wastewater



Durham farm, Waipu

Climate change

We support a just transition to a resilient, low-emissions economy and are committed to leading the transition to a net-zero GHG emissions future for dairy nutrition.

Global food production accounts for 20-30% of global 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.

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. As our business accounts for about 20% of New Zealand's GHG emissions, we are committed to helping reduce this further and leading the transition to a low-carbon future.

Milk is highly nutritious but very perishable, and our natural pasture-based farming 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. The world needs a global approach to achieve a sustainable food system meaning emissions-efficient nutrition from countries such as New Zealand plays an important role.

Agriculture is facing significant disruption from changes to climate and increased variability in weather patterns. Based on the 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.



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 ambitious, nationally determined contribution.

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 previous page). In New Zealand, we provide farm-specific GHG reports (see [page 32](#)) so farmers can understand their current performance and prioritise improvements. Our Farm Environment Planning service includes a GHG emissions module (see next page), and we are investigating a wide range of potential breakthrough technologies to help reduce on-farm GHG emissions (see [page 32](#)).

For our manufacturing operations, our approach is to use less and emit less. Improving energy efficiency (see [page 34](#)) not only uses less energy, it also 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 34](#)).

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 35](#)).

Please refer to "Working with farmers" on [page 47](#) and "Managing operations" on [page 45](#) 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. The approach considers the full life cycle from feed production (including purchased supplementary feed) to the milk leaving the farm and is aligned with internationally recognised methodologies and tools (see [page 76](#)). We use this information to estimate our absolute GHG emissions related to farming (see graphs on [page 38](#)), to identify opportunities for further reduction and to support related-service offerings to customers (e.g. CarbonZero™ certified products, see Annual Report [page AR-39](#)).

GHG accounting is an evolving science, and there are frequent updates to method details and factors to be used, as well as changes in underlying base data and assumptions. Changes to international and local guidelines are investigated each time we commission an update of the footprint. As is the case this year, when changes are material, we transparently re-baseline and back-calculate our footprint so our progress can be assessed on a like-for-like basis, using the latest available science.

In New Zealand, for the 2020/21 milk season, the estimated cradle-to-farm-gate carbon intensity, including land use change (LUC) and peat soils is 1.03 kilograms of carbon dioxide equivalent per kilogram of fat-and-protein-corrected milk (kg CO₂-e/kg FPCM)¹. Excluding land use change and peat soils this is 0.86 kg CO₂-e/kg FPCM which appears to be an increase compared to the 0.80 kg CO₂-e/kg FPCM we reported for 2019/20 season in FY21, however this increase is due to a combination of updated methodology details. Comparing the 2020/21 result to 2019/20 on a like-for-like basis including LUC shows a 2.5% reduction year-on-year. The changes which contributed most to the increased footprints were updates to fully account for peat soils and to reflect the increased storage time of effluent (see Data Reporting Notes [page 78](#)). While our 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).

Our most recent assessments for other regions are: Australia 2017/18 season at 0.98 kg CO₂-e/kg FPCM; China 2016/17 season at 1.45 kg CO₂-e/kg FPCM; Soprole our subsidiary in Northern Chile 2017/18 season at 1.45 CO₂-e/kg FPCM; and Prolesur our subsidiary in Southern Chile 2017/18 season at 1.34 CO₂-e/kg FPCM.²

- ¹ We are involved in a trial of the C-Seq methodology which will allow for sequestration of carbon to be included in the overall footprint of milk to farm gate but at present we do not include sequestration in our reporting.
- ² While we have adjusted the non-New Zealand results to align all on IPCC AR6 (see Data Reporting Notes on [page 78](#)), they have not been updated in the same way as the New Zealand result to reflect the latest global and national inventory methods and assumptions.

Reducing on-farm emissions

In October 2021, we issued Farm Insights Reports in New Zealand, including a farm-specific GHG Report. For farmers, understanding the number 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. Each report has a breakdown of the estimated GHG emissions for the specific farm by the source of those emissions and is based on a combination of primary data collected from the farmers annually and secondary as used for our national lifecycle assessment. In October 2022, we will issue farmers with this reporting for the third time.

In addition to the Farm Insights Reports, the Farm Environment Plans (FEP) we are currently rolling out (see [page 28](#)) also contain a specific GHG emissions module. FEPs are created in consultation with one of our Sustainable Dairying Advisors who visits the farm and can provide farmers with additional guidance. By 2025 all our shareholder farmers will have an FEP.

The calculation method, contents and processes we use for both the GHG reports and FEPs have been independently assessed and accepted by the He Waka Eke Noa steering group (see below) as meeting the requirements for the New Zealand Climate Change Response Act milestones.

In the short-term, the main improvements farmers can deliver will continue to come from adopting good management practices on farm. These include being efficient with feed and fertiliser, having the correct number of cows for the specific areas of land, improving animal husbandry and genetics, and maintaining 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.

Over the past three years in New Zealand, we have been supporting the He Waka Eke Noa Partnership to find practical ways to help farmers with emission reductions. The Partnership, involving representatives from across the Government, Primary Sector and Māori has been progressing a range of climate-related actions. This year, it drafted several options on how farmers could be charged for the emissions arising from agriculture and consulted widely with farmers on these options. In May 2022, the recommended approach was presented to the Government. Aligned with the Government's emissions reduction targets, it takes a split-gas approach with an overall levy calculated based on the methane and nitrous oxide produced with deductions made for approved emission reducing actions and sequestration by above ground vegetation. The Government is now considering the Partnership's advice alongside the Climate Change Commission's advice before deciding how agricultural emissions are to be priced. A final decision on the legislative proposals is expected by 31st December 2022.

Continued productivity gains, the adoption of good management practices on farm and the sharing of best practice offer the opportunity to make further footprint reductions in the coming years. However, new innovations from investment in research and development will be required to meet targeted emission budgets.

Game-changing solutions for methane

Since the beginning of the Industrial Revolution, coal, oil and gas have fuelled the economic development and advancement of many nations. At the same time, according to the United Nations, these fossil fuels have been the largest contributor to global climate change, accounting for over 75% of global GHG emissions. While studies show that methane emissions from livestock have made a less significant contribution (roughly 12-14% of anthropogenic warming to date) we recognise that reductions in this area can play an important role in the overall solution.



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. Achieving this type of change at the scale and within relatively short timeframes will require collaboration between the Government and industry to support farmers, and we are pleased to be one of the partners in the new Centre for Climate Action on Agricultural Emissions.

We are currently 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. Our aim is to lead the transition to low-carbon dairy, which 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 with an animal at its centre, this animal has a rumen to process what it eats, and in the rumen there is a complex microbial ecosystem. Not all research and development will deliver a successful solution, and there is unlikely to be only one. A broad toolbox of options is required so we are pursuing a wide range of potential approaches (see next page).

Leveraging research we had already completed using food grade, natural cultures and our library of dairy cultures built from over 90 years of research into cheese and yoghurt products.

We continue to make exciting progress with Kowbucha™ our natural probiotic cultures-based approach.

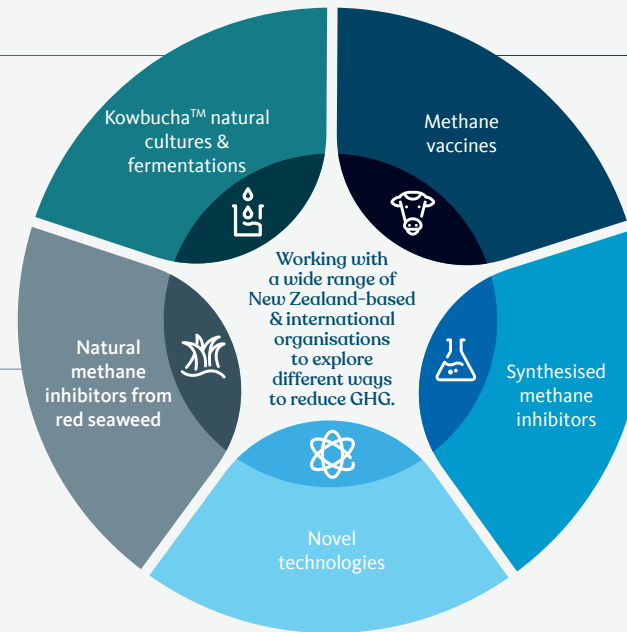
This year, laboratory results have shown that it is possible to reduce methane production by up to 20% by feeding Kowbucha™.

We have now started on-farm trials to see if it is possible to duplicate these findings and we are investigating under what conditions such a solution could work practically on farm.

In Tasmania, we are continuing to investigate whether small quantities of Asparagopsis seaweed could be used in dairy herds on a commercial scale to reduce biological emissions. This year, trials involving over 900 dairy cows have been completed with promising results in terms of animal health, food safety, farm viability and practicality for the farmer.

Building on their initial laboratory testing, CSIRO¹ has published their latest findings which indicate that the seaweed could reduce emissions but it is still too early to confirm by how much in different milk production systems.

We are partnering with Sea Forest Pty Ltd on this work. They farm the seaweed in aquaculture facilities, and are preparing to ramp up their production. If the trials prove successful, we have agreed that Fonterra farmers will have first option in dairy to the commercial solution.



A methane vaccine for cows would be a game-changer not just for New Zealand but also globally, as it could apply across multiple ruminant species.

What makes vaccines difficult is their delivery mechanism: from the bloodstream to cow's saliva, to rumen (stomach), and finally binding to the micro-organisms that convert hydrogen to methane.

This year, we have joined a new collaboration, the Ruminant Greenhouse Gas Partnership, which together with the New Zealand Agricultural Greenhouse Gas Research Centre, is now funding the research.

In housed dairy systems, where small amounts of inhibitors can be controlled in the daily feed rations, Bovaer®, from global nutrient company DSM, has proven to reduce ruminant methane emissions by up to 30%.

We are continuing to collaborate with DSM to investigate whether Bovaer® can be integrated into pastoral dairy systems such as those in New Zealand. Unfortunately, trials this year encountered technical difficulties with measurement on farm, so it is too early to draw conclusions.

The Ruminant Greenhouse Gas Partnership is also collaborating with the New Zealand Agricultural Greenhouse Gas Research Centre to see if we can further develop intellectual property related to some novel methane inhibitors that we originally helped to create via the PGgRC².

One of the novel areas we are investigating is the potential 'destruction' of methane immediately after it has been produced by the cow. For pasture-based cows, this would involve the cows wearing a device. We are investigating three technologies: thermo-catalytic combustion, electro-catalytic conversion and replicated atmospheric destruction.

1 CSIRO - Commonwealth Scientific and Industrial Research Organisation in Australia.

2 PGgRC = Pastoral Greenhouse Gas Research Consortium

Energy efficiency

Improving energy efficiency in our manufacturing operations remains a vital part of our decarbonisation strategy. Not only does it deliver immediate reduction in our GHG emissions and save costs, but reducing the amount of energy required helps sites prepare for subsequent transition to renewable fuel sources. For some of our manufacturing sites it is simply not feasible or affordable to transition to renewable fuels until we first significantly reduce the thermal energy we use.

This year, our overall energy efficiency improved 0.4% compared to last year, down to 7.08 GJ/tonne of finished goods. A wide range of improvement projects and a continued focus on operational efficiency delivered the overall improvement, despite some extra standby operations required to manage risk during COVID-19 outbreaks.

At Whareroa, prior to starting up for FY22, we upgraded equipment to efficiently remove water from whey permeate. This allowed us to retire ageing and inefficient evaporator assets and reduce the amount of steam we required. During FY22 this has reduced the energy we used for steam production at the site by about 65,000GJ (18 million kWh). That is a saving equivalent to the annual power used by about 2,500 average homes in New Zealand. This winter shutdown, we have installed new equipment which will allow us to use more recovered heat for preheating in our casein pasteuriser. This is expected to deliver about another 12,000GJ (3.3 million kWh) with these two combined projects delivering a reduction in GHG emissions of about 5,500 tCO₂-e per year.

This year, also at Whareroa, we started a project to install two heat pumps as part of the refrigeration upgrade. Heat pumps are energy efficient and are increasingly being used in homes for heating and cooling, with a typical living room heat pump rated at about 5 kW. We need something considerably larger for our processes, and these heat pumps are each rated at 3.5 MW (700 times larger). We believe this will be the largest heat pump installation in New Zealand, reducing our annual energy use by 120,000 GJ (33 million kWh) per year and reducing our GHG emissions by about 9,100 tCO₂-e per year.



New biomass boiler under construction at Stirling

Transitioning to renewable energy sources

In 2017, we partnered with the Ministry for the Environment to develop a Roadmap to a Low Emissions Future. We successfully completed a range of activities including a study to investigate the feasibility of electrification at our Edendale site.

Currently, the operational and capital costs associated with replacing our coal use with electricity are too high, and external infrastructure and networks would need to be upgraded to meet the significantly increased demand. Based on current information, our preferred decarbonisation pathway for our coal fired sites is to continue to implement energy efficiency initiatives (see prior column) combined with switching fuel to wood biomass.

During FY21, we finished the conversion of our Te Awamutu boiler from coal to wood pellets. This year it operated successfully for the full season. The wood pellets are supplied by Taupo-based Nature's Flame and certified by the Forest Stewardship Council. The wood pellets are made from sawdust and shavings from nearby sawmill operations and produced using geothermal energy.

Our focus this year has been on the transition to wood biomass of our Stirling cheese plant in Otago. Go-live has been delayed several months due to the biomass boiler supplier, Austrian-based Polytechnik, going into administration while it restructured its finances. Polytechnik is one of the world's leading providers of biomass combustion plants with more than 3,300 firing systems installed worldwide but its liquidity was negatively impacted by factors such as COVID-19-related delays. They have involved stakeholders in the restructuring process and the Austrian Court has confirmed that they are no longer subject to the Administration process. Commissioning of the new boiler at Stirling is now expected to commence in November 2022. It 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.

Our next step will be replacing one of the three coal boilers at our Waitoa factory in the Waikato with a wood biomass boiler. Installation will commence later this year and we expect the new boiler to begin commissioning in November 2023. The new boiler will reduce the site's annual carbon emissions by at least 48,000 tCO₂-e, the equivalent of taking 20,000 cars off New Zealand's roads. We also completed wood biomass firing trials at our Edendale and Hautapu sites this year.

Our goal is to transition the nine sites that still use coal to renewable energy by 2037, with the majority of coal transitioned by 2030. We continue to evaluate and improve our planning but the rate at which we can replace coal boilers is paced by upstream fuel supply development, New Zealand's capacity for large simultaneous infrastructure investment and the sequencing of outages during brief winter site shutdowns.

When transitioning to wood biomass, it is important that a reliable and renewable source can be obtained locally. Wood Energy New Zealand, a partnership between Pioneer Energy and Niagara Sawmilling, is supplying our Stirling site. They will be extending their operations into the North Island to support our Waitoa plans and boosting the local wood biomass industry.

In other parts of our business, we have also made changes to emit less, including the use of solar. This year, we added solar to a further three Farm Source stores in New Zealand, our Heerenveen site in the Netherlands and most recently to our administration building at Darnum, Australia. In total this year, about 1.5 million kWh of our energy came from solar generated on our premises, reducing our emissions by about 900 tCO₂-e.

Electrifying transport

In New Zealand, GHG emissions from road transport are one of the fastest growing sources and they are now higher than those arising from dairy cows. With solutions already available to reduce the emissions from transport and new technologies close to deployment it is important that we leverage these and play our part in increasing wider adoption.

With our heavy transport fleet, our focus has been on investing in practical ways to reduce our GHG emissions through efficiencies. For example, training helps our drivers improve fuel efficiency and sophisticated software systems help plan and execute our milk collection activities to minimise the distance travelled. In Australia this year, we installed a refuelling facility at our Stanhope site to reduce the wasted distance travelled for tanker refuelling. We have also invested in our tanker fleet, adopting the latest technology in terms of efficiency and lower emissions. This year we took that one step further and, with funding support from EECA¹, are trialling the first fully electric milk tanker in New Zealand (see Annual Review [page AR-36](#)). We are also investigating a range of other options, including the use of hydrogen, either via direct injection or via fuel cells.

Last year we implemented a new policy that requires all light vehicles that can be electric to be transitioned when they are next replaced. Our aim is for more than 300 light vehicles (about one third of our light vehicle fleet) to be electric vehicles (EVs) by the end of 2023 and expand our network of EV charging stations. Last year, with co-funding assistance from EECA, we installed charging infrastructure at four sites in the South Island, acting as regional hubs. This year we expanded the charging capability to two further sites. We are also continuing to investigate options, including an on-farm trial of an electric side-by-side off-road vehicle, and trials of EVs as personally allocated vehicles for employees who travel extensively.







One of our pool cars in the South Island demonstrating what is possible. Photo by Nick Williams.

Nick Williams, Lead Automation Engineer and personal owner of an EV, knew that driving an EV would be a new experience for many of our employees and likely to cause some anxiety given our rural operating environment. To increase confidence, he took one of the new pool cars on a round trip from Darfield in Canterbury to Tuamarina at the top of the South Island and back (about 700 km) and shared his experience on our intranet.

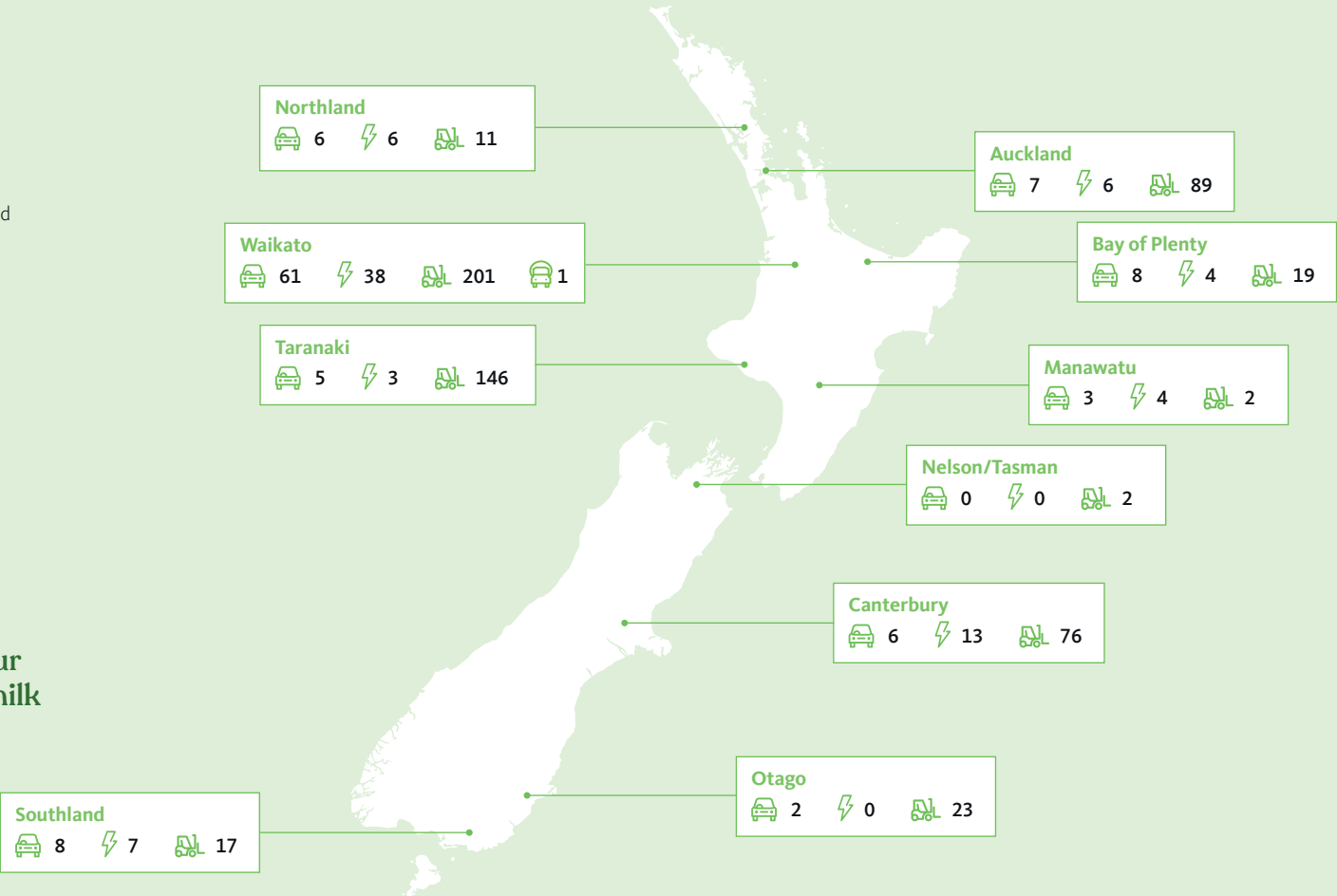
1 EECA – Energy Efficient and Conservation Agency.

Fonterra's fleet decarbonisation

-  EVs
-  Vehicle chargers installed
-  Electric forklifts
-  Pilot E-tanker



We are trialling our first full electric milk tanker – Milk-E.





Trialling new organic battery technology

As we transition away from fossil fuels towards renewable alternatives and increased electrification, efficient and effective energy storage will be crucial. Through our partnership with Professor Ian Hunter (Massachusetts Institute of Technology), which is investigating solutions to some of our biggest sustainability challenges, we are working with a spin off called PolyJoule.

PolyJoule has created an organic, low-cost and long-life battery that can compete with the currently dominant lithium options. Unlike traditional batteries, PolyJoule's technology does not include any rare earth elements (i.e. no lithium, nickel, cobalt or lead), is non-flammable and non-toxic and offers outstanding performance features such as fast charge and very fast discharge.

This year, we successfully trialled a PolyJoule battery at our Te Rapa farm, storing electricity produced by the farm's solar panels to increase the use of power from solar and provide an energy back-up. Some of our manufacturing sites are impacted by power quality events each year that can lead to product waste and long shut down times. We believe this battery technology could help minimise the impact from such events and so the next step is to trial the battery at our Waitoa UHT site.

Milk vat monitoring system

Early this year we completed the installation of electronic monitoring systems on the milk vats at supplying farms in New Zealand. This technology not only helps our farmers 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 provided by the farmers. The new system collects information on actual volumes and milking times, giving the farmer one less thing to do and allowing us to further improve collection efficiency. This has delivered cost savings and reduced GHG emissions by requiring less use of third-party contractors, and reducing the number of milk tankers we need.

Our performance



11.2%

reduction in scope 1 & 2 GHG emissions since FY18. Well on way to 30% by 2030.

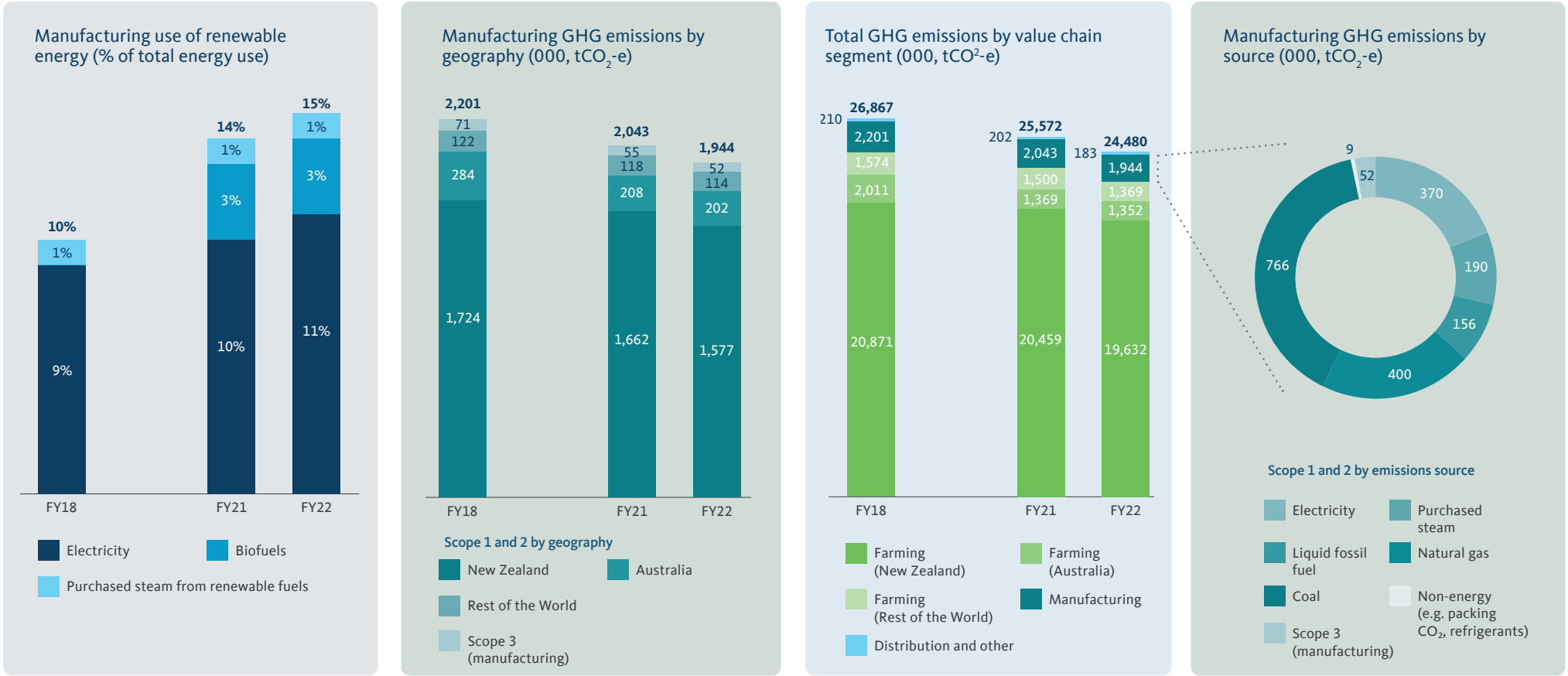


1,742,123

reduction in GHG emissions from dairy farming since 14/15 (NZ) (Pre-farm gate tCO₂-e)

What's next

- We will continue to use farm-specific GHG emission reports and Farm Environment Plans to help our 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 including through the new Centre for Climate Action on Agricultural 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, with our Stirling site transitioning fully to renewable sources for thermal energy during FY23, and our Waitoa site installing a wood biomass boiler in FY24



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 FY22 dropped slightly to 73,345 tCO₂-e from 82,155 tCO₂-e, due to lower milk volumes to be processed. The wood pellets used at Te Awamutu are made of waste product from FSC-certified forests and manufactured using geothermal energy.

For detailed information on the scope, methodology and assumptions used in reporting these emissions, including restatements of prior years, see Data Reporting Notes [page 75](#).

Packaging and waste

Packaging is vital for delivering safe and quality nutrition, and is also a large part of our direct and indirect waste.

The packaging we use is an important part of our Food Safety and Quality System and allows us to deliver the high-quality dairy products our customers expect. Understanding the source, make-up, quality and functionality of the different packaging types and materials we use is critical to protecting the nutrition we produce, all the way to usage.

We want to play our part in the sustainable packaging journey, which means considering what happens to our packaging once the nutrition inside has been consumed.

This section covers the packaging we use to protect and transport our finished goods at the sites we directly manage and the third-party sites we use. Most of our finished goods are bulk ingredients for use by business customers though we also produce packaged goods for foodservice and consumers. This section 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 our food safe and of high quality from the farm to the consumer. This helps us deliver the maximum return to farmers while delivering better outcomes for people, communities and the environment.

Our Group Environment Policy and supporting standards require all our sites to: manage hazardous substances responsibly, maximise manufacturing yield, reduce waste, improve packaging on Fonterra-branded products so that they are reusable, recyclable or compostable, and collaborate with others to enable greater access to waste collection recycling services.

Our aim is to deliver high-quality food right-first-time, capture by-products previously considered waste, such as the whey from making cheese, and make them into new valuable products.

Please refer to “Managing operations” on [page 45](#) and “Working with farmers” on [page 47](#) for further details of our approach.



Sherri & Kerey, Darfield

What we've been doing

Sustainable Packaging Programme

Our sustainable packaging programme is making great strides. Using globally accepted recyclability definitions and sales volumes for the 12 months ending June 2022, on a total tonnage of packaging basis, 89% of our packaging is now recycle-ready, up from 87% last year. This leaves 11% that is classified as unsuitable for recycling (e.g. foil based sachets) and that we will continue to focus on reducing.

Using the tools we developed last year, we have worked with our teams in markets around the world and developed roadmaps to ensure timely, meaningful activity is taking place. We are forecasting that we will achieve greater than 95% recycle-ready packaging by the end of 2025.

We are not ending our focus on sustainable packaging at the end of 2025. This year we have worked with external consultants to map a sustainable packaging journey through to 2050. This journey will further improve the circularity of our packaging, going beyond 'recycle-ready'.



Example of the new cardboard dunnage being trialled in containers.

Improving our logistics packaging

Many of our dairy products travel long distances to market, and we want them to arrive in top condition, protected from damage and deterioration. We use a range of wrapping and protective packaging to achieve this, typically unseen by a consumer.

Before the product is placed into a truck or shipping container, we use stretch wrap to hold the individual boxes or bags together. Putting too much stretch wrap on is a waste of material and money but not putting enough on can be even more costly if someone gets injured or the product gets damaged. Our teams have been trying to optimise stretch wrap application for many years including refurbishing equipment, installing real-time monitoring devices, and changing the type of plastic used. This year, improvements removed about a further 45 tonnes of stretch wrap out of the process. We are changing any identification stickers used on the stretch wrap to be made of a compatible plastic so the stretch wrap can be recycled after use without the paper labels contaminating the recycling stream.

When quantities of products don't fit perfectly into a shipping container, we use a type of packaging called 'dunnage' to fill the gaps and minimise product damage by avoiding it moving around inside the container. The dunnage products we currently use are imported into New Zealand and are non-recyclable. In conjunction with a key packaging supplier, our teams have been investigating alternatives, and we are trialling an innovative solution developed in New Zealand. If successful, it will be made in New Zealand using local renewable materials, including recycled materials and would be completely recyclable. At this point in the trials, the dunnage solution appears more effective, with the added benefit of reducing damage to product.



Improving our consumer packaging

In Sri Lanka, we launched new versions of our stirred fruit yoghurt product range with reduced plastic content in the cup. We also started a pilot to test consumer response to replacing the plastic spoon with one made of paper.

In Australia, for our Mainland Lunch On the Go™ product, we replaced the black plastic spoon with a wooden compostable option.

Collaborating to improve recycling

To achieve 100% reusable, recyclable or compostable packaging requires a direct focus on the materials we use. It also requires collaboration and engagement with others to align on preferred materials, accelerate delivery of suitable infrastructure and influence the product users.

We co-sponsored a project led by the New Zealand Food Safety Science Research Centre to investigate the quality and safety risks of using recycled plastic content in our food contact packaging materials. We expect that the findings of this project will lead to the development of industry agreed guidelines in Australia and New Zealand.

In Chile, the existing kerbside recycling programme does not support yoghurt pot collection. In partnership with a local recycling company, our Soprole team have established 50 collection points across Chile to collect yoghurt pots, which are then recycled into new items such as delivery crates.

In New Zealand, Fonterra operates a network of 66 Farm Source™ stores retailing farm supplies. This year, partnering with AgRecovery, we extended our collection points for rigid plastics from 12 stores to 65 stores, making it easier for farmers to recycle. Based on the work that our Farm Source team has completed in packaging redesign for our Country Mile and 360 branded products and establishing in-store collection points for packaging waste, they have put together a sustainable packaging guide for vendors. By sharing advice and case studies with the vendors, we hope to influence the packaging profile of more products that go onto farms in New Zealand.

In 2005, we established NZAgbiz to create value from our by-products that would otherwise go to landfill. Waste products that are not suitable for human consumption are reworked into animal nutrition products that are then sold to farmers to help their livestock thrive. This year, NZAgbiz joined a New Zealand soft plastics recycling scheme to provide an additional pathway for our rural customers to recycle the plastic bags used to supply these products. NZAgBiz also joined AgRecovery to support their trial for collecting polypropylene pails and lids. As a result, there are now recycling pathways available for 100% of the packaging that NZAgBiz place on the market. Instructions are provided on their website to help customers understand the different recycling options available to them.

Working together to reduce solid waste

This year, we continued reducing our solid waste to landfill, down 6.5% from last year and down more than 30% since FY19. This covers the solid waste from sites we directly manage, including manufacturing sites, offices, retail stores and farms.

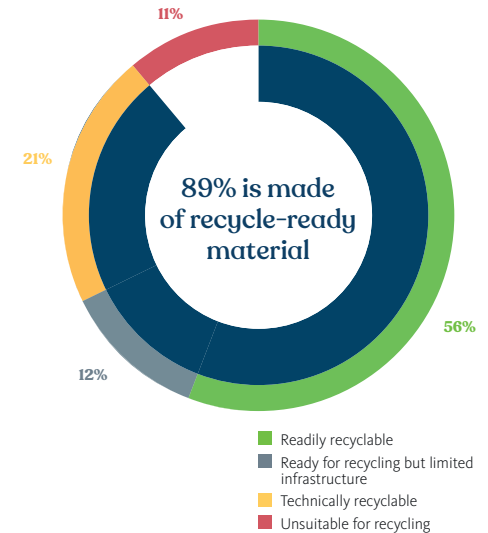
In Australia, since 2019, our team has diverted about 890 tonnes of material into more beneficial uses and almost halved its waste to landfill. By changing inventory management in the warehouses and improving the scrap stock approvals process, the team reduced food waste across the distribution network by around 450 tonnes. Nearly all remaining food waste is now diverted to stockfeed or compost.

In New Zealand, we provided further support for the new saveBOARD plant in Hamilton, by helping to fund a wash and dry plant. This allows saveBOARD to process more liquid paperboard waste by cleaning and drying it first before it is recycled into wall boards.

We have also continued to support food bank initiatives around the world (see Annual Review [page AR-17](#)) and worked with other partners to recycle pallets (see [page 53](#)).

While we still aspire to achieve 'zero waste' from our sites, we no longer have a specific deadline. We have already made significant progress on what is a lower priority topic for us, with our current intensity being about 3kg of solid waste per tonne of product. Aligned with waste management principles, we will continue to seek year-on-year improvements and eliminate the sources of waste. We will focus on making products to specification to avoid food waste, work with vendors to prevent non-recyclable materials coming onto our sites and partner with others to increase the range of materials that can be economically recovered.

Our performance



What's next

- We will continue to transition our finished goods into packaging that is designed for recycling and continue to analyse our packaging portfolio to identify areas to further reduce the impact
- We will continue to work with vendors to drive innovation and seek to influence others to improve access to recycling collection and re-processing infrastructure in the markets we serve
- We will continue to seek year on year reductions in the solid waste we send to landfill from all our operational sites

Animal wellbeing



Blair, Billie & Penelope, Taranaki

We want all animals to be valued and treated with respect and care throughout their lives.

Cows are at the heart of every dairy farm, and their wellbeing is of paramount importance to us. Having healthy cows is not only good for the cow, it also leads to good production of high quality milk and, taking a proactive approach, is better for the farmer too. It's also important for our customers who are increasingly interested in where their food is coming from and how it is produced.

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 wellbeing 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 Global Animal Wellbeing and Biosecurity Policy and supporting standards.

We are guided by globally recognised standards set by the World Organisation for Animal Health. We partner with farmers to continuously improve animal wellbeing 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 so 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 so that best practice controls are in place.

The development of strategy, policy and standards for the global management of farm animal wellbeing 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 wellbeing 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 47](#).

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.

What we've been doing

Animal Wellbeing Plans

The increased adoption of Animal Wellbeing Plans (AWPs) is our main approach for further embedding the Five Domains model of animal wellbeing and helping farmers demonstrate leading levels of animal care. We know that farmers with a focus on animal wellbeing and a good relationship with their vet will usually achieve better outcomes for their animals. Therefore, each AWP must be developed with, and signed-off by, a registered vet every season. Ultimately, we want to see these on every farm that supplies milk to Fonterra, but our initial focus is New Zealand, where the percentage of farms with an established AWP increased from 53% to 76% this season.

For the 21/22 season, developing and implementing an AWP with a vet was one of the minimum criteria for a farm to achieve recognition levels within The Co-operative Difference framework which is linked with increased payments to farmers (see [page 47](#)). To qualify, each AWP plan must include a number of key elements which have been identified and prioritised in collaboration with The New Zealand Veterinary Association and DairyNZ. These minimum elements include rates of mastitis and lameness, mortality, body condition scoring, prudent use of antibiotics, mitigation options for heat stress and other extreme weather events, and consideration of genetic improvement strategies to enhance animal wellbeing outcomes. For the 22/23 season, the minimum coverage requirements have been expanded to also include the care of calves.

Based on the excellent uptake of annually refreshed AWP's and the improved animal outcomes they support, we will continue to encourage their adoption for every farm supplying us with milk in New Zealand.



Providing insights and training

Building on the Farm Insights Report which we piloted with farmers in New Zealand in FY21, this year, we extended this to include key insights related to animal wellbeing. Farms supplying us milk in New Zealand receive a Farm Insights Report, which now includes key animal wellbeing metrics, including somatic cell count, milking efficiency, mastitis rates, lameness and the potential impact of heat stress. In each case, the report provides the farmer with detailed information on the performance of their specific farm relative to regional and national benchmarks, and the potential benefits associated with making certain improvement actions.

To help our farmers make the best use of the Farm Insights Reports and further improve their animal wellbeing outcomes, we have been working with QCONZ¹ and UCOL² to develop Animal Wellbeing training modules. For example, a Certificate in Animal Wellbeing is now nationally recognised as a level four qualification and goes beyond welfare compliance to focus on the benefits to be gained through affordable, practical, good animal care practices.

1 QCONZ is an independent audit, certification, and training body that is ISO 17020 and 17065 accredited (www.qconz.co.nz)

2 UCOL is a modern Institute of Technology and Polytechnic and subsidiary of New Zealand's national vocational skills and training Institute, Te Pūkenga. (www.ucol.ac.nz)



Managing the risk of travel on biosecurity

Prior to 2020, we hosted several thousand overseas visitors per year. Travel restrictions during the COVID-19 lockdowns provided a pause in visitors and an opportunity to improve our processes and employee training on biosecurity. We have developed a new e-learning module to increase understanding of the biosecurity risks associated with international travel and deployed a more robust process for engaging overseas visitors to prepare them in advance for New Zealand's strong biosecurity requirements and the additional steps we require if they will be visiting a farm.

In 2020, Fonterra became a founding member of The Biosecurity Business Pledge, a partnership developed by New Zealand businesses and Biosecurity New Zealand, to take a proactive approach to biosecurity (for more information see Sustainability Report 2021 [page SP-37](#)). Proactively sharing information is good practice. This year we made the e-learning module and supporting reminder card freely available to our business pledge partners, and recently re-shared, following the outbreak of Foot and Mouth Disease in Indonesia.

Improving policies and standards

As part of our process of continuous improvement we regularly review our policies and standards. This year, we updated both our Animal Wellbeing and Biosecurity Policy and our Animal Wellbeing Standard, taking a more process-driven and outcome-based approach. We also changed the term used from 'animal welfare' to 'animal wellbeing' and included reference to the Five Domains model in addition to the existing reference to the Five Freedoms. The Policy and Standard apply globally to all animals within our supply chain, with dairy cows on farms supplying us with milk being by far the most relevant animals.

Consumers here in New Zealand and around the world are increasingly looking for more assurances about the quality of life experienced by the animals who produce their food. Therefore, in addition to the refresh of our Policy and Standards, we have introduced a new clause within the Terms of Supply for New Zealand farmers which means calves can only be euthanised on-farm when there are humane reasons for doing so. Fonterra places a strong emphasis on calf wellbeing and a big part of this is all dairy calves having a useful life. Many heifer calves are raised as replacement cows to join the milk herd when they are about two years old. Caring for these calves from the day they are born, not only leads to good animal wellbeing outcomes, but also leads to a long and productive life which reduces the overall environmental footprint of the milk produced. From 1 June 2023, farmers supplying us with milk in New Zealand must direct all their non-replacement calves into a value stream, either beef, veal or pet food. In New Zealand, about 30% of beef finishing animals are already born in the dairy sector, but we know that in parts of New Zealand, the value stream options are currently limited. To help improve this, we're collaborating with the wider industry, investing in R&D and exploring long-term solutions such as dairy-beef partnerships.

Our performance



76%

of farms in New Zealand agreed an Animal Wellbeing Plan with their vet this year.

Now in its tenth year and covering 150 of the largest food companies in the world, the Business Benchmark on Farm Animal Welfare is a leading global measure of farm animal welfare management, policy commitment, performance and disclosure by food companies. This year, like many other companies, our score and ranking dropped. We dropped but we remained in the top 20 of assessed companies. As acknowledged by the organisers, lower scores were primarily due to changes in the methodology used for scoring.

What's next

- Our dedicated team will continue to work with farmers, veterinarians, and regulators to support strong biosecurity and on-farm practices that are good for animal wellbeing outcomes
- We will continue to encourage the adoption of Animal Wellbeing Plans as part of The Co-operative Difference
- We will continue to improve the quality of the Farm Insights Reports that we provide to farmers in New Zealand (see [page 29](#)) to help them prioritise improvements on farm



Holli & Penelope, Taranua.

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 there is uncertainty and implementing best-practice environmental management systems. We set aspirations, objectives and targets that drive environmental performance and continue to work towards these.

The policy is published on our website.
www.fonterra.com/environmentalpolicy

We expect 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.

Manufacturing sites where we do not have operational control 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 the independent certification of site Environmental Management Systems (EMS) to international standards, such as ISO14001:2015. Independent certification to ISO14001, or an equivalent such as EnviroMark Diamond, provides a third-party evaluation of the performance of our EMS. Globally, 69% of our manufacturing sites are certified to this level or equivalent.

Environmental compliance

During FY22, we received no fines for non-compliance with environmental laws or regulations. We received one abatement notice when the mixing chamber at one of nutrient management farms in New Zealand malfunctioned and an unknown volume of wastewater was discharged to a nearby stream.

Water discharge related spills

We draw on international guidelines and national or local regulation to identify priority substances of concern and establish acceptable limits. We have identified clean-in-place chemicals, refrigerants and contaminated wastewater as our priority substances of concern.

During FY22, we had one discharge which exceeded agreed discharge limits (see Environmental compliance above).

Where an event occurs we take action to improve processes and minimise the risk of further non-compliances.

Working together

We are working together to deliver a sustainable business.



Stephanie, Craig & Veronica, Waiuku

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

We rely on strong relationships with a wide range of stakeholders to produce and deliver valuable nutrition. We also know that by working with others, we will be able to more rapidly deliver our aspirations and overcome challenges we face.

We believe in honest and transparent relationships where the value to the stakeholders is understood, and trust is earned. That's why we follow ethical practices and work closely with our farmers and our vendors. We also establish specific partnerships to help accelerate progress.

It is only in this way that we will be able to provide the strong levels of employment and income creation expected from us long-term into the future.

IN THIS SECTION

Working with farmers	47
Working with vendors	49
Working in partnership	51
Ethical business practices	54
Employment and income creation	56

6,315 ↑

farms in New Zealand achieved a recognition level in The Co-operative Difference framework, up from 3,246 – see [page 47](#)

74% ↑

of purchased palm oil is now certified as at least 'segregated supply' from credible organisations – see [page 50](#)

80% ↑

of internal audits completed across our global business included an assessment of the risks related to corruption – see [page 54](#)

\$13.7b ↑

returned to farmers in New Zealand – see [page 56](#)

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 our customers and communities value, so they can continue to farm for generations to come.

We have made a strategic choice to focus on New Zealand milk and 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 most value from our New Zealand milk (see map on [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.

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 framework provides a clear signal to farmers about what needs to happen on farm so the Co-op can meet our customer needs both today and into the future. It pulls the best of what we do into five focus areas.

The five areas are Milk, People and Community, Environment, Animals, and Co-operative and Prosperity. For each of these areas, 'Our Core' covers the things we can never afford to compromise on such as regulatory compliance, producing safe, high-quality milk and looking after people, animals and the environment. Beyond this, 'Our Next Steps' recognises farmers who are making improvements in prioritised areas and 'Our future' helps farmers future-proof decisions being made on farm today by giving them guidance on likely requirements.

'Our Next Steps' is based on meeting specific on-farm targets for the season. There are three levels of achievement possible and we use the analogy of a journey climbing up a mountain. Te Pūtāke represents the start, Te Puku represents the mid-point, and Te Tihi represents the summit.

From the start of the 2021/2022 season, farms became eligible for The Co-operative Difference payment of up to 10 cents per kg of milk solids, with 7 cents for reaching Te Pūtāke and a further 3 cents for reaching Te Puku. Reaching Te Tihi is about celebrating the farmer leaders in the Co-operative through recognition and is not linked to payments.

The specific criteria for Te Pūtāke this season included: accurate and timely completion of annual Farm Dairy Records; completing a DairyNZ Workplace 360 assessment and achieving 100% on the foundational level; having an Animal Wellbeing Plan (see [page 43](#)); having a Farm Environment Plan (see [page 28](#)) and achieving certain key standards related to topics such as nitrogen surplus, dairy shed effluent, on-farm plastics and farm-grown feed.

Te Puku builds upon the achievement of Te Pūtāke and is all about milk quality. It requires the milk supplied to achieve the excellence level for at least 30 days during the season and then, all milk that met this standard during the season attracts the extra payment.

Te Tihi builds upon the achievement of Te Puku and provides additional non-financial recognition for those farms delivering delivering 'excellent' quality milk for at least 90% of their season.

This year farmers took significant action with more than 70% of farms achieving The Co-operative Difference payment at some level. This outstanding level of participation is an encouraging indication that farmers are willing to step-up and make changes on farm in a way our customers want. With more farmers achieving Te Pūtāke, we're able to give critical assurances around the sustainability credentials of our high quality New Zealand milk.



1,155

ACHIEVED
LEVEL 1

Te Pūtāke

"THE START
OF THE JOURNEY"
7c/KGMS on all milk supplied

4,522

ACHIEVED
LEVEL 2

Te Puku

"The MID POINT"
3c/kgMS on all qualifying milk

638

ACHIEVED
LEVEL 3

Te Tihi

"THE SUMMIT OF
THE MOUNTAIN"

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, Collection and Transport Global Standard is part of our Global Integrated Management System and sets out the minimum requirements that all farmers must meet. It applies to all farmers, collection points, co-operative vats and chilling centres supplying raw milk to Fonterra around the world, building on compliance with local regulations and forming the basis for our on-farm audits.



Farm Environment Plan discussions, Taranua

Through a combination of our own employees and third parties, we regularly assess farms supplying us:

- In New Zealand, in addition to regular visits by our 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, 14% of farms were placed into our performance management process at some point during the season to address an identified area of concern.
- In Australia, farms are visited multiple times each year by our employees, and independent assessments are scheduled based on prior compliance levels. Every farm is assessed at least once every two years. In FY22, 57% of farmers were assessed, and 12% of the assessed farms were referred for follow-up and resolution.
- In Latin America, each farm is assessed by a combination of our employees, and third parties. In addition, our New Zealand-based Global Assurance team audits a random selection of farms once every three years. This has been disrupted by COVID-19 related travel restrictions but is resuming again in FY23.
- In China, the one farm, which is under our direct control, is assessed by a combination of our own employees and third parties. In addition, it is subject to assessments by our New Zealand based Global Assurance team and Internal Audit team. This has been disrupted by COVID-19 related travel restrictions but is resuming again in FY23.

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 nine farms in New Zealand this year: six related to milk quality, two related to animal wellbeing and one related to effluent management.



Farms we manage

We only have a very small number of farms around the world under our management control. In New Zealand, we manage 29 farms that neighbour our manufacturing sites, including 10 which have dairy herds. 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, which then allows us to grow and supply supplementary animal feeds for our farmers.

In China, we operate one large-scale dairy farm to produce raw milk for use in local products and this is currently being held for sale.

Working with vendors

We have the opportunity to influence our supply chain and achieve alignment with our sustainability commitments and goals.

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 47](#).

This section covers the way we work with vendors in our non-milk supply chain. Our procurement team is also supporting the vendor selection and engagements to deliver our decarbonisation (see [page 34](#)), wastewater improvement (see [page 26](#)) and sustainable packaging (see [page 39](#)) programmes.

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. These requirements apply to all purchasing, and for significant items, our specialist procurement team must be involved in the purchasing decisions and ongoing management of the vendors.

The Global Policy is owned by the Chief Operating Officer and approved by the Board of Directors. Business Unit managers are 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, including during initial selection and on an ongoing basis (see [page 50](#)). Suppliers of any material or services that may impact our sustainability commitments must be approved by the 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. This was reviewed and updated during FY22.

www.fonterra.com/sustainabilitycop



Lex & Francisca, Hamilton

What we've been doing

Delivering a framework to improve management of our vendors

Sustainability is one of the key pillars considered when we refresh our category strategies and a standing item on the agenda in our vendor meetings for providers of ingredients, packaging and engineering categories. This year, we have designed a vendor vetting and engagement framework, enabled by an online portal, to help us better understand and manage the risks associated with our vendors.

Globally we engage with over 10,000 vendors, and we are reliant on them to deliver our objectives. The new framework, supported by the online portal and a robust business process, will allow us to assess and manage our vendors in a more efficient and consistent way, both during initial selection and on a proactive ongoing basis.

For our vendors, the goal is to provide them with fast to learn and easy to use systems that supports a transparent assessment with clear requirements and good management processes throughout the entire engagement lifecycle.

For our employees, it allows us to comprehensively cover the broad range of topics that need to be considered and focus on the most relevant and highest risk topics for each given vendor. The topics covered include regulatory compliance, food safety and quality, health and safety, cyber security, environmental performance and working conditions.

The implementation of the portal, including supporting business processes and employee training, was completed in July 2022, and we are now progressing with our rollout. The initial vetting will apply to 50 existing vendors, representing a range of categories, services and vendor size. It will also be applied to new vendors in New Zealand, and gradually over the next three years, we aim to expand coverage globally.

Forest products

Palm products are purchased as ingredients for use in a limited number of our products, but they 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 have been a member of the Roundtable for Sustainable Palm Oil (RSPO) since 2010 and since 2015, all our palm oil purchases have used one of the RSPO supply chain models. During the 2021 calendar year, we purchased 20,481 tonnes of palm-related products as an ingredient, down 25% on 2020. Volumes were down in most regions except Saudi Arabia and Indonesia and this has contributed to reduced progress towards our target of 100% segregated supply. For the 2021 calendar year, 74% of our purchasing was RSPO certified to at least a segregated supply level and 20% was certified at mass balance level.

By volume, 96% of all direct palm oil being purchased by our New Zealand business and 100% of all direct palm oil being purchased by our Australian business is certified as segregated supply. It is purchasing for our operations in Saudi Arabia, Indonesia and Chile, where most of our remaining improvement is required. This year, we reviewed our palm oil use and we remain committed to achieving certified segregated supply. We are increasing our efforts to positively influence the sustainable production of palm within our supply chains, by updating our responsible sourcing standard and introducing specific supply chain audits.

Palm oil is a versatile, functional fat that can be blended with dairy ingredients to make a wide range of products with the potential to make New Zealand-sourced nutrition available to more consumers at affordable price points in some markets.

Palm kernel expeller (PKE) is a by-product of the palm crop, originally treated as waste, and now used as an effective supplementary feed for animals, including dairy cows in New Zealand. Our farmers are aware of the need to source this responsibly, and we test milk received to detect if the expected low use of PKE is being exceeded. We believe our focus on influencing primary palm production is the best way to deliver sustainably-produced PKE.

We first launched our Palm Product Standard in 2016, and this year we published an updated version to reflect updates to internationally recognised standards and principles, expanding the scope to cover indirect purchasing (i.e. ingredients containing palm products), and aligning with our commitment to zero deforestation. With the launch of the revised standard, we are driving towards 100% certified segregated supply by ensuring any exceptions to this are identified and investigated before the start of the calendar year 2023. We expect only a few exemptions will be granted where there is no segregated supply of the specific oil fractions or indirect purchase currently available in the required locations, or due to unforeseen supply chain constraints.

While we have a specific focus on palm products, we also consider the risk of deforestation more widely in our supply chain and completed our fifth response to CDP on Forests this year.

Our performance



74%

of purchased palm oil is now certified as at least 'segregated supply' from credible organisations.

What's next

- Using our newly launched online portal, we will continue to expand our assessment and engagement with vendors globally to better understand the practices and manage risks in their supply chains
- We will rollout our updated Sustainability Code of Practice, working with vendors so our expectations are understood and priority risks are being managed
- We will implement our updated Palm Products Sourcing and Procurement Standard, driving harder towards 100% certified segregated supply and introducing supply chain audits

Working in partnership

We know we can achieve more and have a greater positive impact when we partner with others.

This section covers some of the impact partnerships we have been progressing this year.

See also “Working with farmers” on [page 47](#), Working with vendors” on [page 49](#) and “Doing Good Together” on [page AR-16](#).



Dr. Robert Langer, the co-founder of VitaKey and Professor at Massachusetts Institute of Technology

Precision delivery of valuable nutrition

This year, we entered a partnership with US-based company VitaKey to further enhance the value of our internationally recognised probiotic strains. VitaKey specialises in the precision delivery of nutrition – delivering the right nutrients, in the right amount, to the right place in the body, at the right time across the entire food supply chain from animal feed to human food and beverages. Their technology helps protect the nutrients from damage, extends shelf-life and does not require over-fortification, all of which can reduce waste and maximise the nutritional benefit which can be delivered from our farmer’s milk.

The initial focus of this partnership is on probiotics, and our Research and Development Centre is home to one of the largest dairy culture libraries in the world, with more than 40,000 strains. Two of these strains – LactoB HN001™ and BifidoB HN019™ – are recognised as being in the top five global probiotics, with clinically proven benefits including improved digestive health and improved immunity (see ‘Wellness starts within’ on [page 12](#)).

VitaKey’s targeted and time-controlled release technology platform uses a plug-and-play approach to deliver micronutrients, macronutrients, vitamins, probiotics and related items, enhancing the nutritional value of food and beverages. This technology has already led to many successful products in the medical field, and they want to see it have an equal impact in the nutritional field.

More people are seeing the value of food not just for energy, but as a way of getting important nutrients and contributing to improved health and wellbeing. By working with VitaKey, we see the opportunity to advance dairy science, contribute to sustainable nutrition and add extra value to our New Zealand milk.

Living Water

Living Water is a partnership between Fonterra and the New Zealand Department of Conservation, two large organisations with different skill sets and purposes, and we saw the potential value of working together.

Caring for Aotearoa New Zealand’s ecosystems and species is critical to New Zealand’s economic success and that of the agricultural sector in the future, and it needs to happen across all landscapes, not just on conservation land.

Through a gradual process over time, it is estimated that about 10% of New Zealand’s land area has been artificially drained to make lowland areas productive for agriculture. This has modified the natural water network and these drains can often now be the last refuge for native freshwater species in productive landscapes.

Established in 2013, the partnership is focused on five catchments (see map on [page 52](#)) to identify game-changing and scalable solutions that show dairying and freshwater can thrive together.

As we enter the 10th year of the partnership, there is much to celebrate, including:

- The inclusion of a specific Biodiversity module in the farm-specific Farm Environment Plans that Fonterra uses with its farmers (see [page 28](#))
- 90% of farms supplying milk to Fonterra in Living Water catchments now have FEPs
- 14 identified solutions have been scaled or are being used by others
- 8 potential game-changing approaches have been trialled

Example projects

KEY

- Completed
- In progress
- National projects
- ▲ Catchment scale projects
- + Farm scale projects



- ● [LandscapeDNA](#)
- ● [Farming with Native Biodiversity](#)

Wairua River/Te awa o Wairua, Northland/Te Tai Tokerau

- ▲ ● [Detention bunds](#)

Pūkoro-Miranda, Hauraki

- ▲ ● [Trees on farm](#)
- ▲ ● [CAPTure catchment prioritisation](#)

Lakes Areare, Ruatuna, Rotomānuka/Ngā roto o Areare, o Ruatuna, o Rotomānuka, Waikato

- + ● [Catchment water monitoring](#)

Ararira-LII River/Te awa o Āraiara, Canterbury)

- ▲ ● [Drainage network redesign](#)
- + ● [In-stream sediment traps](#)

Waituna Lagoon/Te pūroto o Waituna, Southland

- + ● [Fine Particle Fertiliser Application](#)

- 200,000 native plants and trees have been planted in Living Water catchments
- Tangible improvements to instream habitats for native fish have been achieved
- 50% of our farmer shareholders located in Living Water catchments are implementing freshwater improvement actions over and above regulatory requirements

There are valuable lessons learned which can be used to inform, not only our own future work. but also shared and applied more widely.

Some of these include:

- Working at the farm scale alone will not fix the challenges faced. We need to 'reimagine' our productive landscapes for a more-resilient future and design with nature rather than squeeze nature in around farming.
- Aspects of the natural landscape can influence water quality outcomes more than farm management practices, so we need to use the new science of physiographics (natural landscape attributes and processes) for improved catchment and farm planning.
- We need to use all the available knowledge – indigenous, western science and farmers – and use the right solution in the right place for the right purpose.
- Farmers are smart business people who look to maximise their return on investment – we need to support them to implement changes that provide multiple benefits for climate, water, soil, biodiversity, ecosystem function, and long-term farm and business resilience

Living Water has built a strong working relationship and mutual respect between DOC and Fonterra and generated lessons learnt and new knowledge that we look forward to taking beyond the ten year partnership.

Sustainable Nutrition Initiative

Sustainably nourishing an increasing global population without exceeding the capacity of the planet is a major challenge for society, and there are many narratives on how this should be done. Fonterra is supporting the Sustainable Nutrition Initiative (SNI®), which is creating a better understanding of the food system and identifying practical opportunities to sustainably feed the global population with the nutrients required.

We must thoroughly understand the problems to be solved before embarking on changes that will be difficult and slow to introduce, and extremely challenging to reverse if we get them wrong. The global food system of the future will be shaped by the shifts in thinking that we make today. The SNI® helps provide context to support this thinking, and helps guide decisions.

The current impacts of the global pandemic, conflict and climate-related issues on the global supply and trade in food and associated nutrients has emphasised the importance of a global approach to food security.

The DELTA Model® has been created by the SNI® to generate a wide range of possible scenarios and to explore what improvements to the global food system might be possible and practical. Using the DELTA Model® to explore global food supply, flows, consumption and losses highlights facts that are not always what people think they are, or may have been told. The food system is already plant-based, and from the perspective of production, consumption and waste, animal-sources of food are not as inefficient as previously thought. There is also strong evidence that to nourish the global population a plant-based and animal-optimised food system is required.

This year, the SNI® team used the DELTA model to examine the role of milk in global nutrition.¹ Of the 29 nutrients considered by the model, milk contributes to the global availability of 28. Milk is the main contributing food item for calcium (49% of global nutrient availability), Vitamin B2 (24%), lysine (18%), and dietary fat (15%), and contributes more than 10% of global nutrient availability for a further five indispensable amino acids, protein, vitamins A, B5, and B12, phosphorous and potassium. These high contributions to individual nutrients make milk 'nutrient rich'. With milk only responsible for 7% of food energy,

it means milk is also 'nutrient dense' (high content and range of nutrients compared to associated calories). Among the 98 food items considered by the model, milk ranks in the top five contributors to 23 of the 29 nutrients modelled. This quantification of the importance of milk to global nutrition in the current global food system demonstrates the need for the high valuation of this food when considering future changes to the system.

For more information please visit the SNI® website www.sustainablenutritioninitiative.com.

End-of-life pallets upcycled to protect nature

In New Zealand, Fonterra uses more than 800,000 wooden pallets, for transportation and storage of product, moving them about 2.5 million times per year. These pallets are all made from green or heat-treated radiata pine, sustainably sourced locally in New Zealand. We've had a long-term relationship with our pallet supplier Timpack (refer to Sustainability Report 2018 page 65), who replace damaged boards to extend the useful life of the pallets and, at end-of-life, send the pallets to Reharvest Enviromulch who chip them for reuse in children's playgrounds or landscaping.

This year, with the help of the Department of Conservation, our Living Water partner (see page 51), we established a new collaboration with the Department of Corrections to reuse waste wood from pallets to make pest trap boxes and help offenders develop basic carpentry skills at the same time.

Every year, more than 450,000 boards are replaced, and about 10,000 pallets reach their end of life. Corrections operates a programme for people serving community work sentences, and it is important that the projects undertaken are meaningful, allowing the people to pay something back to the community for their offending.

We supply our pallet wood waste to Corrections, who run the programme to help upskill the offenders while making the pest traps. Hundreds of trap boxes are now being made available free to community groups through the Department of Conservation to protect New Zealand's flora, fauna and native animals.



Lawrence Hooker, Fonterra's National Pallet Manager and Rose Graham – DOC Living Water Ranger

“The participants are proud of what they produce. They know they’re doing something positive for the environment and community, and they’re learning a range of new skills at the same time.”

– Department of Corrections Senior Community Work Supervisor Warren Smith

1 Smith NW, Fletcher AJ, Hill JP and McNabb WC (2022) Modeling the Contribution of Milk to Global Nutrition. Front. Nutr. 8:716100. <https://dx.doi.org/10.3389/fnut.2021.716100>

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.



Jess, Penelope, Blair & Holli, Taranua

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 page [C&S-03](#)).

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 page [C&S-03](#).

Our performance

Anti-corruption

Each year our Internal Audit team assess all Fonterra businesses for the risk of potential fraud. This risk assessment helps determine the priorities for audits across our global business.

During FY22, over 80% of the internal audits completed across our global business included an assessment of the risks related to corruption. Particular areas of focus included segregation of duties, delegated authorities, procurement practices and sensitive inventory management. Within the coverage of these audits, seven manufacturing sites where we have management control were subject to an anti-corruption check.

Internal Audit was also asked to investigate five potential corruption/ fraud cases identified through our whistle-blowing hotline. All were related to individuals in New Zealand and allegations of unethical behaviour with respect to employment practices. Investigations did not substantiate the claims, and no further action was taken.

In addition to the cases identified through our whistle-blowing hotline, one of our entities in Southeast Asia was investigated for unethical behaviour with respect to sensitive inventory variances. The investigation did not substantiate the claims and no further action was taken.

Legal compliance

We have not identified any material 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. Following an application by the defendants, the High Court struck out two of Mr Smith's three specific claims. Under applicable rules, a High Court claim can be struck out if the High Court determines that the claim is not reasonably arguable in law. The decision of the High Court was then appealed by Mr Smith in the Court of Appeal (and Fonterra and the other defendants cross-appealed the decision of the High Court not to strike out the remaining claim). The Court of Appeal ruled in favour of the defendants and struck out all three claims. Mr Smith has been granted leave to appeal the decision of the Court of Appeal to the Supreme Court and this appeal was heard on 15-17 August 2022. The parties are awaiting the Supreme Court's judgement in the appeal.

For further details on environmental compliance, see [page 45](#), for health and safety compliance, see [page 18](#); for product marketing compliance, see [page 13](#).

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. We are transparent and work with tax authorities so we can 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.



Michelle & Guillaume, Auckland

Employment and income creation

Our Co-operative supports the livelihoods of tens of 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 \$13.7 billion to regional New Zealand.

We also support the livelihoods of our employees. On a full-time equivalent basis, Fonterra directly employs 19,608 people, with over 60% of those based in New Zealand (see Annual Review [page AR-04](#) for the distribution of those 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.

\$13.7b

Through the milk price we returned more than \$13.7 billion to regional New Zealand

19,608 people

Fonterra directly employs 19,608 people, with over 60% of those based in New Zealand

Our approach

Being a farmer-owned co-operative gives farmers control, and they know the Co-op will always collect their milk and work hard to achieve the best price for it. We believe that by working together at this scale provides efficiencies, a flexible product portfolio and broad market access that makes us resilient and competitive in the global market.

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 around 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 retain, develop and attract people with the critical skills we need, recognises the role our people play in the success of Fonterra, with a strong link between business performance and reward, and rewards our people equitably. Our remuneration framework for salaried staff is based on a 'total remuneration' approach, which includes base salary, benefits (superannuation and insurance), and variable remuneration (incentives). This approach is consistent with best practice globally. The amounts we pay to our employees are benchmarked against comparable companies in relevant markets, using information obtained from independent remuneration consultants.

Many of our waged employees are covered by collective agreements. New Zealand industry data¹ from 2017 showed that the average dairy processing wage of \$85,510, was well above all other forms of food product manufacturing.



Woody, Palmerston North

1 Source: How does the dairy sector share its growth. NZIER report to DCANZ October 2018. Data from 2017.

Our performance

ECONOMIC VALUE DISTRIBUTED	FY21	FY22
Payment to suppliers (farmers) for NZ-sourced milk	\$11,660 million	\$13,722 million
New Zealand Farmgate Milk Price	\$7.54 per kgMS	\$9.30 per kgMS
Payment to suppliers (farmers) for non-NZ sourced milk	\$994 million	\$1,113 million
Profit after tax attributable to equity holders of the Co-operative	\$578 million profit – (earnings of \$0.36 per share)	\$584 million profit – (earnings of \$0.36 per share)
Dividend payment to equity holders of the Co-operative	20 cents total dividend	20 cents total dividend.
Employees (FTE)	19,354	19,608

Detailed commentary on our financial performance is included in our Annual Review, see www.fonterra.com/annualreview2022 and our detailed Financial Statements, see www.fonterra.com/financialstatement2022.



What's next

- We will continue to support regional New Zealand by paying a competitive milk price to farmers
- We are committed to delivering on our financial commitments for FY23 (see [page AR-06](#))

Appendices

IN THIS SECTION

Our contribution to UN SDGs	59
Our performance	60
Employee data	71
Data reporting notes	75
Materiality assessment	79
GRI Index	81
Supplementary Indexes	84
Assurance Letter	87
External initiatives and memberships	89

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 provide a link to related coverage in our reporting this year.

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
- www.saiplatform.org/sdp/

	SDG	OUR CONTRIBUTION	INDICATORS	RELATED COVERAGE
	NO POVERTY	Create positive employment opportunities along our value chain	1.2	See Employment and Income Creation on page 56
	ZERO HUNGER	Provide access to safe, affordable nutrition	2.1	See Food, safety and quality on page 14
		Address malnutrition through products tailored to specific health needs	2.2	See Nutrition and health on page 10
		Lift dairy productivity to meet growing nutritional needs in a sustainable way	2.4	See Working with farmers on page 47
	GOOD HEALTH & WELLBEING	Responsibly provide products to support wellbeing of people, including of mothers and infants	3.1 3.2	See Nutrition and health on page 10 See Nutrition and health on page 10
		Continue to improve the nutritional profile of our products	3.4	See Nutrition and health on page 10 See Health, safety and wellbeing on page 16
		Promote healthy and informed consumer choices		
		Provide a safe working environment	3.9	See Health, safety and wellbeing on page 16
	GENDER EQUALITY	Provide equal participation and opportunities for women in the workforce	5.5	See Diversity and inclusion on page 21 See Closing our gender pay gap on page 22
	CLEAN WATER & SANITATION		6.3	See Improving water stewardship on page 25
	LIFE BELOW WATER	Reduce the impact of farming and manufacturing on water quality and ecosystems	14.1 15.1 15.2	See Improving wastewater treatment on page 26 See Prioritising on-farm improvements on page 28 See Working with farmers on page 47
		Improve water efficiency, especially in areas of constrained supply	6.4	See Using less water on page 26
	LIFE ON LAND	Protect and restore freshwater ecosystems	6.6	See Prioritising on-farm improvements on page 28 See Sustainable catchments on page 27
	DECENT WORK & ECONOMIC GROWTH	Provide positive and inclusive employment for all groups	8.5	See Learning and development on page 20 See Diversity and inclusion on page 21 See Employment and Income Creation on page 56
		Address labour and human rights issues in our supply chain	8.7 8.8	See Working with vendors on page 49 See our Modern Slavery Statement .
		Provide a safe and secure working environment	8.8	See Health, safety and wellbeing page 16
	RESPONSIBLE CONSUMPTION & PRODUCTION	Reduce food waste throughout our supply chain	12.3	See Packaging and waste on page 39
		Reduce waste generation through our operations and product packaging	12.5	See Packaging and waste on page 39
	CLIMATE CHANGE	Support farmers to build resilience to climate change	13.1	See Prioritising on-farm improvements on page 28
		Reduced emissions across our supply chain		See Climate change on pages 30 -38

1. A joint declaration of the UN Food and Agriculture Organisation and the International Dairy Federation signed in 206.

Our performance

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
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				86.5%	87.7%	We are continuing to improve the formulation of our consumer products. On a volume sold basis, we improved from 86.5% to 87.7%. This year we developed an online system which makes it easier for us to analyse and track our progress. This system has been implemented for our global business units but excludes those businesses being held for sale in Latin America. We have continued to track progress in Latin America manually and combined this with our online system to give the overall progress. FY21 results have been restated using the more accurate information available from our online system, it is now 86.5% rather than 84% previously reported. Our nutrition guidelines , as endorsed by the New Zealand Nutritional Foundation are publicly available on our web site.	● 11
People - Health safety and wellbeing								
Work-related fatalities (employees, contractors, on-site public)	Zero harm	0	1	0	0	1	Tragically, one tanker driver passed away in April 2022 when his tanker left the road in Canterbury and rolled into a paddock. We have undertaken a review of the incident with an independent investigator, and currently await the serious Crash Unit report from the Police.	17
Number of serious harm injuries (employees, contractors, on-site public)	Zero harm	14	18	10	9	8	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. Three of these injuries were associated with falling or moving objects from vehicles or forklifts, two were related to on road driving, the others were related to a slip, a knock and machine safety during maintenance. We continue to work on our vehicle safety and traffic management across the business.	17
Number of recordable injuries ² (employees – work-related)	Measure and report	284	222	247	230	258	258 injuries required medical treatment, restricted work duties or time away from work. This is the highest number for several years so we will continue to seek further improvements in both rate and severity. Slips, trips and falls (21%) and manual handling (20%), continue to be the main cause of recordable injuries.	17
Total recordable injury frequency rate (TRIFR per million work hours) (employees – work-related)	Less than 5	6.1	4.9	5.8	5.7	6.7	This year, like a number of other New Zealand companies, we have seen an increase in recordable injury rate. Slips, trips and falls, as well as manual handling incidents continue to contribute to more than 40% of our injuries. The total hours worked covered by this injury rate was 38.6 million hours.	● 17







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.

FY22 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.


INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
People – Investing in people								
Employee engagement	World-class (Top quartile)	4.00 (2nd highest quartile)	4.07 (2nd highest quartile)	N/A ¹	4.09 (2nd highest quartile)	–	Engagement has continued to be monitored through pulse surveys within individual business units, but no global assessment has been completed during FY22. To measure the impact over time we are implementing a new culturing diagnostic tool more closely related to our culturing work.	 20
Training skills hours (NZ)	Double by 2025 from FY20 baseline	–	–	270,355	346,417	501,879	We have continued to make good progress this year, increasing the hours of skills training by 85.6% compared to FY20, with the average hours per learner being 45 hours. In addition to skills-related training, there were an additional 173,500 hours of onboarding and compliance learning in New Zealand, covering things such as safety and environmental management.	 20
Female representation in senior leadership	50% by 2022	30.1%	28.6%	29.1%	32.4%	34.8%	For the second consecutive year we have made progress on this aspirational target. We have not made as much progress as we hoped within the timeframe originally envisaged but we remain committed to the intent. This year we have set a new goal 40:40:20, which we believe is more appropriate and sends a positive signal on the direction we want to go. 40:40:20 refers to 40% female, 40% male, 20% of any gender. The 20% introduces the flexibility of female, male or non-binary gender. We have also extended the range of senior leadership covered by the goal to Bands 12+.	 21
Ethnic representation in senior leadership	20% by 2022	9%	9%	8%	9%	15%	Privacy concerns and the voluntary nature of reporting ethnicity information continue to limit our understanding and ability to improve but this year an increase in voluntary disclosure has improved data quality and the result. Within senior leadership, 59% identify themselves as European; 10% identify themselves as Asian; 2.4% identify themselves as Māori; 1.8% identify themselves as other ethnicities and 27% have not provided the information. We are investigating alternative ways to express our intent and track progress. The project will start by reviewing the experiences of Māori and Pasifika employees within our Aotearoa New Zealand teams and make recommendations about how we make the Co-operative more inclusive for different ethnicities.	 21
Nature – Land and water, on-farm								
Farms with Farm Environment Plans in New Zealand	100% by 2025	12%	23%	34%	53%	71%	Our goal for FY22 was to reach 67% and this has been exceeded.	 28
Farms with Farm Environment Plans in Australia	Monitor and report	–	–	–	–	13%	This year we commenced rollout of FEP for the farmers supplying us milk in Australia.	 29



1. The engagement survey for FY19 was completed in early FY20 with 86% of employees participating. The next Co-operative wide survey was completed mid-FY21 and is considered to represent FY21.

FY22 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.


INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Nature – 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	6.6% Reduction from FY18	We made good progress this year, turning around the slight increase in FY21 and almost achieving our target for FY22. To achieve this, six of the seven manufacturing sites in water-constrained regions delivered reductions (see highlights on page 26). From next year we will start reporting progress against our new water stewardship goal (see page 25).	 26
Improvement in water efficiency ¹ (water used per cubic metre of milk processed)	Measure and report (global)	–	0.4% Better than FY18	1.9% Better than FY18	2.5% Better than FY18	3.1% Better than FY18	While our priority is on reducing our absolute water use at sites, a focus on water-efficiency at all sites is an important aspect of water stewardship. We have continued to deliver significant improvements, and this is reflected in water efficiency indicators based on milk processed and finished goods produced.	26
Improvement in water efficiency (water used per tonne finished goods)	Measure and report (global)	–	1.5% Better than FY18	4.8% Better than FY18	5.7% Better than FY18	7.3% Better than FY18	For these underlying performance indicators, prior years have been restated to reflect acquisition of two sites in Australia during FY21.	
Percentage of Manufacturing sites treating wastewater to leading industry standards	>80% of sites by 2030 (global)				53%	56%	Recognising that stakeholders have different views and values when it comes to improving water quality, we believe that a leading industry approach to wastewater quality requires a truly collaborative approach. We judge our success based on a combination of internal guidelines and satisfying the expectations of key stakeholders at a catchment level. We are progressing our investments to upgrade wastewater treatment facilities and this year we completed the planned upgrade of our wastewater treatment at Whareroa.	 26
Water withdrawal by source overall - Volume (000 m³) ¹								
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	23,644	Includes rainwater harvesting at our Indonesian site.	
	Ground water (water that is in an underground formation)		14,971	14,835	14,489	14,074		
	Seawater (sea or ocean)		0	0	0	0		
	Produced water (through the extraction, processing or use of any raw material)		0	0	0	0		
	Third-party water (municipal water supplies or other public or private water utilities)		7,473	7,159	7,015	7,415		
Total withdrawal from freshwater			48,286	46,912	47,230	45,153		

1. Where required water data for prior years has been restated for a combination of reasons including acquisition of two Australian sites in FY21 and specific TDS testing (see Data Reporting Notes [page 78](#))

FY22 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.

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0	0		
	Ground water		2,439	2,127	1,996	1,992		
	Seawater		0	0	0	0		
	Produced water		10,859	11,236	11,913	12,345	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		2,011	1,330	1,536	1,448		
Total withdrawal from other water			15,310	14,693	15,445	15,785		
Grand Total			63,596	61,605	62,675	60,939		
Water discharge by destination overall - Volume (000 m³)								
Freshwater (≤1,000 mg/L Total Dissolved Solids)	Surface water		19,079	19,178	19,676	18,507		
	Ground water		4,428	4,200	3,767	3,686		
	Seawater		0	0	0	0		
	Third-party water (total)		1,372	1,446	1,536	1,871		
	Third-party water - for use by other parties		0	0	0	502	By agreement, or for emergency community support, we provide some water to third parties. These are small volumes and not easy to isolate. From FY22, we can report some. The remainder are deemed immaterial.	
Total discharged to freshwater			24,879	24,823	24,978	24,064		
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water		6,013	5,961	5,974	5,704		
	Ground water		13,347	12,250	12,896	11,879		
	Seawater		13,241	12,936	13,265	13,962		
	Third-party water (total)		3,845	3,780	3,854	3,789		
	Third-party water - for use by other parties		0	0	0	0		
Total discharged to other water			36,446	34,928	35,989	35,333		
Grand Total			61,325	59,751	60,967	59,398		

FY22 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.

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Water discharge overall – Quality (COD mg/L)								
Discharged to surface water			74	69	59	58		
Discharged to ground water			1,220	1,183	1,063	1,110	Prior years restated to remove sludge from wastewater treatment at Maungatūroto which had previously been included.	
Discharged to seawater			2,105	2,062	2,264	1,947		
Discharged to third-party water			1,874	1,703	1,531	1,755		
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	0		
	Ground water		0	0	0	0		
	Seawater		0	0	0	0		
	Produced water		0	0	0	0		
	Third-party water		597	582	582	526		
Total withdrawal from freshwater			597	582	582	526		
Other water (>1,000 mg/L Total Dissolved Solids)	Surface water		0	0	0	0		
	Ground water		2,023	1,996	1,862	1,857		
	Seawater		0	0	0	0		
	Produced water		54	125	117	103		
	Third-party water		2,011	1,330	1,536	1,448		
Total withdrawal from other water			4,087	3,451	3,514	3,409		
Total sourced from areas with water stress			4,684	4,033	4,097	3,935		
Water discharge by destination to areas with water stress - Volume (000 m³)								
Discharged as freshwater (≤1,000 mg/L Total Dissolved Solids)			1,358	1,422	1,495	1,342		
Discharged as other water (>1,000 mg/L Total Dissolved Solids)			2,627	2,012	2,211	2,058		
Total discharged to areas with water stress			3,985	3,434	3,706	3,400		

1. Where required water data for prior years has been restated for a combination of reasons including acquisition of two Australian sites in FY21 and specific TDS testing (see Data Reporting Notes [page 78](#))

FY22 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.

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Water consumption - Volume (000 m³)								
Total consumption from all areas			2,271	1,854	1,707	1,541		
Total consumption from areas with water stress			699	599	391	535		
Change in water storage			-6	5	-30	20		
Nature – Climate change								
Reduction in absolute scope 1 & 2 emissions	30% reduction by 2030 from FY18 baseline (Global)	–	1.8% reduction from FY18	3.5% reduction from FY18	6.6% reduction from FY18	11.2% reduction from FY18	Progress in FY22, was much better than planned and significantly exceeded target. In addition to the improvement projects completed, lower milk volumes, a favourable product mix and a higher renewable content in New Zealand grid electricity also contributed. In FY21, the New Zealand grid electricity had the lowest renewable content since FY15, and this negatively impacted the progress we had made in other areas. This year, the New Zealand grid electricity has returned to more normal levels. We have made good progress towards our science-based target and remain on track to achieve it. All prior years have been restated slightly (see Data Reporting Notes on page 78).	● 34
Net change in GHG emissions from dairy farming since 14/15 (NZ) (Pre-farm gate tCO ₂ -e)	Neutral to 2030	504,636 reduction on 14/15 (2.4%)	614,156 reduction on 14/15 (2.9%)	690,675 reduction on 14/15 (3.2%)	916,753 reduction on 14/15 (4.3%)	1,742,123 reduction on 14/15 (8.2%)	Our estimated absolute GHG emissions remain well below the baseline season. Emissions intensity on farm for 20/21 season (including LUC) is 0.3% higher than the 14/15 baseline. The significant decrease from FY21 to FY22 is based on decreased milk volume. The lifecycle assessment for 20/21 is the most recent available and is applied to both seasons. All prior years have been restated to reflect the latest available lifecycle assessment (see Data Reporting Notes on page 78).	● 32
Total energy used by manufacturing								
Fuel consumption	Energy (PJ)	20.0	19.8	19.5	19.3	18.8		
	Renewable energy (%)	0%	0%	0%	5%	4%		
Steam consumption	Energy (PJ)	4.2	4.1	4.0	4.1	3.8		
	Renewable energy (%)	4%	6%	6%	6%	8%		
Electricity consumption	Energy (PJ)	5.2	5.1	5.0	5.1	5.1		
	Renewable energy (%)	53%	55%	55%	56%	59%		
Energy used	Energy (PJ)	29.5	29.0	28.6	28.6	27.7		
	Renewable energy (%)	10%	11%	11%	14%	15%		
	Non-renewable energy (%)	90%	89%	89%	86%	85%		
Global consolidated emissions (000 tCO ₂ -e)								

FY22 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.

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Scope 1	Scope 1	1,726	1,701	1,708	1,545	1,366	All prior years have been restated to reflect the latest available on-farm lifecycle assessment and other minor updates (see Data Reporting Notes on page 78).	
	On-farm	232	221	239	173	34		
	Manufacturing	1,494	1,480	1,469	1,372	1,332		
	Distribution and other	0	0	0	0	0		
Scope 2	Scope 2	701	662	634	653	565	As above.	
	On-farm	66	52	53	36	5		
	Manufacturing	635	609	580	617	560		
	Distribution and other	0	0	0	0	0		
Scope 3	Scope 3	24,440	23,788	23,591	23,375	22,549	As above.	
	On-farm	24,159	23,513	23,330	23,119	22,314		
	Manufacturing	71	69	66	55	52		
	Distribution	198	195	186	199	180		
	Other	12	11	8	3	3		
Total Scope 1, 2 & 3	Total Scope 1, 2 & 3	26,867	26,151	25,932	25,572	24,480	As above.	
	On-farm	24,456	23,787	23,622	23,328	22,353		
	Manufacturing	2,201	2,158	2,115	2,043	1,944		
	Distribution	198	195	186	199	180		
	Other	12	11	8	3	3		
GHG Inventory (000 tCO ₂ e)								
Scope 1	Direct emissions from owned/controlled operations	1,726	1,701	1,708	1,545	1,366	Stationary combustion, mobile combustion for relevant fuel types including coal, gas, liquid fossil fuels and biofuels. Scope 1 component of on-farm GHG emissions for the small number of farms where we have operational control is also included here. Refrigerant losses are included for New Zealand and Australia. Carbon dioxide for packaging is included for New Zealand. Scope 1 emissions associated with small offices around the world are immaterial and excluded. Data is generally based on invoices and emissions factors from a selection of sources (see Data Reporting Approach on page 76 for further information).	

FY22 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.

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Scope 2	Indirect emissions from the use of purchased electricity, steam, heating, and cooling	701	662	634	653	565	GHG emissions from purchased electricity and steam for all manufacturing sites under our operational control. Scope 2 component of on-farm GHG emissions for the small number of farms where we have operational control is also included here. Scope 2 emissions associated with small offices around the world are immaterial and excluded. All electricity emissions are reported using a location-based approach. Data is generally based on invoices and emissions factors from a selection of sources (see Data Reporting Approach on page 76 for further information)	
Total Scope 1 & 2		2,427	2,363	2,341	2,197	1,931		
Scope 3 - Upstream	Category 1: Purchased goods and services	24,159	23,513	23,330	23,119	22,314	GHG emissions arising from the sourcing of raw milk in all regions are included. The most recently available full lifecycle analysis to farmgate, including brought-in feed, peat soils and direct land-use change is used. This is multiplied by the volume sourced in each region to calculate the total GHG emissions for each region (see page 76). GHG emissions from non-milk suppliers (e.g. non-raw milk ingredients and packaging) are excluded.	
	Category 3: Fuel- and energy-related activities (not included in scope 1 or scope 2)	71	69	66	55	52	For New Zealand, gas and electricity distribution losses; and freight of solid fuels to site, are included. For Australia, the calculation includes indirect emissions attributable to the extraction, production and transport of fossil fuels and fuel burned to generate electricity, as well as losses in the transmission and distribution network. This was calculated using purchased fuel and electricity data and emission factors from the New Zealand Ministry for the Environment and the Australian Government's National Greenhouse Accounts Factors.	
	Category 4: Upstream transportation and distribution	198	195	186	199	180	All international ocean freight under the control of our shipping partner Kotahi has been reported. 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 which is not under Kotahi control. Data is also reported for movement within New Zealand, including road, rail and coastal shipping. GHG emissions for air freight from New Zealand has also been included. GHG emissions for ocean freight is based on information provided by the shipping partners. For road, rail and air freight, actual tonne-kms are used with emissions factors provided by the Ministry for the Environment.	
	Category 6: Business travel	12	11	8	3	3	Data has been collected and reported for business-related air travel, rental car, and hotel accommodation. This GHG emissions data has been provided by our nominated travel agents.	
Total Scope 3		24,440	23,788	23,591	23,375	22,549		
Total Scope 1, 2 & 3		26,867	26,151	25,932	25,572	24,480		

FY22 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.

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Global consolidated emissions intensity								
Scope 1 & 2	Emissions intensity by finished goods (000 tCO ₂ -e/t)	0.60	0.59	0.58	0.55	0.49	All prior years have been restated to reflect the latest available on-farm lifecycle assessment and other minor updates (see Data Reporting Notes on page 78)	
	Emissions intensity by revenue (tCO ₂ -e /million NZ\$)	119	119	112	104	82		
Scope 1, 2 & 3	Emissions intensity by finished goods (000 tCO ₂ -e/t)	6.7	6.6	6.5	6.4	6.3		
	Emissions intensity by revenue (tCO ₂ -e /million NZ\$)	1,315	1,313	1,236	1,211	1,045		
Nature – Packaging								
Recycle-ready packaging	Measure and report	–	–	87%	87%	89%	Using globally accepted recyclability definitions and sales volumes for the 12 months ending June 2022 ¹ , on a total tonnage of packaging basis, 89% of our packaging is now recycle-ready up from 87% last year. This is made up of: 56% readily recyclable (e.g. cardboard); 12% is ready for recycling but there is limited infrastructure (e.g. rigid plastic); 21% is technically recyclable (e.g. liquid carton board). This leaves 11% that is currently unsuitable for recycling (e.g. foil-based sachets). This is where we are focusing our efforts and we forecast we will achieve greater than 95% recycle-ready packaging by end of 2025.	
Reusable, recyclable or compostable packaging	100% by 2025	–	–	50%	58%	56%	Using globally accepted recyclability definitions and sales volumes for the 12 months ending June 2022 ¹ , on a total tonnage of packaging basis 56% is readily recyclable. This is down slightly on FY21, primarily due to increased accuracy in our reporting systems. For example, we identified about 1,000 tonnes of glass jars used by our manufacturing site in Saudi Arabia, that were missing from prior reporting. These are currently wrapped in a PVC sleeve which makes them unsuitable for recycling. Making progress on this aspiration relies not only progress under our direct control (see recycle-ready packaging above) but also on the actions of others (e.g. provision of infrastructure within countries). Like many other food manufacturers, we will continue to make material changes, collaborate and seek to influence others around the world. Currently, achieving 100% by 2025 seems unlikely to be fully achieved but, we remain committed to the intent.	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></</div></div>

1. This applies to all primary and secondary packaging for Fonterra-owned brands. Tertiary packaging is also included in the assessment but, due to data availability issues, we have continued to use the same baseline data as reported in FY20 (this represents less than 10% of total packaging tonnage).

FY22 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.

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Nature – Solid waste								
Solid waste sent to landfill (tonnes)	Zero waste	–	17,491	16,577	12,833	11,994	Solid waste to landfill (including downgraded product unsuitable for alternative uses) reduced by a further 6.5% this year giving a total reduction of more than 30% since FY19. See page 41 for some examples of work completed. This year, in reviewing the target and the planned development of recycling infrastructure over the coming years, we have decided to de-prioritise this target, still aspiring to achieve 'zero waste' but without a specific deadline. We will continue to seek year-on-year improvements with a focus on making products to specification to avoid food waste, working with vendors to prevent non-recyclable materials coming onto our sites and partnering with others to increase the range of materials that can be economically recovered. FY21 has been restated slightly to include the solid waste from Tullamarine and Campbellfield (see Data reporting notes on page 78).	41
Nature – Animal wellbeing								
Farms with an Animal Wellbeing Plan established with their vet. (New Zealand)	100% by 2025	-	-	50%	53%	76%	A large increase was achieved this year. This year, the Co-operative Difference framework (see page 47) included having an Animal Wellbeing Plan as one of the criteria to receive a differentiated payment.	<div></div> 43
Somatic cell count average (mean) (000 cells/ml)		2017/18	2018/19	2019/20	2020/21	2021/22	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 improvements in Chile, Brazil and Sri Lanka. New Zealand, Australia and China were all negatively impacted by combinations of unusually wet or dry weather conditions. The overall global result increased slightly but remains well ahead of 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.	42
New Zealand	180	168	171	170	173			
Australia	178	171	172	173	178			
China	168	183	160	167	327			
Chile	319	312	317	309	280			
Brazil	533	467	395	342	335			
Sri Lanka	634	599	662	629	625			
Global weighted average (by volume)		184	173	175	175	177		

FY22 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.

INDICATOR	TARGET	PERFORMANCE					COMMENTARY	SEE PAGE
		FY18	FY19	FY20	FY21	FY22		
Relationships – Working with vendors								
Palm products		(CY 2017)	(CY 2018)	(CY 2019)	(CY 2020)	(CY 2021)		
Sourcing 'segregated supply' palm oil from credible organisations.	100% by end of CY 2018	7%	23%	55%	71%	74%	By volume, 96% of all direct palm oil being purchased by our New Zealand business and 100% of all direct palm oil being purchased by our Australian business is certified as segregated supply. It is purchasing for our operations in Saudi Arabia, Indonesia, and Chile where most of our remaining improvement is required. The 74% is made up of 71% 'segregated supply' and 3% with the higher 'identity preserved' certification, 20% was certified by mass balance and the remaining 6% was certified using RSPO credits. We missed our original target date and, after good gains in CY2020, progress during CY2021 was small, partially due to a lower proportion of volume being purchased by New Zealand and Australia. We reviewed this target in FY22 and have recommitted to delivering it.	<div></div> 50

FY22 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

CONTRACT TYPE BY GENDER		PERCENTAGE PER CONTRACT TYPE		
		FY20 (%)	FY21(%)	FY22(%)
Male	Permanent	96.6%	96.8%	97.3%
	Fixed-term	3.4%	3.2%	2.7%
Female	Permanent	96.7%	95.6%	96.1%
	Fixed-term	3.3%	4.4%	3.9%
Gender diverse	Permanent	100.0%	100.0%	100.0%
	Fixed-term	0.0%	0.0%	0.0%
Undeclared or unknown	Permanent	100.0%	100.0%	100.0%
	Fixed-term	0.0%	0.0%	0.0%

FULL-TIME EQUIVALENT EMPLOYEES BY REGION

GLOBAL EMPLOYEE NUMBERS		FTE (PERMANENT & FIXED TERM)		
		FY20	FY21	FY22
New Zealand		11,757	11,881	11,992
Australia		1,276	1,427	1,437
Greater China		1,774	753	773
Brazil		1,350	1,306	1,274
Chile		1,596	1,570	1,707
Rest of Asia		2,014	1,914	1,902
Rest of World		511	503	523
Global Total		20,278	19,354	19,608

EMPLOYMENT TYPE BY GENDER

EMPLOYMENT TYPE BY GENDER		PERCENTAGE PER EMPLOYMENT TYPE		
		FY20(%)	FY21(%)	FY22(%)
Male	Full-time	99.5%	99.4%	99.3%
	Part-time	0.5%	0.6%	0.7%
Female	Full-time	96.2%	95.9%	96.1%
	Part-time	3.8%	4.1%	3.9%
Gender diverse	Full-time	100.0%	100.0%	100.0%
	Part-time	0.0%	0.0%	0.0%
Undeclared or unknown	Full-time	100.0%	100.0%	100.0%
	Part-time	0.0%	0.0%	0.0%

EMPLOYMENT CONTRACT BY REGION

CONTRACT TYPE BY REGION		PERCENTAGE PER EMPLOYMENT TYPE		
		FY20 (%)	FY21(%)	FY22(%)
New Zealand	Permanent	97.6%	97.1%	97.7%
	Fixed-term	2.4%	2.9%	2.3%
Australia	Permanent	95.5%	94.8%	96.0%
	Fixed-term	4.5%	5.2%	4.0%
Greater China	Permanent	97.1%	99.1%	99.2%
	Fixed-term	2.9%	0.9%	0.8%
Brazil	Permanent	100.0%	100.0%	100.0%
	Fixed-term	0.0%	0.0%	0.0%
Chile	Permanent	100.0%	100.0%	100.0%
	Fixed-term	0.0%	0.0%	0.0%
Rest of Asia	Permanent	88.4%	89.0%	89.3%
	Fixed-term	11.6%	11.0%	10.7%
Rest of World	Permanent	88.7%	89.5%	89.1%
	Fixed-term	11.3%	10.5%	10.9%

1. Some percentages shown in tables may not sum to 100% due to rounding.

DIVERSITY OF GOVERNANCE BODIES AND EMPLOYEES BY AGE

	AGE	PERCENTAGE PER EMPLOYMENT TYPE		
		FY20	FY21	FY22
All employees	<30	14%	13%	13%
	30-50	57%	56%	55%
	>50	26%	28%	28%
	Unknown	4%	3%	3%
Fonterra Management Team (FMT)	<30	0%	0%	0%
	30-50	50%	25%	38%
	>50	50%	75%	63%
	Unknown	0%	0%	0%
Fonterra Board	<30	0%	0%	0%
	30-50	9%	9%	0%
	>50	91%	91%	100%
	Unknown	0%	0%	0%

DIVERSITY OF EMPLOYEE CATEGORIES BY AGE

EMPLOYEE CATEGORIES	AGE	PERCENTAGE BY AGE RANGE		
		FY20	FY21	FY22
Senior Leaders	<30	0.3%	0.0%	0.0%
	30-50	63.3%	57.2%	60.1%
	>50	31.8%	37.9%	35.5%
	Unknown	4.6%	4.9%	4.3%
Managers	<30	7.3%	5.7%	5.4%
	30-50	68.9%	66.4%	68.2%
	>50	20.4%	24.7%	23.4%
	Unknown	3.4%	3.1%	3.0%
Supervisory & Professional	<30	22.3%	18.1%	17.6%
	30-50	57.4%	58.3%	61.0%
	>50	16.9%	20.6%	18.5%
	Unknown	3.5%	2.9%	2.8%
Operators, Techs, Drivers, Farm Workers	<30	15.8%	13.7%	14.1%
	30-50	49.3%	47.0%	49.2%
	>50	31.0%	36.1%	33.7%
	Unknown	3.9%	3.1%	3.0%

DIVERSITY OF GOVERNANCE BODIES AND EMPLOYEES BY GENDER

	GENDER	PERCENTAGE BY GENDER		
		FY20	FY21	FY22
All employees	Male	72%	72%	71%
	Female	27%	28%	29%
	Gender diverse	0%	0%	0%
	Undeclared	0%	0%	0%
Fonterra Management Team (FMT)	Male	75%	75%	75%
	Female	25%	25%	25%
Fonterra Board	Male	73%	64%	64%
	Female	27%	36%	36%

DIVERSITY OF EMPLOYEE CATEGORY BY GENDER

EMPLOYEE CATEGORY	GENDER	PERCENTAGE BY GENDER		
		FY20	FY21	FY22
Senior Leaders	Male	71%	68%	64%
	Female	29%	32%	35%
Managers	Male	63%	62%	60%
	Female	37%	38%	40%
Supervisory & Professional	Male	52%	50%	49%
	Female	48%	50%	51%
Operators, Techs, Drivers, Farm Workers	Male	84%	83%	82%
	Female	16%	17%	18%

HIRING FROM LOCAL COMMUNITIES

GLOBAL EMPLOYEE NUMBERS	PERCENTAGE OF SENIOR MANAGEMENT		
	FY20	FY21	FY22
New Zealand	97%	100%	100%
Australia	90%	92%	92%
Brazil	100%	100%	100%
Chile	100%	100%	100%
Greater China	69%	89%	89%

NEW HIRES AND LEAVERS BY AGE AND GENDER¹

NEW HIRES BY AGE AND GENDER							LEAVERS BY AGE AND GENDER					
AGE AND GENDER	FY20 (#/%)		FY21 (#/%)		FY22(#/%)		FY20 (#/%)		FY21 (#/%)		FY22(#/%)	
Aged <30	435	32.5%	501	31.6%	626	31.6%	369	18.0%	314	17.3%	417	18.8%
Aged 30-50	662	49.5%	893	56.3%	1052	53.2%	1020	49.8%	917	50.5%	1119	50.5%
Age 50 +	96	7.2%	169	10.7%	234	11.8%	366	17.9%	495	27.2%	606	27.4%
Age unknown	145	10.8%	22	1.4%	66	3.3%	292	14.3%	91	5.0%	72	3.3%
Male	789	59.0%	1005	63.4%	1222	61.8%	1323	64.6%	1194	65.7%	1440	65.0%
Female	549	41.0%	579	36.5%	756	38.2%	723	35.3%	623	34.3%	771	34.8%
Gender undeclared or unknown	0	0.0%	1	0.1%	0	0.0%	1	0.0%	0	0.0%	3	0.1%
Total new employees	1338	7.3%	1585	9.0%	1978	10.7%	2047	11.1%	1817	10.3%	2214	11.9%

NEW HIRES AND LEAVERS BY REGION

NEW HIRES BY REGION							LEAVERS BY REGION					
REGION	FY20 (#/%)		FY21 (#/%)		FY22(#/%)		FY20 (#/%)		FY21 (#/%)		FY22(#/%)	
New Zealand	725	54.2%	866	54.6%	1133	57.3%	1023	50.0%	1050	57.8%	1431	64.6%
Australia	69	5.2%	251	15.8%	161	8.1%	183	8.9%	120	6.6%	178	8.0%
Greater China	235	17.6%	180	11.4%	134	6.8%	334	16.3%	234	12.9%	114	5.1%
Brazil ²	0	0.0%	0	0.0%	0	0.0%	10	0.5%	0	0.0%	0	0.0%
Chile	87	6.5%	94	5.9%	310	15.7%	145	7.1%	119	6.5%	242	10.9%
Rest of Asia	161	12.0%	153	9.7%	180	9.1%	267	13.0%	243	13.4%	191	8.6%
Rest of World	61	4.6%	41	2.6%	60	3.0%	85	4.2%	51	2.8%	58	2.6%
Overall	1338	7.3%	1585	9.0%	1978	10.7%	2047	11.1%	1817	10.3%	2214	11.9%

TURNOVER BY REASON

PERCENTAGE TURNOVER BY REASON			
TURN OVER REASON	FY20 (%)	FY21 (%)	FY22(%)
Voluntary	1255 (6.7%)	1168 (6.6%)	1610 (8.7%)
Involuntary	610 (3.2%)	389 (2.2%)	346 (1.9%)
Other (Contract end, Legal Retirement, or deceased)	182 (1.0%)	260 (1.5%)	258 (1.4%)
Total Turnover Rate	2047 (11.1%)	1817 (10.3%)	2214 (11.9%)

1. A small number of new hire and leaver events are backdated each year after year end reporting has been completed. Analysing for FY21, there were 19 leavers and 65 new hires backdated with is similar to prior years. This is considered immaterial and FY21 has not been restated. This allows FY20 to FY22 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.

GENDER PAY GAP BY COUNTRY AND BY EMPLOYEE CATEGORY – BASIC SALARY

REGION	EMPLOYEE CATEGORY	MEAN			MEDIAN		
		FY20	FY21	FY22	FY20	FY21	FY22
New Zealand	Senior Leaders	0.86	0.85	0.81	0.95	0.93	0.90
	Managers	0.96	0.96	0.96	0.95	0.96	0.94
	Supervisory & Professional	0.88	0.90	0.92	0.84	0.87	0.88
	Operators, Techs, Drivers, Farm Workers	0.84	0.84	0.85	0.85	0.85	0.85
	Overall	0.96	0.97	0.96	0.96	0.96	0.95
Australia	Senior Leaders	0.97	0.98	0.97	0.79	0.78	0.86
	Managers	0.95	0.98	1.02	0.95	0.96	0.99
	Supervisory & Professional	0.84	0.85	0.91	0.85	0.86	0.84
	Operators, Techs, Drivers, Farm Workers	0.78	0.80	0.81	0.74	0.78	0.78
	Overall	0.95	0.99	1.03	0.96	0.97	1.02
Greater China	Senior Leaders	0.94	1.03	1.20	1.13	1.17	1.43
	Managers	1.10	1.04	1.05	1.26	1.11	1.06
	Supervisory & Professional	1.27	1.03	1.02	1.39	1.03	0.99
	Operators, Techs, Drivers, Farm Workers	0.95	1.05	1.13	0.90	1.09	1.09
	Overall	1.60	0.89	0.97	3.90	0.97	1.09
Brazil	Senior Leaders ¹	–	–	–	–	–	–
	Managers	0.90	1.03	1.01	0.93	1.08	0.94
	Supervisory & Professional	1.15	1.04	1.06	1.06	0.98	0.99
	Operators, Techs, Drivers, Farm Workers	0.97	0.89	0.85	1.01	0.95	0.85
	Overall	1.09	1.11	0.96	1.08	0.96	0.84

GENDER PAY GAP BY COUNTRY AND BY EMPLOYEE CATEGORY – BASIC SALARY

REGION	EMPLOYEE CATEGORY	MEAN			MEDIAN		
		FY20	FY21	FY22	FY20	FY21	FY22
Chile	Senior Leaders	–	–	–	–	–	–
	Managers	0.86	0.86	0.85	0.90	0.85	0.87
	Supervisory & Professional	0.98	1.03	1.08	0.99	1.06	1.02
	Operators, Techs, Drivers, Farm Workers	0.98	1.00	0.97	0.98	1.02	0.95
	Overall	1.32	1.36	1.40	1.29	1.31	1.36
Rest of Asia	Overall	1.67	1.84	1.97	3.69	4.10	4.40
Rest of the World	Overall	1.23	1.38	1.30	1.63	1.89	1.86
Overall	Senior Leaders	0.88	0.90	0.88	0.96	0.94	0.91
	Managers	0.96	0.97	0.97	0.96	0.96	0.95
	Supervisory & Professional	1.06	1.05	1.07	1.14	1.10	1.12
	Operators, Techs, Drivers, Farm Workers	0.88	0.89	0.87	0.82	0.83	0.83
	Overall	1.08	1.07	1.07	0.95	0.93	0.93

1. Where a breakdown of information represents a small number of employees, we omit this detail to protect the privacy of individuals.

Data reporting notes

Introduction

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 where required.

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 at 31st July 2022.

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 3-9
– 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.

Environmental data reporting

Reporting Period

The primary reporting period is for the Financial Year 2022 (FY22), 1 August 2021 – 31 July 2022.

To align with Australian regulatory reporting (NGERS), Australian data is reported for period 1 July 2021 – 30 June 2022.

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 and 2 where we have operational control. For Scope 3 emissions, we have reported key categories (see [page 67](#)) and excluded categories are explained in the table below. 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 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 15% of our total energy used in manufacturing comes from renewable sources.

Our co-generation facilities in New Zealand generated excess electricity which was sold. The total sold during FY22 was 554GJ. Our Farm Source Retail Stores also generated excess electricity from their solar PV installations. The total sold during FY22 was 318 GJ.

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: 2020/21 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 408 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. Only one of these farms remains under our operational control and we continue to apply the average footprint from the analysis.

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 AR6, with GWP factors of CO₂ = 1; N₂O = 273 and CH₄ = 27.2. 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. For the older LCA results which had used an earlier version of IPCC, we have recalculated the overall footprint using the component gases so that all farm-related LCAs make use of IPCC AR6.

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. These factors are used for less than 5% of the electricity used and relate to less than 1% of manufacturing emissions.
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 2021, Table O9: Australian electricity generation, by fuel type, for year ended 30 Jun 2021.
Other	International Renewable Energy Agency "Renewable Energy Statistics 2022"
Other	World Bank Data: Renewable electricity output (% of total electricity output) for years prior to FY22.

The emission factors used for fuels and electricity apply a mix of IPCC Assessment Report AR4 and AR5 global warming potentials (GWPs) depending on the approach taken by reporting authorities in the respective countries. For manufacturing emissions the difference that occurs from using AR4 versus AR5 factors is immaterial.

Hydrofluorocarbons (HFCs) have been considered with AR5 global warming potential factors. Perfluorinated compounds (PFCs) and sulphur hexafluoride are not used or generated.

Scope 3 Emissions

Refer to Our Performance on [page 67](#) for the data we are reporting in Scope 3 broken down by categories.

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

NAME	EXCLUSIONS
Category 1 – Purchased goods and services	We have not included scope 3 emissions associated with non-milk ingredients or third-party manufacturing, which we estimate to account for less than 7.5% of emissions from purchased goods and services.
Category 2 – Capital goods	An estimate of the emissions attributable to capital goods purchased suggest these account for less than 1% of our Scope 3 emissions and therefore not considered to be material.

- 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.

NAME	EXCLUSIONS
Category 3 – Fuel and energy related activities not included in Scope 1 or Scope 2	For New Zealand, the emissions associated with the extraction and production of fuels; and the transportation of diesel fuel are excluded. For countries other than New Zealand and Australia, fuel and energy related activities not included in Scope 1 or Scope 2 are excluded from our reporting.
Category 4 – Upstream transportation and distribution	Product movements beyond destination port, internal movement of liquid by-product not carried by our tankers, and internal movement of products in manufacturing countries other than New Zealand are excluded from our reporting. The excluded data is estimated to account for less than 15% of the GHG emissions from the distribution of finished goods which is less than 0.1% of total scope 3 emissions.
Category 5 – Waste and wastewater	Most of our solid waste is a by-product of manufacturing practices; for example, packaging, damaged product and personal protective equipment that cannot be reused or recycled. We monitor the materiality of emissions from waste using the national average emissions factor default value from the NZ Ministry for the Environment Guidance 2022 and total mixed waste to landfill from our global manufacturing operations. We have estimated the total emissions arising from waste to be less than 0.03% of Fonterra's Scope 3 emissions. These are therefore not considered to be material. For wastewater treatment, the energy used by the wastewater treatment facilities at our manufacturing sites is included in our scope 2 reporting. GHG emissions (methane and nitrous oxide) from wastewater treatment is estimated to be less than 0.01% of Fonterra's Scope 3 emissions and is therefore not considered to be material.
Category 7 – Employee commuting	Fonterra has undertaken an estimation of emissions from employee commuting using national average data from Statistics New Zealand. Employee commuting is estimated to represent approximately 0.1% of Fonterra's Scope 3 emissions and is therefore not considered to be material.
Category 8 – upstream leased assets	Fonterra does not lease any assets that are not already accounted for in our Scope 1 and 2 emissions.
Category 9 – Downstream transportation and distribution	The majority of products sold by Fonterra are intermediate products, with many potential downstream applications - Fonterra is therefore unable to reasonably estimate the downstream end-of-life emissions associated with the various end uses of the intermediate product. As per the guidance contained in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Fonterra is therefore able to exclude this downstream emission from its report.
Category 10 – Processing of sold products	In a recent Life Cycle Analysis completed for liquid milk consumer products sold in New Zealand, the GHG emissions from consumer use and end-of-life disposal represented less than 0.8% of the total footprint.
Category 11 – Use of sold products	
Category 12 – End-of-life treatment of sold products	
Category 13 – Downstream leased assets	We do not own downstream assets that are leased to third parties.
Category 14 – Franchises	We have a small number of franchisees in our NZ domestic market but we purchase the electricity for their product storage and this is considered under our scope 2 emissions. The emissions from their transportation activities would be considered under our scope 3 transportation and distribution emissions but has been estimated to be immaterial in this context. There is therefore nothing materially relevant left to report under this category.
Category 15 – Investments	Most equity investments held by Fonterra fall under our management control and therefore the emissions are accounted for under our Scope 1 and 2 reporting. Emissions associated with other investments are excluded due to low materiality and lack of available data.

Water use and discharge

Scope

We report water use and wastewater discharge globally for the manufacturing sites where we have operational control. The data is reported using an inventory method.

During FY22, we improved the completeness of our data by including our dairy research facility in New Zealand (less than 0.05% of total water withdrawn) and separating out identifiable volumes which we provide to third parties for their use under our consent or other agreements.

A small number of water withdrawal and discharge locations are excluded from our reporting. We have assessed each of these individually and the associated volumes and potential impacts are considered immaterial. In total, these locations are estimated to account for less than 1% of our total water volumes.

We also report our water data via the Carbon Disclosure Project (CDP), with our first submission completed in 2020.

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 a standard indicator of water quality globally. A representative or median result is used to categorise the quality of a water source or wastewater discharge, as 'fresh' ($\leq 1,000\text{mg/L TDS}$) or 'other' ($>1,000\text{ mg/L}$) for the purposes of reporting. Most of our manufacturing sites are in New Zealand where TDS is not commonly used as a measure of water quality. During FY22, we commenced a TDS surveillance testing program to improve the accuracy of the categorisation of our water sources and discharges. Using these results we have restated all water data to reflect the most recently available fresh water quality categorisations.

Where TDS data is still unavailable, alternative information has been assessed by internal subject matter experts to estimate water source and wastewater discharge quality. For example, representative conductivity (EC) measurements can be converted 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: $\text{TDS (mg/l)} = \text{Correlation ratio (k)} * \text{EC } (\mu\text{S/cm})$

Water quality – Chemical oxygen demand

Chemical oxygen demand (COD) is a common water quality measure in the dairy industry and used by many of our manufacturing sites. We have therefore chosen to report on discharge water quality using COD.

Where biological oxygen demand (BOD) results are used rather than COD, we have converted the BOD results to COD using a conversion factor derived from research into typical compositions for wastewater from dairy manufacturing sites ($\text{COD} = \text{BOD}/0.6$).

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 global aggregation calculation.

Water in areas of water stress

Using the Aqueduct water risk atlas¹ we have identified four of our manufacturing facilities as being in areas considered under current water stress. Our threshold recognises baseline water stress, where the current indication is high or extremely high. When prioritising actions, we also consider factors such as water quality and regulatory or reputational risk.

Water Storage

Water storage facilities are one method for improved water management. By collecting water when it is plentiful, it can be stored for future use during dryer periods. The data reported (see [page 65](#)) reflects the change in significant storage facilities, such as lagoons, at the end of the reporting year. The impact of precipitation and evaporation is not accounted for.

Data changes

Acquisitions and Divestments

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 acquisition or divestment of the businesses and reported progress on a like-for-like basis (i.e. as if we had never owned that business or always owned the business).

There were no new acquisitions or divestments during FY22 but please refer to the next section for a retrospective update for FY21.

Restatements of prior year results

During FY21, we acquired two small manufacturing facilities in Australia. Production, energy use, and emissions for the period they were under Fonterra control were included in the FY21 inventory reporting, but they are deducted from comparative measures until an appropriate baseline adjustment could be developed. Data for water withdrawal, wastewater and solid waste to landfill was not available. In FY22 we collected data for water and solid waste to landfill and we have used this to restate FY21 to include an appropriate estimate for the period we had operational control.

Manufacturing Scope 1 and 2 emissions have been updated to reflect minor adjustments including the change in approach for the New Zealand electricity emission factor which we adopted in FY21 but did not apply retrospectively to FY18 and FY19. The combined impact to reported emissions in any year was less than 0.3%.

Scope 3 emissions have been restated for all years since the 14/15 season to reflect the findings of the latest LCA assessment for milk sourced in New Zealand during the 2020/2021 season (see [page 31](#)). This latest LCA adopted the IPCC AR6 GWP factors so for consistency, all on-farm LCAs have been recalculated to use IPCC AR6 (see [page 31](#)). These changes were also applied to the small number of farms where we have operational control leading to a restatement of scope 1 and 2 emissions. At the same time we have further improved the completeness of our reporting by also including the emissions arising from some dry stock on these farms. The combined impact of these changes has meant an increase of between 7% and 11% for on farm emissions in any given season.

Scope 3 emissions for prior years have also been restated for Distribution. More complete data has been obtained for coastal shipping within New Zealand. This improvement in data quality results in an increase of less than 0.2% in reported emissions related to distribution.

Water data has been restated to reflect the outcome of specific quality testing performed this year (see 'Water use and discharge' on the previous page). At the same time, we have also included minor corrections to historical data, such as data from operations divested in FY19, and the removal of an insignificant volume previously incorrectly classified as wastewater.

A reassessment of water stress was performed this year using recognised methodology. One additional manufacturing site has been identified as potentially at risk of water stress, consequently the data for all years have been updated to reflect this re-categorisation.

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



Peneleope, Taranaki

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 order 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.

This materiality assessment process was conducted by Sustainability Professionals from the Fonterra Sustainability Team with prior experience of conducting materiality assessments, dairy farming and product manufacturing.

Material topics

TOPIC	SCOPE	STAKEHOLDER GROUPS THAT RAISED THE TOPIC MOST STRONGLY	OUR RESPONSE
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 14
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 30
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 25
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 16
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 42
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 income creation on page 56
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 25
Contributing to nutrition and health through the products and information we deliver, including 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 10
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 54
Using responsible procurement to influence environmental, social and economic performance along our supply chain	All direct procurement of goods and services.	Iwi	See Working with Farmers on page 47 and Working with Vendors on page 49
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 25 See Working with farmers on page 47 See Working with vendors on page 49
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 Investing in people on page 19
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 39

For reporting, we have focussed our disclosure on those topics which rated medium or above for importance to stakeholders or significance of impact. The table above 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.

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 [page C&S-03](#)). This means our main activities are covered already covered in our reporting: see Investing in people [page 19](#), Health, safety and wellbeing [page 16](#), Working with vendors [page 49](#) and our [Modern Slavery Statement](#).

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 us. See page AR-04 X
102-3	Location of headquarters	Headquarters. See page 89 X
102-4	Location of operations	About us. See page AR-04 X
102-5	Ownership and legal form	Co-operative Status. See page C&S-21 X
102-6	Markets served	About us. See page AR-04 X
102-7	Scale of the organisation	About us. See page AR-04 X How we create value. See page AR-11 Financial Statements. See pages FS-02, FS-27
102-8	Information on employees and other workers	Employee Data. See page 71 X
102-9	Supply chain	How we create value. See page AR-11 X Working with farmers. See page 47 Employment and income creation. See page 56
102-10	Significant changes to the organisation and its supply chain	None. X
102-11	Precautionary principle or approach	Managing operations. See page 45 X
102-12	External initiatives	External initiatives. See page 89 X
102-13	Membership of associations	Membership of associations. See page 89 X
102-14	Statement from senior decision-maker	Message from the Board Chair. See page AR-05 X Message from the Board Chair and CEO. See page 03
102-16	Values, principles, standards, and norms of behaviour	Our Values. See page AR-09 X Code of Ethical Behaviour. See page C&S-03

1. X – Within scope of assurance.

REF	TOPIC TITLE	REFERENCE
102-17	Mechanisms for advice and concerns about ethics	Code of Ethical Behaviour. See page C&S-03 X
102-18	Governance structure	Governance of sustainability. See page C&S-09 X
102-20	Executive-level responsibility for economic, environmental, and social topics	Governance of sustainability. See page C&S-09 X
102-23	Chair of the highest governance body	Principle 2: Division of Roles. Corporate Governance Statement. See page C&S-04 X
102-24	Nominating and selecting the highest governance body	Principle 2: Board Composition and Performance. Corporate Governance Statement. See page C&S-04 X
102-25	Conflicts of interest	Principle 1: Code of ethical behaviour. Corporate Governance Statement. See page C&S-03 X Entries in the Interests Register. Statutory Information. See page C&S-26
102-28	Evaluating the highest governance body's performance	Principle 2: Assess Performance. Corporate Governance Statement. See page C&S-06 X
102-33	Communicating critical concerns	Principle 1: Code of ethical behaviour. Corporate Governance Statement. See page C&S-03 X
102-40	List of stakeholder groups	How we create value. See page AR-11 X
102-42	Identifying and selecting stakeholders	Responding to what's important. See page 08
102-43	Approach to stakeholder engagement	Materiality assessment. See page 79
102-44	Key topics and concerns raised	
102-41	Collective bargaining agreements	Investing in people. See page 19 X
102-45	Entities included in the consolidated financial statements	For the list of entities see page FS-63 X
102-46	Defining report content and topic boundaries	Materiality assessment. See page 79 X
102-47	List of material topics	Responding to what's important. See page 08 X
102-48	Restatements of information	See Data reporting notes. See page 78 . X See Our performance. See page 62 and 67 .
102-49	Changes in reporting	No significant changes. X

REF	TOPIC TITLE	REFERENCE	
102-50	Reporting period	Period is 1 August 2021 – 31 July 2022	X
102-51	Date of most recent report	September 2021 for period 1 August 2020 – 31 July 2021	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 02	X
102-55	GRI content index	Global Reporting Initiative Standards. See page 81	X
102-56	External assurance	Bureau Veritas Assurance Statement. See page 88	X
GRI 201: ECONOMIC PERFORMANCE 2016 – Employment and income creation. See page 56			
201-1	Direct economic value generated and distributed	About us. See page AR-04 Doing Good Together. See page AR-16 Remuneration. See pages C&S 11-14, C&S 21-25, FS-20	X
GRI 205: ANTI-CORRUPTION 2016 – Ethical business practice. See page 54			
205-3	Confirmed incidents of corruption and actions taken.	Anti-corruption. See page 54	X
GRI 206: ANTI-COMPETITIVE BEHAVIOR 2016 – Ethical business practice. See page 54			
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Legal compliance. See page 55	X
ENVIRONMENTAL TOPIC DISCLOSURES			
GRI 302: ENERGY 2016 – Climate change. See page 30			
302-1	Energy consumption within the organisation	Our performance. See page 65	X
302-3	Energy intensity	Our performance. See page 34	X
GRI 303: WATER AND EFFLUENTS 2018 – Land and water. See page 25			
303-1	Interactions with water as a shared resource	Land and Water. See page 25	X
303-2	Management of water discharge-related impacts	Improving wastewater treatment. See page 26	X
303-3	Water withdrawal	Water withdrawal. See page 62-64	X
303-4	Water discharge	Water discharge. See page 62-64	X
303-5	Water consumption	Water consumption. See page 65	X
GRI 305: EMISSIONS 2016 – Climate change. See page 30			
305-1;	Direct (Scope 1) GHG emissions	Our performance. See page 66	X
305-2;	Energy indirect (Scope 2) GHG emissions	Our performance. See page 67	X

REF	TOPIC TITLE	REFERENCE	
305-3;	Other indirect (Scope 3) GHG emissions	Our performance. See page 67	X
305-4	GHG emissions intensity	Our performance. See page 68	X
GRI 307: ENVIRONMENTAL COMPLIANCE 2016 – Managing operations. See page 45			
307-1	Non-compliance with environmental laws and regulations	Environmental compliance. See page 45	X
GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016 – Working with farmers. See page 47			
308-2	Negative environmental impacts in the supply chain and actions taken	Working with farmers. See page 48	X
SOCIAL TOPIC DISCLOSURES			
401 EMPLOYMENT 2016 – Investing in people. See page 19			
401-1	New employee hires and employee turnover	See page 73	X
403 OCCUPATIONAL HEALTH AND SAFETY 2018 – Health, safety and wellbeing. See page 16			
403-1	Occupational health and safety management system	Health, safety and wellbeing. See page 16	
403-2	Hazard identification, risk assessment, and incident investigation	Health, safety and wellbeing. See page 16	
403-3	Occupational health services	Health, safety and wellbeing. See page 16	
403-4	Worker participation, consultation, and communication on occupational health and safety	Health, safety and wellbeing. See page 16	
403-5	Worker training on occupational health and safety	Health, safety and wellbeing. See page 16	
403-6	Promotion of worker health	Health, safety and wellbeing. See page 16	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Health, safety and wellbeing. See page 16	
403-8	Workers covered by an occupational health and safety management system	Health, safety and wellbeing. See page 16	
403-9	Work-related injuries	Health, safety and wellbeing. See page 16	
404 TRAINING AND EDUCATION 2016 – Investing in people. See page 19			
404-2	Programmes for upgrading employee skills and transition assistance programmes	Learning and development. See page 20 Employee Assistance Programme. See page C&S-04	
405 DIVERSITY AND EQUAL OPPORTUNITY 2016 – Investing in people. See page 21			
405-1	Diversity of governance bodies and employees	Employee data. See page 72	X

REF	TOPIC TITLE	REFERENCE	
405-2	Ratio of basic salary and remuneration of women to men	Gender pay. See page 22	X
406 NON-DISCRIMINATION 2016 – Investing in people. See page 19			
406-1	Incidents of discrimination and corrective actions taken	The Way We Work Hotline. See page C&S-03 Non-discrimination. See page 22	X
415 PUBLIC POLICY 2016 - Ethical business practice. See page 54			
415-1	Political contributions	Responsible political involvement. See page 55	
416 CUSTOMER HEALTH AND SAFETY 2016 – Food safety and quality. See page 14			
416-1	Assessment of the health and safety impacts of product and service categories	Food safety and quality. See page 14	X
419 SOCIOECONOMIC COMPLIANCE 2016 – Ethical business practice. See page 54			
419-1	Non-compliance with laws and regulations in the social and economic area	Legal compliance. See page 55	

New GRI Standards – Content Index

From FY23, new versions of the GRI Standards will apply. Although we have continued to align primarily with the 2016 version of the GRI Standards, the following table provides an index to key content using the new version of GRI Standards.

NEW GRI REF	NEW TOPIC TITLE	CURRENT GRI REF	CURRENT TOPIC TITLE	REFERENCE
Disclosure 2-1	Organizational details	102-1	Name of the organisation	Fonterra Co-operative Group Limited
		102-3	Location of headquarters	Headquarters. See page 89
		102-4	Location of operations	About us. See page AR-04
		102-5	Ownership and legal form	Co-operative Status. See page C&S-21
		102-7	Scale of the organisation	About us. See page AR-04 How we create value. See page AR-11 Financial Statements. See pages FS-02, FS-27
Disclosure 2-2	Entities included in the organization's sustainability reporting	102-45	Entities included in the consolidated financial statements	For the list of entities see page FS-63
Disclosure 2-3	Reporting period, frequency and contact point	102-50	Reporting period	Period is 1 August 2021 – 31 July 2022
		102-51	Date of most recent report	September 2021 for period 1 August 2020 – 31 July 2021
		102-52	Reporting cycle	Annual
		102-53	Contact point for questions regarding the report	Email: sustainability@fonterra.com
Disclosure 2-4	Restatements of information	102-48	Restatements of information	See Data reporting notes. See page 78 See Our performance. See pages 62-67
		102-49	Changes in reporting	No significant changes.
Disclosure 2-5	External assurance	102-56	Policy and practice for external assurance. External assurance	Bureau Veritas Assurance Statement. See page 88
Disclosure 2-6	Activities, value chain and other business relationships	102-2	Activities, brands, products, and services	About us. See page AR-04
		102-6	Markets served	About us. See page AR-04
		102-9	Supply chain	How we create value. See page AR-11 Working with farmers. See page 47 Employment and income creation. See page 56
		102-10	Significant changes to the organisation and its supply chain	None.
Disclosure 2-7	Employees	102-8	Information on employees and other workers	Employee Data. See page 71
		405-2	Ratio of basic salary and remuneration of women to men	Gender pay. See page 22

NEW GRI REF	NEW TOPIC TITLE	CURRENT GRI REF	CURRENT TOPIC TITLE	REFERENCE
Disclosure 2-9	Governance structure and composition	102-18	Governance structure	Governance of sustainability. See page C&S-09
		102-20	Executive-level responsibility for economic, environmental, and social topics	Governance of sustainability. See page C&S-09
		405-1	Diversity of governance bodies and employees	Employee data. See page 72
Disclosure 2-10	Nomination and selection of the highest governance body	102-24	Nominating and selecting the highest governance body	Principle 2: Board Composition and Performance. Corporate Governance Statement. See page C&S-04
			Criteria used for nominating and selecting the highest governance body	
Disclosure 2-11	Chair of the highest governance body	102-23	Chair of the highest governance body	Principle 2: Division of Roles. Corporate Governance Statement. See page C&S-04
Disclosure 2-15	Conflicts of interest	102-25	Conflicts of interest	Principle 1: Code of ethical behaviour. Corporate Governance Statement. See page C&S-03 Entries in the Interests Register. Statutory Information. See page C&S-26
Disclosure 2-16	Communication of critical concerns	102-33	Communicating critical concerns	Principle 1: Code of ethical behaviour. Corporate Governance Statement. See page C&S-03
Disclosure 2-18	Evaluation of the performance of the highest governance body	102-28	Evaluating the highest governance body's performance	Principle 2: Assess Performance. Corporate Governance Statement. See page C&S-06
Disclosure 2-22	Statement on sustainable development strategy	102-14	Statement from senior decision-maker	Message from the Board Chair. See page AR-05 Message from Board Chair and CEO. See page 03
Disclosure 2-23	Policy commitments	102-11	Precautionary principle or approach	Managing operations. See page 45
		102-12	External initiatives	External initiatives. See page 89
		102-16	Values, principles, standards, and norms of behaviour	Our Values. See page AR-09 Code of Ethical Behaviour. See page C&S-03
Disclosure 2-25	Processes to remediate negative impacts	308-2	Negative environmental impacts in the supply chain and actions taken	Working with farmers. See page 48
Disclosure 2-26	Mechanisms for seeking advice and raising concerns	102-17	Mechanisms for advice and concerns about ethics	Code of Ethical Behaviour. See page C&S-03
Disclosure 2-27	Compliance with laws and regulations	307-1	Non-compliance with environmental laws and regulations	Environmental compliance. See page 45
		419-1	Non-compliance with laws and regulations in the social and economic area	Legal compliance. See page 55
Disclosure 2-28	Membership associations	102-13	Membership of associations	Membership of associations. See page 89
Disclosure 2-29	Approach to stakeholder engagement	102-40	List of stakeholder groups	How we create value. See page AR-11
		102-42	Identifying and selecting stakeholders	Responding to what's important. See page 08
		102-43	Approach to stakeholder engagement	Materiality assessment. See page 79
		102-44	Key topics and concerns raised	
Disclosure 2-30	Collective bargaining agreements	102-41	Collective bargaining agreements	Investing in people. See page 19
Disclosure 3-1	Process to determine material topics	102-46	Defining report content and topic boundaries	Materiality assessment. See page 79
Disclosure 3-2	List of material topics	102-47	List of material topics	Responding to what's important. See page 08

SASB¹ Content Index

While we do not claim alignment with SASB Reporting Standards, the following index is provided as alternative approach to finding common disclosures associated with the SASB Food & Beverage – Meat, Poultry & Dairy Standard.

REF	TOPIC TITLE	REFERENCE
FB-MP-000.A	Location of operations	About us. See page AR-04
FB-MP-110a.1	Gross global Scope 1 emissions.	Our performance. See page 66
FB-MP-110a.2	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	Climate change. See page 30 Our performance. See page 65
FB-MP-130a.1	(1) Total energy consumed (2) Percentage grid electricity (3) Percentage renewable	Climate change. See page 34 Our performance. See page 65
FB-MP-140a.1	(1) Total water withdrawn, (2) Total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	Water withdrawal. See pages 62-64 Water consumption. See page 65
FB-MP-140a.3	Number of incidents of non-compliance with water quality permits, standards, and regulations	Environmental compliance. See page 45
FB-MP-160a.3	Animal protein production from concentrated animal feeding operations (CAFOs)	None
FB-MP-250a.2	Percentage of supplier facilities certified to a Global Food Safety Initiative (GFSI) food safety certification program	Food, safety and quality. See page 14
FB-MP-250a.3	(1) Number of recalls issued (2) Total weight of products recalled	Food, safety and quality. See page 14
FB-MP-250a.4	Discussion of markets that ban imports of the entity's products	Nutrition and health. See page 13
FB-MP-320a.1	(1) Total recordable incident rate (TRIR) (2) Fatality rate	Health, safety and wellbeing. See page 60

1. SASB – Sustainability Accounting Standards Board.

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 2022 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 2021 to 31st July 2022.

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 sixth 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 reports.

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 2022
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
TupuToa	2018
New Zealand Plastic Packaging Declaration	2019
The Australian Packaging Covenant	2011
Chilean Plastics Pact	2019

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 Aoteroa Circle
Dairy Womens' Network

Registered office

Fonterra Co-operative Group Limited

Private Bag 92032
Auckland 1010
New Zealand

Headquarters

Fonterra Centre

109 Fanshawe Street
Auckland Central
Auckland 1010
New Zealand
Phone +64 9 374 9000
Fax +64 9 374 9001
Email: sustainability@fonterra.com

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 2022 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.

Good Together

from one generation
to the next

Corporate Governance
Statement & Statutory
Information 2022

Pūrongo Kawanatanga Rangatōpū
me ngā Pārongo ā-Ture Te Mātāpuna



Contents

Corporate Governance Statement

INTRODUCTION	03
PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR	03
PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE	04
PRINCIPLE 3: BOARD COMMITTEES	06
PRINCIPLE 4: REPORTING AND DISCLOSURE	10
PRINCIPLE 5: REMUNERATION	11
PRINCIPLE 6: RISK MANAGEMENT	15
PRINCIPLE 7: AUDITORS	19
PRINCIPLE 8: SHAREHOLDER RIGHTS AND RELATIONS	19

This Corporate Governance Statement is current as at 22 September 2022 and has been approved by the Fonterra Co-operative Group Limited Board.

Statutory Information

CO-OPERATIVE STATUS	21
EMPLOYEE REMUNERATION FRAMEWORK	21
EMPLOYEE REMUNERATION	22
DIRECTOR REMUNERATION	25
QUOTED FINANCIAL PRODUCTS HELD AT BALANCE DATE	26
ENTRIES IN THE INTERESTS REGISTER	26
SUBSIDIARY COMPANY DIRECTORS	28
DIRECTORS' INDEMNITY AND INSURANCE	31
ANALYSIS OF SHAREHOLDING	31
ANALYSIS OF CAPITAL NOTE AND RETAIL BOND HOLDING	32
CURRENT CREDIT RATING STATUS	33
EXCHANGE RULINGS AND WAIVERS	33
NZX TRADING HALTS	33
STOCK EXCHANGE LISTINGS	33

OUR 2022 SUITE OF REPORTS

Annual Review 2022
(Referenced as AR)

Financial Statements 2022
(Referenced as FS)

Business Performance Report 2022
(Referenced as BP)

Sustainability Report 2022
(Referenced as SR)

Corporate Governance Statement & Statutory Information 2022
(Referenced as C&S)

Modern Slavery Statement 2022
(Referenced as MS)

Farmgate Milk Price Statement 2022
(Referenced as MP)

OUR REPORTS ARE AVAILABLE FROM [FONTERRA.COM/NZ/EN/INVESTORS.HTML](https://fonterra.com/nz/en/investors.html)



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 and updated to 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 provide its key stakeholders with 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.

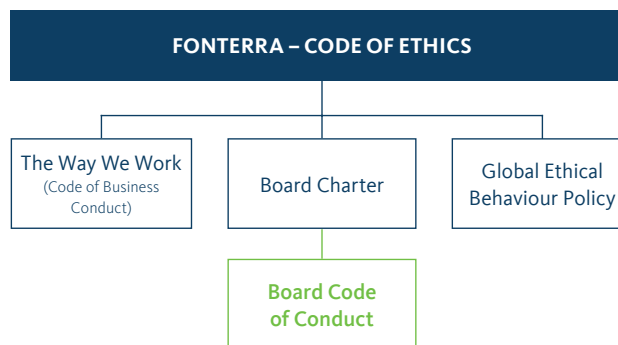
Principle 1: Code of Ethical Behaviour

Code of Ethics

Fonterra believes an environment that inspires its people to act, think and behave with honesty, integrity and transparency is integral to Fonterra's commitment to its purpose and delivery of its strategy.

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, reflecting 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 practices, 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, together with other core global policies. These documents, along with Fonterra's employment agreements, underpin delivery of 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.

All of Fonterra's Global Policies, including the Global Ethical Behaviour Policy, and The Way We Work are also available on MilkyWay, the Fonterra intranet. All Fonterra managers are required to introduce new employees to these core expectations during their induction programme. In addition, Fonterra's annual e-learning and certification process reiterates and supports the ongoing awareness and understanding of the Fonterra Global Policy Framework by its people. In FY22, this certification was completed by 5,146 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 required to record actual or potential conflicts using the Fonterra Conflict of Interest register and mitigating actions must be approved by their manager. Fonterra also maintains a Gift and Entertainment register where employees must record all gifts given or received, above a nominal level, including hospitality and entertainment with third parties.

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 2022, 29 disclosures were made to The Way We Work Hotline: 15 disclosures were made by people based in New Zealand, 11 came from other countries and in three cases the person did not specify their location.

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 policy 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 given the Board's current priorities and the external operating environment, 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 and are jointly appointed by the Board and Co-operative Council. 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 People, Culture and Safety 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 2022:

- In December 2021, Elected Directors Peter McBride, Leonie Guiney and John Nicholls were re-elected to the Fonterra Board.
- In July 2022, Elected Director Donna Smit announced she will retire from the Board following the Annual Meeting in November 2022.

Disclosure

Information about the experience, length of service, independence and attendance at Board and Committee meetings of each Director is disclosed at [pages 06 and 08](#) of this report and [pages 42-44](#) of the Annual Review 2022.

The ownership interests of each Director are disclosed at [page 26](#) of this report.

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 Investing in People section of the Sustainability Report 2022.

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 2022. 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 did not change between 2021 and 2022, as shown in the table below.

BOARD	GENDER				
	TOTAL	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
AS AT 31 JULY 2022	11	7 64%	4 36%	– 0%	– 0%
AS AT 31 JULY 2021	11	7 64%	4 36%	– 0%	– 0%

Officer Gender Composition

The gender composition of the Officers of Fonterra is shown in the table below.

OFFICERS	GENDER				
	TOTAL	MALE	FEMALE	GENDER DIVERSE	UNDECLARED
AS AT 31 JULY 2022	8 FTE ¹	6 75%	2 25%	– 0%	– 0%
AS AT 31 JULY 2021	8 FTE ^{1,2}	6 75%	2 25%	– 0%	– 0%

¹ Full time equivalent.

² As of 31 July 2021, the position of Managing Director, People and 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. Directors are encouraged to attend external development and training courses and the Board holds training and workshops on relevant subjects each year. The Board is also provided with regular strategic readings and Directors are expected to keep up to date with governance issues. Board visits to Fonterra's manufacturing sites and global businesses occur regularly.

Assess Performance

Directors formally assess the performance of the Board 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. There is a requirement under Fonterra's Constitution for the Board to provide the Co-operative Council with quarterly reporting on Fonterra's consolidated and key business unit operations for review and discussion. For FY23 and future years Fonterra will report via the Integrated Scorecard, which will be published annually with key performance targets. The Board is responsible for reviewing the Chief Executive Officer's performance.

Director Independence

The Fonterra Shareholders' Market Listing Rules (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 reasonably be 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 2022, 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.

In February 2022, the Board reviewed its Committee structure and determined:

- That following the successful Flexible Shareholding Capital Structure vote in December 2021, the Capital Structure Committee, a non-permanent Board Committee, was no longer required and was disbanded.
- The Safety and Risk Committee was disbanded with the responsibility for oversight of enterprise-wide risk transitioning into the Audit, Finance and Risk Committee and responsibility for health, safety and wellbeing transitioning to the People, Culture and Safety Committee. As part of this review and re-allocation of responsibilities, the Appointments and Remunerations Committee was renamed to the People, Culture and Safety Committee and the Audit and Finance Committee was renamed to the Audit, Finance and Risk Committee.
- The Divestment Review Committee became a permanent Board Committee, with continued oversight of material divestments and similar transactions.
- The Disclosure Committee became a permanent Board Committee, with continued oversight of Fonterra's continuous disclosure obligations.

The membership and purpose of each Board Committee is outlined on the following page.

COMMITTEE OR GROUP	MEMBERSHIP AS AT 31 July 2022	PURPOSE
Audit, Finance and Risk Committee	Bruce Hassall ¹ (Chair) Brent Goldsack Holly Kramer ¹ Cathy Quinn Donna Smit Scott St John ¹	<p>To assist the Board in fulfilling its corporate governance responsibilities relating to:</p> <ul style="list-style-type: none"> – Fonterra's financial management and internal control frameworks, financial reporting, audit activities, capital markets matters, and funding activities. – Fonterra's management and monitoring of allocated Group risks including Food Safety and Quality, Innovation, Market Access, Liquidity and Funding, Milk Supply, Regulatory, Market Price and Currency, Supply Chain and Manufacturing, Information Technology, Legal and Compliance and Licence to Operate. – Fonterra's management and monitoring of Climate Risk, including approval of the Climate Risk financial disclosures in the Financial Reports.
Co-operative Relations Committee	Andrew Macfarlane (Chair) Clinton Dines ¹ Brent Goldsack Leonie Guiney John Nicholls	<p>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.</p> <p>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 aspects of milk pricing, seek to resolve supplier complaints before reference to the Milk Commissioner and undertake activities relating to the annual Fonterra Co-operative Council elections.</p>

COMMITTEE OR GROUP	MEMBERSHIP AS AT 31 July 2022	PURPOSE
Disclosure Committee	Cathy Quinn (Chair) Bruce Hassall ¹ Peter McBride John Nicholls Scott St John ¹	<p>To oversee Fonterra's continuous disclosure obligations, including by considering the materiality of information and making judgements on other information where it may not be material but its disclosure would benefit the market.</p> <p>To review and approve the materials for release relating to the Interim and Annual Results and Quarterly Business Updates.</p>
Divestment Review Committee	Cathy Quinn (Chair) Clinton Dines ¹ Brent Goldsack Bruce Hassall ¹ Scott St John ¹	To assist the Board in fulfilling its corporate governance responsibilities in relation to material divestments and similar transactions, including any decision to exit from a market or product category, or to permanently cease using a plant or asset.
Milk Price Panel	Scott St John ^{1,2} (Chair) Bill Donaldson ³ Brent Goldsack Bruce Hassall ^{1,2} Fred Ohlsson ^{2,3} Prof. Hamish Gow ^{2,4} Cathy Quinn (observer)	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.
People, Culture and Safety Committee	Holly Kramer ¹ (Chair) Clinton Dines ¹ Leonie Guiney Andrew Macfarlane Peter McBride Bruce Hassall ¹ (observer)	<p>To assist the Board in fulfilling its corporate governance responsibilities relating to:</p> <ul style="list-style-type: none"> – Fonterra's management of Health, Safety and Wellbeing, including promoting a safe and healthy working environment for all Fonterra employees, contractors and members of the public as required. – The recruitment, retention, remuneration and development of Directors, executives and other employees.

1 Independent Director.

2 Independent Member.

3 Appointed by Co-operative Council.

4 Nominated by the Minister of Agriculture under subsection 150E(1A) of the Dairy Industry Restructuring Act 2001.

Board and Committee Attendance

	BOARD		AUDIT, FINANCE AND RISK COMMITTEE		CO-OPERATIVE RELATIONS COMMITTEE		DISCLOSURE COMMITTEE ¹		DIVESTMENT REVIEW COMMITTEE ¹		MILK PRICE PANEL		PEOPLE, CULTURE AND SAFETY COMMITTEE		SAFETY AND RISK COMMITTEE ²	
	Eligible to attend	Attendance	Eligible to attend	Attendance	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	17	16	–	–	6	6	–	–	3	2	–	–	8	7	2	1
Brent Goldsack	17	16	6	5	6	6	–	4	8	7	7	7	–	–	–	–
Leonie Guiney	17	17	–	1	6	6	–	1	5	4	–	–	3	4	2	2
Bruce Hassall	17	17	6	6	–	–	12	9	8	8	7	7	8 ³	6 ³	–	–
Holly Kramer	17	16	3	2	–	–	–	–	–	–	–	–	8	8	2	2
Andrew Macfarlane	17	16	–	–	6	6	–	–	–	–	–	–	8	8	–	–
Peter McBride	17	17	2 ⁴	2 ⁴	–	–	12	11	–	–	–	–	8	8	–	–
John Nicholls	17	17	–	–	6	6	12	11	–	–	–	–	–	–	2	2
Cathy Quinn	17	17	6	6	–	1	12	11	8	8	7 ³	5 ³	–	–	–	–
Donna Smit	17	17	6	6	–	1	–	–	–	–	–	–	–	–	2	2
Scott St John	17	17	6	6	–	–	12	10	8	8	7	7	–	–	2	2

1 Became a permanent Board Committee as of February 2022. All meetings that occurred during the financial year ended 31 July 2022 have been included.

2 Disestablished as of February 2022.

3 Eligible to attend as an observer.

4 Eligible to attend as the Chairman of the Board.

Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee comprises three 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, Finance and Risk Committee and People, Culture and Safety Committee

The Audit, Finance and Risk Committee and People, Culture and Safety Committee do not comprise a majority of independent Appointed Directors.

Under the FSM Rules, the Audit, Finance and Risk 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, Finance and Risk Committee and the People, Culture and Safety Committee are chaired by independent Appointed Directors.

Employees attend Audit, Finance and Risk Committee and People, Culture and Safety 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, two appropriately qualified persons nominated by the Co-operative Council (at least one of whom must be independent) and one member who is nominated by the Minister of Agriculture (who must be independent). The Chair must be one of the independent Appointed Director members. As at 31 July 2022, Scott St John, Bruce Hassall, Fred Ohlsson and Prof. Hamish Gow were (and continue to be) independent members of the Milk Price Panel.

Following the successful Flexible Shareholding vote in December 2021, the Ministry for Primary Industries has proposed changes to the Dairy Industry Restructuring Amendment Act 2020 (DIRA) that may impact the size and composition of the Milk Price Panel. On 13 September 2022, the relevant amendments to DIRA were introduced into Parliament. The proposed amendments provide that the Milk Price Panel must consist of (a) two members nominated by the Minister for Agriculture; (b) a chair nominated by Fonterra who is approved by the Minister and who must not have a meaningful association with Fonterra or with a shareholder of Fonterra; (c) two, three or four members appointed by Fonterra; and (d) an additional member nominated by the Minister if the chair is one of the two members of the Milk Price Panel nominated by the Minister under (a).

Nominations Committee

The People, Culture and Safety 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 at [page 04](#) of this report.

Governance of Sustainability

The Board has formed a Sustainability Advisory Panel, made up of five external experts who provide independent guidance on Fonterra's strategy from a sustainability perspective.

Principal governance oversight of sustainability is at the Board level, with Board Committees taking on governance responsibility for the elements of sustainability that align to their activities and areas of oversight.

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. In addition to considering and approving specific matters relating to sustainability, the Board receives regular updates on the progress of sustainability initiatives across Fonterra and reviews and approves the annual Sustainability Report.

There are two Committees that assist the Board with oversight of sustainability:

- The Co-operative Relations Committee assists the Board and management in developing and building relationships with key external stakeholders regionally, nationally and globally, recommending actions as appropriate, including environmental and other policy positions. It has responsibility for oversight and monitoring of climate, risk and sustainability initiatives in relation to practices behind the farmgate and regional community initiatives.
- The Audit, Finance and Risk Committee assists the Board in fulfilling its corporate governance responsibilities relating to management and monitoring of enterprise-wide risks. It has responsibility for oversight and monitoring of climate risk and of other sustainability related group risks (in conjunction with other Board Committees where appropriate), and oversight and approval of the climate risk financial disclosures.

Accountability for sustainability rests with the Board, the Chief Executive Officer and the Fonterra Management Team (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 the Group Short-Term Incentive scheme for permanent employees. The related Key Performance Indicators cover Fonterra's environmental, economic and social performance.

The Chief Operating Officer and Managing Director, 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, New Zealand manufacturing 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, Co-operative Affairs include oversight of Fonterra's farmer-facing services (Farm Source), corporate sustainability, global stakeholder affairs, governance and risk management, legal, inclusion and Māori strategy.

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 facilitate its compliance with the NZX and Fonterra Shareholders' Market Listing Rules regarding continuous disclosure and to govern Fonterra's communications with investors and market participants. 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 Fonterra Shareholders' Market Listing 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
- Audit, Finance and Risk Committee Charter (previously the Audit and Finance Committee)
- Co-operative Relations Committee Charter
- Disclosure Committee Charter
- Divestment Review Committee Charter
- People, Culture and Safety Committee Charter (previously the Appointments and Remuneration Committee)
- 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
- Modern Slavery Statement
- Sustainability Code of Practice
- Tax Principles

Fonterra does not have a Director Remuneration Policy for the reasons noted on [page 11](#) 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 2022 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 and Statutory Information report, financial performance details are provided in the Financial Statements and further details on Fonterra's sustainability activities and performance are covered by the Sustainability Report.

In September 2021 Fonterra issued its fifth 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. Consistent with last 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. To remain aligned with leading practices, Fonterra will continue to monitor the emergence of global standards and local regulatory requirements (for example, from the International Sustainability Standards Board) and will comply with new reporting obligations (for example, climate-related disclosures in New Zealand).

In December 2021, Fonterra released its second Modern Slavery Statement to meet the regulatory disclosure requirements in the Australian Modern Slavery Act 2018. From this year, Fonterra will release its Modern Slavery Statement at the same time as the Annual Review, as part of its suite of supporting reports. The Statement sets out the actions taken by Fonterra to address modern slavery risks in its business and supply chain for the financial year ending 31 July 2022.

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 2022 were Glenn Holmes (Chair), Ellen Bartlett, John Gregan, Scott Montgomerie, Stephen Silcock and Richard Stalker. 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 [page 25](#) of this report.

Remuneration of Fonterra's People

This section is intended to provide transparency on 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 FY22 performance and the impact this has had on the remuneration outcomes for its Chief Executive Officer.

Role of the People, Culture and Safety Committee

The remuneration of Fonterra's Chief Executive Officer and FMT is governed by the People, Culture and Safety Committee (PCSC) who assist the Board in fulfilling its corporate governance responsibilities relating to remuneration, recruitment and retention of Directors, Chief Executive Officer and Executives. The PCSC charter (previously the Appointments and Remuneration Committee charter) is available on fonterra.com.

The PCSC also oversees and provides counsel on Fonterra's People Strategy including key priorities and milestones as well as noting Fonterra's progress on health and safety, culture, wellbeing, 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 PCSC with an independent view in addition to the advice provided by management or advisors commissioned by management.

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.

Executive Remuneration Framework

Fonterra's executive remuneration framework follows three simple principles:



Remuneration Framework Changes for FY23

Through FY22, a review of Fonterra's Executive Remuneration Framework was undertaken. This review was undertaken with the purpose of aligning the most senior leaders to the financial interests of Fonterra's farmer shareholders and Long Term Aspiration strategy (LTA strategy). The remuneration framework in place had a greater focus on shorter term outcomes, with a large portion of the framework weighted to achievement of annual goals.

The key changes that will apply from FY23 as a result of this review include the replacement of the Executive Incentive Plan (EIP) with a Long-Term Incentive plan (LTI) focused on sustainable prosperity for farmers, and Co-operative value. A separate Short-Term Incentive plan (STI) will operate with all measures included in the scheme aligning with Fonterra's three strategic choices – focus on New Zealand milk, be a leader in sustainability, and be a leader in dairy innovation and science – and key people measures of Health and Safety and Diversity. In addition, the cap on incentive opportunity has been reduced from 150% of on-target earnings under the EIP with the new STI capped at 125% of on-target earnings. A summary of Fonterra's Executive Remuneration Framework for FY23 with the respective incentive plans is provided on the right. These apply to the Chief Executive Officer and eligible FMT members (Eligible FMT).

This new remuneration framework ensures we have a suitable balance between short and long-term measures setting us up to deliver on our LTA strategy. The STI scheme focuses our most senior leaders on achievement against annual goals aligned with our three strategic choices, and our LTI scheme focuses on sustainable outcomes for our farmers ensuring the reward outcomes of our leaders are aligned with those of our farmers.

	FIXED ELEMENT	SHORT-TERM INCENTIVE (STI)	LONG-TERM INCENTIVE (LTI)
How it's delivered	Cash	Cash	Cash (delivered after six years)
How it works	<ul style="list-style-type: none"> 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. Reviewed annually based on performance and behaviours. 	<ul style="list-style-type: none"> CEO Target – 72% of Base Remuneration. Eligible FMT Target – 60% of Base Remuneration. Calculated based on achievement against a Fonterra Group Scorecard which aligns to Fonterra's three strategic choices; as well as key people measures. Achievement is determined over a one-year performance period (1 August – 31 July, aligned to Fonterra's financial year). The incentive is capped at 125% of on-target earnings. 	<ul style="list-style-type: none"> CEO Target – 48% of Base Remuneration. Eligible FMT Target – 40% of Base Remuneration. The value of the LTI will increase or decrease in value relative to sustainable farmer prosperity and Co-operative value over a six-year period. 50% of the LTI is based on the change in on-farm profitability per hectare over the six-year period as measured through the DairyNZ Economic Survey. The remaining 50% is based on performance of a Co-operative Share on the Fonterra Shareholders' Market (FSM) over the six-year period. Dividend equivalent payments will be made during the performance period based on dividends paid to FSM shareholders. Achievement is determined over a six-year performance period.
What it does	Attracts and retains key talent in the markets in which Fonterra operates.	Aligns the CEO and Eligible FMT on delivering exceptional results over both the short and long term for farmer shareholders.	Aligns the CEO and Eligible FMT on delivering exceptional results over the long term for farmer shareholders and rebalances remuneration packages to be less weighted on short term outcomes.

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 for FY23. The long-term component of the Chief Executive Officer's remuneration package increases at target under this new remuneration framework from 17% to 22%, and the short-term component decreases from 38% to 33% supporting a longer-term view on sustainable growth.

FY23 On Target pay-mix



Remuneration Framework for FY22

The details included in this section relate to the remuneration framework in place for FY22. 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 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 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 for FY22 are outlined in the table on the right.

Executive Remuneration Benchmarking

Pay benchmarking for the Chief Executive Officer, Eligible FMT and certain senior roles is conducted using an independent third-party remuneration adviser appointed by the PCSC.

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 Total Remuneration at the 65th percentile of the benchmark peer group for Fonterra's senior executives.

	FIXED ELEMENT	VARIABLE ELEMENT
	FIXED REMUNERATION	EXECUTIVE INCENTIVE PLAN (EIP)
How it's delivered	Cash	Cash (with a cash component deferred for three years)
How it works	<ul style="list-style-type: none"> 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. Reviewed annually based on performance and behaviours. 	<ul style="list-style-type: none"> 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, Gender Diversity, Food Safety Quality, Global Complaints, Lowering Fonterra's Environmental Footprint, Group Return on Capital (ROC) and Farmgate Milk Price. Achievement is determined over a one-year performance period (1 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. The incentive is capped at 150% payment of on-target earnings. The deferred cash is subject to continued employment and a performance hurdle of Group ROC over the Milk Price WACC which could result in a payment of 0 – 150%.
What it does	Attracts and retains key talent in the markets in which Fonterra operates.	Aligns the CEO and Eligible FMT on delivering exceptional results over both the short and long term for farmer shareholders.

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 for FY22.

FY22 On Target pay-mix



Chief Executive Officer Remuneration

Total Remuneration Paid FY22

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 2022 is \$2,300,000. The variable pay component paid in FY22 was for the FY21 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 FY21 EIP achievement was 118.5% resulting in a payment of \$1,941,030 with a further 30% or \$831,870 deferred until 2024, subject to the performance hurdle being met. The total remuneration received by Mr Hurrell in FY22 was \$4,308,178, as shown in the table below.

FIXED REMUNERATION		PAY FOR PERFORMANCE	TOTAL REMUNERATION PAID
SALARY	BENEFITS ¹	EIP PAID	
\$2,241,667	\$125,481	\$1,941,030 ²	\$4,308,178

1 Employer superannuation contribution.

2 The value of EIP represents the non-deferred component of the FY21 EIP Plan.

Total Remuneration Earned FY22

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.

The FY22 EIP achievement for Mr Hurrell was 109.0% resulting in a payment of \$2,105,880 with a further 30% or \$902,520 deferred until 2025, subject to the performance hurdle being met. The total earned by Mr Hurrell in FY22 was \$5,380,493, as shown in the table below.

	FIXED REMUNERATION		PAY FOR PERFORMANCE		TOTAL REMUNERATION
	SALARY	BENEFITS ¹	EIP EARNED (70%)	EIP DEFERRED 3 YEARS (30%)	
FY22	\$2,241,667	\$130,426	\$2,105,880	\$902,520 ²	\$5,380,493
FY21				\$831,870 ³	
FY20				\$949,104 ⁴	

1 Employer superannuation contribution.

2 Subject to meeting the required long-term performance hurdles, this is due to be paid in October 2025. If the performance hurdle has not been met, no payment will be made.

3 The deferred component of the FY21 EIP shown above remains at risk. If at the vesting date (October 2024) the performance hurdle has been met, the deferred component will be paid in cash. If the performance hurdle has not been met, no payment will be made. The performance hurdle is a longer-term measure of Group ROC over Milk Price WACC.

4 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. If the performance hurdle has not been met, no payment will be made. 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 Audit, Finance and Risk Committee, has responsibility for overseeing the implementation of Fonterra's purpose-built risk management framework.

Fonterra's Risk Appetite Statement specifies the amount of risk Fonterra is willing to take or accept in pursuit of its strategy. It indicates the parameters within which Fonterra will conduct its operations. Fonterra's approach is to respect and minimise risk to people and the natural, financial, intellectual, asset and infrastructure, and relationship capital associated with its business; whilst accepting and managing an increased degree of risk in areas where it is appropriate, and in pursuit of its strategy. This approach includes the effective identification of risks, using a risk-adjusted decision-making process and the establishment of measures to mitigate and continuously monitor Fonterra's risk position.

Fonterra's Global Risk Management Policy and Standard are aligned to the Australian/New Zealand Risk Management Standard "AS/NZS ISO31000:2018 Risk management – Principles and Guideline", outlining Fonterra's risk management principles and accountabilities, and setting out the requirements for managing and reporting risk across its business. They are designed to embed a positive risk culture and co-operative-wide risk management capability, including establishing a consistent approach to identifying, controlling, monitoring, and reporting on Fonterra's key risks.

Fonterra's Risk Management Framework supports the implementation of risk management across Fonterra and is aligned with 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 comply 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 and Specialist Functions, supporting a consistent best-

practice approach to risk management across the business. Third line independent assurance and oversight is 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 to the Board via the Audit, Finance and Risk Committee.

Continuous monitoring of the risk environment occurs via Fonterra's integrated business planning process, specific technical risk councils and audit outcomes, with a focus on the key risks faced globally in implementing its business strategy. As part of its risk management responsibility, the Board and the Audit, Finance and Risk Committee receives regular reports of Fonterra's Group Risk Appetite position and the measures in place to identify and manage the impact of emerging risks. The Board and People, Culture and Safety Committee also receive regular reports on the health, safety and wellbeing of Fonterra's people as part of Fonterra's risk management framework.

Key Risks

KEY RISK	RISK DESCRIPTION	RISK MITIGATIONS
Environmental Sustainability	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. Refer to the Sustainability Report for Fonterra's sustainability goals and performance. Proactive engagement with farmer shareholders, industry, Iwi, government, and regulators.
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, 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.

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.	<p>A rigorous Process Safety Assessment (PSA) methodology to ensure Fonterra understands significant hazards, their credible risks, and how best to control them.</p> <p>Engaging employees to develop risk management plans to improve their safety.</p> <p>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.</p> <p>Protect health from workplace exposures, prevent health harm through proactive health education, and promote a healthy work and life balance.</p>
Information Technology	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.	<p>Implementation of programmes to improve awareness of cyber risk and build capability to protect against, and respond to any incidents.</p> <p>Ongoing investment in software and hardware including the Future Business Systems programme of work to improve reliability, stability, simplicity, and resilience of Fonterra's IT landscape, including data protection.</p>
Innovation	Inability to innovate effectively to respond to market trends and disruptions.	<p>Insights and outputs from strategic development and implementation processes feed directly through to integrated innovation forums.</p> <p>Executive structure aligned to Fonterra's strategy, with Innovation and Research & Development represented on the Fonterra Management Team.</p>
Legal and Compliance	Failure to manage, or respond to changes in, Fonterra's Legal and Compliance obligations, within the markets in which Fonterra operates.	<p>Annual Employee Policy Commitment (including certification of compliance with Fonterra Legal and Compliance policies and standards).</p> <p>Regular legal and compliance training (both broad based and market/function specific), accessible legal and compliance guidance, and reporting systems and processes.</p> <p>Support and advice from internal Legal, Regulatory and Trade Strategy teams, supplemented by specialist external support as required.</p>
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.	<p>Fonterra's guiding philosophy - Good Together - bringing together our purpose, values, and strategy.</p> <p>A dedicated community engagement programme.</p> <p>Active stakeholder engagement programme in New Zealand and key international markets.</p> <p>Achievement of key environmental and other relevant targets.</p>
Liquidity and Funding	Inability to access sufficient funds to meet financial obligations, and/or take advantage of opportunities.	<p>Established financial assurance framework including oversight from the Financial Risk Committee.</p> <p>Active management of debt, debtors, and cashflow forecasting.</p> <p>Regular review of relevant policies, standards, and procedures to maintain a robust control framework.</p>

KEY RISK	RISK DESCRIPTION	RISK MITIGATIONS
Market Access	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 and channel offerings.
Market Price and Currency	The risk that market price volatility, including foreign exchange and interest rates, is not appropriately responded to, adversely impacting price and/or earnings.	Established governance framework including oversight from the Financial Risk Committee and the Audit, Finance and Risk 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. Regular review of foreign exchange and interest rate exposures and approval of the hedging plan. Regular review of dairy and non-dairy portfolios, and ongoing market exposure assessments.
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 including delivery of a competitive milk price, and achievement of strategic milestones and commitments. Execution of Capital Structure changes, delivering positive outcomes for improved share flexibility. Comprehensive activity focused on winning and retaining New Zealand milk, including initiatives focused on land use change and farm sales. Insights to farmers in improving on farm productivity through resource optimisation with a strong link to strategy and milk volume support.
People	The risk that leadership, organisational culture, behaviour and people management practices, are inadequate or insufficiently agile.	Continued delivery of programmes to strengthen organisational culture and wellbeing, capabilities, talent, leadership and HR foundations. People and Culture operating model, designed to improve business partnering capability, provide guidance for effective self-service tools, and enable a strategic initiative focus for supporting individual and team performance. Embedding diversity and inclusion across all facets of our strategy . Programme Office, providing governance structure, rigor and cohesiveness for all strategic People and Culture initiatives.
Regulatory	Failure to manage or respond to changes in the regulatory environment in which Fonterra and its farmers operate.	Proactive engagement with government officials and regulators, and monitoring of policy and regulatory changes. Support and advice from Internal Legal, Government Affairs, Regulatory and Trade Strategy teams across Fonterra, and supplemented by specialist external support as required.
Strategic Decision	Sub optimal strategy that does not empower Fonterra's innovation ambitions, enable opportunity, leverage its competitive advantage or provide improved business performance.	Organisational strategy system generates continuous insights and provides regular reviews of the beliefs and assumptions which underpin the strategy for Management and Board consideration.

KEY RISK	RISK DESCRIPTION	RISK MITIGATIONS
Strategic Execution	Sub optimal execution of strategic initiatives.	<p>Strategy and Optimisation represented on the Fonterra Management Team, with oversight of integrated, continuous strategic development and implementation.</p> <p>Strategic Implementation business partnership approach to support the development of strategically aligned plans, delivered in line with expectations.</p> <p>Strategic deployment milestones and decision points are integrated into management systems and business planning.</p> <p>Regular review and reconciliation of business activity and results against strategic expectations and targets.</p>
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.	<p>Reliable and efficient collection, treatment and distribution of milk.</p> <p>Strong focus on global supply chain management: implementing resilience strategies to mitigate impacts of global shipping disruption.</p> <p>Established, robust business continuity plans to address identified supply chain risks.</p>

Risk Management Focus in FY22

As part of developing Fonterra's strategy, Group Risk Appetite settings were assessed to provide clarity of the acceptable levels of risk in pursuit of its longer-term strategic objectives. The table above defines the key risks and provides an overview of mitigation activity for Fonterra's key risks in FY22.

A review of the Global Risk Management Standard was also undertaken, which considered business applicability, and continued alignment to the Australian/New Zealand Risk Management Standard "AS/NZS ISO31000:2018 Risk management – Principles and Guideline.

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, in addition to the key controls managing these risks within Fonterra's risk appetite. To strengthen Fonterra's risk culture and embed a consistent approach to risk management across the business, risk management analysis, training, and education programmes have been delivered globally.

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, including any resulting in workforce impacts;
- 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 maintain the continuity of Fonterra's operations during FY22, several control measures, including promoting and facilitating better understanding 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, Finance and Risk 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 2022.

Fonterra has a Group Audit Independence Policy. This policy provides for the auditor to be able to carry out its statutory audit role in a manner where its independence 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, Finance and Risk 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, Finance and Risk Committee.

The Audit, Finance and Risk Committee reviews the independence of the auditor, external audit fees, terms of engagement and the annual audit plan.

The Chairman of the Audit, Finance and Risk Committee communicates regularly with the external auditor and the Audit, Finance and Risk 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) of the Financial Statements for the year ended 31 July 2022.

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, Finance and Risk 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, Finance and Risk Committee, over business risk
- assisting the business with special reviews or investigations
- complying with the Internal Audit methodology

The appointment and removal of the Chief Internal Auditor (CIA) is subject to the approval of the Audit, Finance and Risk Committee.

The CIA develops the annual internal audit plan, which is endorsed by the Audit, Finance and Risk Committee, and is accountable for its implementation. The Audit, Finance and Risk 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. The Council, Fonterra's representative body established under the Constitution, is independent of the Board and as at 31 July 2022 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 application. In addition, Fonterra provides farmers with the ability to receive communications (such as the Annual Report) from Fonterra electronically. Webinars 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, Group Director Farm Source and Regional Heads. Fonterra releases all material information to the NZX and ASX (where applicable) and complies with the Fonterra Shareholders' Market Listing 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.

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.

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 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 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 2021 Annual Meeting was made available to farmer shareholders on 17 November 2021.

Annual Report

The Group's Annual Report (which this year is comprised of the Annual Review, the Financial Statements, the Business Performance Report and 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 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.

Statutory information

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 11 August 2022 that Fonterra was, for the year ended 31 July 2022, a co-operative company. The opinion was based upon the fact that:

- Throughout that period the principal activities of Fonterra have been the activities stated in clause 1.3 of Fonterra's constitution:
 - the manufacture and sale of butter, cheese, dried milk, casein, or any other product derived from milk or milk solids supplied to Fonterra by its shareholders;
 - the sale to any person of milk or milk solids supplied to Fonterra by its shareholders;
 - the collection, treatment, and distribution for human consumption of milk or cream supplied to Fonterra by its shareholders.
- Each of Fonterra'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 Fonterra 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 Fonterra pays its 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 for the Chief Executive Officer and eligible Fonterra Management Team members are approved by the People, Culture and Safety Committee (and in the case of the Chief Executive Officer, the Board) at its discretion. The People, Culture and Safety Committee retains absolute discretion in respect of payments for all incentive schemes.

Further detail on Fonterra's remuneration framework can be found at [pages 11-14](#) of this report.

Employee Remuneration

Fonterra operates in a number of countries where remuneration market levels differ widely. During the year ended 31 July 2022, 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	66	1,952	175	90	2,283
\$110,000	\$120,000	69	891	199	63	1,222
\$120,000	\$130,000	60	688	182	36	966
\$130,000	\$140,000	48	747	241	26	1,062
\$140,000	\$150,000	57	250	193	27	527
\$150,000	\$160,000	42	181	174	13	410
\$160,000	\$170,000	45	127	105	11	288
\$170,000	\$180,000	50	90	89	9	238
\$180,000	\$190,000	38	72	78	9	197
\$190,000	\$200,000	35	66	55	7	163
\$200,000	\$210,000	32	50	37	4	123
\$210,000	\$220,000	30	48	35	7	120
\$220,000	\$230,000	21	21	38	4	84
\$230,000	\$240,000	31	13	41	1	86
\$240,000	\$250,000	19	11	26	4	60
\$250,000	\$260,000	23	20	22	1	66
\$260,000	\$270,000	19	12	14	7	52
\$270,000	\$280,000	12	7	14	3	36
\$280,000	\$290,000	7	10	23	1	41
\$290,000	\$300,000	14	3	15	0	32
\$300,000	\$310,000	9	4	11	2	26
\$310,000	\$320,000	9	2	8	2	21
\$320,000	\$330,000	6	3	13	3	25
\$330,000	\$340,000	11	4	8	0	23

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹	REGIONAL NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
\$340,000	\$350,000	7	5	14	1	27
\$350,000	\$360,000	5	0	10	2	17
\$360,000	\$370,000	6	4	12	2	24
\$370,000	\$380,000	2	2	7	1	12
\$380,000	\$390,000	1	4	8	1	14
\$390,000	\$400,000	3	5	8	2	18
\$400,000	\$410,000	5	1	6	0	12
\$410,000	\$420,000	5	1	3	1	10
\$420,000	\$430,000	5	1	2	1	9
\$430,000	\$440,000	2	2	3	0	7
\$440,000	\$450,000	0	1	3	1	5
\$450,000	\$460,000	5	0	6	0	11
\$460,000	\$470,000	2	1	4	0	7
\$470,000	\$480,000	2	0	7	1	10
\$480,000	\$490,000	0	0	1	2	3
\$490,000	\$500,000	1	0	5	1	7
\$500,000	\$510,000	1	0	0	0	1
\$510,000	\$520,000	3	0	5	1	9
\$520,000	\$530,000	1	1	3	0	5
\$530,000	\$540,000	0	1	2	0	3
\$540,000	\$550,000	0	1	0	0	1
\$550,000	\$560,000	2	0	2	0	4
\$560,000	\$570,000	0	0	2	0	2
\$570,000	\$580,000	0	0	2	0	2
\$580,000	\$590,000	0	0	2	1	3
\$590,000	\$600,000	1	0	1	0	2

Employee Remuneration CONTINUED

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹	REGIONAL NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
\$600,000	\$610,000	0	0	2	0	2
\$610,000	\$620,000	2	0	1	0	3
\$620,000	\$630,000	1	0	1	1	3
\$640,000	\$650,000	0	0	3	1	4
\$650,000	\$660,000	0	0	1	0	1
\$660,000	\$670,000	0	0	1	1	2
\$670,000	\$680,000	0	1	1	0	2
\$680,000	\$690,000	1	0	0	0	1
\$690,000	\$700,000	2	0	1	0	3
\$700,000	\$710,000	1	0	1	0	2
\$710,000	\$720,000	0	0	3	1	4
\$730,000	\$740,000	0	1	1	0	2
\$740,000	\$750,000	0	0	1	0	1
\$750,000	\$760,000	1	0	2	0	3
\$770,000	\$780,000	0	0	1	0	1
\$780,000	\$790,000	0	0	1	0	1
\$840,000	\$850,000	1	0	0	0	1
\$860,000	\$870,000	1	0	1	0	2
\$870,000	\$880,000	2	0	0	0	2
\$880,000	\$890,000	0	0	1	0	1
\$890,000	\$900,000	1	0	0	0	1
\$900,000	\$910,000	1	0	1	0	2
\$910,000	\$920,000	0	0	1	0	1
\$920,000	\$930,000	1	0	0	0	1
\$930,000	\$940,000	1	0	1	0	2
\$950,000	\$960,000	0	0	1	0	1

REMUNERATION RANGE (\$)		NEW ZEALAND HEAD OFFICE ¹	REGIONAL NEW ZEALAND ¹	OFFSHORE ²	CESSATIONS ³	TOTAL
\$990,000	\$1,000,000	1	0	1	0	2
\$1,040,000	\$1,050,000	0	0	1	0	1
\$1,050,000	\$1,060,000	0	0	2	0	2
\$1,070,000	\$1,080,000	0	0	1	0	1
\$1,170,000	\$1,180,000	0	0	1	0	1
\$1,460,000	\$1,470,000	0	0	1	0	1
\$1,590,000	\$1,600,000	1	0	0	0	1
\$2,140,000	\$2,150,000	1	0	0	0	1
\$2,480,000	\$2,490,000	0	0	1	0	1
\$2,580,000	\$2,590,000	0	0	1	0	1
\$2,950,000	\$2,960,000	1	0	0	0	1
\$3,110,000	\$3,120,000	0	0	1	0	1
\$4,300,000	\$4,310,000	1	0	0	0	1
Totals		833	5,304	1,951	352	8,440

The number of employees who received remuneration, incentives, and other benefits exceeding \$100,000 varies from year to year. This number is impacted by a variety of factors including incentive payments, overtime paid, termination entitlements, and remuneration increases provided in each respective year. Exchange rates for those employees paid in currencies other than New Zealand dollar can also impact employees either meeting or missing the threshold of \$100,000.

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	1,178
Bay of Plenty	188
Canterbury	869
Manawatu – Wanganui	415
Northland	265
Southland	292
Taranaki	799
Waikato	2,008
Rest of New Zealand	123
New Zealand total	6,137

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	1,042
Greater China	260
Europe	115
Latin America	96
New Zealand	6,137
Rest of Asia	293
Rest of World	66
United States	79
Cessations	352
Global total	8,440

Director Remuneration

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 9 December 2021, 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	\$455,000 per annum
Directors	\$185,000 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 2022 the Board applied the same remuneration levels as above to the Appointed Directors.

The People, Culture and Safety Committee and the Chairman of the Board of Directors has the discretion to allocate a discretionary pool of up to \$150,000 per annum to remunerate Directors for additional duties, workload and responsibilities. In the period to 31 July 2022 the People, Culture and Safety Committee and the Chairman of the Board of Directors has approved payments from the discretionary pool to recognise the additional workload created by the Capital Structure review in 2021 and additional payments to acknowledge those Directors who were members of four or more Board Committees during 2021.

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.

The total remuneration and value of other benefits (not including superannuation contributions, if applicable) received by each Director in the period from 1 August 2021 to 31 July 2022 are scheduled below:

	BOARD FEES	COMMITTEE CHAIR FEES	DISCRETIONARY POOL	TOTAL REMUNERATION (\$)
Clinton Dines	181,449	–	–	181,449
Brent Goldsack	181,449	–	10,000	191,449
Leonie Guiney (Chair of the Safety and Risk Committee) ¹	181,449	20,416 ²	10,000	211,865
Bruce Hassall (Chair of the Audit, Finance and Risk Committee)	181,449	35,000	20,000	236,449
Holly Kramer (Chair of the People, Culture and Safety Committee)	180,660 ³	35,000	–	215,660
Andrew Macfarlane (Chair of the Co-operative Relations Committee)	181,449	35,000	20,000	236,449
Peter McBride (Chairman of the Board of Directors)	446,122	–	–	446,122
John Nicholls	181,449	–	10,000	191,449
Cathy Quinn (Chair of the Disclosure Committee and the Divestment Review Committee) ⁴	181,449	14,583 ²	20,000	216,032
Donna Smit	181,449	–	10,000	191,449
Scott St John (Chair of the Milk Price Panel)	181,449	35,000	10,000	226,449

1 The Safety and Risk Committee was disbanded as of February 2022.

2 Indicates a part year.

3 Ms Kramer's fees vary for this period due to her remuneration being received a month in arrears.

4 The Disclosure Committee and Divestment Review Committee became permanent Board Committees as of February 2022.

Quoted Financial Products held at Balance Date

In accordance with Rule 2.7.1(d) of the Fonterra Shareholders' Market (FSM) Rules, the following table identifies the Quoted Financial Products in which each Director has a Relevant Interest as at 31 July 2022:

	FSF UNITS ¹	CO-OPERATIVE SHARES
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
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 2021 to 31 July 2022:

Clinton Dines	<i>Freedom Road Travel</i>	<i>Director (ceased June 2022)</i>
Brent Goldsack	Better Eggs Limited	Indirect Shareholder
	Henergy Cage-Free Limited	Director
	The Hills Golf Club Limited	Director
Bruce Hassall	<i>Marivan Holdings Limited</i>	<i>Director and Shareholder (ceased January 2022)</i>
Holly Kramer	Norfolk Associates	Member
Andrew Macfarlane	SFFF Plantain Potency Project and Practice Programme	Chair
	Edgewater Resort Hotel Limited	Chair and Shareholder
	Waddington Family Trust	Trustee
	Deebury Lismore Limited	Director and Shareholder
	<i>Lincoln University</i>	<i>Councillor (ceased August 2021)</i>
Peter McBride	New Zealand China Council	Member
	Sequal Holdings Limited	Chair and minority Shareholder
	Sequal Investments Limited	Director
	Sequal Lumber Limited	Chair and minority indirect Shareholder
	Sequal Properties Limited	Director
	<i>Zespri China Advisory Board</i>	<i>Member (ceased November 2021)</i>
John Nicholls	Fonterra Farmer Custodian Limited	Director and Shareholder
	Taepu Land Limited	Director
Cathy Quinn	Tourism Holdings Limited	Chair
Donna Smit	<i>EastPack Limited</i>	<i>Director (ceased May 2022)</i>
	<i>Fonterra Farmer Custodian Limited</i>	<i>Director and Shareholder (ceased February 2022)</i>
	<i>Seven Mile Farms Limited</i>	<i>Director and Shareholder (ceased June 2022)</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

No new disclosures of holdings of securities were made by Directors in the period from 1 August 2021 to 31 July 2022.

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
Peter McBride	1,000 ¹	1,000 ¹	–	29 September 2021
Cathy Quinn	64,000 ¹	64,000 ¹	–	19 May 2022
Donna Smit	391,195 ²	391,195 ²	–	1 June 2022

1 Transferred within same entity.

2 Amalgamation of related entities.

Unit transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Donna Smit	642 ¹	642 ¹	–	1 June 2022

1 Amalgamation of related entities.

Retail Bond transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Cathy Quinn		1,000,000 ¹	–	20 October 2021
Cathy Quinn		9,000,000 ²	9,126,504.77	14 June 2022

1 FCG030 matured on 20 October 2021.

2 FCG040.

Wholesale Bond transactions

DIRECTOR	NUMBER OF SECURITIES ACQUIRED	NUMBER OF SECURITIES DISPOSED	CONSIDERATION \$	DATE
Cathy Quinn	2,050,000 ^{1,2}	2,050,000 ^{1,2}	–	23 December 2021
Cathy Quinn	14,510,000 ^{1,3}	14,510,000 ^{1,3}	–	23 December 2021
Cathy Quinn		2,050,000 ^{2,4}	–	25 February 2022

1 Transferred between related entities.

2 FCG at 5.90% maturing on 25 February 2022.

3 FCG at 5.08% maturing on 19 June 2025.

4 FCG at 5.90% matured on 25 February 2022.

Capital Note transactions

There were no transactions by Directors (or their associated persons) in Capital Notes reported during the period from 1 August 2021 to 31 July 2022. 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 2022. 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

Canpac International Limited:

B M Ryan, P D Wynen

Dairy Industry Superannuation Scheme Trustee Limited:

M A Apiata-Wade, B J Kerr, B M McCarthy (R), T P McGuinness, R Price, D W C Scott, A K Williams, P D Wynen

Fonterra (Delegated Compliance Trading Services) Limited:

G A Duncan, S D T Till

Fonterra (International) Limited:

G A Duncan, C E Rowe

Fonterra (Kotahi) Limited:

R G Carlyle, F S Whineray

Fonterra (Middle East) Limited:

G A Duncan, C E Rowe

Fonterra (New Zealand) Limited:

G A Duncan, C E Rowe

Fonterra (North Asia) Limited:

G A Duncan, S D T Till

Fonterra Brands (New Zealand) Limited:

B Henshaw, J Swales

Fonterra Commodities Limited:

G A Duncan, B M Turner

Fonterra Dairy Solutions Limited:

G A Duncan, R McNickle

Fonterra Equities Limited:

G A Duncan, S D T Till

Fonterra Farming Ventures Limited:

G A Duncan, C E Rowe

Fonterra Finance Corporation Limited:

G A Duncan, S D T Till

Fonterra Ingredients Limited:

G A Duncan, B M Ryan

Fonterra LATAM Brands Limited:

A J Cordner, G A Duncan

Fonterra Limited:

M R Cronin, F S Whineray

Fonterra PGGRC Limited:

G A Duncan, J P Hill

Fonterra TM Limited:

G A Duncan, S D T Till

Glencol Energy Limited:

G A Duncan, P D Wynen

Kotahi GP Limited:

D G Boulton, R G Carlyle, B M Ryan, F S Whineray

Lactanol Limited:

G A Duncan, B M Ryan

MIH Limited:

R J Allen, G A Duncan

Milktest GP Limited:

R J Allen, P J van Boheemen, P G Brown, G B McCullough, R G Townshend, T A Winter

MyMilk Limited:

C W Fergusson, K F Shaw

New Zealand Dairy Board:

G A Duncan, C E Rowe

New Zealand Milk (International) Limited:

G A Duncan, R M Kennerley

New Zealand Milk Brands Limited:

G A Duncan, S D T Till

NZAgbiz Limited:

R J Allen, G A Duncan

RD1 Limited:

R J Allen, G A Duncan

SAITL Limited:

G B McCullough, T A Winter

Tangshan Dairy Farm (NZ) Limited:

M R Cronin, G A Duncan

Whareroa Co-Generation Limited:

G A Duncan, P D Wynen

Anchor Insurance Pte. Limited [Singapore]:

G A Duncan, S S Herbert, C E Rowe, H N Toh (A)

Anmum (Malaysia) Sdn. Bhd. [Malaysia]:

R M Kennerley, S S Rapaka, V Tang

Australasian Food Holdings Pty. Limited [Australia]:

R J Dedoncker, G A Duncan

Bonland Cheese Trading Pty. Limited. [Australia]:

R J Dedoncker, G A Duncan

Comercial Dos Alamos S.A. [Chile]:

E Becker, A Rabie, A L R Vargas

Comercial Santa Elena S.A. [Chile]:

J Barria Pina, C F O Bascur, S T Perez

Subsidiary Company Directors CONTINUED

Dairy Enterprises (Chile) Limitada [Chile]:

A J Cordner, G A Duncan, J P Egaña Bertoglia, R Lavados McKenzie, R Sepúlveda Seminario

Dairy Partners Americas Brasil Limitada [Brazil]:

S Aparecido Flavio, F Carvalho Goncalves, T B Ernesto Barretto, F Liani, M G Guerreiro Pinheiro (R), R de Oliveira Carrelas, L L Rangel

Dairy Partners Americas Nordeste-Produtos Alimenticios Limitada [Brazil]:

S Aparecido Flavio, F Carvalho Goncalves, M G Guerreiro Pinheiro, F Liani, R de Oliveira Carrelas, L L Rangel

Dairymas (Malaysia) Sdn Bhd [Malaysia]:

R M Kennerley, S S Rapaka, V Tang

Darnum Park Pty. Limited. [Australia]:

R J Dedoncker, G A Duncan

Fonterra (Beijing) Farm Management Consulting Company Limited [China]:

A Aggarwal, G A Duncan, G Yuan

Fonterra (Brasil) Limitada [Brazil]:

R F Aracil Filho, B de Luca Zanatta

Fonterra (Canada), Inc. [Canada]:

C L M Courtois (R), G A Duncan, B Kipping, A Geraghty, J H Lees, B M Ryan (R)

Fonterra (China) Limited [Hong Kong]:

M R Cronin, G A Duncan

Fonterra (CIS) Limited Liability Company [Russian Federation]¹:

E Grishina

Fonterra (Europe) Coöperatie U.A. [Netherlands]:

T Bosch, M Boyd, G A Duncan, H E Huistra (R)

Fonterra (France) SAS [France]:

H E Huistra (R), T Bosch

Fonterra (Ing.) Limited [Mauritius]:

A Aggarwal, T Chow, M R Robins (R), C Thomas

Fonterra (Japan) Limited [Japan]:

C L M Courtois (R), K Kumagai, K Kumagai, A Okuyama, Y Saito, K A Wickham

Fonterra (Korea) Limited Liability Company [Korea]:

G A Duncan (R), Y Saito

Fonterra (Logistics) Limited [United Kingdom]:

M Boyd, G A Duncan, G R Sharma (R), T Mackett

Fonterra (Mexico) S.A. de C.V. [Mexico]:

L Barona Mariscal (A), F R Camacho (A), G A Duncan, E P G R Gil (A), J A Del Rio

Fonterra (SEA) Pte. Ltd. [Singapore]:

H Gowans (R), R Kumar, J Mueller-Leiendecker

Fonterra (Thailand) Limited [Thailand]:

R Kumar, K Vunthanadit

Fonterra (USA) Inc. [United States]:

N R Christiansen, C L M Courtois (R), G A Duncan, A Geraghty, J H Lees

Fonterra Australia Holding Company Pty. Ltd. [Australia]:

R J Dedoncker, G A Duncan

Fonterra Australia Pty. Ltd. [Australia]:

R J Dedoncker, G A Duncan

Fonterra Brands (Asia Holdings) Pte. Ltd. [Singapore]:

S Arfelt Rajamand, S Goh, J Swales

Fonterra Brands (Australia) Pty. Ltd. [Australia]:

R J Dedoncker, G A Duncan

Fonterra Brands (Far East) Limited [Hong Kong]:

A Aggarwal, G A Duncan

Fonterra Brands (Guangzhou) Ltd. [China] (in liquidation):

T T Lye, P A Turner, K A Wickham

Fonterra Brands (Hong Kong) Limited [Hong Kong]:

A Aggarwal, W Y Chan, G A Duncan

Fonterra Brands (Malaysia) Sdn Bhd [Malaysia]:

R M Kennerley, S S Rapaka, V Tang

Fonterra Brands (New Young) Pte. Ltd. [Singapore]:

A Aggarwal, S Goh, Y Li, C Lin, Y Lin, J Ling

Fonterra Brands (Singapore) Pte. Ltd. [Singapore]:

S Goh, J Swales

Fonterra Brands (Thailand) Ltd. [Thailand]:

P Chaychotchaoen, R M Kennerley, S Nitkitjatorn, S Pronanunt (R), S Totana

Fonterra Brands (Viet Nam) Company Limited [Vietnam]:

S Arfelt Rajamand, R M Kennerley

Fonterra Brands Indonesia, PT [Indonesia]:

D M Irfani, C A Salinas Robeson, G Thiagarajan

Fonterra Brands Lanka (Private) Limited [Sri Lanka]:

R M Kennerley, T Salpitikorala, V Sivaraja

Fonterra Brands Manufacturing Indonesia, PT [Indonesia]:

M A Nasution, C A Salinas Robeson, T A B Siswanto, G Thiagarajan

Fonterra Brands Myanmar Co. Ltd. [Myanmar]:

G A Duncan, S Nitkitjatorn, C D Wickramanayake

Fonterra Brands Phils. Inc. [Philippines]:

R Cook, C Ferrer, R M Kennerley, R A Mendoza, G Santiago, L De Velez (R), M J S Magsajo

¹ Fonterra announced in March 2022 that it will exit its businesses in Russia. This process is currently underway.

Subsidiary Company Directors CONTINUED

Fonterra Chile SpA [Chile]:

A J Cordner, G A Duncan, J P Egaña Bertoglia (A), R Lavados McKenzie (A), R Sepúlveda Seminario

Fonterra Commercial Trading (Shanghai) Company Limited [China]:

A Aggarwal, C Cao (R), G A Duncan, L Han

Fonterra Commercial Trading (Tangshan) Company Limited [China] (in liquidation):

C Cao, G A Duncan, P D Washer

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 (R), T Bosch

Fonterra Foodservices (USA), Inc. [United States]:

N R Christiansen, G A Duncan, J H Lees

Fonterra Global Business Services Asia Sdn Bhd [Malaysia]:

S S Rapaka, 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 J Dedoncker, G A Duncan

Fonterra Investments Pty Ltd [Australia]:

R J Dedoncker, G A Duncan

Fonterra Milk Australia Pty. Ltd. [Australia]:

R J Dedoncker, G A Duncan

Fonterra Tangshan Dairy Farm (HK) Limited [Hong Kong]:

G A Duncan, 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 McKenzie (A), R Sepúlveda Seminario, A S Vega (A)

Key Ingredients, Inc. [United States]:

N R Christiansen, C L M Courtois (R), G A Duncan, J H Lees, A Geraghty

Kotahi Logistics Australia Pty Limited [Australia]:

D Ross, J J Ryan (R), S Allan, R Howell

Milk Products Holdings (North America) Inc. [United States]:

N R Christiansen, C L M Courtois (R), J H Lees, A Geraghty

New Tai Milk Products Co. Ltd. [Taiwan]:

A Aggarwal, T Chow, C Lee, G Lee, K Lee, M R Robins (R), C Thomas

New Zealand Milk (Australasia) Pty. Ltd. [Australia]:

R J Dedoncker, G A Duncan

New Zealand Milk (Barbados) Ltd. [Barbados]:

N R Christiansen, G A Duncan

New Zealand Milk (LATAM) Ltd. [Bermuda]:

G A Duncan, F Spinelli (R), N R Christiansen

New Zealand Milk Products (Ethiopia) SC [Ethiopia]:

A B Abubeker, M B Abubeker, M Boyd, C Ebbett, M Woodward

Newdale Dairies (Private) Limited [Sri Lanka]:

R M Kennerley, T Salpitikoral, V Sivaraja

NZMP Fonterra Nigeria Limited [Nigeria]:

G A Duncan, H Huistra (R), G Amade

Prolesur S.A. [Chile]:

M P Campbell (R), H Covarrubias Lalanne, S Diez Arrigada (A)(R), S Jimenez (R), J P Matus Pickering (A)(R), C Perez-Cotapos Subercaseaux (A)(R), R Sepúlveda Seminario (A)(R), E B Tengner, G V Verela Alfonso, A S Vega (A)(R), K A Wickham (R)

Sociedad Agrícola y Lechera Praderas Australes S.A. (“Pradesur”) [Chile]:

E Becker, A Rabie, A L Raddatz Vargas

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 (R), H Covarrubias Lalanne, S Diez Arrigada (A)(R), S Jimenez (R), J P Matus Pickering (A)(R), S T Perez, C Perez-Cotapos Subercaseaux (A)(R), R Sepúlveda Seminario (A)(R), G V Varela Alfonso, A S Vega (A)(R), K A Wickham (R)

Tangshan Fonterra Dairy Farm Limited [China]:

A Aggarwal, G A Duncan, Q Jiang (R), G Yuan

United Milk Tasmania Pty. Limited [Australia]:

R J 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 2022:

FCG Largest Recorded Share Holdings¹

NAME	NUMBER OF SHARES	% OF SHARES
Fonterra Farmer Custodian Limited	107,417,322	6.65
Ellis-Lea Farms (2000) Limited – Lamorna ²	1,326,453	0.08
Cumberland Dairy Farm Limited	1,029,128	0.06
Singletree Dairies 2013 Limited	1,012,776	0.06
E F Deadman Limited	998,052	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
Stewart Partnership Limited	922,500	0.05
Arlanda Limited	920,033	0.05
Moffitt Dairy Limited	910,713	0.05
Rangitata Dairies Limited Partnership t/a Rangitata Dairies	902,623	0.05
Baytown Investments Limited	889,348	0.05
McBain Farms Limited	867,790	0.05
Gerrit Jan Hendrik Amtink & Gerritje Johanna Amtink	854,966	0.05
Auchenbrae Farm Limited	852,456	0.05
Mildara Dairy Limited	841,654	0.05
Bel Group Limited – Ashton	836,353	0.05
Ellis-Lea Farms (2000) Limited – Grandview ²	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.

² Includes Co-operative shares held in respect of a farm which has ceased supplying milk to Fonterra via the listed entity.

Substantial Product Holders

According to notices given to the Company under the Financial Markets Conduct Act 2013, as at 31 July 2022, 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 2022 was 1,612,825,585.

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 2022:

FROM-TO	HOLDER COUNT	%	HOLDING QUALITY	%
1–50,000	1,083	11.70	29,107,843	1.80
50,001–100,000	2,373	25.64	182,770,259	11.33
100,001–200,000	3,214	34.72	456,568,161	28.31
200,001–400,000	2,060	22.26	563,390,351	34.93
400,001 and over	526	5.68	380,988,971	23.62

Analysis of Capital Note and Retail Bond Holding

Analysis of Fonterra's Capital Note Holding as at 4 August 2022:

FCGHA Capital Notes

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
1–1,000	9	1.54	3,974	.00
1,001–5,000	26	4.44	70,843	.07
5,001–10,000	192	32.76	1,364,241	1.33
10,001–100,000	335	57.17	9,418,907	9.19
100,001 and over	24	4.10	91,661,289	89.41

100,001 and over includes Fonterra's holding of 67,435,575.

Analysis of Fonterra's Retail Bond Holding as at 4 August 2022:

FCG040 \$150 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	57	10.86%	329,000	0.22
10,000–49,999	333	63.43%	6,825,000	4.55
50,000–99,999	64	12.19%	3,968,000	2.65
100,000–999,999	56	10.67%	15,603,000	10.40
1,000,000 and over	15	2.86%	123,275,000	82.18

FCG050 \$100 million Retail Bond issue

FROM-TO	HOLDER COUNT	%	HOLDING QUANTITY	%
5,000–9,999	9	4.09%	65,000	0.07
10,000–49,999	149	67.73%	3,457,000	3.46
50,000–99,999	26	11.82%	1,592,000	1.59
100,000–999,999	20	9.09%	5,604,000	5.60
1,000,000 and over	16	7.27%	89,282,000	89.28

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

No trading halts were placed on Fonterra securities by NZX in the financial year ended 31 July 2022.

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 two issues of retail bonds listed and quoted on the NZDX under the codes '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 2022 there were 1,612,825,585 Co-operative shares on issue.





Good Together

from one generation
to the next

Modern Slavery
Statement 2022

Pūrongo Ponogatanga
Moroki Te Mātāpuna



Contents

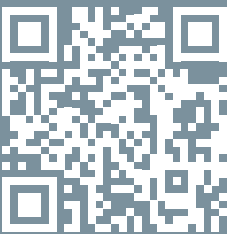
INTRODUCTION	03
FONTERRA STRUCTURE, OPERATIONS AND SUPPLY CHAIN	04
Reporting Entities	04
Our Supply Chain	05
UNDERSTANDING OUR MODERN SLAVERY RISKS	06
Key areas of potential risk	07
Impact of COVID-19 on modern slavery risks	07
ACTIONS TO TREAT AND MITIGATE RISKS	09
Policy Framework	09
Governance and Risk Management	11
Risk mitigation activities	11
ASSESSING THE EFFECTIVENESS OF OUR ACTIONS	12
CONSULTATION AND LOOKING AHEAD	13
APPENDIX	14

IMAGE:
Ian & Adrian, Waipu



- OUR 2022 SUITE OF REPORTS**
- Annual Review 2022**
(Referenced as **AR**)
- Financial Statements 2022**
(Referenced as **FS**)
- Business Performance Report 2022**
(Referenced as **BP**)
- Sustainability Report 2022**
(Referenced as **SR**)
- Corporate Governance Statement & Statutory Information 2022**
(Referenced as **C&S**)
- Modern Slavery Statement 2022**
(Referenced as **MS**)
- Farmgate Milk Price Statement 2022**
(Referenced as **MP**)

OUR REPORTS ARE AVAILABLE FROM [FONTERRA.COM/NZ/EN/INVESTORS.HTML](https://fonterra.com/nz/en/investors.html)





At Fonterra, people matter – in our workforce, in our supply chain, and in the communities in which we operate. We believe that everyone has value and the right to be treated with respect and dignity, regardless of background or circumstances.

Our approach to addressing Modern Slavery is part of our commitment to human rights.

We recognise our responsibility to respect human rights and our ability to contribute to positive human rights outcomes. To achieve this, we are always working to foster a culture which supports internationally recognised human rights and seeks to avoid complicity in human rights abuse.

In line with the UN Guiding Principles on Business and Human Rights, Fonterra’s commitments are based on the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization Declaration on Fundamental Principles and Rights at Work.

Our commitments (embodied in our internal policies and standards) include seeking to provide safe, secure and non-discriminatory working

environments, good working conditions, ensuring the right to freedom of association and collective bargaining, prohibiting forced labour and child labour (including modern slavery) and prohibiting bribery and corruption.

We also consider the potential impact of our operations on local communities, and we require our supply chain to uphold human rights in their operations through our Supplier Sustainability Code of Practice. The following statement sets out the actions taken by Fonterra to address modern slavery risks in our business and supply chain for the financial year ending 31 July 2022 (FY22).

In this statement, Fonterra reports on its actions to assess and address modern slavery risks associated with its operations, including its employment practices and the protections provided for workers. Furthermore, this statement also outlines how

Fonterra is assessing and addressing modern slavery risks within its supply chains, including the efforts with supply partners to mitigate this risk. Finally, this statement contains our own assessment of the effectiveness of such actions required under s16(1).

This statement was approved by the Fonterra Board of Directors on 21 September 2022.

Peter McBride, Chair

Miles Hurrell, Chief Executive Officer

Ismail & Neil, Te Rapa

Fonterra Structure, Operations and Supply Chain

We are a Co-operative formed and owned by Aotearoa New Zealand dairy farmers. Fonterra farmers sit at the very heart of our Co-op, producing the high quality, sustainable milk sought by our customers around 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.

New Zealand milk is the focus of our strategy, and our global presence helps us generate revenue in over 130 countries. Our range of dairy ingredients are sold under our NZMP™ brand and are found in prominent food and nutrition brands.

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

We also manufacture, market and distribute our own consumer products. These products 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™. The milk we collect from our farmers is made into the many Fonterra dairy foods that generations of Australians have grown up with and love, including Perfect Italiano, Mainland, Western Star, Australian Dairies and Bega.

These exist alongside our Farm Source brand which works to make farming easier by lowering on-farm costs through the power of collective purchasing and by providing on-farm support and advice.

We have more than 19,000 employees across the world, including manufacturing operations in New Zealand, Australia, Indonesia, Malaysia, Chile and Brazil. Our operations encompass significant research, development and application expertise, customer and consumer insight and is enabled by several supporting functions including human resource, sales and marketing teams.

Our operations in Australia are conducted through our wholly owned Australian subsidiary companies, who themselves either own the necessary assets or engage with third parties to produce our goods.



Reporting Entities

This 2022 Modern Slavery Statement is prepared in accordance with the Australian Modern Slavery Act 2018, and covers Fonterra Co-operative Group Limited and its subsidiaries, including the following Australian reporting entities:

- Fonterra Brands (Australia) Pty Limited
- Fonterra Australia Pty Limited
- New Zealand Milk (Australasia) Pty Limited

Further details of Fonterra's subsidiaries are outlined in the Statutory Information section of the 2022 Suite of Reports which is available at [Fonterra.com](https://www.fonterra.com).



Our Supply Chain

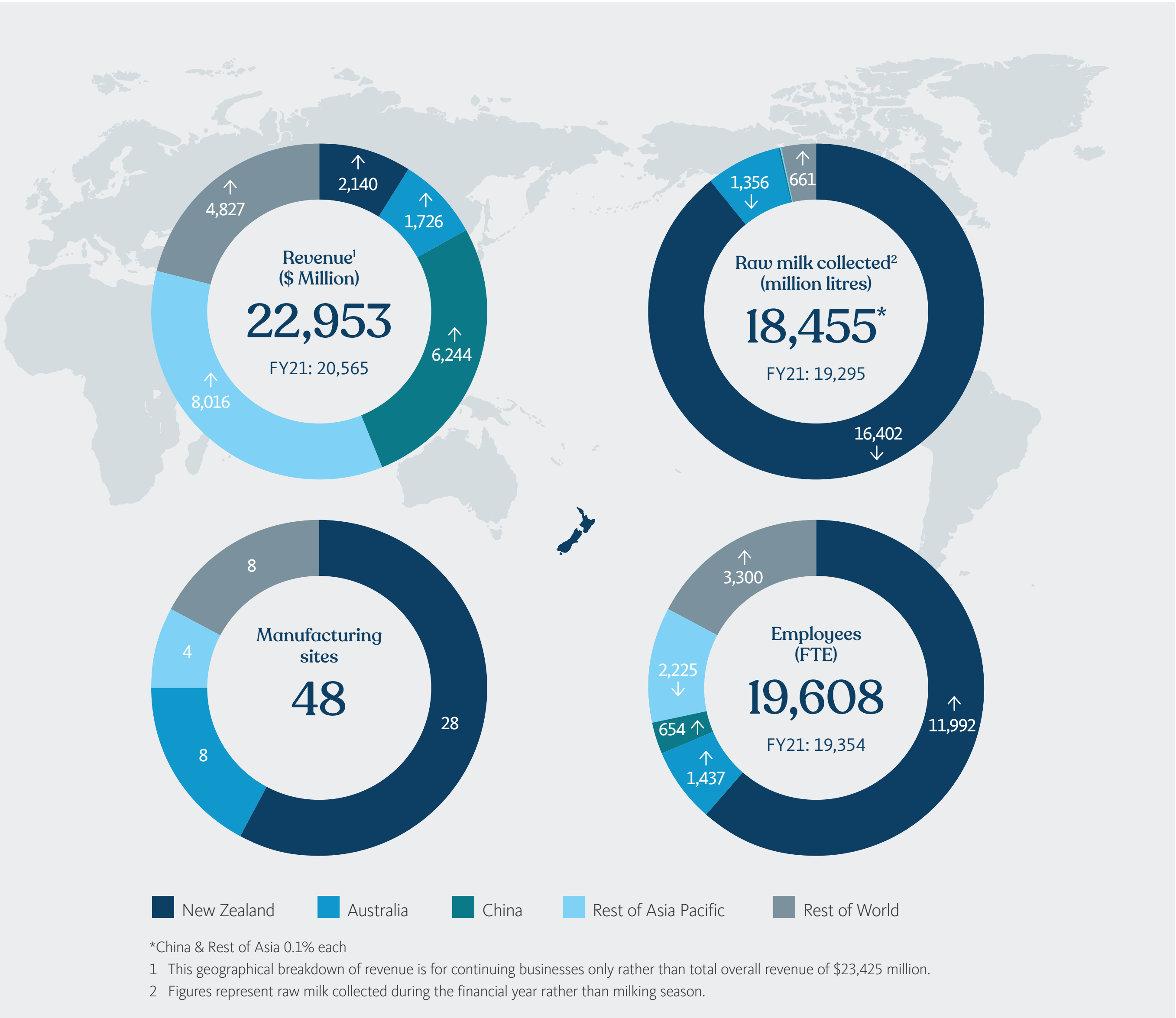
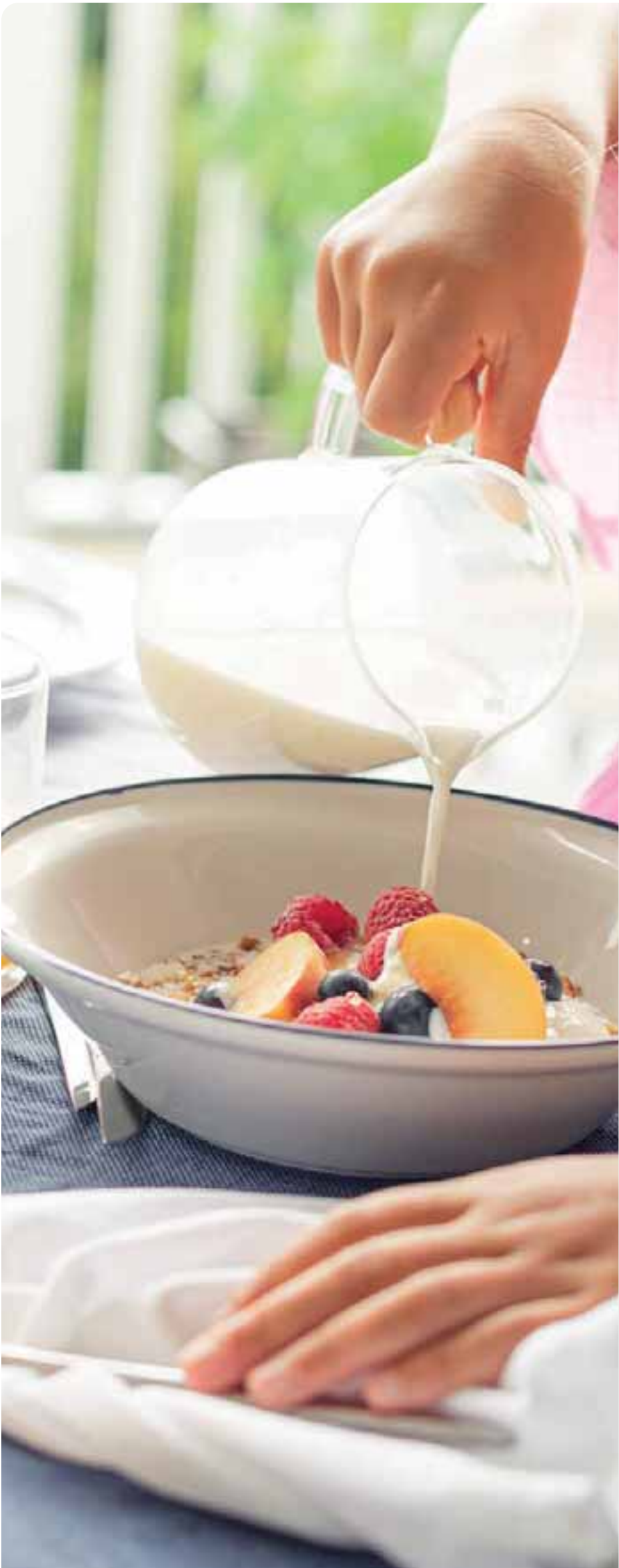
As a global organisation our supply chain sources raw milk primarily from farms in New Zealand which account for almost 90% of raw milk sourced by volume. We also have some raw milk collection in five other countries (Australia, Sri Lanka, Chile, Brazil and China).

In Australia, our raw milk is supplied entirely by Australian farms in Victoria, New South Wales and Tasmania.

We source packaging and ingredients from suppliers globally. Our global supply chain stretches from farms to our Fonterra manufacturing facilities, as well as third-party manufacturing sites across the globe enabling the delivery of products to customers and consumers in more than 130 countries.

We make a significant socio-economic contribution to the regions where we operate and from where we source. Our supply chain includes suppliers who are involved in primary production (predominantly agriculture), processing and distribution of raw materials, and these suppliers recruit and employ workers associated with undertaking these activities. We also rely on a number of other indirect goods and services in our day to day operations, for example cleaning and security services.

We want to ensure that our procurement and other spending contributes to improving livelihoods. The range of products, sourcing locations, markets and regulations associated with these purchases can present risks and we apply a systematic approach to risk assessment that helps to identify and mitigate these risks, including the risk of modern slavery. This includes requiring suppliers to comply with all relevant laws, including the Modern Slavery Act.





Enoch & Woody, Palmerston North

Understanding our modern slavery risks

Fonterra has been undertaking Human Rights Due Diligence for several years and in 2022 built on the assessments undertaken in 2020 and 2021 to better understand our modern slavery risks.

To identify our modern slavery risks we have mapped our operational and supply chain footprints against key modern slavery risk indicators as follows:

Operational Footprint:

- Employee locations
- Property locations
- Milk collection locations
- Manufacturing and own farm sites
- Third Party Manufacturing
- Merchandising

Supply Chain Footprint:

- Locations of all ingredients’ vendors
- Locations of top 400 vendors globally by spend (75% of procurement spend)
- Locations of top 200 Farm Source store goods vendors by spend

Key modern slavery risk indicators:

- World Bank World Governance Indicators
- Global Slavery Index (Walk Free Foundation)
- US Department of Labour List of Goods Produced by Forced Labour or Child Labour
- Various academic and NGO reports (including Amnesty International, Oxfam, University of Auckland, International Labour Organisation (ILO))

In addition, we have anonymously surveyed significant portions of our employee population to garner their feedback on the likelihood of human rights risks in our value chain.

We have identified the following key modern slavery risks:

- Forced/Bonded labour
- Deceptive recruitment

In addition, outside of serious exploitation we have identified the following practices that may indicate a heightened risk of modern slavery:

- Exploitation of migrant workers
- Excessive working hours
- Underpayment of wages
- Bullying & harassment



Assessment of potential modern slavery risks across Fonterra’s operational and sourcing activities

Fonterra footprint	Modern Slavery Risk or Indicators of Modern Slavery	Activities
Operational	– Forced/Bonded labour	– Outsourced / contingent workforces (cleaning and merchandising)
	– Exploitation of migrant workers	– On-farm labour, particularly migrant workers
	– Bullying and Harassment	– Third Party Manufacturing, and milk supply to Third Party Manufacturing
	– Underpayment of wages	
	– Excessive working hours	
Sourcing	– Forced/Bonded labour	– Sourcing of garments
	– Deceptive recruitment	– Magnesium and phosphate sourcing
	– Exploitation of migrant workers	– Sourcing of ingredients / packaging / finished goods from higher risk countries (including sugar and cocoa)
	– Excessive working hours	– Palm oil and Palm Kernel Expeller (PKE) sourcing
	– Underpayment of wages	– Outsourced / contingent workforces (cleaning and merchandising)

As at 31 July 2022 we have not identified any specific instances of modern slavery across our value chain.

Key areas of potential risk

Our most material risks where we may be directly linked to modern slavery practices are described in more detail below, and for simplicity, we include actions being taken to mitigate the risks.

On-farm workers

Farms are a key part of our supply chain, where all workers have rights as employees and it is a crime for employers to exploit these rights. In Australia and New Zealand where the majority of our milk collection occurs these rights include holidays, leave, work breaks, wages, freely chosen work and written employment agreements.

In Australia, dairy farms are licensed and are required to meet all employment laws.

Practices that if found may indicate a heightened risk of modern slavery for on-farm workers include bullying or harassment, insufficient pay (less than minimum wage) and excessive working hours.

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, Collection and Transport Global Standard is part of our Global Integrated Management System and sets out the minimum requirements that all farmers must meet. It applies to all farmers, collection points, co-operative vats and chilling centres supplying raw milk to Fonterra around the world, building on compliance with local regulations and forms the basis for our on-farm audits.

Through a combination of our own employees 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 14% of farms were placed into our performance management process

at some point during the season to address an identified area of concern (not necessarily labour practices).

- In Australia, farms are visited multiple times each year by our own employees and independent assessments are scheduled based on prior compliance levels. Every farm is assessed at least once every two years. In FY22, 61% of farmers were assessed and 12% of the assessed farms were referred for follow-up and resolution.
- In Latin America, each farm is assessed by a combination of our own employees and third parties. In addition, our New Zealand-based Global Assurance team visits and audits a random selection of farms once every three years.
- In China, the one farm, which is under our direct control, is assessed by a combination of our own employees and third parties. In addition, it is subject to assessments by our New Zealand-based Global Assurance 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.

The Co-operative Difference programme in New Zealand encourages farm business owners to take the Dairy NZ Workplace 360 assessment. This assessment helps to identify strengths and weaknesses in a work environment, shows opportunities for improvement and helps monitor progress. This year, completing a DairyNZ Workplace 360 assessment and achieving 100% on the foundational level was one of the criteria required for achieving the Te Pūtake level of performance. Farms reaching Te Pūtake are eligible to receive The Co-operative Difference payment of an extra 7 cents per kg of related milk solids.

Worker exploitation in the Palm Oil industry (and PKE sourcing)

Palm products are one of the highest-profile raw materials in our supply chain. The production of palm products is often linked to unsustainable practices, including deforestation, habitat destruction and poor human rights practices. More specifically, the palm oil industry has been linked to major human rights violations including the use of forced labour. The 2021 Trafficking in Persons report ranked Indonesia and Malaysia as Tier 2 and Tier 3 countries respectively, indicating that they failed to meet the minimum standards established by the Trafficking Victims Protection Act (TVPA) and showed some efforts to correct this behaviour. However, the report calls out the palm oil industry in Malaysia as having credible allegations of trafficking that are going uninvestigated.

In 2016, we first 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. This year, we published an updated version, to reflect updates to internationally recognised standards and principles, and aligning with our commitment to zero deforestation.

During the 2021 calendar year, we purchased 20,481 tonnes of palm-related products as an ingredient, down 25% on 2020 . Volumes were down in most regions except Saudi Arabia and Indonesia and this has contributed to reduced progress towards our target of 100% RSPO (Roundtable on Sustainable Palm Oil) certified segregated supply this year. For 2021 calendar year, 74% of our purchasing was RSPO certified to at least segregated supply level and 20% was certified by mass balance.

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. It is purchasing for our operations in Saudi Arabia, Indonesia and Chile where most of our remaining improvement is required. This year, we reviewed our use of palm oil and we remain committed to achieving certified segregated supply. We are increasing our efforts to positively influence the sustainable production of palm within our supply chains, by updating our responsible sourcing standard and introducing specific supply chain audits.

We will continue to work with suppliers of direct and indirect palm oil ingredients to work towards 100% certified segregated supply.

We are also engaging directly with our palm product suppliers and RSPO to ensure that the safeguards we expect from using Certified products are both in place and sufficient.



Impact of COVID-19 on modern slavery risks

As in the year ended 31 July 2021 (FY21), COVID-19 has significantly disrupted global supply chains and hence increased the risks of exploitation of vulnerable workers. Added complexity and risk has also been introduced across our supply chain from geopolitical events such as the conflict in the Ukraine. As a result, Fonterra has been committed to supporting our co-operative and value chain partners to address new and changing modern slavery risks linked to global events. We have focused our human rights due diligence assessment approach to consider products and geographies most at risk of modern slavery, though COVID-19 has impacted some of the more detailed regional analysis we were planning.

COVID-19’s impact on our human rights plan:

- Activities planned for FY22 including some onsite audits for elements of our international supply chain and a more detailed regional analysis were deferred.
- Continued focus on working in an evolving COVID-19 environment has meant some activities have been delayed – particularly work to assess the effectiveness of our actions.

We are still focused on the wellbeing and safety of our employees, milk suppliers, and maintaining income for our vendors and supply for our customers (including providing ingredients for medical nutrition products that support COVID-19 recovery).

Actions to treat and mitigate risks

Our approach to modern slavery is Co-operative-wide. Outlined below are the global policies, programmes and frameworks in place to mitigate human rights and modern slavery risks in our operations and supply chain.

Policy Framework

Respect for human rights is embedded in our “Our People” Group Policy, and expectations are articulated throughout our people standards, and our code of conduct, “The Way We Work”. Both of these key documents were updated in FY21 to better set expectations for how our people need to act and behave. These policies are supported by local guidance to reflect relevant regulations and norms.

Our Managing Director Co-operative Affairs and our Managing Director People and Culture are responsible for the governance of human rights within our business and our sphere of influence. To ensure clarity on labour standards and to respect universally recognised human rights, there are several key policies that set out the requirements of those within the organisation and those whom we seek to do business with.

Key supporting policies are available on [Fonterra.com](#) and include:

Policy/Code	Purpose
Fonterra Global ‘The Way We Work’ Code of Business Conduct	Sets out expected behaviours for our employees towards each other, our customers and the wider community.
Fonterra Global Ethical Behaviour Policy	Sets the ethical expectations of our employees, embedding a culture of integrity, honesty and transparency.
Fonterra Global Health, Safety and Wellbeing Policy	Articulates our ambition to achieve zero harm for our people, including contractors and visitors to our sites.
Fonterra Supplier Sustainability Code of Practice	Sets out our expectations for suppliers to align with our values and codes of conduct, including upholding human rights, fair working conditions and specifically excluding forced labour, child labour and modern slavery.



Mark, Michelle & Katie, Auckland



Lex & Taylor, Crawford Street



International Union of Food (IUF) Obligations

Fonterra has a long-standing agreement with the International Union of Food (IUF) and the New Zealand Dairy Workers Union (NZDWU) 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 2002, Fonterra, the IUF and the NZDWU signed an agreement to ensure minimum labour standards for all employees of Fonterra and its subsidiaries, in NZ and around the world.

Minimum Labour Standards (ILO Conventions):

- Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
- Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
- Workers’ Representatives Convention, 1971 (No. 135)
- Forced Labour Convention, 1930 (No. 29)
- Abolition of Forced Labour Convention, 1957 (No. 105)
- Minimum Age Convention, 1973 (No. 138)
- Worst Forms of Child Labour Convention, 1999 (No. 182)
- Equal Remuneration Convention, 1951 (No. 100)
- Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

The Way We Work Code of Conduct

To reflect our approach to human rights and our agreement with the IUF, our code of conduct states that in our operations we will:

- not use forced or compulsory labour - where a person has not offered their services voluntarily (in line with the Forced Labour Convention, 1930 (No. 29) and Abolition of Forced Labour Convention, 1957 (No.105)).
- not use any labour that is defined as Modern Slavery (as defined in the Australian Modern Slavery Act (2018))
- not exploit children under any circumstances. The minimum age in our workforce is set by local legislation (and in line with the Minimum Age Convention, 1973 (No.138)), and we don’t allow those less than 18 years of age to carry out work that is likely to harm their health and safety (in line with the Worst Forms of Child Labour Convention, 1999 (No.182)).

Supplier Sustainability Code of Practice

We recognise that identifying and addressing modern slavery risks in our supply chain requires collaboration with our suppliers. Our Supplier Sustainability Code of Practice (the “Code”) explains our expectations of our suppliers, and every supplier who signs our standard terms of purchase must endeavour to align their behaviour and business practices (and those of their subcontractors) with the principles contained in the Code. The Code sets out a range of expectations across people, ethical

business and environmental areas. Our suppliers must commit to complying with Code requirements, which are drawn from the ILO conventions and Ethical Trading Initiative (ETI). These are minimum standards based on the principles of the United Nations Universal Declaration of Human Rights, and the United Nations Sustainable Development Goals. Fonterra expects suppliers/contractors to express their preparedness and intent to comply with the Code and to ask their subsidiaries and suppliers to comply as well.

The Supplier Sustainability Code of Practice is mandatory for all new contracts and is included in the standard template when contracts are up for renewal, ensuring that every supplier regardless of size is required to adhere to the Code.

In FY22 we substantively updated the Code to better reflect our current practices, international norms and expectations, and reflect the Māori principles of Manaakitanga (how we care for each other as people in all we do) and Kaitiakitanga (how we protect and act as a guardian for our environment today for the benefit of future generations). This includes an explicit statement on Modern Slavery. The updated Code will start to apply during FY23.

The Code explicitly expects suppliers to support the following ethical standards related to modern slavery:

- Modern Slavery - Suppliers must not use any labour that is defined as Modern Slavery (as defined in the Australian Modern Slavery Act (2018)) and require the same of their

supply chains. Suppliers must establish and maintain programmes to identify, assess, address and report modern slavery risks within the scope of their operations and supply chains, including adherence to the principles outlined in international modern slavery legislation.

- Freely Chosen Employment – Suppliers must not make use of forced or bonded labour. By right, labour should be freely given, and employees should be free to leave in accordance with legally established rules.
- Child Labour - Suppliers must not use child labour and must comply with International Labour Organisation (ILO) Standards.

In addition to the above, in the people section the Code places positive expectations on suppliers in the areas of:

- Health and Safety
- Health, Safety and Environment Training
- Discrimination
- Bullying and Harassment
- Freedom of Association
- Wages and Benefits
- Work Hours
- Grievance Procedure

Governance and Risk Management

Fonterra's sustainability governance

The Fonterra Board has overall responsibility for Fonterra’s sustainability performance, including our supplier strategy and issues relating to the risk of modern slavery in our operations and supply chain. Responsibility for the strategy and its integration into our day-to-day activities is shared across the organisation.

Fonterra’s approach to Risk Management

Fonterra’s Global Risk Management Policy and Standard are aligned to the Australian/New Zealand Risk Management Standard “AS/NZS ISO31000:2018 Risk management – Principles and Guideline”, outlining Fonterra’s risk management principles and accountabilities, and setting out the requirements for managing and reporting risk across its business. They are designed to embed a positive risk culture and co-operative-wide risk management capability, including establishing a consistent approach to identifying, controlling, monitoring, and reporting on Fonterra’s key risks.

Our risk management framework is based on the three lines model. Fonterra’s first line is our people. Managers and individual business units hold clear risk management responsibilities for business risk management, including requirements to comply with external requirements as well as Fonterra’s Global Policy standards. Fonterra’s second line consists of the risk management and assurance processes delivered by its Group and Specialist Functions, supporting a consistent best-practice approach to risk management across the business. Third line independent assurance and oversight is 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 Audit, Finance and Risk Committee.

Risk mitigation activities

1. Human Rights Due Diligence

Human Rights ‘due diligence’ is a process to identify and prioritise actual and potential human rights issues in an organisation’s direct and indirect sphere of influence. Fonterra has been undertaking a Human Rights Due Diligence process (following the guidance of the UN Guiding Principles on Business and Human Rights) for several years.

In 2017, our workforce evaluation across New Zealand, Australia, Brazil and Chile, covering approximately three-quarters of our employees, identified some concerns about bullying and harassment, long working hours and the potential for human rights risks in our non-milk supply chain. Over the last few years we have been responding to these concerns within our workforce, and in our supply chain. To date over 10,000 employees completed an eLearning course on Culture of Care, a Bullying and Harassment awareness campaign.

We expanded our assessment approach in FY20 to consider products and geographies most at risk of modern slavery, though COVID-19 impacted some of the more detailed regional analysis we were planning. COVID-19 travel restrictions have also impacted our ability to travel for audits in FY22.

2. Independent evaluation and certification of sites

Our manufacturing sites are subject to regular internal and third-party audits. Internal audits are conducted by employees 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. For FY22 we retained a Gold rating.

3. Employee training and development

Our procurement teams play a critical role in assessing and managing the sustainability performance of our vendors. In FY19 we ran company-specific training on sustainability, including social and environmental issues faced in our supply chain. This specifically included training on human rights risks to assist with our preparation to report on Modern Slavery.

In FY21 we updated and extended the training to continue to develop the capabilities of our team, holding five specific training workshops, attended by 57 key people on Human Rights and Modern Slavery, including employees from our procurement and internal audit functions.

In FY22 we deployed an online eLearning module on Modern Slavery which has been completed by over 90 staff to date.

4. Non-Milk Vendor assessments

Assessing and managing the risk of environmental and social issues within our supply chain is a core part of responsible procurement. We have assessed our top 400 non-milk suppliers globally (accounting for 75% of spend) and we extended the coverage of this assessment to also cover our Farm Source Retail business. In FY20 we undertook a detailed assessment of our top 26 vendors across seven procurement categories. Most vendors and categories scored well, and the process identified where we have opportunities to positively influence for better outcomes. In FY21 we followed up with vendors to discuss assessment findings and agree next steps.

Sustainability (including Human Rights) 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.

This year, we have designed a vendor vetting and engagement framework, enabled by an online portal, to help us better understand and manage the risks associated with our vendors. The new



framework, supported by the online portal and a business process, will allow us to assess and manage our vendors in a more efficient and consistent way, both during initial selection and on a proactive ongoing basis.

For our vendors, the goal is to provide them with a fast to learn and easy to use system that enables a transparent assessment with clear requirements and good management processes throughout the entire engagement lifecycle.

For our employees, it allows us to comprehensively cover the broad range of topics that need to be considered and focus on the most relevant and highest risk topics for each given vendor. The topics covered include regulatory compliance, food safety and quality, health and safety, cyber security, environmental performance and working conditions.

The implementation of the portal, including supporting business processes and employee training was completed in July 2022 and we are now progressing with our rollout. The initial vetting will apply to 50 existing vendors, representing a range of categories, services and vendor size. It will also apply to all new vendors and gradually over the next three years we aim to expand coverage globally.

In our Farm Source retail business we have built our vendor approach over the last couple of years. We have established factory audits for social

responsibility compliance across most vendors for both apparel and hard goods. Almost all vendors have been able to comply to international audit standards. We have implemented technical audits via our in-market agents who conduct on-site audits with a minority of vendors who currently do not have international audit certification.

Reporting and monitoring of grievance mechanisms

We are committed to providing our teams access to effective remedies aligned with our commitment to the United Nations Guiding Principles on Business and Human Rights.

We fund an independently administered whistle-blowing hotline (The Way We Work Hotline), facilitated by Deloitte. Previously just for employees, in FY21 it was extended to provide 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.

Assessing the effectiveness of our actions

Fonterra does not currently have any key risk indicators specific to modern slavery. We regularly review and assess the effectiveness of policies, standards and frameworks as part of our risk management framework. We will continue to develop and modify our approach as we formally identify our risks and implement mitigation measures. This will include developing metrics that enable us to track the progress and effectiveness of our actions over time, as we look to continually improve. The impacts of COVID-19, combined with supply disruptions and more salient risk priorities have delayed the development of metrics; however, we are looking to develop these over the coming years. Quantifiable metrics might include measuring access to collective bargaining across our supply chain, and grievance mechanisms in place and being used.



We understand that raising awareness is key in addressing the risk of modern slavery. We recognise the need to continue building capacity among our employees to identify risks of modern slavery and the actions required to respond effectively.

In 2022, we continued to be active members of several multi-stakeholder initiatives that are engaged in the protection and promotion of human rights and the elimination of forced labour. These include the Roundtable on Sustainable Palm Oil (RSPO) and the International Union of Food (IUF). We have also been involved in conversations with the New Zealand Government and business leaders on the proposed legislative response to Modern Slavery and Worker Exploitation in New Zealand. We are supportive of Modern Slavery legislation in New Zealand. Our membership to these and other organisations allow us to assess our progress against industry best practice, work in collaboration across industries, and helps to identify areas for further improvement.



Chris & Andrew, Canterbury



Blair, Tararua

Consultation and looking ahead



All Fonterra entities operate under a common set of governance policies and programmes. This includes the programmes through which modern slavery risks in both our operations and supply chains are assessed and addressed by Fonterra. A process of consultation across Fonterra and some of our reporting entities was undertaken during the Human Rights due diligence process which contributed to the identification on salient modern slavery risks, and to help with the drafting of this statement. This included engagement with procurement, food safety and quality, third party manufacturing and our Farm Source teams. We will look to expand this as we continue our Modern Slavery journey.

Fonterra is committed to further developing and refining our programme as we learn more about our risks with respect to Modern Slavery and are looking to continually improve over time. Our focus for the next few years will include:

- Extending our due diligence process and continuing with our assessment and response to any issues identified in our on-farm and nonmilk supply chains.
- Expanding our engagement with specific vendors in high risk areas to ensure they better understand our expectations, and we better understand practices in their supply chains.

Appendix



This statement was prepared to meet our Australian regulatory disclosure requirements. It complements our existing sustainability disclosure on the Fonterra website and in our 2022 Suite of Reports. The table adjacent references where the mandatory criteria are disclosed for the Australian Modern Slavery Act 2018.

Mandatory criteria	Location of information
Identify the reporting entity	Reporting entities (page 4)
Describe the reporting entity’s structure, operations and supply chains	Fonterra structure, operations and supply chain (pages 4 – 5)
Describe the risks of modern slavery practices in the operations and supply chains of the reporting entity and any entities it owns or controls	Understanding our modern slavery risks (pages 6 – 8) Impact of COVID-19 on modern slavery risks (page 8)
Describe the actions taken by the reporting entity and any entities it owns or controls to assess and address these risks, including due diligence and remediation	Actions to treat and address risks (pages 9 – 11) Understanding our modern slavery risks (pages 6 – 8)
Describe how the reporting entity assesses the effectiveness of these actions	Assessing the effectiveness of our actions (page 12)
Describe the process of consultation with any entities the reporting entity owns or controls	Consultation and looking ahead (page 13)



Good Together

from one generation
to the next

Farmgate Milk Price Statement

For the season ended 31 May 2022

Pūrongo Utu Hoko Miraka
Te Mātāpuna



Dairy for life

Contents

2022 SEASON FARMGATE MILK PRICE	03
FARMGATE MILK PRICE REVENUE	06
FARMGATE MILK PRICE CASH COSTS	09
FARMGATE MILK PRICE CAPITAL COSTS	11
APPENDIX 1: INDEPENDENT REASONABLE ASSURANCE REPORT	12
APPENDIX 2: UPDATES TO THE FARMGATE MILK PRICE MANUAL AND CALCULATION	14
APPENDIX 3: FARMGATE MILK PRICE OVERVIEW	15
APPENDIX 4: MILK SUPPLIED AND PRODUCTION VOLUMES	18
APPENDIX 5: SALES VOLUMES	18
APPENDIX 6: AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT THAT PRICES WERE STRUCK	19
APPENDIX 7: AVERAGE % OF SALES CONTRACTED IN EACH MONTH PRIOR TO SHIPMENT	19
APPENDIX 8: AVERAGE USD PRICES	20
APPENDIX 9: AVERAGE NZD/USD CONVERSION AND SPOT RATES	21
GLOSSARY	22

IMAGE:
Karla, Whareroa



OUR 2022 SUITE OF REPORTS

Annual Review 2022
(Referenced as AR)

Financial Statements 2022
(Referenced as FS)

Business Performance Report 2022
(Referenced as BP)

Sustainability Report 2022
(Referenced as SR)

Corporate Governance Statement & Statutory Information 2022
(Referenced as C&S)

Modern Slavery Statement 2022
(Referenced as MS)

Farmgate Milk Price Statement 2022
(Referenced as MP)

OUR REPORTS ARE AVAILABLE FROM FONTERRA.COM/NZ/EN/INVESTORS.HTML



2022 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). The Manual is maintained by the Fonterra Board in accordance with the Dairy Industry Restructuring Act 2001 (DIRA) and the Fonterra Constitution.

The 2022 season Farmgate Milk Price of **\$9.30** per kgMS is:

- The Aggregate Farmgate Milk Price of \$13.746 billion; *divided by*
- New Zealand milk supplied to Fonterra in the 2022 season of 1.478 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.

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 Most of the increase in milk supplied over the past decade in New Zealand to Fonterra and its competitors used to manufacture commodity dairy products 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.

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 Notional Milk Price business.

Numbers in this Statement have been rounded and, as a result, some tables may not exactly total or sum to 100%.

2022 Season Farmgate Milk Price

\$9.30 per kgMS

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.

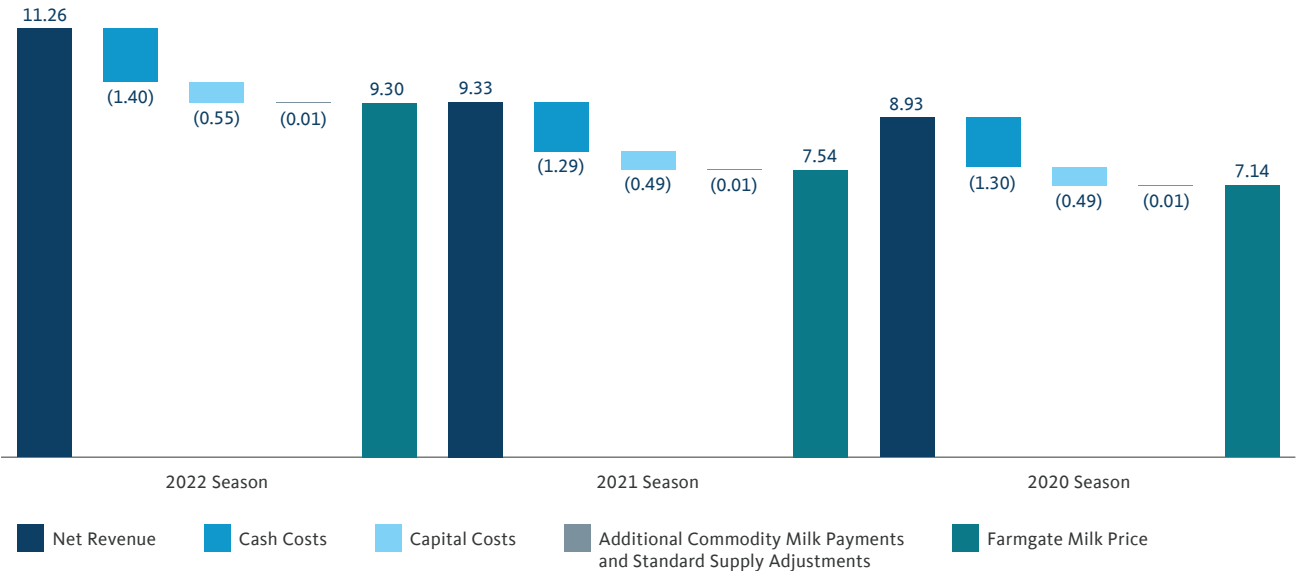


Billie, Taranua

2022 Season Farmgate Milk Price CONTINUED

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
\$ per kgMS



2022 Season Farmgate Milk Price CONTINUED

Table 1 shows the summary Farmgate Milk Price calculation for the last three seasons. Lactose is shown in Table 1 as a deduction from Farmgate Milk Price Revenue.

Table 1: Farmgate Milk Price Summary

SEASON	2022 \$ MILLION	2021 \$ MILLION	2020 \$ MILLION
Farmgate Milk Price Revenue	17,316	15,014	14,061
Lactose	(679)	(648)	(508)
Net Revenue	16,637	14,366	13,553
Farmgate Milk Price Cash Costs	(2,074)	(1,986)	(1,968)
Farmgate Milk Price Capital Costs	(806)	(754)	(746)
Additional Commodity Milk Payments and Standard Supply Adjustments	(10)	(15)	(11)
Aggregate Farmgate Milk Price	13,746	11,611	10,829
Million kgMS	1,478	1,539	1,517
Farmgate Milk Price calculated under the Manual (\$ per kgMS)	9.30	7.54	7.14

The following sections provide more detail on revenue, costs and drivers of change between seasons.



Farmgate Milk Price Revenue

Farmgate Milk Price Revenue uses a combination of actual Fonterra results and key assumptions:

- 1.478 billion kgMS of milk actually supplied to Fonterra during the 2022 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 dark 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 mid blue line).
- When that product is sold (the light blue 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 2: Timing of Supply, Production and Sales Volumes

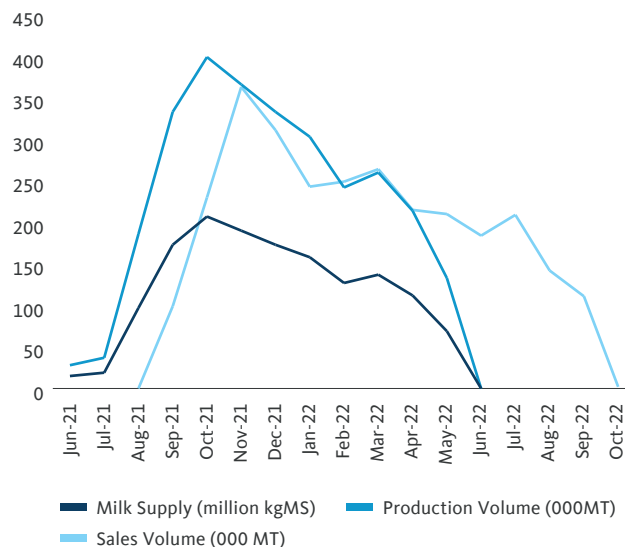


Figure 3: Average Lag Between When Prices Were Struck and Shipment

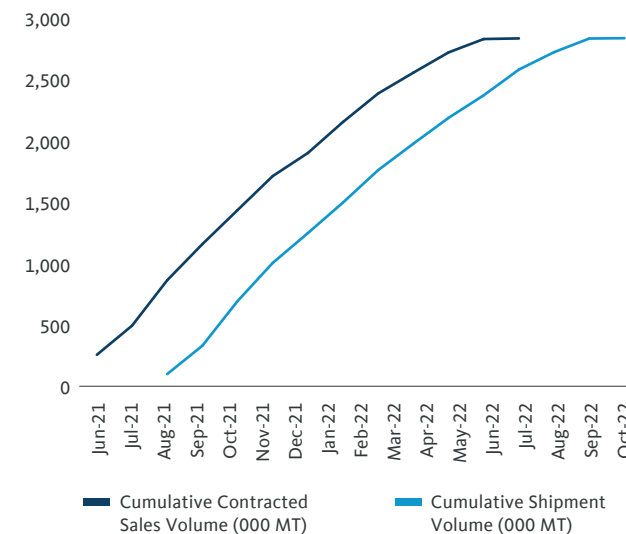


Figure 3 shows the average lag between when prices are struck and when products are shipped. This lag matches Fonterra's actual average lag for relevant sales.

Farmgate Milk Price Revenue CONTINUED

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 2022 season, off-GDT sales comprised 41% of the Farmgate Milk Price-informing sales. The inclusion of these off-GDT sales of WMP, SMP and AMF in the Farmgate Milk Price resulted in an increase of 11 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 24.1% higher for the 2022 season than last season.

Table 2: Weighted Average USD Contract Price⁴

WEIGHTED AVERAGE PRICE (USD) PER MT	2022	2021	2020	2022/2021 % CHANGE	2021/2020 % CHANGE
WMP	4,019	3,323	3,110	20.9%	6.9%
SMP	3,750	3,012	2,755	24.5%	9.3%
Butter	5,601	4,117	4,140	36.0%	(0.6)%
AMF	6,425	4,792	4,891	34.1%	(2.0)%
BMP	3,946	3,194	2,833	23.5%	12.8%
				24.1%	5.7%

⁴ 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.

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.⁵

Fonterra hedges the forecast USD exposures progressively over an 18-month period, therefore the FX conversion rate for the Farmgate Milk Price for a specific season is largely based on the weighted average spot rate over the previous season. As a result, hedging provides increased certainty on what the average conversion rate for the season will be and means a narrower range of possible outcomes for the Farmgate Milk Price relative to not hedging.

Fonterra's hedging programme resulted in an average NZD/USD conversion rate for the 2022 season of 0.6884, against an average spot rate of 0.6616. Table 3 shows this across the last three seasons.

Table 3: Impact on the Farmgate Milk Price of Fonterra's Hedging, Relative to Not Hedging

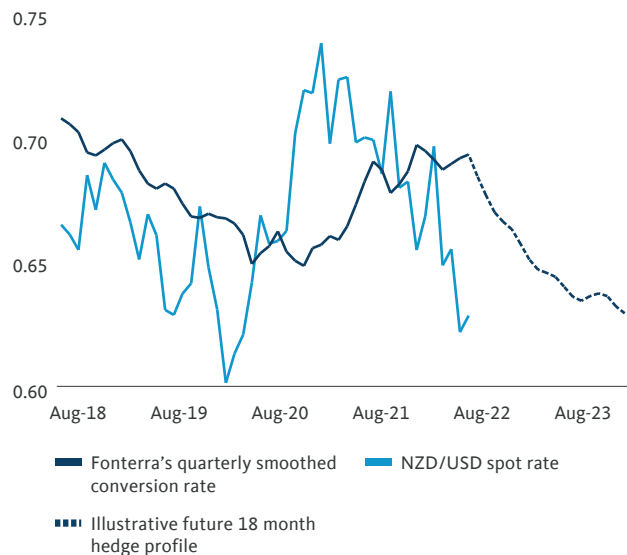
SEASON	2022	2021	2020
Average Hedged Rate (NZD/USD)	0.6884	0.6677	0.6638
Average Spot Rate (NZD/USD)	0.6616	0.7067	0.6375
Impact on Milk Price of hedging, relative to not hedging (\$ per kgMS)	(0.48)	0.53	(0.38)

⁵ Fonterra's hedging policies are outlined in Fonterra's Financial Statements for the year ended 31 July 2022.

Farmgate Milk Price Revenue CONTINUED

The hedging approach means that changes in the NZD/USD exchange rate will still impact the Farmgate Milk Price but spread over time allowing the impact to be estimated with a greater degree of certainty. Figure 4 illustrates how the hedging strategy results in a smoothing of the conversion rate.

Figure 4: Foreign Exchange NZD/USD Spot Vs Conversion Rate



Lactose

Lactose is contained in the raw milk supplied and additional lactose is used as an ingredient in the production of WMP, SMP and BMP. The Notional Milk Price business manufactures greater quantities of these commodities than Fonterra, and therefore has greater lactose requirements to achieve a product composition in line with internationally recognised standards.

The Farmgate Milk Price assumes this further lactose is purchased on global markets.

Table 4 shows volume and average purchase prices of lactose over the past three seasons.

Table 4: Purchased Lactose and Price

SEASON	2022	2021	2020	2022/2021 % CHANGE	2021/2020 % CHANGE
Purchased Lactose (000's MT)	354	369	361	(4.0)%	2.1%
Average Price (USD per MT)	1,322	1,154	946	14.6%	21.9%
Total Lactose Purchases (USD million)	468	425	342	10.0%	24.4%



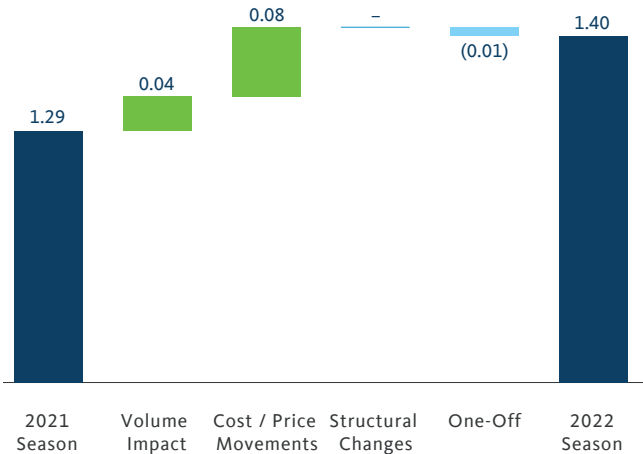
Farmgate Milk Price Cash Costs

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 and 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 5 and Table 5 summarise the major categories of cash costs and movements between the 2021 and 2022 seasons.

Figure 5: Sources of Movements in Average Cash Costs
\$ per kgMS



Farmgate Milk Price Cash Costs CONTINUED

Table 5: Summary of Movements in Cash Costs

\$ MILLION	2021 ⁶	VOLUME	COST/PRICE	STRUCTURAL	ONE-OFF	2022	% CHANGE COST/PRICE	TOTAL % CHANGE
Sales costs	132	(1)	(0)	–	–	131	(0.4%)	(1.0%)
Variable manufacturing and supply chain costs	719	(20)	80	–	–	779	11.1%	8.3%
Fixed manufacturing (including repairs and maintenance)/site overheads and supply chain costs	433	–	7	–	–	440	1.7%	1.7%
Collection costs	359	(6)	19	–	–	373	5.4%	3.8%
Other costs	343	–	17	–	(8)	352	5.0%	2.7%
Total Cash Costs	1,986	(27)	123	–	(8)	2,074	6.2%	4.5%
% Movement		(1.3%)	6.2%	–	(0.4%)			

Movements between the 2021 and 2022 seasons were due to:

- \$27 million of volume-related costs due to a decrease in milk collected from 1.539 billion kgMS to 1.478 billion kgMS.
- \$123 million of inflationary increases in the cost of a range of inputs, including packaging, energy, diesel and supply chain costs, among other operating costs.
- A reduction in one-off costs of \$8 million, with the only material item in this category involving provisions made in the 2020 and 2021 Seasons in respect of the Employment Court's decision in the case of Metropolitan Glass and Glazing, relating to the holiday pay treatment of short-term incentive payments. Consistent with the treatment of corresponding provisions in Fonterra's accounts, these provisions have now been reversed following the Court of Appeal decision in October 2021 to overturn the Employment Court's ruling.⁷

⁶ The 2021 Variable and supply chain, and Other costs of \$718 million and \$344 million have been reclassified as \$719 million and \$343 million respectively.

⁷ See page 31 of Fonterra's Reasons Paper in support of Fonterra's base milk price for the 2022 season, at https://comcom.govt.nz/_data/assets/pdf_file/0026/287360/Fonterra-Reasons-paper-on-review-of-2021-22-base-milk-price-calculation-1-july-2022.pdf

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 Notional 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 2013 and Pahiatua in 2015. The Notional 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 the total book value of the Notional Milk Price business fixed asset base and average net working capital for the last three seasons.

The WACC rate has been generally 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 5.5% over the five-year period to June 2012 to 1.6% over the five-year period to June 2022. An amendment to DIRA passed into law in July 2020 mandated a change to the methodology used to determine the asset beta, a key input into the WACC rate

for the 2022 season. Fonterra first applied the new methodology in 2021, when it increased the asset beta from 0.38 to 0.45 and reduced the specific risk premium in the cost of equity from 0.22% to nil, and this year has further increased the asset beta to 0.48, after fully aligning the calculation methodology to the Commerce Commission's interpretation of the new legislative provision. In addition, the Post Tax Market Risk Premium was increased from 7.0% to 7.5%, consistent with the Commerce Commission's current estimate, as the outcome of a four-yearly review. The net impact of these changes is a WACC of 5.0%, compared to a WACC of 4.6% if the asset beta and Post Tax Market Risk Premium remained unchanged from their previous values. The WACC will also be 5.0% for the 2023 season.

For the 2022 season the higher WACC, in isolation, resulted in:

- An increase of \$6 million in the capital charge on fixed assets.
- An increase of \$1 million in the capital charge on net working capital.
- An increase of \$3 million in the provision for corporate tax.
- Lower 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 long-term 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.

Movements between the 2021 and 2022 season in Net Working Capital and the associated WACC charge were due to increased inventory balances, resulting from the higher cost of milk and the shipment profile of the 2022 season sales.

Table 6: Capital Costs, Book Value of Fixed Asset Base and Average Net Working Capital

\$ MILLION	2022	2021	2020
WACC % (post-tax)	5.00%	4.90%	5.00%
Depreciation	283	278	269
WACC Charge – Fixed Assets	326	316	330
WACC Charge – Net Working Capital	67	43	31
Tax	130	117	116
Total Capital Costs	806	754	746
Total Fixed Assets (Book Value)	6,595	6,532	6,684
Average Net Working Capital	1,181	622	635

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, in all material respects,

- the Farmgate Milk Price has been calculated in accordance with the Farmgate Milk Price Manual for the season ended 31 May 2022; and
- the information presented in the Farmgate Milk Price Statement is 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 2022.

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 2022, dated 1 August 2021.

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 2022. 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 include:

- 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. This included examining management's F22 refresh of Reference Commodity Products included in benchmark selling prices and ocean freight recovery rates that are referred to in the Base Milk Price Reasons Paper; 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.

Appendix 1: Independent Reasonable Assurance Report CONTINUED

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 non-compliance 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 and non-compliance, 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 and non-compliance

Reasonable assurance is a high level of assurance but is not a guarantee that it will always detect a material misstatement or non-compliance when it exists.

Misstatements, including omissions, within the Farmgate Milk Price and Farmgate Milk Price Statement and non-compliance is 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 of Fonterra for any purpose or in any context. Any party other than the Directors of Fonterra 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 the Directors of Fonterra 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 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 and non-compliance 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) 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 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

21 September 2022

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 one substantive amendment to the Manual for the 2023 season, to address matters raised by the Commerce Commission in its final report on the Manual for the 2022 season relating to the calculation of the asset beta. This amendment is not expected to have any impact on the calculation methodology or quantum of the Farmgate Milk Price. An explanation of this change is provided in the 'reasons paper' provided by Fonterra to the Commerce Commission in support of the Manual for the 2023 season, 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 2023 season is available at:

https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/2022/F23_Milk_Price_Manual_Final_1_August_2022.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 Manual for the 2022 season was released on 15 December 2021. That report can be found at:

https://comcom.govt.nz/_data/assets/pdf_file/0026/273338/Final-report-Review-of-Fonterra27s-2021-22-Milk-Price-Manual-15-December-2021.pdf

Changes in Approach to the Calculation of the Farmgate Milk Price

There were three changes in the application of the Manual for the 2022 season that resulted in materially different values of inputs into the Farmgate Milk Price calculation.

In 2021 we undertook a comprehensive review of all RCP product specifications, and in consequence removed several specifications from the schedule of Qualifying Materials. If this change had been implemented in the 2021 season, it would have resulted in a reduction of 2.7 cents per kgMS in the 2021 Farmgate Milk Price.

Differences between Fonterra's actual average ocean freight costs and the average amounts charged to Fonterra's customers are included in the Farmgate Milk Price. Since 2015, we have included in this calculation a portion of Fonterra's share of the earnings generated by Kotahi, the logistics business which manages Fonterra's ocean freight requirements, as a proxy for the average ocean freight rebate which Fonterra could be expected to be able to negotiate in the absence of the Kotahi relationship. This year, we identified data which was not available in 2015 which has enabled us to implement an alternative methodology. This alternative approach has resulted in a reduction of approximately

\$6 million, or 0.4 cents per kgMS, in the 2022 Farmgate Milk Price relative to the equivalent allowance included in the 2021 season.

The asset beta used in the WACC calculation has been updated, as discussed on [page 11](#).



Michael, Kiri & Alan, Rerewhakaaitu

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 2022 season.

Most of 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.

Farmgate Milk Price Governance

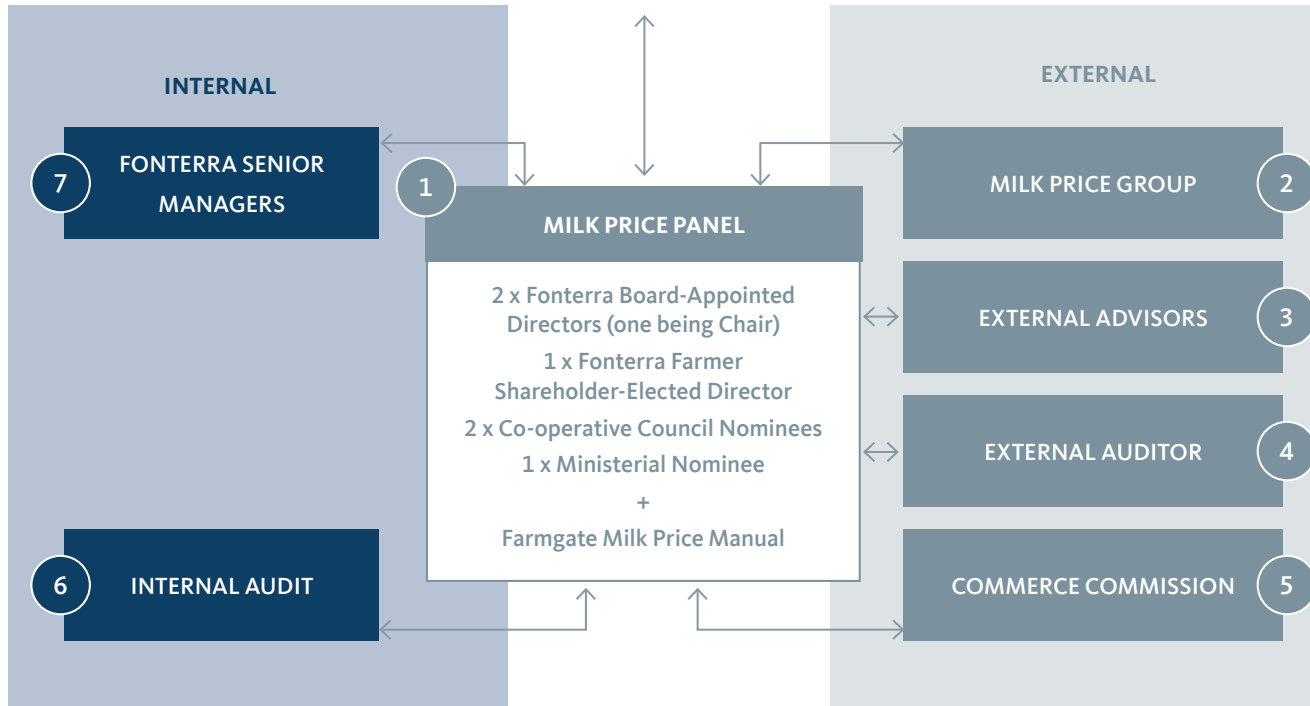
The Fonterra Board sets the total amount to be paid by Fonterra for all milk supplied to it in New Zealand in each season.

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 16](#).

Appendix 3: Farmgate Milk Price Overview CONTINUED

BOARD MAKES DECISIONS ON THE RECOMMENDATIONS OF THE MILK PRICE PANEL



1 Milk Price Panel

The Milk Price Panel plays a key role in overseeing the integrity of the Farmgate Milk Price. It currently has six members: two are Fonterra Board-appointed directors (one of whom is the Chair); one is a Fonterra farmer shareholder-elected director; two are appropriately qualified nominees of the Fonterra Co-operative Council; and one is a nominee of the Minister of Agriculture.

The current members of the Panel are: Scott St John (Chair) and Bruce Hassall, who are Fonterra Board-appointed directors; Brent Goldsack, who is a Fonterra farmer shareholder-elected director; Bill Donaldson and Fred Ohlsson, who are nominees of the Fonterra Co-operative Council; and Professor Hamish Gow, who is the nominee of the Minister of Agriculture.

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.

Appendix 3: Farmgate Milk Price Overview CONTINUED

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 advisors.
- 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 Advisors

External advisors 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.



Stephanie, Waiuku

Appendix 4: Milk Supplied and Production Volumes

MILK SUPPLIED (MILLION KGMS)				PRODUCTION OF FINISHED PRODUCT (000'S MT)																	
				WMP			SMP			BUTTER			AMF			BMP			TOTAL		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
JUN TO AUG	131	135	130	177	179	151	43	46	61	11	13	11	17	16	23	5	5	6	251	259	250
SEP TO NOV	570	585	595	754	772	760	194	201	222	81	87	87	50	47	55	19	20	21	1,098	1,127	1,145
DEC TO FEB	458	488	488	562	626	609	176	174	182	79	84	82	42	36	42	18	18	19	878	938	934
MAR TO MAY	318	332	304	427	504	401	93	58	96	43	39	41	30	21	30	13	11	13	607	633	581
TOTAL	1,478	1,539	1,517	1,919	2,080	1,921	506	479	561	214	223	221	139	121	150	55	53	58	2,834	2,957	2,911

Appendix 5: Sales Volumes

SHIPMENTS OF FINISHED PRODUCT (000'S MT)																		
	WMP			SMP			BUTTER			AMF			BMP			TOTAL		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
AUG TO OCT	226	269	251	74	61	83	13	19	22	14	16	20	3	6	3	330	370	379
NOV TO JAN	646	667	662	149	168	203	79	84	94	29	36	38	14	12	17	917	967	1,014
FEB TO APRIL	481	569	514	141	114	146	61	58	52	31	33	43	14	15	19	728	788	774
MAY TO JULY	386	530	434	110	122	115	44	43	35	47	31	44	15	15	17	603	741	644
AUG TO OCT	180	45	60	32	15	14	18	20	19	18	5	5	8	4	3	256	90	100
TOTAL	1,919	2,080	1,921	506	479	561	214	223	221	139	121	150	55	53	58	2,834	2,957	2,911

Appendix 6: Average Number of Months Prior to Shipment that Prices were Struck

AVERAGE NUMBER OF MONTHS PRIOR TO SHIPMENT															
	WMP			SMP			BUTTER			AMF			BMP		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
AUG TO OCT	2.2	3.1	2.6	3.0	3.1	2.9	2.3	2.4	2.9	2.6	2.7	2.2	2.0	2.5	1.8
NOV TO JAN	2.6	3.2	2.8	2.9	3.3	3.1	2.7	3.2	2.8	2.7	3.0	2.7	2.1	2.6	2.9
FEB TO APRIL	2.6	3.2	2.8	3.0	3.1	2.9	3.2	3.6	3.3	2.9	2.9	3.0	2.5	2.7	2.6
MAY TO JULY	2.7	2.8	2.6	3.1	2.9	2.9	2.8	2.9	2.6	2.8	2.8	2.6	2.6	2.7	2.4
AUG TO OCT	2.6	2.8	2.7	3.2	3.2	2.9	2.7	2.8	2.7	2.7	3.3	2.8	3.1	2.4	2.3
TOTAL	2.6	3.1	2.7	3.0	3.1	3.0	2.8	3.1	2.9	2.8	2.9	2.7	2.5	2.6	2.6

Appendix 7: Average % of Sales Contracted in Each Month Prior to Shipment

AVERAGE % SALES CONTRACTED IN EACH MONTH PRIOR TO SHIPMENT															
NUMBER OF MONTHS	WMP			SMP			BUTTER			AMF			BMP		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
1	11%	8%	10%	9%	6%	6%	13%	8%	13%	14%	7%	12%	21%	13%	20%
2	43%	30%	39%	31%	32%	35%	32%	25%	31%	33%	33%	39%	41%	39%	38%
3	29%	27%	28%	28%	24%	27%	26%	29%	24%	25%	31%	24%	19%	26%	23%
4	11%	19%	14%	19%	22%	19%	17%	22%	22%	18%	19%	14%	11%	15%	10%
5	5%	17%	9%	14%	17%	13%	13%	16%	11%	10%	10%	10%	8%	7%	9%

Appendix 8: Average USD Prices

USD / MT OF FINISHED PRODUCT															
	WMP			SMP			BUTTER			AMF			BMP		
	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
AUG TO OCT	3,813	2,974	3,129	3,255	2,699	2,549	4,711	3,568	4,420	5,789	4,010	5,408	3,598	2,612	2,820
NOV TO JAN	3,827	3,020	3,184	3,377	2,797	2,680	5,025	3,552	4,257	6,122	4,095	5,210	3,696	2,754	2,794
FEB TO APRIL	4,064	3,247	3,203	3,803	3,045	2,980	5,753	4,102	4,128	6,643	4,729	4,954	3,911	2,962	3,033
MAY TO JULY	4,355	3,899	2,916	4,339	3,383	2,761	6,472	5,183	3,883	6,752	5,891	4,394	4,168	3,771	2,691
AUG TO OCT	4,123	4,077	2,825	4,359	3,412	2,673	6,140	4,757	3,732	6,151	5,873	4,198	4,158	4,066	2,561
TOTAL WEIGHTED AVERAGE PRICE	4,019	3,323	3,110	3,750	3,012	2,755	5,601	4,117	4,140	6,425	4,792	4,891	3,946	3,194	2,833
FULL SEASON GDT-ONLY PRICES	3,978	3,288	3,069	3,706	2,966	2,719	5,557	4,039	4,108	6,367	4,726	4,835	3,947	3,141	2,758

Appendix 9: Average NZD/USD Conversion and Spot Rates

	2022		2021		2020	
	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE ⁹	FONTERRA'S AVERAGE CONVERSION RATE	SPOT EXCHANGE RATE
AUG TO OCT	0.6829	0.7039	0.6477	0.6746	0.6651	0.6366
NOV TO JAN	0.6964	0.6779	0.6570	0.7134	0.6693	0.6541
FEB TO APRIL	0.6892	0.6707	0.6637	0.7159	0.6627	0.6079
MAY TO JULY	0.6878	0.6294	0.6889	0.7049	0.6565	0.6477
AUG TO OCT	0.6695	0.6287 ⁸	0.6825	0.7039	0.6568	0.6647
REVENUE-WEIGHTED ANNUAL AVERAGE	0.6884	0.6616	0.6677	0.7067	0.6638	0.6375

As at 31 July 2022, Fonterra had hedged approximately 65% of the forecast cash flows related to the 2023 season Farmgate Milk Price. If the remaining 35% of the forecast cash flows were to be hedged at the 29 July 2022 spot rate, the average NZD/USD conversion rate would be around 65 cents.

⁸ This Milk Price Statement presents the spot exchange rate for August 22 to October 22 as the spot rate at 9am on 29 July 2022, which is the last business day of Fonterra's financial year.

⁹ Certain average spot exchange rate figures for the 2021 season differ from those disclosed in the 2021 Farmgate Milk Price Statement, as forecast exchange rates have been replaced with actual exchange rates.

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 2022 season.

Aggregate Farmgate Milk Price as defined in the Manual for the 2022 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 2022 season.

Farmgate Milk Price Capital Costs as defined in the Manual for the 2022 season.

Farmgate Milk Price Cash Costs as defined in the Manual for the 2022 season.

Farmgate Milk Price Manual or **Manual** means Fonterra's Farmgate Milk Price Manual which is available on: https://www.fonterra.com/content/dam/fonterra-public-website/fonterra-new-zealand/documents/pdf/milk-prices/2022/F23_Milk_Price_Manual_Final_1_August_2022.pdf

Farmgate Milk Price Revenue as defined in the Manual for the 2022 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 2022 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 2022 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 2022 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.



Billie, Taranaki



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	29/09/2022			
Ex-Date (one business day before the Record Date)	28/09/2022			
Payment date (and allotment date for DRP)	14/10/2022			
Total monies associated with the distribution ¹	\$241,923,838			
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	22/09/2022

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.