



Tātou Tātou

SUSTAINABILITY
REPORT 2020



Working together, for tomorrow.

WHY WE'RE GOOD TOGETHER

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

Our Co-operative is our pride, our passion, the essence of who we all are as one.

Empowering people is how we help each other reach our full potential and that of our Co-op.

To create goodness for generations is the positive impact we make to lives here, and around the world, through our products and know-how.

You, me, us together is our fundamental belief that we all matter – and through diversity of thought we're good together.

Tātou, tātou connects us all spiritually and emotionally with our unique Aotearoa New Zealand heritage. In Te Reo Māori, tātou means 'our', yours and mine, it means all of us together.



WHAT WE DO TO DELIVER ON GOOD TOGETHER

Our simple aim is to create greater value for our farmers, customers, consumers and communities through three simple goals – Healthy People, Healthy Environment, and Healthy Business.

That's why we'll prioritise New Zealand milk, and do what we do best. Even in our fast-changing world, people everywhere still want high-quality dairy that's good for them and the planet.

We'll keep driving innovation to develop the nutritional value of our milk, while focusing on our main growth areas: Core Dairy (cheese, butter, cream, milk), Foodservice, Paediatrics, Sports & Active, and Medical & Ageing.

Our scale, our smarts, and our insights will power our approach to safety, quality and efficiency.

And together we will continue to work towards being sustainable in everything we do from farm through to customer, which is good for everyone.

HOW WE'RE GOOD TOGETHER

Do what's right

We act with care, empathy and respect and we hold ourselves and others to high standards.

Co-operative spirit

We pitch in and work as one connected team to create goodness together.

Challenge boundaries

We are progressive, open-minded and always eager to uncover new ways of working to benefit everyone in our Co-op.

Make it happen

We deliver on our commitments and live all our values in everything we do.

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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 economic, social and environmental impacts for the year ending 31 July 2020 – 'FY20'. This report sits alongside our [2020 Annual Report](#).

In certain sections throughout the report, we have included data relating to periods prior to FY20 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 fourth stand-alone sustainability report (our first was in 2017) and we intend to continue this reporting on an annual basis. This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. We have included an index of disclosures against the GRI standards on [page 78](#).

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 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 80](#).

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

Message from Board Chair and CEO

Creating long-term value for future generations

Our Co-op measures its performance against three connected goals – healthy people, a healthy environment and a healthy business. Over the past year we have made good progress towards all three goals, but have more work to do towards achieving our long-term targets.

We are proud of the progress our people have made this year, especially in the face of Covid-19, and want to thank our farmers and employees for their support and hard work.

We also want to acknowledge the contribution of our Sustainability Advisory Panel and thank them for their support and constructive challenge. The Panel provides us with an important external lens that helps to shape our future direction and prioritise our activities.

Sadly, we lost a key contributor to that Panel, and its former Chair, when Sir Rob Fenwick passed away this year. Rob was a man of great mana and will be greatly missed.

Healthy people

Across the Co-op, our people have been calm and considered when responding to the new challenges that Covid-19 creates on a daily basis. We have stayed focused on our core business and delivered what we said we would, rather than let Covid-19 be an excuse to veer away from strategy.

Weather-wise, the season was a real mixed bag for farmers. There were excellent spring growing conditions in most

regions, but we also had droughts and flooding presenting big challenges in some parts of the country. Farming families did what they do best, looking after the land, their cows, and farming businesses to keep the milk flowing.

Through the Milk Price earned for that milk, our Co-op contributed \$11 billion into New Zealand’s rural communities, where farmers spend roughly 50 cents of every dollar in their local community.

Our people also got stuck in and helped local communities, including making ethanol available to help with the initial hand sanitiser shortage and redirecting Anchor milk from our in-school nutrition programme into the wider community while schools were closed due to Covid-19 Alert Level 4.

We continued with the implementation of our new customer-led operating model. It was beneficial to be closer to our customers during the uncertainty of Covid-19, and more generally, it enables us to understand and respond more quickly to our customers, and to focus on those who value our New Zealand milk, innovation and sustainability credentials the most.

We still have an opportunity to improve the health and safety of our people within the business. Overall, we did not make the progress we had aimed for here, and this will be a key focus for us in 2021.



Total Group Normalised EBIT

\$879m

Up \$67 million



Profit After Tax

\$659m

Up \$1.3 billion



Injuries per million hours worked

5.8 

Up from the low of 4.9 we achieved last year but serious harm injuries are down

44% 

73% 

of our everyday and advanced nutrition products meet endorsed nutrition guidelines. Up from 70%.

Reduction in GHG emissions from our global manufacturing operations*

1.9% 

Reduction in water use at our manufacturing sites in water-constrained regions*

6.4% 

34% 

of supplying farms in New Zealand now have a Farm Environment Plan, up from 23% at the start of the year

* Compared to last year



A healthy environment

We care for the environment and recognise it is critical to a sustainable future for the Co-op and New Zealand. Protecting and regenerating the environment in our communities is not something we can do on our own, it takes a collaborative effort.

This year, even with the significant distraction that comes with a global pandemic, we have continued to reduce our environmental footprint.

We hit our 2020 target to reduce energy intensity at our manufacturing sites by 20% from a 2003 baseline. Combined, that's enough energy saved to power all the households in New Zealand for 1.5 years.

We have switched from coal to wood pellets at our Te Awamutu manufacturing site. This will see us reduce our national coal usage by almost 10%.

We've continued to support farmers in putting in place Farm Environment Plans (FEPs), which means 34% of supplying farms in New Zealand now have an FEP. We are also completing farm-specific greenhouse gas emission reports for all our farmer owners.

We are heading in the right direction and have continued to make good progress to lower our environmental footprint this year. However, the rate of improvement will need to accelerate if we are to deliver on our targets.

A healthy business

Our 2020 financial result is headlined by a return to sustainable earnings, with the Co-op posting total normalised earnings of \$398 million, up \$123 million on last year.

With these improved earnings and a stronger balance sheet comes a return to paying a dividend – something we expect to maintain in the future, given normal operating conditions.

This year's dividend payment of 5 cents per share and final Farmgate Milk Price of \$7.14 per kgMS means the total payout for a fully share-backed farmer was \$7.19 per kgMS, the fourth highest for the Co-op so far.

Our international scale is one of the Co-op's key strengths. Our people have worked hard to leverage that scale, shifting our New Zealand milk into the products and places where we can earn the highest possible value under the circumstances.

Our progress this year towards our goals of healthy people, a healthy environment, and a healthy business show that, even in the midst of a global pandemic, our strategy will deliver.

Outlook for 2021 and beyond

Looking to the 2021 financial year, there is a high level of uncertainty as to how the global recession and new waves of Covid-19 will impact people and demand globally. It is something the Co-op will be monitoring closely throughout the season.

The best way of coping with uncertainty is to stay on strategy and focus on what is within our control – continuing to meet our commitments to farmers, employees and communities.

Tātou, tātou.

You. Me. Us together.



John Monaghan
 CHAIR



Miles Hurrell
 CHIEF EXECUTIVE OFFICER

Message from the Sustainability Advisory Panel



Bridget Coates
CHAIR



Paul Gilding
MEMBER



Aroha Mead
MEMBER

 [READ FULL BIOGRAPHIES ONLINE](#)



Dr. J Morgan Williams QSO
NEW MEMBER



Corrigan Sowman
NEW MEMBER



As we look back at 2020, I would like first to acknowledge the Inaugural Chair of the Panel, a passionate advocate for sustainability and a dear friend, Sir Rob Fenwick, who sadly passed away earlier this year. Sir Rob helped cement our role as a ‘critical friend’ to Fonterra and he remains an inspiration for us all.

We also acknowledge the contributions of retiring members, Hugh Logan and Michelle Pye, and welcome new members, Morgan Williams and Corrigan Sowman.

As an independent Advisory Panel, we feel privileged to be able to challenge and advise management and the Board on what the future based on sustainability principles would look like. Our remit is clearly not just about the positive impact Fonterra can have in economic terms but about the full operationalising of Fonterra’s multi-stakeholder model, encompassing people, animals, natural resources and taonga within its realm of responsibility, while also playing a wider influencing role to help all our communities thrive.

Diversity of thought and perspectives on its broad sustainability challenges remains key to helping Fonterra deliver change at a faster pace, the most pressing of which is arguably the accelerating effects of climate change. While Fonterra can draw on its low carbon, natural farming system as a point of difference from its global competitors, it must also play a leadership role in helping to find methane mitigation solutions, given that dairy production accounts for approximately 25% of New Zealand’s greenhouse gas emissions.

We believe Fonterra has taken steps in the right direction over the past year. Having been actively engaged in the development of its new strategy and operating model in

2019, we are already seeing the significant value of putting sustainability at the core of the Co-operative’s mission and strategy.

The proof comes in tangible measures – like the delivery of a strong financial performance as people increasingly seek out safe, sustainable, high-quality food products – as well as in less tangible outcomes – like the cultural shift centred on being ‘Good Together,’ which has come to the fore during Covid-19.

We also applaud the introduction of the Co-operative Difference payment, which was announced this year and will apply from 2021. This recognises farmers for hitting targets in areas like protecting the environment and caring for animals.

The three levels within the Co-operative Difference draw on the

analogy of a journey up a mountain: Te Pūtaka (starting point), Te Puku (mid-point), and Te Tihi (summit). This journey could also be applied to Fonterra’s wider sustainability story.

The Co-operative is already demonstrating what it means to be purpose-led, but there is still a lot of work to do. We will help keep Fonterra accountable to ensure sustainability is at the core of the company’s decision-making, and that this aspiration is backed up by evidence-based measurements, credentials and certifications. Becoming the first dairy company in New Zealand to have a validated science-based target for its emissions reductions is a good example.

I would like to thank my fellow panel members as well as Fonterra’s Board and management team. We will continue

ROLE OF THE PANEL:

The Fonterra Sustainability Advisory Panel was established in 2018, with the first meeting in October 2018. The role of the Panel is to:

1. review and provide feedback and advice to the Board on Fonterra’s strategy, targets and initiatives as they relate to economic, social and environmental sustainability;
2. provide credible, independent expertise and guidance to the Board to improve performance and outcomes in relation to sustainability; and
3. present to the Board on advice and/or issues that relate to sustainability and affect Fonterra.

Sir Rob’s legacy which is based on a passionate belief in Fonterra’s future success as a global leader in sustainability. Collectively, we congratulate every farmer, employee, partner, supplier, customer and consumer who are working to help the Co-operative meet these goals, thereby creating greater value for current and future generations.

BRIDGET COATES
 Chair, Fonterra Sustainability Panel

Our context

The world needs to transform the way it produces and consumes food so that people have access to sufficient good nutrition, while regenerating the environment and returning decent livelihoods to farmers in the rural communities.

We've set ourselves diversity targets but, like many companies, we've found it difficult to improve data quality and representation. However, we continue to pursue increased awareness of bias and improvement actions not just to achieve targets but, more importantly, to deliver the benefits of an inclusive culture.

HAYLEE PUTARANUI
Head of Diversity and Inclusion



Agricultural emissions contribute to global warming and climate change will have a significant impact on farming communities. The carbon footprint of New Zealand's on-farm milk supply is one of the lowest in the world and we are working with farmers to achieve further reductions and improve resilience.

ANDREW KEMPSON
Environment Programme Lead – Sustainable Dairying



Globally, poor diets continue to impact population health with large numbers overweight, going hungry and/or lacking key nutrients.

Sustainable diets will involve different food sources fulfilling different roles. Dairy will play an important part in providing high-quality nutrition and we are committed to giving consumers healthier options to choose from.

KOMAL MISTRY-MEHTA
Director Sports and Active Lifestyle



Agricultural practices have contributed to the environmental degradation that we see today. We are working together with farmers and communities so farming can regenerate nature while farmers can make good financial returns from the pasture-based model that consumers value.

MAT CULLEN
GM On-Farm Excellence – Environment



Consumers want to know more about where their food comes from, how it is made, and what impact it has on the environment, animals and communities. We are continuously looking at new products, improving our performance and transparency so we can offer our customers more choice.

CHESTER CAO
Vice President Consumer, Greater China



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.



HEALTHY PEOPLE

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

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

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

LONG-TERM CONTRIBUTION



HEALTHY ENVIRONMENT

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

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

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

LONG-TERM CONTRIBUTION



HEALTHY BUSINESS

We are working together to deliver a sustainable business

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

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

LONG-TERM CONTRIBUTION



How we create value

The resources we rely on

OUR RELATIONSHIPS

- We rely on positive relationships with **farmers**, with governments and regulators, with unions and employees, and with iwi and community.

INTELLECTUAL CAPITAL

- We rely on the know-how, systems and intellectual property that more than 90 years of investment in research and development has generated.

FINANCIAL CAPITAL

- We rely on a strong financial base to operate and invest for the future and employ capital from our farmer shareholders, unit holders and from debt (**\$11,961 million**).

ASSETS AND INFRASTRUCTURE

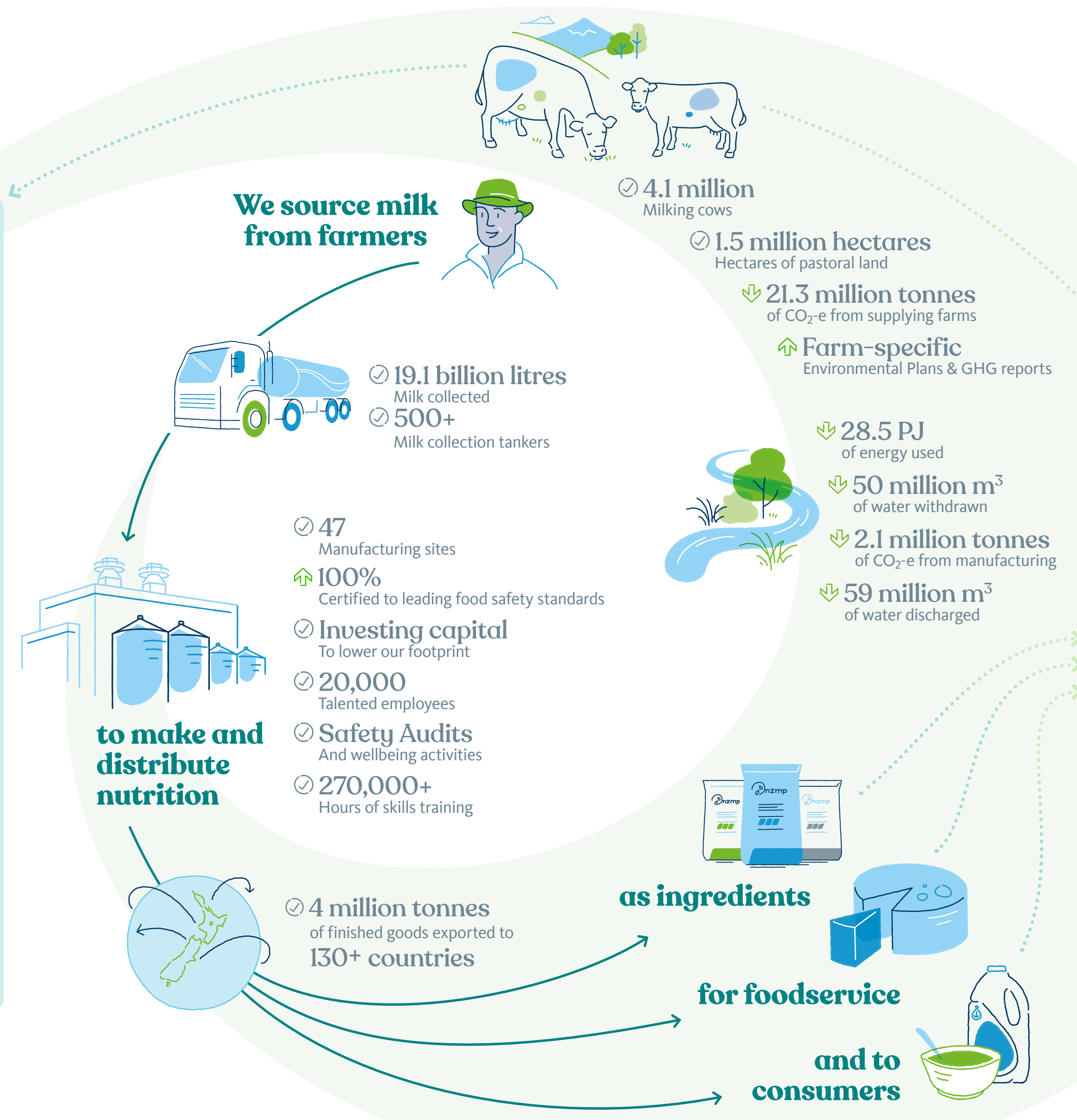
- We rely on the property, plant and equipment that allow us to collect milk, and make and distribute our products to the world (**\$6,575 million** total net book value).

PEOPLE AND CULTURE

- Over **20,000 TALENTED EMPLOYEES**, over **25,000 FARMERS AND FARM WORKERS** and thousands of people in our supply chain help deliver the goods and services we produce.

NATURAL ENVIRONMENT

- Our farmers and their **4.1 MILLION MILKING COWS** rely on **1.5 MILLION HECTARES OF PASTORAL LAND** where rain, sunlight and soil grows natural grass.
- Some additional inputs include fertiliser, irrigated water and animal nutrition.



Creating value for our stakeholders

FOR FARMERS

- Delivering a **strong payout**
- Helping farmers** meet regulatory requirements and improve their farming practices

FOR EMPLOYEES

- Providing a **safe workplace** with good **development opportunities** and **high staff engagement**.

FOR THE PLANET

- Working with our farmers to achieve a **healthy environment** for farming and for society.
- Reducing our manufacturing environmental footprint including **GHG emissions**, **water consumption** and **solid waste to landfill**

FOR COMMUNITIES

- Providing direct and indirect, rural and urban **employment**
- Lowering our **environmental footprint**
- Investing in community** and providing access to nutrition through **in-school nutrition** and **food bank donations**.

FOR INVESTORS

- Providing sustainable returns** via earnings per share, dividends and interest paid.
- Reducing investment risk** through transparency and independent assessment.

FOR GOVERNMENTS AND REGULATORS

- Complying with regulatory requirements, including **food safety**, **marketing** and **environmental**.
- Reducing our environmental footprint including **GHG emissions**, **water consumption** and **solid waste to landfill**
- Taking a **responsible approach to tax**

FOR CUSTOMERS & CONSUMERS

- Delivering nutrition products that are: **high-quality**, **low carbon** and **responsibly produced**.
- Providing access to nutrition products that include **healthier options**, are **safe to eat** and linked to **sustainable credentials**.

Our progress

CORE INDICATORS ¹	TARGET ²	PERFORMANCE			TARGET FY21	SEE PAGE
		FY18	FY19	FY20		
HEALTHY PEOPLE						
Percentage of everyday and advanced nutrition products that meet endorsed nutritional guidelines. (Fonterra consumer branded products)	75% by 2020 100% by 2025	68% ³	70%	73%	–	20
Total recordable injury frequency rate (TRIFR) per million work hours	Less than 5	6.1	4.9	5.8	5.0	23
Employee engagement	World-class (Top quartile)	4.00 2nd highest quartile	4.07 2nd highest quartile	N/A ⁴	Top quartile	28
Percentage of manufacturing sites certified by an independent third party to leading food safety management system (e.g. FSSC22000)	100% by 2019	90%	92%	100%	100%	21
Female representation in senior leadership	50% by 2022	30%	29%	29%	35%	28
Ethnic representation in senior leadership	20% by 2022	9%	9%	8%	–	28
HEALTHY ENVIRONMENT						
Farm Environment Plans (FEPs) (NZ)	100% by 2025	12%	23%	34%	45%	39
Water reduction at manufacturing sites in water-constrained regions from FY18 baseline	30% reduction by 2030	–	3.5% increase on FY18	3.1% reduction on FY18	10% reduction on FY18	35
Reduction in absolute GHG emissions from manufacturing operations ⁵ from FY15 baseline	30% reduction by 2030	2.5% reduction on FY15	3.9% reduction on FY15	5.7% reduction on FY15	10% reduction on FY15	43
Net change in GHG emissions from dairy farming since 14/15 (NZ) (Pre-farm gate tCO2-e)	Neutral to 2030	720,339 reduction on 14/15	1,113,088 reduction on 14/15	1,208,011 reduction on 14/15	–	45
Percentage of manufacturing sites treating wastewater to leading industry standards	100% by 2026	26%	29%	29%	–	74
Solid waste to landfill	OMT by 2025		16,886	15,915	13,100	50
HEALTHY BUSINESS⁶						
Return on capital	8.5% by FY22 10% by FY24	6.3%	5.8%	6.7%	6% to 7%	65
Earnings per share	15-25c for FY20 40c by FY22 50c by FY24	24c	16c	24c	20c to 35c	58
Free cash flow	\$900m by end FY22 \$1,050m by end FY24	\$600m	\$1,095m	\$1,828m	–	57
Debt/EBITDA	Less than 3.75x by end FY20 2.5-3.5x by end FY22	4.6x	4.4x	3.4x	3.0 to 3.5x	57

1. All targets are global unless stated otherwise (e.g. NZ).
2. All targets are by the end of the year stated.
3. Previously, performance against this target was reported one year in arrears. This year we have accelerated analysis and are reporting all data fully aligned with FY.

4. We are changing the approach we use to assess employee engagement and therefore no result is available for FY20.
5. Scope 1 and 2 emissions.
6. FY19 has been restated. refer to Note 28 of the Financial Statements in the [FY20 Annual Report](#).

FY20 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.

About Fonterra

We are a New Zealand-based, farmer-owned dairy co-operative made up of everyday good people who work together to do good things with dairy.

In Aotearoa, New Zealand, there is a spiritual connection between people and the land. The wellbeing of one sustains the wellbeing of the other. It's a spirit we share with many cultures around the globe and one that connects and unifies us all.

We're committed to producing dairy nutrition in a way that cares for people, animals and the environment, and brings value to our communities.

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

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

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™.

For more information on our products, please refer to Our Products on [page 59](#).



We operate 47 manufacturing sites around the world. For the majority of these we collect raw milk from farms in the given country. For the remainder we use imported bulk ingredients to make products for the local market.

We directly manage a small number of farms around the world: 29 in New Zealand to help our manufacturing sites manage excess nutrients, seven in China producing fresh milk, one training farm in Chile and one in Sri Lanka.

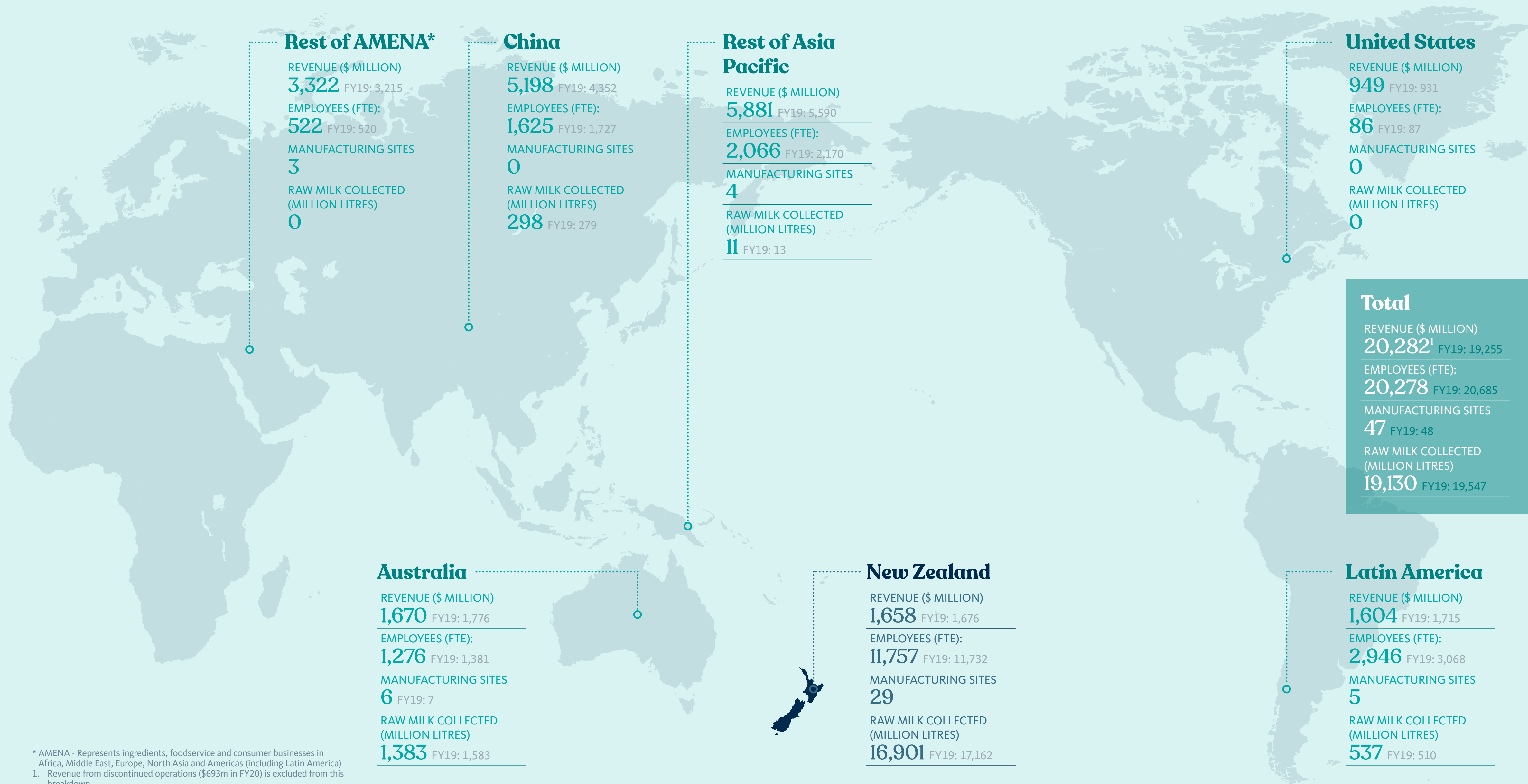


Global data

	FY19	FY20
Employees	20,685	20,278
Manufacturing sites ¹	48	47
Farmgate Milk Price (per kgMS) paid to shareholder farmers	\$6.35	\$7.14
Sales volume	4.152 million tonnes	4.069 million tonnes
Sales revenue	\$19.920b ²	\$20.975b
Profit/(loss) after tax	(\$610m)	\$659m
Normalised EBIT	\$812m	\$879m
Normalised earnings per share	16 cents	24 cents
Normalised operating expenses	\$2,282m	\$2,268m
Capital expenditure	\$600m	\$419m
Return on capital ³	5.8%	6.7%
Net assets	\$5,834m	\$6,703m
Economic value distributed	FY19	FY20
Payment to suppliers (farmers) for NZ-sourced milk	\$9,748m	\$10,888m
Payment to suppliers (farmers) for non-NZ sourced milk	\$966m	\$1,007m
Tax expense ⁴	\$175m	\$156m
Profit after tax attributable to shareholders	\$562m loss – (earnings of -\$0.35 per share)	\$686m profit – (earnings of \$0.43 per share)
Dividend payment to equity holders of the Co-operative	0 cents (no dividend paid)	5 cents

For our full financial results, please refer to our [FY20 Annual Report](#).

1. This is the number of manufacturing sites under Fonterra management control at the end of FY20.
2. This report includes some small restatements of FY19 financial information. Please see Note 28 in Annual Report Financial Statements for further information.
3. Return on capital excluding brands, goodwill and equity-accounted investments was 7.3% (down from 7.6%).
4. See www.fonterra.com/taxprinciples for details on our approach to tax.



* AMENA - Represents ingredients, foodservice and consumer businesses in Africa, Middle East, Europe, North Asia and Americas (including Latin America)
1. Revenue from discontinued operations (\$693m in FY20) is excluded from this breakdown.

Our stories

RESPONDING TO A PANDEMIC

The effects of Covid-19 have been felt in every part of our business – from rural New Zealand to every region and country where we operate and sell products.

As a food business, we already have strict [food safety](#) and hygiene procedures in place. Our manufacturing team are experienced with working to diligent protocols and so we had a good platform to add extra steps to. We also have a strong incident management team and systems which means we were well-prepared to respond.

Built into our incident management system, ensuring the [health and safety](#) of our employees, farmers and the wider community is always our first step. Our milk collection and manufacturing teams continued to work through all levels of lock down with strict precautions in place designed to protect their safety and reduce risk to farmers and our communities. Caring for our people extended to [dial-in sessions](#) to support mental wellbeing for our employees and their whānau and, with hand sanitiser initially in short supply, we redirected two million litres of ethanol to help. We also commissioned our own batch to give to our frontline workers and farmers.

Having people on the ground in China was a huge benefit for us as we were able to get early, first-hand insights into what was happening not just to people but also to markets. Our range of products meant that we could change the mix of products we were making and where we were sending them. And with strong relationships through our partnership with Kotahi, we were able to ship products around the globe giving

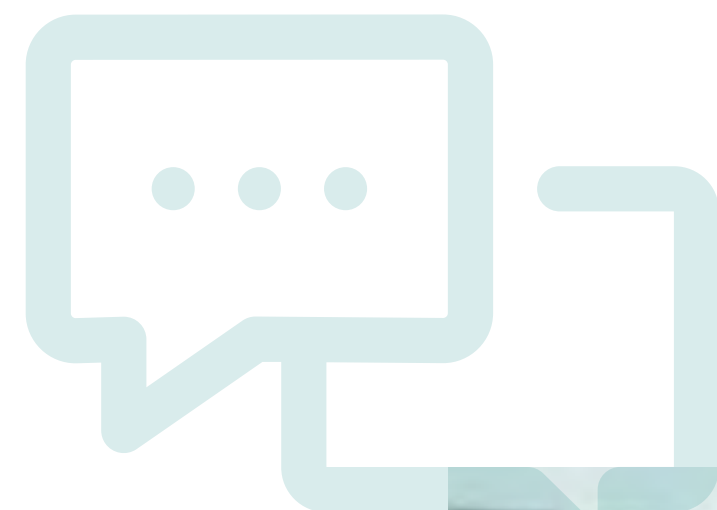
our customers some surety of supply and allowing them to continue to operate.

For example, when one of our medical nutrition customers urgently requested one of our special whey proteins used in nutrition for hospital patients, including those suffering from Covid-19 in the US, our teams rallied to extend production by one month and fulfil the request.

In addition to the day-to-day operations, teams prepared for the easing of restrictions and progressing our strategy. For example, in New Zealand, we found new ways to work with farmers remotely on [Farm Environment Plans](#), and we completed our winter maintenance at manufacturing sites, including the [conversion of our Te Awamutu boiler](#) from coal to wood pellets.

We recognised the economic pressure on small businesses in New Zealand and [changed our payment terms](#) to pay them quicker. When New Zealand schools closed, we let them know they could share spare milk from our [in-schools milk programme](#) to families that needed it and we redirected nearly one million serves of milk directly to community groups. In many of our other markets including China, Thailand, Sri Lanka, and USA we also [donated product](#) to healthcare professionals and community groups.

Responding to the pandemic has reminded us that, even in difficult times, people need safe food and we have a range of products, flexible distribution channels and robust processes to help us be resilient.



RESPONDING TO OUR CUSTOMERS AND CONSUMERS

More and more, consumers want to know where their food comes from, how it is made, and what impact it has on the environment, animals and communities. To meet customer needs, we are continuously looking at how we can provide more sustainable solutions, by improving our performance, transparency, and innovating our products.

Our new market-led operating model takes us closer to our customers and consumers, making it easier to engage and understand their priorities. This is helping us meet their changing needs by leveraging our unique strengths, innovating and enhancing the connection between the consumer and our Aotearoa New Zealand farmers' milk and unique heritage.

Using our [electronic traceability systems](#), we can track the origins of products we make within minutes. In addition to providing invaluable food safety information, this technology lets us provide innovative new services. For example, consumers can check a pack of Anmum is authentic and access additional information about its provenance, both before and after purchase by simply scanning a code with their phone.

We are also using QR codes on our newly developed [plant-based milk bottle](#) made from sugar cane. This not only

gives consumers a different packaging option, through our partnership with [Provenance.org](#), it also enables us to tell our supply chain story in an open and verified way.

Whey, once considered a low value by-product from cheesemaking, is now a valuable source of protein that can help improve muscle strength and resilience in elderly people. Our Medical Nutrition team is using this and other dairy ingredients to create a range of [dairy nutrition solutions](#) for people recovering from disease and illness, or those who want to take preventative actions to help them live longer and healthier lives. The advent of [Covid-19](#) has highlighted the desire for these products and we have experienced an upsurge of demand.

Working in partnership with Foodstuffs North Island, another co-operative, we launched [Simply Milk](#). As well as a first for New Zealand, Simply Milk is also the first carbonzero™ milk in the Southern Hemisphere, and one of just a handful in the world.

We will keep driving innovation to develop new products and services while continually asking ourselves how we can do the best by our customers, environment and communities.



WORKING WITH OUR FARMERS

Farming is a big part of our way of life in New Zealand and important to our success at home and abroad. Farmers are at the heart of our Co-operative and their dairy is enjoyed by people here and around the world.

As we approach 150 years of being a co-operative, there's plenty of evidence of all the hard work our farmers owners have already completed - like fencing rural waterways, upgrading effluent systems and achieving high standards of animal welfare. However, the global population is continuing to grow and human activity is currently consuming resources beyond planetary limits. That means global food production must continue to improve and farmers must continue to adapt.

One of the keys to a sustainable future is the ability to work out what's important, now, and into the future, and then to continually innovate and adapt. That is why we launched [The Co-operative Difference](#) last year. It makes Good Together real on the farm, pulling the best of what we do into five focus areas to make sure we have the strongest possible foundations for our Co-op, now and well into the future.

Across all five focus areas it covers the things we can never compromise on such as regulatory compliance and food safety. It goes beyond these with three levels of achievement and helps farmers prepare for the future.

This year a total of 2,685 farms in New Zealand achieved one of the 3 levels. From June 2021, farms meeting specific

on-farm targets will be eligible for a new Co-operative Difference payment of up to 10 cents per kg of milk solids.

To achieve [sustainable water catchments](#) in New Zealand, we are connecting and empowering farmers, sites and local communities to help align their efforts, working together to accelerate progress. We are helping our farmer owners establish [Farm Environment Plans](#), tailored to their specific farm and prioritising their next improvement actions. We are also extending the use of Farm Environment Plans into Australia.

New Zealand dairy farmers are already some of the most carbon efficient in the world, but by providing them with [farm-specific GHG reports](#) and [investing in research](#), we can support their continued improvements.

Our improved [financial performance](#) this year means we returned to paying a dividend, with our fully shared farmer owners receiving a final pay out of \$7.19 per kgMS. Understanding the importance of cashflow on farm, we also made changes to our [payment scheme](#) so we pay our farmer owners earlier.

By working together with farmers, we can help them continue to build on their high standards and help reach the full potential of the Co-op.



Healthy People

We are working together to care for people and make a positive social impact.

TO DO THIS WE WILL:

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

Our products help people eat balanced diets and we are using our scale and know-how to respond to people's changing needs, attitudes and lifestyles.

We are looking after people's safety and wellbeing, providing employees with development opportunities and supporting the communities we live and work in. It is all part of making sure dairy plays its part in a sustainable food system.

Food safety certification

100% 

of our manufacturing sites are now independently certified to a leading food safety management system – see [page 21](#).

Health and safety

5.8 

injuries per million hours worked for employees, contractors and visitors to our sites up from 4.9, our lowest level set last year – see [page 23](#).

Nutrition portfolio

73% 

of our everyday and advanced nutrition products meet endorsed nutritional guidelines, on way to achieving our target of 100% for 2025 – see [page 20](#).

Female representation

29% 

female representation in senior leadership, same as for FY19 – see [page 28](#).



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.

Caring for people is at the core of our Co-operative. Healthy People is about the way we work together to provide safe and healthy nutrition, care for farmers and employees and support our local communities at home and abroad.

The nutrients in dairy play an important role in growing and maintaining healthy bones, immunity, the functioning of your nervous system and so much more. That’s why, through our products, we can support people to have healthy, enjoyable and sustainable diets now and into the future.

We support farmers by providing sustainable incomes and ongoing support to navigate change and ensure their milk products remain high quality, low carbon and valued around the world. We do this through offering tools and services and helping farmers run sustainable farming businesses.

We care for our employees by focusing on their health, safety and wellbeing, and respecting the strength diversity brings. We offer our employees opportunities to develop and grow skills to help them keep-up with the changing face of work.

Our daily business activities support local communities directly and indirectly via employment at factories, stores and on farm; and via procurement of goods and services. We also help out where we can in a variety of ways from formal sponsorships to emergency responses and in-school nutrition programmes.



Sue, Ben, Laura and Bella-Rose, Auckland

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THE UN SUSTAINABLE DEVELOPMENT GOALS WE ARE CONTRIBUTING TO

Nutrition and health



Good nutrition is essential for people to lead healthy and fulfilling lives.

Unhealthy diets and poor nutrition are among the top risk factors for non-communicable diseases (those that do not transmit from person to person) such as heart attacks, strokes, certain cancers and diabetes.

Dairy products are nutrient-dense and provide high quality protein, vitamins and minerals in an easily absorbed form that can benefit both nutritionally vulnerable people and healthy people. Research suggests that dairy products may be associated with the reduced risk of childhood obesity, type 2 diabetes and cardiovascular diseases, particularly strokes in adults. In the context of a well-balanced diet, adequate consumption of dairy at various stages of life has health benefits and emerging scientific evidence suggests many of these are likely due to the interaction between the nutrients in dairy, rather than any individual nutrient.¹

As a food company, we recognise the valuable role dairy products can play in addressing deficiencies in diets and improving health and wellbeing for people around the world. We see a vital role for dairy in a globally sustainable food system. This section covers our global approach to nutrition and its contribution to health and wellbeing.

OUR APPROACH

The Fonterra Group Nutrition Policy sets out our overarching commitments including delivering science-based nutrition and health benefits, products tailored to specific nutritional needs and marketing these in a responsible manner. Supporting the

policy are detailed guidelines that define nutrition criteria and principles for the composition and marketing of our consumer products and ingredients.

The New Zealand Nutrition Foundation has independently reviewed and endorsed these guidelines as evidence-based, founded in robust nutritional science and reflecting international directives on nutrition and health. These guidelines complement national food standards and regulations, as well as our own education and advocacy activities to raise awareness of the value of dairy nutrition in healthy, balanced diets.

We market our products responsibly and take particular care when marketing to vulnerable populations – for example, children. We are committed to promoting responsible consumption of our products at all life stages in line with dietary guidelines.

We **support and promote** the aim and intent of the WHO Code for the Marketing of Breast Milk Substitutes and the recommendation for six months 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 targeting infants and young children are sold.

We have established a Global Nutrition Council that is responsible for governing our nutrition policy, standards and guidelines and overseeing the nutrition performance of our portfolio.

1. Gil, Á. and Ortega, R.M., (2019). Introduction and Executive Summary of the Supplement, Role of Milk and Dairy Products in Health and Prevention of Noncommunicable Chronic Diseases: A Series of Systematic Reviews. *Advances in Nutrition*, 10(suppl_2).



Bella-Rose, Auckland



Sally and Tracy, Palmerston North

WHAT WE'VE BEEN DOING

Investing in innovation

The Fonterra Research and Development Centre (FRDC) is one of the largest of its kind in the world, with more than 300 science and technical experts, including approximately 100 with PhDs. We invest significantly in innovation to deliver scientifically-supported benefits from dairy that meet the nutritional needs and expectations of society.

One recently published paper² from the FRDC covers findings from our 'LETS Move' health research where we saw improved mobility across a range of measures in women aged 45-65 years who took part in a clinical trial involving a nutrient-fortified milk drink and exercise intervention.

Helping patients recover and the elderly age with vitality

Our Medical Nutrition team is tasked with pioneering a range of dairy nutrition solutions for people recovering from disease and illness at all stages of life, or who want to take preventative actions to help them live longer and healthier lives.

For people coping with a disease or recovering after an accident, trauma or surgery, it's often a struggle to eat and digest what is nutritionally best to support healing. By working to provide flavours and textures patients enjoy, we can make it easier for them to consume the required nutrition and, based on dairy, it comes with high-quality protein and high nutrient density.

Whey, once considered a low value by-product from cheese-making, is now a valuable source of protein that can help improve muscle strength and resilience in elderly people. In South Korea we have a strategic relationship with a customer to provide protein for ready-to-mix protein powdered beverages to support healthy ageing. As well as providing ingredients and solutions, our team has been helping to reformulate some of their existing products, using our advanced ingredients to target sarcopenia – a very common age-related condition which causes muscle loss.

This customer also makes use of our Trusted Goodness™ claims on pack (see [page 62](#)) because they value our New Zealand provenance.

Sustainable Nutrition Initiative

The Sustainable Nutrition Initiative (SNI) is a collaboration between Fonterra and the Riddet Institute at Massey University. The SNI was created to improve understanding about sustainable food systems and identify opportunities for improvement. SNI has developed the DELTA Model, that uses food production and population data to explore what food production is required to meet the nutrient requirements of the global population.

One of the key insights from the model is that the food system needs to be plant-based and animal-optimised, complemented by agri-tech-based production of nutrients. To a great extent this is already the situation with plant-based food accounting for 8.6 billion out of the 10.1 billion tonnes of global food biomass produced by the world's farms and oceans. The model also highlights the important role that milk plays in providing nutrients.



However, current food production is not enough to meet the nutrient needs of the population, a situation that will only get worse as the population grows. Furthermore, expanding food production at current levels of efficiency will not be practical within planetary constraints. To close this gap, technology developments to find new ways of producing nutrients are required alongside traditional food production, such as fermentation-produced nutrition.

Helping maintain muscle health

Our Protein+ range gives consumers higher levels of good quality dairy protein to help them spread their protein intake through the day, supporting optimal muscle health. In Chile, for the second year in a row, Soprole Protein+ yoghurt was voted by consumers as the Product of the Year for innovation.

1. Robin M Daly, Jenny Gianoudis, Belinda De Ross, Stella L O'Connell, Marlana Kruger, Linda Schollum, Caroline Gunn, Effects of a multivitamin-fortified milk drink combined with exercise on functional performance, muscle strength, body composition, inflammation, and oxidative stress in middle-aged women: a 4-month, double-blind, placebo-controlled, randomized trial, The American Journal of Clinical Nutrition, Volume 112, Issue 2, August 2020, Pages 427–446, <https://doi.org/10.1093/ajcn/nqaa126>



“Complementary nutrition – where plant, insect, algae and fermentation-produced nutrition co-exist alongside animal-sourced foods, including cows’ milk – is fast evolving. It’s not a case of either/or, but both”

DR JEREMY HILL,
CHIEF SCIENCE AND TECHNOLOGY OFFICER

Investigating complementary nutrition

Dairy is recognised by governments and health experts around the world as a unique source of nutrition with the flexibility to play an important role in healthy, balanced diets. We are confident consumers will continue to value the natural goodness of dairy, especially our pasture-based dairy from New Zealand, but we also understand consumers want choice and we are open-minded to this. Being involved in complementary nutrition gives us the opportunity to learn and assess the longer-term opportunities.

Early in 2019 we made a minority investment in Motif™ as part of our strategy to ensure we futureproof our Co-op and be part of this emerging nutrition sector. Motif is using biotechnology and fermentation to develop ingredients for animal-free foods.

Improving the nutritional profile of our consumer products

We are continuing to improve the formulation of our consumer products, considering the levels of dairy protein, calcium, and key vitamins and minerals while also minimising the addition of sugars, refined carbohydrates, sweeteners, sodium and 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 70% to 73%, coming close to meeting our interim target of 75% for FY20.

Reducing added sugar

UNICEF’s “State of the world’s children report – 2019” ranked New Zealand second worst in the OECD for overweight children, with 39% of Kiwi kids classified as overweight or obese. We want to help improve the wellbeing of Kiwi kids and this year we released reformulated versions of two products: Fresh ‘n Fruity yoghurt with 40% less added sugar¹; and Anchor CalciYum flavoured milk with 30% less added sugar².

These product launches represent another step in our commitment to improve health outcomes for New Zealand. Rolling out Health Star Ratings onto 92% of our applicable³ products and delivery of our in-school nutrition programmes also contribute (see [page 31](#)).

Supporting child development

We launched a new product, Annum™ Essential Gold, supporting the nutritional needs and well-rounded development of children aged one to six. Formulated with DHA, MFGM + GA⁴, prebiotics and 15 key nutrients, and with proper stimulation and good nutrition, Annum Essential Gold supports eight important areas of a child’s development, including learning, social and emotional development.



1. On average across the product range when compared with the average added sugar content per 100g for the previous fruited formulations.
2. Compared with the added sugar content per 100ml for the previous formulations.
3. Applicable products are those intended for everyday consumptions in New Zealand and where packaging is not also used for export to regions where the Health Star Rating is not accepted.
4. DHA is a fatty acid that supports brain development. MFGM is the milk fat globule membrane and it is a source of gangliosides (GA) that may play an important role in brain development.

OUR PERFORMANCE



73%

compliance with endorsed nutrition guidelines, up from 70% and almost met our interim target of 75% for FY20

Compliance with regulations

In the past year, we received no fines or penalties for breaches of marketing regulations.

WHAT’S NEXT

- We will continue to improve the nutritional value of our consumer branded products and minimise added sugars and salt.
- We will continue to invest in research and development and new innovations for our entire product range.

SEE OUR PERFORMANCE IN DETAIL [PAGE 73](#).

Food safety and quality

Safe food. Safe people. World class quality. It's our promise.

We make a promise to our customers and consumers to make our food to standards of uncompromising food safety and world-class quality. That's why all our food products are assessed for health and food safety impacts prior to initial launch and on an ongoing basis.

OUR APPROACH

At Fonterra, food safety and quality is everyone's responsibility – from our farms all the way to our customers and consumers around the world. Accountability extends from the Board of Directors, through the Fonterra Management Team, to individual managers, all our skilled employees, contractors working on Fonterra sites and providers of goods and services. To ensure consistency of approach and continuous improvement, the Group Food Safety, Quality and Regulatory (FSQR) organisation and operating model, including the Food Safety and Quality Council, is embedded across Fonterra.

Our Food Safety and Quality System ensures that, wherever we are in the world, we have a clear, consistent framework to deliver safe, quality products and services. It is made up of four key components: our Food Safety Policy, business unit requirements, partner requirements, and our food safety and quality behaviours. It is subject to regular scrutiny from third-party audits by regulators, key account customers and certification bodies.



WHAT WE'VE BEEN DOING

Trust in Source

This year we continued to focus on building food safety and quality (FSQ) as a core part of our organisational culture. After a successful pilot of our FSQ cultural audit process, we measured our progress by auditing a wider group of sites globally. Covid-19 restrictions meant our face-to-face approach was not possible in many regions, so we introduced a cultural self-assessment process for such sites. Based on the information gathered, we have been able to help regions prioritise improvement plans for FY21 to further strengthen their food safety culture.

Building our employees' capability remains a priority. This year we introduced a learning programme targeted at helping our FSQ teams build a strong culture that

harnesses the behaviour of our people to further improve food safety and quality outcomes. This learning programme has been delivered for cohorts across our New Zealand and Australian businesses and will continue to be rolled out more widely in FY21.

Building on the lessons we have learned from our own sites, we are sharing our thinking with our third-party manufacturers and introducing the use of our food safety culture auditing process with key providers. This year we developed and implemented a remote audit tool for use with new third-party manufacturers. The tool allows us to onboard them and assess their risk profile. We are now working on a full, remote auditing approach.

Working to leading standards

This year, we completed our goal of having all our manufacturing sites independently certified to a leading food safety management system (e.g. FSSC22000, BRC). We are now transitioning to the new version of FSSC22000 that includes defence against malicious contamination and extends coverage from a site-specific view to management systems at a global level and how these are deployed.

To meet new expectations of global regulators and markets, our food crime prevention programme has formalised food defence and food fraud protection systems. This includes enhanced security standards across our manufacturing sites, supply chains and in-market activity.



Neil and Nathan, Te Rapa

Product traceability

After years of innovation, design and significant investment we can very efficiently track batches of our products, from the raw milk we collect right through to the consumer, including the primary packaging and any added ingredients.

More than 99% of all New Zealand milk and 93% of our global supply chain is electronically traceable back to daily farm collection. We can track the origins of nearly any product within minutes, and this underlying technology lets us provide innovative new services for our consumers, customers and our own teams around the world.

For example, we have continued to expand our Product Authentication service, launching it in Malaysia. The service uses a QR code on our Anmum™ paediatric and maternal products to uniquely identify the pack or can in the consumer's hand. Using their mobile phone consumers can check the item is authentic and access additional information about its provenance, both before they buy it and thereafter. This service is now available in six markets and we have seen a significant increase in use in China.

Within the business, we have developed new functionality to help our employees manage risk and enhance customer service. For instance, sales and support teams can use our traceability systems to support audits of distributors and investigate complaints. A new tool also allows employees to report and assess suspicious items more efficiently further protecting our products, customers and consumers from food crime.


To ensure our employees know what is available and how to use it, we have an introduction to traceability as part of the training for all new starters, part of annual compliance training for in-market teams and we have a one-stop-shop knowledge centre for reference.

OUR PERFORMANCE



100% 

of sites certified to leading standards

93% 

electronic traceability

ZERO

recalls of products for safety reasons and no legal or regulatory non-compliances related to food safety

WHAT'S NEXT

- Ensure we maintain our certification to leading food safety management systems by continuing our transition to the latest version of FSSC22000.
- Develop and deploy a remote global assurance process that will support our risk management across the full product lifecycle.
- Continue to proactively manage the risk of food crime by further integrating food crime prevention as a core outcome, primarily through the protection of our sites and the support of our people.
- Further enhance and extend our traceability services, including our work with third-party manufacturers, additional consumer brands and in support of our food crime defence strategy.

SEE OUR PERFORMANCE IN DETAIL [PAGE 73](#).

Health, safety and wellbeing

Our ambition is for all our people to be healthy, have a balanced life and go home safely every day, everywhere.

OUR APPROACH

Fonterra operates a global health and safety management system. The Fonterra Global Health, Safety and Wellbeing Policy defines our commitment to providing a safe and healthy work environment where our employees, contractors and visitors can return home from work safely, every day, everywhere. Implementation of, and compliance with, the policy is overseen by our Director Global Quality and Safety.

We are committed to delivering on our health, safety and wellbeing commitments through:

- People who believe harm is avoidable and who support a safe and healthy work environment.
- Processes that always prioritise safe work practices, proactively identifying and managing exposure to risk and ensuring that our business activities comply with all statutory and legal requirements specific to the regions in which we operate.
- Plant and equipment that considers design, operation, management and maintenance that creates a safe and healthy work environment.

Accountability for performance extends from the Board of Directors, through the Fonterra Management Team, to individual managers, all our skilled employees and contractors working on Fonterra sites.



Jamie-Lee and Taylor, Crawford Street

WHAT WE'VE BEEN DOING

Caring for our whānau during Covid-19

In response to Covid-19, we moved quickly to keep our employees healthy and safe at work around the world. We initiated our Group Crisis Response team starting with support for our China team. As countries moved into lock downs, we introduced controls such as safe physical distancing, temperature testing, masks and restricted our domestic and international travel. We took additional special steps for our older and vulnerable workers to protect them early during lockdown. More recently we introduced 'bubbles', where teams are segregated to minimise risk and allowing for early response if we do have any cases at our sites.

As large numbers of our employees began working from home, a dedicated IT team worked around the clock to keep our systems running and made improvements to help everyone keep working efficiently. We introduced 'Good Chat' wellbeing calls - sharing stories and experiences globally and giving staff a chance to connect while working in isolation. At year end we had held 51 global calls with 2,983 participants and we are keeping the conversations going.

To help keep our local community safe we increased production of our ethanol, making it available to companies who use it to make sanitiser products, including hand sanitiser. We also worked with our national distributor Axieo and our ethanol customers to see if stock could be redirected to create more supply. In total we redirected two million litres of ethanol for sanitiser.



Kerry and Anna, Canterbury

‘Better You’ global team challenge

This year our ‘Better You’ challenge was designed to boost the mental health and physical wellbeing of our employees through a range of activities that, when adopted regularly, can lead to an improved quality of life. The challenge was delivered in partnership with Synergy Health, using their digital platform, and with the specific daily challenges chosen by our senior leaders including prioritising sleep, eating healthily and exercising for more than 30 minutes. A total of 1,640 employees across 19 countries participated in the two-week team challenge. Engagement rates during the challenge were very high with an average of 70% of participants completing a total of 30 activities. Of the 877 participants (53%) who completed the feedback survey 99.6% said they would continue to adopt an activity from the challenge to help boost their wellbeing.

‘Better You’ digital platform

Following the success of our ‘Better You’ challenge we are now using Synergy Health’s platform to provide essential wellbeing tools and resources for our employees and their family members to manage their wellbeing during Covid-19 and beyond.

3,924 employees have already registered on the platform with 700 completing a wellbeing scorecard by the end of the year.

The introduction of this platform and upgrading our health and safety software system to Cority in FY21 will allow us to analyse and report more information about the health and wellbeing of our employees in the future.

GoodYarn – Enabling our people to talk about mental health

As part of our focus on wellbeing, we continue to empower our people to talk about mental health by running “Good Yarn” workshops at our manufacturing sites and some offices in New Zealand. In these workshops we explore topics such as how to improve our own mental health and resilience, how to support someone who may need our help, and how to respond effectively whenever someone needs our support or further referral. Over the last three seasons more than 2,000 staff have participated in our workshops. We plan to expand the reach of this programme in FY21.

On-farm health and safety

In New Zealand, the number of fatalities associated with working on dairy farms has been trending upwards. In 2017 there were four fatalities, rising to nine in 2019, and there are around 8,500 milking related injuries per year. We are active members of the Agricultural Leaders Health and Safety Action Group and, working with other organisations, we are seeking ways to help reduce the risk of injury.

In FY19, some of our on-farm assessments included an extra survey to help with industry research led by DairyNZ and supported by WorkSafe New Zealand. The research aims to reduce the frequency, severity and/or the time lost from

milking-related injuries. This year, design thinking workshops drew on the findings of the surveys, existing legislation, overseas practices and available technologies to identify and assess potential improvements.

Having a Health and Safety Plan is a critical part of our farmer recognition framework (see [page 67](#)).

On our own Nutrient Management farms in New Zealand, we reassessed the improvement actions we have made since FY18. We found an improvement in critical risk exposure such as traffic management, machine safety and contractor engagement.

OUR PERFORMANCE



Safeguard Awards Finalists

Our Health and Wellbeing team, led by our Head of Health and Wellbeing Terry Buckingham, is a finalist in the 2020 Safeguard Awards. It's a great honour to be selected as finalists for the work our team has been doing to shift our focus from hazard-based testing of our staff to a more holistic risk model. This new approach means we are able to spend more time influencing better health outcomes for our people.

Regulatory compliance

From time to time we receive regulatory notices regarding some of our manufacturing sites for work-related health and safety improvements. When this has occurred, the sites have put plans in place to make the required improvements and no further regulatory enforcement is considered likely as Fonterra closes out the notified issues. There have been no health and safety prosecutions in connection with Fonterra's operations since 2014.

WHAT'S NEXT

- We will continue to seek further improvements in our injury performance by focusing on the actions arising from our investigations into actual or potential high-severity incidents, to ensure we eliminate the root causes.
- We are upgrading our health and safety software system to the world-leading Cority, making tools easier for our people to use and supporting greater analysis to help us make further progress in our Health, Safety and Wellbeing performance.

[SEE OUR PERFORMANCE IN DETAIL PAGE 73.](#)

Employment rights

We are focused on building a diverse and inclusive workforce that is highly-engaged and effective, and this involves investing in our employees to help them respond to the ever-changing nature of work. Our success is a direct reflection of the skill and commitment of our people so it is vital we respect their employment rights and provide a work environment that allows everyone to perform at their best.

This section covers all people who we employ directly around the world.

OUR APPROACH

Our Code of Business Conduct and global policies, including ethical behaviour, 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. An understanding of, and connection 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.

We fund an independently administered whistle-blowing hotline (The Way We Work Hotline), facilitated by Deloitte, available to all employees globally to raise concerns related to serious wrongdoing or other behaviour they wish to report. We also provide an Employee Assistance Programme (EAP) where employees can seek advice and counselling¹.

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. In New Zealand, 62% of all full-time equivalent Fonterra employees are covered by collective bargaining agreements and we have union agreements and relationships in many other markets.

WHAT WE'VE BEEN DOING

Learning and development

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.

Last year, we signed the Aotearoa New Zealand Skills Pledge designed to help our employees grow core skills and prepare more fully for the future of work. We are committed to doubling on-the-job training and reskilling hours in New Zealand by 2025.

In the past year, which forms our baseline, our New Zealand employees spent 270,355 hours upskilling. This is equivalent to an average of 23 hours of learning per employee. This learning is about growing our peoples' technical skills, leadership capabilities and improving their overall employability. Hours for annual compliance training is over and above this.

We are stepping up our efforts to build capabilities and reskill our global workforce. We do this through a mix of on the job training, mentoring / coaching and formalised learning.

On the job training is a priority for us and we have several programmes in place to support this. These include early-in-career offerings for apprentices, trainees and graduates, with training that results in independently recognised qualifications such as DAIRYCRAFT (NZQA level 3 and 4) or a New Zealand Diploma in Dairy Processing (NZQA level 6) (see case studies on [page 27](#)). At the end of the year, 475 employees had completed NZQA level 3 or 4 in dairy processing through DAIRYCRAFT.

We also understand the importance of growing leadership capability. This year we launched our Leadership Essentials, a nine-month programme designed to develop confident, capable and collaborative leaders. This programme uses a combination of facilitated sessions, 1:1 coaching, on the job activities and project work to build capability and shift mindset. Positive feedback from participants, managers and other stakeholders means we are planning to offer this to a wider audience over the coming years.

1. For more information on our hotline and EAP service please refer to www.fonterra.com/2020GovernanceEthicalBusinessNotes





Case Studies:

SKILLS DEVELOPMENT AND CAREER GROWTH



Continually learning

– TRACEY LLOYD

Tracey started at our Edgecumbe site in 1996 as a seasonal temp, becoming a permanent employee after a couple of seasons in 1998.

Starting on the packing line in the whey plant, Tracey progressed into supervisory roles over the seasons and completed her New Zealand Diploma in Dairy Processing in 2006.

In 2019, ready for her next challenge, Tracey saw the energy centre team were looking for a trainee boiler operator and thought she'd give that a go. Energy centre operators are essential roles on site, ensuring the boiler produces the steam required for milk processing.

It typically takes 16 months to complete a boiler qualification (ENCHAM Level 4) but Tracey completed hers in just four months, and she has recently completed a National Certificate in Water Treatment.

Tracey says she's thankful for the opportunities to continue to grow and learn new skills throughout her career with the Co-operative and she is proud to be a female energy centre operator and a member of the local volunteer fire brigade.



Hands on learning

– JOEL CAMPBELL
MECHANICAL TECHNICIAN, WHAREROA

Joel Campbell always knew he was better suited to hands on learning and now at age 22 he is the envy of many of his friends who are still studying while he is in full time work with no student loan.

Joel is one of 38 apprentices Fonterra takes on each year as part of a programme that provides opportunities to learn on the job in the areas of dairy processing, heavy automotive engineering, electrical engineering, mechanical engineering and energy and chemical operations.

Having recently completed the four-year course and now a Mechanical Technician at Fonterra's Whareroa site, Joel says it has been an awesome experience.

"There's so many experienced people here at the site to learn from – it's like having 40 of the best teachers all in the one place."

Fonterra has a strong commitment to lifelong learning and currently supports almost 600 active vocational learners.

The Co-operative has recently received a funding contribution from the Government's Regional Apprenticeships Initiative to assist in the training of 44 additional apprentices to join the ranks over the next two years.

Diversity and inclusion

We believe a diverse and inclusive workforce will enable us to deliver our purpose, empowering people to create goodness for generations – You, Me, Us, Together – Tātou, Tātou.

We recognise the unique contribution Te Ao Māori can provide in terms of how we interact with Tāngata (people) and our Taiao (natural environment) and we are continuing to progress our Rautaki Māori (Māori strategy) and integrating aspects of Te Ao Māori into our daily business. This includes increased use of Whakatau (welcome ceremonies), blessings of new Farm Source Stores and inclusion of a whakapapa module in Farm Environment Plans (see [page 39](#)).

This year, we launched a new global standard that aims to ensure respectful and appropriate use of Te Reo Māori, develop capability in the Māori language and help us build and maintain strong relationships with iwi Māori.

We have arranged more Noho Marae sessions (time spent on a Marae) to more deeply understand the culture. This is particularly important for our manufacturing teams when developing relationships with local iwi. For example, our Te Rapa team has been engaging with the local iwi and this year a group of about 80 employees attended Tūrangawaewae Marae at Ngāruawāhia.

Privacy concerns and the voluntary nature of reporting ethnicity information mean understanding the diversity of our employees remains challenging. However, we are developing

a better understanding of Māori representation within our workforce and farmers.

While improving performance against our chosen metrics is proving challenging, we are committed to achieving an inclusive culture for all our people. We achieved Gender Tick accreditation in FY19 and the Rainbow Tick this year and we are increasing the priority of progress on our diversity and inclusion targets through increased awareness and accountability right across the Co-op.

Employee engagement

Having a highly-engaged team of employees is an integral part of our strategy. Historically, we have measured employee engagement using a Co-operative wide survey administered by Gallup, usually annually.

Still using Gallup, this year we have started moving to more flexible and targeted ‘pulse’ surveys, conducted by regions or teams to monitor engagement and provide more regular insights so improvement actions can be taken, where required. For example, while responding to Covid-19 in China, the team ran a ‘pulse’ survey for all employees. Despite the challenges of the year, they achieved record participation and sustained top quartile engagement levels.

We are planning on running our next Co-operative wide survey around February 2021.



Group of staff attending a Noho Marae session at Tūrangawaewae Marae, Ngāruawāhia, Waikato

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.

Last year we started to report gender pay gaps based on both mean and median calculations of averages¹. We believe that being transparent on this, and the breakdown between job categories and geographies, provides a much richer picture of where we are.

Combining information into a single overall number, the ratio of female to male base salary closed from 1.09 to 1.08 on a mean basis and closed from 0.94 to 0.95 on a median basis. At this overall level the result continues to be influenced by factors such as the different proportions of men and women in lower paid and higher paid levels around the world and exchange rates when converting for comparison. It is therefore more important to consider the breakdown.

In all countries where we have significant operations² our pay gap closed. In New Zealand, the gap stayed the same on a mean basis (0.96) and closed on a median basis (0.94 -> 0.96). On a median basis, our ratio of 0.96 (4% pay gap) continues to compare very favourably with the national median of 0.905 (9.5% pay gap). Australia was a big focus for us this year and we made good progress on both a mean and median basis.

1. This year we have restated FY19 gender pay results to exclude employees on leave of absence from the calculation.
 2. Countries where the number of employees represents more than 5% of our total workforce.
 3. For Greater China the overall results are skewed by the large proportion of male employees in our China farms.

OUR PERFORMANCE



29% =

Female representation in senior leadership

8% ↓

Ethnic representation in senior leadership



GENDER PAY GAP

We use a ratio of female:male.
 We analyse both mean and median averages.
 1.00 is ideal. 0.96 = 4% gap in favour of men.

JOB CATEGORY	MEAN	MEDIAN
SENIOR LEADERS	0.88	0.96
MANAGER	0.96	0.96
PROFESSIONALS	1.06	1.14
WAGED	0.88	0.82

LOCATION	MEAN	MEDIAN
NEW ZEALAND	0.96	0.96
AUSTRALIA	0.95	0.96
BRAZIL	1.09	1.08
CHILE	1.32	1.29
GREATER CHINA ³	1.60	3.90

GAP CLOSED GAP WIDENED

WHAT'S NEXT

- Our leadership teams around the world will continue to increase awareness of bias and pursue opportunities to improve representation of women and ethnic minorities within senior leadership.
- We will build more inclusive workplaces and investigate additional ways of assessing inclusiveness.
- We will ramp up our on the job skills training including further expansion of our DAIRYCRAFT and Leadership Essentials programmes.

SEE OUR PERFORMANCE IN DETAIL [PAGE 73](#).

Human rights

As a large-scale employer, working in many countries around the world, it is our responsibility to care for the rights of people directly and indirectly impacted by our operations and decisions.

OUR APPROACH

Since adopting ISO26000 in 2014 we have been improving our visibility of and accountability for human rights issues. Our approach has its foundations in our values and is built on the UN Guiding Principles on Business and Human Rights.

Rather than manage human rights as a standalone topic, our approach is to embed our respect for human rights across our range of policies and standards. This includes in our Code of Business Conduct, “The Way We Work”, and in “Our People” Group Policy, with detailed expectations articulated throughout our supporting people standards.

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.

Our approach to human rights means much of our work in this area is covered elsewhere in this report (see Employment rights [page 26](#), Health, safety and wellbeing [page 23](#), Food safety and quality [page 21](#), Responsible procurement see [page 68](#)). This section covers how we identify human rights and how we address issues beyond these topics.

WHAT WE’VE BEEN DOING

Human rights due diligence

Human rights ‘due diligence’ is an-going process to identify and prioritise actual and potential human rights issues in an organisation’s direct and indirect sphere of influence.

Part of our due diligence this year has been to focus on one of the worst forms of human rights abuse – modern slavery – in preparation for our first report against the Australian Modern Slavery Act to be released in 2021. We have expanded our 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.

In our non-milk supply chain we have focused on a deeper assessment of human rights performance with our top 26 suppliers by value (see Responsible procurement section on [page 68](#)).

Addressing bullying and harassment

We believe that everyone has the right to work in a safe and inclusive environment free from any form of bullying or harassment. We do not tolerate these harmful behaviours in our workplace and are taking steps to empower our people to speak up, stand together and stop them from occurring.

In FY18, we developed new online and face-to-face bullying and harassment training for employees, called “Culture for Care”, and piloted it at our Te Rapa site. In FY19 we extended the pilot

to five other sites, and then commenced the rollout of e-learning and face-to-face training to key NZ business units. In FY20 we have continued that rollout, and to date, over 4,250 employees have received the training, across the various training formats.

Supporting employees impacted by domestic violence

Family violence is one of New Zealand and Australia’s most significant human rights issues. In FY18, we launched an initiative for our New Zealand and Australian employees impacted by family violence. We wanted to ensure we have a caring and sensitive environment where people can talk about family violence, and know how to get confidential support if they need it. The support includes access to special leave and a network of family violence first responders in New Zealand. These trained employees provide initial workplace support and facilitate access to expert external support through partners such as Shine. This year we trained a further 27 employees based at our manufacturing sites as first responders.



We are working with Shine to provide support for employees impacted by family violence in New Zealand.

OUR PERFORMANCE

This year, in conjunction with the Walk Free Foundation and the Australian Border Force, we were due to host a workshop for New Zealand businesses on Modern Slavery. This was deferred due to Covid-19 and will be held online in FY21. We did participate in industry workshops convened by the Sustainable Agriculture Initiative Platform in Australia.



4,250+

employees have received ‘Culture of Care’ training since FY18

WHAT’S NEXT

- We will extend our due diligence process and continue with our assessment and response to any issues identified in our on-farm and non-milk supply chains.
- We will publish our first modern slavery report by end of March 2021 to satisfy the requirements of the Australian Modern Slavery Act.

Supporting our communities

We support our local communities in a wide range of ways, including support at times of need, long-term in-school nutrition, donations to foodbanks, international dairy development and community investment.

RESPONDING TO DISASTERS

When Australia suffered devastating bush fires our teams in Australia rallied together to help. They provided the equivalent of 78,000 litres of milk powder (\$41,600) to their charity partner Foodbank. Australian employees raised funds and Fonterra matched every dollar raised resulting in a donation of A\$23,570 (~\$24,500) going to the Australian Red Cross Disaster and Relief and Recovery Fund. Our Australian employees were given special volunteer leave to help battle the fires and were joined by a couple of New Zealand employees and a farmer.

In New Zealand, when Northland's community was struggling with a drought earlier this year, our Northland team stepped in to lend a hand. Water deliveries were built into milk collection schedules so our tanker drivers could drop off water on their way out to collect milk from farms, delivering more than 200,000 litres.

At the other end of the country, when Southland experienced its worst floods in decades, our Farm Source Team and the Emergency Response Team from our Edendale site rallied together to help farmers clear debris and repair fences to get farms fully operational.

IN-SCHOOL NUTRITION

We have continued to provide Kiwi kids with dairy nutrition throughout the school year.

In the last year our KickStart Breakfast programme, a partnership with Sanitarium and the New Zealand Government, celebrated its 10th anniversary with more than 1,100 clubs representing schools from all deciles and year groups taking part. The programme provides a nutritious breakfast and a nurturing environment to help kids achieve their potential. Through the programme we provide Anchor™ milk, Sanitarium provides Weet-Bix™, the Government assists with funding, and volunteers run the clubs.

Fonterra Milk for Schools offers a 200ml daily serving of Anchor lite (reduced fat) milk to all kids aged 5-11 attending school in New Zealand. During FY20 the initiative was active in more than 1,300 schools. During lockdown when the schools were closed, we diverted the milk to community groups and we saw first-hand what a difference this made in our communities. Looking forward, we have decided to take a more holistic approach to our provision of dairy nutrition. This includes growing the KickStart Breakfast programme and partnering with the New Zealand Food Network to distribute dairy to communities who need it the most. This means, after eight years, we will be winding down Fonterra Milk for Schools at the end of the 2020 school year.

1. A portion is 200ml of milk for Fonterra Milk for Schools and an estimated 140ml of milk for KickStart Breakfast.

\$5.9m/17.2m portions¹

Providing dairy nutrition through our in-school programmes



MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA



DAIRY DEVELOPMENT

By working together with local stakeholders and sharing our expertise and the lessons we continue to learn, we are supporting local dairy farmers in key markets to farm more sustainably and help build thriving communities.

Chile

Since 2017, we have been running an exchange scheme for young Chilean farmers with our Chilean subsidiary Prolesur. Chile and New Zealand are both well-suited for pasture-based dairy systems. The scheme provides the young Chileans with paid work experience and learning opportunities in New Zealand to develop skills they can take home and help improve farming techniques there.

Normally over a 12-month period, the young women and men, who have already worked on farms, gain experience in everything from on-farm technology, health and safety and animal husbandry to environmental management. This year Covid-19 impacted the programme. One of the 10 participants decided to return home to Chile but the remainder has extended their time in New Zealand and our team has been taking extra steps to make sure they are safe and well.

Indonesia

We have continued to work in partnership with the local Mersi Dairy Co-operative and local government to support the Fonterra Dairy Cluster Partnership in West Sumatra. With Covid-19, we have adapted to using webinars to help the farmers with milk quality, the environment and animal welfare.

We are also providing support for the local co-op regarding the processing of milk post-harvest. This will see the installation of a semi-automated filling machine, the first piece of modern dairy equipment introduced into the region. This initiative will boost market development for the dairy cluster towards other cities within West Sumatra and neighbouring provinces.



COMMUNITY INVESTMENT

Responding to Covid-19 and the needs of communities has changed our approach to community investment this year, with a significant increase in the value of donations (including the re-direction of milk from Fonterra Milk for Schools). We are also refreshing our Grass Roots programme to see how we can support our communities across the globe to reflect the world's changing environment.

In New Zealand, we have supported groups including the I Am Hope Tractor Trek to raise funds for mental health awareness, donations of hi-vis vests for school children, and grocery vouchers for those in the community who need it.



Our team in China making a donation to Huashan Hospital.

FY20

\$3+ million

distributed to 220 initiatives

FY19

\$382,000

distributed to 205 initiatives

FY18

\$770,000

distributed to 696 initiatives

In Sri Lanka, we continued to contribute to local communities with donations to the Covid-19 Healthcare and Social Security Fund established by the President. We provided financial aid and food donations to communities in need and healthcare workers, and helped clean-up schools when students returned following Covid-19 lockdown.

Around the world we also made donations to community groups and healthcare workers in the Philippines, USA and Indonesia. These donations were in addition to our normal support for food banks (see [page 50](#)).



Healthy Environment

We are working together to achieve a healthy environment for farming and society.

TO DO THIS WE WILL:

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

By looking after land, water and animals, and using resources wisely, we are finding a path to regenerate the environment. It's all part of our transition to a more sustainable way of dairying.

34%



of our farmer owners in New Zealand have a Farm Environment Plan tailored to their specific farm – see [page 39](#).

1.9%*



reduction in GHG emissions¹ from our global manufacturing operations – see [page 43](#).


6.4%*



reduction in water use at our manufacturing sites in water-constrained regions – see [page 35](#).

1. Scope 1 and 2. * Compared to last year.



 **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.

Caring for the environment will safeguard opportunities for future generations.

A strong healthy environment supports healthy and enjoyable lives and improves the resilience of the planet. It is also the foundation for sustainable, profitable dairy businesses.

Fonterra farmers care for the environment and their animals and are committed to farming in a way that regenerates their farms for future generations.

In New Zealand we have a highly efficient, pasture-based farming system and because of this we have one of the lowest on-farm carbon footprints in the world – approximately one third of the global average. But we are not stopping there.

In collaboration with others, we are working on innovative solutions to improve water quality and reduce our carbon footprint even further – such as our partnership with the Department of Conservation to find solutions to protect New Zealand’s waterways, and our involvement in He Waka Eke Noa and our climate action plan to reduce emissions on-site and on-farm.

But we recognise the challenges we face are significant and the changes required will take time. We are working with farmers, our sites and communities to face those challenges and reduce our environmental footprint, so farmers will be able to farm for generations to come.

IN THIS SECTION

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THE UN SUSTAINABLE DEVELOPMENT GOALS WE ARE CONTRIBUTING TO

 6 CLEAN WATER AND SANITATION	 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	 13 CLIMATE ACTION	 14 LIFE BELOW WATER	 15 LIFE ON LAND
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Land and water

Healthy freshwater, soil and ecosystems are essential to the long-term success of our business, farmers’ businesses, and to communities.

Natural resources are limited and the impacts to them are experienced locally.

We believe protecting and restoring the environment is critical to safeguard opportunities for future generations. To achieve this we are working to develop the skills, knowledge and systems to regenerate the environment throughout our global value chain. As part of this we are committed to working proactively with local stakeholders on catchment-wide solutions.

This section covers our impact on land and water arising from the manufacturing operations that we manage globally and in relation to the farmers who we collect milk from.

OUR APPROACH

Our manufacturing sites take water in to use and discharge wastewater. By recovering water from the raw milk when we make powder products, most of our sites discharge more water than they take in. Sites measure their water use and monitor water quality, and, when we upgrade or build new plants, we make use of resource-efficient technologies and aim to adopt leading industry standards. We also look to improve our processes and the way we work to deliver further improvements.

We are working with farmers to identify their environmental impact risks and prioritise improvement actions specific to

their situation. Most farmers we collect milk from operate pasture-based systems and rely on rainfall as their main water source. We are encouraging and supporting farmers to adopt recognised Good Farming Practices related to water, soil health and biodiversity - including exclusion of stock from waterways, riparian management, nutrient management and land management that minimises soil disturbance.

Please refer to “Working with farmers” on [page 66](#) and “Managing operations” on [page 54](#) for more information on our general approach to improving our performance.

WHAT WE’VE BEEN DOING

Using less water

Aligned with best-practice thinking, we are prioritising water efficiency at our manufacturing sites in water-constrained regions.¹ Our target is to reduce water use at these sites by 30% by 2030 and we have made significant progress. We turned around an increase in FY19 to deliver a 6.4% reduction this year, taking us to a 3.1% reduction against our 2018 baseline.

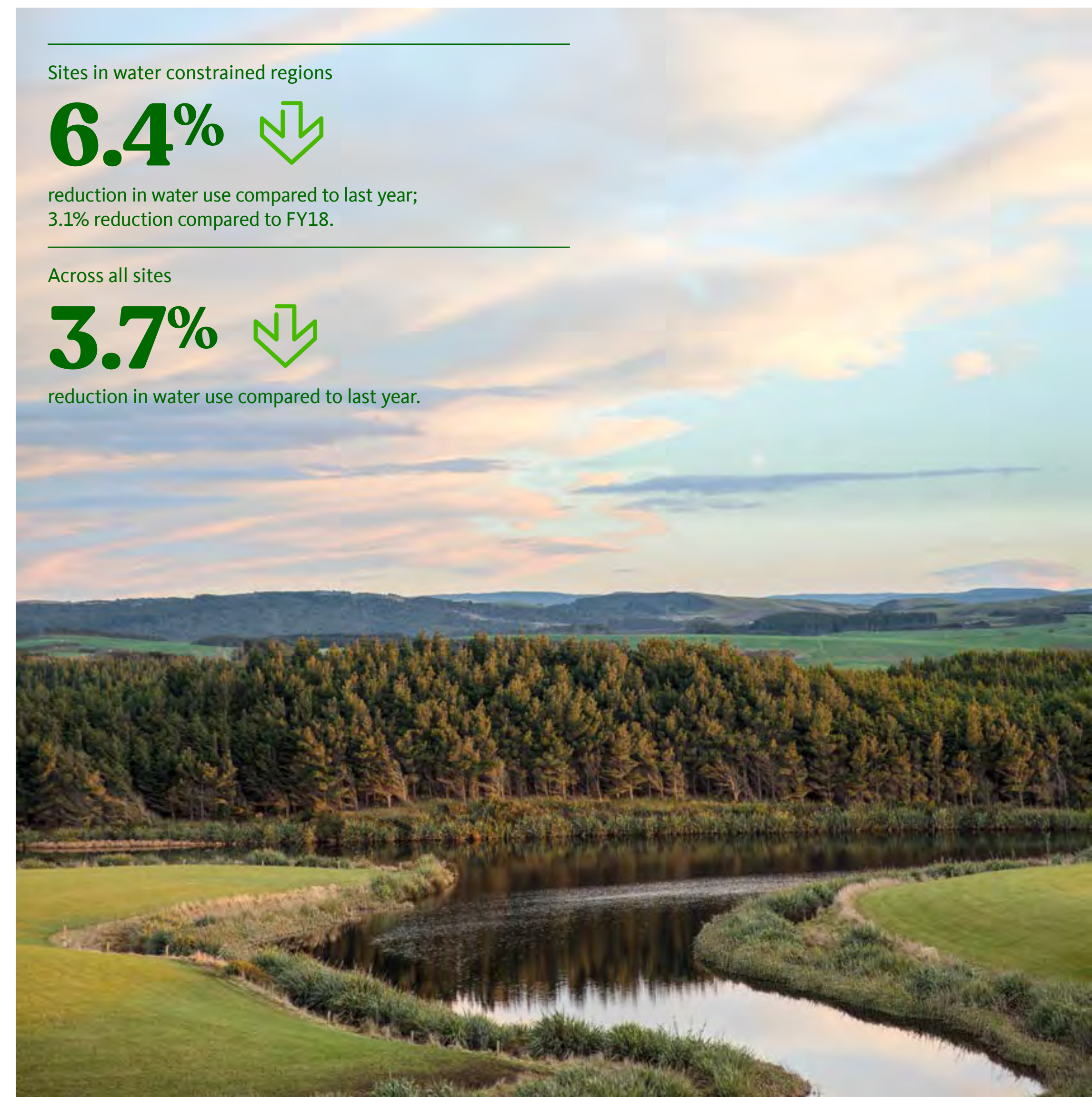
Our Stanhope site in Australia delivered most of the improvement by installing new water treatment infrastructure, improving water efficiency at the site by 33% and saving over 275 million litres of water compared to FY18.

Responsible use of water is important for all our manufacturing sites and overall, across all our sites, water use was down by 3.7% on last year. That is almost two billion litres of water saved, equivalent to more than 750 Olympic-sized swimming pools.

These improvements have been delivered by a range of projects. For example, at Whareroa in FY19, we installed equipment so we can reuse water from our processing plants in our boiler and cooling towers. During FY20 these changes saved more than 250 million litres of water and we estimate this could improve to 300 million litres as we optimise its use.

Even with these significant savings, our manufacturing sites discharge more water than they take in – producing a net nine billion litres this year. This is due to the water we collect from the milk when we produce powdered products.

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 FY20, six New Zealand sites: Edendale, Clandeboye, Darfield, Brightwater, Lichfield, and Maungaturoto; and one Australian site: Stanhope, were identified as in water-constrained regions.



Protecting biodiversity around our sites

This year we found some long-tailed bats roosting in trees on our Buxton Farm near our Hautapu site. The New Zealand long-tailed bat, or pekapeka-tou-roa, is one of the only two surviving bat species native to New Zealand. Working with local stakeholders including Ngāti Haua and Koroki Kahukura, the local council and the Department of Conservation we've agreed a plan to protect and enhance the habitat for the bat. This includes retaining the mature exotic trees for bat roosting and enhancing biodiversity by planting more native plants.

In Northland, thanks to many long-running community-led and government initiatives, there is now a population of brown kiwi living wild in the Glenbervie Forest immediately behind our Kauri factory's nutrient management farm. To help protect this growing population, our team is working with Northland Regional Council, Kiwi Coast and neighbouring land owners to manage a network of predator traps. Getting rid of feral cats, rats and possums will help ensure this remains a safe place for kiwis to live.

At our Te Rapa site, our team has been planting native trees for many years, and, this year they were privileged to see a ruru (morepork) on the historic Mangaharakeke Pa at the factory. Ruru, a small brown owl, are considered an indicator species of environmental conditions. In Māori tradition the ruru is seen as a watchful guardian, belonging to the spirit world as they are a bird of the night. We are humbled to know this one has chosen to guard Te Rapa.

Improving wastewater treatment

Our Nutrient Management team continues to innovate and improve the way we treat excess nutrients retrieved from wastewater treatment at some of our sites. Aligned with circular thinking, the nutrients captured from the wastewater, which we previously considered waste, are used to improve soil health on our farms. This helps with growing feed, such as grass and maize silage, for cows to help them produce more quality milk to process at our factories.

This year, the team piloted a hemp crop at the farm beside our Darfield factory, near Christchurch, where harsh summers can make growing good pasture difficult. Hemp is a water-efficient crop with long tap roots and it grew very well when irrigated with the factory's wastewater. The established crop was easy to manage, requiring minimal fertiliser and no pesticide.

However, we did have to overcome the public perception of hemp and its association to marijuana. We believe this trial was the first to use dairy wastewater irrigation on a hemp crop, therefore we carefully planned our approach before seeking Ministry of Health approval.

The hemp crop was produced under contract for agricultural services business Carrfields, who use the grain to make food products like flour and oil. The return from the hemp improved the profitability of the paddocks it was grown in and we are now investigating options to expand our use of the crop.



Bruce, Carolyn and Steve, Darfield.

Sustainable catchments

To achieve sustainable water catchments where we operate, we know we can achieve more by working with others to help protect and regenerate waterways and biodiversity. We are connecting and empowering farmers, sites and local communities to get them involved and help accelerate progress towards local community environmental goals.

Our Living Water partnership with the New Zealand Department of Conservation is focused on five catchments to identify game-changing and scalable solutions that show dairying and freshwater can thrive together. The partnership was established in 2013 and so far, nine solutions have been scaled or are being used by others.

Beyond the five Living Water catchments, we are using the lessons learned to support farmer and community action in other catchments across New Zealand. Working alongside local stakeholders such as regional councils, the Department of Conservation, iwi, farming leaders and other industry members in catchments across New Zealand, our aim is to build on existing community efforts and help achieve their priorities.

Our Living Water Partnership is across

35,000 ha

in five catchments across New Zealand

Fonterra farmers engaged with the partnership

68%



+

40%



are implementing freshwater improvement actions

LIVING WATER PARTNERSHIP

We are working with farmers, scientists, councils, mana whenua and local communities across **35,000 ha** in five catchments across New Zealand.

Of those Fonterra farmers operating in the Living Water catchments, **68%** have engaged with the partnership (up from 59%) and **40%** are implementing freshwater improvement actions above regulation (up from 36% in 2019).

Seven Living Water projects have directly **integrated Mātauranga Māori¹** alongside western science (up from four in 2019).

1. An indigenous Māori worldview and knowledge perspective.



Electric fishing in the Wairua River catchment, Northland.

Poplar trees planted on steeper slopes in Pūkoro-Miranda catchment, Hauraki.



SUSTAINABLE CATCHMENTS PARTNERSHIPS – EXAMPLES

01. Northland – Wairua River (Living Water)

Each month members of Ngā Kaitiaki o Ngā Wai Māori join the Living Water team to sample water quality in the Okarika Pocket. The aim is to build local capability and support members so they can continue monitoring water quality into the future and extend this mahi (work) across the catchment. They have also completed electric fishing training.

02. Hauraki – Pūkoro-Miranda (Living Water)

We are supporting the Western Firth Catchment Group to demonstrate how working together can achieve great results for biodiversity alongside productive dairy farming. The Firth of Thames is an internationally important site for shorebirds and this community-led initiative is enhancing and restoring habitat from mountains to sea. Sediment is a key issue for the catchment so the community has planted about 1,500 poplar trees on steeper slopes, installed sediment traps and containment bunds, and also planted along the banks of waterways. [View video](#)

03. Waikato – Peat Lakes – Lake Areare, Ruatuna, Rotomānuka (Living Water)

The DOC – Department of Corrections ‘Good to Grow’ partnership provides community workers to help deliver projects at our Living Water site at Lake Ruatuna. These include weeding, planting, track building and maintenance, making this a flagship site within the peat lakes network for showcasing the value of partnership to achieve restoration goals.

04. Waikato – Waiomou

Building on our initial pest plant removal and replanting project, we have further invested in partnership with the Waikato Regional Council. This has helped them access \$1.7 million of funding from Jobs for Nature, a Government environmental fund that is part of the Covid-19 recovery, which will expand the work further.

05. Taranaki – Kaupokonui

A small historic dam that was stopping fish from moving upstream could not be removed due to its heritage status. So we are helping fund a fish ladder to help fish move up and down the stream.

06. Hawkes Bay – Tukipo

Completed construction of an in-ditch treatment wetland on Bel Group farm to showcase small-scale, low-cost, ‘DIY’ improvements to other farmers. A much larger constructed wetland is planned to treat higher levels of contamination at a larger scale, while also improving biodiversity values. This wetland will be used as a regional reference site to check and model wetland risks and benefits to water quality.

07. Canterbury – Waikirikiri (Lower Selwyn)

We are contributing to Landcare Trust’s ‘Managing Wetlands as Farm Assets’ project. This includes work to restore wetland biodiversity at an inanga (whitebait) spawning site near Te Waihora Lake Ellesmere. This will demonstrate the value of wetlands and working collaboratively to improve the planning process for other wetland projects.

08. Canterbury – Ararira-LII River (Living Water)

Working with local stakeholders, we are evaluating a range of restoration ‘tools’ and techniques on farm and in the catchment including a 1.4km stretch of Powell’s Road Waterway. By re-shaping banks, planting native plants and installing sediment traps, we are aiming to improve freshwater habitats and reduce unwanted aquatic weeds.

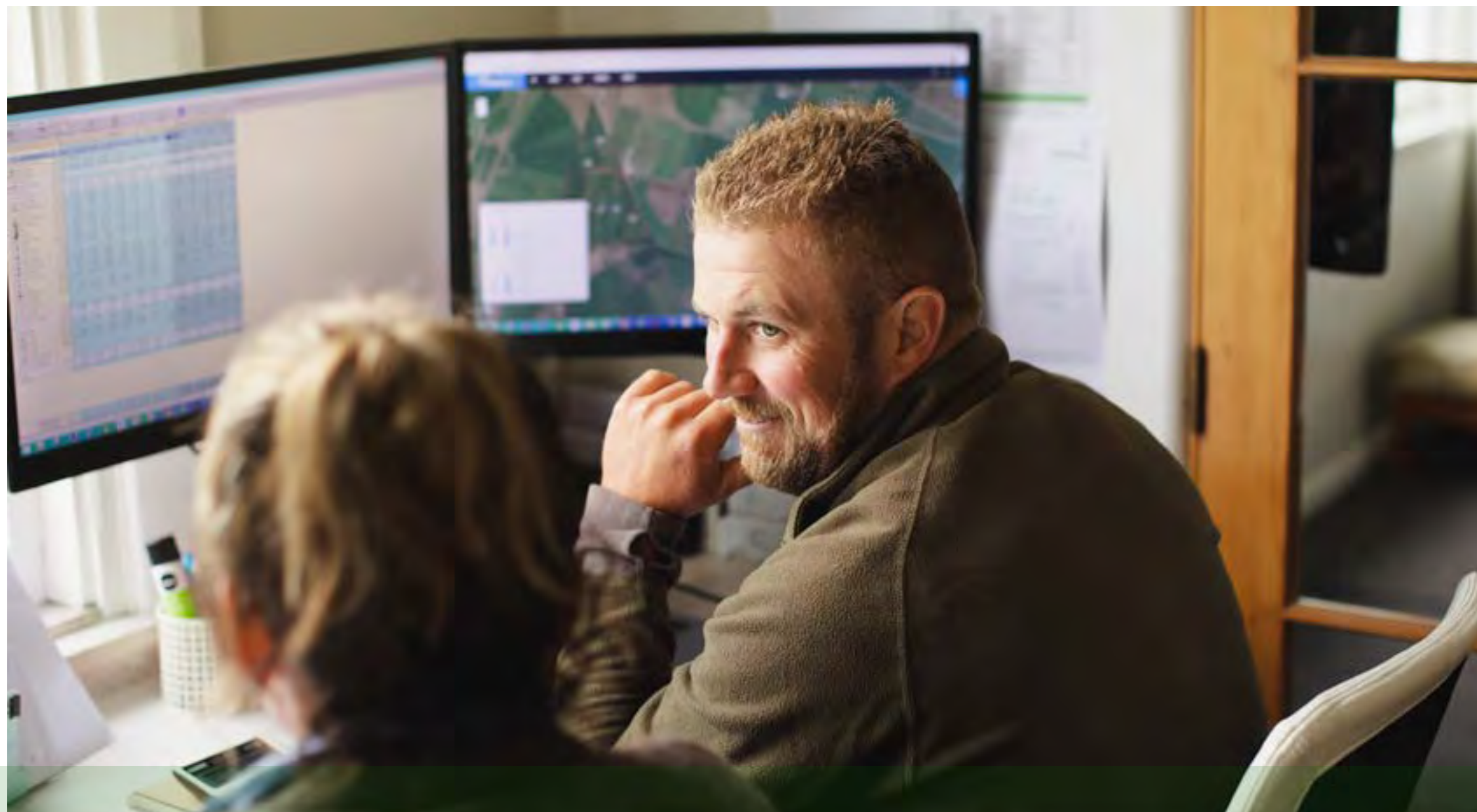
09. Otago – Waipori (Taieri)

We are supporting Te Rūnanga o Ōtākou to promote mana whenua (indigenous people) connection to mahinga kai (traditional food and resources) at Te Nohoaka o Tukiaua (Sinclair Wetlands) through education and research into the conservation of water quality, and bird and plant life.

10. Southland – Awarua-Waituna (Living Water)

Peak Runoff Control Structures are designed to slow down water flow and allow sediment and nutrients to drop out before they reach more significant waterways. We are building these at four sites to test their effectiveness and we have identified a further 30 locations to test catchment-wide benefits once initial testing is complete.





Understanding our on-farm water footprint

Understanding the water footprint associated with milk production is important to us and our customers. A water footprint considers the amount of water used on farm, where that water comes from and how much water is available. Unfortunately, application of methods that do this well have not yet been widely adopted. There are few published results and the differences in approach make comparisons very difficult. Our aim is to understand the main contributing factors, prioritise areas for improvement and track progress over time. So, this year we commissioned AgResearch, an independent New Zealand Government research agency, to analyse water use for our New Zealand milk supply.

The average water withdrawal¹ for each region ranged from 85 to 284 L H₂O/kg fat-and-protein-corrected milk (FPCM) and the overall average was 143 L H₂O/kg FPCM. Animal drinking water represented approximately 3-6 L H₂O/kg FPCM, while water for washing the dairy shed

and yards was approximately 3 L H₂O/kg FPCM. For water consumption², the weighted-average farm consumed 649 L H₂O/kg FPCM with 92% of this from rainfall and only 8% (55 L H₂O/kg FPCM) from surface and groundwater.

For farms with higher use of irrigated water, primarily in Canterbury (New Zealand), optimising the use of the irrigation water is key. Regulations mean water taken for irrigation must be metered and reported to regional councils. Our Farm Environment Plans support water efficiency improvements, including evaluation of irrigation infrastructure, monitoring soil moisture and staff training.

For the remainder of farms, the key factors for reducing water footprint are the use of fertiliser and purchased feeds. Our Nitrogen Risk Scorecard calculates and benchmarks the conversion efficiency of both nitrogen fertiliser and imported feed. This allows farmers to compare their performance against relevant peer groups, assess the risk level and plan improvements.

Prioritising on-farm improvements with Farm Environment Plans

In New Zealand, helping our farmer owners establish a Farm Environment Plan (FEP) is our top priority. Each FEP is unique to the farm, identifying areas of existing strength and prioritising improvement actions.

Since we launched the FEP service in 2018 we have continued to develop our framework and delivery service, listening to feedback from farmers and ensuring they can remain a step ahead of future regulations and the requirements of our customers.

Helping farmers to achieve Good Farming Practice through FEPs is how we can continue to make the biggest difference to areas such as soil health, water quality and freshwater biodiversity. This year we expanded our framework to include a focus on whakapapa, mahinga kai and greenhouse gas (GHG) emissions. All new FEPs include these modules and when we revisit farms with earlier FEPs we upgrade to these to include these modules.

Whakapapa is the relationship between people, places and things and the new FEP module captures each farm's unique history, recognising the people and their connection to the land over multiple generations.

Mahinga kai focuses on the value of natural resources – birds, plants, fish, and other animals and resources that sustain life.

To support the release of our farm-specific GHG emissions reports (see [page 45](#)), our FEPs now include basic information on GHG and advice on how to reduce emissions.

In Australia, we will be introducing Farm Environmental Plans to help our farmers, tailoring these to the specific needs of the Australian farming environment.

1. 'blue' water taken from surface and ground water sources at the farm or further back in the supply to produce the fertiliser or feed.
2. The amount of water lost from the catchment, either in a product taken out of the catchment or water lost through evapotranspiration and animal respiration.

“

The whakapapa section is a great addition that captures both contemporary and historical aspects of a farm that can only enhance our Aotearoa-NZ milk story.

JUSTIN TIPA,
FONTERRA'S MATAKAHI MĀORI
DEVELOPMENT TEAM



OUR PERFORMANCE



FEPs in New Zealand

34%

on way to 100% by 2025

Water reduction

3.1%

on way to 30% by 2030 at manufacturing sites in water-constrained regions.

1.9 billion litres

less water used by our manufacturing sites



WHAT'S NEXT

On farm

- We will continue to support our New Zealand farmer owners as they establish Farm Environment Plans (FEP), 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.

Manufacturing:

- We have a strong focus on reducing our water use and we will continue to invest in water reduction at our key manufacturing sites.

SEE OUR PERFORMANCE IN DETAIL [PAGE 74](#).

Climate change



Agriculture and associated land use change account for about 24% of global greenhouse gas (GHG) emissions¹.

Agriculture is facing significant disruption from changes to climate and increased variability in weather patterns. Food producers need to reduce GHG emissions and adapt to the impacts of a changing climate.

The carbon footprint of New Zealand’s on-farm milk supply is one of the lowest in the world but New Zealand’s emissions profile is unique. Nearly half of our GHG emissions come from the agriculture sector and our business represents approximately 20% of New Zealand’s gross GHG emissions. While most developed nations face the challenge of transitioning industrial processes and moving to renewable energy, we must find a way to manage our animals’ natural emissions while also addressing the use of fossil fuels in transport and manufacturing.

The GHG emissions associated with dairy products mostly come from the cows on the farms, accounting for about 90% of our reported GHG emissions. The largest component of this is the methane the cows produce while digesting feed, emitted mainly through belching.

Our manufacturing activities account for about 9%, with the majority of this arising from the energy we use. Milk is a nutritious product but it has a short shelf-life and our pasture-based systems mean the volumes produced are highly

seasonal. Pasteurising milk and drying it into powders is great for producing safe, long-life valuable nutrition, which is very efficient to transport, but it does require significant amounts of reliable energy.

Despite being located a long way from many of our markets, our efficient transportation of finished goods, primarily by ocean freight, mean only 1% of our reported emissions are associated with distribution to destination countries.

Based on climate change projections, food production in many parts of the world is expected to experience negative impacts from changes in natural resources. We therefore support the development of national adaptation plans. A large proportion of Fonterra’s existing supply base is in regions where impacts may be less severe, and with some adaptation there is a good 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 further pursue efforts to limit the temperature increase to 1.5 degrees and we have plans to support this (see page 42). This commitment reflects the latest science and is aligned with the New Zealand Government’s ambitions in the Zero Carbon Bill.

For our manufacturing operations our approach is to use less and emit less. We will use less by continuing to improve our energy efficiency. This has been a long-running initiative (see page 43) and it remains critical to our plan. This not only reduces emissions, it makes commercial sense and helps with our transition to lower carbon fuel sources, which is key to us emitting less (see page 43).

To help farmers it is important for us to understand the GHG emissions that come from their specific farming systems and practices. To do this we regularly commission carbon lifecycle assessments (see page 45) and we are now starting

to share this type of assessment with farmers in New Zealand. New Zealand farmers are already some of the most carbon efficient in the world, due to our less-intensive efficient pasture system and by providing them with farm-specific GHG reports we will help them continue to improve (see page 45).

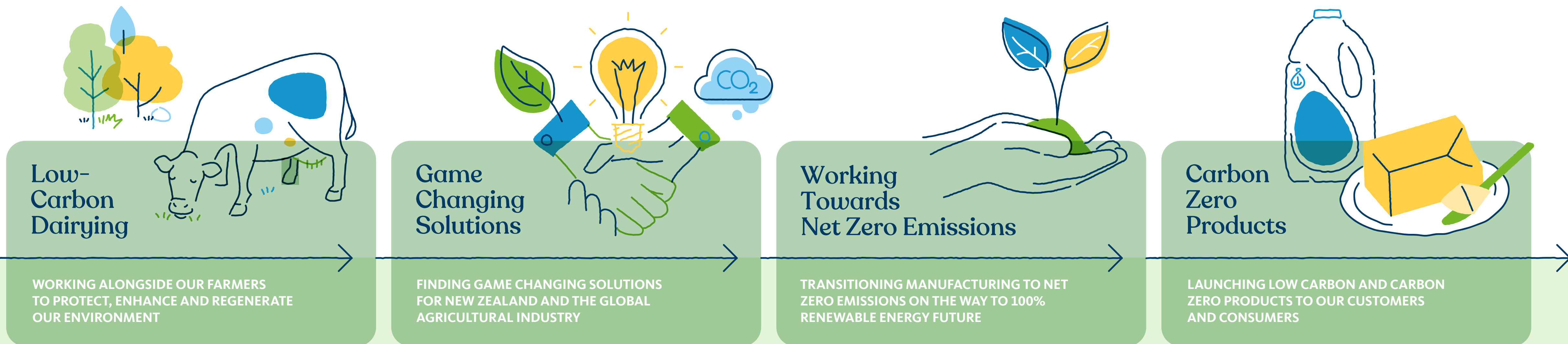
We have set specific targets for GHG emission reduction arising from our farming and manufacturing operations and this year we had our overall target approved as being science-based (see page 46).

Please refer to “Working with farmers” on page 66 and “Managing operations” on page 54 for further details of our approach.

1. Based on 2014 data for GHG emissions influenced by human activity.

Reducing our emissions from Farm to Consumer

We are committed to the Paris Agreement target to keep warming below 2 degrees and to further pursue efforts to limit the temperature increase to 1.5 degrees.



The Co-operative Difference

- Farm Environment Plans
- On-farm lifecycle assessments
- Farm-specific GHG reports
- Living Water partnership

68%

of Fonterra farmers in our Living Water catchments are actively engaged and 40% are implementing freshwater improvement actions above regulation



Red seaweed methane inhibitor

Kowbucha™ natural fermentation

Synthetic methane inhibitor

Natural Methane Inhibitors from Red Seaweed



Improving energy efficiency

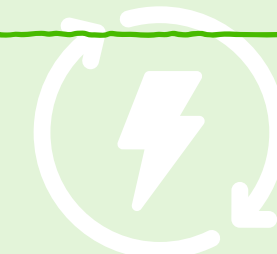
- Delivered 20% reduction in energy intensity at our NZ manufacturing sites since 2003

Changing fuel

- Brightwater co-firing wood biomass (~2,400 tCO₂-e reduction per year)
- Te Awamutu converted to wood pellets (~84,000 tCO₂-e reduction per year)

Cumulatively since 2003, we have saved enough energy to power all the households in NZ for

1.5 years

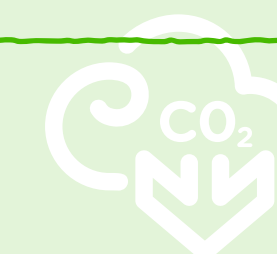


New Zealand's first carbonzero™ milk

Carbonzero certification of NZMP organic butter

Partnership with Provenance.org

Launch of New Zealand's First Carbon Zero Milk



WHAT WE'VE BEEN DOING

Hitting our 2020 energy efficiency target

We are delighted to have exceeded our 2020 energy intensity target of a 20% reduction at our New Zealand ingredients manufacturing sites from our 2003 baseline, with a total of 20.4% reduction. This has been a tremendous effort by everyone involved.

Improving energy efficiency in our manufacturing operations has been a long-running programme and remains a vital part of our strategy. It saves natural resources, reduces emissions, makes commercial sense and will help our transition to lower emission energy sources.

Cumulatively since 2003, we have saved enough energy to power all the households in New Zealand for 1.5 years.

Achieving this target has involved hundreds of initiatives over the past 17 years, ranging from small changes such as installing meters and changing lightbulbs, through large projects such as installing heat recovery loops and installing condensing economisers on our boilers, to building completely new efficient plants. Big and small, simple or sophisticated, each and every one of them has made a difference.

This year we prioritised a number of projects to help us achieve this target. They included five projects at our Whareroa site that are estimated to reduce energy consumption by approximately 149,000 GJ per year, the equivalent to powering almost 6,000 New Zealand households for a year.

Many of our energy efficiency projects have been externally recognised over the years.



Whareroa energy project team: Harriet Gibbs, Bevan Johnson, Lloyd Darrah, Jack Ballagh

Our sights are now firmly fixed on achieving our next goal a 30% reduction in absolute emissions by 2030 (from a 2018 baseline).

Awards	Result	Year
EECA EnergyWise	Winner	2004
EECA EnergyWise	Winner	2006
NZ Engineering Excellence Awards	Winner	2006
EECA Epic Achievement	Winner x2	2007
EECA Awards	Commended	2010
Dairy Innovation Awards	Finalist	2012
Sustainable Business Network Awards	Commended	2016
Deloitte Energy Excellence Awards	Winner	2016
Sustainable Business Network Awards	Finalist	2018
EECA Business Awards	Finalist	2018
Deloitte Energy Excellence Awards	Finalist	2019
Sustainable Business Network Awards	Finalist	2019



New solar installation on site roof in Indonesia

Changing to low carbon energy options

We will not be installing any new coal boilers or increasing our capacity to burn coal at any of our manufacturing sites, but it will take us some time to stop using coal completely. Our existing coal use is only in New Zealand, where a third of our sites still rely on it and most of these sites are in the South Island. Finding viable alternatives to coal is a priority for us.

This year our Brightwater site was able to co-fire with wood biomass, a by-product of forest harvesting and processing, for the full season. This reduced our emissions by approximately 1,650 tonnes CO₂-e. Once we have overcome some operational challenges and are able to operate at 25% co-firing by energy content, we aim to improve this saving to about 2,400 tonnes CO₂-e per year.

We also converted our much larger Te Awamutu coal boiler to run completely on wood pellets. This is a major step and will reduce our total coal use by almost 10%, decreasing

our carbon emissions from coal by around 84,000 tonnes CO₂-e per year (see case study on [page 44](#)).

Around the world we are also making changes to emit less. For example, in Indonesia and Malaysia we have recently installed rooftop solar on our manufacturing sites. In Indonesia the solar panels are aiming to deliver between 15 – 25% of the site's energy requirements, reducing annual GHG emissions by about 400 tCO₂-e and deliver a strong return on the capital invested. Malaysia required no capital expenditure and is expected to deliver an 18% reduction in GHG emissions for the site (more than 500 tCO₂-e).

We have a roadmap of potential projects to deliver our targeted reduction in GHG emissions. Investment will be staged with each project involving several years of design and planning before implementation. We also continue to investigate emerging technologies that could help the transition for manufacturing further down the track.


Case Study:

A BIG STEP ON OUR RENEWABLES JOURNEY

At our Te Awamutu site we are moving out of coal and transitioning to wood pellets.

Until recently the site used a mix of coal, gas and electricity to process milk. This latest move follows a trial last year, with the coal boiler now converted completely to wood pellets for the 2020/21 season.

The move away from coal at Te Awamutu is part of our plan to have net zero emissions at our manufacturing sites by 2050. The transition to pellets will reduce our coal use by almost 10% nationally, saving about 84,000 tonnes of carbon emissions from coal per year – the same as taking 32,000¹ cars off the road.

While there were delays in getting some of the equipment in from overseas and ensuring we had people available to help with the installation due to Covid-19, our team and suppliers have done an exceptional job in making it happen.

We know we can achieve greater change in our emissions reduction through partnering with others. That’s why the

partnerships we have with Nature’s Flame and the Energy Efficiency and Conservation Authority (EECA) are so important.

Taupo based Nature’s Flame is supplying renewable wood pellets that are made from sawdust and shavings from nearby sawmill operations and produced using geothermal energy.

EECA’s Chief Executive Andrew Caseley says “this project fully aligns with EECA’s purpose to help decarbonise the New Zealand economy.

“This is the largest boiler conversion project to biofuels to date, and this is why it has received \$200,000 in funding from EECA’s technology demonstration programme. It also has the added benefit of establishing a more viable and large-scale wood pellet supply chain.”

In addition to this major investment at Te Awamutu we’ve recently converted the boiler at our Brightwater site in the South Island to co-fire on wood biomass and we are carrying out work to decarbonise our Stirling site.

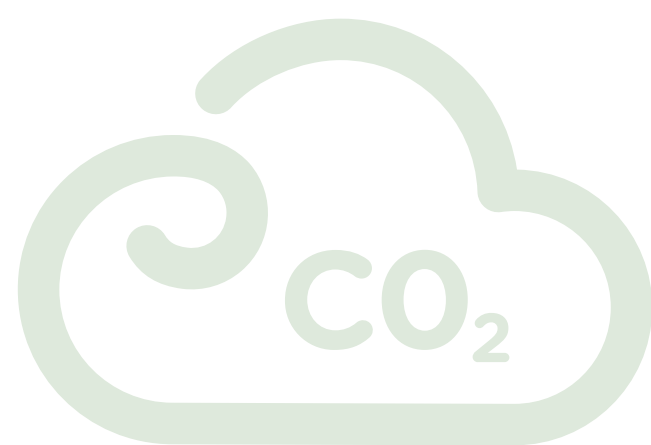
1. Equivalent number of cars calculated using factor from New Zealand Energy Efficiency and Conservation Authority (EECA).



Wood pellets arriving at Te Awamutu.



Part of the construction work at Te Awamutu to convert coal boiler to wood pellets.



0.93 kg CO₂-e/kg FPCM including LUC
0.78 kg CO₂-e/kg FPCM excluding LUC

New Zealand's on-farm milk supply has one of the lowest carbon footprints in the world.



Understanding our on-farm emissions

Understanding the full carbon life cycle for the regions where we collect milk is important to us and our customers, so we regularly commission analysis by AgResearch, an independent New Zealand Government research agency, to help us do this using recognised methodologies and tools. The approach considers the full life cycle from feed production (including purchased supplementary feed) to the milk leaving the farm gate. We use this information to estimate our absolute GHG emissions related to farming (see graphs on [page 47](#)) and to identify opportunities for further reduction.

In New Zealand, for the 2018/19 season milk, the estimated cradle-to-farm-gate carbon footprint, including land use change (LUC) is 0.93¹ kilograms of carbon dioxide equivalent per kilogram of fat-and-protein-corrected milk (kg CO₂-e/kg FPCM). Excluding land use change this is 0.78 kg CO₂-e/kg FPCM, which is lower than the 2017/18 season, corresponding to decreases in brought-in feed, primarily PKE and pasture silage.

This year we also refreshed our assessment for our milk collection regions in Australia. We estimate that for the 2017/18 season the average intensity was 0.99 kg CO₂-e/kg FPCM, which is similar to our prior assessment for 2015/16 season at 0.98 kg CO₂-e/kg FPCM.

Our most recent assessments for other regions are: China 2016/17 season at 1.40 kg CO₂-e/kg FPCM; Soprole our subsidiary in Northern Chile 2017/18 season at 1.34 CO₂-e/kg FPCM; and Prolesur our subsidiary in Southern Chile 2017/18 season at 2.33 CO₂-e/kg FPCM.

1. This year, the approach has been updated to align with recent changes to the NZ Inventory methods and include latest information and thinking such as: split of nitrogen between urine and dung; split of livestock manure across manure management systems; inclusion of on-farm peatland; usage of urea with urease inhibitor; updated electricity grid emission factors and PKE emission factor (including peatland emissions). All changes have been applied retrospectively to allow the underlying trend to be compared.
 2. MPI is New Zealand Ministry of Primary Industries.

Improving on-farm performance

The carbon footprint of New Zealand's on-farm milk supply is one of the lowest in the world. New Zealand has natural advantages, such as our climate and pasture-based farming system, but it also comes down to the hard graft of our farmers to be as productive and efficient as possible. They are farming with improved precision to produce more from less, which in turn has a positive impact on the environment. Over the last 25 years or so, New Zealand farmers have reduced the intensity of their on-farm biological emissions by about 20%. But there is more to do – particularly when looking at the overall picture. In addition to biological emissions, there are other emissions such as those produced when importing supplementary feeds, as well as those caused by land use change – for example, historical dairy conversions. So, while our farmers have been making good efficiency gains, the total on-farm emissions intensity has remained relatively flat since 2010.

The New Zealand Biological Emissions Reference Group identified that total biological emissions in New Zealand could reduce by 10% to 21% by 2030 and by 22% to 48% by 2050 (relative to MPI² baseline projections). However, to achieve these reductions the agriculture sector will need to deploy a comprehensive package of breakthrough mitigations, including some that are not yet technically and commercially viable.

For now, the main improvements farmers can deliver will continue to come from adopting good management practices on farm such as being efficient with feed and fertiliser, having the right number of cows for the specific areas of land, reducing cow replacement rates and ensuring good animal health.

To support farmers, we have been collaborating on the development of farm-specific GHG reporting. Following a successful two-year pilot with 113 farmers, we have now made this available to all our New Zealand farmers. The reports for the 2019/2020 season were sent out to farmers in October 2020. Each report has a breakdown of the estimated GHG emissions for the specific farm by the source of those emissions. Farmers can use this information to help identify and prioritise the next improvement steps they can take. They can also access support from our Sustainable Dairying Advisors and a network of farmer ambassadors, who understand the sources of GHG emissions and the management changes that can reduce these.



(Left to right): Richard Rawnsley (Fonterra), Pim Drenth (Sea Forest) and Sam Elsom (Sea Forest).

Investigating breakthrough technologies

We are investigating breakthrough technologies that could provide a significant reduction in biological emissions produced by cows. Our ambition is to help develop affordable, accessible, relevant and safe solutions for our dairy farmers and the wider global agricultural industry.

In Australia, we are partnering with Sea Forest Pty Ltd (Sea Forest) to understand the risks and practical considerations of using seaweed to reduce methane emissions in commercial dairy herds. *Asparagopsis* is a seaweed that grows naturally in Australia and New Zealand. In laboratory testing led by CSIRO¹, the seaweed has shown the potential to reduce the emissions from cows by more than 80%². During the coming season, the prepared seaweed will be used as a supplement feed for several herds in Tasmania while carefully monitoring animal health, milk quality and milk production.

In New Zealand, we are tapping into our world-class research and development team and a hundred years of dairy fermentation expertise to see if cows can produce their own methane solution. It is early days but, working with the Pastoral Greenhouse Gas Research Consortium (PGgRC) we are investigating whether new dairy fermentations, which we are calling *Kowbucha*[™], could be used to reduce methane emissions from cows.

This year we also continued our work with New Zealander, Dr Ian Hunter at the Massachusetts Institute of Technology. Our investment is primarily focused on advanced technologies to help reduce on-farm emissions. Several options look promising but there is still more work to do and for now, details remain sensitive. We are also continuing to help DSM investigate use of their methane inhibitors within pasture-based farming.

Aligning our targets with science

Based on our existing target for manufacturing GHG emissions reductions, this year we have defined a modified version. This overall emissions reduction target has been approved by the Science Based Targets initiative as consistent with levels required to meet the goals of the Paris Agreement. The modified version extends the coverage of the target from manufacturing sites where we have management control to include the small number of farms that we directly manage.

We have also committed to work with suppliers in our supply chain, helping them to set a target aligned with science, by the end of 2024. This aligns with our involvement in He Waka Eke Noa and our support of the Climate Change Response (Zero Carbon) Amendment Act 2019. We support the establishment of New Zealand's Climate Change Commission and the split gas approach that recognises the differences between short-lived and longer-lived gases.

We support New Zealand's 2030 methane target and consider that the 2050 target should be provisionally set at up to 24% net reduction from 2017, with reviews of the targets based on scientific and economic analysis. It is very clear that both the 2030 and 2050 methane targets are very ambitious and further research and development is needed to achieve them.



1. Commonwealth Scientific and Industrial Research Organisation (CSIRO) is an Australian Government agency.
2. Kinley, R. D., de Nys, R., Vucko, M. J., Machado, L., & Tomkins, N. W. (2016). The red macroalgae *Asparagopsis taxiformis* is a potent natural antimethanogenic that reduces methane production during in vitro fermentation with rumen fluid. *Animal Production Science*, 282-289.

OUR PERFORMANCE



Energy intensity

20.4% ↓↓

reduction since 2003 exceeds target for 2020

Absolute emissions from manufacturing

5.7% ↓↓

reduction on the way to 30% by 2030

Absolute emissions (scope 1 & 2)

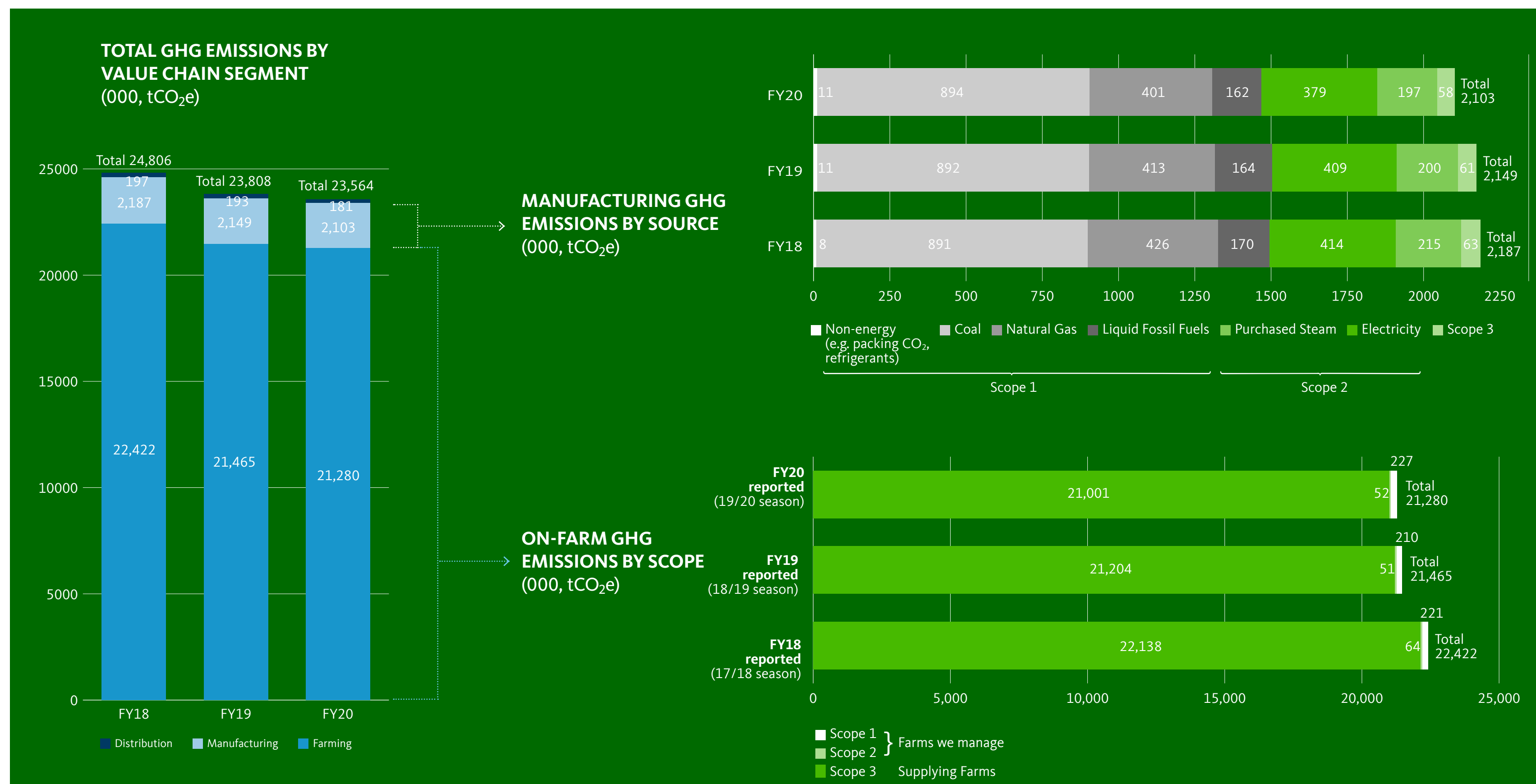
3.5% ↓↓

reduction on it is way to 30% by 2030

Absolute emissions from dairy farming in NZ

6.2% ↓↓

reduction since 14/15 season



This year, our manufacturing energy efficiency improved in six countries and declined in four, giving an overall improvement of 1.1% to 7.23 GJ/tonne of finished goods. There was a similar pattern for emissions intensity with an overall improvement of 1.7% to 0.52 tonnes of carbon dioxide equivalent per tonne of finished goods.

Our emissions from coal this year remained essentially the same as FY19, despite processing slightly more milk at those sites. With the go-live of Te Awamutu using wood-pellets we expect to see a noticeable reduction in coal during FY21.

WHAT'S NEXT

- We will include Greenhouse Gas Good Farming Practices, as identified through He Waka Eke Noa, into our Farm Environment Plans to help our farmers reduce emissions.
- We will continue to invest in research and development to investigate breakthrough mitigation technologies for animal emissions.
- We will continue to progress our energy efficiency improvements and prepare for our next transition to low-carbon energy.

SEE OUR PERFORMANCE IN DETAIL PAGE 75.

Adding the individual numbers together may not add up to the totals due to rounding. Total GHG emissions includes gas and electricity distribution losses for FY20 of 58,165 tCO₂-e.

Emissions from biofuels are not shown as protocol excludes them from the total. Biofuels emissions in FY20 were 4,114 tCO₂-e.

For detailed information on the scope, methodology and assumptions used in reporting these emissions, including corrections to prior reporting, see www.fonterra.com/2020EnvironmentalDataReportingNotes.

Packaging & waste

Packaging is vital for delivering safe and quality nutrition, it is also a large part of our direct and indirect waste.

The packaging we use is just one component of our Food Safety and Quality System. It's important we understand the source, make-up and quality of the materials we use for our packaging and that it protects the product all the way to consumption.

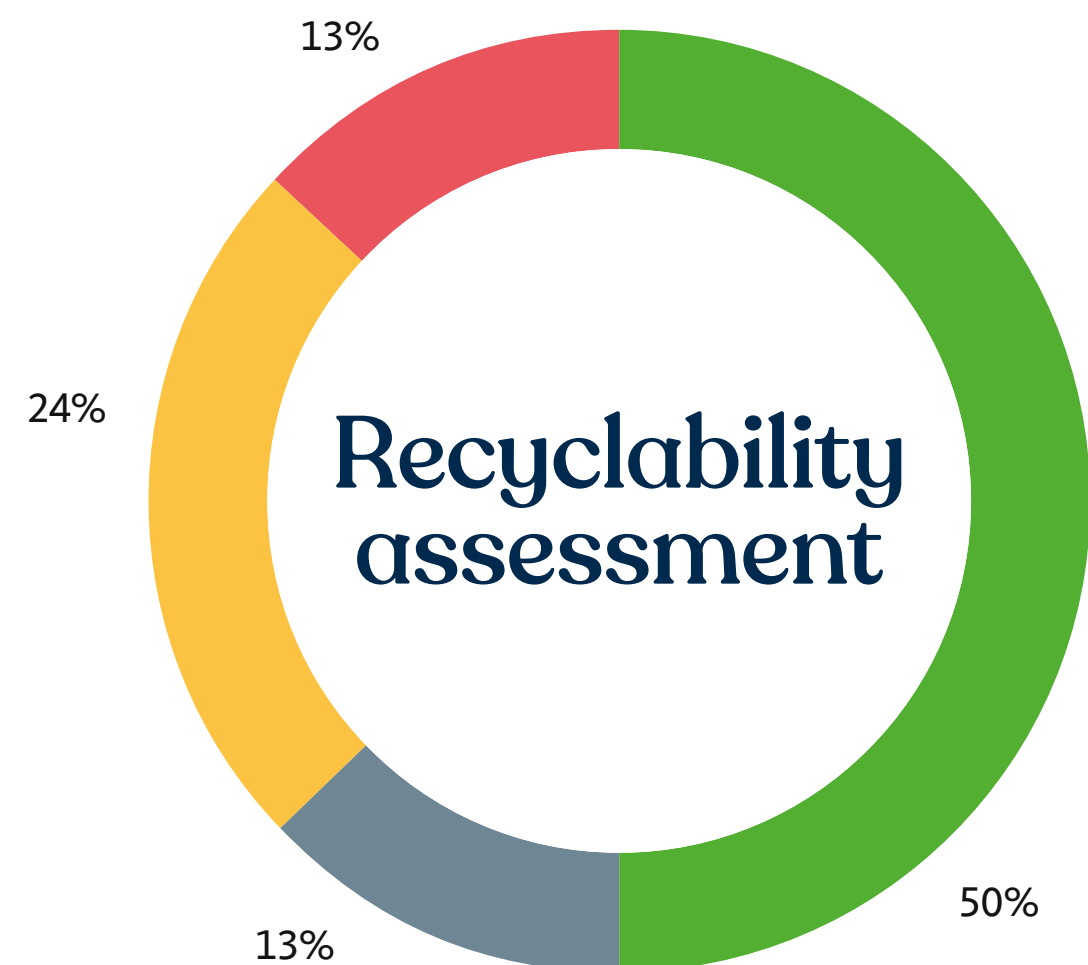
We want to play our part in achieving 'zero waste' and that means considering what happens to the packaging we use and how we eliminate waste across our value chain.

This section covers the packaging we use to protect and transport our finished goods, both at the sites we directly manage and at the third-party sites we use. Most of our finished goods are bulk ingredients for use by business customers but we also produce packaged goods for foodservice and consumers. It also covers the solid waste from sites we directly manage, including manufacturing sites, offices, retail stores and farms.

OUR APPROACH

We want to maximise the nutritional value delivered from every drop of milk by minimising food loss across our supply chain, from the farm to the consumer. This helps us deliver the maximum return to farmers while also delivering better outcomes for people, communities and the environment.

Our Group Environment Policy and supporting standards, requires all our sites to manage hazardous substances

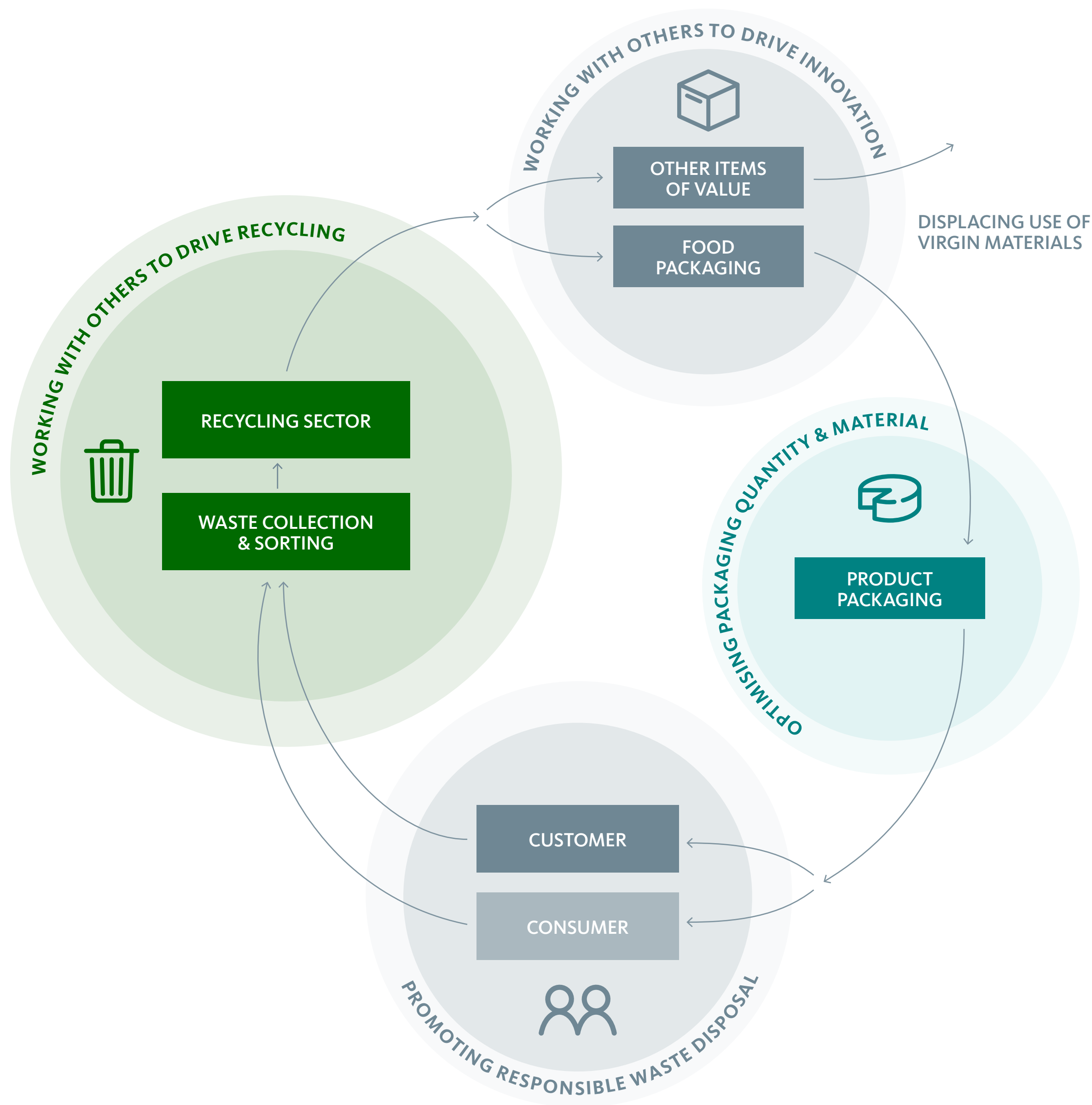


- Recyclable in the market
- Ready for recycling but limited infrastructure in the market
- Recyclable but infrastructure not widely available
- Is unsuitable for recycling

responsibly, reduce waste (including packaging), maximise manufacturing yield and support local waste solutions. For packaging we have design guidelines and a group of experts from across the business to set the direction and support progress towards our targets.

Our aim is to deliver products right-first-time and capture by-products previously considered waste, such as the whey from making cheese, and make them into new valuable products. We regularly monitor yield and our centralised Technical Excellence team provides support to manufacturing sites where the performance is falling behind the best or there are new opportunities.





WHAT WE'VE BEEN DOING

Our Sustainable Packaging Programme

This year we have established a Sustainable Packaging Programme to help us deliver our target of 100% reusable, recyclable or compostable packaging by 2025.

We are considering the full waste value chain and have worked with EY to develop our approach and understand international expectations. Collaboration will be crucial to making progress so we have assessed the state of local recycling infrastructure, recycling standards and our level of influence.

We have aligned with the New Plastics Economy definition of recyclable. This is ambitious and requires packaging to be not only theoretically recyclable but also recycled in practice and at scale. This means there must be adequate collection infrastructure with sorting and processing that can turn the recycled material into commercially viable products that have demand.

We have direct control over the packaging materials we use but new packaging solutions require investment, so we need to choose carefully what solutions we adopt and when.

We are working closely with our suppliers and building relationships to identify suitable alternative materials and formats and also considering the existing and planned collection, sorting and processing capabilities in countries/regions.

We also know that we will need to work with our customers and consumers to encourage use of the available infrastructure in their location.

Using an existing assessment tool for Australia, we found that 89% of the consumer packaging we used for the Australian market is considered recyclable. For the rest of the world, tools are limited, so we are carrying out our own detailed assessment of the packaging materials we use, how these are combined into finished goods and the typical recycling infrastructure available.

We believe it is important to track our progress based on the tonnes of packaging material associated with our finished goods because that better represents our impact on communities and the environment.

Our current global data systems limit the accuracy of our assessment¹ but based on our current assessment of total tonnage of packaging: 50% is already recyclable in the market (e.g. cardboard), 13% is ready for recycling but there is limited infrastructure in market (e.g. rigid plastic), 24% is recyclable but the infrastructure is not widely available (e.g. liquid carton board). This leaves 13% that is unsuitable for recycling (e.g. foil-based sachets).

We have established a packaging material rule book that defines what packaging materials are suitable and we are preparing roadmaps to evaluate and test the alternative solutions where transitions are required.

1. We are enhancing our data systems to provide more accurate reporting that will help us manage our progress to 2025.



Introducing plant-based bottles

We have developed a plant-based bottle to provide a new option within our Anchor™ range of fresh milks in New Zealand.

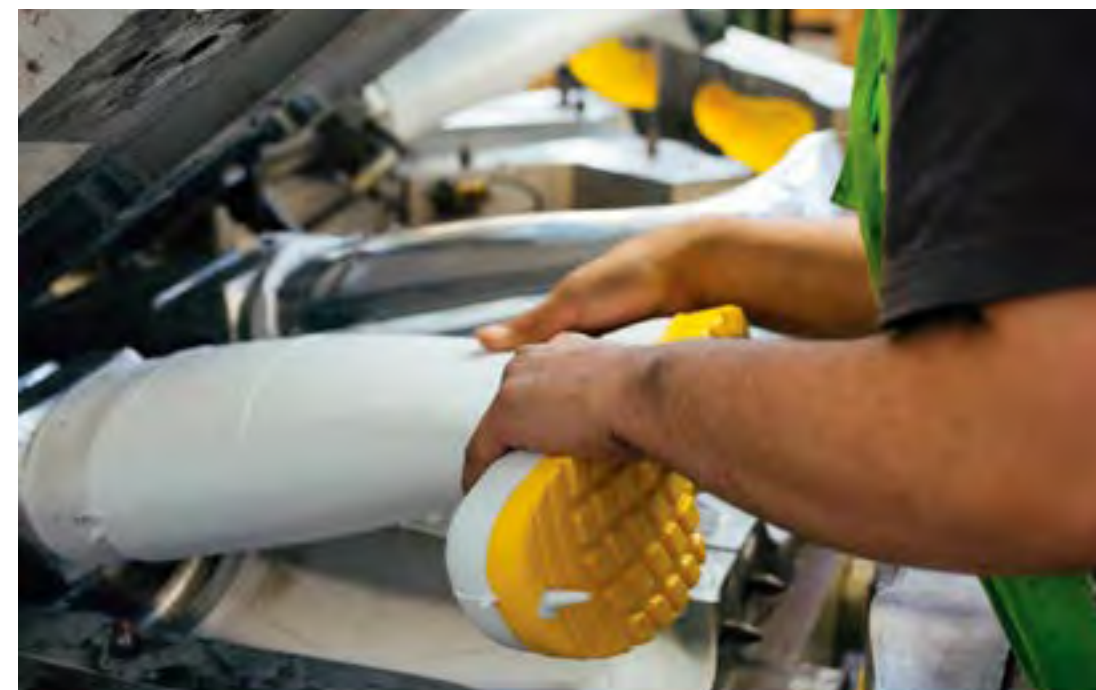
The new HDPE plastic bottle is made from sugarcane, a natural alternative to bottles made from non-renewable sources such as fossil fuels, and 100% kerbside recyclable in the North Island where it will be sold.

The plant-based plastic resin is sourced from Brazil and the bottles are made in New Zealand.

We commissioned an independent lifecycle assessment to assess the carbon impact of this bottle and found it has a lower carbon footprint than conventional HDPE made from fossil fuels.

To ensure the sugarcane is responsibly produced, both socially and environmentally, we have selected a vendor who is a member of Bonsucro, and we have joined too. We are also making information on the product accessible to our consumers using a QR code on pack and via our new collaboration with Provenance.org (see [page 62](#)).

The first bottles were delivered into stores in October 2020.



Collaborating on waste reduction

This year, working with the ‘zero waste’ team at Te Rapa and our partner Bata New Zealand, we successfully completed a trial to recycle gumboots into gumboots.

All employees who enter the food safety critical zones within our factories wear white gumboots. At the end of their use, these gumboots have historically gone to landfill. In the new process, the boots, minus the inner sole, are collected and transported back to Bata where they are turned into pellets for manufacture back into new gumboots.

We have now started the rollout of this new process to all other sites.

“As a result of the work we have done with Fonterra, we have established a takeback scheme which avoids landfill and uses the materials in a productive way that we can also roll out with other clients“, Francis Hammond, National Sales Manager, Bata Company NZ Ltd.

Connecting with compost

Our Whareroa site has implemented a number of recycling initiatives this year, but their single biggest impact on site waste reduction has been the composting of food waste from the staff canteen and the site laboratory. The site has linked up with a local Whanganui based composting company that uses a ‘hot-rot’ system to turn the food waste into compost. The compost is currently being used for residential gardens, but the operation will soon also supply commercial gardens. In the six months since establishing this connection, over 33 tonnes of food waste has been diverted from landfill to composting.

Using less materials

Another part of our sustainable packaging journey is using less materials in the first place. In addition to reducing the amount of materials required and costs, it means there are less materials to be reused, recycled or disposed of after use. This needs careful design and testing though. It would be a big backward step if the reduction of packaging led to damaged product and/or food waste.

Stretch wrap is the plastic film that is commonly wrapped around pallets of product to protect it while being transported. This year we conducted a trial on one of our packing lines to reduce the amount of stretch wrap used. By reducing the number of rotations around each pallet, we can reduce the amount of stretch wrap used per pallet without impacting the product quality through the supply chain to customer. The trial on a single packing line saved more than 13 tonnes of stretch wrap annually. Work is now underway to investigate how to roll this out more widely.

Supporting food banks

Around the world, we support a number of food bank initiatives. This helps us reduce food waste and provides good nutrition for those who need it most. In New Zealand, we donated more than 80 tonnes of food to a number of charities including Kiwi Harvest, the Salvation Army, the Auckland and Christchurch City Missions, Just Zilch and Pakakura Marae. In Australia, we continued to support Foodbank, Australia’s largest hunger relief organisation, donating over 104,000 meals and 103,500 litres of fresh milk in 2019. In Chile, we continued to support Red Alimentos.

During the Covid-19 lock down, when schools were closed, we also donated about one million portions of Fonterra Milk for Schools milk to the community and other products to communities around the world (see [page 32](#)).

OUR PERFORMANCE



Solid waste to landfill

970 tonnes ↓

reduction from our global operations compared to last year

WHAT’S NEXT

- We will continue to reduce the quantities of materials we use and increase yield by minimising waste across our full value chain.
- We will continue to decrease the amount of solid waste we send to landfill from all our operational sites and transition our finished goods into packaging that is more readily recyclable.

[SEE OUR PERFORMANCE IN DETAIL PAGE 76.](#)


Case Study:

GOING CIRCULAR WITH PROLIQ™

When we think about waste streams differently, we can turn them into value streams. Not just reducing environmental impact but also improving business performance for us and farmers. We are continually developing new products to maximise the value from every drop of milk we collect and Proliq is one example of this.

Whey is a by-product of making cheese and casein and for many years it was considered waste. We now know how to turn it into a wide range of valuable products including lactose, a sugar that can be used in food and pharmaceutical products. In turn, a by-product of lactose is the energy and mineral rich Proliq¹, which, when created at the right consistency, makes a nutritious supplementary feed for cows.

Historically dairy processors have discharged the majority of the Proliq through wastewater treatment systems and then applied to land. This is already “circular” in nature but there is a lower environmental footprint and more value in selling Proliq as an animal feed.

To be commercially successful Proliq needs to be at a quality and price that is competitive with other supplementary feeds.

We need farmers to understand its value and how to use it, and there needs to be sufficient storage for the product to balance the timing difference between its production and the demand for use.

Over recent years we improved our manufacturing processes and invested in trials and pilots to demonstrate that Proliq helps dairy cows produce more milk solids. With the proven science we were able to effectively market the product to farmers and establish demand around each of our four manufacturing sites that make Proliq to minimise distribution costs.

When we expanded our mozzarella plant at Clandeboye in 2019, we built a further six million litres of storage on site. We have also collaborated with some local farmers to increase the storage available on their farms.

In FY20, we provided more than 80 million litres of supplementary feed to more than 280 farms. Like many circular economy success stories, the real benefit is in the cultural change and creative thinking it encourages.



Mat, Kapuni



1. Proliq is a liquid concentrate stockfeed prepared from the mother liquor of lactose manufacture.

Animal health & biosecurity

On Fonterra farms, we want all animals to be valued and treated with respect and care throughout their lives.

Having healthy cows is not only good for the cow, it is good for our farmers and it reduces our environmental footprint. It is also important for our customers, consumers and communities when they consider where their food is coming from.

We also want farm environments to be free from infectious diseases and pests that can affect animal, plant and human health.

This section covers animal wellbeing and biosecurity for farms we manage and farms that supply us with raw milk around the world.

OUR APPROACH

Fonterra farmers are required to uphold high standards of animal welfare and comply fully with the latest regulations and codes of welfare. These requirements are set out in the Fonterra Farmers' Terms of Supply and are guided by our overarching Group Animal Welfare and Biosecurity Policy and supporting standards.

We are guided by globally recognised standards as set by the World Organisation for Animal Health. We work with farmers to continuously improve animal health and welfare outcomes, implement practices that provide positive experiences as described by the Five Domains¹, and eliminate practices that contravene the Five Freedoms.

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.

“
 Just talking through the different issues with my vet I learnt so much more than if I'd just asked him to write me a plan.

BEN MOORE,
 FARMER IN WAIKATO

We work with industry bodies and training organisations to ensure farmers have access to high-quality information and tools that support best practice, relevant regulatory requirements and access to training where required. We work with industry partners such as meat processors, transportation companies and regulators to ensure best practice controls are in place.

The development of strategy, policy and standards for the global management of farm animal welfare is the responsibility of Fonterra's General Manager On Farm Excellence – Animals. The management and implementation of Fonterra's animal welfare policies and strategies are undertaken at a local level, supported by our centralised Veterinary and Animals team.

Globally, our International Milk Quality team assesses animal welfare as part of its milk quality audits in all markets outside of New Zealand where we source 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.

WHAT WE'VE BEEN DOING

Animal Health Plans

As part of the Co-operative Difference (see [page 67](#)) this year 50% of farmers supplying Fonterra in New Zealand had established an Animal Health Plan. These plans are developed with, and signed-off by, a registered vet and have been well received. As a minimum each plan covers mortality rates, clinical mastitis rates, incidences of lameness, body condition scoring range, and a review of anti-microbial use on farm.

Antimicrobial resistance (AMR)

The prudent use of antimicrobials, particularly those identified as critically important for treating human disease, will help ensure these treatments remain effective into the future. Our policy is that, when antibiotics are used, it must be for the treatment of known infections under veterinary advice. Our milk testing regime includes specific testing for inhibitory substances such as antibiotics and there are financial penalties for farmers associated with non-compliance.

In New Zealand, we are members of the Dairy Industry Antibiotics Usage Governance Group and the New Zealand Veterinary Association AMR Committee and we are supporting vets to help communicate expectations to farmers. This includes appropriate use of 'dry cow' antibiotic therapy, to enable maintenance of good animal health and milk quality, while reducing the amount of antibiotic used.

In Australia, the dairy industry is aligning with the Australian Animal Sector National AMR Plan 2018 and taking a whole-of-industry approach to best-practice management and prevention of over-use.

Fonterra has representation on the New Zealand National Mastitis Advisory Committee, and supports the New Zealand Veterinary Association's aspirational goal that "By 2030 New Zealand Inc. will not need antibiotics for the maintenance of animal health and wellness."

Supporting industry initiatives

To ensure we do what is best for the environment and animal health and welfare, good practices need to be in place when intensive grazing or the grazing of fodder crops occurs during wet winter periods. During FY20 we supported the New Zealand Winter Grazing Action Group to provide clear guidance for farmers around 'what good looks like'. Short-term guidance from the Action Group has been published online for farmers, and the group has now turned its sights to the longer-term objectives and outcomes.

In Australia, our focus has been supporting the industry efforts to eliminate painful procedures. In 2018/19 we trialled the mandatory use, and auditing, of pain relief for calf disbudding on 42 farms and this became mandatory on all farms from July 2020.

Responding to biosecurity incursion

New Zealand biosecurity controls are highly effective but that does not mean we can stop being vigilant. Since July 2017, when *Mycoplasma bovis* (*M. bovis*) was detected for the first time in New Zealand, we have worked with the Government, sector groups and other dairy companies to minimise the implications for both animal and farmer welfare, and support the national plan to eradicate the disease. The *M. bovis* programme continued to operate at full capacity to support our farmers throughout the Covid-19 alert levels and the number of infected herds is diminishing.

The *M. bovis* bacterium has significant implications for disease management, animal welfare and milk production, however, it poses no risk to milk quality or food safety.

For dairy farms the special testing of milk we helped set up to screen for possibly infected herds has proven very effective. At the end of FY20, a total of 250 confirmed properties have been identified, comprising 60 dairy herds, 135 beef herds and 55 classed as other (e.g. lifestyle blocks). For each herd with confirmed cases, eradication requires humane slaughter and restocking. 57 properties remain under precautionary restrictions and it is expected that at least 95% will be cleared after further investigation and require no further action.



OUR PERFORMANCE



Animal Health Plans

50% ↑

of farmers supplying milk in NZ have an Animal Health Plan developed with a registered vet

Somatic cell count

175,000 ↑

up slightly from 173,000 cells/ml last year but remains well below the EU import/export standard of 400,000 cells/ml

WHAT'S NEXT

- Our dedicated team will continue to work with farmers, veterinarians and regulators to support strong biosecurity and work towards optimising animal health and welfare practices.
- We will continue to encourage the adoption of animal health plans as part of the Co-operative Difference.
- We will continue to stay abreast of international developments to ensure we maintain leading standards in the sphere of animal wellbeing.

SEE OUR PERFORMANCE IN DETAIL [PAGE 76](#).

Somatic cell counts

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 strong reductions in China and Brazil. Small increases in New Zealand and Australia mean the overall global result increased slightly but remains well below the European Union import/export standard of 400,000 cells/ml that is a widely quoted standard. We will continue to work towards lower counts.

Growth hormones

Due to animal welfare concerns, we do not support the use of hormonal growth promoting substances or substances stimulating increased milk production, such as rBST.

Neither of these substances are used by farmers in our supply chain, except in Chile, where there continues to be some isolated usage of rBST.

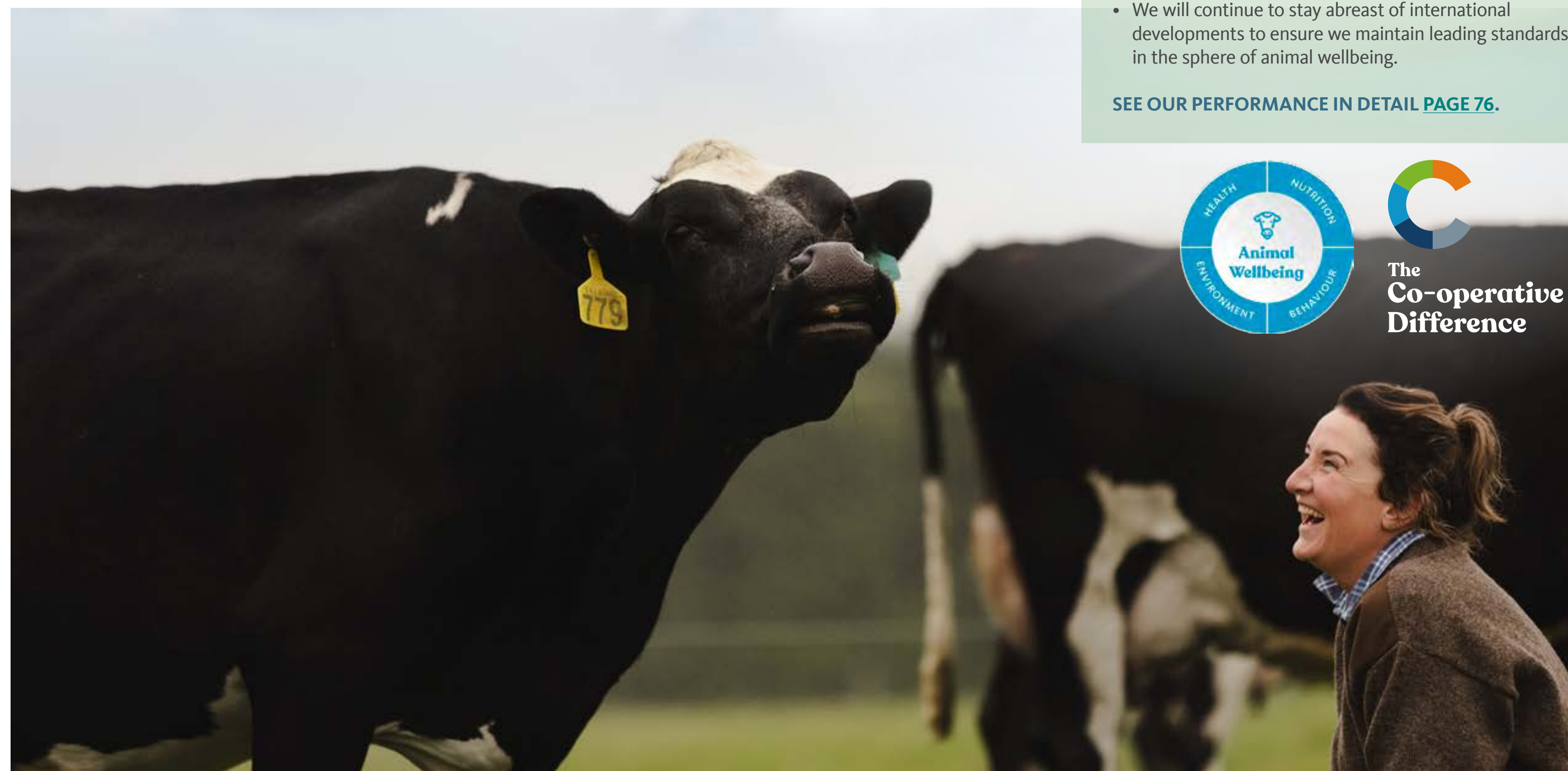
Lifespan

Cows in New Zealand have long and productive lives. The latest available information indicates cows average 4.5 lactations (6.5 – 7 years) with an average calving interval of 368.6 days¹. These measures jointly reflect high reproductive performance, which can only be achieved under conditions of good animal management.

Genetically modified animals

The use of cloned or genetically modified cows is not permitted by any Fonterra supplier.

1. DairyNZ, New Zealand Dairy Statistics, 2018-19.



Managing operations

We are committed to taking a leading industry approach to environmental management for our manufacturing operations.

Our Group Environmental Policy defines our approach to the management of all environmental aspects relevant to our activities including, but not limited to, water, climate and energy, waste and pollution prevention across our global value chain. This includes assessing and managing environmental risks, taking a precautionary approach to decision-making to prevent damage to the environment or human health where serious threats may exist and implementing best-practice environmental management systems. The policy is published on our [web site](#).

All sites have a manager specifically responsible for environmental compliance. At most sites, this is a dedicated environmental manager and they are often supported by a site Environmental Management team. Their focus is on managing site-wide environmental performance and compliance with local environmental requirements.

We share some manufacturing sites, which are operated by joint-venture partners and we make use of some third-party manufacturing. These sites are excluded from our performance reporting.

INDEPENDENT EVALUATION AND CERTIFICATION OF SITES

Our manufacturing sites are subject to regular internal and third-party audits. Internal audits are conducted by staff independent of the site and are used to identify areas for improvement. Third-party audits give regulatory authorities and our customers independent assessments of our performance.



For example, independent audits against the Sedex Member Ethical Trade Audit (SMETA) standard for labour practices, environment, health and safety and business practices are required by some of our customers. Other customers require us to undertake an annual assessment by EcoVadis. This year we achieved Gold rating.

Other third-party audits are part of independent certification of site Environmental Management Systems (EMS) to international standards, such as ISO14001. Independent certification to ISO14001, or an equivalent such as EnviroMark Diamond, provides a third-party evaluation of the performance of our EMS. Our Waharoa Animal Nutrition site achieved ISO14001 certification this year. Globally, 70% of our manufacturing sites are certified to this level or equivalent.

ENVIRONMENTAL COMPLIANCE

In New Zealand, our operational sites had four incidents of non-compliance with environmental regulations which resulted in fines or non-monetary sanctions. One incurred a fine of \$1,000 for odour from wastewater irrigation and the remainder received abatement notices or warnings. At our Makomako site in Palmerston North, we incurred penalty charges totalling \$40,000 for days on which our discharge to municipal wastewater treatment exceeded agreed organic (BOD) levels.

Our China Farms had a small number of environmental non-compliances, including piling sand in an open area and not having anti-overflow measures in place. These incurred a total of about RMB100,000 (\$21,700) in fines.

In addition to the non-compliances listed above, there were some minor non-compliances, which did not result in any monetary or non-monetary sanctions.

In all cases we have taken action to improve processes and minimise the risk of further non-compliances.

SIGNIFICANT SPILLS

In New Zealand, there were nine spills associated with tanker events either on farm or on a highway and totalling about 31,000 litres of milk. There was also a spill of about 1,000 litres of whey from a contractor's vehicle.

At our Darnum site in Australia, an irrigation pump was unknowingly activated and left running for 11 days. Approximately 17 million litres of treated wastewater was discharged into the site irrigation system and subsequently into the nearby river. A project is underway to improve automation at the site to reduce the risk of re-occurrence.

In addition to the above, we also had two spills of ammonia at New Zealand manufacturing sites. In both cases, for health and safety reasons, the sites were evacuated, and emergency services attended but there was no contamination of waterways.

Healthy Business

We are working together to deliver a sustainable business.



TO DO THIS WE WILL:

- **Support healthy, sustainable livelihoods for our farmers** by returning the most value from every drop of milk
- **Build a strong co-operative** by ensuring our business, including investments, delivers long-term value
- **Meet the changing needs of customers and consumers** by leveraging our unique strengths and innovating to create sustainable value for them and us

Through science and innovation, we can respond to people’s changing needs, attitudes and lifestyles to deliver a strong and stable payout to our farmers and a good return on capital for our investors. It’s all part of ensuring our Co-operative is here for generations to come.

Debt to EBITDA

3.4^x



Better than our target of no more than 3.75x

Total Group capital expenditure

\$419m



Better than our target of no more than \$500 million

Normalised Total Group gross profit

\$3.2b



Better than our target of in excess of \$3 billion

Normalised EPS

24cents



Top end of 15-25 cents per share earnings guidance range



Nā tō rourou, nā taku rourou
ka ora ai te iwi.

With your contribution and my
contribution, we'll all thrive together.

As a co-operative, our business is about supporting our farmer shareholders to have sustainable businesses so they can create goodness for generations.

This means paying farmers the best price for their milk and providing them with a sustainable income that supports the health of their businesses and the wellbeing of their families and employees.

We know that long-term sustainability means more than having a healthy business and good numbers. We must maintain a strong financial platform but without healthy people and a healthy environment, we will not have an intergenerational business. Our future success is dependent on bringing our people together to do their best work, looking after our customers and caring for the environment and local communities. It also comes from challenging ourselves to innovate and do better – pushing ourselves to stay one step ahead so we unlock greater value for our farmer owners, unit holders and customers.

We believe we have some unique strengths as a New Zealand co-operative that is competitive in the global market and that means we can lead the way in sustainable dairy products, making a positive difference to the health of people and the environment. We need to make the most of this opportunity for the long-term health of our business.

In 2020 that was about delivering on four priorities: building a great team, supporting regional New Zealand, hitting our financial targets and reducing our environmental footprint.



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Group performance

We exceeded our financial targets for the year. Our reported profit after tax was \$659 million, up \$1.3 billion over last year.

We significantly reduced our economic net interest-bearing debt, down \$1.1 billion, improved our cash flow, and recommenced dividends. To provide a complete view of our performance for the 2020 financial year, the Total Group figures presented in this Group Overview section are inclusive of both Continuing and Discontinued Operations. For our full financial results and commentary, please refer to our [Annual Report](#).

Our Total Group EBIT was \$1,147 million for the 2020 financial year, an increase of \$1,164 million compared to last year. This included a net amount of \$268 million from items relating to the asset portfolio review and from other normalisations. Taking out the normalised items to provide a better comparative view of earnings, our Total Group normalised EBIT was \$879 million, an increase of \$67 million compared to the prior year. Improved performance from Ingredients and Foodservice contributed to this increase.

Our Foodservice business had a significantly improved first half of the year, in particular in Greater China, but this was partially offset by the disruption of Covid-19 during the second half. Our Ingredients' earnings were down for the first six months relative to the prior year. However, the second half of the year benefited from favourable product price movements and our offshore Ingredients businesses benefited from continued implementation of cost efficiencies.

Our normalised Consumer EBIT was down compared to the prior year. This decrease was mainly due to business disruptions in Hong Kong and Chile plus \$57 million of costs that relate to impairments of our Chesdale™ brand value and goodwill in our New Zealand Consumer business.

We have reduced our economic net interest-bearing debt by \$1.1 billion and our ratio of Debt to EBITDA from 4.4 times to 3.4 times. We have achieved this through improved business performance, continued financial discipline and the divestment of non-core assets. In the first half of the 2020 financial year we completed the sale of DFE Pharma and foodspring® and received cash proceeds of \$623 million. The divestments have also resulted in a gain on sale of \$467 million. Our Free Cash Flow has improved by \$733 million to \$1.8 billion.

We have maintained our focus on strong financial discipline. In addition to reducing debt, our Total Group normalised operating expenses were down from \$2,282 million to \$2,268 million. Total Group capital expenditure for the year was \$419 million, \$181 million down on last year and \$81 million under our target of no more than \$500 million for the year.

We continue to make progress on implementing our portfolio review. The sales processes are continuing for the Fonterra-owned China Farms¹ and our interest in DPA Brazil.

1. Since the end of FY20, Fonterra has agreed the sale of our China farms. Completion of the sale, which is subject to anti-trust clearance and other regulatory approvals in China, is expected to occur within FY21.

Debt reduction

\$1.1bn 

Debt to EBITDA

3.4x 

Improved from 4.4x

Based on the additional information and further insights we have gained through the sales process and strategic reviews for the Fonterra-owned China Farms and DPA Brazil, we have reduced the valuation of these two assets and the China Farming joint venture by a total of \$232 million.

Our reported profit after tax was \$659 million, up \$1,269 million compared to last year. After adjusting for non-controlling interests, this represents a reported earnings per share of 43 cents. Our normalised profit after tax attributable to equity holders of the Co-operative was \$382 million, an increase of \$118 million over the same period last year, which represents normalised earnings per share of 24 cents.

Our financial performance has improved – earnings have increased, cash flow has improved and leverage has reduced. As a result, the Board has confirmed a 5-cent dividend.

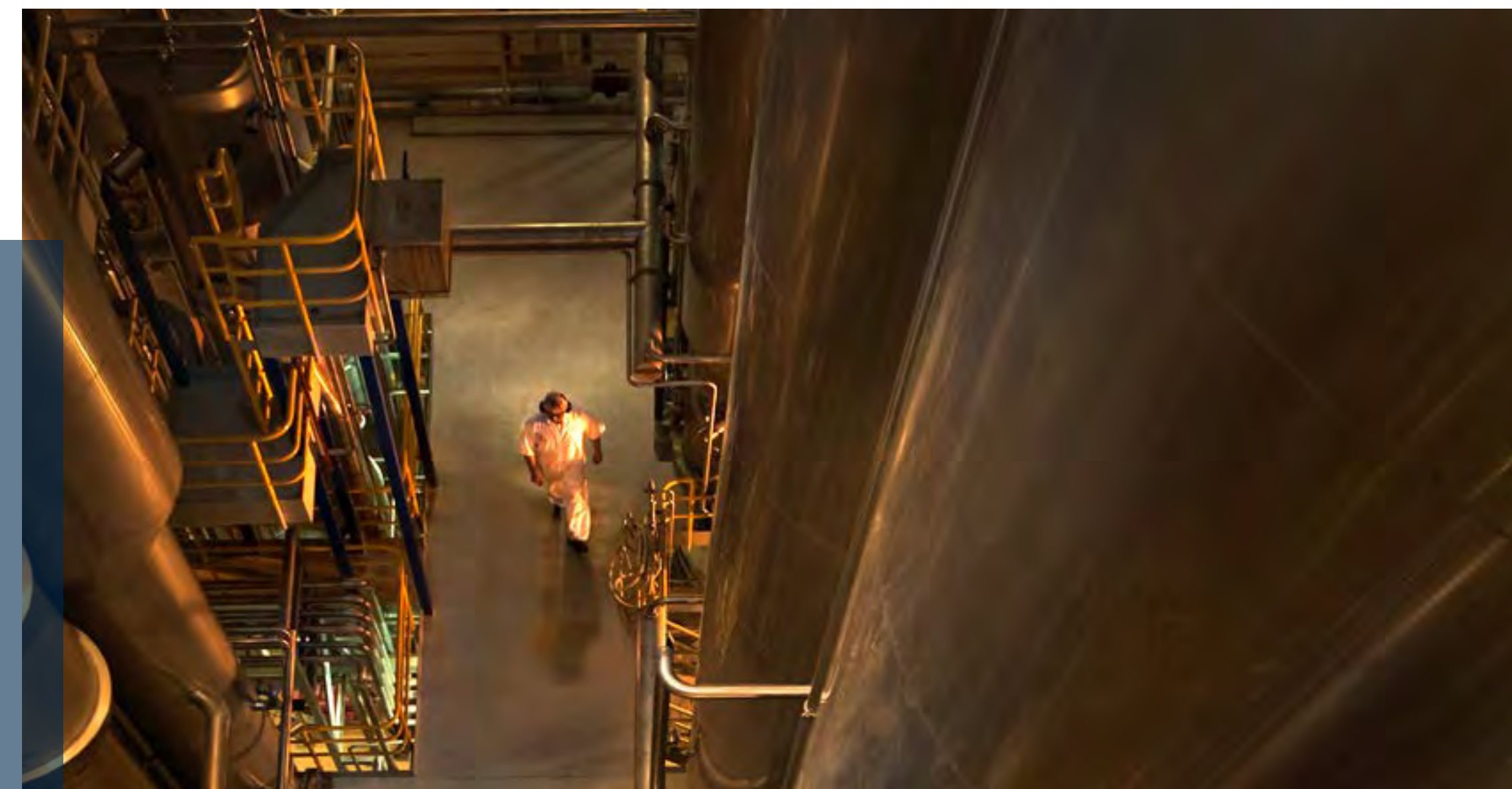
Reported profit after tax Up \$1.3 billion

\$659m 
Up from 16 cents

Normalised EPS

24cents 

Top end of 15-25 cents per share earnings guidance range



Breakdown of Total Group Performance

NZD MILLION	31 JULY 2019			31 JULY 2020		
	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP	CONTINUING OPERATIONS ¹	DISCONTINUED OPERATIONS ¹	TOTAL GROUP
Volume ('000 MT)	3,938	214	4,152	3,842	227	4,069
Revenue	19,255	665	19,920	20,282	693	20,975
Cost of goods sold	(16,349)	(563)	(16,912)	(17,236)	(531)	(17,767)
Gross profit	2,906	102	3,008	3,046	162	3,208
Operating expense	(2,143)	(139)	(2,282)	(2,139)	(129)	(2,268)
Other ²	70	16	86	(60)	(1)	(61)
Normalised EBIT	833	(21)	812	847	32	879
Normalisations ³	(483)	(346)	(829)	435	(167)	268
EBIT	350	(367)	(17)	1,282	(135)	1,147
Gross margin	15.1%	15.3%	15.1%	15.0%	23.4%	15.3%

1. Refer to Note 1a and 2c of the Financial Statements in the [FY20 Annual Report](#).

2. Consists of other operating income and expenses, which include net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

3. Refer to the Non-GAAP Measures section in the [FY20 Annual Report](#).

Total Group Performance⁴

	31 JULY 2019 ⁵	31 JULY 2020	CHANGE ⁶
EBIT	(17)	1,147	–
Net finance costs	(418)	(332)	21%
Tax Expense	(175)	(156)	11%
Reported profit/(loss) after tax	(610)	659	–
Less: Loss attributable to non-controlling interest	(48)	(27)	45%
Reported profit/(loss) attributable to equity holders of the Co-operative	(562)	686	–
Reported earnings per share (cents)	(35)	43	–
Normalisation adjustments ⁷	826	(304)	–
Normalised profit after tax attributable to equity holders of the Co-operative	264	382	44%
Normalised earnings per share (cents)	16	24	44%
Dividend per share (cents)	–	5	–

4. Includes Continuing and Discontinued Operations.

5. FY19 has been restated. Refer to Note 28 of the Financial Statements in the FY20 Annual Report.

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

7. Refer to the Non-GAAP Measures section in the [FY20 Annual Report](#).

For our full financial results and commentary, please refer to our [FY20 Annual Report](#).



Our products

INGREDIENTS

NZMP™ is Fonterra’s global business-to-business brand of ingredients and solutions.

We offer one of the broadest product ranges in the global dairy sector, providing thousands of ingredients and solutions to meet the needs of customers every day.

Originating from Fonterra’s New Zealand pasture-based, grass-fed farming heritage, NZMP ingredients are made with world-class processing, leading quality standards and a passion for innovation. We are trusted globally for our high performance and exceptional quality, and we work with customers in over 130 countries.

Our range includes powders, proteins, butter, creams and dairy fats, cheeses, organic and other speciality ingredients. Our teams support customer applications such as sports and lifestyle nutrition, infant nutrition, medical nutrition, healthy ageing, beverages, yoghurts and cultured dairy products.

This year our Ingredients’ normalised gross profit increased \$165 million to \$1,611 million, predominantly due to New Zealand and Australia normalised gross profit increasing \$131 million and \$21 million, respectively. The improved gross profit was partially offset by lower other operating income and increased operating expenses, resulting in normalised EBIT increasing \$37 million to \$827 million. For more information refer to our [FY20 Annual Report](#) page 48.

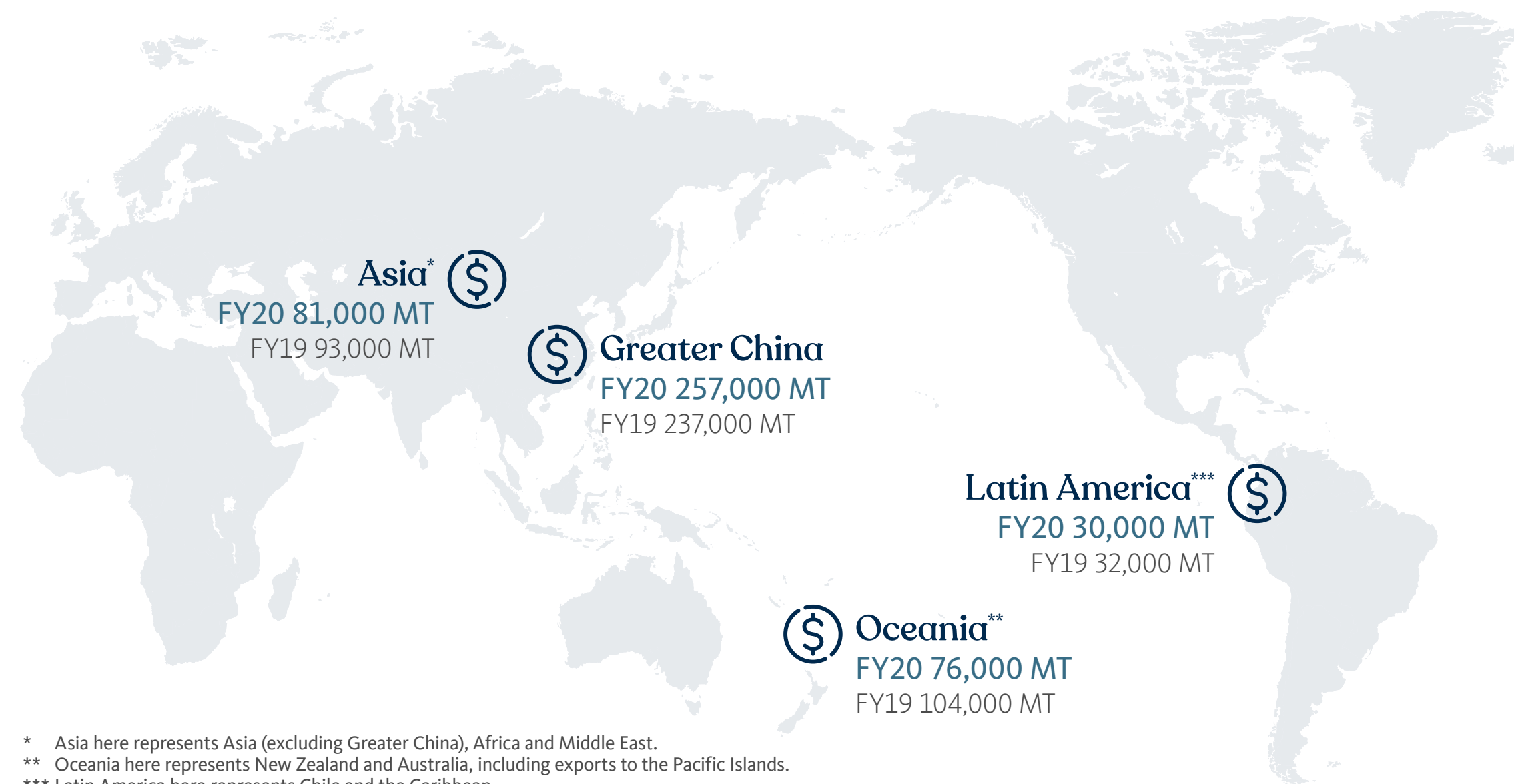
Ingredients Performance^{1,2}

NORMALISED BASIS ³ NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE ⁴
Volume (‘000 MT)	3,149	3,055	(3)%
Sales revenue	16,291	17,365	7%
Cost of goods sold	(14,845)	(15,754)	(6)%
Gross profit	1,446	1,611	11%
Operating expense	(762)	(782)	(3)%
Other ⁵	106	(2)	–
Normalised EBIT	790	827	5%
Gross margin	8.9%	9.3%	–

1. FY20 Ingredients performance represents Continuing Operations. It excludes any performance derived from the Fonterra-owned China Farms. China Farms is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
2. Includes sales to other strategic platforms.
3. Refer to the Non-GAAP Measures section in the [FY20 Annual Report](#).
4. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
5. Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

Ingredients’ normalised gross profit	Up \$165 million	Ingredients’ normalised EBIT	Up \$37 million
\$1,611m		\$827m	





* Asia here represents Asia (excluding Greater China), Africa and Middle East.
 ** Oceania here represents New Zealand and Australia, including exports to the Pacific Islands.
 *** Latin America here represents Chile and the Caribbean.

FOODSERVICE

Foodservice is one of the largest industries in the world and encompasses food and beverages that are consumed out of the home such as in restaurants, cafés and bakeries. Under our Anchor™ Food Professionals brand, we create high quality, fit-for-purpose products and solutions for foodservice professionals in over 50 countries.

We understand dairy and the role it can play in delivering great taste, texture and appearance in the signature dishes and offerings that our customers serve to millions of consumers every day.

Using insights gained from bakeries and kitchens around the world, we have developed a range of industry-leading products to suit business needs and satisfy customers’ tastes. Our high performing ingredients have been developed in high-pressure professional kitchens and take a holistic approach – it is not just about the product it is also about the people.

As well as ingredients, our Anchor Food Professionals provide services, working alongside our customers in their businesses, sharing new ideas and ways of doing things. We work with our customers to improve their products and to grow their business including solutions that improve productivity, increase yield, reduce wastage and enhance taste.

Our Foodservice normalised EBIT increased 14% to \$209 million. After a strong first half performance, our Foodservice business was significantly impacted by the emergence of Covid-19 during the second half. Greater China’s normalised gross profit rebounded quickly during the third quarter, but Asia, Oceania and Latin America were impacted in the fourth quarter. For more information refer to our [FY20 Annual Report](#) page 54.

Foodservice Performance¹

NORMALISED BASIS ² NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE ³
Volume ('000 MT)	465	444	(5)%
Sales revenue	2,673	2,652	(1)%
Cost of goods sold	(2,253)	(2,215)	2%
Gross profit	420	437	4%
Operating expense	(233)	(226)	3%
Other ⁴	(3)	(2)	43%
Normalised EBIT	184	209	14%
Gross margin	15.7%	16.5%	-

1. FY19 has been restated. Refer to Note 28 of the Financial Statements in the [FY20 Annual Report](#).
 2. Refer to the Non-GAAP Measures section in the [FY20 Annual Report](#).
 3. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
 4. Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

Foodservice normalised revenue	Down 1%
\$2,652m	
Foodservice normalised gross profit	Up 4%
\$437m	



* Asia here represents Asia (excluding Greater China), Africa and Middle East.
** Oceania here represents New Zealand and Australia, including exports to the Pacific Islands.
*** Latin America here represents Chile and the Caribbean.

CONSUMER

We manufacture and market our own consumer products and distribute these in more than 80 countries. These products include branded dairy products sold direct to consumers, such as milk, milk powders, yoghurt, butter and cheese. Our three global brands are Anchor™, Anlene™ and Annum™ and these are complemented by local brands in specific markets some of which include Western Star™, Fernleaf™, Soprole™, Mainland™, Kapiti™ and Perfect Italiano™.

Our New Zealand consumer business was ranked number one supplier to New Zealand grocery outlets out of 28 suppliers in the Independent Advantage customer satisfaction survey. This is a significant improvement from previous rankings, where in 2018 and 2019 we were ranked 26 and 13, respectively.

Our Oceania and Asia Consumer normalised EBIT improved despite the disruption of Covid-19, after excluding 2020 impairments and earnings from 2019 divested businesses. Latin America continues to be impacted by challenges in Chile, and Greater China earnings were down due to challenges in Hong Kong offsetting earnings growth in Mainland China. For more information refer to our [FY20 Annual Report](#) page 58.

Consumer Performance¹

NORMALISED BASIS ² NZD MILLION	31 JULY 2019	31 JULY 2020	CHANGE ³
Volume ('000 MT)	1,137	1,120	(1)%
Sales revenue	4,223	4,251	1%
Cost of goods sold	(3,144)	(3,250)	(3)%
Gross profit	1,078	1,001	(7)%
Operating expense	(856)	(783)	9%
Other ⁴	5	(69)	-
Normalised EBIT	227	149	(35)%
Gross margin	25.5%	23.5%	-

1. FY20 Consumer performance represents Continuing Operations. It excludes any performance derived from DPA Brazil. DPA Brazil is classified as a Discontinued Operation. FY19 has been restated to provide a year-on-year comparative.
2. Refer to the Non-GAAP Measures section in the [FY20 Annual Report](#).
3. Percentages as shown in table may not align to the calculation of percentages based on numbers in the table due to rounding of reported figures.
4. Consists of other operating income and expenses, which includes net foreign exchange gains and losses, share of profit or loss on equity accounted investees and impairment of intangible assets not included in the strategic review.

Consumer normalised revenue **\$4,251m** Up 1%

Consumer normalised gross profit **\$1,001m** Down 7%

MARKET-LED SUSTAINABILITY SOLUTIONS

As part of our strategy we are focused on creating more value from our farmers' milk by connecting what they do on farm with what our customers and consumers value. Based on research we understand consumers want to know more about where their food comes from, how it is made, and what impact it has on the environment and communities. In response, we have identified a range of solutions that connect to these consumer needs and help our customers meet their sustainability objectives.

Trusted Goodness™

Our Trusted Goodness™ quality seal is our promise to deliver quality milk using our distinctive pastoral-based approach to sustainable farming.

Within this, our on-farm claims are certified by AsureQuality, an independent Conformity Assessment Body. AsureQuality is accredited by JAS-ANZ to certify these on-farm claims against the requirements of our Fonterra Trusted Goodness scheme.



We see consumer interest growing in natural dairy claims including grass-fed, non-GMO and cared for cows and we are building data and tools to bring these to life. In New Zealand, our cows graze on pasture year-round, more than anywhere else in the world¹, and we know consumers are interested not only in our cows' diet but also animal care.

This year, for our Cared for Cows programme, we have been working towards independent certification with AsureQuality that will reinforce the good work done by our farmers. This Standard requires the collection of key indicators of animal health and welfare performance and additional verification on farm.

For more information on our approach to animal health and welfare see [page 52](#).

We also have 42 products verified to the Non-GMO Project Standard and Non-GMO Project verification of our organic milk supply and associated manufacturing sites.



1. Based on Fonterra's New Zealand dairy cows spending on average of 97% of their time on pasture compared to information available on the top 15 dairy countries by export volumes in 2017.



Carolyn Mortland, Director of Global Sustainability at Fonterra and Chris Anderson Merchandise Manager for chilled beverages at Foodstuffs North Island

Low carbon options

In addition to our plan to achieve net zero in manufacturing operations and find game changing solutions for on-farm biological emissions, we are offering products that are certified carbonzero™, to demonstrate our commitment to a low carbon future.

Our New Zealand farmers have one of the lowest on-farm carbon footprints in the world (see [page 45](#)). This year, in partnership with Foodstuffs North Island, we launched Simply Milk. As well as a first for New Zealand, Simply Milk is also the first carbonzero™ milk in the Southern Hemisphere, and one of just a handful in the world.

Simply Milk has been certified carbonzero by Toitū Envirocare, which is a wholly-owned subsidiary of Manaaki Whenua – Landcare Research, a New Zealand Government-owned Crown Research Institute.

The carbonzero™ process involves measurement, reduction, and offsetting. To measure the footprint, we worked with AgResearch to measure the full carbon footprint of the product including farming, production, distribution, consumption and



“

Reaching net zero by 2050 requires all New Zealand businesses to start measuring and reducing their emissions now. Developing low carbon technologies is vital but will take time, and Fonterra and Foodstuffs North Island are demonstrating that in the meantime it's possible to take meaningful action”

BECKY LLOYD,
CHIEF EXECUTIVE TOITŪ ENVIROCARE

disposal. We then developed an emissions reduction plan for the specific product aligned with our science-based emissions reduction target (see [page 46](#)). The final step involves offsetting the remaining unavoidable emissions today through Toitū approved carbon offsets, such as native forest regeneration in New Zealand and renewable energy programmes in overseas markets where Fonterra sells its products.

We also achieved Toitū carbonzero™ certification for our organic butter and we will be launching it in FY21.

Supply chain transparency

We are collaborating with Provenance, a Certified B-Corp who help brands make the sourcing and impact behind their products transparent to consumers. By using blockchain-enabled software and mobile technology we can let consumers access our verified sustainability information at the point of sale in a secure and meaningful way. We will be rolling out this solution in FY21, starting with our Anchor plant-based bottle (see [page 50](#)) and its [information](#).

Employment and income creation



Kathryn, Taranaki

Our Co-operative supports the livelihoods of many thousands of people.

At the heart of our Co-op are our farmer owners, who rely on Fonterra to use their capital wisely to create a sustainable return from their milk. 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.

We also support the livelihoods of our employees. On a full-time equivalent basis, Fonterra directly employs 20,278 people (see [page 12](#) for the distribution of those people around the world).

In New Zealand, industry-wide figures from 2017¹ showed that the dairy sector employs 38,700 people directly – 26,500 on farm and 12,200 in dairy processing, with thousands of others employed in jobs supporting the local industry.

OUR APPROACH

Our co-operative structure means farmer ownership and control over collection, processing, marketing and distribution, with the aim of delivering healthy, sustainable returns to those farmer owners.

Maintaining a strong national dairy co-operative supports all dairy farmers by setting a Farmgate Milk Price. New Zealand is unique in that 95% of milk production is exported and Fonterra collects a large proportion of the milk. As a result, there is no ‘market price’ set through competition for supply.

We calculate a Farmgate Milk Price using an independently approved methodology². 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.

Unlike some agricultural products, milk production provides a regular income. Fonterra pays its farmers monthly for the milk collected. In New Zealand, the price paid is based on an advanced rate determined by the projected Farmgate Milk Price for the season. This advanced rate is adjusted during the season and any shortfall in payment against a higher final milk price is paid at the end of the season.

For our direct workforce, we take a ‘total remuneration’ approach for our salaried employees that means we generally aim to pay at the median rate in the markets in which we operate. For roles that are deemed critical or that have a significant impact on business performance we may choose to benchmark at the upper quartile rate.

Many of our waged employees are covered by collective agreements. New Zealand industry data¹ shows that the average dairy processing wage of \$85,510, is well above all other forms of food product manufacturing.

WHAT WE’VE BEEN DOING

Paying our farmer owners earlier

We are acutely aware of the importance of cashflow on farm and so we continue to look for ways to get cash to farmers faster, while maintaining a strong financial position for our Co-op. This year we introduced three changes to our Advance Rate policy.

- 1) Each monthly payment is now made on the 15th of the month rather than the 20th.
- 2) The final settlement payment for the season is now paid no later than five working days after the Annual Results are published, rather than at the next monthly payment cycle.
- 3) The Advance Rate will now start at 65% of the mid-range of the forecast Farmgate Milk Price range.



Fonterra directly employs

20,278

full-time equivalent employees

1. Source: How does the dairy sector share its growth. NZIER report to DCANZ October 2018. Data from 2017
2. More information on the Farmgate Milk Price calculation and Milk Price Statements is available on the Fonterra website.

Building a great team

This year has been about delivering on our new strategy, and one of the first things we did was shift to a new customer-led operating model and focus on building a great team.

We made this change because our future is no longer about volume. Instead, it is about prioritising New Zealand's unique milk and growing its value, which means we need a deeper understanding of our customers in ways we haven't in the past.

We now have three customer-facing businesses: Asia Pacific (APAC), Greater China, and Africa, Middle East, Europe, North Asia, Americas (AMENA). Having teams on the ground gives us early insights into what is happening in market, and during Covid-19 this was invaluable. Our teams were able to work closely with customers to understand how Covid-19 was impacting their businesses, and in turn, what we could do to support them.

In addition to having the right organisational structure to deliver on our strategy, we recognised our teams needed to be 100% clear on what was expected of them. That is why we introduced Good Together – two simple words that remind us that every day we must be contributing to our purpose, living our values and delivering on our strategy. During Covid-19, the power of Good Together really shone through as our teams pulled together to keep the business running, care for each other and help local communities.



Gordon and Lisa, Darfield

Responding to the Covid-19 pandemic

Our people are our number one priority and when Covid-19 first appeared we moved quickly to keep our employees healthy and safe around the world.

The work completed over the last 18 months to strengthen our balance sheet is allowing us to focus on managing the Covid-19 situation. We have drawn on our global supply chain to minimize disruptions for our customers and our diverse product and customer base means we can direct milk into those products and markets where there is the highest demand and the most value can be achieved.

OUR PERFORMANCE



Normalised earnings

24cents

per share

Return on capital

6.7%

Free cash flow

\$1,828m

Debt/EBITDA

3.4x



Luana and Anthony John, Bay of Plenty

Economic value distributed	FY19	FY20
Payment to suppliers (farmers) for NZ-sourced milk	\$9,748 million	\$10,888 million
New Zealand Farmgate Milk Price	\$6.35 per kgMS	\$7.14 per kgMS
Payment to suppliers (farmers) for non-NZ sourced milk	\$966 million	\$1,007 million
Profit after tax attributable to shareholders	\$562 loss – (earnings of -\$0.35 per share)	\$686 profit – (earnings of \$0.43 per share)
Dividend payment to equity holders of the Co-operative	\$0 – (no dividend paid)	5 cents
Employees (FTE)	20,685	20,278

Detailed commentary on our financial performance is included in our detailed [FY20 Annual Report](#).

Efficiency and reorganisation efforts reduced full-time equivalent (FTE) permanent employees by 420. This was offset by 13 additional FTE fixed-term employees to give a net reduction of 407 FTE including permanent and fixed-term. 103 FTE reduction was due to the closure of our Dennington site in Australia.

WHAT'S NEXT

- We will continue to support regional New Zealand by paying a competitive milk price to farmers.
- We will deliver on our financial commitments¹ for FY21, in particular:
 - Return on capital²: 6% – 7%
 - Debt to EBITDA ratio³: 3x – 3.5x
 - Earnings guidance: 20-35 cents per share.

FOR MORE INFORMATION SEE OUR DETAILED PERFORMANCE [PAGE 76](#).

1. There can be no certainty of outcome in relation to the matters to which these plans or forward-looking statements relate. They involve risks, uncertainties, assumptions and other important factors (some of which may be out of Fonterra's control) that could cause the actual outcomes to be materially different from the results expressed or implied. No assurance or guarantee is given as to the likelihood of fulfilment of any such statement or projection.

2. Based on normalised earnings, and capital employed includes brands, goodwill, and equity accounted investments.

3. Debt payback ratio is economic net interest bearing debt divided by earnings before interest, tax, depreciation and amortisation. Both debt and EBITDA are adjusted, from reported amounts, for the impact of operating losses, certain normalisations and non-cash amounts.

Working with farmers

Farmers are at the heart of our Co-operative and we will support their continued innovation so they can continue to farm for generations to come.

More than 85% of the milk we collect comes from our farmer owners in New Zealand. We also collect some milk in other countries so we can meet the needs of our customers and generate the most value from our New Zealand milk (see map on [page 12](#)).

In this section, we explain our approach to working with farmers to ensure the adoption of good farming practices on farms supplying milk directly to our manufacturing sites.

Farms we manage

We directly manage a small number of farms around the world. In New Zealand, we manage 29 farms that neighbour our manufacturing sites. We use these farms to manage excess water and nutrients from our manufacturing sites. The water and nutrients improve soil health and support pasture growth, that allows us to grow and supply supplementary animal feeds to our farmers (see [page 36](#)).

In China, we operate seven large-scale dairy farms¹ and produce raw milk for use in local products. These farms use a housed farming system rather than the pasture-based model most commonly found on the farms that supply us with milk. We also directly manage farms for training and demonstration purposes – one in Sri Lanka and one in Chile.



Paul and Mike, Waikato

Setting expectations for supplying farms

Our Terms of Supply and Farmer Handbook set expectations for farmers when it comes to people, the environment, animal health and welfare, biosecurity, and food safety and quality.

Our Raw Milk Harvesting Standard sets out the minimum requirements that all farmers must meet. It applies across all markets where we collect milk, builds on compliance with local regulations and forms the basis for our on-farm audits.

Through a combination of our own staff and third parties, we regularly assess farms supplying us:

- In New Zealand, every supplying farm is visited each year by an independent farm assessor. In addition, a more-detailed assessment is completed for each farm, once every five years approximately. This year a total of 6.8% of farms were placed into our performance management process at some point during the season. Most of these were related to milk quality testing events and were resolved after the first warning.
- In Australia, farms are visited multiple times each year by our own staff and independent assessments are scheduled based on prior compliance levels. Every farm is assessed at least once every two years. In FY20, 56% of farmers were assessed and no critical non-compliances were identified. 20% of the assessed farms were referred for follow-up due to a major non-compliance².
- In Latin America, each farm is assessed by a combination of our own staff and third parties. In addition, our New Zealand based team audits a random selection of farms once every three years.
- In China, our farms are under our direct control. These farms are subject to assessments by our New Zealand On-Farm Excellence team and Internal Audit team.

Where we find mandatory requirements are not being met, our On-Farm Advisors, or equivalent, develop an action plan with the farmer, including target completion dates. We may also suspend the collection of milk until we are satisfied that all minimum requirements are being met and that any actions required to avoid a repeat of the issue have been completed.

Milk collection suspension notices were issued for four farms in New Zealand this year: one related to milk quality and three related to effluent management.

1. At the end of FY20, these seven farms were classified as 'held for sale' and in early FY21 we announced completion of this sale.
2. By working with the local authority, we have been able to include audit information for all supplying farms in Australia, including Tasmania for the first time.



The Co-operative Difference

- MILK
- CO-OP & PROSPERITY
- ANIMALS
- ENVIRONMENT
- PEOPLE & COMMUNITY

The Co-operative Difference

We have farmer engagement and support programmes in every country where we collect milk from farms. These help us to build relationships with farmers, set expectations and support them to improve their farming practices. This is especially important for our farmer owners in New Zealand and why we launched The Co-operative Difference in FY19.

The Co-operative Difference makes Good Together real on the farm. It pulls the best of what we do into five focus areas to make sure we have the strongest possible foundations for our Co-op, not just for today, but well into the future.

It is a straight-forward way of bringing together what our farmers need to know, for today “Our Core”, recognising farms who go above and beyond “Our Next Steps” and providing guidance on things to consider in future planning “Our Future”.

“Our Core” covers the things we can never afford to compromise on such as regulatory compliance and food safety.

Beyond this, “Our Next Steps” allows our members to grow through three levels of achievement using the analogy of a journey up a mountain to reach greater things.

To be recognised for achieving each level this year, the farm must meet defined criteria including: having a Farm Environment Plan (see [page 39](#)); having an Animal Health Plan (see [page 52](#)); having a Health and Safety Plan; and delivering safe, high quality milk.

To acknowledge the achievement, each level currently brings additional recognition together with bonus Farm Source Reward Dollars. This year a total of 2,685 farms achieved one of the three levels. From June 2021, farms meeting specific on-farm targets will be eligible for a new Co-operative Difference payment of up to 10 cents per kg of milk solids.

“Our Future” ensures that while we are striving for best practice today, we can also help farmers start preparing for the future by giving them clear guidance on likely requirements and trends. That means we do everything we can to help our farmers run stronger, more resilient businesses, so the Co-op can be here for future generations.

949
ACHIEVED
LEVEL 3
Te Tihi
“THE SUMMIT OF THE MOUNTAIN”
FOR THE ENTIRE SEASON

843
FARMERS
ACHIEVED LEVEL 2
Te Puku
“THE MID POINT”
SIX MONTHS

893
FARMS
ACHIEVED LEVEL 1
Te Pūtake
“THE START OF THE JOURNEY”
THREE MONTHS

Responsible procurement

We have the opportunity to influence for good. In terms of procurement, this means working to source goods and services produced in an environmentally and socially responsible way that positively influences behaviours in our supply chain.

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 66](#).

This section covers our non-milk supply chain, including capital projects.

OUR APPROACH

Our Group Procurement Policy and Procurement Standard set out our requirements for the procurement of non-milk goods and services, including capital projects. This includes key principles such as assuring the health, safety and wellbeing of people, food safety and quality, environmental sustainability and social practices. 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 Group Policy is approved by the Board of Directors and the CFO is accountable for ensuring the Group Standard is fully implemented across the organisation. All staff are responsible for complying with the standard.

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.

We select vendors based on a balanced set of criteria and some vendors we select may have aspects of social or environmental performance that requires improvement. We believe we make a positive contribution to society by working with and influencing vendors who show a willingness to improve. As part of our regular assessment of vendors, we specifically consider social and environmental risks.

WHAT WE'VE BEEN DOING

Paying small to medium-sized vendors quicker

We take our role in supporting New Zealand's economic recovery seriously. In March, when New Zealand first started dealing with Covid-19, we started looking at ways to support our employees, farmers and communities through the pandemic.

We have around 3,000 small and medium sized vendors (SMEs) across New Zealand and from July 1st we accelerated their payment terms, so they're paid within 10 days from the receipt of invoice. Previously we've paid our SMEs on the 20th of the month following the invoice date.

We know that getting paid quickly helps cashflow and keeps businesses running smoothly. This is a small but significant way of supporting economic recovery and demonstrating our commitment to supporting New Zealand's regional communities.

New Zealand vendors who we spend up to NZD \$300,000 per annum with, and that have fewer than 50 employees are eligible. This represents 86% of all our vendors in New Zealand.

Our goal is to pay 95% of invoices from our SME vendors within ten days of receiving them.





Vendor assessments

Assessing and managing the risk of environmental and social issues within our supply chain is a core part of responsible procurement. Last year, we 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 where more than 200 vendors were assessed.

This year we undertook a detailed assessment of our top 26 vendors across seven procurement categories. Most vendors and categories scored well, and the process has identified where we have opportunities to positively influence for better outcomes.

In our Farm Source retail business we had scheduled some on-site audits for elements of our international supply chain – these were unable to go ahead because of Covid-19 travel restrictions

Social procurement

In May 2019, Fonterra signed up to be one of 12 founding “buyer members” in New Zealand’s first Social Procurement Programme. In conjunction with regional and local government, Ākina created the ‘Fwd: platform’ – a marketplace website that connects buyer members with Ākina certified social enterprises that are trading to deliver positive social and environmental impact. This year, we hosted a meeting with other like-minded organisations to support increased understanding and identification of opportunities across categories.

Forest products

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. We therefore have a specific focus on this area but we also consider the risk of deforestation in our supply chain more widely and we completed our third response to CDP on Forests this year.

During the 2019 calendar year, we used 29,345 tonnes of palm-related products as an ingredient and, via Farm Source stores, we retailed 525,000 tonnes of Palm Kernel Expeller (PKE), a by-product of palm oil production, used as a supplementary feed for cows. Approximately 30% of PKE

imports into New Zealand are procured and distributed by Agrifeeds, a joint venture between Fonterra and Wilmar.

We have been a member of the Roundtable for Sustainable Palm Oil (RSPO) since 2010 and since 2015, all our palm oil purchases have been certified by RSPO. In 2016, we launched our Palm Product Standard. This requires palm product vendors within our supply chain to publicly commit to “No Deforestation, No Peatland Development, and No Exploitation” and have processes to meet these commitments. This year we started a review to update the standard and we expect to publish the new version in FY21.

All Wilmar-owned palm oil mills have achieved 100% traceability to plantation and at the end of CY2019, approximately 15% of their third-party supplying mills are traceable to plantation level. However, traceability to mill is their main focus. Knowing the source mill is a good indicator of the approximate location of its suppliers and they have almost reached 100% for the specific countries where we source.

Wilmar, our largest supplier, and Agrifeeds both make traceability information available on their websites:

- See: www.wilmar-international.com/sustainability/progress/traceability/
- See: www.agrifeeds.co.nz/sustainability

OUR PERFORMANCE



Sourcing segregated supply (SG) palm oil

55%

Good progress this year but behind original target.

PKE traceable to mill

98.9%

Target considered achieved.

WHAT'S NEXT

- We will continue to expand our engagement with specific vendors in high risk areas to ensure they better understand our expectations, and we better understand the practices in their supply chains.
- We will complete our review and update for our Sustainability Code of Practice and our Palm Products Standard.
- We will continue to work with suppliers of direct and indirect palm oil ingredients to work towards 100% certified segregated supply.

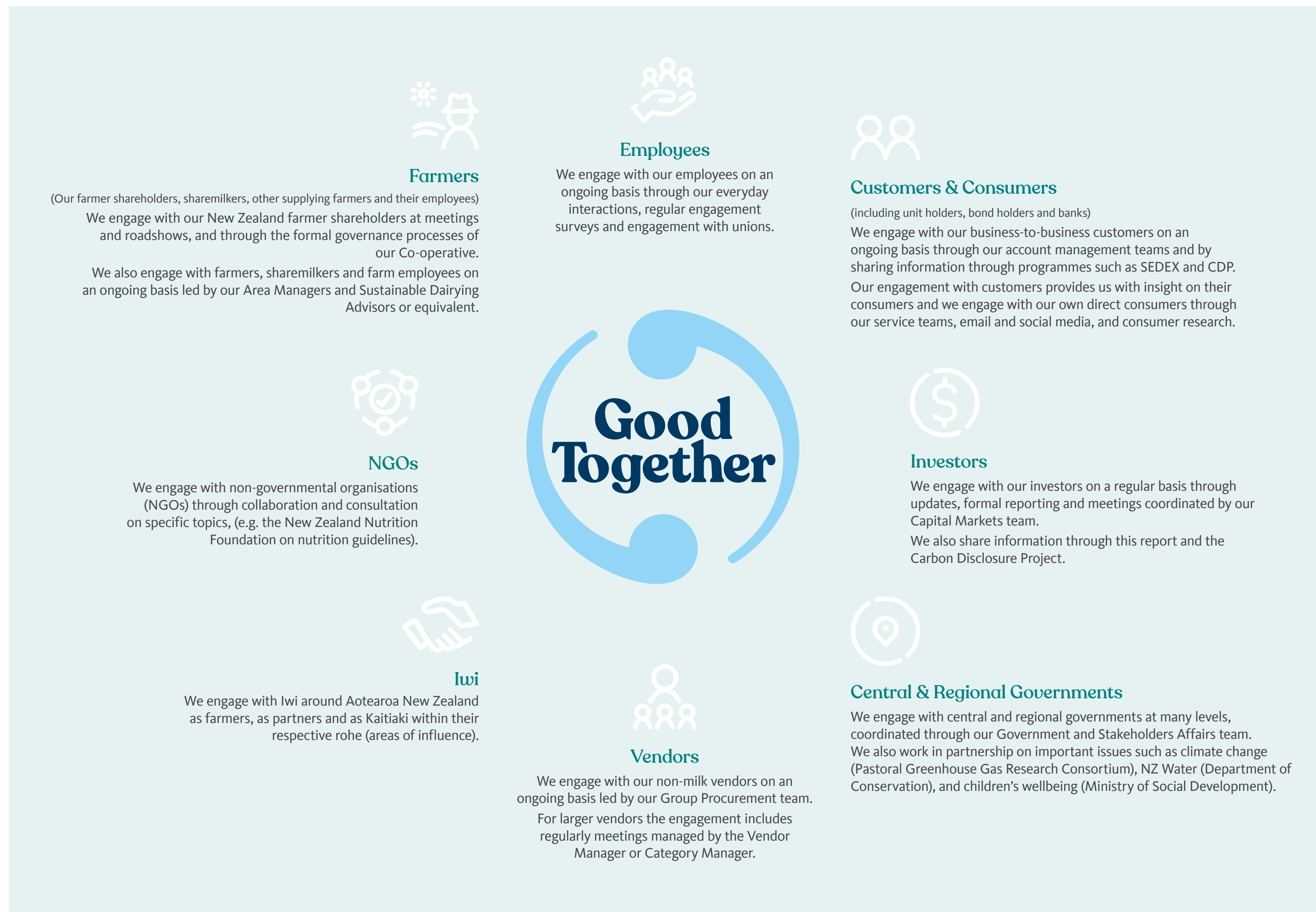
FOR MORE INFORMATION SEE OUR DETAILED PERFORMANCE [PAGE 77](#).

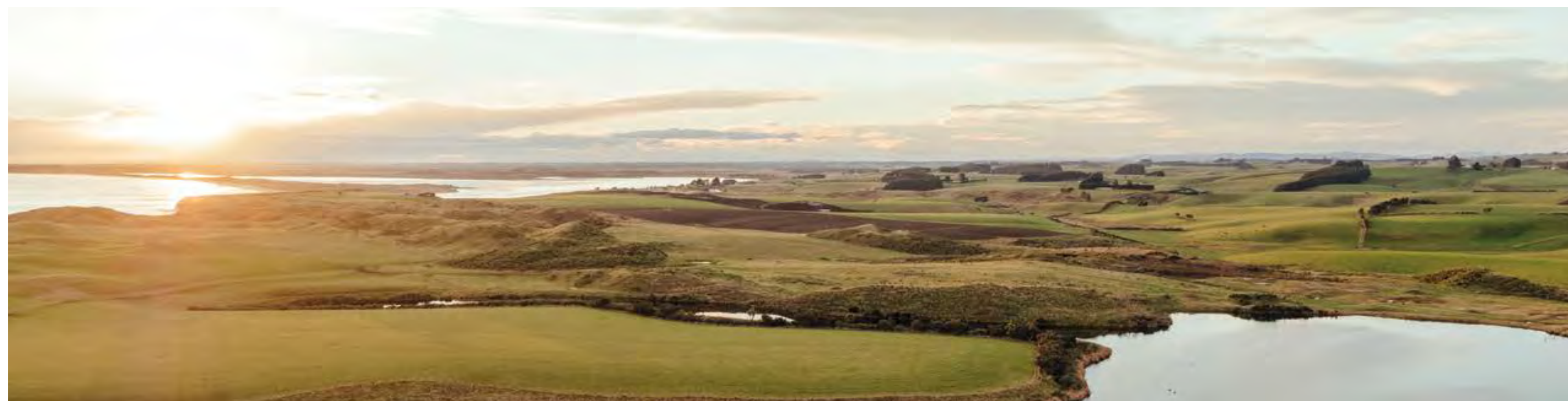
Responding to what's important

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.





DETERMINING WHAT'S IMPORTANT

In 2019, we refreshed our materiality assessment. Starting from the results of previous assessments, we researched other potential topics of importance from sources such as industry guidance and reports, customer reports and emerging issues from risk assessments and external communications. This generated a long list of topics that we 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. The findings for each stakeholder group were combined into an overall ordered list of importance, treating all stakeholder groups on an equal basis.

We assessed the significance of our impact on society for each topic by considering both the positive and negative impact of our activities against three criteria: the extent of our impact (i.e. local, regional, global), the magnitude of our impact and the duration of our impact.

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 table on the right lists the most important topics, in order, and identifies where we cover our response in this report. Further details on the process and results are available:

See: www.fonterra.com/2020MaterialityAssessmentNotes

TOPIC	OUR RESPONSE
Ensuring the food safety and quality of the products we deliver	See Food safety and quality on page 21
Using water responsibly, including water quality and availability	See Land and water on page 35
Climate change mitigation and adaption	See Climate change on page 41
Contributing to local economies through meaningful employment and income creation , including the milk price for our farmers	See Employment and income creation on page 63
Protecting the health and safety of people at work, including their wellbeing	See Health, safety and wellbeing on page 23
Contributing to nutrition and health through the products and information we deliver, including obesity and under-nutrition	See Nutrition and health on page 18
Ethical business practices , including anti-corruption and fair competition	See Ethical business practices in the appendix Governance and ethical business ¹
Protecting the human rights of individuals impacted by our business actions	See Human rights on page 30
Protecting animal health and welfare within our supply chain, including responsible use of antibiotics	See Animal health and biosecurity on page 52
Protecting soil health which is essential for sustainable food production	See Land and water on page 35
Using responsible procurement to influence environmental, social and economic performance along our supply chain	See Responsible procurement on page 68
Protecting biodiversity and the underlying ecosystem services we rely upon, including the impact of deforestation	See Land and water on page 35 See Responsible procurement on page 68
Protecting the employment rights and working conditions of our people, including diversity and inclusion, training and development	See Employment rights on page 26
Addressing biosecurity risks to animal, plant and human health	See Animal health and biosecurity on page 52
Minimising production waste , including solid waste to landfill	See Packaging and waste on page 48
Minimising post-consumption waste , including product packaging and food waste	See Packaging and waste on page 48

1. For more information see: www.fonterra.com/2020GovernanceEthicalBusinessNotes

OUR CONTRIBUTION TO UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Fonterra supports the United Nations Sustainable Development Goals (SDGs) and we are committed to playing our part, by working collaboratively to deliver change at scale.

The Dairy Declaration of Rotterdam¹, recognises the SDGs as the overarching framework for achieving sustainable development to 2030 and the critical contribution the dairy sector will play.

We understand that the SDGs and their underlying targets can help us refine our sustainability approach, not only to reduce risks, but also to identify opportunities for growth that contribute positively to their achievement.

We have analysed our business activities, material topics and value chain against the SDGs and their underlying 169 targets. Here we identify the specific goals where we can make the most material contribution, the objectives we have prioritised for specific indicators and where this occurs in our value chain.

We are also implementing members of the Dairy Sustainability Framework

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 our material topics.

For more information, see: www.dairysustainabilityframework.org

SUSTAINABLE DEVELOPMENT GOALS	OUR CONTRIBUTION	INDICATORS	DAIRYING	OPERATIONS	CONSUMPTION
 No poverty	Create positive employment opportunities along our value chain	1.2	●	●	
 Zero hunger	Provide access to safe, affordable nutrition	2.1			●
	Address malnutrition through products tailored to specific health needs	2.2			●
	Share our dairy expertise with small-scale producers	2.3	●		
	Lift dairy productivity to meet growing nutritional needs	2.4	●	●	●
 Good health & wellbeing	Responsibly provide products to support wellbeing of mothers and infants	3.1 3.2			●
	Continue to improve the nutritional profile of our products	3.4			●
	Promote healthy and informed consumer choices	3.4			●
 Gender equality	Ensure equal participation and opportunities for women in the workforce	5.5	●	●	
	Share our dairy expertise with female small-scale producers	5.5	●		
 Clean water & sanitation	Reduce the impact of farming and manufacturing on water quality and ecosystems	6.3			
		14.1	●	●	
		15.1			
		15.2			
 Life below water	Increase water efficiency in areas of constrained supply	6.4	●	●	
 Life on land	Protect and restore freshwater ecosystems	6.6	●	●	
 Decent work and economic growth	Provide positive and inclusive employment for all groups	8.5	●	●	
	Address labour and human rights issues in our supply chain	8.7 8.8	●	●	
	Provide a safe and secure working environment	8.8	●	●	
 Responsible consumption & production	Manage and use natural resources efficiently	12.2	●	●	●
	Reduce food waste throughout our supply chain	12.3	●	●	●
	Reduce waste generation through our operations and product packaging	12.5		●	●
 Climate change	Support farmers to build resilience to climate change	13.1	●		
	Reduced emissions across our supply chain		●	●	

1. A joint declaration of the UN Food and Agriculture Organisation and the International Dairy Federation signed in 2016.

OUR PROGRESS

INDICATOR	TARGET	PERFORMANCE			COMMENTARY	SEE PAGE
		FY18	FY19	FY20		
Healthy People - Nutrition and health						
Percentage of everyday and advanced nutrition products that meet endorsed nutritional guidelines ¹ .	75% by 2020	68%	70%	73%	On a volume sold basis, we improved from 70% to 73% this year and almost met our interim target of 75% for FY20.	● 20
Fonterra consumer branded products (Global)	100% by 2025				We are also able to assess and report in a more timely fashion which means we are reporting both FY19 and FY20 this year, eliminating the one year in arrears from prior reporting.	● 20
Healthy People - Food safety and quality						
Percentage of manufacturing sites certified by an independent third party to leading food safety management system (e.g. FSSC22000)	100% by the end of 2019	90%	92%	100%	This year we completed our global certification process to leading food safety standards. We are now beginning the transition to the new version of FSSC 22000 and we will refine our plan once the full impact of Covid-19 restrictions on physical audits is understood.	● 21
Total electronic traceability from finished product back to milk supply	All Fonterra products by the end of 2020	91%	93%	93%	The underlying technology has been delivered globally. The cost-benefit analysis of completing the electronic integration into the final three markets was completed in FY20. This determined that the current manual systems were sufficient to meet market requirements and there was no additional value from deploying the electronic solution. This target is therefore now considered complete.	● 22
Healthy People - Health safety and wellbeing						
Work-related fatalities (attributable to Fonterra – staff, contractors, on-site public)	Zero harm	0	1	0		●
Total recordable injury frequency rate (TRIFR per million work hours)	Less than 5	6.1	4.9	5.8	Unfortunately, this year our injury rate rose from the low level we achieved for the first-time last year. 247 employees still required medical treatment, restricted work duties or time away from work so we will continue to seek further improvements in both rate and severity.	●
Number of serious harm injuries ²	Zero harm	14	18	10	The number of serious harm injuries has been significantly reduced this year. Any serious injury is one too many so we will continue to seek further improvements.	●
Healthy People - Employment rights						
Employee engagement	World-class (Top quartile)	4.00 (2nd highest quartile)	4.07 (2nd highest quartile)	N/A	The engagement survey for FY19 was completed in early FY20 with 86% of employees participating. We are moving to flexible and targeted ‘pulse’ surveys conducted by regions or teams. The next Co-operative wide survey is expected about Feb 2021.	● 28
Female representation in senior leadership	50% by 2022	30%	29%	29%	Despite developing good talent feeder pipelines, we have not improved progression into senior leadership roles. During the change to the new operational model some focus was lost but in the second half of FY20, we appointed a new Head of Diversity and Inclusion and established a Global Diversity and Inclusion network.	● 28
Ethnic representation in senior leadership	20% by 2022	9%	9%	8%	Privacy concerns and the voluntary nature of reporting ethnicity information has limited our understanding and ability to improve. We continue to encourage our people to self-report, which will in turn help us to make progress on this target.	● 28

1. Assessment of existing products is based on protein and calcium criteria only because most of the portfolio predates the guidelines and information on other criteria is not available. All new products are assessed against all guideline criteria. Everyday nutrition products are intended to deliver daily serves of dairy nutrition. Advanced nutrition products are daily dairy nutrition with targeted nutritional fortification based on sound science.
 2. Serious harm injuries are injuries that cause temporary or permanent loss of body function and include those to/involving both employees and contractors.

FY20 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		
Healthy Environment – Land and water, on-farm New Zealand						
Farms with Farm Environment Plans (FEPs)	100% by end 2025	12%	23%	34%	Our goal for FY20 was for a further 1,000 farms to have completed an FEP and this has been achieved. We are planning to deliver significantly more than 1,500 during FY21.	● 39
Farms with waterways have documented riparian management plan	100% by end 2025	25%	37%	46%	This is now being progressed with Farm Environment Plans (see above) but due to prior work completed, overall progress is more advanced.	● 39
Healthy Environment – Land and water, manufacturing						
Water reduction at manufacturing sites in water-constrained regions	30% reduction by 2030 from FY18 baseline	–	3.5% Increase from FY18	3.1% Reduction from FY18	We made significant progress this year, recovering from an increase in FY19 and delivering a 6.4% reduction for the year, and 3.1% reduction on our baseline. Our Stanhope site in Australia delivered most of the improvement, installing new treatment infrastructure, which has significantly increased water efficiency.	● 35
Improvement in water efficiency (water used per cubic metre of milk processed)	Measure and report (global)	–	0.4% Improvement from FY18	1.9% Improvement from FY18	While our main focus is on reducing our water use at sites in water-constrained regions, we have delivered significant improvements at other sites too. This is reflected in water efficiency based on milk processed and finished goods produced.	35
Improvement in water efficiency (water used per tonne finished goods)	Measure and report (global)	–	1.3% Improvement from FY18	4.7% Improvement from FY18		35
Percentage of manufacturing sites treating wastewater to leading industry standards	100% of sites by 2026 (global)	26%	29%	29%	We are reviewing our approach and looking to move to a more holistic approach where we include interest groups and the wider community to help us understand their expectations about water quality and its relationship with longer-term wastewater investments.	●
Water withdrawn by source - Volume (000 m3)						
Surface water (including water from wetlands, rivers, lakes, and oceans)			25,842	24,918 ▼		35
Ground water			17,410	16,962 ▼		
Municipal water supplies or other public or private water utilities.			9,473	8,489 ▼		
Other (e.g. rainwater collection)			0	0		
Grand Total			52,725	50,369 ▼		
Water withdrawn by source – Volume percentage						
Surface water (including water from wetlands, rivers, lakes, and oceans)			49%	49%		
Ground water			33%	34% ▲		
Municipal water supplies or other public or private water utilities.			18%	17% ▼		
Other (e.g. rainwater collection)			0%	0%		

FY20 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		
Water discharge – Volume (000 m³)						
Discharged to irrigation			17,790	16,135 ▼		
Discharged to river			25,092	25,139 ▲		
Discharged to ocean			13,241	12,936 ▼		
Discharged to municipal			5,217	5,226 ▼		
Grand Total			61,340	59,436 ▼		
Water discharge – Quality (COD¹ mg/L)						
Discharged to irrigation			1,220	1,208 ▼		
Discharged to river			74	69 ▼		
Discharged to ocean			2,105	2,062 ▼		
Discharged to municipal			1,874	1,703 ▼		
Healthy Environment – Climate change						
Reduction in manufacturing energy intensity (energy per tonne of production)	20% reduction by 2020 from FY03 baseline (NZ)	19.3% reduction	19.6% reduction	20.4% reduction	This year we further improved our performance and delivered this target. Our focus on energy efficiency will continue as a key part of our transition to a low-carbon future.	● 43
Reduction in absolute GHG emissions from manufacturing operations ²	30% reduction by 2030 from FY15 baseline (Global)	2.5% reduction	3.9% reduction	5.7% reduction	We have reduced our absolute emissions from manufacturing by 5.7% from baseline. Our underlying emissions intensity has improved by 6.8% and we have a roadmap to deliver the target with staged investment.	● 43
Reduction in absolute Scope 1 & 2 emissions	30% reduction by 2030 from FY18 baseline (Global)	–	2.4% reduction	3.5% reduction	This is a new target, based on the one above but modified slightly to be approved by the science-based targets initiative.	● 46
Net change in GHG emissions from dairy farming since 14/15 (NZ) (Pre-farm gate tCO ₂ -e) ³	Neutral to 2030	720,339 reduction on 14/15 (3.7%)	1,113,088 reduction on 14/15 (5.7%)	1,208,011 reduction on 14/15 (6.2%)	Our estimated absolute GHG emissions remain well below the baseline season. Emissions intensity on farm for 18/19 season is 1.2% lower than the 14/15 baseline. The improvement from FY19 to FY20 is based on reduced milk volume only as no new lifecycle assessment is available.	● 45

1. Chemical Oxygen Demand – an indicator of water quality measuring chemicals in water that can be oxidised.
 2. We have recalculated our baseline and performance to exclude the businesses we divested of during FY19 so the underlying trend can be determined. FY19 manufacturing emissions were also updated to reflect finalisation of FY19 actual data including electricity grid emission factor and coal emission factor.
 3. In prior years we have reported New Zealand on-farm emissions one year in arrears due to the time lag required to conduct a full lifecycle assessment. This year we have aligned milk season with financial year and reused the lifecycle assessment for 2018/2019 season for the 2019/2020 season.

FY20 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		
Healthy Environment – Solid waste and packaging						
Solid waste sent to landfill (tonnes)	Zero by 2025		16,886	15,915	Solid waste to landfill reduced by 970 tonnes, through a combination of activities across our manufacturing sites. We have established a global workstream to help us accelerate progress towards our target.	● 50
100% reusable, recyclable or compostable packaging	100% by 2025	–	–	50%	This year we established our baseline. Our current global data systems limit the accuracy of our assessment but based on total tonnage of packaging: 50% is recyclable in the market (e.g. cardboard), 13% is ready for recycling but infrastructure is limited in the market (e.g. rigid plastic), 24% is recyclable but the infrastructure is not widely available (e.g. liquid carton board). This leaves 13% that is unsuitable for recycling (e.g. foil-based sachets).	● 48
Healthy Environment – Animal health and biosecurity						
Somatic cell count average (mean) (000 cells/ml)						
		2017/18	2018/19	2019/20		
New Zealand		180	168	171	Farmers have continued to deliver excellent results in this area this year, with strong reductions in China and Brazil. Small increases in New Zealand and Australia mean that the overall global result increased slightly but remains well below the European Union import/export standard of 400,000 cells/ml, which is a widely quoted standard	53
Australia		178	171	172		
China		168	183	160		
Chile		319	312	317		
Brazil		533	467	395		
Sri Lanka		634	599	662		
Global weighted average (by volume)		184	173	175		
Healthy Business – Employment and income creation¹						
Normalised earnings per share (cents per share)	40c by end FY22 50c by end FY24	24c	16c	24	Top end of the 15-25 cents earnings guidance issued for the year.	● 65
Return on capital ²	8.5% by end FY22 10% by end FY24	6.3%	5.8%	6.7%	Improved Return on capital outcome driven by improved earnings.	● 65
Free cash flow	\$900m by end FY22 \$1,050m by end FY24	\$600m	\$1,095m	\$1,828m	Free cash flow for FY20 benefits from \$624m from sale of businesses. Excluding this we have still exceeded target	● 57
Debt/EBITDA ³	2.5-3.5x by end FY22	4.6x	4.4x	3.4x	This leverage measure improved from 4.4 times to 3.4 times and reflected the combination of increased earnings and less economic net interest-bearing debt. We exceeded our target for FY20 and reached the target range for FY22.	● 57

1. There can be no certainty of outcome in relation to the matters to which these plans or forward-looking statements relate. They involve risks, uncertainties, assumptions and other important factors (some of which may be out of Fonterra's control) that could cause the actual outcomes to be materially different from the results expressed or implied. No assurance or guarantee is given as to the likelihood of fulfilment of any such statement or projection.
2. Based on normalised earnings, and capital employed includes brands, goodwill, and equity accounted investments.
3. Debt payback ratio is economic net interest bearing debt divided by earnings before interest, tax, depreciation and amortisation. Both debt and EBITDA are adjusted, from reported amounts, for the impact of operating losses, certain normalisations and non-cash amounts.

FY20 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		
Healthy Business – Responsible procurement						
Palm products						
		(CY 2017)	(CY 2018)	(CY 2019)		
Sourcing 'segregated supply' palm oil from credible organisations.	100% by end of CY 2018	7%	23%	55%	We missed our original target date but we made good progress during CY2019 and continue to progress this. By volume, 95% of all palm oil being purchased from New Zealand and Australia is certified as segregated supply. Achieving the remaining percentage will be challenging but we hope to achieve this by end CY2020.	● 69
PKE traceable to mill	100% by end of CY 2018	93.9%	98.7%	98.9%	Traceability to mill has continued to improve. AgriFeeds source all PKE via Wilmar from Indonesia and Malaysia where it has achieved 99.0% and 98.5% traceability to mill, respectively.	● 69

FY20 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.

GRI INDEX

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option.
For more information see: www.globalreporting.org

REF	TOPIC TITLE	REFERENCE	
GENERAL DISCLOSURES			
102-1	Name of the organisation	Fonterra Co-operative Group Limited	✓ ¹
102-2	Activities, brands, products, and services	About Fonterra. See page 11 Our Products. See page 59	✓
102-3	Location of headquarters	See page 82	✓
102-4	Location of operations	About Fonterra. See page 11	✓
102-5	Ownership and legal form	About Fonterra. See page 11	✓
102-6	Markets served	Our Products. See page 59	✓
102-7	Scale of the organisation	About Fonterra. See page 11	✓
102-8	Information on employees and other workers	Additional employee data ²	✓
102-9	Supply chain	How we create value. See page 9	✓
102-10	Significant changes to the organisation and its supply chain	We closed our Dennington site in Australia.	✓
102-11	Precautionary principle or approach	Managing operations. See page 54	✓
102-12	External initiatives	Associations, endorsements and memberships. See page 82	✓
102-13	Membership of associations	Associations, endorsements and memberships. See page 82	✓
102-14	Statement from senior decision-maker	Message from the Board Chair and CEO. See page 3	✓
102-16	Values, principles, standards, and norms of behaviour	Our Values. See page 1 Details on our Code of Ethics are published on page 164 of the Fonterra Annual Report 2020.	✓
102-17	Mechanisms for advice and concerns about ethics	See The Way We Work hotline in Governance and ethical business ³ and on page 164 of the Fonterra Annual Report 2020.	✓
102-18	Governance structure	A full list of Board Committees is published on page 167 of the Fonterra Annual Report 2020.	✓
102-20	Executive-level responsibility for economic, environmental, and social topics	Accountability for sustainability in Governance and Ethical Business ⁴ .	✓

1. ✓ – Within scope of assurance.
 2. For more information, see: www.fonterra.com/2020AdditionalEmployeeData
 3. For more information, see: www.fonterra.com/2020GovernanceEthicalBusinessNotes
 4. For more information, see www.fonterra.com/2020EnvironmentalDataReportingNotes
 5. For more information see www.fonterra.com/2020AnnualReport

REF	TOPIC TITLE	REFERENCE	
102-40;	List of stakeholder groups	Responding to what’s important. See page 70	✓
102-42;	Identifying and selecting stakeholders	Our stakeholders in Materiality Assessment notes ⁵ .	
102-43;	Approach to stakeholder engagement		
102-44	Key topics and concerns raised		
102-41	Collective bargaining agreements	Employment rights. See page 26	✓
102-45	Entities included in the consolidated financial statements	A list of entities is included on page 136 of Fonterra’s Annual Report 2020.	✓
102-46	Defining report content and topic boundaries	Responding to what’s important. See page 71	✓
102-47	List of material topics	Responding to what’s important. See page 71	✓
102-48	Restatements of information	See Environmental Data Reporting Notes ⁴ , Additional employee data ² , and refer to Note 28 in the Financial Statements in the FY20 Annual Report ⁵ .	✓
102-49	Changes in reporting	No significant changes other than improved data coverage and quality.	✓
102-50	Reporting period	Period is 1 August 2019 – 31 July 2020	✓
102-51	Date of most recent report	November 2019 for period 1 August 2018 – 31 July 2019	✓
102-52	Reporting cycle	Annual	✓
102-53	Contact point for questions regarding the report	Email: sustainability@fonterra.com	✓
102-54	Claims of reporting in accordance with the GRI Standards	About this report. See page 2	✓
102-55	GRI content index	Global Reporting Initiative Standards. See page 78	✓
102-56	External assurance	Bureau Veritas Assurance Statement. See page 80	✓
ECONOMIC TOPIC DISCLOSURES			
201-1	Direct economic value generated and distributed	About Fonterra. See page 11 . Employment and income creation. See page 63 Supporting Communities. See page 31 Refer to Remuneration on page 153-156 & 169-171 of Annual Report 2020.	✓

REF	TOPIC TITLE	REFERENCE	
202-2	Proportion of senior management hired from the local community	Refer to Hiring from local communities in Additional employee data ¹ .	✓
205-3	Confirmed incidents of corruption and actions taken.	Refer to Anti-corruption in Governance and ethical business ² .	✓
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Legal compliance in Governance and ethical business ² .	✓
ENVIRONMENTAL TOPIC DISCLOSURES			
302-1	Energy consumption within the organisation	See Environmental Data Reporting Notes ³ .	✓
302-3	Energy intensity	Climate change – Our performance. See page 47	✓
303-1	Water withdrawal by source	Water withdrawn by source. See page 74	✓
305-1	Direct (Scope 1) GHG emissions	Climate change – Our performance. See page 47	✓
305-2	Energy indirect (Scope 2) GHG emissions	Climate change – On-farm life cycle assessments. See page 45	
305-3	Other indirect (Scope 3) GHG emissions	See Environmental Data Reporting Notes ³ .	
305-4	GHG emissions intensity		
306-1	Water discharge by quality and destination	Water discharge. See page 75	✓
306-3	Significant spills	Significant spills. See page 54	✓
307-1	Non-compliance with environmental laws and regulations	Environmental compliance. See page 54	✓
308-2	Negative environmental impacts in the supply chain and actions taken	Working with farmers. See page 66	✓

REF	TOPIC TITLE	REFERENCE	
SOCIAL TOPIC DISCLOSURES			
401-1	New employee hires and employee turnover	Additional employee data ¹	✓
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Health, safety and wellbeing. See page 23	
404-2	Programmes for upgrading employee skills and transition assistance programmes	Learning and development. See page 26 Employee Assistance Programme in Governance and ethical business ² .	
405-1	Diversity of governance bodies and employees	Additional employee data ¹	✓
405-2	Ratio of basic salary and remuneration of women to men	Gender pay. See page 29 .	✓
406-1	Incidents of discrimination and corrective actions taken	The Way We Work hotline in Governance and ethical business ² .	✓
412-1	Operations that have been subject to human rights reviews or impact assessments	Human rights. See page 30	
415-1	Political contributions	Responsible political involvement in Governance and ethical business ² .	
416-1	Assessment of the health and safety impacts of product and service categories	Improving the nutritional profile of our products. See page 20 Food safety and quality. See page 21	✓
417-2	Incidents of non-compliance concerning product and service information and labelling	Compliance with regulation. See page 20	
417-3	Incidents of non-compliance concerning marketing communications	Compliance with regulation. See page 20	
419-1	Non-compliance with laws and regulations in the social and economic area	Legal compliance in Governance and ethical business ² .	

1. For more information, see: www.fonterra.com/2020AdditionalEmployeeData2. For more information, see: www.fonterra.com/2020GovernanceEthicalBusinessNotes3. For more information, see: www.fonterra.com/2020EnvironmentalDataReportingNotes

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 provide independent limited assurance of its 2020 Sustainability Report (“the Report”). This Assurance Statement applies to the related information included within the scope of assurance described below.

This information and its presentation in the Report are the sole responsibility of the management of Fonterra. Bureau Veritas was not involved in the drafting of the Report. Our sole responsibility was to provide independent assurance of the accuracy of information included. This is the fourth year in which we have provided limited assurance over the Fonterra Sustainability Report.

Scope of Assurance

Fonterra requested Bureau Veritas to verify the accuracy and assure the material disclosures, both qualitative and quantitative, presented in the Report. The Report was prepared in accordance with the GRI Standards Core option. The complete list of assured elements is referred to within the GRI Index of the Report.

The scope of work was limited to the data and information related to sites and operations under which Fonterra has operational control for the period of 1st August 2019 to 31st July 2020.

Methodology

As part of its independent limited assurance, Bureau Veritas undertook the following activities:

- Interviews and follow-up communication with relevant personnel;
- 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.

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.

Our assurance process is aligned with and informed by Bureau Veritas’ standard procedures and guidelines for external verification of sustainability reports, the GRI Standards and the International Standard for Assurance Engagements (ISAE) 3000.

Our findings

On the basis of our methodology and the activities described above, we provide limited assurance that:

- Nothing has come to our attention to indicate that the reviewed statements within the scope of our verification are inaccurate and the information included therein is not fairly stated; and
- It is our opinion that Fonterra has established systems for the collection, aggregation and analysis of relevant information and quantitative data.



Evaluation against the Global Reporting Initiative Standards (GRI Standards)

The Report was prepared in accordance with the GRI Standards Core Option, including appropriate considerations of the reporting principles, profile disclosures, management approach disclosures and performance indicators.

Bureau Veritas' evaluation of the Report included cross checking the GRI Index against referenced documents.

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 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 an independent professional services company that specialises in Quality, Health, Safety, Social and Environmental management with almost 200 years history in providing independent assurance services.

Bureau Veritas has implemented a Code of Ethics across the business to maintain high ethical standards among staff 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 independently, and there has been no conflict of interest.

The independent assurance team has extensive experience in conducting assurance over environmental, social, security, safety, health and ethical information, systems and processes, and through its combined experience in this field, an excellent understanding of good practices in sustainability reporting and assurance.

Bureau Veritas New-Zealand Ltd
30th October 2020



Jeremy Leu
General Manager Certification Division – Pacific Region



PARTNERS CHARTERS AND DISCLAIMERS

Associations, endorsements and memberships



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DISCLAIMER

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

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 or projection or any outcomes expressed or implied in any forward-looking statement or projection. The forward-looking statements and projections in this report reflect views held only at the date of this report.

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.

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